# MERCIALYS

## 2017 REGISTRATION DOCUMENT

—

INCLUDING THE ANNUAL FINANCIAL REPORT
AND THE INTEGRATED REPORT

# SUMMARY



A detailed summary can be found in the heading of each chapter.

**AFR** Identifies the information contained in the Annual Financial Report, as required of listed companies in accordance with Article L.451-1-2 of the French Monetary and Financial Code and Article 222-3 of the General Regulation of the AMF, the French Financial Markets Authority.

**IR** Refers to the Integrated Report, the different sections of which are modeled on the reference framework established by the International Integrated Reporting Council (IIRC).

MERCIALYS

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AUTORITÉ
DES MARCHÉS FINANCIERS
AMF

In accordance with Article 212-13 of the AMF's General Regulations, this Registration Document was registered with the French Financial Markets Authority on March 19, 2018.

This document may be used in the context of a financial operation only if completed by a transaction summary in respect of which the AMF has granted a visa. This document has been established by the issuer and is binding upon its signatories.

# PRIME CONVENIENCE MALLS

**2017 was another dynamic year for Mercialys, with excellent financial results and significant progress made in the operational roll-out of its MERY'21 CSR strategy. In this Integrated Report, the Company is proud to present the factors that underpin its long term success and the fact that it is, more than ever, the French leader in convenience shopping centers.**

## MESSAGE FROM THE CHAIRMAN

Dear Shareholders,
2017 was another year of success and operational excellence for Mercialys, against a background of a gradual economic upturn.
Consumer spending in the first half of 2017 was indeed marked by a kind of wait-and-see attitude characteristic of pre-electoral periods, before the year started, in the summer, to experience a significant economic rebound against a backdrop of improved household confidence, which has since significantly contributed to French GDP growth and to the country's outlook for 2018.
In this context, your Company, thanks to its positioning as a convenience leader, has generated very good results throughout the year, demonstrating its resilience and placing itself in a powerful dynamic of outperformance.
Once again, the organic growth of Mercialys attained a very sustained level of +2.6%, fueled in particular by continuously steady reversion rate on renewals and re-letting and a dynamic Casual Leasing activity. Funds from operations (FFO) dipped slightly, by -0.4%, due to the effects of the asset arbitration strategy implemented by the Company. Restated of these elements, FFO increased by +6.1%, thus reflecting the Company's robust fundamentals. In the light of these results, and in accordance with the objectives announced for 2017, management will propose to the Annual General Meeting of April 26, 2018, the distribution of a dividend of Euro 1.09 per share, i.e. 88% of the 2017 FFO, offering a 5.9% yield on the share price at December 31, 2017.
This repeated robust performance of your Company was driven by the excellent command of its competitive advantages, which include the commercial expertise of its teams, its prime convenience shopping centers, and its ambitious CSR strategy.
The retailers in your shopping centers benefited again from a footfall that is significantly higher than the national index of the French Council of shopping centers (CNCC[1]), allowing them to continue generating sales growth that is much higher than that of the market.
The improvement of the digital ecosystem, particularly with the ramp-up of services provided to tenants by *La Galerie des Services* and an intensification of personalized marketing offers, has strongly contributed to the commitment of the retail chains present in your centers and to the loyalty of end customers. The multiplicity and diversity of the activities organized in your shopping centers helped, on their side, to differentiate the sites, while adding a pleasant touch to the shopping journey.
Furthermore, in 2017, Mercialys continued the asset turnover strategy that it has been applying since 2010. As such, Euro 177 million of disposals, concerning eight sites, were re-allocated, mainly for the financing of development projects. Mercialys completed nine hypermarket transformation projects in 2017. These

reductions of large food stores allowed the installation of new shops and medium-sized stores which strengthened the appeal of your centers and their leadership in their catchment area. Your Company also opened, at the end of the year, three major shopping center extensions in Rennes, Morlaix and Saint-Étienne Monthieu, continuing the improvement of its real estate portfolio and the diversification of its retailing offer with the opening on 16,000 sq.m of 68 international, national and local retail chains, including 10 new ones in the Mercialys portfolio. All these projects will generate Euro 5.2 million of additional annualized rental income, for an average yield on costs of 7.4%.
At the same time, the financial structure of Mercialys has remained extremely robust, with a loan to value ratio (LTV excluding transfer taxes) of 39.9% at year end, including the acquisitions of the significant extension project for the Port site on Reunion Island for Euro 28 million in December 2017. Following an in-depth review of its assets portfolio, your Company has also considerably reinforced its portfolio of development projects, which now represents Euro 825 million by 2024 and Euro 50 million of potential additional rental income. This extended portfolio is a significant source of medium and long-term growth for FFO and NAV, while providing Mercialys with a flexibility margin in the choice and rhythm of execution of its projects.
Concerning CSR, in 2017, Mercialys continued the operational adaptation of its ambitious, pro-active strategy, with tangible progress both in terms of the carbon footprint of its centers, and for water consumption, local involvement and customer satisfaction. These results were recognized by the extra-financial community with significant improvement in the CSR ratings of your Company and progression in the classification of flagship CSR indexes, such as the GRESB[2], CDP[3] and the Gaia Index[4].
Furthermore, Mercialys has bolstered its excellent governance standards again, with the appointment of a new female independent director, Pascale Roque, to replace Bernard Bouloc, who resigned, allowing the Board of Directors to achieve perfect gender equality and maintain its independence rate at 58.3%, in addition to its diversity of competencies.
Lastly, in 2017, your Company won multiple awards for the transparency and quality of its publications, with in particular, a 3rd place obtained within the SBF 120 index at the Transparency Grands Prix Awards, and two EPRA Gold Awards for financial and extra-financial reporting.
In 2018, Mercialys takes its continuous improvement process even further, by publishing this Integrated Report as a foreword to its Registration Document.

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

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

**Éric Le Gentil**
Chairman and Chief Executive Officer
of Mercialys

**Euro 183.5 million**
of invoiced rents

**+2.6%**
of organic growth

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

**Euro 825 million**
of development projects

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

**Euro 20.86 per share**
of EPRA NAV

*(1) Conseil National des Centres Commerciaux: the French national council of shopping centers is a professional umbrella organization for all industry professionals, which publishes national performance indices on a regular basis.*
*(2) Global Real Estate Sustainability Benchmark: the benchmark international ranking that evaluates each year the CSR performance and policy of real-estate sector companies*
*(3) Carbon Disclosure Project: non-profit international organization which studies each year, the impact of major listed companies on $CO_2$ emissions and climate change.*
*(4) EthiFinance Gaïa Index*

# IDENTITY CARD

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

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

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

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

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

## MISSION

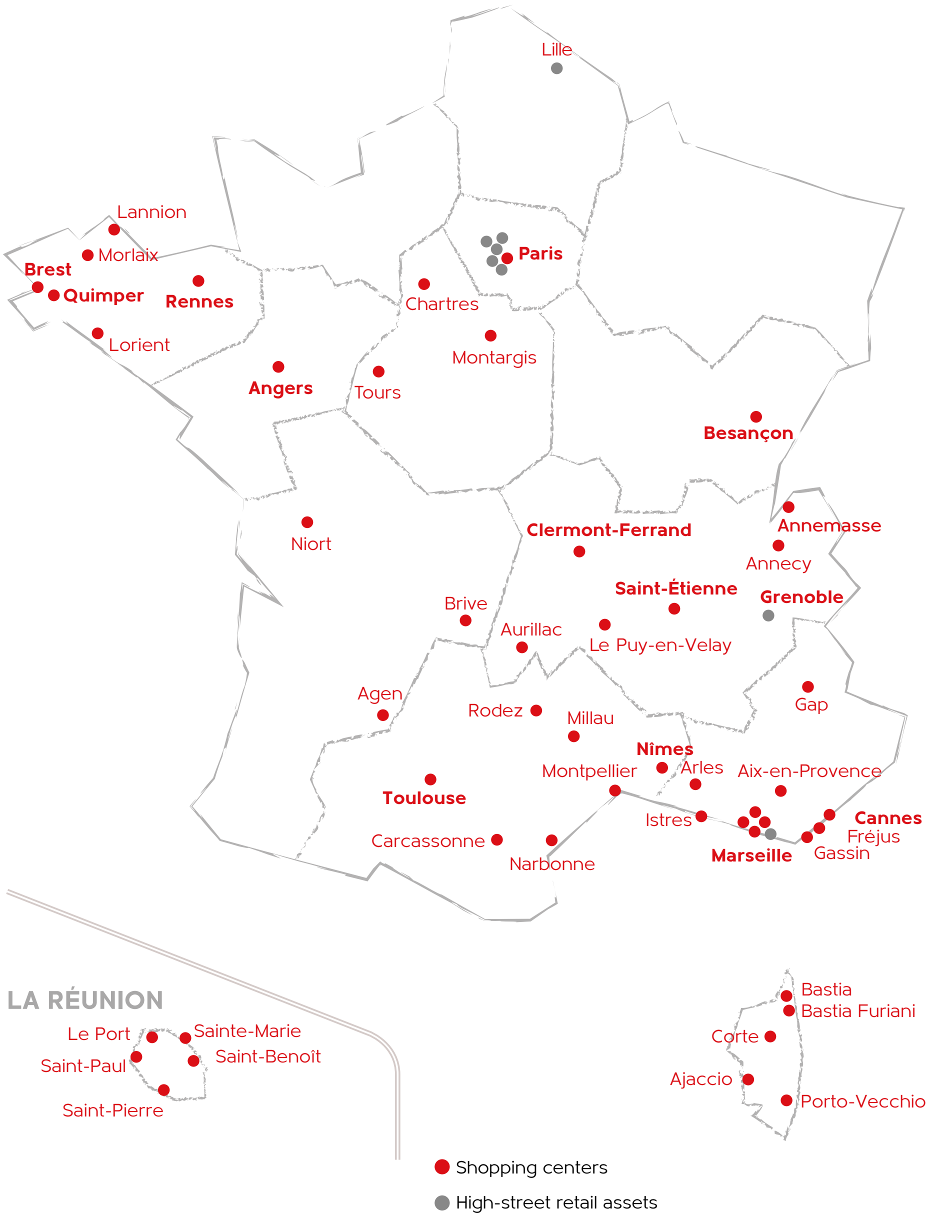
Making life easy for customers, every day

## VISION

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

## VALUES

Proximity
Agility
Commitment
Innovation




**57**
shopping centers and high-street assets

**>600**
retail chains

**≈2,200**
leases

**878,288 sq.m**
of gross leasable area

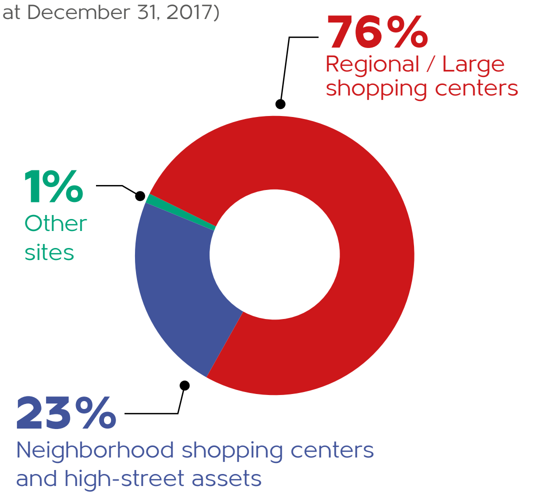
**46%**
of the portfolio in value BREEAM In-Use certified

**38**
installed solar power units

**50 M**
of visitors per year in the top 10 centers

**51,736 MWh**
of renewable energy generation

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



# A WINNING CONVENIENCE RETAIL JOURNEY

**As a retail real estate company, the Mercialys model is at the crossroads of two key sectors in the French economy: real estate properties and the retail trade. The Company's operational and financial stakes are therefore linked to, first, its understanding and ability to adapt to the needs of its retail chain tenants in order to deal with the changing consumer trends, and second, to its command of its real estate properties and, more specifically, to its ability to improve these so as to match the new conception of urban spaces, the challenge of ecological transition and its positioning as a convenience real estate company.**

## SECTORS UNDER TRANSFORMATION

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

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

### Impact on 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 MERCIALYS VALUE PROPOSITION

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

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

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

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

**REAL ESTATE KNOW-HOW**
A portfolio of prime convenience assets

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

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

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

# A PORTFOLIO OF PRIME CONVENIENCE ASSETS

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

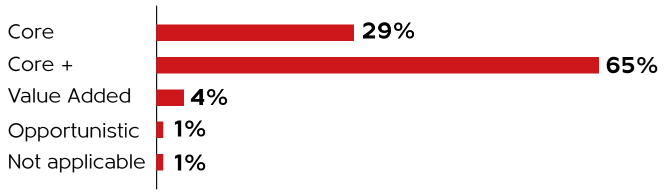
Mercialys' sites are always located at the heart of their primary catchment area, not far from city centers, and are for instance extremely well served by public transport, offer long opening hours, optimized parking facilities, clear signboards inside the shopping centers, etc.

## LEADING ASSETS LOCATED IN THE MOST DYNAMIC REGIONS

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

### Breakdown of assets by category

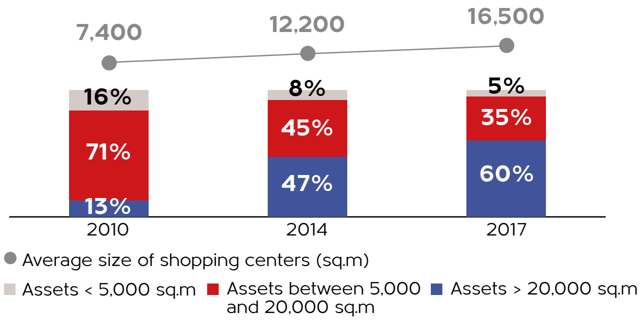
*(as % of the appraisal value, including transfer taxes at December 31, 2017)*




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

### Breakdown of assets by size

*(as % of the appraisal value, including transfer taxes at December 31, 2017)*




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

### Characteristic of the locations of Mercialys centers

| | Demographic growth[3] | Growth of gross disposable income per inhabitant[3] |
|---|---|---|
| **Geographic exposure of Mercialys[4]** | **+6.5%** | **+17.2%** |
| **France average[5]** | **+4.7%** | **+14.8%** |
| *Outperformance* | *+173 bp* | *+237 bp* |

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

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

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

### Portfolio of Mercialys projects

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

(1) Mapping, made by BNP Real Estate Valuation, Cushman & Wakefield and CBRE, of 94% of the Mercialys real estate portfolio, in appraisal value including transfer taxes and excluding high-street assets and other assets. The categories follow the usual methodological definitions and critieria.
(2) Excluding high-street assets.
(3) Over the 2005-2014 period, last available INSEE data.
(4) Weighted by surface area.
(5) Mainland France.
(6) Excluding the impact of mixed-use high-street projects for Euro 85 million investment, which could also generate property development margins.

# AN ADAPTABLE AND OMNI-CHANNEL CONCEPT

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

Mercialys is primarily driven by the desire to constantly guarantee that its assets have a core offering of mass consumer goods. By using merchandising mixes adapted to the needs of the catchment areas, adaptable to consumption trends, and measured in terms of sector exposure, the Company strives to satisfy the bulk of customer needs.
In addition to this solid base, Casual Leasing represents an endless source of commercial innovation, shopping center differentiation and opportunities to renew the appeal of sites. Thanks to the high turnover of lessors and concepts, Casual Leasing helps to stimulate the merchandising mix, thereby guaranteeing new discoveries for customers at each visit and an offering that changes to reflect trends, seasons and events.

BALANCE & ADAPTABILITY

**Always innovative**

10% of average annual turnover of retailers since 2015, excluding Casual Leasing

More than 120 international retail chains in portfolio versus 54 in 2009

6 new Casual Leasing retailers on average by day on the entire portfolio, meaning 1,500 per year

54% of new retail chains in portfolio compared to 2009

**Always connected**

3.65 million digital touchpoints in 2017

1.8 million cookies allowing to improve understanding of consumer habits and customers centers of interest

**Always essential**

13% of local retail chains

87% of national and international retail chains

**Always personalized**

38.470 retail chain offers transmitted digitally to end consumers in 2017

400 K qualified consumer contacts in database used to propose targeted offers

**Breakdown of rental income by business sector**

| | |
|---|---|
| 2.7% | Services |
| 7.2% | Household equipment |
| 7.3% | Restaurants and catering |
| 10.3% | Health and beauty |
| 13.2% | Culture, gifts and sports |
| 27.6% | Food-anchored tenants |
| 31.7% | Personal items |

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

In addition to its solid and adaptative merchandising mix, Mercialys also has a centralized marketing platform that offers services to retail chains and to end customers: *G la Galerie.*
This powerful ecosystem, which offers a convergence of the brick & mortar and digital purchasing channels, represents a potent tool for personalized communication, fine-tuning the customer experience, creating loyalty and fluidifying exchanges between Mercialys, retail chains and customers. It offers visitors an omni-channel, personalized and engaging shopping journey, designed to satisfy them and increase the footfall of shopping centers and the revenue of retail chains, and complete the numerous brick & mortar events and marketing actions carried out in shopping centers on a regular basis. All for a cost that is significantly lower than that of an individualized center-specific approach.

# G LA GALERIE

**A unique ecosystem**

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

The *G La Galerie* concept in Annecy.

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

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



National campaigns and local activities.

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

### Services and an integrated B to C digital ecosystem

A range of services in all shopping centers.

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

**Significant improvement in understanding customer needs, in clients satisfaction and loyalty.**
35,000 opinions collected on Facebook, TripAdvisor, Google... An average score of 4/5 in satisfaction surveys. Tens of thousands of registered people in our fully on-line loyalty program.

### Services and an integrated B to B digital ecosystem

*La Galerie des Services.*

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

# A POWERFUL TERRITORIAL PRESENCE

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

Boosted by this advantage, and considering the economic and social central positioning of its shopping centers, Mercialys has made Corporate Social Responsibility (CSR) an integral part of its development strategy and of its success. This choice is clearly reflected in the daily implementation of responsible and ethical management of its shopping centers and in the involvement of its retail assets in the socio-ecological dynamics of their region.
In 2015, Mercialys formalized its CSR strategy: *MERY'21*. The strategy is rolled out in 15 priorities and, for each of them, lays down clear quantitative and qualitative objectives to be achieved by 2020. It proposes an operational action plan to be implemented on the entire portfolio, while taking the specific characteristics of the different centers into account.
An organization and a team in charge of these topics have been set up under the direct supervision of the Chief Operating Officer. The operational deployment is based on a network of correspondents spread over all the Company's services and functions, and key indicators are monitored by a special tool accessible online: *MERY RSE*.

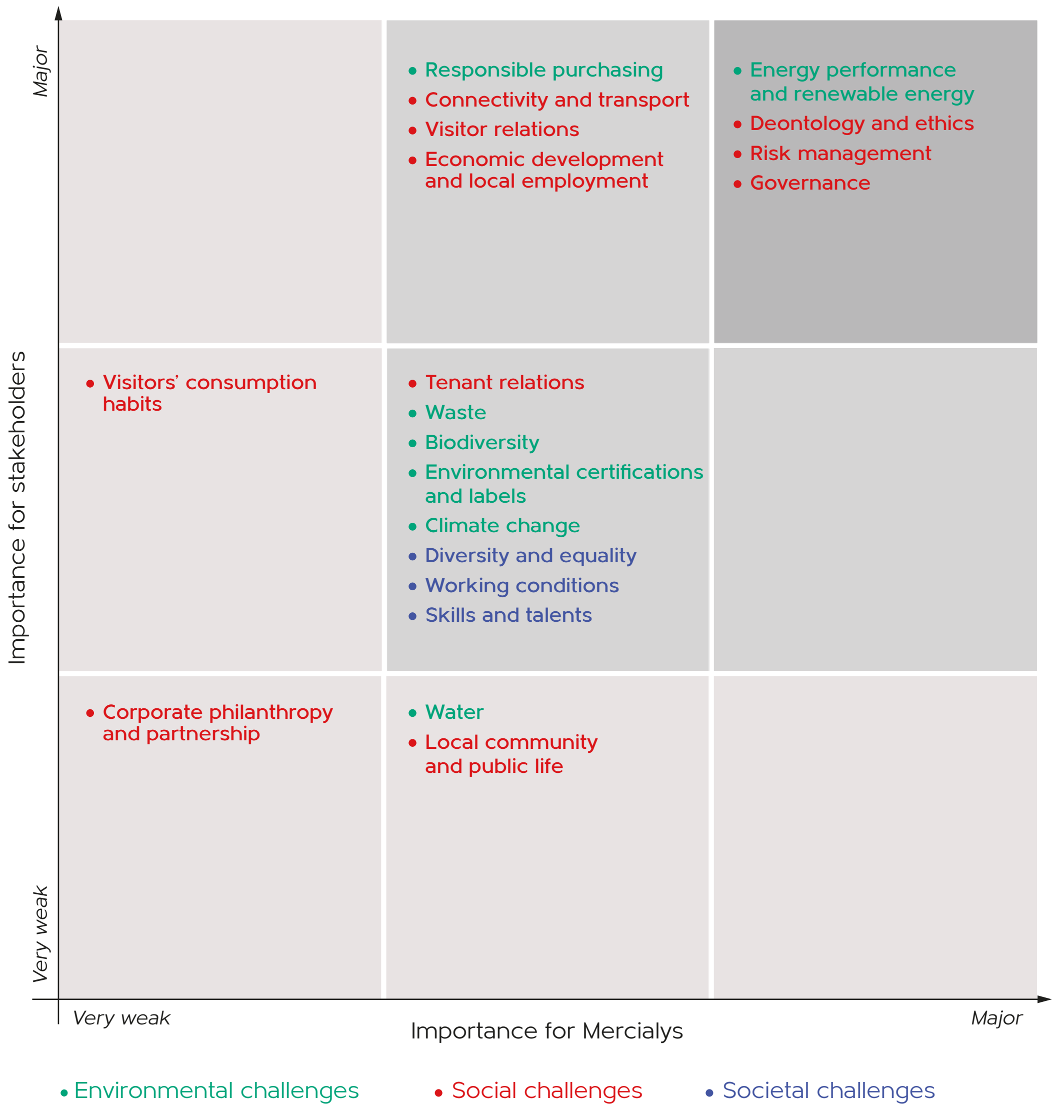
## OBJECTIVES OF THE MERY'21 STRATEGY

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

## MERCIALYS' MATERIALITY MATRIX

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

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




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

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

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

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

# A VALUE-CREATING BUSINESS MODEL

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

## RESOURCES TO SERVE THE STRATEGY

Motivated teams.

### Human resources

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

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

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

**114**
employees

**37 years**
average age

**55%**
women

**75%**
executives

**1.747**
training hours

## Intellectual resources

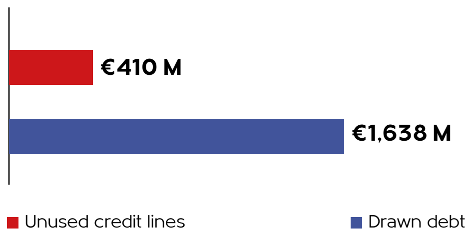
Mercialys also benefits from significant intellectual resources, organized around two objectives. First, its intangible capital, made up in particular of the *G La Galerie* ecosystem and the substantial qualified customer database. Second, the Company's organizational capital, which is concisely summed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

- **proximity:** understanding the multiple expectations of stakeholders through the territories and focused teams to efficiently address the needs of the catchment area;
- **agility:** a flexible approach to the organization of work, assets and retail, allowing rapid change in an evolving world;
- **commitment:** compliance with all regulations and stakeholders, the quest for balanced and responsible agreements;
- **innovation:** a continuous improvement approach to enable the uninterrupted renewal of the Mercialys retail offering and to consolidate its outperformance.

## Financial resources

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

**Funding at end-2017**




**38%**
of participants in teleworking

**45%**
of employees work on site

**1.9%**
of average cost of drawn debt

**3.7 years**
of average maturity of drawn debt

**39.9%**
LTV
(excl. transfer taxes)[1]

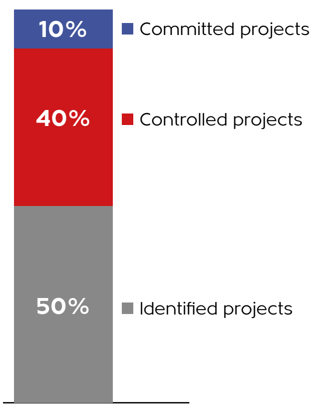
**5.2 x**
ICR[2]

(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.


The *G La Galerie* concept in Besançon Chateaufarine.

**Euro 825 million**

of development projects over the 2018 - 2024 period




## Land resources

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

## Social and societal resources

As part of its real estate developments, Mercialys collaborates with local authorities, institutions and economic partners in order to make its local shopping centers part of long-term urban policy and to develop partnerships with national and international retail chains as well as independent retailers. In this sense, it uses corporate and social resources. Through its strategy, Mercialys positions itself as a genuine partner of its tenant retailers, to whom it aims to provide not only tailored and modular retail spaces, but also an ecosystem of services combined with a unique identity, at the service of end clients. Finally, Mercialys is also a local stakeholder for visitors, more than half of whom visit its centers more than once a week. In this respect, it pays special attention to operational excellence, the continuous improvement of the commercial offer and its regular renewal.

## Environmental resources

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

Develop local employment.

# A VALUE-CREATING VIRTUOUS CIRCLE THROUGHOUT THE REAL ESTATE CYCLE

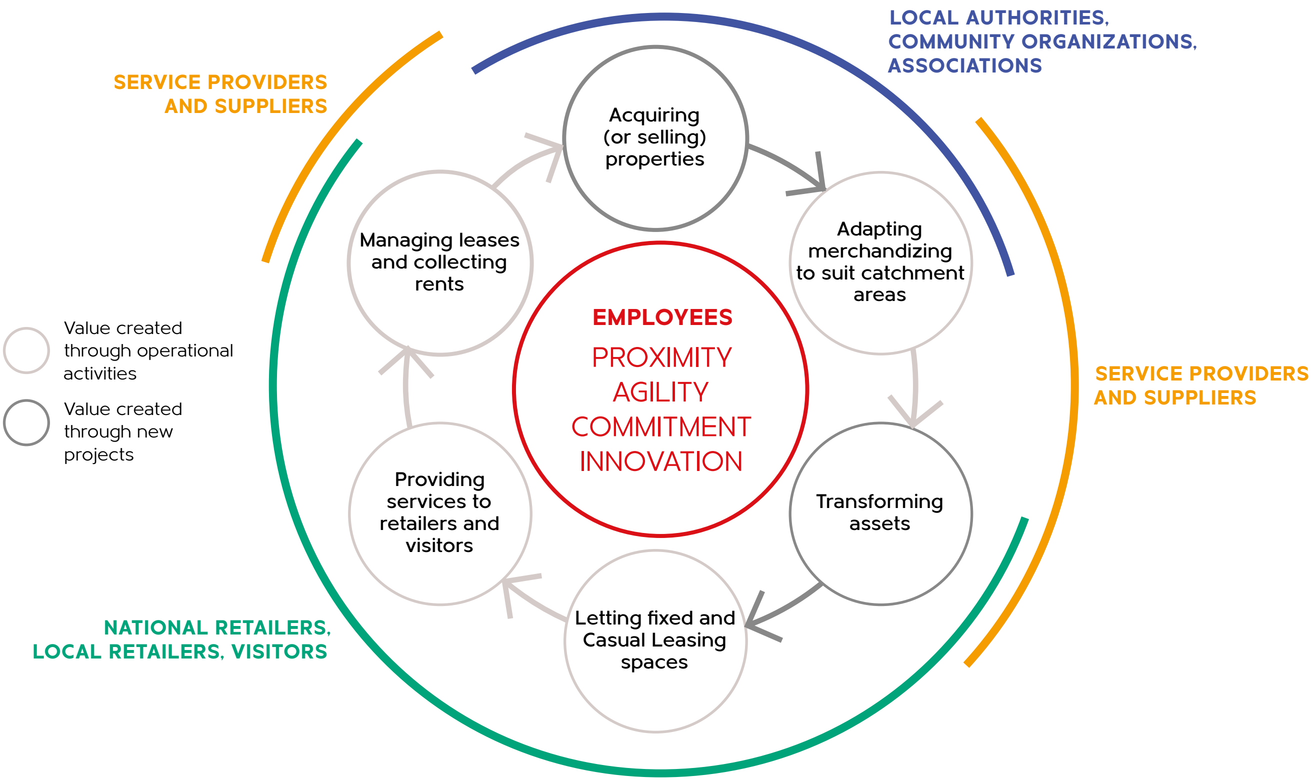
**The Mercialys business model is based on a large portfolio of sites scattered throughout France, on which the Group simultaneously conducts value-creating development and operation activities.**

This model primarily relies on the Company's skill in acquiring, selling and developing land areas. It continues with the ability of Mercialys to thoroughly understand the economic environment of its shopping centers, to design a locally balanced, adapted and attractive retail offer.
This know-how is supplemented by the capacity of teams to physically transform the assets and to let fixed and Casual Leasing spaces so as to provide customers with a continually renewed offer that truly reflects Mercialys "convenience DNA".
Throughout the period of their on-site presence, Mercialys then supplies services for the retail chains (and their end customers), assists them in their business, and supports their development, while ensuring sound management of its leases.
The income generated by the Company is used to re-initiate this virtuous circle of acquisitions and improvement of commercial spaces and assets, at the service of all stakeholders

**RESOURCES**

| | | |
|---|---|---|
| **Human**<br>**Intellectual** | **Financial**<br>**Land** | **Social and societal**<br>**Environmental** |

BUSINESS MODEL




**RESULTS**

| | |
|---|---|
| **Financial** | **Extra-financial** |

# CREATION OF SUSTAINABLE AND SHARED FINANCIAL AND EXTRA-FINANCIAL VALUE

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


## OPERATIONAL PERFORMANCE

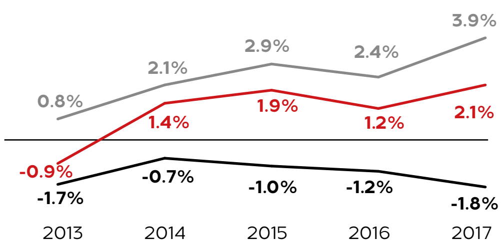
The operational performance of Mercialys centers is assessed first of all through their **footfall**, meaning the number of visitors counted at the entrance of shopping centers on all of the Company's major centers and in leading neighborhood shopping centers. The **sales generated by the retailers**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

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

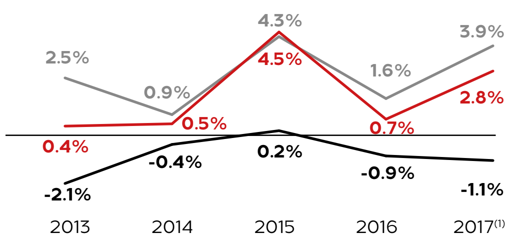
### IN 2017

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

**Change in shopping centers footfall**



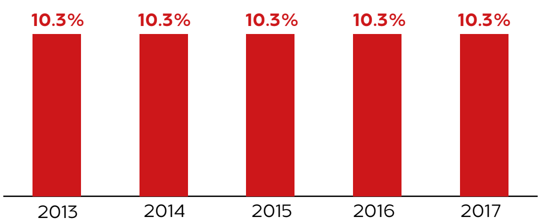

**Change in retailers' sales**



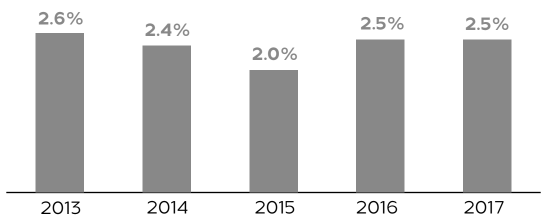

Mercialys — CNCC — Outperformance

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

**Change in occupancy cost ratio**




**Change in current financial vacancy rate**



## FINANCIAL PERFORMANCE

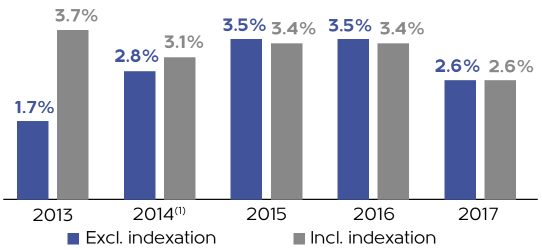
Financial performance is mainly assessed through the **organic growth** in rents, which measures the intrinsic growth in the Company's revenues, notably excluding any impact of acquisitions and disposals. The **EPRA cost ratio** is used to assess the efficiency of operational value creation. Finally,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

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

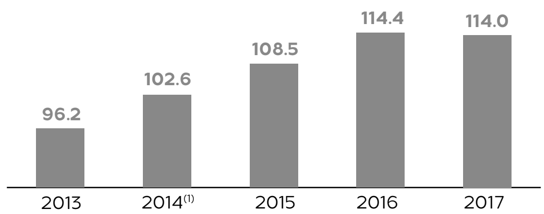
### IN 2017

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

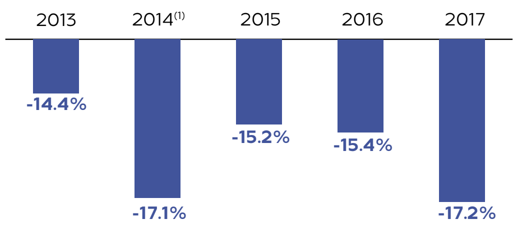
#### Change in the organic growth rate of invoiced rents



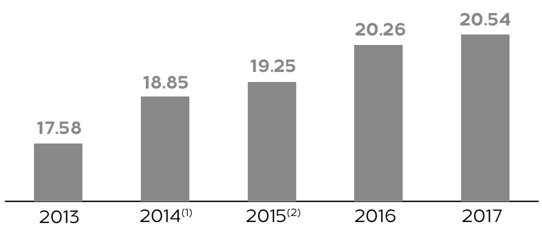

#### Change in funds from operations (FFO in millions of euros)



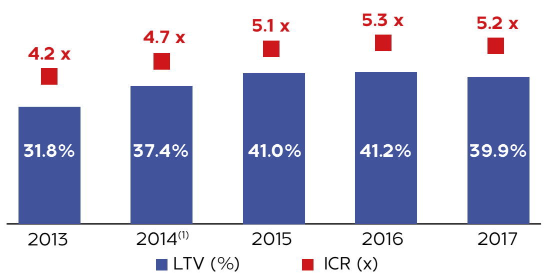

#### Change in EPRA cost ratio



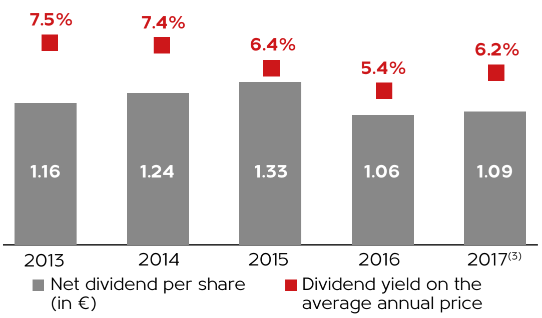

#### Change in EPRA NNNAV (in euro per share)




#### Change in LTV (excluding transfer taxes) and ICR




#### Change in the dividend yield




*(1) Restated in 2015 following the retrospective application of the interpretation of IFRIC 21.*
*(2) Revalued compared to the publication on December 31, 2015 following a review of the calculation methodology.*
*(3) Subject to the approval by the Annual General Meeting to be held on April 26, 2018.*

## EXTRA-FINANCIAL PERFORMANCE

The energy performance of Mercialys centers is measured by the **areal energy intensity** (kWh/m²). **Carbon intensity** and **renewable energy generation** are used respectively to measure the Company's impact on climate change and its contribution to energy transition.

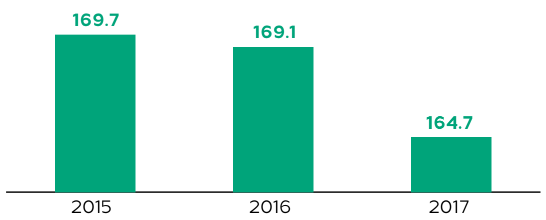
The systematic addition of environmental clauses to newly signed leases demonstrates the cooperation between Mercialys and its retailers on CSR issues.

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

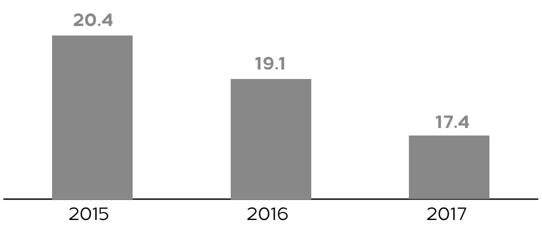
### IN 2017

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

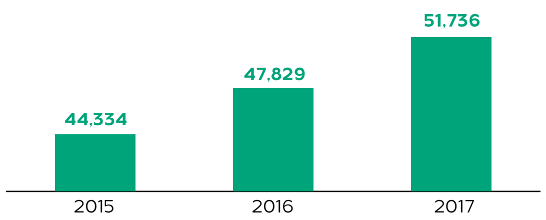
**Change of the energy intensity per sq.m (in kWh/sq.m)**



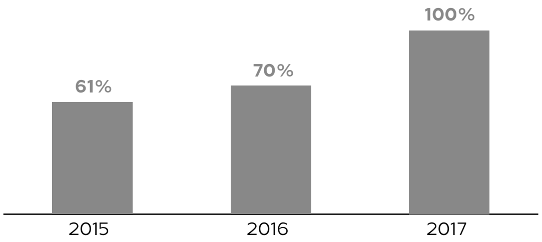

**Change in carbon intensity per sq.m (in $CO_2$/sq.m)**



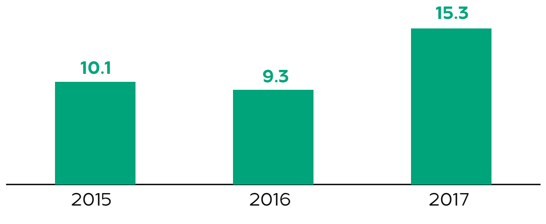

**Change in renewable energy generation (in MWh)**



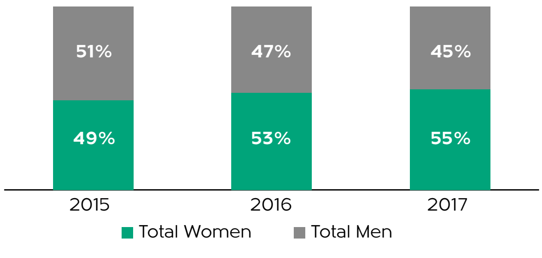

**Change in the percentage of leases signed covered by an environmental clause**




**Change in the average number of training hours per employee**

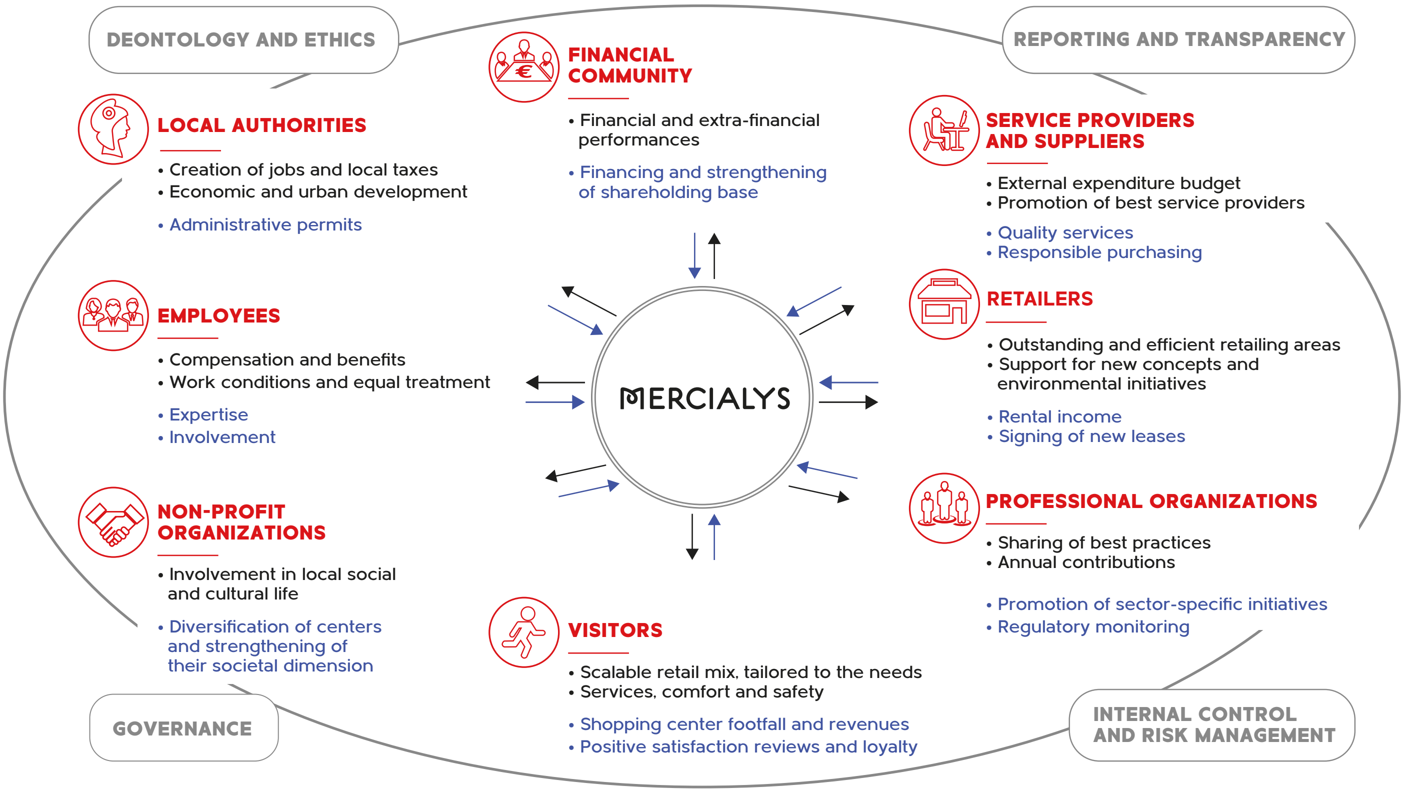



**Change in the distribution of workforce by gender**



# SHARING WITH STAKEHOLDERS

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



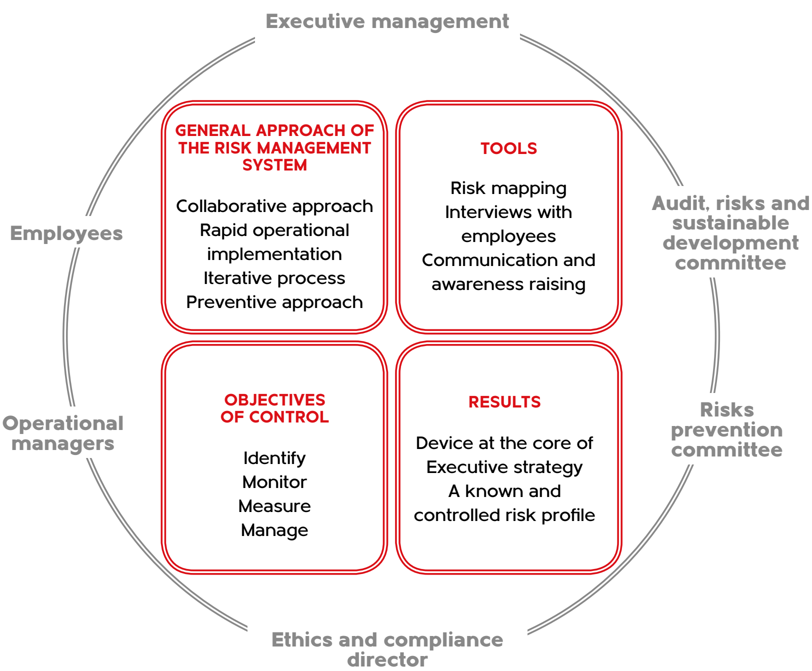

**STAKEHOLDERS** • Outflows: from Mercialys to stakeholders • Inflows: from stakeholders to Mercialys

# CONTROLLED RISK PROFILE

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

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

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



# GOVERNANCE AT THE SERVICE OF OUTPERFORMANCE

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

## MANAGEMENT BODIES ALIGNED WITH THE BEST STANDARDS

### BOARD OF DIRECTORS

The Board of Directors went through changes in 2017 which led it to review its membership and enabled it to further consolidate the Company's excellent practices, thereby strengthening particularly its capacity to develop its proactive and responsible strategy.
The departure of Bernard Bouloc, independent director, in October, replaced by Pascal Roque, female independent director, enabled Mercialys to continue increasing the female presence on the Board, which now has perfect gender equality in addition to an excellent proportion of 58.3% independent directors. This composition guarantees balanced management and without conflict of interests for the Company's affairs, the total number of members (12) being considered appropriate with respect to the size and geographic exposure of Mercialys. It should be noted that Mercialys complies with all the recommendations of the AFEP-MEDEF code.

#### MAIN FIGURES

| AVERAGE AGE AT END 2017 | AVERAGE SENIORITY AT END 2017 | PERFECT PARITY WITHIN THE BOARD | MAJORITY OF INDEPENDENT MEMBERS | NUMBER OF MEETINGS IN 2017 | ATTENDANCE RATE IN 2017 |
|---|---|---|---|---|---|
| 56 years | 6 years | 50/50 | 58% | 9 | 91% |

#### COMPOSITION AT DECEMBER 31, 2017

**12 members**

**ÉRIC LE GENTIL**
Chairman and Chief Executive Officer

**BRUNO SERVANT**
Permanent representative of Generali Vie[1]

**VICTOIRE BOISSIER[1]**
Independent director

**MICHEL SAVART**
Non-independent director

**ANNE-MARIE DE CHALAMBERT**
Independent director

**PASCALE ROQUE[2]**
Independent director

**ÉLISABETH CUNIN-DIÉTERLÉ**
Independent director

**INGRID NAPPI-CHOULET**
Independent director

**JACQUES DUMAS**
Non-independent director

**DAVID LUBEK**
Permanent representative of La Forézienne de Participations[1]

**MARIE-CHRISTINE LEVET**
Independent director

**ANTOINE GISCARD D'ESTAING**
Permanent representative of Casino, Guichard-Perrachon

**VINCENT RAVAT**
Chief Operating Officer

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

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

### BOARD MEMBERS' COMPETENCIES

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

*(1) IT, Health, CSR…*

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

## SPECIALIZED COMMITTEES

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

**Audit, risks and sustainable development committee**

- **4 members**
  - Mrs Marie-Christine Levet
  - Mr David Lubek
  - Mrs Ingrid Nappi-Choulet
  - Mrs Pascale Roque
- **75% independent directors**
- **4 meetings in 2017**
- **75% attendance**

**Appointments and compensation committee**

- **5 members**
  - Mrs Élisabeth Cunin-Dieterlé
  - Mrs Victoire Boissier
  - Mrs Anne-Marie de Chalambert
  - Mr Jacques Dumas
  - Mr Michel Savart
- **60% independent directors**
- **5 meetings in 2017**
- **96% attendance**

**Investment committee**

- **5 members**
  - Mrs Anne-Marie de Chalembert
  - Mr Antoine Giscard d'Estaing
  - Mr Éric Le Gentil
  - Mr Michel Savart
  - Mr Bruno Servant
- **40% independent directors**
- **5 meetings in 2017**
- **96% attendance**

*: Chairman / Chairwoman of the Committee*

## MANAGEMENT COMMITTEE

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

**ÉRIC LE GENTIL**
Chairman and Chief Executive Officer

**VINCENT RAVAT**
Chief Operating Officer

**NICOLAS JOLY**
Executive Vice-President

**ÉLIZABETH BLAISE**
Chief Financial Officer

**FABRICE HAURANI**
Director of Asset Management Galeries

**STÉPHANE VALLEZ**
Letting and B2B Marketing Director

**DIDIER JACQUEL**
Operations Director

**THIERRY AUGÉ**
Human Resources Director

**JULIE SAVARY**
Marketing and Communication Director

# A MEASURED AND RESPONSIBLE COMPENSATION POLICY

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

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

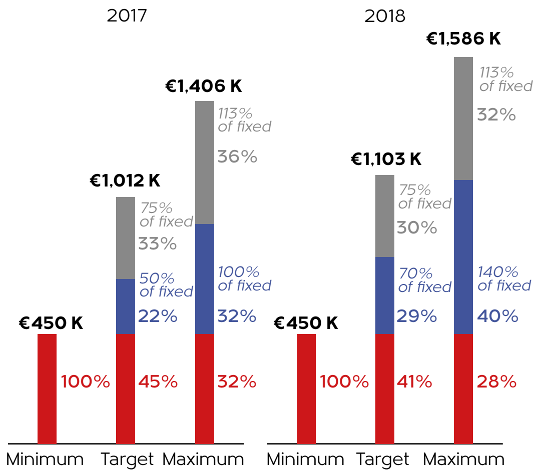
The level of fixed compensation paid at Mercialys to corporate officers is very reasonable in light of the excellent results generated every year by the Company, the experience and level of the executive corporate officers, and compared with industry practices. The fixed salary of the Chairman and Chief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

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

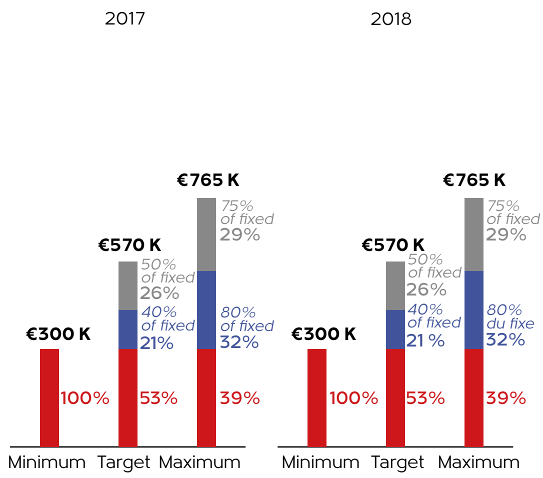
Finally, a multi-year long term incentive, in the form of a bonus share award, is designed to permanently associate executives with the Company's shareholding performance. In 2017, this share allotment was subject to the absolute and relative performance criteria of the Mercialys' share, dividend included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

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

### Compensation structure for the Chairman and Chief Executive Officer




### Compensation structure for the Chief Operating Officer




■ Fixed ■ Variable ■ Long-term variable

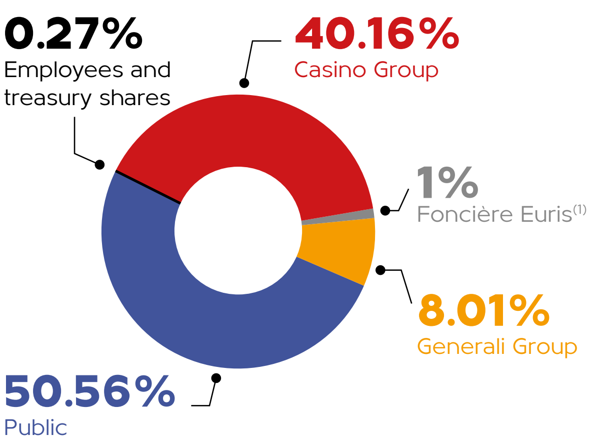
# A STABLE, DIVERSIFIED AND BALANCED SHAREHOLDING

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

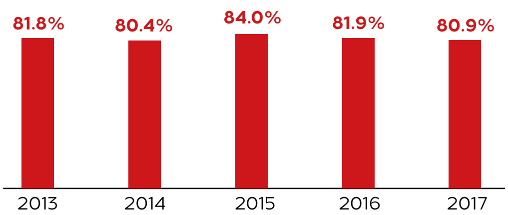
Mercialys' responsible strategy and sustainable outperformance are made possible by the nature of its shareholding. Indeed, the Company has a stable shareholding base, with in particular a large majority shareholder, which supports and encourages the development of actions that lead to long-term value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

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

### Mercialys shareholding at December 31, 2017




### History of voter participation rate at ordinary general meetings




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

# CONTINUING A SUSTAINABLE STRATEGY

**Mercialys demonstrates an ambitious and proactive strategy that relies on its well-balanced governance and ownership, supported by three major competitive advantages, and is implemented by skilled and dedicated teams. This approach has enabled the Company to adapt to the sectoral changes that continuously impact both real estate and retail, and to achieve excellent results for more than a decade.**

## A PROVEN IMPROVEMENT PROCESS

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

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

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

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

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

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

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

# A CLEAR PATH FOR 2018

In 2018, Mercialys will continue with its initiatives to improve the commercial appeal of its sites, their footfall and the revenues generated by its retail chain tenants. The Company will continue, in particular, to execute its portfolio of value accretive projects.
As part of the balanced and responsible management of its liabilities, Mercialys will also finalize, in a still favorable credit market, the early refinancing of the Euro 480 million bond issue maturing in March 2019. The Company wants to maintain a strong financial profile, allowing it to keep its BBB financial rating.
The following objectives have been set for 2018:

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

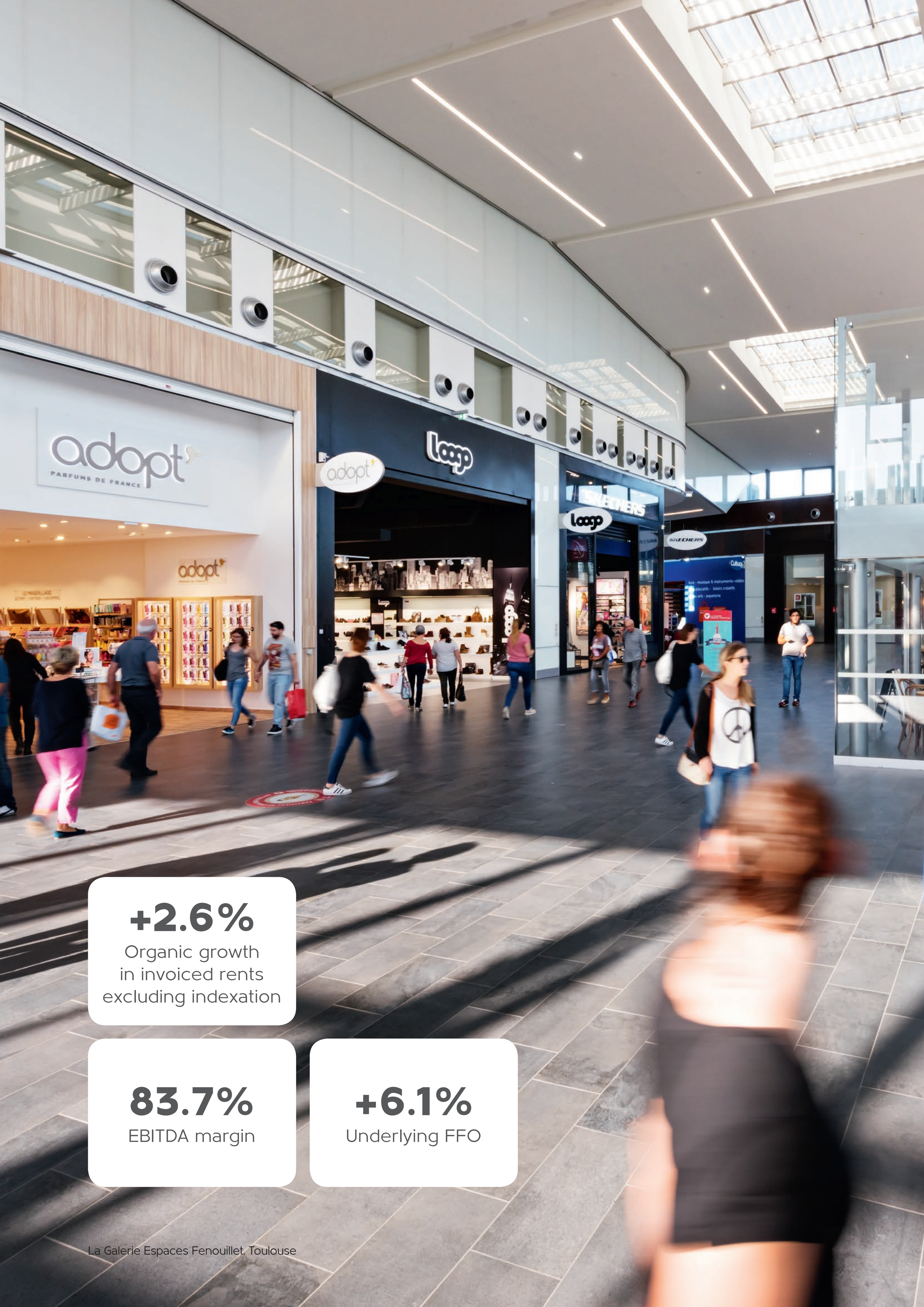
In the longer term, Mercialys' actions will continue to be guided by the quest to create value for itself and for all its stakeholders, always ensuring strict compliance with professional ethics and best practices, which is the hallmark of sustainable businesses.

**Disclaimer**
*This integrated report is modeled on the reference framework established by the International Integrated Reporting Council (IIRC). It covers all the entities consolidated in the scope of Mercialys, and naturally contains forward-looking data and information.*
*This document contains certain statements that may be based on projections regarding future events, trends, projects or objectives. These projections include, by nature, identified and unidentified risks and uncertainties that could cause Mercialys' strategy and actual results to differ materially from the results anticipated in these statements.*
*Please refer to Mercialys Registration Document for the financial year ended December 31, 2017, found on the Company's website at www.mercialys.com, and more specifically to the Chapter 5 – Risk factors, for more details regarding certain significant factors, risks and uncertainties that may affect the Company's business.*
*Mercialys makes no commitment, in any form, to publish updates or adjustments to these forward-looking statements, nor to report new information, in case of new future events or any other circumstances that might cause these statements to be revised.*

**Financial Calendar**

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

(1) *The European Public Real Estate Association.*
(2) *The* Grands Prix de la Transparence *awards are given to French companies listed on the SBF 120 for their regulatory reporting judged on the basis of 150 criteria regarding their main financial communication materials.*
(3) Salon du Retail et de l'Immobilier Commercial: *the leading European real estate trade show. It is held annually.*
(4) *BRE Environmental Assessment Method: the world's leading, and most widely used, environmental assessment method for buildings.*
(5) *Building Research Establishment: a private British building research organization that, in particular, develops methods for assessing the environmental performance of buildings.*




**+2.6%**
Organic growth in invoiced rents excluding indexation

**83.7%**
EBITDA margin

**+6.1%**
Underlying FFO

La Galerie Espaces Fenouillet, Toulouse

# 1

# COMMENTS ON THE YEAR

# 1.1 ACTIVITY REPORT

Organic growth in invoiced rents remained on a strong upward trend in 2017, with +2.6% increase excluding indexation, a level significantly higher than the +2% objective. The Funds From Operations (FFO), restated for disposals made in 2017, grew by +6.1%, and slightly declined by -0.4% to Euro 114 million including the impact of these changes in scope.

This, once again, powerful underlying trend is the result of three major effects. First, a reversion impact of +14% driven mainly by the partial transformation of hypermarkets acquired in 2014 and 2015 as shopping center extensions. Second, a dynamic letting policy focused on diversification of the merchandising mix and types of retailers. Lastly, a targeted marketing strategy, mainly geared towards digital tools for the valuation of Mercialys' substantial qualified database, as well as local actions and events to drive footfall.

In 2017, Mercialys also disposed of eight sites for Euro 117 million including transfer taxes, resulting in a -130 bp reduction in its Loan To Value ratio (LTV, excluding transfer taxes) to 39.9% at the end of December 2017. At the same time, in a more readable economic and political environment, Mercialys was in a position to acquire a major extension project for its Le Port site in Reunion island in December 2017 for almost Euro 28 million including transfer taxes, impacting LTV for 0.5%. Excluding the impact of the investment in the Le Port project, and taking into account a preliminary sales agreement signed in January 2018 for Euro 14.6 million including transfer taxes, LTV would stand at 39.1%[1] at end 2017. Mercialys has thus restored funding flexibility for its projects, while continuing to streamline its portfolio. The Company will maintain a solid financial profile in the medium term to keep its credit rating at BBB.

Moreover, in the second half of 2017, Mercialys significantly increased its projects portfolio compared to June 30, 2017, identifying Euro 239 million of additional developments for 2018/2024. The portfolio now represents investments of Euro 825 million and additional rental income of Euro 50 million[2], resulting in a highly accretive average yield on cost of 6.7%[2] and making a significant contribution to growth in FFO and NAV in the medium/long term.

The EPRA NAV rose by +0.9% in 2017 to Euro 20.86 per share. The EPRA NNNAV is up +1.4% at Euro 20.54 per share. Mercialys will recommend to the Annual General Meeting on April 26, 2018 the payment of a dividend of Euro 1.09 per share for 2017, up +2.8% from 2016, representing 88% of FFO and a yield of 5.3% on EPRA NNNAV and 5.9% on the share price at the end of December 2017. The 2017 FFO thus covers both the dividend payment (Euro 100.3 million) and the maintenance capex (Euro 5.2 million).

In 2018, Mercialys will pursue its efforts to maintain the commercial appeal of its sites, their footfall and the revenues generated by tenants, and will continue to implement its portfolio of development projects. As part of the balanced management of its liabilities, the Company will also finalize the early refinancing of its bond maturing March 2019, in a still favorably oriented credit market.

Mercialys has set the following objectives for 2018:

- organic rental income growth of at least +2% above indexation relative to 2017;
- FFO per share up by at least +2% on 2017, excluding the impact of refinancing the bond maturing in 2019, which is estimated at around Euro 6 million net of potential hedging (including the effect of the private placement completed in November 2017);
- a dividend of 85% to 95% of 2018 FFO, up at least +2% compared with 2017.

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

## 1.1.1 Mercialys completed 12 projects in 2017, generating Euro 5.2 million in annualized rental income and average net yield of 7.4%

Nine large food stores transformation projects were completed during the year. This represented annualized additional rental income of Euro 1.9 million and further improved the marketability of the sites with the installation of eight new medium-sized stores and 18 differentiating shops over an area of more than 18,000 sq.m. For example, Vib's and Armand Thiery opened stores at the Fréjus site, Kiabi joined the offering of the Rennes shopping center, New Yorker moved into the Poitiers shopping center, while Fnac opted for the Saint-Étienne Monthieu shopping center. The yield on cost was 7.5%.

In the fourth quarter of 2017, Mercialys also completed three shopping center extensions at the Morlaix, Rennes and Saint-Étienne Monthieu sites. These new retail spaces, which cover an area of 16,000 sq.m, have accommodated an extra 68 retailers, 10 of which are new to the Mercialys portfolio. They represent Euro 3.3 million of additional annualized rents, or an average yield on cost of 7.0%.

## 1.1.2 Mercialys strongly bolsters its portfolio of development projects

Mercialys has increased its project portfolio for the period 2018-2024 by Euro +239 million compared with 30 June 2017. This now represents a total investment of Euro 825 million. The projects involve 32 of the 57 shopping centers and high-street sites owned by the Company at the end of 2017. These developments will generate Euro 50 million[(1)] in additional rental income with a highly accretive average yield of 6.7%[(1)], making a significant contribution to growth in FFO and NAV in the medium and long term.

The portfolio of "committed" projects is valued at Euro 80 million based on a target net yield of 6.2%. This includes projects that are already under way, mainly the extension of the Le Port site in Reunion island.

The portfolio of projects "controlled" represents Euro 327 million and a target net yield of 6.6%. The completion dates range from 2019 to 2021.

The portfolio of "identified" projects, scheduled for completion between 2021 and 2024, represents an investment of Euro 418 million and a target net yield of 7.0%.

Three large food store transformations will be completed in 2018 at the Annecy, Besançon and Brest sites, representing total annualized rental income of Euro 0.4 million and a yield of 6.1%.

In addition, Mercialys acquired the company Sacré Cœur, carrying a 9,600 sq.m extension project on the Le Port shopping center in Reunion island. The acquisition was completed on December 28, 2017 for Euro 27.7 million including transfer taxes. The project represents a total investment of Euro 74 million in view of the work still to be carried out. The extension – which was included in Mercialys' portfolio of potential development projects – will open in November 2018. It will comprise 4 medium-sized stores and 43 shops, representing a target net rental income of Euro 4.6 million and a yield of 6.2%. Mercialys will significantly boost the appeal of this site, where it already owns a shopping center with 3 medium-sized stores and 40 shops. The site has a large catchment area of 228,000 inhabitants and is targeting annual footfall of more than 6 million visitors.

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

| | Total investment (€M) | Investment still to be initiated (€M) | Net rental income forecast (€M) | Net yield on cost forecast | Completion date |
|---|---|---|---|---|---|
| **Committed projects** | **79.5** | **51.5** | **4.9** | **6.2%** | **2018** |
| **Le Port (extension)** | **73.8** | **46.2** | **4.6** | **6.2%** | **2018** |
| **Other projects** | **5.7** | **5.3** | **0.4** | **6.1%** | **2018** |
| Annecy | 0.5 | 0.5 | - | - | - |
| Besançon | 2.1 | 2.1 | - | - | - |
| Brest | 3.1 | 2.7 | - | - | - |
| **Controlled projects** | **327.2** | **322.6** | **19.8(1)** | **6.6%(1)** | **2019-2021** |
| **Redevelopments and requalifications** | **61.3** | **60.5** | **3.7** | **6.0%** | **2019-2021** |
| o.w. Le Port (food court) | 0.8 | 0.8 | - | - | - |
| o.w. Marseille La Valentine | 16.3 | 16.3 | - | - | - |
| o.w. Aix-Marseille Plan-de-Campagne (transformation) | 8.2 | 8.2 | - | - | - |
| **Extensions and retail parks** | **239.5** | **235.7** | **16.1** | **6.7%** | **2019-2021** |
| o.w. Le Port (retail park) | 11.7 | 11.7 | - | - | - |
| o.w. Aix-Marseille Plan de Campagne (extension) | 40.0 | 40.0 | - | - | - |
| o.w. Nîmes | 40.9 | 40.9 | - | - | - |
| **Mixed-use high-street projects** | **26.4** | **26.4** | **na** | **na** | **2021** |
| o.w. Marcq-en-Barœul | 17.0 | 17.0 | - | - | - |
| o.w. Chaville | 9.4 | 9.4 | - | - | - |
| **Identified projects** | **417.8** | **417.8** | **25.1(1)** | **7.0%(1)** | **2021-2024** |
| **TOTAL PROJECTS** | **824.5** | **791.9** | **49.8(1)** | **6.7%(1)** | **2018-2024** |

*(1) Excluding the impact of mixed-use high-street projects for Euro 85 million investment, which could also generate property development margins.*
- *Committed projects: projects fully secured in terms of land management, planning and related development permits.*
- *Controlled projects: projects effectively under control in terms of land management, with various points to be finalized for regulatory urban planning (constructability), planning or administrative permits.*
- *Identified projects: projects currently being structured, in emergence phase.*

## 1.1.3 Euro 192 million of disposals and preliminary sales agreement further streamlined Mercialys' portfolio, to focus on 'prime' convenience retail assets, leaders within their catchment area

In 2017, Mercialys stepped up its capital recycling strategy, disposing of eight assets for a total of Euro 177.2 million including transfer taxes. This strategy enabled the Company to crystallize the value of some of its mature sites or sites with limited development potential, reinvesting part of this in its projects.

In January, Mercialys sold five service malls covering a total area of around 14,600 sq.m for Euro 38.9 million including transfer taxes, corresponding to an exit yield of 5.8%. Those arbitrages involved dispersed assets that were unsuitable for global transformation projects owing to their individual size (less than 5,000 sq.m).

In the same month, the Company also sold the transformed Toulouse Fenouillet hypermarket for Euro 32.8 million including transfer taxes, with an exit yield of 5.0%. Mercialys had previously embarked on two projects to create 4,600 sq.m in additional retail space, on surfaces formerly occupied by the hypermarket.

In June, Mercialys finalized the sale of the Poitiers Beaulieu site with a family office financed by HSBC for Euro 78.0 million including transfer taxes, corresponding to an exit yield of 5.8%. This shopping center was completely renovated in 2016. In the first half of 2017, New Yorker unveiled its new store concept at the site in a unit measuring over 1,100 sq.m.

In July, Mercialys sold the Fontaine-lès-Dijon site to a fund created by Stam Europe for Helaba Invest for Euro 27.5 million including transfer taxes, generating an exit yield of 5.4%. This shopping center has been subjected to three waves of redevelopments and renovations since 2008.

Asset disposals continue in early 2018. Mercialys signed a preliminary sales agreement in January for Euro 14.6 million including transfer taxes.

## 1.1.4 EPRA NNNAV is up +1.4% over 12 months

Mercialys' portfolio is valued at Euro 3,736.7 million including transfer taxes, down -1.6% over 12 months, but up +1.0% over 6 months. On a like-for-like basis(1), Mercialys' portfolio value has risen by +2.2% over 12 months and +1.0% over 6 months.

At the end of 2017, Mercialys' portfolio mainly comprised 57 shopping centers and high-street sites(2), with 42% regional or large shopping centers and 58% leading local retail sites (neighborhood shopping centers and city-center assets).

The average size of these shopping centers (excluding high-street retail assets) was 16,500 sq.m at the end of 2017. This contrasts with an average size of 7,400 sq.m in 2010. Their average value was Euro 69.9 million including transfer taxes, compared with Euro 26.9 million in 2010.

The average appraisal capitalization rate came to 5.13% at December 31, 2017, compared with 5.14% at June 30, 2017 and 5.25% at December 31, 2016.

Mercialys' EPRA NNNAV is up +1.4% over 12 months to Euro 20.54 per share. This year-on-year increase of Euro +0.28 per share factors in the following impacts:

- dividend payment: Euro -1.04 ;
- net income: Euro +0.94 ;
- change in portfolio fair value: Euro +0.28, including a yield effect for Euro +0.38, a rent effect for Euro +0.06, and a scope effect for Euro -0.16;
- change in fair value of financial instruments and other items: Euro +0.10.

## 1.1.5 Mercialys anticipates still favorable terms for its debt refinancing

In November 2017, Mercialys issued a Euro 150 million bond as part of a private placement. This transaction covers the Company's general requirements, including the partial refinancing of the Euro 479.7 million bond maturing in March 2019.

This new 10-year line of funding, arranged on favorable terms, has increased the average maturity of Mercialys' debt and maintained the Company's funding costs at extremely competitive levels. It offers a significant differential from the average capitalization rate of the Company's real estate assets and the target net yield of the portfolio of development projects.

In 2018, Mercialys will continue refinancing the bond maturing in March 2019. This will generate an additional carrying cost affecting FFO in addition to the private placement from 2017. The additional financing to be raised in 2018 is estimated at around Euro 300 million. As such, the total cost of refinancing in 2018, including the impact of the private placement from 2017, is therefore estimated at around Euro 9 million. The amount impacting the Company's financial expenses would represent around Euro 6 million after potential hedging. These impacts have been assessed based on current market conditions and assuming a maximum carrying period of 10 months in 2018.

Alongside this, the cost of the Euro 480 million bond issue maturing in March 2019 represents an annual coupon of Euro 19.8 million, with a Euro 16.3 million (2017 basis) impact on Mercialys' financial expenses after taking into account the hedging in place.

Following the redemption of the bond in March 2019, Mercialys will continue to roll out its financing strategy aimed at ensuring an excellent level of liquidity.

Overall, the average real cost of drawn debt for 2017 was 1.9%, below the level recorded in 2016 (2.0%).

The average maturity of drawn debt was 3.7 years at December 31, 2017. This maturity is notably affected by the residual bond for Euro 479.7 million maturing in March 2019.

Mercialys' financial structure remains extremely solid. LTV excluding transfer taxes was 39.9%(3) at December 31, 2017. This includes asset disposals of Euro 177 million in 2017, and translates into a -130 bp fall from the level of 41.2% at the end of December 2016. At the same time, in a more readable economic and political environment, Mercialys was in a position to acquire a major expansion project for its Le Port site in Reunion island in December 2017 for almost Euro 28 million including transfer taxes, impacting LTV for 0.5%. Excluding the impact of the investment in the Le Port project, and taking into account a preliminary sales agreement signed in January 2018 for Euro 14.6 million including transfer taxes, LTV would stand at 39.1%(4) at end 2017.

Mercialys has thus restored funding flexibility for its projects, while continuing to streamline its portfolio. Mercialys will maintain a solid financial profile in the medium term to keep its credit rating at BBB.

The ICR stood at 5.2x(5) at December 31, 2017, *versus* 5.3x at December 31, 2016.

*(1) Sites on a constant surface basis.*
*(2) Added to these are six geographically dispersed assets with an appraisal value including transfer taxes of Euro 24.2 million.*
*(3) Loan To Value (LTV): net financial debt/(market value of the portfolio excluding transfer taxes + market value of investments in associates for 2017), i.e. Euro 67.2 million, since the asset value of companies accounted for under the equity method is not taken into account in the appraisal value.*
*(4) Unaudited figure.*
*(5) ICR (Interest Coverage Ratio): EBITDA/net finance costs.*

# 1.2 FINANCIAL REPORT

Pursuant to Regulation (EC) No. 1606/2002 of July 19, 2002, the Mercialys Group consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as adopted by the European Union and applicable at December 31, 2017. These standards are available on the European Commission website at (https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en). The significant accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, after taking into account, or with the exception of, the new standards and interpretations described below.

## 1.2.1 Financial statements

### 1.2.1.1 CONSOLIDATED INCOME STATEMENT

| *(in thousands of euros)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| **Rental revenues** | **185,318** | **189,795** |
| Non-recovered property taxes | (1,248) | (1,159) |
| Non-recovered service charges | (4,656) | (3,165) |
| Property operating expenses | (7,227) | (7,407) |
| **Net rental income** | **172,188** | **178,065** |
| Management, administrative and other activities income | 4,066 | 3,359 |
| Other income | 277 | 400 |
| Other expenses | (9,065) | (8,813) |
| Personnel expenses | (12,398) | (12,520) |
| Depreciation allowance | (34,822) | (30,536) |
| Reversals/(Allowances) for provisions | (1,528) | (1,116) |
| Other operating income | 178,364 | 104,568 |
| Other operating expenses | (172,005) | (81,360) |
| **Operating income** | **125,077** | **152,046** |
| Income from cash and cash equivalents | 156 | 140 |
| Gross finance costs | (30,219) | (30,541) |
| **(Net finance costs)/income from net cash** | **(30,063)** | **(30,401)** |
| Other financial income | 254 | 1,159 |
| Other financial charges | (2,173) | (2,029) |
| **(Net financial expense)/income** | **(31,982)** | **(31,271)** |
| Tax | (645) | (2,736) |
| Share of net income from associates and joint ventures | 2,540 | 709 |
| **CONSOLIDATED NET INCOME** | **94,991** | **118,748** |
| attributable to non-controlling interests | 8,324 | 8,699 |
| attributable to owners of the parent | 86,666 | 110,049 |
| **Earnings per share(1)** | | |
| Net income, attributable to owners of the parent *(in euros)* | 0.94 | 1.20 |
| Diluted net income, attributable to owners of the parent *(in euros)* | 0.94 | 1.20 |

*(1) Based on the weighted average number of shares over the period adjusted for treasury shares:*
*weighted average number of shares (non-diluted) in 2017 = 91,830,447 shares;*
*weighted average number of shares (fully diluted) in 2017 = 91,830,447 shares.*

## 1.2.1.2 CONSOLIDATED BALANCE SHEET

### Assets

| *(in thousands of euros)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Intangible assets | 2,486 | 2,016 |
| Property, plant and equipment other than investment property | 10 | 12 |
| Investment property | 2,305,414 | 2,325,268 |
| Investments in associates | 38,445 | 39,039 |
| Other non-current assets | 37,529 | 54,672 |
| Deferred tax assets | 319 | 422 |
| **Non-current assets** | **2,384,203** | **2,421,429** |
| Trade receivables | 15,839 | 29,793 |
| Other current assets | 59,713 | 56,931 |
| Cash and cash equivalents | 196,913 | 15,578 |
| Investment property held for sale | 113 | 60,949 |
| **Current assets** | **272,578** | **163,251** |
| **TOTAL ASSETS** | **2,656,781** | **2,584,680** |

### Equity and Liabilities

| *(in thousands of euros)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Share capital | 92,049 | 92,049 |
| Additional paid-in capital, treasury shares and other reserves | 626,468 | 636,569 |
| Equity attributable to the Group | 718,517 | 728,618 |
| Non-controlling interests | 202,023 | 205,597 |
| **Equity** | **920,540** | **934,215** |
| Non-current provisions | 857 | 551 |
| Non-current financial liabilities | 1,377,454 | 1,239,610 |
| Deposits and guarantees | 22,694 | 22,646 |
| Deferred tax liabilities | 578 | 578 |
| **Non-current liabilities** | **1,401,583** | **1,263,385** |
| Trade payables | 12,516 | 19,561 |
| Current financial liabilities | 281,396 | 312,849 |
| Current provisions | 6,265 | 5,048 |
| Other current liabilities | 34,432 | 49,338 |
| Current tax liabilities | 49 | 284 |
| **Current liabilities** | **334,658** | **387,080** |
| **TOTAL EQUITY AND LIABILITIES** | **2,656,781** | **2,584,680** |

### 1.2.1.3 CONSOLIDATED CASH FLOWS STATEMENT

| *(in thousands of euros)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Net income, attributable to owners of the parent | 86,666 | 110,049 |
| Non-controlling interests | 8,324 | 8,699 |
| **Consolidated net income** | **94,991** | **118,748** |
| Depreciation, amortization and provisions, net of reversals | 43,590 | 37,074 |
| Expenses/(income) relating to stock options and similar | 421 | 147 |
| Other calculated expenses/(income) (1) | (1,775) | (2,984) |
| Share of net income of associates | (2,540) | (709) |
| Dividends received from associates | 2,625 | 881 |
| Income from asset disposals | (14,965) | (29,075) |
| **Cash flow** | **122,346** | **124,082** |
| Expense/(Income) from net financial debt | 30,063 | 30,401 |
| Tax charge (including deferred tax) | 645 | 2,736 |
| **Cash flow before cost of net financial debt and tax** | **153,055** | **157,219** |
| Taxes received/(paid) | (2,547) | (3,446) |
| Change in working capital requirement relating to operations, excluding deposits and guarantees (2) | 13,491 | (2,980) |
| Change in deposits and guarantees | 48 | (294) |
| **Net cash flow from operating activities** | **164,046** | **150,499** |
| Cash payments on acquisitions of: | | |
| ■ investment property and other fixed assets | (102,808) | (175,655) |
| ■ non-current financial assets | 0 | 0 |
| Cash receipts on disposals of: | | |
| ■ investment property and other fixed assets (3) | 164,173 | 151,533 |
| ■ non-current financial assets | 0 | 120 |
| Impact of changes in the scope of consolidation with change of ownership (4) | (26,956) | (80,170) |
| Impact of changes in the scope of consolidation related to associates (5) | 0 | (37,363) |
| Change in loans and advances granted (6) | (23) | (3,100) |
| **Net cash flow from investing activities** | **34,386** | **(144,636)** |
| Dividends paid to shareholders of the parent company | (57,829) | (52,328) |
| Interim dividend | (37,637) | (39,432) |
| Dividends paid to non-controlling interests | (11,468) | (9,259) |
| Other transactions with shareholders (7) | (1,260) | 0 |
| Changes in treasury shares | (1,100) | 466 |
| Increase in borrowings and financial liabilities (8) | 1,281,260 | 1,001,500 |
| Decrease in borrowings and financial liabilities (8) | (1,164,500) | (877,500) |
| Net interest received | 29,997 | 23,807 |
| Net interest paid | (54,724) | (50,827) |
| **Net cash flow from financing activities** | **(17,260)** | **(3,574)** |
| **CHANGE IN CASH POSITION** | **181,171** | **2,291** |
| Net cash at beginning of year | 15,298 | 13,007 |
| Net cash at end of year | 196,469 | 15,298 |
| ■ of which cash and cash equivalents | 196,913 | 15,578 |
| ■ of which bank overdrafts | (444) | (280) |

| *(in thousands of euros)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| *(1) Other calculated expenses and income primarily comprise:* | | |
| *- discounting adjustments to construction leases* | *(546)* | *(483)* |
| *- lease rights received from tenants and spread out over the term of the lease* | *(1.720)* | *(2.049)* |
| *- financial expenses spread out* | *399* | *373* |
| *- interest on non-cash loans* | *0* | *(894)* |
| *(2) The change in working capital requirement breaks down as follows:* | | |
| *- trade receivables* | *13,935* | *(4.317)* |
| *- trade payables* | *(7.046)* | *(2.377)* |
| *- other receivables and payables* | *6,602* | *3,650* |
| *- property development work in progress* | *0* | *64* |
| | *13,491* | *(2.980)* |

*(3) In 2017, cash inflows related to disposals were mainly composed of five service malls sold to the Casino Group for Euro 36.0 million, the transformed Toulouse Fenouillet hypermarket sold to the Casino Group for Euro 30.6 million, the Poitiers Beaulieu site for Euro 69.7 million, the Fontaine-lès-Dijon site for Euro 24.9 million, and the Rennes Saint Grégoire site for Euro 2.3 million. These amounts are net of expenses.*
*In 2016, cash inflows related to disposals were mainly composed of hypermarket premises in Rennes and Anglet for Euro 57.0 million, net of expenses, and the Niort and Albertville shopping centers for Euro 87.9 million.*

*(4) In December 2017, La Diane bought shares in the company Sacré Cœur from the Casino Group, comprising the Le Port project in Reunion island for Euro 15.7 million and the shareholder current account for Euro 11.2 million.*
*In 2016, Mercialys exercised the call option it held on the planned extension of the Toulouse Fenouillet shopping center, resulting in full consolidation of the companies Fenouillet Immobilier and Fenouillet Participation. The impact of changes in scope of consolidation with a change of control for Euro -80.2 million were composed of cash acquired from the Fenouillet Immobilier and Fenouillet Participation companies for Euro -44.4 million, the repayment of Fenouillet Participation current account to the partner for Euro -25.5 million, and the purchase price for shares in Fenouillet Participation of Euro -11 million.*
*The total disbursement of Euro -97.9 million whose flows were presented in other items in the statement of cash flows specifically comprised Euro -23.8 million for the acquisition of investment properties and Euro 9.7 million for working capital requirements.*

*(5) On June 28, 2016, in connection with the transfer of property assets to SCI Rennes Anglet, Mercialys participated in the capital contribution for this SCI real estate investment company for Euro 7.7 million (representing a 30% interest), for the section of the transfers based exclusively on an exchange for shares.*

*(6) In the first half of 2016, Mercialys participated in a capital increase arranged by SCI AMR for Euro 3.8 million.*

*(7) In December 2017, Mercialys bought out the minority shareholder of SCI Kerbernard for Euro 1.3 million.*
*In December 2016, Mercialys participated in a further capital increase arranged by SCI AMR for Euro 25.9 million. This capital increase, which was unevenly subscribed, led to Mercialys' interest in SCI AMR being reduced to 39.9%.*
*Mercialys had granted a loan to SCI Rennes-Anglet totaling Euro 3,064,000 at the end of December 2016.*

*(8) Changes in borrowings and financial liabilities correspond to changes in commercial paper and to a new bond issuance for Euro 148,260,000 net of costs.*
*In 2016, changes in borrowings and other financial liabilities corresponded only to changes in commercial paper.*

## 1.2.2 Main highlights of 2017

### SALE OF FIVE SERVICE MALLS

In January 2017, Mercialys sold five service malls to the Casino Group for a total amount of Euro 38.9 million including transfer taxes and an exit yield of 5.8%. These sales involved geographically dispersed assets that are unsuitable for large-scale transformation projects owing to their individual size (less than 5,000 sq.m).

### SALE OF THE TRANSFORMED HYPERMARKET IN TOULOUSE

In January 2017, Mercialys sold the transformed Toulouse Fenouillet hypermarket to the Casino Group for Euro 32.8 million including transfer taxes, with an exit yield of 5.0%. Mercialys had previously embarked on two projects to create additional retail space on surfaces formerly occupied by the hypermarket, thereby enhancing the site's appeal.

### SALE OF THE POITIERS SHOPPING CENTER

In June 2017, Mercialys finalized the sale of the Poitiers Beaulieu site with a family office financed by HSBC for Euro 78.0 million including transfer taxes, corresponding to an exit yield of 5.8%. This shopping center was completely renovated in 2016. In the first half of 2017, New Yorker unveiled its new store concept at the site in a unit measuring over 1,100 sq.m.

### SALE OF THE FONTAINE-LÈS-DIJON SHOPPING CENTER

In July 2017, Mercialys sold the Fontaine-lès-Dijon site to a fund created by Stam Europe for Helaba Invest for Euro 27.5 million including transfer taxes, generating an exit yield of 5.4%. This shopping center has been subjected to three waves of redevelopments and renovations since 2008.

### EURO 150 MILLION BOND ISSUE *VIA* A PRIVATE PLACEMENT

In November 2017, Mercialys issued a Euro 150 million bond (maturity 2027) as part of a private placement, offering a yield of 10-year mid-swap rate of +110 basis points. This transaction is for general corporate purposes, including the partial refinancing of the Euro 479.7 million bond maturing in March 2019 and bearing a coupon of 4.125%.

### COMPLETION OF TRANSFORMATION PROJECTS FOR NINE LARGE FOOD STORES AND EXTENSION PROJECTS FOR THREE SHOPPING CENTERS

In the first half of 2017, Mercialys completed four transformation projects for large food stores. The sites feature new medium-sized stores as well as French and international retailers, which will help to generate footfall in these shopping centers. H&M, Sostrene Grene and La Chaise Longue have moved into the redeveloped Quimper site, while Vib's and Armand Thiery have opened stores in Fréjus, FNAC in Saint-Étienne and New Yorker in Poitiers.

In the second half of 2017, Mercialys delivered five redeveloped large food stores at the Angers, Narbonne, Nîmes, Rennes and Toulouse sites.

In total, the nine large food store transformation projects delivered in 2017 generate total annualized rental income of Euro 1.9 million and a yield of 7.5%.

Lastly, in the fourth quarter of 2017, Mercialys completed three major extension projects at shopping centers in Rennes, Morlaix and Saint-Étienne. This attracted 68 retailers to the sites, 10 of which are new to the Mercialys portfolio. The extension projects generate Euro 3.3 million in rental income and a yield of 7.0%.

### ACQUISITION OF A MORE THAN 9,000 SQ.M DEVELOPMENT PROJECT IN LE PORT (REUNION ISLAND)

In December 2017, Mercialys acquired the company Sacré Cœur and its project for a 9,600 sq.m extension of the Le Port shopping center in Reunion island. The acquisition was based on a price of Euro 27.7 million including transfer taxes. The project represents a total amount of Euro 74 million in view of the work still to be carried out. The extension, – which was included in Mercialys' portfolio of potential development projects – will open in November 2018. It will comprise four medium-sized stores and 43 shops, representing a target net rental income of Euro 4.6 million and a yield of 6.2%. Mercialys will significantly boost the appeal of this site, where it already owns a shopping center with three medium-sized stores and 40 shops. The site has a large catchment area of 228,000 inhabitants and is targeting annual footfall of more than 6 million visitors.

## 1.2.3 Summary of the main key indicators for the period

| | 12/31/2017 |
|---|---|
| **Organic growth in invoiced rents** | **+2.6%** |
| **EBITDA**(1) | **Euro 155.1 million** |
| EBITDA/rental revenues | 83.7% |
| **Funds from operations (FFO)**(2) | **Euro 114.0 million** |
| **Funds from operations (FFO) per share** | **Euro 1.24** |
| **Fair value of the portfolio (including transfer taxes)** | **Euro 3,736.7 million** |
| Change *vs.* 12/31/2016 (total scope) | -1.6% |
| Change *vs.* 12/31/2016 (excluding the impact of disposals in 2017) | +2.2% |
| **EPRA NNNAV per share** | **Euro 20.54** |
| Change *vs.* 12/31/2016 | +1.4% |
| ***Loan to Value* (LTV) – excluding transfer taxes** | **39.9%** |

*(1) Earnings before interest, taxes, depreciation, amortization and other operating income and expenses.*
*(2) FFO: Funds From Operations = net income attributable to owners of the parent before amortization, gains or losses on disposals net of associated fees, any asset impairment and other non-recurring effects.*

## 1.2.4 Review of activity

### MAIN MANAGEMENT INDICATORS

- Renewals and re-lettings generated average growth in the annualized rental base of +14.0%[1] for the period.
- The Casual Leasing business also remains buoyant, representing a total rental income of Euro 9.8 million. This segment is now fully integrated within Mercialys' letting strategy, as illustrated by the expected conversion of Euro 0.8 million in short-term leases into conventional commercial leases in 2017 and 2018, a trend which is set to continue over the medium term.
- Details of the lease schedule can be found in the table below:

| | Number of leases | Annual MGR* + variable *(in millions of euros)* | Share of leases expiring *(% annual MGR + variable)* |
|---|---|---|---|
| Expired at 12/31/2017 | 364 | 15.5 | 8.7% |
| 2018 | 191 | 6.9 | 3.8% |
| 2019 | 123 | 6.3 | 3.5% |
| 2020 | 200 | 13.9 | 7.8% |
| 2021 | 165 | 9.8 | 5.5% |
| 2022 | 185 | 12.1 | 6.8% |
| 2023 | 118 | 8.4 | 4.7% |
| 2024 | 165 | 11.0 | 6.2% |
| 2025 | 160 | 9.7 | 5.5% |
| 2026 | 244 | 25.5 | 14.3% |
| 2027 and beyond | 270 | 58.9 | 33.1% |
| **TOTAL** | **2,185** | **178.0** | **100%** |

* *MGR = minimum guaranteed rent.*

The number of expired leases at end-2017 is due to ongoing negotiations, non-renewal of leases with payment of eviction compensation, comprehensive negotiations by retailers, tactical delays, etc.

- The 12-month recovery rate at end-December 2017 remained high at 97.0%, virtually unchanged from June 30, 2017 (97.1%) and December 31, 2016 (97.1%).
- The current financial vacancy rate – which excludes "strategic" vacancy designed to facilitate extension/redevelopment plans – remained at a very low level. This was 2.5% at December 31, 2017, stable *vs.* December 31, 2016 and down slightly from June 30, 2017 (2.2%). The total vacancy rate[2] was 3.4% at December 31, 2017, an improvement from June 30, 2017 (3.6%). This compares with a total vacancy rate at end-2016 of 3.9%.
- The occupancy cost ratio[3] for our tenants stood at 10.3% for large shopping centers, unchanged from December 31, 2016.

  Sales revenues of retailers in Mercialys' shopping centers had risen by +2.8% on aggregate at end-November 2017. This ratio thence remains at a fairly modest level compared with that of Mercialys' peers in France. It reflects both the reasonable level of real estate costs in retailers' operating accounts and the potential for increasing rent levels upon lease renewal or redevelopment of the premises.

Mercialys earns rental income from a wide range of retailers. With the exception of the Casino Group (see below for more details) and H&M (3.8%), no other tenant represents more than 2% of total rental income.

Casino accounted for 28.9% of total rental income at December 31, 2017 (*vs.* 31.5% at December 31, 2016 and 30.3% at June 30, 2017). This change is mainly due to the overall growth in rental income and the asset disposal strategy.

*(1) Vacant at last known rent for re-lettings.*
*(2) In accordance with the EPRA calculation method: rental value of vacant units/(annualized guaranteed minimum rent on occupied units + rental value of vacant units).*
*(3) Ratio between rent and service charges paid by retailers and their sales revenue (excluding large food stores): (rent + service charges incl. tax) / sales revenue incl. tax.*

The table below shows the breakdown by retailer (national, local and Casino Group retailers) of contractual rents on an annualized basis:

| | Number of leases | Annual MGR* + variable *12/31/2017 (in millions of euros)* | 12/31/2017 *(in %)* | 12/31/2016 *(in %)* |
|---|---|---|---|---|
| National and international retailers | 1,437 | 103.9 | 58.4% | 56.9% |
| Local retailers | 674 | 22.7 | 12.7% | 11.6% |
| Casino cafeterias/restaurants | 6 | 1.0 | 0.6% | 0.7% |
| Monoprix | 9 | 11.4 | 6.4% | 6.2% |
| Géant Casino and other entities | 59 | 39.0 | 21.9% | 24.5% |
| **TOTAL** | **2,185** | **178.0** | **100.0%** | **100.0%** |

* *MGR = minimum guaranteed rent.*

The breakdown by business sector (including large food stores) of Mercialys rents also remains highly diversified:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Restaurants and catering | 7.3% | 6.7% |
| Health and beauty | 10.3% | 10.3% |
| Culture, gifts and sports | 13.2% | 11.2% |
| Personal items | 31.7% | 31.5% |
| Household equipment | 7.2% | 7.5% |
| Food-anchored tenants | 27.6% | 30.1% |
| Services | 2.6% | 2.7% |
| **TOTAL** | **100.0%** | **100.0%** |

The structure of rental income at December 31, 2017 shows that leases with a variable component represent the dominant share in terms of rent:

| | Number of leases | In millions of euros | 12/31/2017 *(in %)* | 12/31/2016 *(in %)* |
|---|---|---|---|---|
| Leases with variable component | 1,245 | 96.6 | 54% | 52% |
| - of which guaranteed minimum rent | | 90.2 | 51% | 50% |
| - of which variable rent | | 6.4 | 4% | 3% |
| Leases without variable component | 940 | 81.4 | 46% | 48% |
| **TOTAL** | **2,185** | **178.0** | **100%** | **100%** |

Given the inclusion in the portfolio of medium-sized stores, particularly for shopping center extension projects and large food store transformation projects, leases with a variable component represented a higher proportion of total rental income at December 31, 2017 than at December 31, 2016.

Lastly, leases index-linked to the French Retail Rent Index (ILC) made up the predominant share of rents at December 31, 2017:

| | Number of leases | In millions of euros | 12/31/2017 *(in %)* | 12/31/2016 *(in %)* |
|---|---|---|---|---|
| Leases index-linked to the Retail Rent Index (ILC) | 1,617 | 156.6 | 91% | 89% |
| Leases index-linked to the Construction Cost Index (ICC) | 300 | 12.4 | 7% | 9% |
| Leases index-linked to the Tertiary Activities Rent Index (ILAT) and non-adjustable leases | 268 | 2.6 | 2% | 1% |
| **TOTAL** | **2,185** | **171.6** | **100%** | **100%** |

# 1.2.5 Review of consolidated results

## 1.2.5.1 INVOICED RENTS, RENTAL REVENUES AND NET RENTAL INCOME

Rental revenues mainly comprise rents invoiced by the Company plus a smaller element of lease rights and despecialization indemnities paid by tenants and spread out over the firm period of the lease (usually 36 months).

| *(in thousands of euros)* | 12/31/2017 | 12/31/2016 | % var. |
|---|---|---|---|
| Invoiced rents | 183,514 | 187,621 | -2.2% |
| Lease rights | 1,805 | 2,175 | -17.0% |
| **RENTAL REVENUES** | **185,318** | **189,795** | **-2.4%** |
| Non-recovered service charges and property taxes | (5,904) | (4,323) | +36.6% |
| Property operating expenses | (7,227) | (7,407) | -2.4% |
| **NET RENTAL INCOME** | **172,188** | **178,065** | **-3.3%** |

The -2.2 point evolution in invoiced rents is the result of the following:

- continued robust organic growth in invoiced rents[1]: +2.6 points, or Euro +4.9 million;
- acquisitions in 2016: +2.8 points, or Euro +5.3 million ;
- the impact of asset sales carried out in 2016 and 2017: -7.3 points, or Euro -13.7 million;
- other effects, primarily including strategic vacancy relating to current redevelopment programs: -0.3 point, or Euro -0.6 million.

Like for like, invoiced rents rose +2.6 points, of which in particular:

- +0.1 point as a result of indexation[2] ;
- +2.3 points as a result of actions carried out on the portfolio;
- +0.3 point caused by growth in the Casual Leasing business. In addition, it should be noted that some additional revenues from Casual Leasing are excluded from the like-for-like measure. This chiefly concerns rental income from the extension of the Toulouse shopping center, acquired in the fourth quarter of 2016.

Lease rights and despecialization indemnities received over the period[3] after the impact of deferrals required under IFRS came to Euro 1.8 million, compared with Euro 2.2 million at December 31, 2016. These mainly corresponded to lease rights relating to ordinary re-letting business.

Rental revenues amounted to Euro 185.3 million at December 31, 2017, down -2.4% compared with the end of 2016.

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

Costs included in the calculation of net rental income came to Euro 13.1 million in 2017, compared with Euro 11.7 million in 2016. The ratio of non-recovered property operating expenses to invoiced rents was 7.2% at December 31, 2017, compared with 6.3% at December 31, 2016. Due to the decrease in invoiced rents, net rental income fell by -3.3% compared with December 31, 2016, to Euro 172.2 million.

*(1) Assets enter the like-for-like scope used to calculate organic growth once they have been held for 12 months.*
*(2) In 2017, for the majority of leases, rents were indexed either to the change in the construction cost index (ICC) or to the change in the retail rent index (ILC) between the second quarter of 2015 and the second quarter of 2016 (+0.5% and 0.0%, respectively).*
*(3) Lease rights received as cash before the impact of deferrals required under IFRS (deferral of lease rights over the firm period of the lease).*

### 1.2.5.2 MANAGEMENT REVENUES, OPERATING COSTS AND EBITDA

| *(in thousands of euros)* | 12/31/2017 | 12/31/2016 | % var. |
|---|---|---|---|
| **NET RENTAL INCOME** | **172,188** | **178,065** | **-3.3%** |
| Management, administrative and other activities income | 4,066 | 3,359 | +21.0% |
| Other income and expenses | (8,788) | (8,414) | +4.4% |
| Personnel expenses | (12,398) | (12,520) | -1.0% |
| **EBITDA** | **155,069** | **160,490** | **-3.4%** |
| % rental revenues | 83.7% | 84.6% | - |

Management, administrative and other activities income primarily comprises fees charged in respect of services provided by certain Mercialys staff – whether within the framework of advisory services provided by the asset management team, which works on a cross-functional basis for Mercialys and the Casino Group, or within the framework of shopping center management services provided by teams – as well as letting, asset management and advisory fees relating to partnerships formed.

Fees charged in 2017 came to Euro 4.1 million compared with Euro 3.4 million in 2016. This change was in large part generated by fees charged in respect of the G La Galerie trademark license.

No property development margin was recorded in 2017.

Other recurring income of Euro 0.3 million recognized in 2017 (compared with Euro 0.4 million in 2016) includes dividends received from the real estate investment fund (OPCI) created in partnership with Union Investment in 2011. Ownership of this fund is split between Union Investment (80%) and Mercialys (20%) and is recorded in Mercialys' accounts under non-consolidated securities in non-current assets. Mercialys operates the fund and is in charge of asset management and letting. These dividends, similar to net rental revenues, are recognized as operating income.

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

For 2017, these costs amounted to Euro 9.1 million compared with Euro 8.8 million in 2016. This change notably reflects the impact of communication costs and action plans to increase shopping center footfall.

Personnel expenses amounted to Euro 12.4 million in 2017, virtually unchanged from 2016 (Euro 12.5 million).

A portion of personnel expenses are charged back to the Casino Group as part of the advisory services provided by the asset management team, which works on a cross-functional basis for Mercialys and the Casino Group, or as part of the shopping center management services provided by Mercialys' teams (see paragraph above concerning management, administrative and other activities income).

As a result of the above, EBITDA[1] came to Euro 155.1 million in 2017 compared with Euro 160.5 million in 2016, a decrease of -3.4%. The EBITDA ratio was 83.7% at December 31, 2017 (compared with 84.6% at end-2016).

### 1.2.5.3 NET FINANCIAL ITEMS

Net financial items amounted to Euro 32.0 million at December 31, 2017, compared with Euro 31.3 million at December 31, 2016. Adjusted for the impact of non-recurring items (hedging ineffectiveness and banking default risk), which represent an expense of Euro 1.6 million (*versus* a cumulative expense of Euro 0.7 million at the end of December 2016), net financial items came to Euro 30.4 million, as against Euro 30.6 million at end-December 2016.

The average real cost of drawn debt at December 31, 2017 was 1.9%, unchanged from June 30, 2017 (1.9%) and down from December 31, 2016 (2.0%).

(1) *E.B.I.T.D.A. (Earnings before interest, taxes, depreciation and amortization).*

The table below shows a breakdown of net financial items:

| *(in millions of euros)* | 12/31/2017 | 12/31/2016 | % var. |
|---|---|---|---|
| Income from cash and equivalents (a) | 156 | 140 | +11.4% |
| Cost of debt taken out (b) | (36.909) | (38.781) | -4.8% |
| Impact of hedging instruments (c) | 6,690 | 8,240 | -18.8% |
| Cost of finance leases (d) | 0 | 0 | na |
| **Gross finance costs excluding exceptional items** | **(30.219)** | **(30.541)** | **-1.1%** |
| Exceptional depreciation of costs in relation to the early repayment of bank loans (e) | 0 | 0 | na |
| **Gross finance costs (f) = (b)+(c)+(d)+(e)** | **(30.219)** | **(30.541)** | **-1.1%** |
| **Net finance costs (g) = (a)+(f)** | **(30.063)** | **(30.401)** | **-1.1%** |
| Cost of Revolving Credit Facility and bilateral loans (undrawn) (h) | (2.150) | (2.012) | +6.9% |
| Other financial expenses (i) | (23) | (17) | +35.3% |
| **Other financial expenses excluding exceptional items (j) = (h)+(i)** | **(2.173)** | **(2.029)** | **+7.1%** |
| Exceptional depreciation in relation to refinancing of the RCF (k) | 0 | 0 | na |
| **Other financial expenses (l) = (j)+(k)** | **(2.173)** | **(2.029)** | **+7.1%** |
| **Total financial expenses (m) = (f)+(l)** | **(32.392)** | **(32.570)** | **-0.5%** |
| Income from associates | 0 | 0 | na |
| Other financial income | 254 | 1,159 | -78.1% |
| **Other financial income (n)** | **254** | **1,159** | **-78.1%** |
| **Total financial income (o) = (a)+(n)** | **410** | **1,299** | **-68.4%** |
| **NET FINANCIAL ITEMS = (m)+(o)** | **(31.982)** | **(31.271)** | **+2.3%** |

### 1.2.5.4 FUNDS FROM OPERATIONS (FFO) AND NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT

#### A. Funds from operations (FFO)

| *(in thousands of euros)* | 12/31/2017 | 12/31/2016 | % var. |
|---|---|---|---|
| **EBITDA** | **155,069** | **160,490** | **-3.4%** |
| Net financial items (excluding impact of hedging ineffectiveness and banking default risk) | (30.375) | (30.625) | -0.8% |
| Reversals of/(Allowances for) provisions | (1.528) | (1.116) | +36.9% |
| Other operating income and expenses (excluding gains on disposals and impairment) | (1.057) | (2.014) | -47.5% |
| Tax expense | (645) | (2.736) | -76.4% |
| Share of net income of associates | 2,540 | 709 | na |
| Non-controlling interests excluding capital gains and amortization | (10.036) | (10.307) | -2.6% |
| **FFO** | **113,969** | **114,401** | **-0.4%** |
| **FFO per share** | **1.24** | **1.25** | **-0.3%** |

The tax regime for French "SIIC" (REIT) companies exempts them from paying tax on their income from real estate activities, provided that at least 95% of net income from rental activities and 60% of gains on the disposal of real estate assets are distributed to shareholders. The tax expense recognized by Mercialys consisted of corporate value-added tax (CVAE), income tax on businesses that do not come under the SIIC status, and deferred taxes.

In 2017, Mercialys recorded a tax expense of Euro 0.6 million, mainly consisting of the tax on company value added (Euro 1.7 million), income tax (Euro 0.1 million liability offset by the claim for the reimbursement of the 3% dividend tax for Euro 1.3 million), and deferred tax on deficits and temporary differences (Euro 0.2 million).

The share of net income from associates recognized at December 31, 2017 came to Euro 2.5 million, compared with Euro 0.7 million at December 31, 2016. This change is linked to recognition of the contribution from SCI Rennes Anglet since June 2016 (this company owns the redeveloped hypermarkets of these two sites, as well as the mall and a medium-sized store in Anglet), in addition to the contribution from the Niort and Albertville shopping center assets, acquired by SCI AMR in December 2016.

Companies consolidated under the equity method in the Mercialys consolidated financial statements include SCI AMR (created in partnership with Amundi Immobilier in 2013), SNC Aix2 (of which Mercialys acquired 50% of the shares in December

2013, with Altaréa Cogedim owning the remaining 50%), Corin Asset Management SAS (of which Mercialys owns 40%), and SCI Rennes Anglet (of which Mercialys owns 30%).

SNC Fenouillet Participation was recognized as an associate until November 2016. Following the exercise of the fair-value call it held with Foncière Euris, Mercialys acquired 100% of the shares of SNC Fenouillet Participation, which has been fully consolidated since the opening of the Espaces Fenouillet shopping center extension.

Non-controlling interests (excluding gains and amortization) represented Euro 10.0 million at December 31, 2017, compared with Euro 10.3 million at December 31, 2016. These are linked to the 49% stake held by BNP Paribas REIM France in the companies Hypertethis Participations and Immosiris. Since Mercialys retains exclusive control, these subsidiaries are fully consolidated.

Based on these items, funds from operations (FFO), which corresponds to net income before depreciation and amortization, capital gains or losses on disposals net of associated fees, any asset impairment and other non-recurring effects, amounted to Euro 114.0 million (*vs.* Euro 114.4 million for 2016), the slight fall of -0.4% being mainly due to asset disposals. Excluding the effect of disposals in 2017, FFO would have risen by +6.1%.

Considering the weighted average basic number of shares at the end of December, FFO amounted to Euro 1.24 per share at December 31, 2017, compared with Euro 1.25 per share at December 31, 2016, a slight fall of -0.3%.

## B. Net income attributable to owners of the parent

| *(in thousands of euros)* | 12/31/2017 | 12/31/2016 | % var. |
|---|---|---|---|
| FFO | 113,969 | 114,401 | -0.4% |
| Depreciation and amortization | (34,822) | (30,536) | +14.0% |
| Other operating income and expenses | 7,416 | 25,221 | -70.6% |
| Hedging ineffectiveness/banking default risk | (1,607) | (646) | na |
| Non-controlling interests: capital gains and amortization | 1,711 | 1,608 | +6.4% |
| **NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT** | **86,667** | **110,049** | **-21.2%** |

Depreciation, amortization and provisions rose sharply to Euro 34.8 million in 2017 compared with Euro 30.5 million in 2016, in parallel with the investments made in 2016 and 2017.

Other operating income and expenses correspond to the net amount of capital gains on the sale of real-estate assets and provisions for asset impairment.

Other operating income came to Euro 178.4 million at December 31, 2017 compared with Euro 104.6 million at December 31, 2016. This amount mainly includes:

- income of Euro 175.6 million from asset disposals in 2017, including five service malls, the transformed hypermarket at Toulouse Fenouillet and the Poitiers Beaulieu and Fontaine-lès-Dijon sites;
- reversal of the provision for impairment for Euro 0.7 million relating to a site that was sold.

Other operating expenses came to Euro 172.0 million at December 31, 2017 (compared with Euro 81.4 million at December 31, 2016). This corresponds primarily to:

- the net book value of assets sold in 2017 and costs related to these asset disposals for Euro 161 million;
- impairments of investment properties for Euro 7.6 million.

On this basis, the net capital gain recognized in the consolidated financial statements at December 31, 2017 on asset disposals in 2017 was Euro 14.3 million. Social capital gain of Euro 20.4 million will be 60% available for distribution in accordance with SIIC rules.

Net income attributable to owners of the parent, as defined by IFRS, totaled Euro 86.7 million for 2017, as against Euro 110.0 million for 2016. This change resulted mainly from the favorable impact on 2016 net income of capital gains on disposals.

### 1.2.5.5 FINANCIAL STRUCTURE

#### A. Debt cost and structure

At December 31, 2017, the amount of Mercialys' drawn debt was Euro 1,638.2 million, comprising:

- a bond issue of a nominal amount of Euro 150 million, yielding a fixed rate of 2% and maturing in November 2027;
- a bond issue of a nominal amount of Euro 750 million, yielding a fixed rate of 1.787% and maturing in March 2023;
- a residual bond of Euro 479.7 million (of the Euro 650 million bond issued in March 2012 and partially redeemed in December 2014), yielding a fixed rate of 4.125% and maturing in March 2019;
- Euro 258.5 million of commercial paper outstanding yielding a slightly negative average rate.

Net financial debt amounted to Euro 1,427.0 million at December 31, 2017, compared with Euro 1,485.8 million at December 31, 2016.

The Group had cash and cash equivalents of Euro 196.5 million at December 31, 2017 compared with Euro 15.3 million at December 31, 2016. The main cash flows that impacted the change in Mercialys' cash position over the period were as follows:

- net cash flow from operating activities during the period: Euro +164.0 million;
- cash receipts/payments relating to assets sold/acquired in 2017: Euro +34.4 million;
- dividend payments to shareholders and non-controlling interests: Euro -106.9 million;
- net increase in borrowings and financial liabilities: Euro +116.8 million, mainly resulting from the redemption of commercial paper outstanding for Euro 31.5 million, offset by a private placement bond issue for Euro 150.0 million;
- net interest paid: Euro -24.7 million.

The average real cost of drawn debt was 1.9%, unchanged from the end of June 2017 and lower than at December 31, 2016 (2.0%).

Taking into account the current rate hedging policy, Mercialys' debt structure at December 31, 2017 was as follows: 65% fixed-rate debt and 35% floating-rate debt, virtually unchanged from the end of 2016 (64% and 36%, respectively).

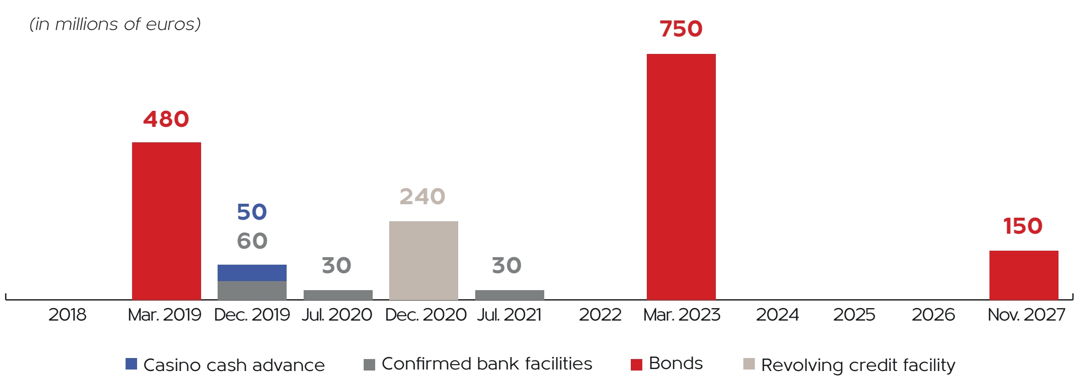
#### B. Liquidity and debt maturity

The average maturity of drawn debt was 3.7 years at December 31, 2017 (as against 3.8 years at December 31, 2016), benefiting from the Euro 150 million bond issued in November 2017 in the form of a private placement. This maturity is notably affected by the residual bond for Euro 479.7 million maturing in March 2019.

Mercialys also has unused financial resources of Euro 410 million that ensure a comfortable level of liquidity:

- a bank revolving credit facility of Euro 240 million with a maturity of December 2020. This facility bears interest at Euribor + a margin of 115 basis points; if unused, this facility is subject to payment of a 0.46% non-use fee (for a BBB rating);
- two confirmed bank facilities totaling Euro 60 million with a maturity that was extended to December 2019. These facilities bear interest at a rate lower than 100 basis points above the Euribor (for a BBB rating);
- two confirmed bank facilities of Euro 30 million each, maturing in July 2020 (maturity extended by one year in 2017) and July 2021. The margin over Euribor is less than 100 basis points for each of these facilities;
- cash advances from Casino of up to Euro 50 million, repayable on December 31, 2019, subject to an interest rate of between 60 and 85 basis points above Euribor;
- a Euro 500 million commercial paper program was also set up in the second half of 2012. Euro 258.5 million has been used (outstanding at December 31, 2017).

The graph below shows the Group's debt maturities at December 31, 2017 (including unused financial resources and excluding commercial paper):



### C. Bank covenants and financial rating

Mercialys' financial position at December 31, 2017 satisfied all the various covenants included in the different credit agreements.

The Loan To Value (LTV) ratio was 39.9%, down -1.3 point, well below the contractual covenant (LTV <50%). Excluding the impact of the investment in the Le Port project, and taking into account a preliminary sales agreement signed in January 2018 for Euro 14.6 million including transfer taxes, LTV would stand at 39.1%[1] at end 2017.

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Net financial debt *(in millions of euros)* | 1,427.0 | 1,485.8 |
| Appraisal value excluding transfer taxes *(in millions of euros)* | 3,580.6[1] | 3,604.4 |
| **LOAN TO VALUE (LTV)** | **39.9%** | **41.2%** |

*(1) Including the market value of investments in associates, i.e. Euro 67.2 million, since the asset value of companies accounted for under the equity method is not taken into account in the appraisal value.*

Likewise, the ratio of EBITDA/net finance costs (ICR: Interest Coverage ratio) was 5.2x, well above the bank covenant requirement (ICR > 2):

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| EBITDA (in millions of euros) | 155.1 | 160.5 |
| Net finance costs | (30.1) | (30.4) |
| **INTEREST COVERAGE RATIO (ICR)** | **5.2X** | **5.3X** |

The two other bank covenant requirements are also met:

- the market value of properties excluding transfer taxes at December 31, 2017 was Euro 3.5 billion (above the contractual covenant that sets a market value excluding transfer taxes of over Euro 1 billion);
- a ratio of secured debt/market value excluding transfer taxes of less than 20%. Mercialys had no secured debt at December 31, 2017.

Mercialys is rated by Standard & Poor's. On June 6, 2017, the agency confirmed its rating for Mercialys of BBB/stable outlook.

### 1.2.5.6 EQUITY AND OWNERSHIP STRUCTURE

Consolidated equity was Euro 920.5 million at December 31, 2017, compared with Euro 934.2 million at December 31, 2016.

The main changes that affected this item during the period were as follows:

- net income for 2017: Euro +95.0 million ;
- payment of the final dividend for the 2016 financial year of Euro 0.63 per share and dividend paid to non-controlling interests: Euro -69.3 million;
- payment of an interim dividend for the 2017 financial year of Euro 0.41 per share: Euro -37.6 million;
- payment in respect of the buyout of minority shareholders of SNC Kerbernard: Euro -1.3 million;
- transactions on treasury shares: Euro -1.0 million.

The number of shares outstanding at December 31, 2017 was 92,049,169, unchanged from December 31, 2016.

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Number of shares outstanding | | | |
| - At start of period | 92,049,169 | 92,049,169 | 92,049,169 |
| - At end of period | 92,049,169 | 92,049,169 | 92,049,169 |
| Average number of shares outstanding | 92,049,169 | 92,049,169 | 92,049,169 |
| **Average number of shares (basic)** | **91,830,447** | **91,856,715** | **91,767,764** |
| **Average number of shares (diluted)** | **91,830,447** | **91,856,715** | **91,767,764** |

As at December 31, 2017, Mercialys' ownership structure was as follows: Casino Group (40.16%), Generali Group (8.01%), Foncière Euris[2] (1.00%), treasury shares and shares held by employees (0.27%), other shareholders (50.56%).

### 1.2.5.7 DIVIDEND

The balance of the 2016 dividend was paid on May 4, 2017 and amounted to Euro 0.63 per share. This represents a total dividend of Euro 57.8 million fully paid in cash.

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

At its meeting of July 26, 2017, the Board of Directors decided to pay an interim dividend on 2017 earnings of Euro 0.41 per share. This dividend was paid out on October 23, 2017, representing a total amount of Euro 37.6 million of interim dividends fully paid in cash.

In accordance with SIIC rules, the minimum distribution requirement resulting from earnings reported in Mercialys' 2017 accounts is Euro 101.7 million, including Euro 12.3 million for gains on disposals which may be paid out over two years.

The Mercialys Board of Directors will recommend to the Annual General Meeting on April 26, 2018 the payment of a dividend of Euro 1.09 per share (including the interim dividend of Euro 0.41 per share already paid in October 2017). The proposed dividend corresponds to 88% of 2017 FFO, in accordance with the objective announced by Mercialys (within a range of 85% to 95% of FFO and at least unchanged from 2016), an increase of +2.8% on 2016.

The proposed dividend represents 5.3% yield on EPRA NNNAV of Euro 20.54 per share and 5.9% on the share price at year-end 2017. The ex-dividend date is April 30, 2018, and the dividend will be paid on May 3, 2018.

The dividend corresponds to the distribution of 95% of the parent company's recurring tax profit, on which the mandatory distribution is based according to SIIC tax rules, or Euro 0.99 per share, and Euro 0.10 per share corresponding to capital gains realized in 2016. The capital gains available for distribution in respect of 2017, to be distributed no later than 2019 under SIIC rules, amount to Euro 12.3 million.

## 1.2.6 Changes in the scope of consolidation and valuation of the asset portfolio

### 1.2.6.1 ASSET ACQUISITIONS

In 2017, Mercialys acquired the company Sacré Cœur, carrying a 9,600 sq.m extension project on the Le Port shopping center in Reunion island. The acquisition was completed on December 28, 2017 for Euro 27.7 million including transfer taxes. The project represents a total investment of Euro 74 million in view of the work still to be carried out.

The extension – which was included in Mercialys' portfolio of potential development projects – will open in November 2018. It will comprise four medium-sized stores and 43 shops, representing a target net rental income of Euro 4.6 million and a yield of 6.2%. Mercialys will significantly boost the appeal of this site, where it already owns a shopping center with 3 medium-sized stores and 40 shops. The site has a large catchment area of 228,000 inhabitants and is targeting annual footfall of more than 6 million visitors.

### 1.2.6.2 COMPLETIONS OF EXTENSION OR RECONSTRUCTION PROJECTS

Mercialys completed 12 projects in 2017, generating Euro 5.2 million in annualized rental income and average net yield of 7.4%.

Nine large food stores transformation projects were completed during the year. This represented annualized additional rental income of Euro 1.9 million and further improved the marketability of the sites with the installation of eight new medium-sized stores and 18 differentiating shops over an area of more than 18,000 sq.m. For example, Vib's and Armand Thiery opened stores at the Fréjus site, Kiabi joined the offering of the Rennes shopping center, New Yorker moved into the Poitiers shopping center, while Fnac opted for the Saint-Étienne Monthieu shopping center. The return on development costs was 7.5%.

In the fourth quarter of 2017, Mercialys also completed three shopping center extensions at the Morlaix, Rennes and Saint-Étienne Monthieu sites. These new retail spaces, which cover an area of 16,000 sq.m, have accommodated an extra 68 retailers, 10 of which are new to the Mercialys portfolio. They represent Euro 3.3 million of additional annualized rents, or an average return on development costs of 7.0%.

### 1.2.6.3 DISPOSALS

In 2017, Mercialys stepped up its capital recycling strategy, disposing of eight assets for a total of Euro 177.2 million including transfer taxes. This strategy enabled the Company to crystallize the value of some of its mature sites or sites with limited development potential, reinvesting part of this in its projects.

In January, Mercialys sold five service malls covering a total area of around 14,600 sq.m for Euro 38.9 million including transfer taxes, corresponding to an exit yield of 5.8%. Those arbitrages involved dispersed assets that were unsuitable for global transformation projects owing to their individual size (less than 5,000 sq.m).

In the same month, the Company also sold the transformed Toulouse Fenouillet hypermarket for Euro 32.8 million including transfer taxes, with an exit yield of 5.0%. Mercialys had previously embarked on two projects to create 4,600 sq.m in additional retail space, on surfaces formerly occupied by the hypermarket.

In June, Mercialys finalized the sale of the Poitiers Beaulieu site with a family office financed by HSBC for Euro 78.0 million including transfer taxes, corresponding to an exit yield of 5.8%. This shopping center was completely renovated in 2016. In the first half of 2017, New Yorker unveiled its new store concept at the site in a unit measuring over 1,100 sq.m.

In July, Mercialys sold the Fontaine-lès-Dijon site to a fund created by Stam Europe for Helaba Invest for Euro 27.5 million including transfer taxes, generating an exit yield of 5.4%.

This shopping center has been subjected to three waves of redevelopments and renovations since 2008.

Asset disposals continue in early 2018. Mercialys signed a preliminary sales agreement in January for Euro 14.6 million including transfer taxes.

### 1.2.6.4 APPRAISAL VALUATIONS AND CHANGES IN CONSOLIDATION SCOPE

As at December 31, 2017, BNP Real Estate Valuation, Catella, Cushman & Wakefield, CBRE and Galtier updated their valuation of Mercialys' portfolio:

- BNP Real Estate Valuation conducted the appraisal of 40 sites as at December 31, 2017, on the basis of five site visits during the second half of 2017, and on the basis of an update of the appraisals conducted as at June 30, 2017 for the other sites. 8 site visits were conducted during the first half of 2017.
- Catella Valuation conducted the appraisal of 20 sites as at December 31, 2017, on the basis of an update of the appraisals conducted as at June 30, 2017.
- Cushman & Wakefield conducted the appraisal of nine assets as at December 31, 2017 on the basis of site visits.
- CBRE conducted the appraisal of 1 site as at December 31, 2017, on the basis of an update of the appraisal conducted as at June 30, 2017.
- Galtier conducted the appraisal of Mercialys' other assets, i.e. two sites as at December 31, 2017, on the basis of an update of the appraisals conducted as at June 30, 2017.

Sites acquired during 2017 were valued as follows as at December 31, 2017:

- The Le Port asset in Reunion island, acquired in the second half of 2017, was valued on the basis of its acquisition price.

On this basis, the portfolio was valued at Euro 3,736.7 million including transfer taxes at December 31, 2017, compared with Euro 3,797.3 million at December 31, 2016. Excluding transfer taxes, this value was Euro 3,513.4 million at end-2017, *vs.* Euro 3,565.4 million at end-2016.

The value of the portfolio including transfer taxes therefore fell by -1.6% over 12 months (+2.2% like-for-like[1]) and rose by +1.0% compared with June 30, 2017 (+1.0% like-for-like).

The average appraisal yield was 5.13% at December 31, 2017, compared with 5.14% at June 30, 2017 and 5.25% at December 31, 2016.

Note that the contribution of the Casual Leasing business to value creation is significant, since it accounts for Euro 178 million of the portfolio value as at December 31, 2017 (vs. Euro 170 million at end-2016, while involving no corresponding investment.

| Type of property[1] | Average yield 12/31/2017[2] | Average yield 06/30/2017[2] | Average yield 12/31/2016[2] |
|---|---|---|---|
| Regional / Large shopping centers | 4.82% | 4.94% | 5.02% |
| Neighborhood shopping centers and city-center assets | 6.13% | 5.79% | 5.91% |
| Total portfolio[3] | 5.13% | 5.14% | 5.25% |

*(1) Classification in accordance with CNCC system.*
*(2) Rates calculated on the basis of the appraised rental income including occupied and vacant premises.*
*(3) Including the Other sites.*

The following table gives the breakdown of fair value and gross leasable area (GLA) of Mercialys' real estate portfolio by type of property at December 31, 2017, as well as the corresponding appraised rental income:

| Type of property[1] | Number of assets at 12/31/2017 | Appraisal value (excluding transfer taxes) at 12/31/2017 | | Appraisal value (including transfer taxes) at 12/31/2017 | | Gross leasable area at 12/31/2017 | | Appraised potential net rental income | |
|---|---|---|---|---|---|---|---|---|---|
| | | *(in €M)* | *(%)* | *(in €M)* | *(%)* | *(sq.m)* | *(%)* | *(in €M)* | *(%)* |
| Regional / Large shopping centers | 24 | 2,687.9 | 76.5% | 2,856.0 | 76.4% | 633,450 | 72.1% | 137.8 | 71.8% |
| Neighborhood shopping centers and city-center assets | 33 | 802.8 | 22.9% | 856.5 | 22.9% | 235,736 | 26.8% | 52.5 | 27.4% |
| **Sub-total shopping centers** | **57** | **3,490.8** | **99.4%** | **3,712.5** | **99.4%** | **869,186** | **99.0%** | **190.3** | **99.2%** |
| Other sites[2] | 6 | 22.7 | 0.6% | 24.2 | 0.6% | 9,102 | 1.0% | 1.6 | 0.8% |
| **TOTAL** | **63** | **3,513.4** | **100.0%** | **3,736.7** | **100.0%** | **878,288** | **100.0%** | **191.9** | **100.0%** |

*(1) Classification in accordance with CNCC system.*
*(2) Mainly large specialty stores, convenience stores and cafeterias.*
*- LFS: Large food stores (food store with gross leasable area of over 750 sq.m).*
*- LSS: Large specialty stores (store specialized in a business sector with gross leasable area of over 750 sq.m).*

*(1) Sites on a constant surface basis.*

## 1.2.7 Outlook

In 2018, Mercialys will pursue its efforts to maintain the commercial appeal of its sites, their footfall and the revenues generated by tenants, and will continue to implement its portfolio of development projects. As part of the balanced management of its liabilities, the Company will also finalize the early refinancing of its bond maturing March 2019, in a still favorable credit market.

Mercialys has set the following objectives for 2018:

- organic rental income growth of at least +2% above indexation relative to 2017;
- FFO per share up by at least +2% on 2017, excluding the impact of refinancing the bond maturing in 2019, which is estimated at around Euro 6 million net of potential hedging (including the effect of the private placement completed in November 2017);
- a dividend of 85% to 95% of 2018 FFO, up at least +2% compared with 2017.

## 1.2.8 Subsequent events

Mercialys signed a preliminary sales agreement in January for Euro 14.6 million including transfer taxes.

On February 20, 2018, Mercialys successfully placed a bond issue of Euro 300 million maturing in eight years. This transaction covers the Company's general requirements and provides for the redemption of the Euro 479.7 million bond issue at maturity in March 2019. It follows the issue of a private placement of Euro 150 million of bonds made in November 2017.

## 1.2.9 EPRA performance measures

Mercialys applies the recommendations of the EPRA[1] for the indicators provided below. The EPRA is the representative body of listed real estate companies in Europe. As such, it issues recommendations on performance indicators to improve the comparability of the financial statements published by the various companies.

In its Interim Financial Report and its Registration Document, Mercialys publishes all EPRA indicators defined by the "Best Practices Recommendations", which can be found on the EPRA website.

### 1.2.9.1 EPRA EARNINGS AND EARNINGS PER SHARE

The table below shows the relationship between net income attributable to owners of the parent and "earnings per share" as defined by the EPRA:

| *(in millions of euros)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| **Net income attributable to owners of the parent** | **86.7** | **110.0** |
| Non-controlling interests: capital gains and amortization | (1.7) | (1.6) |
| Hedging ineffectiveness and banking default risk | 1.6 | 0.6 |
| Capital gains or losses and impairments included in other operating income and expenses | (7.4) | (25.2) |
| Depreciation and amortization | 34.8 | 30.5 |
| Property development margin | 0.0 | 0.0 |
| **EPRA EARNINGS** | **114.0** | **114.4** |
| Number of shares (average basic) | 91,830,447 | 91,856,715 |
| **EPRA EARNINGS PER SHARE** *(in euros)* | **1.24** | **1.25** |

(1) *European Public Real Estate Association.*

### 1.2.9.2 EPRA NET ASSET VALUE (NAV)

| *(in millions of euros)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| **Shareholders' equity attributable to owners of the parent** | **718.5** | **728.6** |
| Unrealized gain on investment property | 1,186.2 | 1,160.7 |
| Unrealized gain on non-consolidated investments and associates | 28.6 | 29.4 |
| Fair value of financial instruments | (18.1) | (19.2) |
| Deferred tax assets on the balance sheet | 0.0 | 0.0 |
| **EPRA NAV** | **1,915.2** | **1,899.5** |
| Number of shares (average diluted) | 91,830,447 | 91,856,715 |
| **EPRA NAV PER SHARE** *(in euros)* | **20.86** | **20.68** |

### 1.2.9.3 EPRA TRIPLE NET ASSET VALUE (NNNAV)

| *(in millions of euros)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| **EPRA NAV** | **1,915.2** | **1,899.5** |
| Fair value of financial instruments | 18.1 | 19.2 |
| Fair value of the fixed-rate debt | (46.9) | (57.7) |
| **EPRA NNNAV** | **1,886.4** | **1,861.0** |
| Number of shares (average diluted) | 91,830,447 | 91,856,715 |
| **EPRA NNNAV PER SHARE** *(in euros)* | **20.54** | **20.26** |

### 1.2.9.4 EPRA NET INITIAL YIELD (NIY) AND "TOPPED-UP" NIY

The table below shows the comparison between the yield as reported by Mercialys and the yield defined by the EPRA:

| *(in millions of euros)* | 12/31/2017 | 12/31/2016 |
|---|---|---|
| Investment property - wholly owned | 3,513.4 | 3,565.4 |
| Assets under development (-) | (27.0) | 0.0 |
| **Completed property portfolio (excluding transfer taxes)** | **3,486.5** | **3,565.4** |
| Transfer taxes | 222.5 | 231.8 |
| **Completed property portfolio (including transfer taxes)** | **3,709.0** | **3,797.3** |
| Annualized rental income | 181.5 | 184.7 |
| Non-recoverable expenses (-) | (5.6) | (4.5) |
| **Annualized net rents** | **176.0** | **180.2** |
| Notional gain relating to expiration of step-up rents, rent-free periods or other lease incentives | 3.4 | 3.1 |
| **Topped-up net annualized rent** | **179.4** | **183.3** |
| **EPRA NET INITIAL YIELD** | **4.74%** | **4.75%** |
| **EPRA "TOPPED-UP" NET INITIAL YIELD** | **4.84%** | **4.83%** |

## 1.2.9.5 EPRA COST RATIOS

| *(in millions of euros)* | 12/31/2017 | 12/31/2016 | Comments |
|---|---|---|---|
| Administrative/operating expense line per IFRS income statement | (21.5) | (21.3) | Personnel expenses and other costs |
| Net service charge costs | (5.9) | (4.3) | Property taxes + Non-recovered service charges (including vacancy cost) |
| Rental management fees | (2.9) | (2.3) | Rental management fees |
| Other income and expenses | (4.3) | (5.1) | Other property operating income and expenses excluding management fees |
| Share of joint venture administrative and operating expenses | 0.0 | 0.0 | |
| **Total** | **(34.6)** | **(33.0)** | |
| Adjustments to calculate EPRA cost ratio exclude (if included above): | 0.0 | 0.0 | |
| - depreciation and amortization | 0.0 | 0.0 | Depreciation and provisions for fixed assets |
| - ground rent costs | 0.5 | 0.7 | Non-group rents paid |
| - service charges recovered through comprehensive invoicing (with the rent) | 0.0 | 0.0 | |
| **EPRA costs (including vacancy costs) (A)** | **(34.1)** | **(32.3)** | **A** |
| Direct vacancy costs[1] | 2.3 | 3.2 | |
| **EPRA costs (excluding vacancy costs) (B)** | **(31.8)** | **(29.1)** | **B** |
| Gross rental income less ground rent costs[2] | 184.8 | 189.1 | Less costs relating to construction leases/long-term leases |
| Less: service fee and service charge cost components of gross rental income | 0.0 | 0.0 | |
| Plus: share of joint ventures (gross rental income less ground rent costs) | 0.0 | 0.0 | |
| **Rental income (C)** | **184.8** | **189.1** | **C** |
| **EPRA COST RATIO (INCLUDING DIRECT VACANCY COSTS)** | **-18.4%** | **-17.1%** | **A / C** |
| **EPRA COST RATIO (EXCLUDING DIRECT VACANCY COSTS)** | **-17.2%** | **-15.4%** | **B / C** |

*(1) The EPRA cost ratio deducts all vacancy costs for assets undergoing development/refurbishment if they have been expensed. The costs that can be excluded are property taxes, service charges, contributions to marketing costs, insurance premiums, carbon tax, and any other costs directly related to the property.*

*(2) Gross rental income should be calculated after deducting any ground rent payable. All service charges, management fees and other income in respect of property expenses must be added and not deducted. If the rent includes service charges, these should be restated to exclude them. Tenant incentives may be deducted from rental income, whereas any other costs should be recognized in line with IFRS requirements.*

## 1.2.9.6 EPRA VACANCY RATE

See paragaph 1.2.4, page 39.

# 1.3 REAL ESTATE PORTFOLIO

## 1.3.1 A portfolio valued at Euro 3,737 million including transfer taxes at December 31, 2017

### 1.3.1.1 APPRAISERS AND METHODOLOGY

The shopping centers owned by Mercialys are valued by appraisers, in accordance with RICS (Royal Institution of Chartered Surveyors) ethics, appraisal and valuation standards, and using the open market value appraisal methods recommended by the 1998 Property Appraisal and Valuation Charter and the 2000 report published by the joint working group of the *Commission des Opérations de Bourse* (COB) and the *Conseil National de la Comptabilité* (CNC) on property asset valuations for listed companies.

Moreover, Mercialys complies with the Code of Ethics for French *Sociétés d'Investissement Immobilier Cotée* (or REITs) in terms of the rotation of appraisers.

All the assets comprising Mercialys' portfolio have been valued and those undergoing full appraisal have been the subject of planning enquiries, market and competition surveys, and site visits. In accordance with the 2000 COB/CNC report, two methods have been used to determine the fair value of each asset:

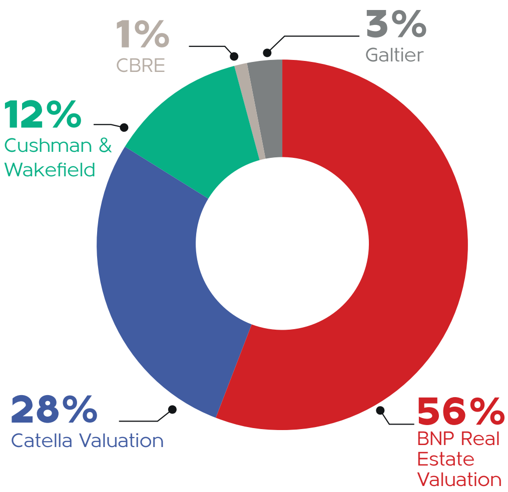
- first, the capitalization of income method, which consists in taking the rental revenue generated by the asset and dividing it by a rate of return for similar assets, taking into account the actual rent level compared to market levels;
- second, the discounted cash-flow (DCF) method, which takes account of expected annual increases in rental income, vacancies, and other factors such as expected letting periods and the investment expenses borne by the lessor.

The discount rate used takes into account the market risk-free rate (TEC 10-year OAT), plus a risk premium and a real estate market liquidity premium, as well as any risk premiums for obsolescence and rental risk.

Small assets have been valued by comparison with market transactions in similar assets.

Five independent appraisers performed the appraisals of Mercialys' portfolio at June 30, 2017 and December 31, 2017: BNP Real Estate Valuation, Catella Valuation, Cushman & Wakefield, CBRE and Galtier.

**Breakdown of valuations per appraiser**
*(as a % of the number of valued assets)*




The portfolio was valued at Euro 3,736.7 million including transfer taxes at December 31, 2017, compared with Euro 3,797.3 million at December 31, 2016. Excluding transfer taxes, this value was Euro 3,513.4 million at end-2017, *vs.* Euro 3,565.4 million at end-2016.

The value of the portfolio including transfer taxes therefore fell by -1.6% over 12 months (+2.2% on a like-for-like basis[1]) and rose by +1.0% over six months (+1.0% on a like-for-like basis).

The average yield rate was 5.13% at December 31, 2017, compared with 5.14% at June 30, 2017 and 5.25% at December 31, 2016.

*(1) Sites on a constant surface basis.*

## 1.3.1.2 REAL ESTATE APPRAISAL REPORT PREPARED BY MERCIALYS' INDEPENDENT APPRAISERS

### Introduction

At 12/31/2017, Mercialys entrusted these appraisers:

- BNPP Real Estate Valuation;
- Catella Valuation;
- CB Richard Ellis Valuation;
- Cushman & Wakefield;
- Galtier Valuation.

with the valuation of its portfolio of real estate assets according to the following breakdown:

| | Number of assets | Fair value excluding transfer taxes | Fair value including transfer taxes |
|---|---|---|---|
| BNPP Real Estate Valuation | 40 | Euro 2,643.6 million | Euro 2,807.8 million |
| *of which, share of undivided assets held by third parties (40%)* | | *Euro 73.6 million* | *Euro 78.7 million* |
| BNPP Real Estate Valuation | | Euro 2,570.0 million | Euro 2,729.2 million |
| Cushman & Wakefield | 9 | Euro 285.9 million | Euro 305.6 million |
| Catella Valuation | 20 | Euro 469.3 million | Euro 501.7 million |
| CB Richard Ellis Valuation | 1 | Euro 151.0 million | Euro 161.4 million |
| Galtier Valuation | 2 | Euro 10.3 million | Euro 11.1 million |
| Internal* | 1 | Euro 27.0 million | Euro 27.7 million |
| **TOTAL** | | **EURO 3,513.4 MILLION** | **EURO 3,736.7 MILLION** |

* *Assets acquired in H2 2017 and valued at the acquisition price.*

At the end of their respective assignments, the appraisers co-signed the joint report below:

## Real estate appraisal report prepared by the independent appraisers of Mercialys

### General background to the appraisal

#### Background and instructions

In accordance with the instructions given by Mercialys (the "Company"), set out in the valuation contracts signed between Mercialys and the Appraisers, we have estimated the value of the assets owned by the Company reflecting the manner in which they are owned (full ownership, construction lease, etc.). This condensed report, which summarizes the conditions of our work, has been written in order to be included in the Company's Registration Document. Valuations were performed locally by our appraisal teams and were reviewed by pan-European teams of Appraisers. To determine the market value for each asset, we considered real estate transactions at the European level, as well as domestic transactions. We confirm that our opinion of market value has been revised in the light of other appraisals carried out in Europe, so as to ensure a consistent approach and to take into account all transactions and information available on the market. The valuations are based on the discounted cash flow method or the yield method, which are regularly used for assets of this kind.

Our values were set at December 31, 2017.

#### Standards and general principles

We confirm that our valuations have been conducted in accordance with the corresponding sections of the Code of Conduct of the 8th Edition of the RICS Valuation Standards (the "Red Book"). This provides an internationally accepted basis for valuations. Our valuations comply with IFRS accounting standards and the standards and recommendations published by IVSC. The appraisals have also been prepared in light of the AMF's recommendations concerning the presentation of valuations of listed companies' real estate assets, published on February 8, 2010. They also take account of the recommendations made in the Barthès de Ruyter report on the valuation of the real estate assets of companies raising public funds, published in February 2000. We certify that we have prepared our appraisals as independent external appraisers, as defined in the standards set out in the Red Book published by the RICS.

#### Target value

Our valuations correspond to market values and were presented to the Company in terms of value excluding rights (after deducting transfer duties and costs) and including rights (market value before any deduction of transfer duties and costs).

## Conditions

### Information

We asked the Company's management to confirm that the information provided to us relating to the assets and tenants is complete and accurate in all material respects. Consequently, we considered that all the information known to the Company's employees and which could affect the value, such as operating expenses, works undertaken, financial items including doubtful debts, variable rents, current and signed lettings, rent-free periods, as well as the list of leases and vacant units was made available to us and is up to date in all material respects.

### Surface area of assets

We did not measure the properties and have based our assessments on the surface areas provided to us.

### Environmental analyses and soil conditions

We were not asked to perform either a study of soil conditions or an environmental analysis and we did not investigate past events to determine whether the soil or structures of the assets are, or have been, contaminated. Unless indicated otherwise, we have assumed that assets are not, and should not be, affected by soil contamination and that the condition of the land does not affect their current or future use.

### Urban planning

We did not study the building permits and assume that the properties have been built and are occupied and used in accordance with all necessary authorizations and are free of any legal recourse. We have assumed that the assets comply with legal requirements and urban planning regulations, particularly as regards structural, fire, and health and safety regulations. We have also assumed that any extensions currently under construction comply with urban planning regulations and that all the necessary authorizations have been obtained.

### Land titles and rental status

We have based our assessments on the rental position, summaries of additional revenues, unrecoverable expenses, capital projects and the business plans provided to us. In addition to what is already mentioned in our reports for each asset, we have assumed that ownership of the assets is not subject to any restrictions that would prevent or hinder their sale, and that they are free of any restrictions and encumbrances. We have not read the land titles for the assets and have accepted rental and occupancy statements or any other relevant information communicated to us by the Company.

### Condition of the assets

We noted the general condition of each asset during our visits. Our assignment does not include technical aspects concerning the structure of buildings. However, we have indicated in our report any signs of poor maintenance observed during our visit, if applicable. The assets have been appraised on the basis of information provided by the Company, according to which no hazardous materials have been used in their construction.

### Taxation

Our valuations do not take account of any costs or taxes that may be incurred in the event of an asset being sold. The stated rental and market values exclude VAT.

## Confidentiality and publication

Finally, and in keeping with our usual practice, we confirm that our appraisal reports are confidential and intended solely for the Company. We do not accept any liability towards third parties. Publication of the appraisal reports in their entirety, or extracts from these reports, is prohibited in any document, declaration, circular or communication with third parties without our consent in writing, concerning both the form and the context in which these may appear. By signing this Condensed Report, each appraiser does so on its own behalf and only in relation to its own appraisal work.

**BNPP REAL ESTATE VALUATION**

ISSY-Les-MOULINEAUX le 6 février 2017

Jean-Claude Dubois
Président

BNP PARIBAS REAL ESTATE

**CATELLA VALUATION**

CATELLA EXPERTISE CVA VALUATION ADVISORS

**GALTIER VALUATION**

Regulated by RICS galtier Valuation

**CUSHMAN&WAKEFIELD** Valuation

**CB RICHARD ELLIS VALUATION**

CBRE VALUATION
SAS au capital de 1.434.704 €
145 - 151 rue de Courcelles - 75017 PARIS
Tél. 01 53 64 00 00 - Fax 01 53 64 00 01
SIREN 384 853 701 - RCS PARIS - APE 6831 Z

## 1.3.2 A diversified retail asset portfolio located in areas with strong growth potential

### 1.3.2.1 63 ASSETS AT END 2017, REPRESENTING 878,288 SQ.M OF GROSS LEASABLE AREA

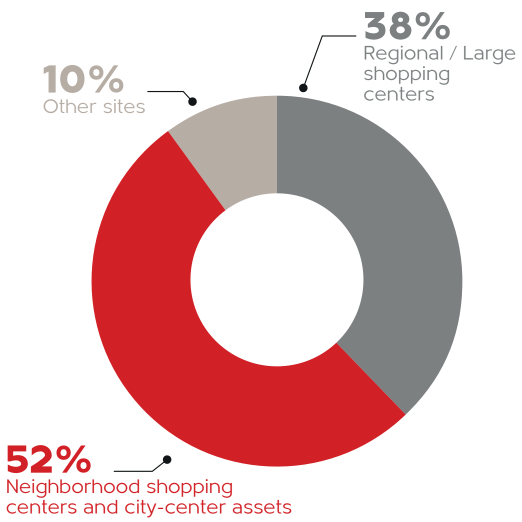
Mercialys classifies its assets into four major categories: Regional Shopping Centers (gross leasable area of over 40,000 sq.m), Large Shopping Centers (gross leasable area of over 20,000 sq.m), Leading Neighborhood Centers (gross leasable area of over 5,000 sq.m), and Other sites.

Large Shopping Centers and Leading Neighborhood Centers consist of shopping centers and the adjacent large specialty stores. Other sites in the portfolio include independent Casino cafeterias, convenience store franchises (Leader Price), and some large specialty stores.

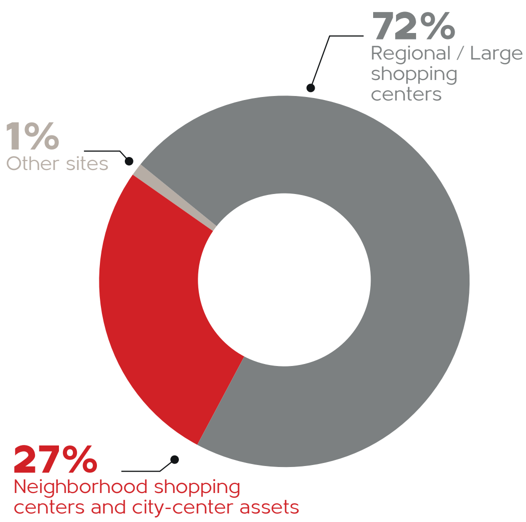
At December 31, 2017, Mercialys' portfolio consisted of 63 assets, comprising three Regional Shopping Centers, 21 Large Shopping Centers, 26 Neighborhood shopping centers, 7 City-center assets and 6 Other sites, representing a built gross leasable area of around 878,288 sq.m.

**Breakdown of assets by type (in number, surface area and appraisal value)**

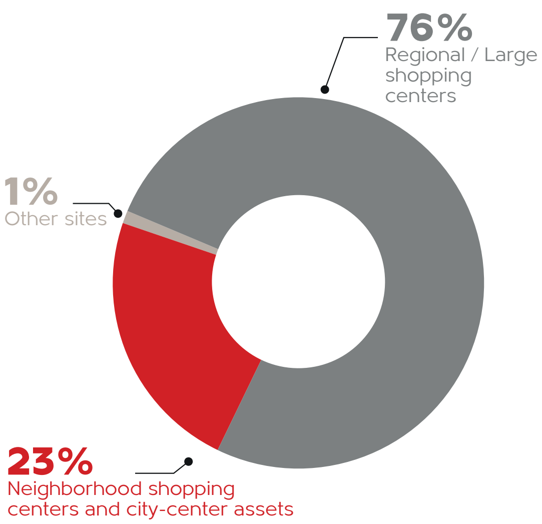
*(in number)*




*(in sq.m)*




*(in appraisal value, including transfer taxes)*

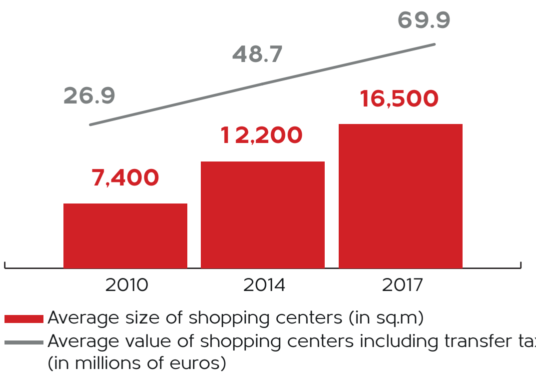


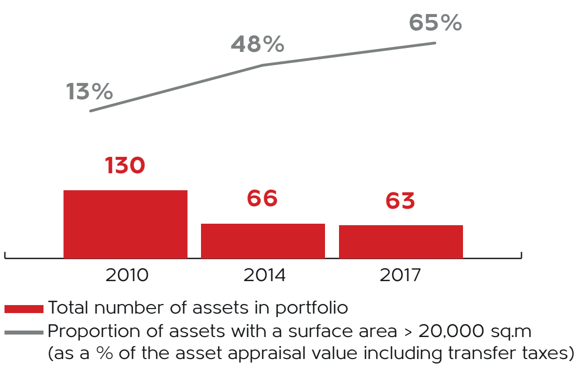
### 1.3.2.2 A PORTFOLIO FOCUSED ON PRIME CONVENIENCE RETAIL ASSETS, LEADERS IN THE MOST DYNAMIC AREAS OF THE TERRITORY

The result of more than a decade of arbitrage transactions, Mercialys' portfolio of assets is currently focused on «prime» neighborhood sites, leaders within their catchment areas.

The average size of the Company's shopping centers (excluding city-center assets and other sites) totaled 16,500 sq.m at end 2017, compared to 7,400 sq.m in 2010. Their average value was Euro 69.9 million including transfer taxes, compared with Euro 26.9 million in 2010.

On the entire portfolio, the assets of a gross leasable area exceeding 20,000 sq.m represent 65% of the portfolio's appraisal value including transfer taxes.




94% of the assets making up Mercialys' portfolio, still in terms of appraisal value, are in the French provinces or overseas departments, with the remaining 6% in Paris and the greater Paris area. The Casino group has gradually expanded from its roots in central-eastern France (Saint-Étienne) into neighboring regions (Loire, Haute-Loire, Rhône-Alpes, etc.) and coastal regions with strong growth potential (southeastern France, western France and Brittany) *via* mergers and retail chain acquisitions.

Only a small percentage of the Company's real estate portfolio is in Paris and the greater Paris area.

In addition, following its 2007 acquisitions on Reunion Island, Mercialys now owns assets outside mainland France.

The following table gives a regional breakdown of Mercialys' real estate portfolio.

| Region | Number of sites | Appraisal value including transfer taxes *(millions of euros)* | % | Gross leasable area *(in sq.m)*[1] | % |
|---|---|---|---|---|---|
| Rhône-Alpes | 8 | 637.2 | 17% | 164,942 | 19% |
| West | 11 | 947.2 | 25% | 208,591 | 24% |
| South-West | 11 | 649.2 | 17% | 166,560 | 19% |
| South-East | 12 | 603.2 | 16% | 146,674 | 17% |
| Corsica | 5 | 118.0 | 3% | 47,863 | 5% |
| Reunion Island | 6 | 278.3 | 7% | 43,288 | 5% |
| North-East | 2 | 290.4 | 8% | 59,881 | 7% |
| Paris region | 8 | 213.2 | 6% | 40,489 | 5% |
| **TOTAL** | **63** | **3,736.7** | **100%** | **878,288** | **100%** |

*(1) Including the future surface area of assets under development.*

### 1.3.2.3 BREAKDOWN OF THE PORTFOLIO AS AT DECEMBER 31, 2017

| Site name and description | Type of asset held by Mercialys[1] | Year of construction | Restructuring/ Renovation *(year)* | Area of the total site at 12/31/2017 *(sq.m)* | Area of the shopping center at 12/31/2017 *(sq.m)* | Gross leasable area held by Mercialys at 12/31/2017 *(sq.m)* | Mercialys stake in shopping center at 12/31/2017[2] | Mercialys stake in site at 12/31/2017[3] | Property management |
|---|---|---|---|---|---|---|---|---|---|
| **Corsica** | | | | | | | | | |
| Ajaccio Rocade Mezzavia (Géant + 46 shops + 1 MSu + 1 restaurant) | Large shopping centers | 1989 | 2011 | 28,773 | 12,082 | 17,264 | 60% | 60% | CORIN |
| Bastia Port Toga (Géant + 14 shops) | Neighborhood Shopping Centers | 1991 | | 7,034 | 1,699 | 4,220 | 60% | 60% | CORIN |
| Bastia Rocade de Furiani (Géant + 48 shops + 1 MSu + 1 restaurant) | Large Shopping Centers | 1969 | 2003 | 24,498 | 10,641 | 14,699 | 60% | 60% | CORIN |
| Corte (Casino HM + 12 shops) | Neighborhood Shopping Centers | 2004 | | 5,831 | 1,573 | 3,499 | 60% | 60% | CORIN |
| Porto Vecchio (Géant + 31 shops + 2 MSus) | Neighborhood Shopping Centers | 1972 | 2003 | 14,106 | 5,365 | 8,182 | 60% | 58% | CORIN |
| **Paris region** | | | | | | | | | |
| Amilly Montargis (Géant + 1 cafeteria + 16 shops + 2 MSus) | Neighborhood Shopping Centers | 1976 | 2009 | 15,192 | 2,896 | 2,189 | 76% | 14% | SUDECO |
| Massena (Géant + 41 shops + 1 MSu) | Large Shopping Centers | 1975 | 2000 | 31,677 | 18,214 | 6,020 | 33% | 19% | SUDECO |
| Chaville (Monoprix) | Neighborhood Shopping Centers | 1957 | | 6,244 | 0 | 6,244 | 100% | 100% | SUDECO |
| Puteaux (Monoprix) | Neighborhood Shopping Centers | 1999 | | 5,625 | 0 | 5,625 | 100% | 100% | OLT |
| Asnières (Monoprix + offices) | Neighborhood Shopping Centers | 1999 | | 3,497 | 180 | 3,497 | 100% | 100% | SUDECO |
| Saint-Denis Porte de Paris (Leader Price + 1 cafeteria) | Other | 1975 | 1998 | 2,900 | 2,900 | 2,900 | 100% | 100% | SUDECO |
| Saint-Germain-en-Laye (Monoprix) | Neighborhood Shopping Centers | 1978 | 1998 | 7,413 | 7,413 | 7,413 | 100% | 100% | SUDECO |
| La Garenne-Colombes (Monoprix) | Neighborhood Shopping Centers | 1964 | 2011 | 6,602 | 6,602 | 6,602 | 100% | 100% | SIAP |
| **Reunion Island** | | | | | | | | | |
| Le Port Sacré-Cœur (Jumbo + 45 shops + 5 MSus) | Neighborhood Shopping Centers | 2002 | | 27,024 | 12,521 | 12,521 | 100% | 46% | SUDECO |
| Saint-Benoît Beaulieu (Jumbo + 22 shops + 2 MSus) | Neighborhood Shopping Centers | 2000 | | 7,492 | 2,014 | 2,014 | 100% | 27% | SUDECO |

*(1) In accordance with the following abbreviations (SC: Shopping center, RSC: Regional shopping center, LSC: Large shopping center, NSC: Neighborhood shopping center, RP: Retail park, LFS: Large food store, LSS: Large specialty store, MSu: Medium-sized unit, SM: Service mall, SUP: Convenience store, CAF: cafeteria, Other: including isolated lots).*
*(2) % of area held by Mercialys in the shopping center.*
*(3) % of area held by Mercialys in the total site (inc. LFS)*
*(4) Excluding acquisition of the SNC Sacré-Cœur and its project to extend the shopping center at Le Port in Reunion Island.*

| Site name and description | Type of asset held by Mercialys[1] | Year of construction | Restructuring/ Renovation *(year)* | Area of the total site at 12/31/2017 *(sq.m)* | Area of the shopping center at 12/31/2017 *(sq.m)* | Gross leasable area held by Mercialys at 12/31/2017 *(sq.m)* | Mercialys stake in shopping center at 12/31/2017[2] | Mercialys stake in site at 12/31/2017[3] | Property management |
|---|---|---|---|---|---|---|---|---|---|
| Saint-Pierre Front de Mer (Jumbo + 26 shops + 1 MSu) | Neighborhood Shopping Centers | 1987 | 1991 | 11,629 | 2,118 | 2,118 | 100% | 18% | SUDECO |
| Sainte-Marie-du-Parc (Jumbo + 59 shops + 6 MSus + 1 RP) | Large Shopping Centers | 1966 | 2010 | 27,384 | 15,856 | 15,406 | 97% | 56% | SUDECO |
| Savanna Saint-Paul (Jumbo + 18 shops + 1 MSu) | Neighborhood Shopping Centers | 1992 | 2014 | 10,457 | 2,348 | 2,348 | 100% | 22% | SUDECO |
| Saint-André (Land) | Other | | | 0 | 0 | 0 | 100% | 100% | |
| **North-East** | | | | | | | | | |
| Besançon - Chateaufarine (Géant + 1 cafeteria + 80 shops + 10 MSus) | Regional shopping centers | 1971 | 2014 | 58,218 | 39,214 | 49,297 | 92% | 85% | SUDECO |
| Marcq-en-Barœul (Monoprix + 6 shops) | Neighborhood Shopping Centers | 1963 | | 10,584 | 709 | 10,584 | 100% | 100% | SUDECO |
| **West** | | | | | | | | | |
| Angers - Espace Anjou (Géant + 1 cafeteria + 115 shops + 6 MSus) | Regional shopping centers | 1994 | 2014 | 40,564 | 24,176 | 39,705 | 100% | 98% | SUDECO |
| Angoulême - Champniers (Géant + 1 cafeteria + 56 shops + 3 MSus) | Other | 1972 | 1994 | 35,855 | 14,407 | 540 | 4% | 2% | SUDECO |
| Brest (Géant + 1 cafeteria + 60 shops + 6 MSus) | Large Shopping Centers | 1968 | 2010 | 36,545 | 20,869 | 35,755 | 96% | 98% | SUDECO |
| Chartres - Lucé (Géant + 1 cafeteria + 38 shops + 3 MSus) | Large Shopping Centers | 1977 | 2011 | 27,362 | 9,714 | 9,714 | 100% | 36% | SUDECO |
| Lanester (Géant + 1 cafeteria + 64 shops + 2 MSus) | Large Shopping Centers | 1970 | 2014 | 31,267 | 12,210 | 30,357 | 93% | 97% | SUDECO |
| Lannion (Géant + 1 cafeteria + 30 shops) | Neighborhood Shopping Centers | 1973 | 2011 | 13,347 | 2,948 | 2,948 | 100% | 22% | SUDECO |
| Morlaix (Géant + 40 shops + 2 MSus) | Neighborhood Shopping Centers | 1980 | 2017 | 28,871 | 13,459 | 8,054 | 60% | 28% | SUDECO |
| Niort Est (Géant + 1 cafeteria + 50 shops + 3 MSus + 1 service village) | Large Shopping Centers | 1972 | 2004 | 26,047 | 11,972 | 20,372 | 59% | 78% | SUDECO |
| Quimper - Cornouaille (Géant + 1 cafeteria + 82 shops + 7 MSus) | Large Shopping Centers | 1969 | 2017 | 34,459 | 19,050 | 34,459 | 100% | 100% | SUDECO |
| Rennes Saint-Grégoire (Géant + 1 cafeteria + 86 shops + 2 MSus) | Large Shopping Centers | 1971 | 2017 | 52,858 | 37,945 | 16,999 | 45% | 32% | GIE GRAND QUARTIER |
| Tours - La Riche Soleil (Géant + 1 cafeteria + 49 shops + 2 MSus) | Large Shopping Centers | 2002 | | 25,571 | 9,689 | 9,689 | 100% | 38% | SUDECO |

*(1) In accordance with the following abbreviations (SC: Shopping center, RSC: Regional shopping center, LSC: Large shopping center, NSC: Neighborhood shopping center, RP: Retail park, LFS: Large food store, LSS: Large specialty store, MSu: Medium-sized unit, SM: Service mall, SUP: Convenience store, CAF: cafeteria, Other: including isolated lots).*
*(2) % of area held by Mercialys in the shopping center.*
*(3) % of area held by Mercialys in the total site (inc. LFS)*
*(4) Excluding acquisition of the SNC Sacré-Cœur and its project to extend the shopping center at Le Port in Reunion Island.*

| Site name and description | Type of asset held by Mercialys[1] | Year of construction | Restructuring/ Renovation (year) | Area of the total site at 12/31/2017 (sq.m) | Area of the shopping center at 12/31/2017 (sq.m) | Gross leasable area held by Mercialys at 12/31/2017 (sq.m) | Mercialys stake in shopping center at 12/31/2017[2] | Mercialys stake in site at 12/31/2017[3] | Property management |
|---|---|---|---|---|---|---|---|---|---|
| **Rhône-Alpes** | | | | | | | | | |
| Annecy Seynod (Géant + 1 cafeteria + 63 shops + 6 MSUs) | Large Shopping Centers | 1988 | 2010 | 28,469 | 12,806 | 28,469 | 100% | 100% | SUDECO |
| Annemasse (Géant + 1 cafeteria + 36 shops + 4 MSUs) | Large Shopping Centers | 1977 | 2011 | 25,564 | 9,864 | 23,384 | 78% | 91% | SUDECO |
| Clermont - Nacarat (Géant + 69 shops + 1 MSu + 1 service village) | Large Shopping Centers | 1979 | 2014 | 34,779 | 16,932 | 34,779 | 100% | 100% | SUDECO |
| Grenoble La Caserne de Bonne (Monoprix + 48 shops + 5 MSus + 4 Offices) | Large Shopping Centers | 2010 | | 19,124 | 19,124 | 19,124 | 100% | 100% | SUDECO |
| La Ricamarie (Géant + 1 cafeteria + 30 shops + 2 MSus) | Other | 1976 | 2001 | 29,771 | 9,070 | 405 | 4% | 1% | SUDECO |
| Saint-Etienne - Monthieu (Géant + 1 cafeteria + 52 shops + 6 MSus + 1 gas station) | Large Shopping Centers | 1972 | 2017 | 36,928 | 22,466 | 36,928 | 100% | 100% | SUDECO |
| Vals-près-Le-Puy (Géant + 1 cafeteria + 24 shops + 1 MSu) | Neighborhood Shopping Centers | 1979 | 2009 | 21,367 | 9,660 | 20,923 | 95% | 98% | SUDECO |
| Villars (1 cafeteria in an Auchan SC) | Other | 1985 | | 30,931 | 30,931 | 931 | 3% | 3% | G.A.C.I. TROIN |
| **South-East** | | | | | | | | | |
| Aix-en-Provence (Géant + 1 cafeteria + 32 shops + 1 MSu) | Large Shopping Centers | 1982 | 2006 | 26,236 | 9,045 | 18,075 | 17% | 69% | SUDECO |
| Arles (Géant + 1 cafeteria + 30 shops + 2 MSus) | Neighborhood Shopping Centers | 1979 | 2009 | 26,791 | 10,828 | 7,328 | 68% | 27% | SUDECO |
| Fréjus (Géant + 1 cafeteria + 48 shops + 2 MSus) | Neighborhood Shopping Centers | 1972 | 2012 | 19,911 | 6,729 | 18,809 | 84% | 94% | SUDECO |
| Gap (Géant + 1 cafeteria + 22 shops + 1 MSu) | Neighborhood Shopping Centers | 1980 | 2011 | 20,938 | 12,172 | 11,287 | 93% | 54% | SUDECO |
| Istres (Géant + 1 cafeteria + 45 shops + 1 MSu) | Neighborhood Shopping Centers | 1989 | 2012 | 25,584 | 12,033 | 18,934 | 47% | 74% | SUDECO |
| La Foux (Géant + 1 cafeteria + 30 shops + 1 MSu) | Neighborhood Shopping Centers | 1980 | 2000 | 12,761 | 4,113 | 10,106 | 35% | 79% | SUDECO |
| Mandelieu (Géant + 1 cafeteria + 45 shops + 3 MSus) | Large Shopping Centers | 1977 | 2009 | 31,954 | 8,553 | 8,553 | 100% | 27% | SUDECO |
| Marseille Canebière (Monoprix) | Neighborhood Shopping Centers | 1993 | | 5,558 | 0 | 5,558 | 100% | 100% | SUDECO |

*(1) In accordance with the following abbreviations (SC: Shopping center, RSC: Regional shopping center, LSC: Large shopping center, NSC: Neighborhood shopping center, RP: Retail park, LFS: Large food store, LSS: Large specialty store, MSu: Medium-sized unit, SM: Service mall, SUP: Convenience store, CAF: cafeteria, Other: including isolated lots).*
*(2) % of area held by Mercialys in the shopping center.*
*(3) % of area held by Mercialys in the total site (inc. LFS)*
*(4) Excluding acquisition of the SNC Sacré-Cœur and its project to extend the shopping center at Le Port in Reunion Island.*

| Site name and description | Type of asset held by Mercialys[1] | Year of construction | Restructuring/ Renovation *(year)* | Area of the total site at 12/31/2017 *(sq.m)* | Area of the shopping center at 12/31/2017 *(sq.m)* | Gross leasable area held by Mercialys at 12/31/2017 *(sq.m)* | Mercialys stake in shopping center at 12/31/2017[2] | Mercialys stake in site at 12/31/2017[3] | Property management |
|---|---|---|---|---|---|---|---|---|---|
| Marseille - La Valentine (Géant + 1 cafeteria + 70 shops + 3 MSus) | Large Shopping Centers | 1970 | 2011 | 32,271 | 13,924 | 13,924 | 100% | 43% | SUDECO |
| Marseille Barneoud (Géant + 1 cafeteria + 61 shops) | Large Shopping Centers | 1974 | 1995 | 43,806 | 20,098 | 31,382 | 39% | 72% | SUDECO |
| Marseille Delprat (Casino HM + 10 shops) | Neighborhood Shopping Centers | 2001 | | 5,510 | 1,494 | 1,494 | 100% | 27% | SUDECO |
| Marseille Michelet (Casino HM + 14 shops) | Neighborhood Shopping Centers | 1971 | 2001 | 10,692 | 1,225 | 1,225 | 100% | 11% | SUDECO |
| **South-West** | | | | | | | | | |
| Anglet (Géant + 1 cafeteria + 10 shops) | Other | 1976 | 1996 | 16,524 | 5,990 | 4,326 | 72% | 26% | SUDECO |
| Aurillac (Géant + 1 cafeteria + 14 shops + 1 MSu) | Neighborhood Shopping Centers | 1988 | 2015 | 16,890 | 5,875 | 3,580 | 61% | 21% | SUDECO |
| Boé Agen (Géant + 1 cafeteria + 24 shops + 1 MSu) | Neighborhood Shopping Centers | 1969 | 2009 | 18,855 | 5,499 | 5,499 | 100% | 29% | SUDECO |
| Brive Malemort (Géant + 1 cafeteria + 34 shops + 2 MSus) | Neighborhood Shopping Centers | 1972 | 2001 | 21,047 | 5,460 | 5,460 | 100% | 26% | SUDECO |
| Carcassonne Salvaza (Géant + 1 cafeteria + 34 shops + 2 MSus) | Neighborhood Shopping Centers | 1982 | 2016 | 19,917 | 5,682 | 2,502 | 44% | 13% | SUDECO |
| Millau (Géant + 1 cafeteria + 2 shops + 2 MSus) | Neighborhood Shopping Centers | 1986 | 2005 | 12,610 | 4,486 | 1,103 | 25% | 9% | SUDECO |
| Montpellier Argelliers Autoroute (Géant + 1 cafeteria + 27 shops + 2 MSus) | Neighborhood Shopping Centers | 1973 | 2005 | 18,725 | 3,566 | 2,325 | 65% | 12% | SUDECO |
| Narbonne (Géant + 1 cafeteria + 27 shops+ 2 MSus) | Neighborhood Shopping Centers | 1972 | 2012 | 20,680 | 10,186 | 20,680 | 100% | 100% | SUDECO |
| Nîmes - Cap Costières (Géant + 1 cafeteria + 63 shops + 5 MSus) | Large Shopping Centers | 2003 | | 35,209 | 21,000 | 35,209 | 100% | 100% | SUDECO |
| Rodez (Géant + 1 cafeteria + 20 shops + 2 MSus) | Neighborhood Shopping Centers | 1984 | 2012 | 17,618 | 5,174 | 1,986 | 38% | 11% | SUDECO |
| Toulouse Fenouillet (Géant + 1 cafeteria + 90 shops + 14 MSus + 1 RP) | Regional shopping centers | 1978 | 2016 | 105,769 | 83,889 | 83,889 | 100% | 79% | SUDECO |
| | | | | **1,457,715** | **708,656** | **869,408**[4] | | | |

*(1) In accordance with the following abbreviations (SC: Shopping center, RSC: Regional shopping center, LSC: Large shopping center, NSC: Neighborhood shopping center, RP: Retail park, LFS: Large food store, LSS: Large specialty store, MSu: Medium-sized unit, SM: Service mall, SUP: Convenience store, CAF: cafeteria, Other: including isolated lots).*
*(2) % of area held by Mercialys in the shopping center.*
*(3) % of area held by Mercialys in the total site (inc. LFS)*
*(4) Excluding acquisition of the SNC Sacré-Cœur and its project to extend the shopping center at Le Port in Reunion Island.*

**46%**
BREEAM In-Use certified portfolio in value at end-2017

**100%**
Proportion of newly signed leases covered by an environmental clause

**55%**
Women in the workforce at end-2017

La caserne de Bonne, Grenoble

# 2

# CORPORATE SOCIAL RESPONSIBILITY

# 2.1 MERY'21: A COMMITMENT TO RESPONSIBLE AND ETHICAL MANAGEMENT

Corporate social responsibility (CSR) is an integral part of Mercialys' strategy and management. It manifests itself in the day-to-day implementation of responsible and ethical management of shopping centers. Determined to play an active part in the socio-ecological transition of local communities, Mercialys codified its CSR strategy in 2015 under the name: MERY'21.

This strategy dovetails with the business plan and covers its four core values:

**Proximity:** this positioning is unique to Mercialys in the commercial property sector. Its portfolio is based on human-sized shopping centers in locations accessible by public transport, with strong local roots enabling them to capitalize on their primary catchment area. It is the basis for the vision of the shopping center as a local player which Mercialys applies through its CSR strategy.

**Agility:** a specific approach is taken for each center, the characteristics of which are regularly fine-tuned to ensure that the offering remains relevant and appropriate to the local context. This evolutionary concept and this flexibility also enable Mercialys to tailor its CSR strategy to the specific needs and priorities of customers and the local community.

**Innovation:** Mercialys is resolutely committed to an innovative vision of local retail sites which has enabled it to develop a versatile, service-based approach. When it comes to CSR, the capacity for innovation is a major advantage when complying with regulatory changes and, more importantly, when identifying and adapting to new consumer habits.

**Engagement:** Mercialys works with retailers to support them at each stage of their store's life cycle. This strong partnership, combined with a long-standing commitment to sustainable development, underpins the definition and implementation of a comprehensive CSR strategy capable of covering all the various issues and identifying holistic solutions for the social development of communities.

Finally, responsibility is the cornerstone of the CSR strategy and reinforces the level of compliance that all stakeholders expect from Mercialys.

## 2.1.1 A strategy consisting of 15 sites

Developed by Mercialys' teams with a participatory approach, the CSR strategy is being rolled out at 15 sites. For each of them, it sets quantitative and qualitative targets to be achieved by 2020 and proposes an operational program to be implemented across the entire portfolio, while taking into account the specific needs of the different sites.

A dedicated organization and team have been set up under the responsibility of Senior Management. Operational deployment is based on a network of CSR officers covering all of the Company's services and support functions. Oversight, and the monitoring of key performance indicators in particular, is carried out by a proprietary internal tool, "MERY RSE".

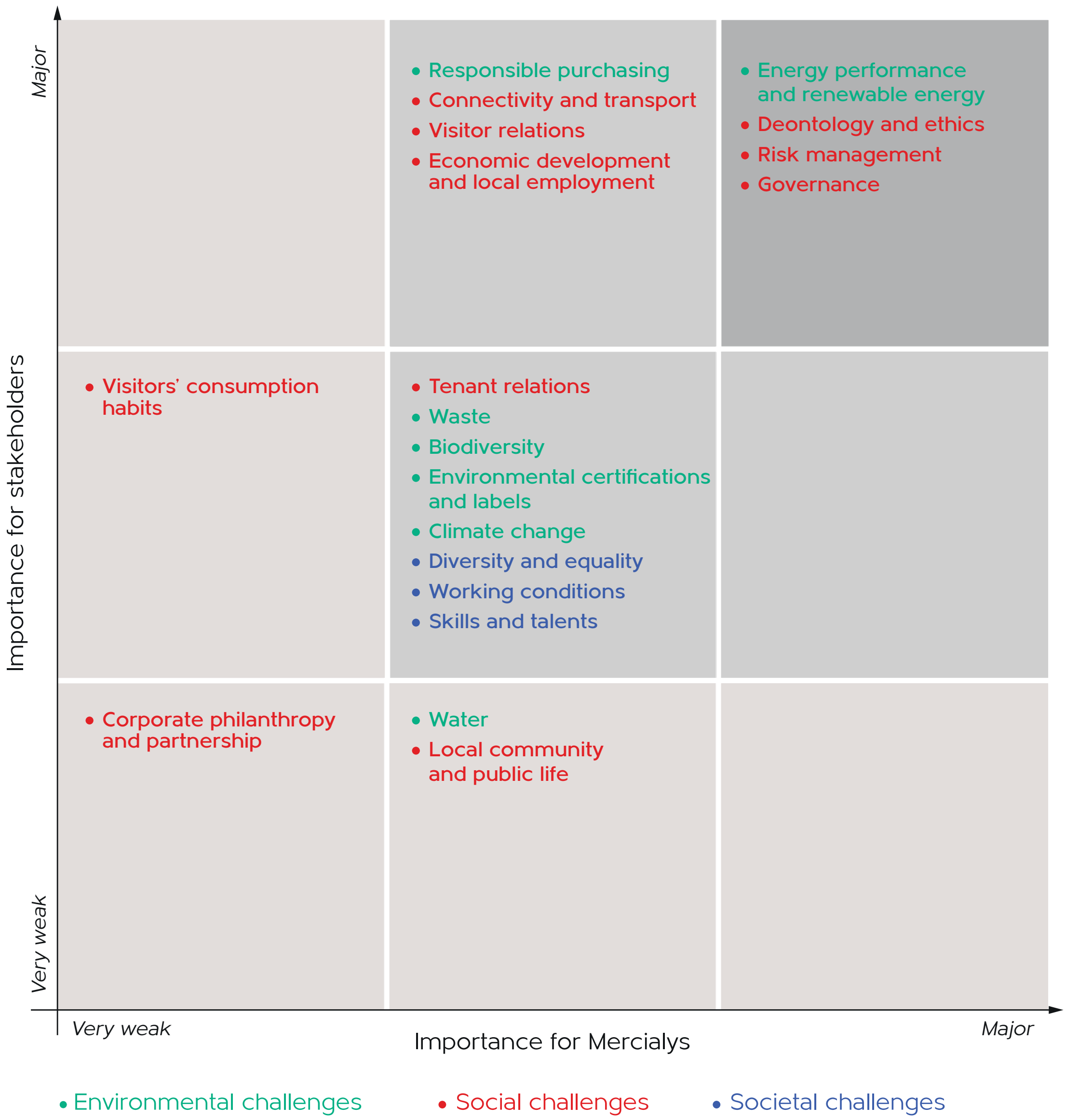
### 2.1.1.1 IDENTIFYING THE PRIORITY CHALLENGES

In 2016, Mercialys conducted a materiality analysis aimed at prioritizing the challenges to sustainable development in line with the priorities of the business and the expectations of its stakeholders. This process identified the "material" challenges on which Mercialys will focus its CSR efforts to optimize value creation for all its stakeholders. This process will be repeated in 2018 so that the matrix is updated every two years.

As a result of this work the following materiality matrix was constructed, which identifies:

- four priority challenges:
  - energy efficiency and renewable energy,
  - governance,
  - ethics and compliance,
  - risk management;
- six key challenges:
  - responsible purchasing,
  - connectivity and transport,
  - visitor relations,
  - tenant relations,
  - working conditions,
  - economic development and local employment.

## MERCIALYS' MATERIALITY MATRIX



### 2.1.1.2 THE CSR STRATEGY'S 15 ISSUES

The 15 issues covered by the CSR strategy address all the concerns of Mercialys' stakeholders, including visitors, retailers, employees, partners, service providers and suppliers, local authorities etc.

The link between stakeholders and each issue is illustrated in the table below.

| ISSUES | INVOLVED STAKEHOLDERS | | | | | | |
|---|---|---|---|---|---|---|---|
| | Employees | Retailers | Service providers and suppliers | Visitors | Financial community | Local authorities | Non-profit organizations |
| **ENVIRONMENT** | | | | | | | |
| Centers' certification | √ | √ | √ | | | | |
| Energy | √ | √ | √ | | | | |
| Climate change | √ | √ | √ | | | | |
| Water | √ | √ | √ | | | | |
| Waste | √ | √ | √ | | | | |
| Biodiversity | √ | √ | √ | | | | |
| Connection and mobility | | √ | | √ | | √ | |
| **SOCIAL** | | | | | | | |
| Employees | | | | | | | √ |
| **SOCIETAL** | | | | | | | |
| Health and safety of consumers and retailers | √ | √ | | √ | | √ | |
| Responsible purchasing | √ | | √ | | | | |
| Responsible investment | √ | | | | √ | | |
| Local economic development | √ | √ | √ | | | | √ |
| Accessibility for all | √ | | √ | | | √ | |
| Public life and citizenship | √ | | | √ | | | √ |
| Engaged and alternative consumption | √ | √ | | √ | | √ | |

## 2.1.2 Organization and management

### 2.1.2.1 AN ORGANIZATION THAT PROMOTES THE CROSS-DISCIPLINARY NATURE OF THE CSR APPROACH

To be more cross-disciplinary, the CSR teams are grouped within a section of the Company's Marketing and Communications department. The teams in this "Brand, CSR and Communication" section are composed of experts reporting to the Chief Operating Officer, to whom they give monthly updates. This organizational structure ensures that decision-making is in line with the business strategy while improving communication with all stakeholders on achievements, targets and best practice.

The CSR teams are also invited to Management Committee meetings to inform members about the implementation of the CSR strategy.

Moreover, for the operational deployment of CSR actions and reporting, the CSR team relies on a network of CSR officers based in different departments throughout the Company, as well as outsourced operational and support functions (property manager and delegated project management).

If necessary, CSR staff also attends team meetings of other departments to update them on a particular aspect of the CSR strategy.

In 2017, the Company's governing bodies stepped up their monitoring of the CSR strategy. For example, the Board's Audit and Risks Committee has added sustainable development to its responsibilities. The CSR team will, in this case, report regularly to the Committee on its challenges, strategy and results.


### 2.1.2.2 TOOLS TO MONITOR AND MANAGE THE IMPLEMENTATION OF MERY'21

A dedicated online platform, "MERY RSE", has been set up to monitor and manage the CSR strategy, particularly the key performance indicators (KPIs) associated with each of the 15 MERY'21 sites. This helps facilitate data collection, and increases the reliability of the indicators calculated, by conducting automatic consistency checks on uploaded data.

For example, the main environmental indicators (energy and water consumption, quantity of waste, refrigerant leakage, etc.) are entered in the tool each month by the property manager or service providers operating at the centers. Corporate indicators are received on a quarterly basis from the centers' managers *via* the platform, while social indicators are sent annually to the CSR teams by the Human Resources Division and Personnel Department. The tool therefore plays a vital part in reinforcing non-financial reporting and improving its reliability.

It also enables the implementation of MERY'21 to be managed and monitored. As a result, the CSR performance of the various centers in Mercialys' real estate portfolio is monitored against the strategic objectives set in 2015.

## 2.1.3 Measuring performance

### 2.1.3.1 NON-FINANCIAL PERFORMANCE

| ISSUES | 2020 TARGET | 2017 RESULT |
|---|---|---|
| Centers' certification | Improve the certification level of all centers by one grade | 46% of the portfolio is BREEAM In-Use certified |
| Energy | 20% reduction in energy consumption per sq.m compared to 2015 | 4.6% reduction |
| Climate change | 20% reduction in greenhouse gas emissions per visitor compared to 2015 | 22% reduction |
| Water | 15% reduction in water consumption compared to 2015 | 1% reduction |
| Waste | 55% of waste recovered | 24% of waste recovered |
| Biodiversity | Being involved in the protection of ordinary biodiversity | Policy of zero phytosanitary use across the entire portfolio |
| Connection and mobility | 15% increase in visitors traveling to centers using a form of transport other than a petrol-engined car (compared to 2015) | 14% of visitors arrived by public transport in 2017, versus 7% in 2015 |
| Employees | No ethical incident | Updating the Ethics Charter and Code of Business Conduct |
| | Implement the psychosocial risks prevention policy | Introduction of teleworking |
| | Make training a commitment driver for employees | 100% of employees trained during the year |
| | Combat all forms of discrimination | Set up a partnership structure to welcome interns and trainees with disabilities |
| Health and safety of consumers and retailers | 100% of centers with high-level risk management | 100% of centers with an audit of the security provider |
| Responsible purchasing | 80% of contracts for more than Euro 10,000 have responsibility clauses | Inclusion of CSR clauses in the property manager's mandate and the delegated project management contract |
| Responsible investment | Become a leading SRI stock | Improvement of Mercialys' rating in the main benchmarks and CSR questionnaires (GRESB, VIGEO, CDP, GAIA, MSCI, Sustainalytics, Oekom, Trucost) |
| Local economic development | Contributing to local economic development | 37% of centers held a jobs fair in 2017 |
| Accessibility for all | 80% of visitors have a positive perception of the accessibility of our centers | |
| Public life and citizenship | Facilitating social harmony | 100% of Mercialys' properties hosted at least one non-profit organization in 2017 |
| Engaged and alternative consumption | 15% more leases for these new forms of consumption compared to 2015 | |

## 2.1.3.2 MAIN HIGHLIGHTS OF 2017

### A new organization introduced to improve efficiency

In 2017, Mercialys reorganized its CSR governance and its interactions with its main service providers (property manager and delegated project management) to improve its CSR, and particularly its environmental, performance. Routine monthly updates on various topics (consumption monitoring, regulations, etc.) have been introduced to ensure regular management and monitoring of the operational implementation of Mercialys' CSR strategy.

### A unique portfolio certification program

In 2017, Mercialys embarked on an ambitious BREEAM In-Use certification program for its real estate portfolio. This innovative pilot project, unique in France for its scale and short timescale, was carried out jointly with the certifying body (BRE). It enabled 25 assets to be certified at the same time, thereby increasing the percentage of the BREEAM In-Use certified portfolio to 46% at December 31, 2017 (*versus* 28% at December 31, 2016). The robustness and resilience of Mercialys' CSR strategy, as well as the quality of the associated procedures, contributed to the success of this project.

### Special non-financial ratings

In 2017, Mercialys was recognized by the Socially Responsible Investment (SRI) community for the quality of its non-financial communication and CSR performance.

For its second assessment by Global Real Estate Sustainability Benchmark (GRESB), the Company was ranked 26th in the Retail World category, up 42 places from 2016, and is now in the "GREEN STAR" category.

In addition, for its first assessment by the Carbon Disclosure Project (CDP), Mercialys scored an excellent rating of "A-", in recognition of the Company's commitment to tackling climate change. The Company is therefore among the top three French real estate companies.

Mercialys was also ranked third in the GAIA Index in the category of companies with revenues of between €150 and 500 million. Overall, the Company has gained eight places and is ranked 17th out of the 230 firms analyzed.

The quality of the Company's publications has also been recognized by the European Real Estate Association (EPRA), which awarded Mercialys the "EPRA Gold Most Improved sBPR Award 2017". The Company was placed in the "Gold" category following its first year of applying best practice in non-financial reporting.

Finally, Mercialys made remarkable progress in the Grand Prix de la Transparence, an award for the clarity and quality of financial and non-financial information, finishing third out of the companies in the SBF 120. The Company also won the award for best progress, climbing 80 places in the space of one year.

# 2.2 ENGAGE WITH ALL STAKEHOLDERS

Mercialys has forged solid relationships, and engages in regular dialog, with all its stakeholders: not only its retailers and direct customers, but also the visitors to its shopping centers, its suppliers and service providers, local government and non-profit organizations, and the financial community and professional bodies. This dialog is an opportunity to build partnerships and, more generally, to implement a process of innovation and continuous improvement.

**RETAILERS**

- Business performance
- Attractiveness/differentiation
- Loyalty
- Environmental collaboration

> Satisfaction surveys
> Meeting with retailers
> La Galerie des Services
> Le Mag (newsletter)
> Salesforce (CRM tool)
> Visits to project sites
> Trade fairs (SIEC, MAPIC)

**EMPLOYEES**

- Involvement
- Recruitment
- Loyalty
- Engagement
- Diversity/discrimination
- Social dialog
- CSR awareness-raising

> Breakfast meetings with Senior Management
> Dialogue, Merynews and Mery & Co (internal communication tools)
> LinkedIn
> Annual plenary meeting
> Financial information reviews
> Induction process/welcome pack
> Employee survey

**PROFESSIONAL ORGANIZATIONS**

- Sharing of best practices
- Promotion of the sector

> Membership of Committees
> Participation in the governance


**NON-PROFIT ORGANIZATIONS**

- Solidarity
- Support

> Website
> Partners

**SERVICE PROVIDERS AND SUPPLIERS**

- Quality of services
- Responsible purchasing

> Tendering
> Monthly/annual meetings

**FINANCIAL COMMUNITY**

- Financial performance
- Business ethics
- Funding

> Roadshows
> Site visits
> Financial information reviews
> Registration Document and half-year financial report
> Press releases
> Annual General Meeting
> Twitter/Linkedin

**LOCAL AUTHORITIES**

- Project environmental performance
- Economic contribution

> Departmental Committee for Commercial Land Development (CDAC)
> Half-year financial report
> Registration Document

**VISITORS**

- Feedback and dialog
- Customer reviews
- Customer satisfaction
- Loyalty
- Comfort and safety

> Websites/mobile app
> Facebook/Google/TripAdvisor
> Email of shopping center's managers
> Loyalty Challenge (*Challenge Fidélité*)
> Feedback surveys

*Legend:*

**STAKEHOLDER**

- Main CSR challenges

> Types of dialog

# 2.2.1 Retailers

## 2.2.1.1 SATISFY AND RETAIN RETAILERS

Retailers are Mercialys' customers. The Company is therefore keen to meet their needs and ensure that they have the best environment in which to operate. To that end, it conducts regular feedback surveys among the retailers at its shopping centers. It asks them about their experience of the center, what they think of the services offered, how good they think the service providers are, and so on.

It then uses the survey results to take appropriate action to improve retailer satisfaction.

Tenant satisfaction

| | | Percentage (by value) of centers covered by a tenant feedback survey | Number of retailers surveyed | Coverage rate |
|---|---|---|---|---|
| **Current scope** | **2015** | 7% | 25 | 100% |
| | **2016** | 0% | 0 | 100% |
| | **2017** | 53% | 529 | 100% |

Mercialys, building on its position as a partner to its retailer tenants, is always looking for new ways to help them improve their business.

Using innovative and effective tools and services, the Company provides day-to-day support to its retailers. The objective: to help them operate and grow their business through intelligent services, tailored to their operational needs. In 2017, Mercialys launched La Galerie des Services, a truly digital ecosystem gathering together all the tools for retailers on one secure platform.

Designed as an operational tool, the intuitive platform has an ergonomic, user-friendly interface. The services offered are divided into five main categories:

- "consult" (shopping center opening hours, access map, delivery methods, etc.);
- "exchange" (sales performance);
- "communicate" (communication tools, job vacancies, etc.);
- "retain" (Challenge Fidélité);
- "develop" (e-commerce, casual retailing, etc.).

Through this single interface and these innovative services, La Galerie des Services offers retailers efficient solutions, free of charge, that enable them to improve how they run their business, to develop customer relationships, or to accelerate their growth. Mercialys has designed the platform to simplify interactions, build trust with retailers, and meet their needs and expectations.

Finally, the "G La Galerie" architectural concept – originally developed in 2015 and now deployed at almost all of Mercialys' assets – is also designed to improve the shopping center experience of retailers and visitors.

The internal and external design of the centers, the redevelopment of car parks and access roads and the reorganization of communal areas, based around customer services and rest areas, have helped modernize the centers and led to a significant improvement in visual, thermal and auditory comfort, both for tenants and visitors.

## 2.2.1.2 WORKING TOGETHER TO IMPROVE THE ENVIRONMENTAL PERFORMANCE OF SHOPPING CENTERS

To improve the environmental performance of its shopping centers, Mercialys is keen to involve its tenants in reducing their overall environmental impact. In 2013, it signed its first environmental schedule to the lease, which soon became standard for all new contracts signed and covering the entire premises (excluding amendments and exempt leases). The environmental schedule provides, in particular, for the exchange of information between the lessor and the lessee and an action plan to improve the overall environmental performance of the building and the leased premises.

In 2017, 219 new environmental schedules were signed. This means that all the leases signed during the year included an environmental schedule (excluding amendments and exempt leases for which this is impossible or irrelevant, given the term of the lease).

In 2017, to put these environmental schedules into practice, each center manager has presented the Mercialys CSR strategy to the retailers, together with the key environmental indicators for the site. The meetings were also an opportunity to share the results of the tenant feedback survey and to discuss areas for improvement.

Environmental schedules to the lease

| | | Green leases as a percentage of all leases signed during the year | Coverage rate |
|---|---|---|---|
| Current scope | **2015** | 61% | 100% |
| | **2016** | 70% | 100% |
| | **2017** | 100% | 100% |

Furthermore, in 2016 Mercialys organized its first Retailer CSR Convention to strengthen the partnership dynamic with retailers regarding CSR. In partnership with the French "Club Génération Responsable", a club of 63 retailers committed to CSR, the purpose of the convention was to understand the difficulties that retailers encounter in launching their CSR strategy in shopping centers and to canvass them on their expectations.

The event offered an insight into retailer expectations regarding waste sorting and mobility services, two priorities that Mercialys focused on in 2017 ahead of pilot schemes to be conducted with retailers in 2018.

Indeed, as part of La Galerie des Services, CSR features in the "Consult" module where retailers are given a guide to sustainable practices. There are also plans to use the "Communicate" module to routinely share information on the environmental performance of each asset.

#### 2.2.1.3 ENSURE THE HEALTH AND SAFETY OF RETAILERS

Risk management is a major challenge for the Company, which makes every effort to comply with this regulatory requirement. For example, Mercialys has a Risk Prevention Committee which monitors all types of risks – whether operational, financial, ethical or market-related – and ensures that the proper procedures are followed.

In the event of an incident at one of its shopping centers, the teams use crisis management procedures which are regularly reviewed and tested to ensure that they are effective when the time comes.

For more information about risk management, see chapter 5, page 253 and following.

Furthermore, to inform its tenants and promote a health and safety risk management culture, Mercialys has produced a special guide for them available *via* La Galerie des Services.

## 2.2.2 Visitors

#### 2.2.2.1 DEVELOPING VISITOR LOYALTY

Visitor satisfaction is particularly important to Mercialys: footfall and customer loyalty are the foundations for retailer performance – and thus the performance of the assets.

In 2017, Mercialys changed how it measures visitor satisfaction. In the past, the Company would send out a physical questionnaire *via* a market research firm. However, it now uses its own digital tools to poll customers. After visiting a Mercialys shopping center, customers receive an email inviting them to answer an initial feedback question. Depending on their response (positive or negative), customers are then invited to answer three more questions and to rate their satisfaction on a scale of 1 to 10. A section is left blank for customers to write comments or suggest improvements. By developing its digital tools, Mercialys can now measure visitor satisfaction in real time and be more responsive in taking corrective action.

Visitor satisfaction

| | | Percentage of centers covered by a feedback survey, by value over the past two years | Coverage rate |
|---|---|---|---|
| Current scope | **2015** | 63% | 100% |
| | **2016** | 65% | 100% |
| | **2017** | 86% | 100% |

In addition, to express their views and give feedback, customers can also interact with Mercialys shopping center management *via* the shopping center websites or Facebook pages.

To further improve visitor satisfaction at its centers, in 2015 Mercialys introduced a free loyalty scheme, "Challenge Fidélité". The scheme, which was unprecedented in the commercial real estate sector, rewards customers for interacting with the center, whether physically (by visiting the center) or online (by posting comments on the Facebook page, for example). Each type of interaction scores a certain number of points. Every three months, customers' scores are added up and those with the highest scores win vouchers.

By signing up to the Challenge Fidélité, customers can also receive special offers and make use of exclusive services at the center. Finally, customers can sponsor friends and family and introduce them to the shopping center, thereby acting as brand ambassadors.

Loyalty

| | | Percentage of centers covered by a loyalty challenge scheme, by value | Number of customers who have joined the loyalty challenge scheme | Coverage rate |
|---|---|---|---|---|
| **Current scope** | **2015** | 9% | 420 | 100% |
| | **2016** | 61% | 12,505 | 100% |
| | **2017** | 72% | 25,497 | 100% |

### 2.2.2.2 EDUCATING VISITORS ABOUT SUSTAINABLE DEVELOPMENT

Mercialys conducts two types of information campaigns to educate visitors to its shopping centers about the challenges of sustainable development:

- cross-functional information campaigns at all centers in Mercialys' portfolio, by displaying messages about public transport options on screens in the centers, or providing electric vehicle charging stations;
- "bespoke" information campaigns, tailored to each center according to the latest CSR news: job fairs, Disability Employment Week, blood donations, etc.

Moreover, a real-time display of solar energy production is available at each center with a photovoltaic power plant, thereby raising customer awareness of energy-related problems.

Finally, the aim is increasingly to develop video content for information and learning purposes. In 2017, to mark the first anniversary of the opening of La Galerie Espaces Fenouillet in Toulouse, a film showcasing the center's CSR initiatives was produced and shown on a loop on a large screen at one of the entrances.

### 2.2.2.3 ENSURING VISITOR HEALTH AND SAFETY

The health and safety of visitors and retailers is an important challenge for Mercialys; indeed, it is a priority for the Company. Risk monitoring and related procedures are handled by the Risk Prevention Committee.

Moreover, the Company performs audits and additional studies on certain risks to ensure that they are properly managed. These include: testing the water supply for legionella contamination, performing structural surveys on the strength of its roofs, auditing security providers to check that they are familiar with the fire drill and that the personnel on site have the correct qualifications, testing for the presence of asbestos, etc.

For more information about risk management, see chapter 5, page 253 and following.

## 2.2.3 Suppliers and service providers

### 2.2.3.1 PURCHASING

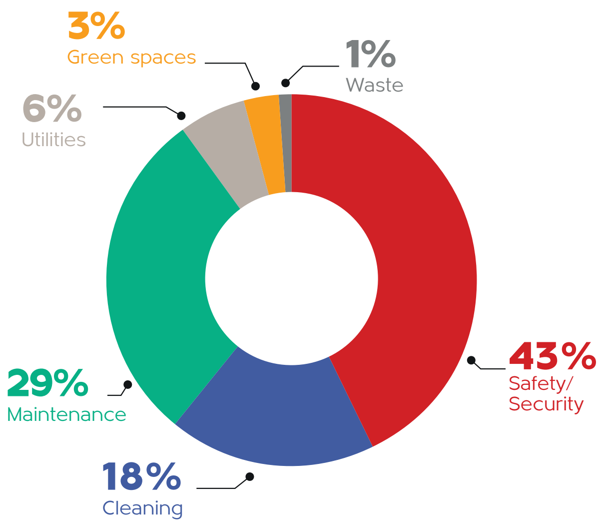
Mercialys calls on a large number of economic players to oversee, manage and extend its shopping centers: real estate managers, project managers, architects, communication agencies, IT service providers, real estate experts, land surveyors, construction firms, etc.

Its purchasing therefore has a major societal impact, due to the amount of purchasing, its ongoing nature and the diversity of business sectors concerned.

The Company mainly uses service providers. The Service Agreement signed with the Casino group sets out the terms under which the Casino group supplies Mercialys with the support functions necessary for its operations. In addition, mandates for rental management and for technical and administrative management have been signed with Sudeco, a subsidiary of the Casino group.

For centers managed by Sudeco, the property manager acting for Mercialys can identify the following major purchasing categories:

- purchases of fluids (energy and water);
- maintenance service purchases;
- safety-related purchases;
- cleaning service purchases;
- waste removal and treatment purchases;
- purchases related to the upkeep of green spaces.




*These percentages were calculated using expenditure budgets.*

Purchases of fluids and waste treatment represent, on average, 6% and 1% respectively of the costs of a Mercialys shopping center.

#### 2.2.3.2 MERCIALYS' RESPONSIBLE PURCHASING POLICY

In addition to regulatory compliance, CSR is integral to Mercialys' purchasing policy. The Company steers its suppliers and service providers towards giving more consideration to social and environmental concerns.

In 2017, Mercialys worked on including CSR clauses in service agreements that have a significant environmental impact – namely construction and property management at its centers.

CSR clauses have therefore been incorporated into Sudeco's technical management mandate. The property manager is expected to comply with Mercialys' Charter of Ethics and Code of business conduct, as well as its CSR strategy, and must also suggest ways of improving environmental performance and submit a monthly report on fluid consumption.

As regards projects and works, a set of specifications covering all the environmental requirements was prepared by Mercialys and attached to the delegated project management contract to ensure that the Company's CSR strategy is taken into account in projects that the Delegated Project Management carries out on its behalf (environmental certification process, reduction of noise pollution from construction sites, plant energy performance, indoor air quality analysis, construction waste sorting, soil protection during construction, etc.).

Mercialys also takes advantage of invitations to tender launched by Sudeco to include environmental and social clauses in the purchasing of services for its centers (cleaning, grounds maintenance, general maintenance, etc.). Thus, the invitation to tender launched in 2017 for the cleaning contract included provisions for the systematic use of environmentally certified products.

Finally, apart from contractual clauses, Mercialys seeks to engage constructively with its service providers to examine how they can work together in the interests of continuous improvement and requires Sudeco to meet the main suppliers of its centers each year. In 2017, for example, Mercialys met with the service provider in charge of green spaces maintenance at its centers to see how to further the process of biodiversity protection.

## 2.2.4 Local players

#### 2.2.4.1 NON-PROFIT ORGANIZATIONS

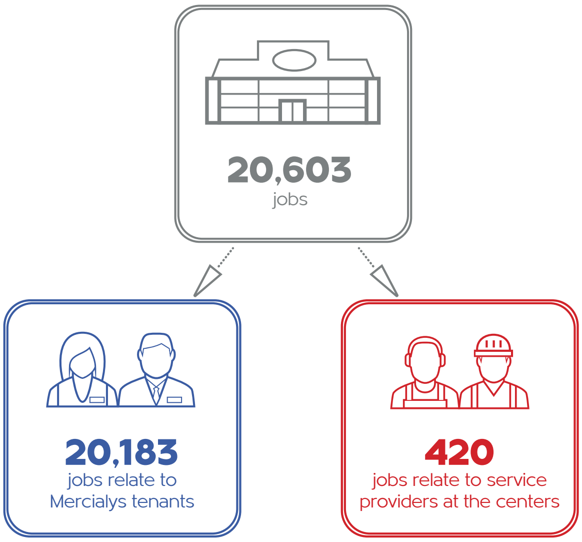
Mercialys supports the local voluntary sector by regularly hosting activities for sports associations and charities at its shopping centers (*e.g.* fund-raising, promotional or awareness-raising activities, etc.). In 2017, each center hosted at least one non-profit organization.

Mercialys has also been a partner of Doctors of the World since 2015. In 2017, 38 shopping centers from Mercialys' real estate portfolio took part in the operation, which recruited over 3,000 donors. The total amount of annual donations was estimated to be around Euro 500,000.

#### 2.2.4.2 LOCAL AUTHORITIES

Mercialys is a key player in the local economy and job market. A large number of people work at a shopping center, such as store assistants, sales personnel, architects, construction workers, and service providers in charge of cleaning or the maintenance of planted areas. Thus, through its properties, Mercialys creates indirect local employment covering a wide range of trades.

In 2017, it was estimated (see § 2.5.1.4 C, p. 98) that Mercialys' shopping centers supported around 20,600 jobs: more than 20,180 jobs are with retailers and more than 420 are with service providers operating at the centers.




Public authorities are stakeholders with whom there is dialog at all stages of development of a real estate project:

- upstream, to determine jointly how to stimulate the local economy while minimizing the project's environmental impact;
- during management of the property, to support local employment or any initiatives that might be implemented by the authorities;
- during an extension or renovation project, to determine jointly how to strengthen the commercial hub without dramatically increasing its environmental footprint.

## 2.2.5 Financial community

The Chief Financial Officer and the Investor Relations Manager are responsible for relations with the financial community, particularly investors, shareholders and analysts. They have various opportunities to meet with investors and analysts: Financial Communication Meetings, Annual General Meetings, roadshows, conference calls, conferences, etc.

Mindful of the quality of its relations with the financial community, Mercialys regularly engages with investors and seeks to improve the quality of the information it publishes, both financial and non-financial. Its commitment to the clarity of its non-financial reporting and to transparency was recognized with several awards in 2017. These included: the "EPRA Gold Most Improved sBPR Award 2017", an EPRA Gold Award for the application of international best practices in non-financial reporting, and coming third in the "Grands Prix de la Transparence" awards for SBF 120 companies.

The Company's financial reporting is conducted to the highest international standards. In recognition of this, it has for several years received an EPRA Gold Award in this field.

## 2.2.6 Professional bodies

Mercialys is a member of several professional associations:

- EPRA (European Public Real Estate Association);
- FSIF (French Federation of Real Estate Companies);
- CNCC (French Council of Shopping Centers).

Mercialys pays annual dues to these organizations on the basis of the fee schedules established by them.

The Company sits on the various committees and working groups of these industry associations, and on one governing body (the Board of Directors of the CNCC).

Mercialys is an active member of the CNCC and FSIF Sustainable Development Committees. Moreover, in 2017 Mercialys' CSR officer was appointed Chair of the CNCC's Sustainable Development Committee, following nomination by the Committee and by the CNCC Chief Executive.

Because these bodies represent the entire sector, this gives Mercialys the opportunity to communicate its position on any lobbying they might initiate. Whatever actions are taken, lobbying is a highly controlled practice within the company and solely within the purview of Senior Management. Indeed, the Charter of Ethics and Code of business conduct – given to each employee upon joining the Company, and updated annually – state that any position involving the Company and its place within its business sectors is the sole prerogative of the Senior Management or subject to its approval.

# 2.3 WORKING TO REDUCE ENVIRONMENTAL IMPACTS

Because the management of environmental impacts is a significant strategic objective, Mercialys implements action plans and improvement plans in the areas of energy, water, waste, biodiversity and greenhouse gas emissions.

Mercialys is mindful of the energy performance of its buildings, both during the design and construction phases and during the operational phase of its portfolio.

Climate change is a major challenge for the real estate sector, as its consequences can be numerous: floods, major snow events, droughts, etc.

The reduction of greenhouse gases is therefore a major challenge and a key priority, whether these emissions are related to the energy consumption of buildings, the transport of visitors or leaks of refrigerant. In 2018, Mercialys will therefore set out its carbon roadmap to 2030.

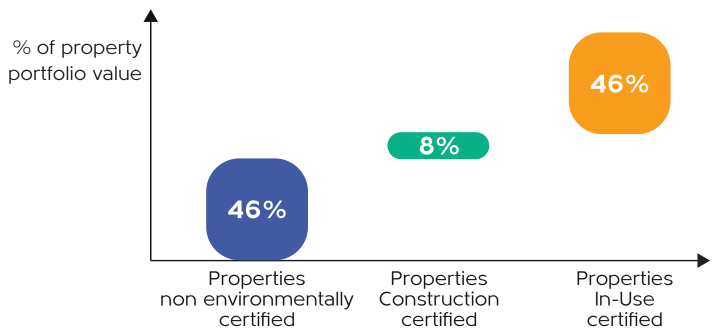
The Company is also committed to reducing water consumption at its centers, although its properties are not situated in areas of water stress and its activities are not intensive users of water.

Moreover, its commitment to encourage the protection of "urban" and "ordinary" biodiversity is principally achieved by maintaining and enhancing green spaces at its centers, as most of its portfolio are located in urban or semi-urban areas.

Finally, conscious of the challenges associated with waste recycling, Mercialys seeks to raise awareness of this subject, both among teams working on construction sites, and among its employees and tenants.

## 2.3.1 Environmental certification

Environmental certification is a valuable tool for environment management, widely used in the field of commercial real estate to coordinate environmental policy, to improve practices and to reassure stakeholders of the robustness of the approach undertaken.




### 2.3.1.1 BREEAM NEW CONSTRUCTION CERTIFIED PROJECTS

Mercialys has chosen BREEAM New Construction for the certification of its projects and La Galerie Espaces Fenouillet, a shopping center in Toulouse, was certified BREEAM Excellent in 2017. The retail park adjoining the center is also BREEAM Excellent certified.

**Environmental construction certification (Cert – Tot[(1)])**

| | | Percentage of centers certified BREEAM New Construction, by value | Number of centers certified BREEAM Construction | Coverage rate |
|---|---|---|---|---|
| Current scope | **2015** | 0% | 0 | 100% |
| | **2016** | 0% | 0 | 100% |
| | **2017** | 8% | 1 | 100% |

*(1) The codes in brackets correspond to the EPRA nomenclature used for the Sustainability Best Practices Recommendations (sBPR) Guidelines.*

#### 2.3.1.2 A BREEAM IN-USE CERTIFIED PORTFOLIO

To manage the environmental performance of its assets effectively, Mercialys uses BREEAM In-Use standards, which are the benchmark in the commercial real estate sector.

The Company has embarked upon the gradual certification of its entire portfolio. The aim is to improve the certification of all its centers by one level by 2020.

BREEAM In-Use certification is a valuable management tool for the teams because of its exhaustive benchmarking (nine environmental themes monitored), its relevance to the shopping centers, and its stringent requirements. It enables Mercialys' teams to enter a virtuous circle of continuous improvement and competitive spirit, and external stakeholders to assess the environmental quality of the Company's shopping centers.

In 2017, Mercialys entered a new phase by embarking on a pilot certification program for its portfolio with BRE, the certifying body. The program – which was unprecedented in France – allowed Mercialys to certify 25 assets at the same time.

Mercialys was able to manage this project due to the relevance of its CSR strategy, of the procedures introduced, and of the actions taken. Therefore, as of December 31, 2017, 46% of the portfolio was BREEAM In-Use certified (*versus* 28% as of December 31, 2016), with an average certification level of Good on Axis 1 of the benchmark and Very Good on Axis 2.

Operational environmental certification (Cert – Tot)

| | | Percentage of BREEAM In-Use certified centers, by value | Number of BREEAM In-Use certified centers | Coverage rate |
|---|---|---|---|---|
| **Current scope** | **2015** | 28% | 5 | 100% |
| | **2016** | 28% | 5 | 100% |
| | **2017** | 46% | 22 | 100% |

## 2.3.2 Managing energy consumption

Energy performance is a major challenge for Mercialys. Energy effectiveness enables Mercialys to reduce the environmental footprint of its shopping centers and protects its tenants from fluctuating energy prices.

This is why Mercialys has recorded its requirements in its work specifications, which it has annexed to the delegated project management contract and shared with all the teams involved with these subjects.

#### 2.3.2.1 ENERGY PERFORMANCE DURING CONSTRUCTION

The design and construction phases are critical to reducing the energy consumption of a building. This involves following bio-climatic architecture principles to reflect or even take advantage of natural elements (such as wind or sun) to reduce the building's energy requirements, particularly by encouraging natural lighting or enhancing its insulation.

The construction techniques also impact on the building's energy efficiency as well as the energy performance calculated for the shopping center.

#### 2.3.2.2 MANAGING ENERGY EFFICIENCY WHILE OPERATING

In 2017, Mercialys' shopping centers consumed about 60,000 MWh of energy, *i.e.* equivalent to the annual electricity consumption of 12,840 French households[1].

76% of the energy consumed by Mercialys' shopping centers is electricity.

(1) *Source: French Energy Regulatory Commission – 2015.*

### Energy mix and total energy consumption (Elec-Abs, Elec-LfL, DH&C-Abs, DH&C-LfL, Fuels-Abs, Fuels-LfL)

| | | Total energy consumption *(in MWh)* | Electricity consumption *(in MWh)* | Gas consumption *(in MWh)* | Consumption of urban heating *(in MWh)* | Coverage rate |
|---|---|---|---|---|---|---|
| **Current scope** | **2015** | 69,841 | 49,392 | 19,066 | 1,383 | 95% |
| | **2016** | 66,654 | 48,621 | 16,570 | 1,462 | 96% |
| | **2017** | 60,089 | 45,767 | 12,757 | 1,565 | 95% |
| **Like-for-like** | **2015** | 49,186 | 37,646 | 10,157 | 1,383 | 94% |
| | **2016** | 47,497 | 37,103 | 8,932 | 1,462 | 94% |
| | **2017** | 46,937 | 35,742 | 9,631 | 1,565 | 94% |
| | **Change 2016-2017** | -1.2% | -3.7% | 7.8% | 7% | |
| | **Change 2015-2017** | -4.6% | -5.1% | -5.2% | 13.2% | |

*The consumption of fuel oil has not been recorded in because it is marginal. It only concerns the supply for back-up generators which are only likely to be used in the event of the outage of a primary system.*

Mercialys is working to reduce the energy consumption of its properties while they are operating. Thus, on a like-for-like basis, the Company reduced the energy consumption of its centers by 5% between 2015 and 2017. These efforts were offset by the climate effect, as evidenced by the increase in gas consumption (for heating only) due to a colder winter than in the previous two years.

### Energy intensity per sq.m (Energy – Int)

| | | Surface energy intensity *(in kWh/m²)* | Coverage rate |
|---|---|---|---|
| **Current scope** | **2015** | 186.7 | 95% |
| | **2016** | 188.6 | 96% |
| | **2017** | 179.8 | 95% |
| **Like-for-like** | **2015** | 169.7 | 94% |
| | **2016** | 169.1 | 94% |
| | **2017** | 164.7 | 94% |
| | **Change 2016-2017** | -2.6% | |
| | **Change 2015-2017** | -2.9% | |

Mercialys reduced its energy intensity per unit area by 3% on a like-for-like basis between 2015 and 2017.

### Energy intensity per visitor (Energy – Int)

| | | Intensity of energy use *(in kWh/visitor)* | Coverage rate |
|---|---|---|---|
| **Current scope** | **2015** | 0.41 | 72% |
| | **2016** | 0.44 | 71% |
| | **2017** | 0.42 | 69% |
| **Like-for-like** | **2015** | 0.39 | 78% |
| | **2016** | 0.38 | 78% |
| | **2017** | 0.38 | 78% |
| | **Change 2016-2017** | -0.6% | |
| | **Change 2015-2017** | -4.5% | |

In 2017, Mercialys developed a tool to calculate the energy consumption of its portfolio, adjusted for climate. This adjustment excludes the impact of climate on energy consumption. The resulting indicator can be used to measure changes in consumption due to the energy efficiency actions implemented by sites, estimated to be an 8% reduction between 2015 and 2017.

Energy consumption at constant climate

| | | Climate-adjusted energy consumption *(in MWh)* | Coverage rate |
|---|---|---|---|
| Current scope | **2015** | 45,285 | 67% |
| | **2016** | 44,107 | 68% |
| | **2017** | 40,614 | 68% |
| Like-for-like | **2015** | 33,381 | 68% |
| | **2016** | 32,239 | 68% |
| | **2017** | 30,738 | 68% |
| | **Change 2016-2017** | -4.7% | |
| | **Change 2015-2017** | -7.9% | |

## 2.3.2.3 ENERGY CONSUMPTION OF LARGE FOOD STORES

To have a snapshot of the energy efficiency of large food stores and high-street assets (hypermarkets and Monoprix) acquired for redevelopment, Mercialys has been monitoring the private consumption of these tenants since 2016.

Private energy consumption

| | | Total energy consumption *(in MWh)* | Electricity consumption *(in MWh)* | Gas consumption *(in MWh)* | Fuel oil consumption *(in MWh)* |
|---|---|---|---|---|---|
| Current scope | **2016** | 84,176 | 75,291 | 7,642 | 1,243 |
| | **2017** | 92,327 | 81,925 | 9,372 | 1,031 |
| Like-for-like | **Change 2016-2017** | -3.9% | -4.7% | 7.4% | -17.1% |

On a like-for-like basis between 2016 and 2017, the total energy consumption of large food stores fell by around 4%, despite the harsh climatic conditions in 2017.

## 2.3.2.4 RENEWABLE ENERGY

In 2017, 8% of the energy consumption at Mercialys' centers was from renewable sources.

Percentage of renewable energy consumption (Elec-Abs)

| | | Percentage of renewable energy consumption *(in %)* | Coverage rate |
|---|---|---|---|
| Current scope | **2017** | 8.4% | 95% |

Mercialys promotes the development of renewable energies by installing photovoltaic shading in its parking lots and rooftop solar installations in collaboration with GreenYellow, a subsidiary of the Casino group.

At December 31, 2017, Mercialys had 38 photovoltaic power plants in its portfolio, producing the equivalent of 86% of energy consumption on a current basis in 2017. The photovoltaic shading in the parking areas also has the advantage enhancing customer comfort, as it protects them from the sun and rain.

On a like-for-like basis, the production of renewable energy increased by 17% between 2015 and 2017.

Production of renewable energies

| | | Number of power plants | Total power (in kW) | Total area of solar panels (in sq.m) | Production (in MWh) | Percentage of the portfolio covered, by value | Coverage rate |
|---|---|---|---|---|---|---|---|
| Current scope | **2015** | 30 | 40,712 | 202,816 | 44,334 | 30% | 100% |
| | **2016** | 36 | 40,766 | 203,148 | 47,829 | 38% | 100% |
| | **2017** | 38 | 42,235 | 210,497 | 51,736 | 39% | 100% |
| Like-for-like | **Change 2016-2017** | | | | 8.2% | | 100% |
| | **Change 2015-2017** | | | | 16.7% | | 100% |

2017 was a key year for renewable energy development at Mercialys' assets because, for the first time, a newly installed photovoltaic power plant had supplied electricity to the La Galerie Cap Costières shopping center. Thus, 27% of the site's energy needs are covered by on-site renewable energy production.

Mercialys plans to roll out this project to new assets in 2018.

## 2.3.3 Action to tackle climate change

Climate change is a risk for the real estate sector. For Mercialys' business in particular:

- some shopping centers may need to introduce "structural" measures to adapt to climate change which could have a significant economic impact;
- the physical risk would also result in a change in the operation of the centers, which would have to adapt (change in outside temperature and increased occurrence of extreme events, etc.);
- some "weather-sensitive" retailers would see their revenues impacted, which would also pose an indirect risk to Mercialys, as lessor.

Greenhouse gas emissions, particularly carbon dioxide ($CO_2$), are the main factor in global warming. Therefore, Mercialys is committed to measuring and monitoring its emissions, together with actions aimed at reducing them.

### 2.3.3.1 ADAPTING TO THE CONSEQUENCES OF CLIMATE CHANGE

There are numerous consequences of climate change, such as flooding, heavy snowfall, drought, etc. Mercialys' portfolio is therefore exposed to a number of risks – such as destabilization of structures and pollution – that may eventually have a significant economic impact, such as increasing insurance premiums, maintenance expenditure, and reputational risk for example.

Prior to each project, a systematic analysis of historical climate events is carried out to optimize site design.

### 2.3.3.2 SCOPE 1 AND 2 EMISSIONS

The air conditioning systems installed in Mercialys' shopping centers work using refrigerant fluids. Due to their age and the fact that they operate under high pressure, these facilities may leak. The leakage of refrigerant fluids into the air conditioning systems releases gases with a particularly[1] high global warming potential.

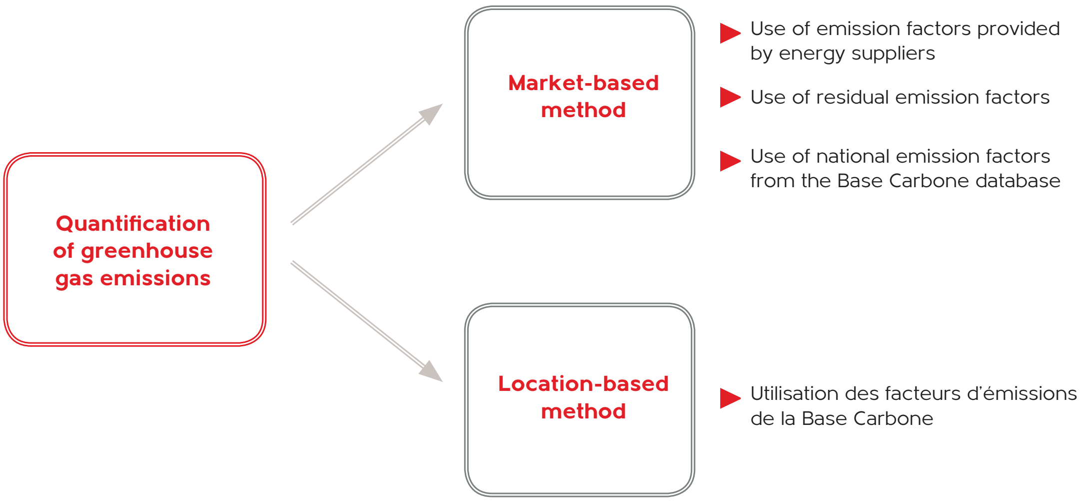
(1) *Global Warming Potential (GWP) is a measure of the contribution of a gas to the greenhouse effect.*

### Greenhouse gas emissions (Scopes 1 and 2) (GHG-Dir-Abs, GHG-Indir-Abs)

| | | Direct emissions (Scope 1) *(in $tCO_2e$)* | Indirect emissions (Scope 2) *(in $tCO_2e$)* | | Total direct and indirect emissions (Scopes 1 & 2) *(in $tCO_2e$)* | | Coverage rate |
|---|---|---|---|---|---|---|---|
| | | | Location-based method | Market-based method | Location-based method | Market-based method | |
| Current scope | **2015** | 3,137 | 2,829 | - | 5,966 | - | 72% |
| | **2016** | 2,707 | 2,782 | - | 5,489 | - | 78% |
| | **2017** | 2,566 | 4,660 | 4,302 | 7,226 | 6,868 | 92% |
| Like-for-like | **2015** | 2,238 | 2,281 | - | 4,519 | - | 71% |
| | **2016** | 1,900 | 2,154 | - | 4,054 | - | 71% |
| | **2017** | 1,734 | 2,056 | - | 3,790 | - | 71% |
| | **Change 2016-2017** | -8.7% | -4.6% | - | -6.5% | - | |
| | **Change 2015-2017** | -22.5% | -9.9% | - | -16.1% | - | |

On a like-for-like basis, Scope 1 and 2 greenhouse gas emissions fell by more than 16% between 2015 and 2017.

In accordance with the CDP (Carbon Disclosure Project) protocol, priority is given to the most relevant emission factors, where these are available (see diagram below).




### Carbon intensity per sq.m (Scopes 1 and 2) (GHG – Int)

| | | Carbon intensity per area *(in kg of $CO_2$ equivalent per sq.m)* | Coverage rate |
|---|---|---|---|
| Current scope | **2015** | 22.5 | 72% |
| | **2016** | 19.1 | 78% |
| | **2017** | 23.7 | 92% |
| Like-for-like | **2015** | 20.4 | 71% |
| | **2016** | 19.1 | 71% |
| | **2017** | 17.4 | 71% |
| | **Change 2016-2017** | -8.5% | |
| | **Change 2015-2017** | -14.3% | |

*NB: the greenhouse gas emissions shown above are calculated using emission factors adapted for the location-based method.*

The average carbon intensity for Mercialys is 23.7 kg $CO_2$ equivalent per sq.m, corresponding to class C of the energy performance certificate (DPE) for shopping centers.

On a like-for-like basis, Mercialys reduced its carbon intensity per area by 14% between 2015 and 2017.

### Carbon intensity per visitor (Scopes 1 and 2) (GHG – Int)

| | | Carbon intensity per visitor *(in kg $CO_2$ equivalent per visitor)* | Coverage rate |
|---|---|---|---|
| **Current scope** | **2015** | 0.06 | 61% |
| | **2016** | 0.05 | 62% |
| | **2017** | 0.06 | 67% |
| **Like-for-like** | **2015** | 0.05 | 59% |
| | **2016** | 0.05 | 59% |
| | **2017** | 0.04 | 59% |
| | **Change 2016-2017** | -10.5% | |
| | **Change 2015-2017** | -21.6% | |

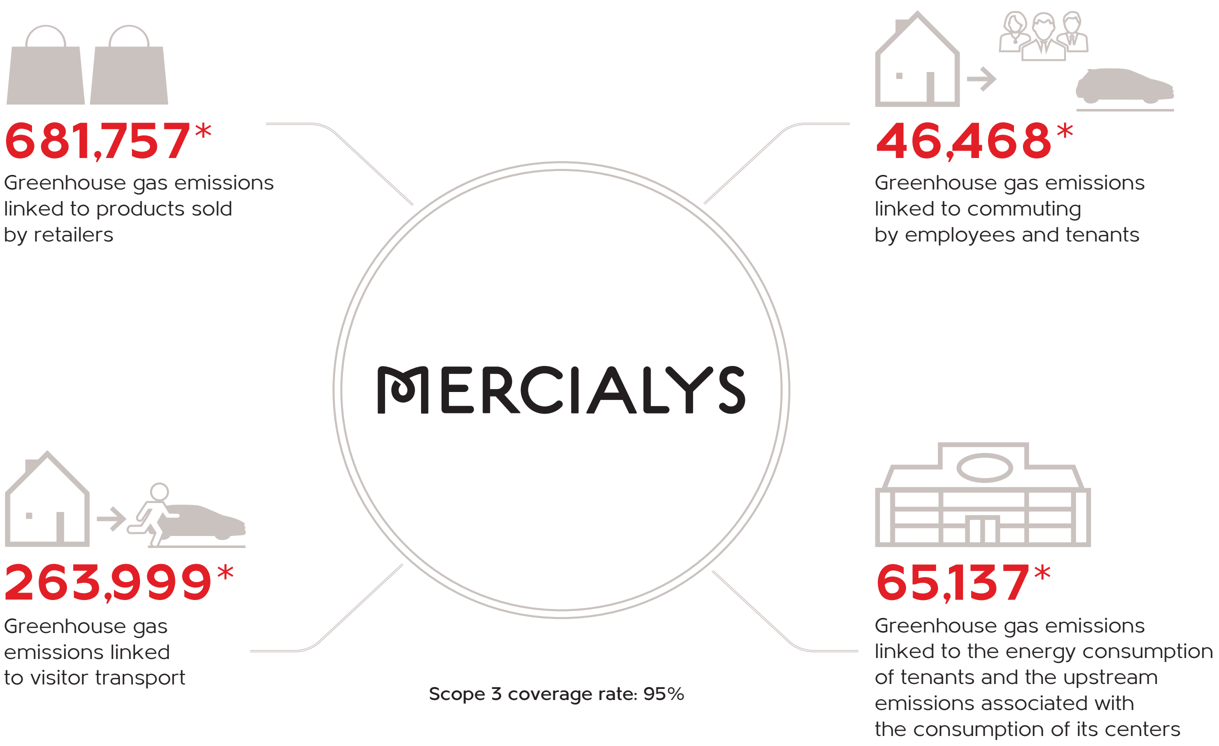
*NB: the greenhouse gas emissions shown above are calculated with emission factors adapted for the location-based method.*

Greenhouse gas emissions per visitor fell by more than 21% between 2015 and 2017.

## 2.3.3.3 CONSIDERING THE LARGEST SCOPE: SCOPE 3

In 2017, Mercialys worked to quantify its Scope 3 emissions to better understand its broader carbon footprint. To do this, the Company used the GHG Protocol to quantify its emissions based on the 15 categories provided by the method (purchased goods and services, employee commuting, investments, etc.).

### Greenhouse gas emissions Scope 3




* In tons equivalent of $CO_2$

This carbon analysis helped to identify the main sources of greenhouse gas emissions for Mercialys in 2017, ranked in order of importance:

- products sold by retailers at its centers;
- visitors traveling to its centers;
- energy consumption of tenants and upstream emissions associated with the consumption at its centers;
- commuting by its employees and tenants.

This analysis will enable Mercialys to prioritize its mitigating action based on the carbon impact of the different emission sources and the associated level of operational management.

### Developing mobility to reduce the carbon footprint

Changing the modes of transport used by visitors to travel to and from Mercialys' centers is key to reducing Mercialys' carbon footprint.

Mercialys is focusing its efforts in two areas:

- the development of an innovative, less carbon-intensive, transport offering, in conjunction with local authorities and through partnerships with companies and/or organizations in this sector. Thus, in its car parks, the Company is providing special equipment:
  - bicycle shelters;
  - parking spaces reserved for carpooling users;
  - charging stations for electric and hybrid vehicles.
- promotion of the use of low carbon footprint transport for visitors and retailers including: real-time display of bus timetables in the center, messages raising awareness on screens in the center, information on the shopping centers' website, and mobile app for the shopping center, etc.

#### Mode of transport used by visitors

| | | Car or motorbike | Public transport | Walking | Bicycle | Coverage rate |
|---|---|---|---|---|---|---|
| Current scope | **2015** | 85.5% | 7.4% | 6.3% | 0.8% | 53% |
| | **2016** | 85.5% | 7.4% | 6.2% | 0.8% | 52% |
| | **2017** | 74.5% | 14% | 8.9% | 2.5% | 62% |
| | **Change 2016-2017** | - | - | - | - | - |
| | **Change 2015-2017** | -12.9% | 88.5% | 42.4% | 210.7% | |

In 2017, 75% of visitors used a car to get to Mercialys' shopping centers, making this a significant challenge for the Company. Mercialys is keen to nudge people towards new forms of mobility, such as carpooling, and to that end has formed a partnership with online carpooling community BlaBlaCar. Mercialys provides visitors with dedicated carpooling spaces at its centers, which are listed in the BlaBlaCar application. In 2017, 68% of centers were listed (by value) and 7,255 journeys were made from these centers.

#### Carpooling

| | Percentage of centers with carpooling spaces, by value | Number of BlaBlaCar users of carpooling spaces | Number of BlaBlaCar trips made from centers | Coverage rate |
|---|---|---|---|---|
| **2017 current scope** | 68.5% | 10,240 | 7,255 | 100% |

Mercialys is also developing a network of charging stations for electric and hybrid vehicles to encourage visitors to switch to greener vehicles. As of December 31, 2017, 22 charging stations were available at Mercialys' centers.

#### Electric vehicle charging stations

| | Number of charging stations | Number of sockets | Percentage of centers with electric vehicle charging stations | Coverage rate |
|---|---|---|---|---|
| **2017 current scope** | 22 | 40 | 37.2% | 100% |

## 2.3.4 Responsible waste management in a circular economy

Three types of waste are generated by Mercialys' shopping centers:

- construction waste, associated with building or renovating the shopping centers;
- waste from visitors to the shopping centers;
- and operating waste from retail tenants.

Aware of the challenges associated with recycling waste, Mercialys is striving to increase awareness of this issue among teams working on construction sites, and among its employees and tenants.

### 2.3.4.1 CONSTRUCTION WASTE

In France, about 78% of all construction waste by volume is associated with economic activities[1]. Construction waste is therefore a significant concern.

In 2017, Mercialys' three main extension projects (Saint-Etienne, Morlaix and Rennes) generated 676 tons of waste.

Therefore, to reduce the environmental impact of this waste, its reuse on site and/or sorting for recycling are to be encouraged. Accordingly, on site construction waste sorting is one of the criteria included in Mercialys' work specifications, attached to the delegated project management contract.

**Volume of construction waste**

| | *(in tons)* | Morlaix | Rennes | Monthieu |
|---|---|---|---|---|
| **Current scope 2017** | Non-Hazardous Industrial Waste (NHIW) | 92.8 | 152.98 | 202.76 |
| | Rubble | 72.48 | 6.44 | 105 |
| | Wood | 0 | 29.88 | 2.72 |
| | Scrap metal | 0 | 11.4 | 0 |
| | **Total** | **165.28** | **200.7** | **310.48** |

### 2.3.4.2 OPERATIONAL WASTE

In the shopping centers, the waste generated is directly linked to the packaging of products sold by the retailers and their logistical operations.

For Mercialys, apart from the quantities produced, the challenge therefore lies in recycling the waste, with the view that today's waste is tomorrow's resources. For a property company, the complexity of this challenge lies in "the behavioral component": waste from retailers is placed in dedicated areas and trash cans. Recycling is therefore dependent on the way the retailers sort their waste.

In addition to reducing the impact of their business activities on the environment, retailers can also benefit economically from recycling waste. In fact, cardboard, plastic and other recyclable materials are bought by specialized service providers in order to resell them as secondary raw materials. By improving the way they sort their waste, retailers can therefore help centers to reduce the cost of removing and processing such waste, and thus the amount of charges reinvoiced to tenants.

Mercialys' responsibility for its waste is consequently twofold:

- first, it needs to provide appropriate space, equipment and processing channels for both its tenants and visitors to the shopping centers;
- second, it needs to raise awareness and encourage retailers to improve how they sort their waste.

Within the current scope, Mercialys' properties generated 7,270 tons of waste in 2017. This represents an average of 182 tons of waste for each shopping center.

76% of the waste produced by the properties is made up of non-hazardous industrial waste, 23% is cardboard and 1% is other waste (plastic, wood, metal and compostable materials). 24% of this waste was sorted in 2017. On a like-for-like basis, the recovery rate rose by 13% between 2015 and 2017.

(1) *Source: Ademe – Key figures for waste – 2015 edition.*

### Waste tonnage (Waste-Abs, Waste-LfL)

| | | Total quantity of waste *(in tons)* | Non-hazardous industrial waste, *(in tons)* | Cardboard *(in tons)* | Plastic *(in tons)* | Compostable materials *(in tons)* | Metal *(in tons)* | Wood *(in tons)* | Sorting rate | Coverage rate |
|---|---|---|---|---|---|---|---|---|---|---|
| **Current scope** | **2015** | 6,518 | 5,141 | 1,334 | 21 | 22 | 0 | 0 | 21% | 85% |
| | **2016** | 7,467 | 5,970 | 1,455 | 24 | 17 | 0 | 0 | 20% | 91% |
| | **2017** | 7,270 | 5,506 | 1,651 | 33 | 62 | 4 | 14 | 24% | 92% |
| **Like-for-like** | **2015** | 5,317 | 4,184 | 1,090 | 21 | 22 | 0 | 0 | 21% | 83% |
| | **2016** | 5,374 | 4,519 | 1,175 | 24 | 17 | 0 | 0 | 21% | 83% |
| | **2017** | 5,473 | 4,156 | 1,270 | 28 | 2 | 4 | 14 | 24% | 83% |
| | **Change 2016-2017** | -4.6% | -8% | 8.1% | 15.9% | -90.6% | | | 13.6% | |
| | **Change 2015-2017** | 2.9% | -0.7% | 16.5% | 36.7% | -92.9% | | | 13% | |

Almost 60% of waste from Mercialys' shopping centers was not sent to landfill in 2017.

### Distribution of waste by destination (Waste-Abs, Waste-LfL)

| | | Recycled | Reused | Compost | Incineration with energy recycling | Incineration without energy recycling | Landfill | Others | No information | Coverage rate |
|---|---|---|---|---|---|---|---|---|---|---|
| **Current scope** | **2015** | 2.1% | 0.0% | 12.7% | 3.2% | 29.5% | 28.3% | 12.1% | 12.1% | 54% |
| | **2016** | 1.2% | 0.0% | 6.5% | 5.5% | 39.3% | 25.9% | 10.9% | 10.6% | 58% |
| | **2017** | 15.0% | 0.0% | 3.8% | 6.1% | 25.0% | 30.5% | 9.9% | 9.8% | 42% |
| **Like-for-like** | **2015** | 1.8% | 0.0% | 9.4% | 4.9% | 20.3% | 34.2% | 15.5% | 14.0% | 31% |
| | **2016** | 1.3% | 0.0% | 4.6% | 5.8% | 32.0% | 32.8% | 12.5% | 10.9% | 31% |
| | **2017** | 1.6% | 0.0% | 3.6% | 8.1% | 28.5% | 35.5% | 10.5% | 12.2% | 31% |
| | **Change 2016-2017** | 19.8% | | -21.5% | 39.5% | -10.9% | 8.2% | -16.6% | 12.0% | |
| | **Change 2015-2017** | -12.1% | | -61.1% | 67.0% | 40.2% | 3.8% | -32.4% | -12.9% | |

## 2.3.5 Preserving biodiversity

Mercialys' impact on biodiversity is limited as most of its assets are located in urban or semi-urban areas.

For Mercialys, preserving biodiversity is not limited to "out-of-the-ordinary" species. For this reason, the Company aims to become a protector of "urban" and "ordinary" biodiversity. Thus, Mercialys' commitment to protecting biodiversity takes the form of maintaining green spaces in its shopping centers.

After conducting environmental audits on certain of its centers, Mercialys amended the maintenance contracts for green spaces, in order:

- to introduce a "zero phytosanitary products" policy;
- to fight against invasive species that harm native biodiversity by disturbing and destroying it;
- to promote the use of indigenous species to limit the need for external action.

In 2017, to continue its protection of ordinary biodiversity, beehives were installed on the roof of La Galerie Espaces Fenouillet in Toulouse. At the same time, an information display was set up in the center to tell customers about bee preservation. In 2018, when the honey is harvested, customers will be invited to sample the honey from the center's beehives and to learn how honey is produced.

## 2.3.6 Water: reducing consumption and preserving aquatic resources

### 2.3.6.1 WATER CONSUMPTION

Since the Company's assets are not located in areas subject to water stress and the Company's business does not consume excessive amounts of water, this is not a significant challenge for Mercialys. In 2017, 136,145 $m^3$ of water was used on 89% of Mercialys' properties (by value).

On a like-for-like basis, water consumption fell by 1% between 2015 and 2017.

In order to reduce its environmental footprint, Mercialys is working to reduce water consumption in its shopping centers.

Its actions can be seen in the introduction of water-saving equipment (dry urinals, pressure reducers, dual-flush systems, etc.) in the bathroom facilities in the centers, as well as regular monitoring of consumption carried out by the teams. Rainwater storage tanks are also used to provide water to the toilet facilities and spray the green areas, thereby reducing the water used for such purposes. Finally, consideration of the types of plant species chosen by landscapers for planting schemes also reduces the need for spraying the green spaces in the shopping centers.

Total water consumption (Water-Abs, Water-LfL)

| | | Water consumption *(in $m^3$)* | Coverage rate |
|---|---|---|---|
| **Current scope** | **2015** | 135,459 | 83% |
| | **2016** | 139,763 | 88% |
| | **2017** | 136,145 | 89% |
| **Like-for-like** | **2015** | 104,914 | 83% |
| | **2016** | 111,067 | 83% |
| | **2017** | 104,172 | 83% |
| | **Change 2016-2017** | -6.2% | |
| | **Change 2015-2017** | -0.7% | |

Water intensity per sq.m (Water – Int)

| | | Water intensity *(in $m^3/m^2$)* | Coverage rate |
|---|---|---|---|
| **Current scope** | **2015** | 0.89 | 83% |
| | **2016** | 0.89 | 88% |
| | **2017** | 0.91 | 89% |
| **Like-for-like** | **2015** | 0.98 | 83% |
| | **2016** | 1.03 | 83% |
| | **2017** | 0.96 | 83% |
| | **Change 2016-2017** | -6.8% | |
| | **Change 2015-2017** | -1.3% | |

Water intensity per visitor (Water – Int)

| | | Water intensity *(in L/visitor)* | Coverage rate |
|---|---|---|---|
| **Current scope** | **2015** | 1.22 | 63% |
| | **2016** | 1.27 | 66% |
| | **2017** | 1.14 | 64% |
| **Like-for-like** | **2015** | 1.21 | 70% |
| | **2016** | 1.28 | 70% |
| | **2017** | 1.19 | 70% |
| | **Change 2016-2017** | -7.3% | |
| | **Change 2015-2017** | -1.5% | |

#### 2.3.6.2 WATER QUALITY

Mercialys also pays close attention to the quality of the water it discharges, in order to preserve aquatic resources and the ecosystems that depend on them. The majority of Mercialys shopping centers are equipped with oil separators to treat water before it is discharged into the network.

In addition, to ensure the high quality of water discharged, the Company is progressively signing discharge agreements with water utility companies. These agreements provide, in particular, for the regular monitoring of physical and chemical quality of water discharged into the network.

## 2.4 SUPPORTING AND EMPOWERING OUR EMPLOYEES IN A SAFE AND ETHICAL WORKING ENVIRONMENT

Employees are a vital asset and play a key role in the success and performance of the business. They are also ambassadors for the Company and its CSR commitment among the various external stakeholders. This is why the human resources function is strategic for Mercialys, paying particular attention to identifying talent, training staff and ensuring the wellness of employees.

As the benchmark for shopping centers in France, Mercialys has to lead by example, unequivocally respecting basic codes of business conduct. It frames its business and projects within a responsible and long-term vision, formalized in a *"Charter of Ethics and Code of business conduct"*. This document sets out the standards of behavior that all employees are required to adopt and enforce while at work.

### 2.4.1 Deontology and ethics

#### 2.4.1.1 RESPECT FOR FUNDAMENTAL RIGHTS

Mercialys operates in metropolitan France and some French overseas territories (DOM-TOM). In conducting its business, the Company ensures consistent application of national and European laws, as well as respect for fundamental principles in the fields of human rights, labor law, environmental protection and the fight against corruption and money laundering.

#### 2.4.1.2 CHARTER OF ETHICS AND CODE OF BUSINESS CONDUCT

Through its Charter of Ethics and Code of business conduct, Mercialys affirms its deep-seated commitment to the fundamental values enshrined in the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights. This contains rules based on the law and ethics, including those preventing conflicts of interest and fighting against corruption. This charter is given to each new hire and is redistributed annually to all employees. It is accessible in several languages on the Company's website (www.mercialys.com) and is attached to Mercialys's contract with its main service providers, who are required to comply with it.

In 2017, 85% of Mercialys' employees[1] received training in ethics. After a presentation of the theory and the associated penalties, particularly on corruption and conflicts of interest, case studies were examined.

### 2.4.1.3 INSIDER TRADING POLICY

As a company listed on the Euronext Paris regulated market (ISIN: FR0010241638 – ticker symbol: MERY), Mercialys is also required to show exemplary levels of transparency and to comply with the stock market regulations in force.

The Company is particularly careful to prevent any possible stock market infringements by those who have privileged information and has therefore adopted an Insider trading policy covering all obligations in this regard.

The provisional timetable of financial communications, specifying the scheduled publication dates of periodic information – namely the annual and interim financial statements and quarterly information – is published on the Company's website.

The Chief Financial Officer emails the provisional timetable of "blackout periods" (periods during which no trading in Mercialys' financial instruments is permitted) to permanent insiders and individuals with regular access to sensitive information, prior to the publication of results and earnings.

The Chief Financial Officer also raises the issue at group presentation meetings to new recruits, regardless of their role, seniority and likelihood of exposure to privileged information.

### 2.4.1.4 WHISTLEBLOWING PROCEDURE AND COMPLIANCE OFFICER

Since January 1, 2018, Mercialys has had a compliance officer who oversees compliance and ethics. A whistleblower protection procedure has also been introduced and is offered to all employees, guaranteeing them confidentiality. Any employee may contact the compliance officer, should the need arise.

## 2.4.2 Workforce

Mercialys' workforce changed little in 2017 (-1.7% compared to 2016).

The majority of the Company's workforce (86%) have permanent contracts (CDI).

Additionally, in 2017 Mercialys welcomed 18 interns.

**Distribution of the workforce by type of employment contract**

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| Staff with permanent employment contracts (CDI) | 98 | 86% | 96 | 83% | 91 | 96% |
| Staff with temporary employment contracts (CDD) | 16 | 14% | 20 | 17% | 4 | 4% |
| **TOTAL STAFF** | **114** | **100%** | **116** | **100%** | **95** | **100%** |

### 2.4.2.1 ORGANIZATION OF WORKING HOURS

Depending on the employee's status, there are three types of system for organizing working hours:

- a fixed number of days, for managers;
- a fixed number of hours per week, for supervisors;
- hours per week, for administrative employees.

89% of Mercialys employees work full-time. Employees working part-time have requested to do so.

**Distribution of the workforce by length of work**

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| Full-time staff | 102 | 89% | 106 | 91% | 85 | 90% |
| Part-time staff | 12 | 11% | 10 | 9% | 10 | 10% |
| **TOTAL STAFF** | **114** | **100%** | **116** | **100%** | **95** | **100%** |

There is also a teleworking scheme, as described on paragraph 2.4.7, page 93.

(1) *Excluding CEO and interns.*

### 2.4.2.2 STAFF TURNOVER

In 2017, Mercialys recruited 35 new members of staff and hired 12 interns. It also employed seven temporary workers.

Particular attention was paid to the induction process for the new hires. The welcome pack and induction process were reviewed to adapt them to changes in the Company and its organization. In particular, all new recruits were offered an induction tailored to the needs and specific nature of their role.

Recruitment (Emp – Turnover)

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| New hires with permanent employment contracts (CDI) | 22 | 23 | 26 |
| New hires with temporary employment contracts (CDD) | 13 | 20 | 3 |
| **TOTAL HIRES** | **35** | **43** | **29** |

In 2017, to strengthen the attractiveness of the Mercialys employer brand, work was done to raise the Company's profile on social media (LinkedIn) and at specialist trade fairs, and to showcase the careers on offer (video testimonials posted on the Company's LinkedIn page).

Departures (Emp – Turnover)

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Economic redundancies | 0 | 0 | 0 |
| Redundancies for other reasons (voluntary severance, personal reasons) | 5 | 5 | 8 |
| Total departures | 36 | 21 | 15 |
| Permanent staff turnover | 14% | 16% | 17% |

20 departures were related to the time-bound nature of temporary contracts.

In 2017, 36 employees left the Company. The turnover for staff on permanent contracts was 14%.

## 2.4.3 Skills development

### 2.4.3.1 GENERAL TRAINING POLICY

Mercialys' training policy is structured around two areas:

- development of employees' skills and knowledge;
- support for staff during the course of their career or profession.

To express their needs and to exercise their right to training, employees are invited to put forward any training requests during their annual performance review. Training, whether certified or otherwise, can also be formulated on a case-by-case basis by managers according to the needs identified for their employees, to ensure that their knowledge is adapted to changes in their current position or a planned future role.

In 2017, 100% of employees attended one or more training courses, *versus* 64% in 2016.

For employee training, Mercialys uses a training center that offers three types of training:

- specific face-to-face training for the various business activities (real estate finance, commercial negotiation, management, etc.);
- cross-functional face-to-face training, which may be useful for all employees (communications, languages, etc.);
- training in e-learning.

Training (Emp – Training)

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Total number of training hours | 1,747 | 1,082 | 962 |
| Average number of training hours per employee | 15.3 | 9.3 | 10.1 |
| Percentage of employees trained | 101% | 64% | 62% |
| Budged allocated to training *(in thousands of euros)* | 198 | 193 | 107.2 |

*NB: training hours include employees who have left the Company.*

In addition, Mercialys employees are frequently reminded about CSR and environmental protection through presentations by the CSR team at team meetings or in Merynews articles on these topics.

### 2.4.3.2 EMPLOYEE ENGAGEMENT

The Company is committed to employee engagement, particularly through philanthropic initiatives.

Thus, Mercialys employees can show support by "donating" holidays to colleagues who have a relative (young or old) in need of constant care. In 2017, six days of leave were donated in this way by Mercialys employees as part of the "Help the Caregivers" program.

Mercialys employees are also invited to take part in the annual national Food Bank collection, by helping warehouse volunteers during the last weekend in November.

#### Solidarity

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Number of days donated to caregivers | 6 | 4 | 5 |

Mercialys measures its employees' engagement using an anonymous survey conducted every two years. For the last HR survey in 2016, the participation rate was 81%. By analyzing the results and sharing them with all employees, areas for improvement emerged which led to the joint formulation of an action plan, shared by each head of department with his or her teams. In 2017, the introduction of teleworking and the change in the appraisal process are two examples of the action plan in operation.

## 2.4.4 Compensation

### 2.4.4.1 SALARIES

To increase its appeal and retain its employees, Mercialys has an incentive-based compensation policy in place which is designed to be attractive compared to its business sector and motivational.

The compensation for Mercialys' management team is made up of a fixed salary and variable compensation. The variable component varies from 8% to 80% of overall compensation and is correlated to the achievement of three types of objective, evaluated at the start of the following year:

- quantitative objectives for Mercialys;
- individual quantitative and qualitative objectives, related to the employee's performance evaluated by his/her manager;
- Managerial Attitudes and Behavior (ACM), *i.e.* the managerial behavior and actions expected by the Company from each of its employees. The ACM was revised in 2016 to take CSR into account so that each employee can incorporate it into his/her role and day-to-day activities. These are organized around the acronym "LIDERS": Leadership, Innovation, Decision, Engagement, client Responsibility, Social & societal.

#### Changes in compensation

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Average annual increase for employees | 1% | 1% | 0.7% |

In 2017, the average percentage increase stipulated by compulsory annual negotiations was 1%.

Following the employee survey carried out in 2016, Mercialys' staff appraisal process was revised. Appraisals are now made every six months rather than annually, to give the manager and employee more opportunity to discuss achievement of the objectives and update them if necessary during the year.

### 2.4.4.2 BONUS SHARES

Mercialys introduced a bonus share plan to help retain its highest performing employees. In 2017, a comprehensive plan for all eligible employees was also implemented. Thus, 43,947 shares were awarded at no cost.

For more details, see chapter 3, paragraph 13.4, page 177.

#### Bonus shares

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Number of shares distributed | 43,947 | 42,464 | 0 |

## 2.4.5 Promoting diversity

Mercialys firmly believes that diversity is a source of healthy competition and innovation and is beneficial for all. The Company has therefore been committed for many years to combating all forms of discrimination, whether based on gender, age, disability, sexual preference, religion or physical appearance.

### 2.4.5.1 GENDER EQUALITY

Women make up 55% of the Mercialys workforce and 43% of managers.

**Employee breakdown by gender (Diversity – Emp)**

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| Female managers | 37 | 43% | 35 | 43% | 31 | 40% |
| Male managers | 49 | 57% | 46 | 57% | 46 | 60% |
| Female employees | 13 | 87% | 13 | 59% | 4 | 67% |
| Male employees | 2 | 13% | 9 | 41% | 2 | 33% |
| Female supervisors | 13 | 100% | 13 | 100% | 12 | 100% |
| Male supervisors | 0 | 0% | 0 | 0% | 0 | 0% |
| **TOTAL WOMEN** | **63** | **55%** | **61** | **53%** | **47** | **49%** |
| **TOTAL MEN** | **51** | **45%** | **55** | **47%** | **48** | **51%** |

In 2017, women represented 51% of Mercialys' supervisory staff[1].

**Equality in management (Diversity – Emp)**

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| Number of women on the Management Committee | 2 | 22% | 2 | 22% | 1 | 14% |
| Number of women on the Board of Directors | 6 | 50% | 5 | 42% | 4 | 36% |

Women make up 22% of the Management Committee and 50% of the Board of Directors of Mercialys. Women also chair the three specialized committees assisting the Board of Directors (Investment Committee, Audit, Risks and Sustainable Development Committee, and Appointments and Compensation Committee).

Mercialys is therefore particularly exemplary in terms of gender equality at all levels of management.

For the fourth consecutive year, Mercialys has been recognized as one of the SBF 120 companies with the highest percentage of women in its governing bodies.

**Equal pay (Diversity – Pay)**

| | 2017 | 2016 |
|---|---|---|
| Average salary for male executives *(in euros)* | 70,726 | 69,989 |
| Average salary for female executives *(in euros)* | 60,629 | 66,802 |
| Executive pay differential | -15% | -4% |

*NB: The average wages of employees and supervisors are not disclosed due to the low number of staff concerned.*
*In 2017, the pay gap between 2016 and 2017 is due to women leaving for more senior roles.*

Moreover, Mercialys is committed to achieving effective pay equality. In order to ensure similar changes in compensation, the average salary increase expected by the collective agreement is automatically applied to the salaries of women during their maternity leave. Finally, during maternity and paternity leave, Mercialys makes up the entire salary differential not covered by social security.

*(1) Supervisors and managers.*

### Equality in career progression

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| Number of women promoted during the year | 1 | 100% | 1 | 100% | 3 | 75% |

100% of employees promoted in 2017 were women.

### Equality in recruitment

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| Number of women recruited during the year | 21 | 66% | 24 | 75% | 13 | 45% |

### Equality in training (Diversity – Emp)

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| Number of women trained during the year | 61 | 53% | 51 | 69% | 32 | 54% |

## 2.4.5.2 INDUCTION OF DISABLED PEOPLE IN THE WORKPLACE

Mercialys' policy concerning the employment of disabled workers focuses on three areas:

- the use of suitable recruitment solutions through specialized recruitment firms;
- the development of partnerships with schools to accommodate interns or young graduates with disabilities. For example, in 2017 the Company signed a three-year partnership agreement with the Institute of Political Studies in Paris, to receive applications from students with disabilities for internships or entry-level positions;
- raising awareness among employees and managers by sending information emails, especially during Disability Employment Week.

In 2017, Mercialys did not have any disabled employees in its workforce.

In addition, Mercialys indirectly contributes to the employment of disabled people by using companies in the protected sector for services provided at its shopping centers, such as the upkeep of green spaces and cleaning.

## 2.4.5.3 KEEPING OLDER PEOPLE IN EMPLOYMENT AND THE INDUCTION OF YOUNG PEOPLE

The average age of Mercialys' employees is 37.

In 2017, 14 workers under 26 and 1 worker over 50 joined its workforce.

### Distribution of workforce by age group

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| Staff under 30 | 33 | 29% | 36 | 31% | 16 | 17% |
| Staff aged between 30 and 50 (inclusive) | 67 | 59% | 66 | 57% | 68 | 71% |
| Staff over 50 | 14 | 12% | 14 | 12% | 11 | 12% |

## 2.4.6 Dialog between management and labor

Mercialys employees benefit from a collective employee dialog agreement. This defines the role of the various parties involved, determines how information and communication technologies are used and identifies the modus operandi of constructive employee dialog.

On account of Mercialys' size, employee dialog is conducted through staff representatives. Staff representatives are invited to monthly meetings to raise questions or to receive information from Management. In 2017, 17 meetings took place with staff representatives.

Mercialys employees are covered by 10 main collective agreements (excluding amendments).

These agreements are as follows:

- the agreement on employee dialog of December 19, 2016;
- the master agreement on psychosocial risks of January 22, 2010;
- the agreement on arduous working conditions of July 4, 2012;
- the agreement relating to the Company Savings Plan (PEE) of July 31, 2008;
- the agreement relating to the Collective Retirement Savings Plan (PERCO) of September 25, 2009;
- the agreement on the Time Savings Plan (CET) of May 20, 2008;
- the Group agreement on Equal Opportunities, Diversity and Discrimination Prevention of October 14, 2005;
- the agreement on equality between men and women in the workplace of November 21, 2011;
- the agreement on solidarity day arrangements of April 29, 2005;
- the agreement of December 7, 2012 on leave for family caregivers.

In addition, in November 2017, a new agreement on professional equality was signed.

The collective agreements are available to all workers on the intranet.

### Collective bargaining

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Number of employees covered by a collective agreement | 114 | 100% | 116 | 100% |

Furthermore, several communication tools are in place to ensure regular dialog between employees and the Management team:

- the bi-monthly internal information newsletter, "Merynews", which showcases achievements so that they can be shared with all employees;
- "Dialogue", a consultation platform, enables employees to address their questions to Senior Management;
- quarterly breakfast meetings are held between the Chairman and a limited number of employees. In 2017, 20 workers took part in these events.

In 2017, Mery & Co, a bi-annual newsletter that focuses on different Company's departments, introduced employees to the property management business.

Two annual events also provide Management with an opportunity to share information with all staff on shared success stories and forthcoming projects: the Mercialys plenary meeting and Financial Information Meetings, to which all employees are invited and where the Company's annual results and strategy are presented.

## 2.4.7 Ensuring health and safety in the workplace

Mercialys' activities do not present a major risk to the health and safety of workers. Mercialys' key actions on health and safety in the workplace therefore focus on the prevention of psychosocial risks.

Various arrangements have been introduced to prevent such risks: training, crisis lines, collective agreements, etc.

### Accidents at work (H&S – Emp)

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Fatal accidents | 0 | 0 | 0 |
| Number of occupational diseases | 0 | 0 | 0 |
| Number of work-related accidents resulting in lost time of at least one day | 0 | 0 | 0 |
| Frequency rate of work-related accidents resulting in lost time of at least one day | 0% | 0% | 0% |
| Severity rate of work-related accidents resulting in lost time of at least one day | 0% | 0% | 0% |

### Absenteeism (H&S – Emp)

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Absenteeism rate | 3.4% | 3.4% | 3.9% |

Due to regular travel by some teams, particular attention is paid to road safety. A comprehensive campaign, including an information booklet or "on the road memo", an e-learning module on preventing risks on the road, a guide to "10 eco-driving tips" and specific training sessions, have been introduced to raise employee awareness about the dangers of driving and to remind them how to drive safely.

The action plan developed following the employee engagement survey conducted in 2016 provided clarification of Company policy on the prevention of psychosocial risks.

In 2017, a questionnaire was sent to all employees to assess three aspects of this subject: the intensity and complexity of the work, the pace of work, and managing emotions. The participation rate was 72.5%.

The objective was to analyze the results of the questionnaire before working together on the best prevention policy. This is organized around three areas, by introducing:

- actions to eliminate risk;
- actions to mitigate risk;
- remedial actions following manifestation of the risk.

Moreover, in 2017 each manager presented to all his or her staff a charter on the right to disconnect. This defines the right to disconnect and sets out best practice for avoiding stress caused by excessive use of digital devices at work.

The action plan, developed jointly following the 2016 employee survey, also includes a teleworking pilot scheme. After two months of conclusive tests with a panel of eight employees, the scheme was made permanent in 2017. It involved 22 employees at December 31, 2017. Staff must have worked for the company for at least a year before they are eligible for the scheme.

### Teleworking

| | 2017 |
|---|---|
| Number of teleworkers | 22 |
| Number of people eligible for teleworking | 58 |
| Teleworking participation rate | 38% |

# 2.5 METHODOLOGY AND DATA VERIFICATION

## 2.5.1 Methodology

The indicators provided below in the CSR part of the Mercialys Registration Document have been selected to meet external requirements concerning non-financial information, both regulatory (Article 225 of the Grenelle 2 Act, Article 173 of the Law on energy transition for green growth, and the Law on the prevention of food waste) and sector-related (GRESB, EPRA, etc.) information.

Mercialys' non-financial reporting complies with the sectoral guide on CSR reporting drawn up by the French Council of Shopping Centers (CNCC) and with EPRA Sustainability Best Practice Recommendations.

### 2.5.1.1 SCOPE

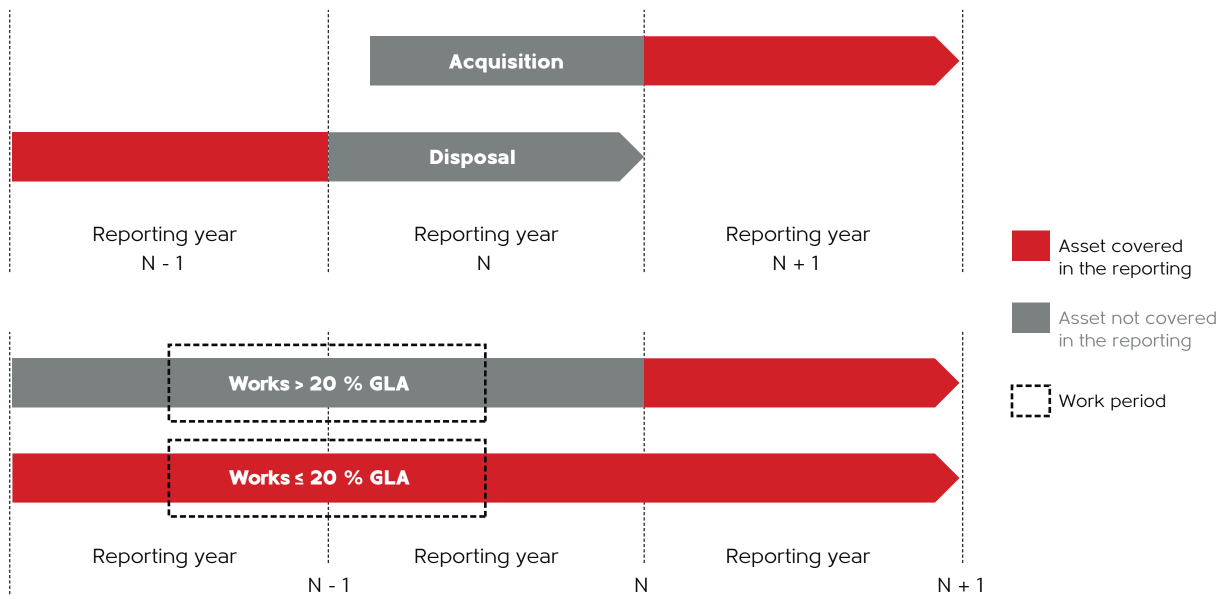
#### A. CSR scope

The CSR scope includes assets in the portfolio at December 31, excluding "Monoprix" assets and individual lots. The CSR scope therefore solely consists of shopping centers.

#### B. Current scope

The current scope comprises assets within the CSR scope, excluding acquisitions during the year.

In accordance with the recommendations of the CNCC's CSR reporting guide, assets acquired or sold during the reporting period have been excluded from the reporting scope. Assets undergoing works representing GLA surface creation of more than 20% are likewise excluded from the scope (see diagram below).




#### C. Like-for-like

The like-for-like reporting scope comprises assets within the current scope, excluding assets that have undergone works during the year.

#### D. Reporting period

The environmental indicators (energy consumption, water consumption, greenhouse gas emissions, waste quantities, etc.) are reported over a rolling 12-month period, from October 1, 2016 to September 30, 2017. The data given as "2016" thus correspond to environmental indicators calculated from October 1, 2015 through September 30, 2016. Likewise, the 2015 data are those consolidated from October 1, 2014 through September 30, 2015.

Social and societal indicators are always reported on a calendar basis, from January 1 to December 31, 2017.

### 2.5.1.2 COVERAGE RATE

For each indicator, the coverage rate is given in terms of fair value.

The fair value of each asset is based on appraisals conducted on behalf of Mercialys. Corsican assets are consolidated at 60%, in line with the financial report.

For constant scope coverage rates, the market values at December 31, 2015, the baseline year for the CSR strategy, are used.

### 2.5.1.3 EXCLUSIONS

Certain information required by Article 255 of the French Grenelle Law 2, by the French Law on energy transition for green growth, and by the French Law on the fight against food waste is not reported because of the nature of Mercialys' activities and its structure. The reasons behind these exclusions are explained below.

#### A. Employee breakdown by geographic area

Mercialys operates solely in France. Its employees are split between offices in Paris and offices in the regions. It does not therefore seem particularly relevant to go into such a level of detail.

#### B. Promoting and respecting the stipulations of the International Labour Organization's fundamental conventions relating to freedom of association, the elimination of discrimination in employment and occupation, the elimination of forced or compulsory labor and the effective abolition of child labor.

Mercialys operates solely in France.

France has ratified the eight fundamental conventions of the International Labour Organization (ILO), namely:

1. Convention 29 on forced labor;
2. Convention 87 on freedom of association and protection of the right to organize;
3. Convention 98 on the right to organize and collective bargaining;
4. Convention 100 on equal remuneration;
5. Convention 105 on the abolition of forced labor;
6. Convention 111 concerning discrimination;
7. Convention 138 on the minimum age for admission to employment;
8. Convention 182 on the worst forms of child labor.

France has transposed the fundamental principles of these conventions into its national law.

More particularly:

- freedom of association was included in the French Law of July 1, 1901;
- the right to collective bargaining was included in the French Labor Code by the Law of July 12, 1971.

Mercialys therefore respects these principles in the same way as it respects other regulatory requirements.

#### C. Other actions undertaken to support human rights

Mercialys operates solely in France. France adopted the Universal Declaration of Human Rights in 1948 and ratified the European Convention on Human Rights in 1974.

#### D. Water supply on the basis of local requirements

All Mercialys' properties are located in France. Its shopping centers are therefore not located in areas of water stress (according to the UN definition, regions for which availability of water per year and per person is less than 1,700 $m^3$).

#### E. Consumption of raw materials and the measures taken to improve the efficiency of their use

Given the nature of its business activities, Mercialys does not buy raw materials directly.

#### F. Use of soil

Mercialys did not cause any material artificialization of land in 2017.

#### G. The amount of provisions and guarantees for environmental risks

The major environmental risks identified are correlated with an operating activity.

As of December 31, 2017, Mercialys had not set aside any provisions for environmental risk.

#### H. Measures to fight food waste

In 2017, Mercialys did not carry out any particular action in the fight against food waste. Nevertheless, the Company relays the initiatives of its tenants or its large food stores adjoining its malls.

### 2.5.1.4 DEFINITIONS

#### A. Social indicators

Social indicators are reported for 100% of the Company's workforce.

##### 1. Headcount

The headcount is computed at December 31 of year N, including staff on both open-ended and fixed-term contracts.

##### 2. Hiring

Hiring is accounted for in the number of new contracts signed.

### 3. Absenteeism rate

The absenteeism rate is calculated using the total number of hours of absence but excluding the hours taken for maternity or paternity leave. The absenteeism rate is calculated on the basis of hours worked, composed of theoretical working hours and break times.

## B. Environmental indicators

### 1. Energy consumption

This relates to electricity, gas and heating consumption paid for and managed by Mercialys' real estate manager, Sudeco, or Corin Asset Management for properties in Corsica.

This indicator therefore includes energy consumption for the common parts of shopping centers (mall and parking lots) and potentially any consumption by stores and the hypermarket if these are connected to communal facilities. Consumption is reported on the basis of actual billed consumption.

### 2. Renewable energy

A power plant installed on the roof of a shopping center or the shading over a car park is considered to be a photovoltaic power plant.

When a shopping center is equipped with installations on the roof and shading over car parks, two such power plants are recognized. Furthermore, the assets held by a Company in which Mercialys is a minority shareholder are taken into account in this indicator.

Moreover, the share of renewable consumption published on paragraph 2.3.2.4, page 79, is calculated on the basis of the ratios provided by the various energy suppliers.

### 3. Intensity of use

The footfall used to calculate the intensity of use (kWh/visitor, $m^3$/visitor, etc.) is obtained from counting systems fitted at some centers. They are calculated over the same period as the environmental indicators (*i.e.*, from October 1 of year N-1 to September 30 of year N).

### 4. Greenhouse gas emissions relating to energy consumption

#### Location-based emissions

Location-based emission factors used to obtain greenhouse gas emissions from energy consumption are taken from the French Base Carbone 2017 national database.

These are set out in the table below.

| Emission factor *(in kg $CO_2$eq/kWh)* | Electricity | Gas |
|---|---|---|
| **Metropolitan France** | 0.0463 for 2016 and 2017<br>0.0512 for 2015 | 0.184 |
| **Corsica** | 0.53 | |
| **Reunion Island** | 0.701 | |

| Emission factor *(in kg $CO_2$eq/kWh)* | Urban heat |
|---|---|
| **Paris** | 0.195 |
| **Valence** | 0.295 |
| **Grenoble** | 0.146 |

#### Market-based emissions

Market-based emission factors are derived directly from the different energy suppliers. If the emission factor is not available for year N at the time of publication of the Registration Document, the emission factor for N-1 is used. In addition, for properties for which information is not provided by the energy supplier, the residual factor calculated by the AIB (Association of Issuing Bodies) is used. For Corsican and Reunionese assets, the location-based emission factor of the Base Carbone database is used.

### 5. Greenhouse gas emissions relating to refrigerant leaks

Greenhouse gas emissions generated by refrigerant leaks from air conditioning systems are calculated as follows:

- greenhouse gas emissions generated by liquid = quantity of liquid x GWP of the liquid
- with greenhouse gas emissions in kilograms of $CO_2$ and the quantity of liquid in kilograms

Refrigerant leaks are data stated by the service provider responsible for maintaining air conditioning systems.

The Global Warming Potential (GWP) of the various refrigerant gases used in systems is taken from IPCC reports. These are set out in the table below.

| Refrigerant fluid | 100-year GWP |
|---|---|
| R22 | 2,110 |
| R134A | 1,550 |
| R407C | 1,920 |
| R410A | 2,250 |
| R717 | 1 |
| RS45 | 3,245 |
| RS70 | 1,765 |
| R404A | 4,550 |

### 6. Scope 3 greenhouse gas emissions

Scope 3 greenhouse gas emissions are calculated on the basis of estimates. For tenants, energy consumption was extrapolated on the basis of a sq.m ratio provided by the Sustainable Real Estate Observatory. Emissions associated with sales of retailer products were estimated on the basis of monetary ratios per sq.m, per business sector. Finally, emissions related to travel were calculated on the basis of surveys, actual data or INSE studies.

#### 7. Waste

This relates to waste:

- produced by retailers;
- left by visitors in shopping center waste containers.

Waste quantities are given by the service provider that collects and handles the treatment of waste on a web platform.

In case of removal by the local council, an estimation methodology was developed on the basis of the center's revenues.

#### 8. Water consumption

This concerns drinking water consumption in communal areas, expressed in liters. This consumption is associated with the shopping center's sanitation facilities, cleaning and watering of green spaces. It does not include water consumption relating to fire safety, such as sprinklers and storage tanks. These consumption figures are taken from meter readings.

#### 9. Head office data

The environmental indicators related to offices occupied by Mercialys are limited to the surface area occupied in the building (percentage shares).

#### 10. Green leases

The coverage rate of environmental lease schedules is calculated as a percentage of leases signed during the year with an environmental schedule. Exempt leases and lease amendments are excluded.

### C. Societal indicators

Jobs at Mercialys shopping centers include:

- store positions in shopping centers. These jobs were identified specifically from a sample of Mercialys' centers. Based on the corresponding areas, employment ratios per sq.m, specific to each business sector, were calculated. These area-based ratios are used to extrapolate store positions at all shopping centers in Mercialys' portfolio;
- indirect jobs with service providers operating at Mercialys' centers. The following activities were taken into account: maintenance, cleaning, insurance and security.

## 2.5.2 EPRA indicators

In accordance with EPRA (sBPR) reporting best practices, Mercialys reports its energy consumption, greenhouse gas emissions, waste generation and water consumption of its centers and its head office.

### 2.5.2.1 METHODOLOGY AND CHANGES

EPRA performance indicators are shown within the scope of the common and private areas served by common facilities, in keeping with Mercialys' scope of operational responsibility.

Surface area intensity figures are calculated using the surface area of the common and private areas served, in order to match the scope served and the surface areas taken into account.

EPRA performance indicators are calculated on the basis of actual data, taken from invoices. They are not estimated.

Purely private consumption paid directly by lessees is reported separately in paragraph 2.3.2.3, page 79.

For each EPRA performance indicator, the coverage rate is entered as a percentage of the total value of the CSR scope.

EPRA performance indicators are shown according to only one asset type, since the reporting scope contains only shopping centers over the reporting period.

Published data is subject to verification by an independent third party with a moderate level of assurance. The opinion of the auditors is given in paragraph 2.5.3, page 100.

EPRA performance indicators for offices are reported separately from those of the portfolio as the asset type is different, and they are not owned by Mercialys.

## 2.5.2.2 EPRA INDICATORS FOR THE HEAD OFFICE

| Indicator | EPRA code | Unit | 2015 | 2016 | 2017 | Change 2016/2017 |
|---|---|---|---|---|---|---|
| Total electricity consumption | Elec-Abs | MWh | 181 | 225 | 216 | |
| Total like-for-like electricity consumption | Elec-LFL | MWh | 181 | 225 | 216 | -4% |
| Total energy consumption from district heating or cooling networks | DH&C-Abs | MWh | 137 | 156 | 156 | |
| Total energy consumption from district heating or cooling networks, like-for-like basis | DH&C-LFL | MWh | 137 | 156 | 156 | 0% |
| Total fuel consumption | Fuels-Abs | MWh | 4.0 | 4.0 | 4.2 | |
| Total fuel consumption, like-for-like basis | Fuels-LFL | MWh | 4.0 | 4.0 | 4.2 | 4% |
| Energy intensity of the building | Energy-Int | kWh/sq.m | Not applicable | Not applicable | Not applicable | |
| Total direct GHG emissions | GHG-Dir-Abs | $tCO_2$ | 1.104 | 0.736 | 0.829 | |
| Total indirect GHG emissions | GHG-Indir-Abs | $tCO_2$ | 37.6 | 43.9 | 43.3 | |
| Carbon intensity of the building | GHG-Int | $tCO_2$/sq.m | Not applicable | Not applicable | Not applicable | |
| Total water consumption | Water-Abs | $m^3$ | 478 | 608 | 514 | |
| Total water consumption, like-for-like basis | Water-LFL | $m^3$ | 478 | 608 | 514 | -15% |
| Water intensity of the building | Water-Int | $m^3$/visit | Not applicable | Not applicable | Not applicable | |
| Total waste production by type of treatment | Waste-Abs | tons | 4.7 | 5.7 | 6.2 | |
| | | % recycled | 35% | 34% | 34% | |
| | | % sent to landfill | 65% | 66% | 66% | |
| Total waste production by type of treatment, like-for-like basis | Waste-LFL | tons | 4.7 | 5.7 | 6.2 | 10% |
| | | % recycled | 35% | 34% | 34% | 0% |
| | | % sent to landfill | 65% | 66% | 66% | 0% |
| Type and number of assets certified | Cert-Tot | % of portfolio certified | 0 | 0 | 0 | |

## 2.5.3 Statutory Auditor's opinion

### INDEPENDENT VERIFIER'S REPORT ON CONSOLIDATED SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION PRESENTED IN THE MANAGEMENT REPORT

To the Shareholders,

In our quality as an independent verifier accredited by the COFRAC[1], under the number n° 3-1050, and as a member of the network of one of the Statutory Auditors of the company Mercialys, we present our report on the consolidated social, environmental and societal information established for the year ended on the December 31, 2017, presented in the "Sustainable Development" section of the management report, hereafter referred to as the "CSR Information," pursuant to the provisions of the Article L. 225-102-1 of the French Commercial Code (*Code de commerce*).

#### Responsibility of the Company

It is the responsibility of the Management Board to establish a management report including CSR Information referred to in the Article R. 225-105 of the French Commercial Code (*Code de commerce*), in accordance with the protocols used by the Company (hereafter referred to as the "Criteria"), of which a summary is included in the management report and available on request at the Company's headquarters.

#### Independence and quality control

Our independence is defined by regulatory requirements, the Code of Ethics of our profession as well as the provisions in the Article L. 822-11 of the French Commercial Code (*Code de commerce*). In addition, we have implemented a quality control system, including documented policies and procedures to ensure compliance with ethical standards, professional standards and applicable laws and regulations.

#### Responsibility of the independent verifier

It is our role, based on our work:

- to attest whether the required CSR Information is present in the management report or, in the case of its omission, that an appropriate explanation has been provided, in accordance with the third paragraph of R. 225-105 of the French Commercial Code (*Code de commerce*) (Attestation of presence of CSR Information);
- to express a limited assurance conclusion, that the CSR Information, overall, is fairly presented, in all material aspects, in according with the Criteria (Reasoned opinion regarding the fairness of the extra-financial information stated).

Nonetheless, it is not our role to give an opinion on the compliance with other legal dispositions where applicable, in particular those provided for in the Sapin II law n°2016-1691 of December 9, 2016 (anti-corruption).

Our verification work was undertaken by a team of four people between October 2017 and February 2018 for an estimated duration of eight weeks.

We conducted the work described below in accordance with the professional standards applicables in France and the Order of May 13, 2013 determining the conditions under which an independent third-party verifier conducts its mission, and in relation to the opinion of fairness, in accordance with the international standard ISAE 3000[2].

### 1. ATTESTATION OF PRESENCE OF CSR INFORMATION

#### Nature and scope of the work

We obtained an understanding of the Company's CSR issues, based on interviews with the management of relevant departments, a presentation of the Company's strategy on sustainable development based on the social and environmental consequences linked to the activities of the Company and its societal commitments, as well as, where appropriate, resulting actions or programmes.

We compared the information presented in the management report with the list provided in the Article R. 225-105-1 of the French Commercial Code (*Code de commerce*).

In the absence of certain consolidated information, we verified that the explanations were provided in accordance with the provisions in Article R. 225-105-1, paragraph 3, of the French Commercial Code (*Code de commerce*).

We verified that the information covers the consolidated perimeter, namely the entity and its subsidiaries, as aligned with the meaning of the Article L. 233-1 and the entities which it controls, as aligned with the meaning of the Article L. 233-3 of the French Commercial Code (*Code de commerce*).

#### Conclusion

Based on this work, we confirm the presence in the management report of the required CSR information.

*(1) Scope available at www.cofrac.fr*

*(2) ISAE 3000 – Assurance engagements other than audits or reviews of historical information.*

## 2. LIMITED ASSURANCE ON CSR INFORMATION

### Nature and scope of the work

We undertook two interviews with people responsible for the preparation of the CSR Information in charge of the data collection process and, if applicable, the people responsible for internal control processes and risk management, in order to:

- assess the suitability of the Criteria for reporting, in relation to their relevance, completeness, reliability, neutrality, and legibility, taking into consideration industry standards, in particular the sectoral recommendations of the European Public Real Estate Association (EPRA) as well as the environmental and societal Protocol of the National Council of Shopping Centers (CNCC) of July 2013;
- verify the implementation of the process for the collection, compilation, processing and control for completeness and consistency of the CSR Information and identify the procedures for internal control and risk management related to the preparation of the CSR Information.

We determined the nature and extent of our tests and inspections based on the nature and importance of the CSR Information, in relation to the characteristics of the Company, its social and environmental issues, its strategy in relation to sustainable development and industry best practices.

For the CSR Information which we considered the most important[(1)]:

- at the level of the consolidated entity and of the controlled entities, we consulted documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions, etc.), we implemented analytical procedures on the quantitative information and verified, on a test basis, the calculations and the compilation of the information, and also verified their coherence and consistency with the other information presented in the management report;
- at the level of the representative selection of sites that we selected[(2)], based on their activity, their contribution to the consolidated indicators, their location and a risk analysis, we undertook interviews to verify the correct application of the procedures and undertook detailed tests on the basis of samples, consisting in verifying the calculations made and linking them with supporting documentation. The sample selected therefore represented on average 7% of the gross market value of the Group's assets and 5% of the energy consumption of the 2017 reporting scope.

For the other consolidated CSR information, we assessed their consistency in relation to our knowledge of the Company.

Finally, we assessed the relevance of the explanations provided, if appropriate, in the partial or total absence of certain information taking into account, if relevant, professional best practices formalised in the CSR reporting sectorial Guide of the National Council of Shopping Centre. According to this Guide, the environmental impacts (energy, water and waste) of shopping centres are monitored for the volumes that are managed and procured (*i.e.* volumes used for common areas and private areas connected to the common network), except those procured directly by tenants.

We consider that the sample methods and sizes of the samples that we considered by exercising our professional judgment allow us to express a limited assurance conclusion; an assurance of a higher level would have required more extensive verification work. Due to the necessary use of sampling techniques and other limitations inherent in the functioning of any information and internal control system, the risk of non-detection of a significant anomaly in the CSR Information cannot be entirely eliminated.

### Conclusion

Based on our work, we have not identified any significant misstatement that causes us to believe that the CSR Information, taken together, has not been fairly presented, in compliance with the Criteria.

Paris-La Défense, February 15, 2018

*French original signed by:*

Independent Verifier

ERNST & YOUNG et Associés

Eric Duvaud Associé
développement durable

Bruno Perrin
Associé

(1) **Social information**
**KPIs:** *Total headcount, hiring and terminations, rate of turnover, absenteeism, share of women in management, work accident frequency rate, and average number of hours of training by trained collaborator;*
**Qualitative information:** *Employment (total headcount and distribution, remunerations and their evolution), health and safety at the work place, work accidents as well as occupational diseases, training policies, diversity and equality of opportunities and treatment (measures undertaken for gender equality, inclusion of disabled people, anti-discrimination policies and actions).*
**Environmental and societal information**
**KPIs:** *Energy consumption as well as climate-corrected energy consumption per $m^2$ and per visitor of commercial assets, the share of renewable energies, GHG emissions of the Group (scope 1 and 2 as well as evaluation of scope 3), the share of sorted managed waste and the rate of recovery of waste managed on commercial assets, consumption of water, proportion of green leases signed;*
**Qualitative information:** *Company's organization to take into account environmental matters and environmental assessment approaches or certification BREEAM, measures to improve energy efficiency and the use of renewable energies, territorial impact (direct, indirect and induced jobs), the importance of outsourcing and the consideration of social and environmental issues in the purchasing policy and in relations with suppliers and subcontractors, the satisfaction of visitors and lessees.*

(2) *The shopping centers of La Galerie Géant La Valentine in Marseille and La Galerie Géant Annemasse in Annemasse.*

**€3,736.7 M**
Portfolio value including transfer taxes

**€20.86**
NAV per share

**€1.24**
FFO per share


La Galerie Géant Quimper

# 3

# CONSOLIDATED AND CORPORATE FINANCIAL STATEMENTS

# 3.1 CONSOLIDATED FINANCIAL STATEMENTS

## 3.1.1 Financial statements

### 3.1.1.1 CONSOLIDATED INCOME STATEMENT

| *(In thousands of euros)* | Notes | 12/2017 | 12/2016 |
|---|---|---|---|
| **Rental revenues** | | **185,318** | **189,795** |
| Non-recovered property taxes | | (1,248) | (1,159) |
| Non-recovered service charges | | (4,656) | (3,165) |
| Property operating expenses | | (7,227) | (7,407) |
| **Net rental income** | **6.1** | **172,188** | **178,065** |
| Management, administrative and other activities income | 6.2 | 4,066 | 3,359 |
| Other income | 6.3 | 277 | 400 |
| Other expenses | 6.4 | (9,065) | (8,813) |
| Personnel expenses | 6.5 | (12,398) | (12,520) |
| Depreciation allowance | 6.6 | (34,822) | (30,536) |
| Reversals/(Allowances) for provisions | | (1,528) | (1,116) |
| Other operating income | 6.7 | 178,364 | 104,568 |
| Other operating expenses | 6.7 | (172,005) | (81,360) |
| **Operating income** | | **125,077** | **152,046** |
| Income from cash and cash equivalents | | 156 | 140 |
| Gross finance costs | | (30,219) | (30,541) |
| **(Net finance costs) / income from net cash** | **14.1.1** | **(30,063)** | **(30,401)** |
| Other financial income | 14.1.2 | 254 | 1,159 |
| Other financial charges | 14.1.2 | (2,173) | (2,029) |
| **(Net financial expense) / income** | | **(31,982)** | **(31,271)** |
| Tax | 7 | (645) | (2,736) |
| Share of net income from associates and joint ventures | 3.5 | 2,540 | 709 |
| **CONSOLIDATED NET INCOME** | | **94,991** | **118,748** |
| attributable to non-controlling interests | | 8,324 | 8,699 |
| attributable to owners of the parent | | 86,666 | 110,049 |
| **Earnings per share** | **21.3** | | |
| Net income, attributable to owners of the parent *(in euro)* | | 0.94 | 1.20 |
| Diluted net income, attributable to owners of the parent *(in euro)* | | 0.94 | 1.20 |

### 3.1.1.2 STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

| *(In thousands of euros)* | Notes | 12/2017 | 12/2016 |
|---|---|---|---|
| Consolidated net income | | 94,991 | 118,748 |
| **Items that may be recycled as income** | | **246** | **57** |
| Change in fair value of available-for-sale financial assets | | 375 | 87 |
| Tax | | (129) | (30) |
| **Items that may not be recycled as income** | | **(148)** | **(56)** |
| Actuarial gains or losses | | (226) | (85) |
| Tax | | 78 | 29 |
| **Other comprehensive income for the period, net of tax** | | **98** | **1** |
| **CONSOLIDATED COMPREHENSIVE INCOME** | | **95,088** | **118,749** |
| attributable to non-controlling interests | | 8,324 | 8,699 |
| **attributable to owners of the parent** | | **86,764** | **110,050** |

## 3.1.1.3 CONSOLIDATED BALANCE SHEET

### Assets

| *(In thousands of euros)* | Notes | 12/2017 | 12/2016 |
|---|---|---|---|
| Intangible assets | 8.1 | 2,486 | 2,016 |
| Property, plant and equipment other than investment property | 8.1 | 10 | 12 |
| Investment property | 8.1 | 2,305,414 | 2,325,268 |
| Investments in associates | 3.5 | 38,445 | 39,039 |
| Other non-current assets | 10 | 37,529 | 54,672 |
| Deferred tax assets | 7 | 319 | 422 |
| **Non-current assets** | | **2,384,203** | **2,421,429** |
| Trade receivables | 12 | 15,839 | 29,793 |
| Other current assets | 13 | 59,713 | 56,931 |
| Cash and cash equivalents | 14 | 196,913 | 15,578 |
| Investment property held for sale | 8.2 | 113 | 60,949 |
| **Current assets** | | **272,578** | **163,251** |
| **TOTAL ASSETS** | | **2,656,781** | **2,584,680** |

### Equity and liabilities

| *(In thousands of euros)* | Notes | 12/2017 | 12/2016 |
|---|---|---|---|
| Share capital | | 92,049 | 92,049 |
| Additional paid-in capital, treasury shares and other reserves | | 626,468 | 636,569 |
| Equity, Group share | | 718,517 | 728,618 |
| Non-controlling interests | 21.5 | 202,023 | 205,597 |
| **Equity** | **21** | **920,540** | **934,215** |
| Non-current provisions | 23 | 857 | 551 |
| Non-current financial liabilities | 14 | 1,377,454 | 1,239,610 |
| Deposits & guarantees | | 22,694 | 22,646 |
| Deferred tax liabilities | 7.2 | 578 | 578 |
| **Non-current liabilities** | | **1,401,583** | **1,263,385** |
| Trade payables | 15 | 12,516 | 19,561 |
| Current financial liabilities | 14 | 281,396 | 312,849 |
| Current provisions | 23 | 6,265 | 5,048 |
| Other current debts | 16 | 34,432 | 49,338 |
| Current tax liabilities | 16 | 49 | 284 |
| **Current liabilities** | | **334,658** | **387,080** |
| **TOTAL EQUITY AND LIABILITIES** | | **2,656,781** | **2,584,680** |

### 3.1.1.4 CONSOLIDATED CASH-FLOW STATEMENT

| *(In thousands of euros)* | Notes | 12/2017 | 12/2016 |
|---|---|---|---|
| Net income, attributable to owners of the parent | | 86,666 | 110,049 |
| Non-controlling interests | | 8,324 | 8,699 |
| **Consolidated net income** | | **94,991** | **118,748** |
| Depreciation, amortization and provisions, net of reversals | 6.6 | 43,590 | 37,074 |
| Expenses/(income) relating to stock options and similar | | 421 | 147 |
| Other calculated expenses/(income)(1) | | (1,775) | (2,984) |
| Share of net income of associates | 3.5 | (2,540) | (709) |
| Dividends received from associates | 3.5 | 2,625 | 881 |
| Income from asset disposals | | (14,965) | (29,075) |
| **Cash flow** | | **122,346** | **124,082** |
| Expense/(Income) from net financial debt | | 30,063 | 30,401 |
| Tax charge (including deferred tax) | | 645 | 2,736 |
| **Cash flow before net finance costs and tax** | | **153,055** | **157,219** |
| Taxes received/(paid) | | (2,547) | (3,446) |
| Change in working capital requirement relating to operations, excluding deposits and guarantees(2) | | 13,491 | (2,980) |
| Change in deposits and guarantees | | 48 | (294) |
| **Net cash flow from operating activities** | | **164,046** | **150,499** |
| Cash payments on acquisitions of: | | | |
| ■ investment property and other fixed assets | 4.2 / 8.1.2.3 | (102,808) | (175,655) |
| ■ non-current financial assets | | - | - |
| Cash receipts on disposals of: | | | |
| ■ investment property and other fixed assets(3) | 4.3 | 164,173 | 151,533 |
| ■ non-current financial assets | | - | 120 |
| Impact of changes in the scope of consolidation with change of ownership(4) | | (26,956) | (80,170) |
| Impact of changes in scope of consolidation related to associates(5) | | - | (37,363) |
| Change in loans and advances granted(6) | | (23) | (3,100) |
| **Net cash flow from investing activities** | | **34,386** | **(144,636)** |
| Dividends paid to shareholders of the parent company | 22 | (57,829) | (52,328) |
| Interim dividend | 22 | (37,637) | (39,432) |
| Dividends paid to non-controlling interests | | (11,468) | (9,259) |
| Other transactions with shareholders(7) | | (1,260) | - |
| Changes in treasury shares | | (1,100) | 466 |
| Increase in borrowings and financial liabilities(8) | | 1,281,260 | 1,001,500 |
| Decrease in borrowings and financial liabilities(8) | | (1,164,500) | (877,500) |
| Net interest received | 4.4 | 29,997 | 23,807 |
| Net interest paid | 4.4 | (54,724) | (50,827) |
| **Net cash flow from financing activities** | | **(17,260)** | **(3,574)** |
| **CHANGE IN CASH POSITION** | | **181,171** | **2,291** |
| Net cash at beginning of year | 14 | 15,298 | 13,007 |
| Net cash at end of year | 14 | 196,469 | 15,298 |
| Of which: | | | |
| Cash and cash equivalents | | 196,913 | 15,578 |
| Bank overdrafts | | (444) | (280) |
| *(1) Other calculated expenses and income primarily comprise:* | | | |
| *– discounting adjustments to construction leases (see note 10, p. 134)* | | *(546)* | *(483)* |
| *– lease rights received and spread out over the term of the lease* | | *(1,720)* | *(2,049)* |
| *– financial expenses spread out* | | *399* | *373* |
| *– interest on non-cash loans* | | *-* | *(894)* |
| *(2) The change in working capital requirement breaks down as follows:* | | | |
| *– trade receivables* | | *13,935* | *(4,317)* |
| *– trade payables* | | *(7,046)* | *(2,377)* |
| *– other receivables and payables* | | *6,602* | *3,650* |
| *– property development work in progress* | | *-* | *64* |
| | | ***13,491*** | ***(2,980)*** |

*(3) In 2017, cash inflows related to disposals were mainly composed of five service malls sold to the Casino Group for Euro 36.0 million, the transformed Toulouse Fenouillet hypermarket sold to the Casino Group for Euro 30.6 million, the Poitiers Beaulieu site for Euro 69.7 million, the Fontaine-lès-Dijon site for Euro 24.9 million, and the Rennes Saint Grégoire site for Euro 2.3 million. These amounts are net of expenses.*
*In 2016, cash inflows related to disposals were mainly composed of hypermarket premises in Rennes and Anglet for Euro 57.0 million, net of expenses, and the Niort and Albertville shopping centers for Euro 87.9 million.*

*(4) In December 2017, La Diane bought shares in the company Sacré Cœur from the Casino Group, comprising the Le Port project in Reunion island for Euro 15.7 million and the shareholder current account for Euro 11.2 million.*
*In 2016, Mercialys exercised the call option it held on the planned extension of the Toulouse Fenouillet shopping center, resulting in full consolidation of the companies Fenouillet Immobilier and Fenouillet Participation. The impact of changes in scope of consolidation with a change of control for Euro -80.2 million were composed of cash acquired from the Fenouillet Immobilier and Fenouillet Participation companies for Euro -44.4 million, the repayment of Fenouillet Participation current account to the partner for Euro -25.5 million, and the purchase price for shares in Fenouillet Participation of Euro -11 million.*
*The total disbursement of Euro -97.9 million whose flows were presented in other items in the statement of cash flows specifically comprised Euro -23.8 million for the acquisition of investment properties and Euro 9.7 million for working capital requirements.*

*(5) On June 28, 2016, in connection with the transfer of property assets to SCI Rennes Anglet, Mercialys participated in the capital contribution for this SCI real estate investment company for Euro 7.7 million (representing a 30% interest), for the section of the transfers based exclusively on an exchange for shares.*

*(6) In the first half of 2016, Mercialys participated in a capital increase arranged by SCI AMR for Euro 3.8 million.*

*(7) In December 2017, Mercialys bought out the minority shareholder of SCI Kerbernard for Euro 1.3 million.*
*In December 2016, Mercialys participated in a further capital increase arranged by SCI AMR for Euro 25.9 million. This capital increase, which was unevenly subscribed, led to Mercialys' interest in SCI AMR being reduced to 39.9%.*
*Mercialys had granted a loan to SCI Rennes-Anglet totaling Euro 3,064,000 at the end of December 2016.*

*(8) Changes in borrowings and financial liabilities correspond to changes in commercial paper and to a new bond issuance for Euro 148,260,000 net of costs. (see note 14.2.6, p. 140).*
*In 2016, increases and reductions in borrowings and financial liabilities corresponded only to the changes in commercial paper.*

## 3.1.1.5 CHANGE IN CONSOLIDATED EQUITY

| *(In thousands of euros)* | Share capital | Reserves related to share capital[(1)] | Treasury shares | Consolidated reserves and retained earnings | Actuarial gains or losses | Financial assets available for sale | Equity, Group share[(2)] | Non-controlling interests | Total shareholder's equity |
|---|---|---|---|---|---|---|---|---|---|
| **As at January 1, 2016** | **92,049** | **482,834** | **(3,311)** | **137,317** | **(93)** | **1,226** | **710,024** | **206,159** | **916,183** |
| Other comprehensive income for the period | - | - | - | - | (56) | 57 | 1 | - | 1 |
| Net income for the period | - | - | - | 110,049 | - | - | 110,049 | 8,699 | 118,748 |
| **Consolidated comprehensive income for the period** | **-** | **-** | **-** | **110,049** | **(56)** | **57** | **110,050** | **8,699** | **118,749** |
| Transactions in treasury shares (see note 21, p. 146) | - | - | 1,155 | (452) | - | - | 703 | - | 703 |
| Final dividends paid for 2015 | - | - | - | (52,328) | - | - | (52,328) | (9,259) | (61,587) |
| Interim dividends paid for 2016 | - | - | - | (39,432) | - | - | (39,432) | - | (39,432) |
| Other changes in interests without loss or gain of controlling interest in subsidiaries[(3)] | - | - | - | (546) | - | - | (546) | - | (546) |
| Payments in shares | - | - | - | 147 | - | - | 147 | - | 147 |
| **As at December 31, 2016** | **92,049** | **482,834** | **(2,156)** | **154,757** | **(149)** | **1,283** | **728,618** | **205,597** | **934,215** |
| Other comprehensive income for the period | - | - | - | - | (148) | 246 | 98 | - | 98 |
| Net income for the period | - | - | - | 86,666 | - | - | 86,666 | 8,324 | 94,991 |
| **Consolidated comprehensive income for the period** | **-** | **-** | **-** | **86,666** | **(148)** | **246** | **86,765** | **8,324** | **95,089** |
| Transactions in treasury shares (see note 21, p. 146) | - | - | (787) | (206) | - | - | (993) | - | (993) |
| Final dividend paid for 2016 | - | - | - | (57,829) | - | - | (57,829) | (11,468) | (69,297) |
| Interim dividend paid for 2017 | - | - | - | (37,637) | - | - | (37,637) | - | (37,637) |
| Other changes in interests without loss or gain of controlling interest in subsidiaries[(3)] | - | - | - | (828) | - | - | (828) | (432) | (1,260) |
| Payments in shares | - | - | - | 421 | - | - | 421 | - | 421 |
| **As at December 31, 2017** | **92,049** | **482,834** | **(2,943)** | **145,345** | **(297)** | **1,529** | **718,517** | **202,023** | **920,540** |

*(1) Reserves related to share capital correspond to premiums on shares issued for cash or assets, merger premiums and statutory reserves.*
*(2) Attributable to Mercialys SA shareholders.*
*(3) In December 2017, Mercialys bought all the participating interests of the minority shareholder of SCI Kerbernard for Euro 1,260,000.*
*As of December 2016, changes in interest with no gain or loss of control in subsidiaries were concerned with the impact of the change in the holding in SCI AMR.*

## 3.1.2 Notes to the financial statements

# Information about the Mercialys Group

Mercialys is a *société anonyme* (limited liability company) under French law, specializing in commercial property. Its head office is located at 148, rue de l'Université, 75007 Paris.

The shares of Mercialys SA are listed on Euronext Paris, Compartment A.

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

The consolidated financial statements at December 31, 2017 reflect the accounting position of the Company, its subsidiaries and joint ventures, as well as the Group's interests in affiliated companies.

On February 14, 2018, the Board of Directors approved and authorized the publication of the Mercialys Group consolidated financial statements for the 2017 financial year.

# Note 1 Accounting principles and measurement methods

## 1.1 REPORTING STANDARDS

Pursuant to European regulation (EC) 1606/2002 of July 19, 2002, the Mercialys Group's consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as adopted by the European Union and are applicable as at December 31, 2017.

These standards are available on the European Commission website at (https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en).

The accounting policies set out below were applied consistently to all the periods presented in the consolidated financial statements, after taking into account, or with the exception of, the new standards and interpretations described below.

### Standards, amendments and interpretations adopted by the European Union and mandatory as from the financial year beginning January 1, 2017

The European Union has adopted the following standards which are mandatory for the Group for its financial year beginning January 1, 2017. These new standards presented below and applicable within the Group have no material impact on the consolidated financial statements of the Group and, unless otherwise stated, they are applied retrospectively.

#### Amendments to IAS 12 – Recognition of deferred tax assets for unrealized losses

These amendments serve to clarify a number of principles for the recognition of deferred tax assets for unrealized losses on debt instruments recognized at fair value, in order to address the diverse range of practices.

#### Amendments to IAS 7 – Disclosures linked to financing activities

These amendments to the standard will be applied prospectively. They require entities to provide additional information to enable those reading financial statements to assess changes in the liabilities included in their financing activities, whether or not these changes come from cash flows.

To meet this obligation, entities must provide information on the following changes in liabilities arising from financing activities:

(a) Changes resulting from financing cash-flows;

(b) Changes arising from obtaining or losing control;

(c) The effects of changes in foreign exchange rates;

(d) Changes in fair value;

(e) Other changes.

## Standards and interpretations published but not yet in force

### Standards adopted by the European Union on the reporting date

The IASB has published the following standards, amendments and interpretations that have been adopted by the European Union and apply to the Group, but were not yet in force on January 1, 2017:

| Standard (date of application for the Group subject to adoption by the EU) | Description of the standard |
|---|---|
| IFRS 9<br>*Financial instruments*<br>(January 1, 2018) | This standard will be applied retrospectively.<br>It proposes a single approach for classifying and measuring financial assets that reflects the business model under which the assets are managed as well as their contractual cash-flows. It is a single impairment model that is prospective and based on "expected losses", and a significantly reformed approach to hedge accounting. Furthermore, the information in the notes has been strengthened. |
| IFRS 15 including amendments<br>*Revenue from contracts with customers*<br>(January 1, 2018) | This standard will be applied retrospectively.<br>It sets out the principles for recognizing revenue arising from contracts with customers (it does not include contracts within the scope of specific legislation, such as leases, insurance policies and financial instruments. The basic principle is to recognize income during the transfer of control of goods or services to a customer, for an amount that reflects the payment which the entity is expecting to receive in return for these goods or services.<br>Clarifications to the standard include few changes to the standard itself, but more substantial changes in terms of the bases for conclusion and illustrative examples. These amendments relate mainly to issues of identification of performance obligations, the distinction between agent/principal, and intellectual property licenses. |
| IFRS 16<br>*Leases*<br>(January 1, 2019) | This standard will be applied retrospectively.<br>It specifies the principles for recognizing, measuring, presenting and disclosing leases by lessors and lessees.<br>It replaces the current standard IAS 17 and its interpretations. |

In relation to IFRS 9 and IFRS 15, the Group intends to apply these new standards from January 1, 2018.

The application of IFRS 9 will, at January 1, 2018, produce no material restatements on the following three points:

- Pursuant to IAS 39, the Group applied fair value hedge accounting to fixed/floating rate and resetting transactions in relation to its bond outstandings. The implementation of IFRS 9 does not require this fair value hedge accounting for the embedding of derivatives practiced under IAS 39. Nevertheless, the Group plans to apply another approach acceptable under IFRS 9 which consists in aggregating a derivative with an exposure and qualifying them together as a hedged item and in considering a second derivative as the hedge for this aggregated position; this second hedging arrangement would be classified as a cash-flow hedge. This change would be applied prospectively, from on or after January 1, 2018. Data is being gathered on potential impacts.
- Treatment of the exchange of bonds in 2014 involving the 2019 bond.

  IFRS 9 changes the accounting treatment for debt renegotiations that do not lead to de-recognition. Under IFRS 9, a renegotiated debt should be maintained at its original effective interest rate and the impact linked to renegotiation (gain or expense) immediately recorded in profit or loss.

  At January 1, 2018, the retrospective application of this new principle to the bond exchanged in 2014 led to a reduction of financial debt by an estimated amount of Euro 4.3 million against equity. The annual interest expense, reflecting the original effective interest method, will gradually increase by an estimated amount of Euro 0.7 million in 2018, by Euro 0.8 million in 2019 and 2020, by Euro 0.9 million in 2021 and 2022, and by Euro 0.2 million in 2023.
- The level of impairment of receivables.

  The application of the new impairment methodology recommended by IFRS 9, namely the recognition of losses expected on all receivables at the outset, will result in an increase in provisions of approximately less than Euro 0.1 million, at January 1, 2018.

The Group does not anticipate any significant impact from the application of IFRS 15 on revenue recognition.

The adoption of IFRS 16 will result in the recognition of nearly all leases in the balance sheet. An optional exemption exists for short-term leases with a low-value underlying asset. The standard has canceled the current distinction between operating leases and finance leases and requires the recognition of an asset (the right to use the leased property) and a financial liability to pay rents for practically all leases. The rent expense will be replaced by an amortization expense and a financial interest expense and performance indicators such as the current operating income and EBITDA will be impacted.

The adoption of IFRS 16 will mainly impact the recognition of the operating leases of the Group's stores and warehouses and will lead to the recognition of nearly all leases in the balance sheet. An optional exemption exists for short-term leases with a low-value underlying asset. The standard has canceled the current distinction between operating leases and finance leases and requires the recognition of an asset (the right to use the leased property) and a financial liability to pay rents for practically all leases. The rent expense will be replaced by an amortization expense and a financial interest expense and performance indicators such as the current operating income and EBITDA will be impacted.

The Group considers that consolidated net income could be affected since the rental income curve is higher in the early periods of a lease, in other words, a lease is tapering expense, contrary to a straight-line expense recognized under the current standard. In addition, operating cash-flows will be higher, given that payments related to the main component of the financial liability and the associated interest will be presented in financing activities.

Lastly, the Group has not yet decided on the transition method, *i.e.* either a simplified retrospective approach or a full retrospective approach.

### Standards not adopted by the European Union at the reporting date but not in force

The IASB has published the following standards, amendments and interpretations that have not yet been adopted by the European Union, but apply to the Group:

| Standard (application date for the Group) | Description of the standard |
|---|---|
| Annual improvements to IFRS – cycle 2014-2016 (January 1, 2018) | The main standard concerned is IFRS 12 Disclosures of Interests in Other Entities.<br>These amendments are applied retrospectively.<br>The amendments make it clear that the provisions of IFRS 12 also apply to interests in subsidiaries, associates and joint ventures classified as "held for sale" according to IFRS 5 (with the exception of the summarized financial information which does not require disclosure). |
| Amendments to IFRS 2 *Classification and measurement of share-based payment transactions* (January 1, 2018) | These amendments to the standard will be applied prospectively.<br>They clarify the accounting treatment of the following problems:<br>- the effects of vesting conditions and non-vesting conditions on the measurement of a cash-settled share-based payment: the measurement of the debt from a cash-settled plan follows the same approach as for an equity-settled plan;<br>- share-based payments subject to withholding tax: this plan is fully described as an equity-settled plan (including deduction at source) if, in the absence of such withholding, the plan would have been exclusively settled by delivery of equity instruments,<br>- change to a plan that is no longer settled in cash but instead in equity instruments: the transaction must be reassessed referring to the fair value of the equity instruments granted on the date of modification – the former debt is derecognized and the difference between these two values is recognized in profit or loss. |
| Amendments to IAS 40 *Transfers of investment property* (January 1, 2018) | These amendments to the standard will be applied prospectively.<br>They clarify the conditions for transferring real property into, or out of, the category of investment property. Furthermore, it is specified that the list of examples of evidence supporting a change in use of the property is a non-exhaustive list. |
| IFRIC 22 interpretation *Foreign currency transactions and advance consideration* (January 1, 2018) | This interpretation is applied retrospectively or prospectively.<br>This is an interpretation of IAS 21 – The Effects of Changes in Foreign Exchange Rates.<br>This interpretation clarifies the exchange rate to use when advance payment has been made. |
| IFRIC 23 interpretation Uncertainty over income tax treatments (January 1, 2019) | This interpretation is applied retrospectively wholly or partly.<br>This interpretation clarifies the methods for the recognition and measurement of the current and deferred tax assets and liabilities described by IAS 12 – Income Taxes, in the specific case of uncertainty about income tax treatment. The interpretation clarifies in particular:<br>- how to assess the unit of account to adopt;<br>- that the risk of detection by the tax administration should be fully taken into account;<br>- that the principle of recognition is based on the probability (in the sense of "more probable than improbable") of receiving the asset or paying the liability:<br>- the principle of measuring the provision (in the event of the improbability of acceptance by the tax administration of the uncertain tax treatment) is based on the estimate of the amount that the entity expects to pay or recover depending on (i) the method of the most probable amount or (ii) the weighted average of the different possible scenarios. |

| Standard (application date for the Group) | Description of the standard |
|---|---|
| Amendments to IFRS 9 *Prepayment features with negative compensation* (January 1, 2019) | These amendments are applied retrospectively. They expand the scope of financial assets recognized at amortized cost or at fair value through other components of comprehensive income and clarify compliance with the "SPPI" (solely payments of principal and interest) criterion for certain debt instruments containing a prepayment clause where the exercise of this clause leads to a payment that is reasonably less than the sum of the outstanding capital and interest. |
| Amendments to IAS 28 *Long-term interests in associates and joint ventures* (January 1, 2019) | These amendments are applied retrospectively. The amendments clarify that IFRS 9, including provisions regarding impairment, applies to long-term interests in associates and joint ventures. |
| Annual improvements to IFRS – 2015-2017 cycle (January 1, 2019) | The main standards concerned are:<br>- IAS 12 Income Taxes: these amendments state that the tax consequences of dividend distributions should be reported in profit or loss, in equity or in the other components of comprehensive income, according to the initial presentation of transactions at the origin of the distributable profits. These amendments are applied retrospectively and are limited to the first comparative period presented.<br>- IAS 23 Borrowing Costs: the amendments specify that a specific borrowing is requalified as "general" where the asset is ready to be used or sold. These amendments to the standard will be applied prospectively. |

These interpretations and amendments should not have a material impact on the Group's consolidated financial statements.

## 1.2 BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

### 1.2.1 Basis of assessment

The Consolidated Financial Statements are stated in thousands of Euros. The Euro is the Group's functional currency. The amounts stated in the Consolidated Financial Statements have been rounded up or down to the nearest thousand and include figures that have been rounded individually. There may be differences between the arithmetic totals of these figures and the aggregates or subtotals shown.

The statements have been prepared based on the historical cost method, with the exception of available-for-sale financial assets and hedging derivatives, which are stated at fair value.

### 1.2.2 Use of estimates and judgments

In preparing the Consolidated Financial Statements, the Group is required to make a number of judgments, estimates and assumptions that affect certain assets and liabilities, income and expense items, and certain information provided in the notes to the financial statements. Because assumptions are inherently uncertain, actual results may differ significantly from these estimates. The Mercialys Group reviews its estimates and assessments on a regular basis to take past experience into account and incorporate factors considered relevant under current economic conditions.

The main line items in the financial statements that may depend on estimates and judgments are:

- the fair value of assets available for sale;
- hedging instruments;
- the fair value of investment property (see note 8.1, p. 128).

The financial statements reflect management's best estimates on the basis of information available on the reporting date.

The judgment may be made in the accounting treatment relating to the acquisition of investment property; at each transaction, the Group analyzes, on the basis of assets and existing activity, whether the purchase should be treated as a business combination or as the purchase of a standalone asset.

As regards investment property held for sale, the sale of such assets is deemed to be "highly probable" within the next 12 months. This criterion is assessed on the basis of the fact that the investment properties are subject to a formalized preliminary sales agreement, and when the Group deems that they are at an advanced stage of negotiations with identified buyers.

As regards the scope of consolidation and the method of consolidation to be applied, for each shareholding, the Group analyzes all items that may characterize control or significant influence, in particular the percentage stake held, governance rules, commercial agreements and, more generally, all agreements between the parties (see note 3, p. 114).

# Note 2 Significant events of the period

### SALE OF FIVE SERVICE MALLS

In January 2017, Mercialys sold five service malls to the Casino group for a total of Euro 38.9 million including transfer taxes (see note 25.15, p. 157). These sales involved geographically dispersed assets which are unsuitable for large-scale renovation projects owing to their individual size (less than 5,000 sq.m).

### SALE OF THE TRANSFORMED HYPERMARKET IN TOULOUSE

In January 2017, Mercialys sold the transformed hypermarket at Toulouse Fenouillet to Casino group for Euro 32.8 million including transfer taxes (see note 25.15, p. 157). Mercialys had implemented two projects to create additional retail space on the surface released by the hypermarket and enhance the appeal of the site.

### SALE OF THE POITIERS SHOPPING CENTER

In June 2017, Mercialys concluded the sale of the Poitiers Beaulieu site with a family office financed by HSBC for Euro 78 million including transfer taxes, taking account of an unrecognized earn-out payment of Euro 2 million (see note 24.1.1.3, p. 152)

### SALE OF THE FONTAINE-LÈS-DIJON SHOPPING CENTER

In July, Mercialys sold the Fontaine-lès-Dijon site to a fund created by Stam Europe for Helaba Invest for Euro 27.5 million including transfer taxes.

### EURO 150 MILLION BOND ISSUE *VIA* A PRIVATE PLACEMENT

In November 2017, Mercialys issued a Euro 150 million bond (maturity 2027) as part of a private placement, offering a coupon of 2% and a 10-year mid-swap rate of +110 basis points yield rate. This transaction is for general corporate purposes, including the partial refinancing of the Euro 479.7 million bond maturing in March 2019 and bearing a coupon of 4.125% (see note 14.2.3, p. 140).

### ACQUISITION OF A NEARLY 9,000 SQ.M DEVELOPMENT PROJECT IN LE PORT (REUNION ISLAND) WITH THE CASINO GROUP

In December 2017, Mercialys acquired from the Casino group, the company Sacré-Cœur and its project for an extension of 8,900 sq.m to the Le Port shopping center in Reunion Island. This acquisition was made on the basis of a price of Euro 27.7 million (see note 25.15, p. 157). Mercialys signed a Euro 40.8 million property development contract with the Casino group for the outstanding works to be completed. The total cost of the extension project for Mercialys will total Euro 75 million. The project is scheduled for completion by late 2018.

# Note 3 Consolidation scope

## Accounting principle

### Subsidiaries

Subsidiaries are companies controlled by the Group. The Group controls a subsidiary where it is shown or where it has the right to variable returns due to its links with the entity and it has the ability to influence these returns due to its power over the entity. Financial statements of subsidiaries are included in the consolidated financial statements as from the date of effective transfer of control until the date the control ceases to exist. Subsidiaries, regardless of the percentage interest held, are fully consolidated in the Group's balance sheet.

### Partnerships

The Group classifies its interests in partnerships either as a joint activity (if it has rights to assets and assumes obligations with respect to liabilities, within the framework of a partnership) or as a joint venture (if it only has rights to the net assets concerned by a partnership). On making this assessment, the Group has taken into account the structure of the partnership, the legal form of the separate vehicle, contractual stipulations and, if applicable, other facts and circumstances.

The Group has analyzed its partnerships and concluded that they should be qualified as a joint venture (previously jointly-owned entity). As a result, investments are accounted for using the equity method.

### Associated companies

Associated companies are those over which the Group exercises significant influence on financial and operating policies but which it does not control. Associated companies are accounted for in the balance sheet using the equity method. Goodwill relating to these entities is included in the carrying cost of the equity investment.

### Business combinations

As required by IFRS 3 revised, the acquisition cost is measured at fair value of the assets, issued equity and liabilities on the date of transaction. The identifiable assets and liabilities of the acquired business are measured at their fair value on the date of acquisition. Costs directly associated with the acquisition are recognized under "Other operating expenses".

Any surplus remaining, plus, if relevant, the amount of non-controlling interests and the fair value of all interests previously held in the acquired company, after deduction of the Group share of the net fair value of the identifiable assets and liabilities of the acquired business will be recognized as goodwill. When the difference is negative, a gain on a bargain purchase is immediately recognized as income.

At the date of acquisition, for each business combination, the Group may elect to use either the partial goodwill method (restricted to the share acquired by the Group) or the full goodwill method. If the full goodwill method is chosen, non-controlling interests are valued at their fair value and the Group recognizes goodwill on the full amount of the identifiable assets acquired and liabilities assumed.

Business combinations completed prior to January 1, 2010 were accounted for using the partial goodwill method, the only method applicable before the IFRS 3 (as revised).

In case of acquisition by stages, the previously-held equity interest will be remeasured at fair value on the effective date of control. The difference between the fair value and net carrying cost of this equity interest is recognized directly in the income statement under "Other operating income" or "Other operating expenses".

The provisional amounts recognized on the acquisition date may be adjusted retrospectively during a 12-month measurement period if new information is obtained about facts and circumstances that existed before the acquisition date. Goodwill may not be adjusted after the measurement period. The subsequent acquisition of non-controlling interests does not give rise to the recognition of additional goodwill. Subsequent acquisitions/disposals of non-controlling interests are recognized as transactions with shareholders, or directly under equity.

In addition, earn-out payments are included in the consideration transferred at their fair value at the acquisition date and regardless of their probability. During the valuation period, subsequent adjustments are allowed against goodwill when they relate to facts and circumstances that existed at the acquisition date. Otherwise and after the end of this period, adjustments to earn-out payments are recognized directly in income ("other operating income" or "other operating expenses"), unless the earn-out payments are against an equity instrument. In the latter case, the earn-out payment is not restated at a later date.

### Year-end

The financial year-end for all Mercialys Group companies is December 31.

### Transactions eliminated from the Consolidated Financial Statements

Balance sheet items and income and expense items resulting from intra-group transactions are eliminated when preparing the Consolidated Financial Statements.

## 3.1 2017 TRANSACTIONS

On December 28, 2017, the companies La Diane and Point Confort, subsidiaries of Mercialys, acquired 100% of the shares of SNC Sacré-Cœur from Casino for an amount of Euro 15,735,000.

Sacré-Cœur carries a redevelopment and extension project for the Jumbo Sacré-Cœur shopping center. The SNC is fully consolidated in the financial statements.

At the time of the takeover, the fair value assigned to the identifiable assets of the SNC Sacré-Cœur was as follows:

| *(In millions of euros)* | 12/2017 |
|---|---|
| **NET INCOME** | **0.0** |
| Investment property under construction | 26.9 |
| **Non-current assets** | **26.9** |
| Other current assets | 0.1 |
| **Current assets** | **0.1** |
| **TOTAL ASSETS** | **27.1** |
| Other current liabilities | 11.3 |
| **Current liabilities** | **11.3** |
| **TOTAL LIABILITIES** | **11.3** |
| **Equity** | **15.7** |
| **FAIR VALUE** | **16.5** |
| Goodwill allocated to investment property | 0.8 |

In December 2017, Mercialys bought out the minority shareholder of SCI Kerbernard, *i.e.,* 1.69% stake for Euro 1,260 million.

## 3.2 2016 TRANSACTIONS

The GM Geispolsheim company was liquidated on January 12, 2016.

The SCI Rennes-Anglet company which Mercialys acquired as part of the agreement with OPPCI SEREIT France, is recognized since the end of June 2016 using the equity method.

On July 29, 2016, Mercialys created the SAS Astuy company which it fully owns, and is thus consolidated using the full consolidation method.

On October 21, 2016, Mercialys and Point Confort (a subsidiary fully owned by Mercialys) created the SCI MS investment company, consolidated using the full consolidation method.

The capital increase of SCI AMR led to the dilution of the Mercialys holding within AMR. Mercialys holds 39.9% of the SCI since the end of December 2016.

Following the exercise of the call option it held on the shares of SNC Fenouillet Participation, Mercialys acquired shares in SNC from Foncière Euris. Before exercising the option, Mercialys held 10% of the shares in SNC Fenouillet Participation.

The SNC Fenouillet Participation and Fenouillet Immobilier companies are therefore fully consolidated since the end of December 2016.

At the time of the takeover, the final fair value assigned to the identifiable assets of the SNC Fenouillet Participations and SNC Fenouillet Immobilier companies was as follows:

| *(In millions of euros)* | 12/2016 |
|---|---|
| **NET INCOME** | **(1.8)** |
| Investment property | 109.5 |
| **Non-current assets** | **109.5** |
| Other current assets | 9.1 |
| **Current assets** | **9.1** |
| **TOTAL ASSETS** | **118.6** |
| Non-current financial liabilities | 39.4 |
| Other non-current liabilities | 0.9 |
| **Non-current liabilities** | **39.8** |
| Trade payables | 2.3 |
| Current financial liabilities | 47.8 |
| Other current liabilities | 42.2 |
| **Current liabilities** | **92.3** |
| **TOTAL LIABILITIES** | **132.7** |
| **Equity** | **(14.1)** |
| **FAIR VALUE** | **11.2** |
| Goodwill allocated to investment property | 25.3 |

The purchase price of the SNC Fenouillet Participation company amounted to Euro 11.2 million. This company owns the SNC Fenouillet Immobilier company which in turn owns the extension of the Espace Fenouillet shopping center. The acquisition was viewed as a business combination according to IFRS 3.

The contribution to rental income in full-year terms would have been Euro 5.5 million.

## 3.3 LIST OF CONSOLIDATED COMPANIES

At December 31, 2017 the Mercialys Group comprises 27 consolidated companies:

| | December 31, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| Name | Method | % of interest | % of control | Method | % of interest | % of control |
| **Mercialys SA** | **FC** | **Parent company** | **Parent company** | **FC** | **Parent company** | **Parent company** |
| Mercialys Gestion SAS | FC | 100.00% | 100.00% | FC | 100.00% | 100.00% |
| SCI Kerbernard | FC | 100.00% | 100.00% | FC | 98.31% | 100.00% |
| Point Confort SA | FC | 100.00% | 100.00% | FC | 100.00% | 100.00% |
| Corin Asset Management SAS | EM | 40.00% | 40.00% | EM | 40.00% | 40.00% |
| SCI La Diane | FC | 100.00% | 100.00% | FC | 100.00% | 100.00% |
| Société du Centre Commercial de Narbonne SNC | FC | 100.00% | 100.00% | FC | 100.00% | 100.00% |
| Fiso SNC | FC | 100.00% | 100.00% | FC | 100.00% | 100.00% |
| SAS des Salins | FC | 100.00% | 100.00% | FC | 100.00% | 100.00% |
| SCI Timur | FC | 100.00% | 100.00% | FC | 100.00% | 100.00% |
| SNC Agout | FC | 100.00% | 100.00% | FC | 100.00% | 100.00% |
| SNC Géante Périaz | FC | 100.00% | 100.00% | FC | 100.00% | 100.00% |
| SNC Dentelle | FC | 100.00% | 100.00% | FC | 100.00% | 100.00% |
| SCI Caserne de Bonne | FC | 100.00% | 100.00% | FC | 100.00% | 100.00% |
| SCI AMR | EM | 39.90% | 39.90% | EM | 39.90% | 39.90% |
| SNC Aix2 | EM | 50.00% | 50.00% | EM | 50.00% | 50.00% |
| SNC Alcudia Albertville | FC | 100.00% | 100.00% | FC | 100.00% | 100.00% |
| SNC Fenouillet Participation | FC | 100.00% | 100.00% | FC | 100.00% | 100.00% |
| SNC Fenouillet Immobilier | FC | 100.00% | 100.00% | FC | 100.00% | 100.00% |
| SAS Hyperthetis Participations | FC | 51.00% | 51.00% | FC | 51.00% | 51.00% |
| SAS Immosiris | FC | 51.00% | 51.00% | FC | 51.00% | 51.00% |
| SAS Epicanthe | FC | 100.00% | 100.00% | FC | 100.00% | 100.00% |
| SARL Toutoune | FC | 100.00% | 100.00% | FC | 100.00% | 100.00% |
| SAS Mercialys Exploitation | FC | 100.00% | 100.00% | FC | 100.00% | 100.00% |
| SCI Rennes-Anglet | EM | 30.00% | 30.00% | EM | 30.00% | 30.00% |
| SCI MS Investissement | FC | 100.00% | 100.00% | FC | 100.00% | 100.00% |
| SAS Astuy | FC | 100.00% | 100.00% | FC | 100.00% | 100.00% |
| SNC Sacré-Cœur | FC | 100.00% | 100.00% | - | - | - |

*FC: Full consolidation.*
*EM: Equity method.*

## 3.4 MEASUREMENT OF CONTROL

No event occurred in 2017 to question the method used to measure the control of the entities in the scope of consolidation.

Analysis of control for entities that are not 100% owned by the Mercialys Group:

### SAS Corin Asset Management

The Group jointly holds a 40% stake in Corin Asset Management. In view of the agreements with its partner, the Group considers the company as a joint venture according to IFRS 11. Corin Asset Management is therefore accounted for using the **equity method** (see note 3.5, p. 119).

### SCI AMR

SCI AMR is 60.1%-owned by Amundi and 39.9% by Mercialys SA. The SCI is governed by the articles of incorporation and a partner agreement dated April 23, 2013. The key decisions granting their holders a participatory right are taken by simple majority. Other decisions requiring the approval of Mercialys are non-strategic decisions and they confer a protective right on partners.

The Group only has a significant influence over SCI AMR. The company is therefore accounted for using the **equity method** (see note 3.5, p. 119).

### SNC Aix2

The Group jointly holds a 50% stake in SNC Aix2. A partner agreement formalizes the sharing of control of the business and sets out the powers of the monitoring committee composed of both executives. Each member of the monitoring committee has one vote. The monitoring committee may only validly deliberate when all members are present. The committee's decisions are adopted unanimously.

Accordingly, the Group considers the Company as a joint venture according to IFRS 11. SNC Aix2 is therefore accounted for using the **equity method** (see note 3.5, p. 119).

### OPCI UIR II

Since July 2011, Mercialys owns 19.99% of OPCI UIR II established with UI, which owns 80.01%.

The governance rules are as follows:

- the Board of Directors makes all decisions (strategic, financial and operational);
- management is undertaken by UI and Mercialys may not cancel this;
- dividend distributions are on the initiative of UI;
- all decisions of the Board of Directors are made by a majority of those present (UI is represented by four out of five members);
- no specific rights are granted to Mercialys;
- Mercialys may decide to leave the OPCI since it benefits from a put option in respect of UI.

These governance rules cannot presume a significant influence of Mercialys over the OPCI. OPCI UIR II is therefore classified under **Assets available for sale** (see note 10, p. 134).

### SAS Hyperthetis Participations

(see note 24, p. 152)

On June 1, 2015, Mercialys set up a simplified joint-stock company Hyperthetis Participations with a capital of Euro 10. On June 17, 2015, Mercialys transferred six real estate assets to Hyperthetis Participations. On June 26, 2015, Mercialys sold 49% of the shares in Hyperthetis Participations to OPCI SPF2, majority-owned by BNP Paribas.

Since the end of June 2015, Mercialys holds a 51% stake in SAS Hyperthetis Participations. In view of the IFRS 10 standard, analysis led to the conclusion that Mercialys has exclusive control over the whole.

Mercialys has the power to influence the returns of SAS Hyperthetis Participations through the shareholders' agreement in place.

Consequently, SAS Hyperthetis Participations continues to be accounted for according to the **full consolidation method** in the Group's consolidated financial statements.

### SAS Immosiris

On October 22, 2015, Mercialys set up a simplified joint-stock company Immosiris Participations with a capital of Euro 100.

On November 2, 2015, Mercialys transferred one real estate asset Immosiris. On November 10, 2015, Mercialys sold 29.7% of the shares in Immosiris to OPCI REAF, majority-owned by BNP Paribas. On November 10, 2015, Mercialys was diluted by OPCI REAF to 51%.

Since November 2015, Mercialys owns 51% of SAS Immosiris. According to IFRS 10, the analysis performed concludes that the governance rules in place do not define a joint venture but monitors Mercialys' exclusive control over the partners, accompanied by protection rights for minority shareholders given the particular nature of the activity, of which a part of the revenues is obtained from a related party. This is because the criteria defining the concept of control are respected in accordance with IFRS 10:

- Mercialys has power over collective decisions and consequently controls the operational and strategic activities of SAS Immosiris which mainly comprise the management of rents and investment;
- The rights that Mercialys grants to non-controlling interests are "protective" rights.

Consequently, SAS Immosiris is consolidated according to the **full consolidation method** in the Group's consolidated accounts.

### SCI Rennes-Anglet

SCI Rennes-Anglet is held 70% by OPPCI SEREIT France and 30% by Mercialys SA. The company's operational and strategic decisions are made by the manager: OPPCI SEREIT France. Mercialys sits on the strategic committee of SCI Rennes-Anglet and has veto rights on a number of decisions, which are considered protective and show that Mercialys has a significant influence on the company. SCI Rennes-Anglet is therefore accounted for using **the equity method** (see note 3.5, p. 119).

## 3.5 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

### 3.5.1 Significant associates

The table below shows the full condensed financial statements of the three main associates accounted for using the equity method. This information is prepared in accordance with IFRS, restated where appropriate for adjustments made by the Group such as fair value revaluation adjustments on the date when control is lost or gained, adjustments to bring the accounting principles into line with those of the Group and elimination of inter-company acquisitions or disposals up to the percentage held in associates:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| *(In thousands of euros)* | SCI AMR | SNC Aix2 | SCI Rennes-Anglet | SCI AMR | SNC Aix2 | SCI Rennes-Anglet |
| % Interest | 39.9% | 50% | 30% | 39.9% | 50% | 30% |
| Net rental income | 10,295 | 2,105 | 6,453 | 5,458 | 1,945 | 2,176 |
| Operating income | 5,446 | 960 | 2,555 | 1,907 | 737 | 1,250 |
| Net financial income (expense) | (1,401) | (344) | (522) | (1,031) | (287) | (302) |
| Tax | (70) | (1) | - | (22) | - | - |
| **Net income** | **3,975** | **615** | **2,033** | **854** | **450** | **948** |
| Investment property | 140,563 | 31,119 | 56,480 | 142,282 | 31,609 | 57,020 |
| Non-current financial assets | - | 214 | - | - | 126 | - |
| **Non-current assets** | **140,563** | **31,333** | **56,480** | **142,282** | **31,735** | **57,020** |
| Trade receivables | 1,367 | 356 | 1,634 | 2,559 | 212 | 270 |
| Other current assets | 8,818 | 96 | 758 | 6,194 | 57 | 988 |
| Cash and cash equivalents | 5,418 | 3,489 | 2,881 | 4,717 | 2,640 | 938 |
| **Current assets** | **15,603** | **3,941** | **5,273** | **13,470** | **2,909** | **2,196** |
| **TOTAL ASSETS** | **156,166** | **35,274** | **61,753** | **155,752** | **34,644** | **59,216** |
| **Equity** | **59,262** | **14,723** | **24,615** | **62,412** | **14,593** | **22,598** |
| Non-current financial liabilities | 75,870 | 18,806 | 36,214 | 75,729 | 18,855 | 36,273 |
| Other non-current liabilities | - | 410 | 101 | - | 357 | 100 |
| **Non-current liabilities** | **75,870** | **19,215** | **36,315** | **75,729** | **19,212** | **36,373** |
| Trade payables | 7,173 | 57 | 397 | 5,661 | 1 | 13 |
| Current financial liabilities | 289 | 247 | 230 | - | 247 | 150 |
| Other current liabilities | 13,572 | 1,031 | 196 | 11,950 | 591 | 81 |
| **Current liabilities** | **21,034** | **1,335** | **823** | **17,611** | **839** | **244** |
| **TOTAL EQUITY AND LIABILITIES** | **156,166** | **35,274** | **61,753** | **155,752** | **34,644** | **59,216** |

### 3.5.2 Change in investments in associates and joint ventures

The table below presents aggregate information of individually non-significant associates and joint ventures, for the share held by the Group.

| *(In thousands of euros)* | Beginning of period | Share of income from for the period | Dividends | Other | End of period |
|---|---|---|---|---|---|
| **Joint ventures** | | | | | |
| SAS Corin Asset Management | 55 | 44 | (38) | - | 61 |
| SCI GM Geispolsheim | 4 | - | (4) | - | - |
| SCI AMR | 12,740 | 341 | (541) | 12,362(1) | 24,902 |
| SCI Rennes-Anglet | - | 284 | - | 6,495(2) | 6,779 |
| SNC Aix2 | 7,370 | 225 | (299) | - | 7,297 |
| **Associated companies** | | | | | |
| SNC Fenouillet Participation | (101) | (185) | - | 285 | - |
| **FISCAL YEAR 2016** | **20,069** | **709** | **(881)** | **19,142** | **39,039** |
| **Joint ventures** | | | | | |
| SAS Corin Asset Management | 61 | 37 | (44) | - | 53 |
| SCI AMR | 24,902 | 1,586 | (2,994)(3) | 151 | 23,645 |
| SNC Aix2 | 7,297 | 307 | (224) | (17) | 7,362 |
| SCI Rennes-Anglet | 6,779 | 610 | - | (5) | 7,384 |
| **FISCAL YEAR 2017** | **39,039** | **2,540** | **(3,263)** | **129** | **38,445** |

*(1) The variation of Euro 12.4 million chiefly comprised the capital increase for Euro 29.7 million and the neutralization of capital gains realized on the disposal of property assets from Mercialys to AMR up to the stake held in that entity, i.e. Euro (18.0) million.*
*(2) The variation of Euro 6.5 million chiefly comprised the capital increase for Euro 7.7 million and the neutralization of capital gains realized on the disposal of property assets from Mercialys to SCI Rennes-Anglet up to the stake held in that entity, i.e. Euro (1.2) million.*
*(3) of which Euro 638,000 of dividends not received at December 31, 2017.*

# Note 4 Additional information on the cash-flow statement

## Accounting principle

The cash-flow statement is prepared according to the indirect method from the pre-tax income of the consolidated entity and is broken down into three categories:

- Cash flows from the activity: including tax, dividends received from associates and joint ventures.
- Cash flows linked from investing activities: especially acquisitions of control, loss of control and including transactions costs, acquisitions and disposals of non-consolidated securities and associates and joint ventures as well as fixed asset acquisitions and disposals.
- Cash flows from financing activities: in particular emissions and repayments of loans, emissions of equity instruments, transactions between shareholders, net interest (cash flows from finance costs), equity-related transactions and dividends paid.

## 4.1 RECONCILIATION BETWEEN CHANGE IN CASH POSITION AND CHANGE IN NET FINANCIAL DEBT

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Change in cash position | 181,171 | 2,291 |
| Increase in borrowings and financial liabilities | (1,283,000) | (1,001,500) |
| Decrease in borrowings and financial liabilities | 1,164,500 | 877,500 |
| Issue costs and loan repayment premiums[1] | (3,398) | (3,933) |
| Fair value of the debt | (469) | 977 |
| **CHANGE IN THE NET FINANCIAL DEBT** | **58,805** | **(124,725)** |

*(1) Costs linked to the implementation of the new bond amounting to Euro 1,740 thousand.*

## 4.2 RECONCILIATION OF FIXED ASSET ACQUISITIONS

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Increase and other acquisitions of intangible asset | (1,370) | (1,581) |
| Increase and other acquisitions of property, plant & equipment | (84,328) | (157,167) |
| Increase and other acquisitions of investment property | - | - |
| Change in liabilities on fixed assets | (17,110) | (16,907) |
| **CASH OUTFLOWS LINKED TO ACQUISITIONS OF INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY** | **(102,808)** | **(175,655)** |

## 4.3 RECONCILIATION OF FIXED ASSET DISPOSALS

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Disposals of intangible assets for the period | - | 9 |
| Disposals of property, plant & equipment for the period | 1,398 | 65,636 |
| Disposals of investment property for the period | - | - |
| Disposals of assets classified in IFRS 5 (see note 8.2, p. 133) | 148,608 | 3,095 |
| Income from asset disposals | 14,965 | 29,075 |
| Change in trade receivables | (798) | 53,718 |
| **CASH INFLOWS LINKED TO DISPOSALS OF INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY** | **164,173** | **151,533** |

## 4.4 RECONCILIATION OF NET INTEREST RECEIVED

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| **Net finance costs presented in the income statement** | **(30,063)** | **(30,401)** |
| Neutralization of depreciation of costs and issue/redemption premiums | 4,654 | 4,907 |
| Change in incurred interests and fair value hedge derivatives of financial liabilities | 682 | (1,527) |
| **NET INTEREST PAID AS PRESENTED IN THE CASH-FLOW STATEMENT** | **(24,727)** | **(27,020)** |

# Note 5 Segment reporting

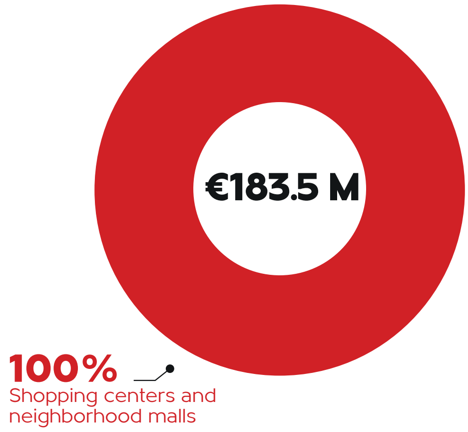
## Accounting principle

Segment reporting reflects management's view and is established on the basis of internal reporting used by the chief operating decision maker (the Chairman and Chief Executive Officer) to make decisions about resources to be allocated and assess the Group's performance.

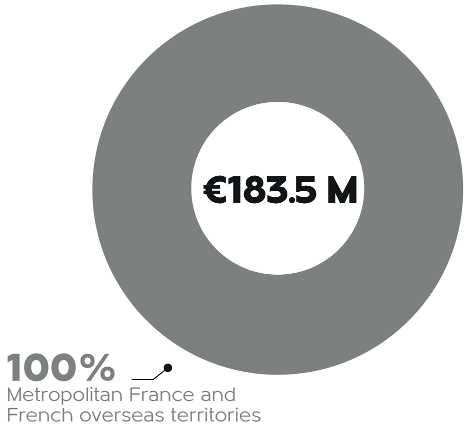
As the Group's Executive Management does not use a breakdown of operations to review operating matters, no segment reporting is provided in the financial statements.

To date, there is only one geographic segment, given that the Group's asset portfolio consists entirely of properties located in France. In the future, however, the Group does not rule out making investments outside France, in which case information would be disclosed for other geographic segments as well.

Breakdown of invoiced rents by activity




Breakdown of invoiced rents by region




# Note 6 Information concerning operating income

## 6.1 NET RENTAL INCOME

## Accounting principle

### Rental revenues

The leasing of properties by the Group to its tenants generates rental revenues. The amounts invoiced are recognized as revenues for the applicable period. In the case of construction leases, the value of the asset built by the lessee and transferred to the lessor for no consideration at the end of the lease is analyzed as additional rent payable in kind and is spread over the term of the lease.

Leases for shopping centers often include a variable portion of rents based on the lessee's sales, with a guaranteed minimum rent in order to limit risk for the Company in periods of economic recession.

Stepped rents, rent holidays and other benefits granted to tenants are accounted for by spreading an amount on a straight-line basis as a decrease or increase to rental revenues of the period. The spreading is done over the committed term of the lease.

Rental revenues also include upfront payments made by tenants upon signing the lease; if such payments are considered to be supplemental rent, they are spread over the initial committed term of the lease, generally three years.

Net rental income is the difference between rental revenues and directly attributable expenses. Directly attributable expenses include property taxes and service charges not billed to and recovered from tenants as well as other property operating expenses. These expenses do not include costs classified as "Other expenses" or "Personnel expenses".

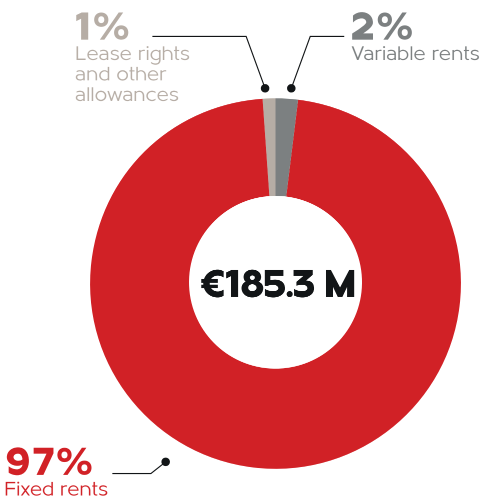
French regulations mandate a minimum duration of nine years for commercial leases. The lessee is entitled to terminate every three years simply by giving prior notice six months before the end of the current period. However, if the parties agree, it is possible to enter into "firm" leases for leases concluded for a duration exceeding nine years such as those entered into by Mercialys.

### Breakdown of net rental income

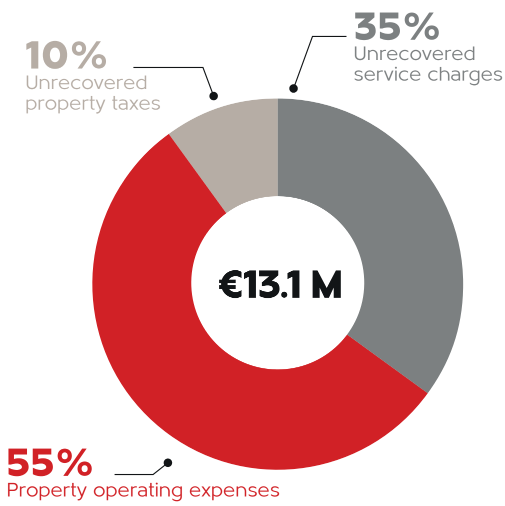
| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Rental income[1] | 183,514 | 187,621 |
| Lease rights and other allowances | 1,805 | 2,175 |
| **Rental revenues** | **185,318** | **189,795** |
| Property tax | (13,509) | (14,228) |
| Rebilling to tenants | 12,262 | 13,070 |
| **Unrecovered property taxes** | **(1,248)** | **(1,159)** |
| Service charges | (31,016) | (41,120) |
| Rebilling to tenants | 26,360 | 37,955 |
| **Unrecovered service charges** | **(4,656)** | **(3,165)** |
| Management fees | (6,708) | (6,226) |
| Rebilling to tenants | 3,821 | 3,943 |
| Losses on and impairment of receivables | (2,209) | (2,382) |
| Other expenses[2] | (2,130) | (2,743) |
| **Property operating expenses** | **(7,227)** | **(7,407)** |
| **NET RENTAL INCOME** | **172,188** | **178,065** |

*(1) Of which the variable portion based on revenues: Euro 4,531,000 in 2017 compared with Euro 3,204,000 in 2016.*
*(2) Other expenses include rents paid by the Company on construction leases and very long-term ground leases, fees paid to third parties, and non-recoverable, non-capitalizable shopping center maintenance costs.*

### Breakdown of rental revenues




### Breakdown of non-recoverable expenses




## 6.2 MANAGEMENT, ADMINISTRATIVE AND OTHER ACTIVITIES INCOME

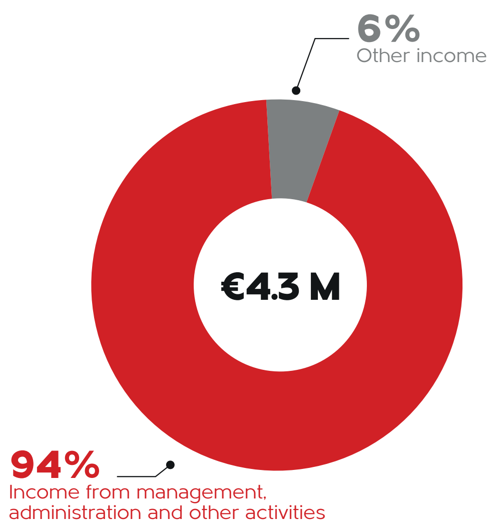
The income from management, administration and other activities comprise primarily fees charged in respect of services provided by certain Mercialys staff – whether in connection with: advisory services provided by the team dedicated to extension/restructuring programs, which works on a cross-functional basis for Mercialys and the Casino group; or with shopping center management services provided by teams – as well as letting, asset management and advisory fees relating to the partnerships formed with Union Investment and Amundi Immobilier. Fees charged in 2017 came to Euro 4.1 million compared with Euro 3.4 million in 2016.

## 6.3 OTHER INCOME

Other recurring income recognized at the end of December 2017 corresponds mainly to dividends received from the OPCI fund created in partnership with Union Investment: UIR II. These dividends correspond to the management of the OPCI's retail property assets, similar to the business activity pursued by Mercialys. They are therefore presented as operating income.

In 2017, these dividends stood at Euro 276,000 compared to Euro 392,000 in 2016.

**Breakdown of other operating income and revenue**




## 6.4 OTHER EXPENSES

Other expenses mainly comprise structural costs. Structural costs include primarily investor relations costs, Directors' fees, communication expenses, marketing studies costs, fees paid to the Casino group for services covered by the Services Agreement (see note 25.5, p. 154) (accounting, financial management, human resources, management, IT) and real estate asset appraisal fees.

## 6.5 PERSONNEL EXPENSES

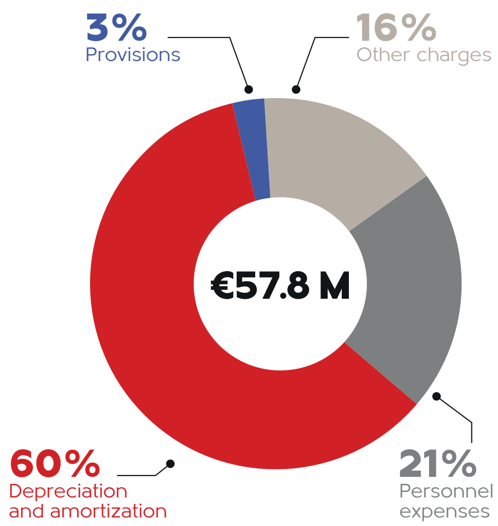
Personnel expenses amounted to Euro (12.4) million at the end of December 2017 compared with Euro (12.5) million at the end of December 2016.

A portion of personnel expenses are charged back as part of the advisory services provided by the asset management team or as part of the shopping center management services provided by Mercialys' dedicated teams.

## 6.6 AMORTIZATIONS, PROVISIONS AND IMPAIRMENTS

| *(In thousands of euros)* | | 12/2017 | 12/2016 |
|---|---|---|---|
| Allowance for depreciation of investment properties and other property, plant and equipment | | (34,084) | (30,915) |
| Allowance for depreciation of PPE held on finance leases | | (737) | (737) |
| **Depreciation and amortization** | | **(34,822)** | **(31,652)** |
| Reversals/(Allowances) for impairment of investment property | 6.7 | (8,179) | (2,640) |
| Reversals(Allowances) for impairments of fixed assets held for sale | 6.7 | 630 | - |
| Reversals/(Allowances) for provisions | | (1,219) | (2,781) |
| Reversals/(Allowances) for impairment on current assets | | (315) | (874) |
| **TOTAL ALLOWANCES FOR DEPRECIATION AND AMORTIZATION, PROVISIONS AND IMPAIRMENT** | | **(43,904)** | **(37,948)** |

**Breakdown of other expenses, personnel expenses, depreciation and amortizations, provisions and impairment**




### 6.7 OTHER OPERATING INCOME AND EXPENSES

#### Accounting principle

This line item records items which by definition are not considered in the appraisal of current operational performance such as non-current asset impairments, disposals of non-current assets and effects of the application of IFRS 3 and IFRS 10 if applicable.

Other operating income came to Euro 178.4 million at December 31, 2017 compared with Euro 104.6 million on December 31, 2016. It originates from:

- income from asset disposals completed in 2017, primarily on the sites of the five service malls, of the transformed hypermarket of Toulouse Fenouillet, of Poitiers, Fontaine-lès-Dijon and GIE Grand Quartier for which the income recognized in the consolidated financial statements of Mercialys stands at Euro 175.6 million (compared to Euro 96.9 million at December 31, 2016).

Other operating expenses came to Euro (172.0) million at December 31, 2017 compared with Euro (81.4) million on December 31, 2016. This corresponds primarily to:

- the net carrying cost of assets sold in 2017 and costs related to these asset disposals, mainly the sites of the five service malls, the transformed hypermarket of Toulouse Fenouillet, Poitiers, Fontaine-lès-Dijon and GIE Grand Quartier for Euro (160.5) million, (of which Euro (11.5) million of costs) versus Euro (70.1) million at December 31, 2016 (see note 8.2, p. 133);
- impairment losses on investment property amounting to Euro (7.6) million.

On this basis, the net capital gain on the disposal of fixed assets recognized in the consolidated financial statements as at December 31, 2017 was Euro 14.3 million, of which Euro 15.1 million on the sites of five service malls, of the transformed hypermarket of Toulouse Fenouillet, Poitiers, Fontaine-lès-Dijon and GIE Grand Quartier, compared with a net capital gain of Euro 29.1 million (net of fees), recognized in 2016.

## Note 7 Taxes

#### Accounting principle

##### Current and deferred tax

Mercialys has elected for SIIC tax status effective as of November 1, 2005.

Under this status, its rental revenues and capital gains on property assets are exempt from tax. In return for this exemption, the company is required to distribute 95% of its net income from rental activities and 60% of its capital gains on property sales.

Under the SIIC regime, Mercialys may not be more than 60% owned by a single shareholder or group acting in concert, and 15% of shareholders must hold less than 2% of the Company's share capital.

Upon election of SIIC status, Mercialys was required to pay an exit tax of 16.5% on its unrealized capital gains on properties and its investments in subsidiaries not subject to corporate income tax. As a consequence of this election, the parent company no longer has any unrealized capital gains nor any net income from rental activities that will be subject to tax in the future.

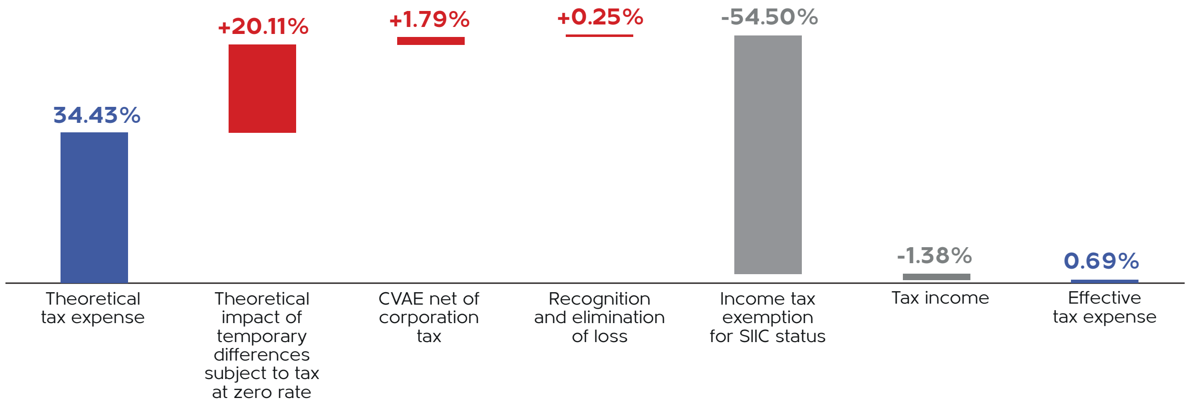
### 7.1 TAX EXPENSE

**Reconciliation of the effective tax expense and the theoretical tax expense**

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Theoretical tax rate | 34.43% | 34.43% |
| **Pre-tax income and income from associates** | **93,096** | **120,775** |
| Theoretical tax expense | (32,053) | (41,583) |
| Income tax exemption for SIIC status | 50,740 | 50,903 |
| Theoretical impact of temporary differences subject to tax at zero rate(1) | (18,720) | (11,278) |
| CVAE(2) net of corporation tax | (1,663) | (1,519) |
| Additional tax | - | (103) |
| Tax income | 1,288 | - |
| Recognition and elimination of loss | (236) | 845 |
| **EFFECTIVE TAX EXPENSE** | **(645)** | **(2,736)** |
| Effective tax rate | 0.69% | 2.27% |

*(1) In 2017, as in 2016, temporary differences subject to tax at zero rate primarily comprised consolidation restatements not subject to deferred tax, in particular the cancellation of the capital gain on the internal disposal of fixed assets and securities.*
*(2) CVAE: contribution on added value paid by companies.*

The tax expense for 2017 came to Euro (645,000) compared with Euro (2,736,000) at the end of December 2016. This tax expense consists of the adjustment to the additional 3% corporate income tax levy on the distribution of income beyond the obligation required by the SIIC tax status, which has been ruled as unconstitutional by the *Conseil constitutionnel*, (the highest constitutional authority in France) for Euro 1,288,000, of the CVAE tax for Euro (1,663,000), corporate income tax for Euro (107,000) and deferred tax losses and timing differences for Euro (162,000).




### 7.2 DEFERRED TAX

## Accounting principle

In accordance with IAS 12, deferred taxes are recognized. They correspond to tax calculated and that is likely to be recoverable since they consist of assets, on timing tax differences, tax loss carryforwards and certain consolidation restatements.

Deferred tax assets and liabilities are calculated according to the liability method on the basis of the tax rate expected for the year in which the asset will be realized or the liability settled.

Deferred taxes are recognized as income except if they are attached to business combinations or to items recognized under comprehensive income or directly as equity.

Deferred taxes are always presented as non-current assets or liabilities.

### 7.2.1 Change in deferred tax assets

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| **Beginning of period** | **422** | **338** |
| Income/(expense) for the year | (160) | (732) |
| Effect of changes in the scope of consolidation and reclassifications | - | 578 |
| Changes recognized under other comprehensive income | 57 | 238 |
| **END OF PERIOD** | **319** | **422** |

### 7.2.2 Change in deferred tax liabilities

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| **Beginning of period** | **578** | **-** |
| Expense/(income) for the year | - | - |
| Effect of changes in the scope of consolidation and reclassifications | - | 578 |
| Changes recognized under other comprehensive income | - | - |
| **END OF PERIOD** | **578** | **578** |

As of December 31, 2017, deferred tax assets recognized related primarily to the revaluation at fair value of assets available for sale.

# Note 8 Intangible assets, property, plant & equipment and investment property

## Accounting principle

Intangible assets, property, plant and equipment as well as investment property are recognized according to the cost method (acquisition cost less accumulated depreciation and any impairment losses).

An investment property is a property held by the Group for rental revenue or capital appreciation, or both. Investment properties are recognized and measured in accordance with the provisions of IAS 40.

Within the Group, shopping centers are recognized as investment properties.

Information on the fair value of investment property is provided in the notes to the Consolidated Financial Statements in note 8.1.3, page 130. Depreciation methods and periods are the same as those used for property, plant and equipment other than investment property.

Appraisals of shopping centers owned by the Mercialys Group are conducted in compliance with the code of conduct for real estate appraisers issued by the R.I.C.S. (Royal Institution of Chartered Surveyors). The methods used to appraise the fair value of each asset are those recommended in the June 2006 property valuation charter (third edition) and in the 2000 report on valuation of real estate assets of publicly traded companies by a working group of the COB (*Commission des opérations de Bourse*, France's securities market regulator at the time) and the CNC (*Conseil national de la comptabilité*, France's National Accounting Board). All of the assets in Mercialys' property portfolio are appraised on a rotating basis, at the rate of one-third every year and by updating the other two thirds. As recommended in the 2000 COB/CNC report, two approaches are used to determine the fair value of each asset:

- the first approach, capitalization of rental income, consists of measuring net rental income from the asset and applying a rate of return corresponding to the market rate for assets of the same type, based on the retail area, configuration, location, competition, means of ownership, rental and extension potential and comparability with recent transactions, and taking into account the actual level of rent, less non rebillable expenses and works relative to the corresponding market price and the vacancy rate;
- the second approach, discounted cash flow (DCF), which consists of discounting future flows of income and expenses, takes into consideration projected rent increases and vacancy rates in future years, as well as other forecast parameters such as the duration of the period during which the property will be in the lease market and the investment outlays borne by the lessor.

The discount rate applied takes account of the market-risk-free rate (TEC 10-year OAT), plus a risk premium and a real estate market liquidity premium, as well as any risk premiums for obsolescence and rental risk.

Small assets have been valued by comparison with market transactions in similar assets.

### Cost price of fixed assets and investment property

The acquisition cost of property assets and investment property includes the acquisition expenses of these assets and investment property gross of tax.

Carrying amounts of investment property may include compensation paid to a tenant evicted upon early termination of a lease when:

- the tenant is replaced: if payment of eviction compensation enables the performance of the asset to be enhanced, this expenditure is capitalized as part of the cost of the asset; if not, this expenditure is charged to expense in the year incurred;
- the site is renovated: if payment of eviction compensation is due to renovation work on the building, this expenditure is included in the cost of that work.

Personnel expenses and borrowing costs directly attributable to the acquisition, construction or production of an asset, for which preparation prior to use or planned sale requires a substantial period of time – generally more than six months – are included in the cost of the asset. In 2017, personnel expenses for Euro 2,737,000 and borrowing costs for Euro 272,000 were incorporated into the asset cost. The capitalization rate used for the recognition of borrowing costs as assets is 2.2%.

All other borrowing costs are recognized as expenses for the year in which they are incurred. Borrowing costs are interest and other costs borne by a company within the framework of borrowing funds.

### Depreciation

Investment properties and other property assets are recognized and depreciated according to the component method. For buildings, four components have been identified: structural elements, roofing, fire protection of the building shell, and fixtures. “Roofing” and “fire protection” are identified as separate components only in the case of major renovations. In all other cases, they are not separated from the structural elements.

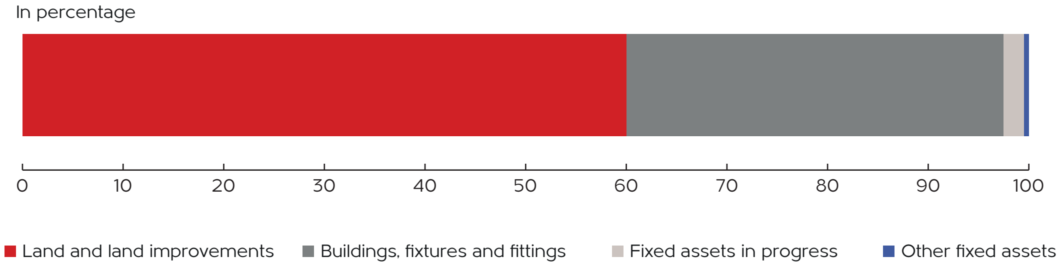
Property, plant and equipment and investment property, with the exception of land (non-depreciable), are depreciated using the straight-line method for each category of asset, with generally zero residual value:

| Type of asset | Depreciation and amortization period *(in years)* |
|---|---|
| Land arrangements and improvements | 40 years |
| Buildings (structural elements) | 50 years |
| Roofing | 15 years |
| Fire protection of the building shell | 25 years |
| Fixtures and fittings and renovation of premises | 10-20 years |

## 8.1 INTANGIBLE ASSETS, PROPERTY, PLANT & EQUIPMENT AND INVESTMENT PROPERTY

### 8.1.1 Composition

| *(In thousands of euros)* | 12/2017 Gross | 12/2017 Depreciation and impairment | 12/2017 Net | 12/2016 Gross | 12/2016 Depreciation and impairment | 12/2016 Net |
|---|---|---|---|---|---|---|
| Software | 4,225 | (2,224) | 2,001 | 3,228 | (1,325) | 1,903 |
| Other intangible assets in progress | 485 | - | 485 | 113 | - | 113 |
| **Intangible assets** | **4,711** | **(2,224)** | **2,486** | **3,341** | **(1,325)** | **2,016** |
| Other property, plant and equipment | 54 | (43) | 10 | 54 | (42) | 12 |
| **Property, plant and equipment other than investment property** | **54** | **(43)** | **10** | **54** | **(42)** | **12** |
| Land and land improvements | 1,399,600 | (18,187) | 1,381,413 | 1,432,990 | (11,555) | 1,421,435 |
| Buildings, fixtures and fittings | 1,068,214 | (188,949) | 879,267 | 1,020,350 | (161,799) | 858,551 |
| Other property, plant and equipment | 10,352 | (4,451) | 5,901 | 7,637 | (3,649) | 3,988 |
| Fixed assets in progress | 38,833 | - | 38,833 | 41,294 | - | 41,294 |
| **Investment property** | **2,517,000** | **(211,587)** | **2,305,414** | **2,502,271** | **(177,003)** | **2,325,268** |




## 8.1.2 Change in intangible assets, PP&E and investment property

### 8.1.2.1 Change in intangible assets

| *(In thousands of euros)* | Software | Other intangible assets | Total |
|---|---|---|---|
| **As at January 1, 2016** | **959** | **15** | **974** |
| Increase and other acquisitions | 1,483 | 98 | 1,581 |
| Disposals for the period | (530) | - | (530) |
| Depreciation and amortization | (9) | - | (9) |
| **AS AT DECEMBER 31, 2016** | **1,903** | **113** | **2,016** |
| Increase and other acquisitions | 998 | 372 | 1,370 |
| Depreciation and amortization | (901) | - | (901) |
| Disposals for the period | - | - | - |
| **AS AT DECEMBER 31, 2017** | **2,001** | **485** | **2,486** |

### 8.1.2.2 Change in property, plant & equipment

| *(In thousands of euros)* | Buildings | Other property, plant and equipment | Fixed assets in progress | Total |
|---|---|---|---|---|
| **As at January 1, 2016** | **-** | **7** | **5** | **12** |
| Increase and other acquisitions | - | - | - | - |
| Depreciation and amortization | - | - | - | - |
| Disposals for the period | - | - | - | - |
| Reclassification and other movements | - | 5 | (5) | - |
| **AS AT DECEMBER 31, 2016** | **-** | **12** | **-** | **12** |
| Increase and other acquisitions | - | - | - | - |
| Depreciation and amortization | - | (2) | - | (2) |
| Disposals for the period | - | - | - | - |
| Reclassification and other movements | 5 | (5) | - | - |
| **AS AT DECEMBER 31, 2017** | **5** | **6** | **-** | **10** |

This line item consists of property, plant and equipment used by the central departments of the Group.

### 8.1.2.3 Change in the investment property

| *(In thousands of euros)* | Land and land improvements | Buildings, fixtures and fittings | Other property, plant and equipment | Property, plant and equipment in progress | Total |
|---|---|---|---|---|---|
| **As at January 1, 2016** | **1,368,759** | **816,990** | **5,369** | **32,963** | **2,224,080** |
| Increase and other acquisitions | 109,496 | 102,273 | 258 | 79,949 | 291,976 |
| Depreciation and amortization | (2,264) | (30,797) | (801) | - | (33,862) |
| Disposals for the period | (54,344) | (41,202) | (281) | (4,019) | (99,846) |
| Reclassification as assets held for sale | (31,212) | (26,272) | (326) | (3,139) | (60,949) |
| Reclassification and other movements[1] | 31,000 | 37,559 | (231) | (64,460) | 3,868 |
| **AS AT DECEMBER 31, 2016** | **1,421,435** | **858,551** | **3,988** | **41,294** | **2,325,268** |
| Increase and other acquisitions | 11,698 | 39,749 | 547 | 59,079 | 111,073 |
| Depreciation and amortization | (7,156) | (34,020) | (924) | - | (42,101) |
| Disposals for the period | (493) | (713) | (28) | (163) | (1,397) |
| Reclassification as assets held for sale (see note 8.2, p. 133) | (50,451) | (33,216) | (102) | (3,374) | (87,143) |
| Reclassification and other movements[1] | 6,380 | 48,916 | 2,420 | (58,002) | (286) |
| **AS AT DECEMBER 31, 2017** | **1,381,413** | **879,267** | **5,901** | **38,833** | **2,305,414** |

*(1) The line "Reclassification and Other Movements" corresponds primarily to the commissioning of buildings already recognized in the previous year under current property, plant and equipment in progress and to reclassifications of buildings held for sale.*

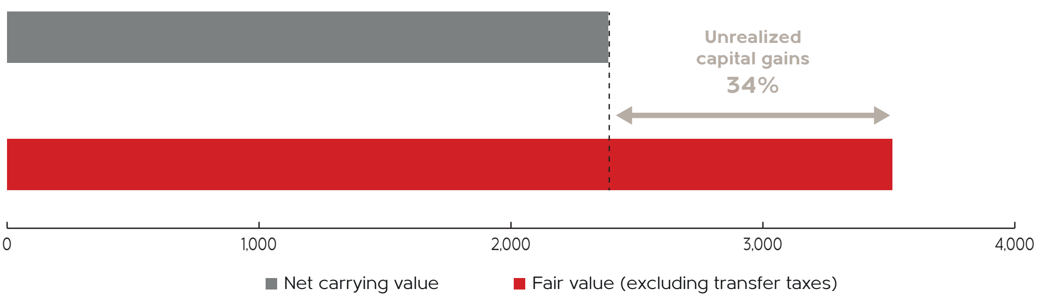
In 2017, Mercialys acquired the redevelopment and extension project of the Jumbo Sacré-Cœur shopping center for Euro 26.9 million, and is carrying out works mainly on the sites of Rennes Saint-Grégoire for Euro 15.3 million, Saint-Étienne Monthieu for Euro 16.1 million, Poitiers for Euro 5.8 million, Morlaix for Euro 8.2 million, Quimper for Euro 6.5 million, Besançon for Euro 2.2 million, Sainte-Marie-du-Parc for Euro 2.9 million and Ajaccio for Euro 4.1 million.

In 2016, Mercialys mainly acquired:

- two Monoprix sites to be transformed in districts in Greater Paris: Saint-Germain-en-Laye and La Garenne-Colombes for Euro 69.6 million;
- the extension of the shopping center at Fenouillet for Euro 134 million corresponding to the assets acquired following the exercise of the call option Mercialys held on shares in SNC Fenouillet Participations.

### 8.1.3 Fair value of investment properties

| *(In thousands of euros)* | 2017 | | 2016 | |
|---|---|---|---|---|
| | Net carrying cost | Fair value (excluding transfer taxes) | Net carrying cost | Fair value (excluding transfer taxes) |
| Investment property | 2,305,414 | 3,513,308 | 2,325,269 | 3,499,200 |
| Investment property held for sale | 113 | 113 | 60,949 | 66,249 |
| **TOTAL** | **2,305,527** | **3,513,421** | **2,386,217** | **3,565,449** |



At December 31, 2017, BNP Real Estate Valuation, Catella Valuation, Cushman & Wakefield, CBRE and Galtier updated their valuation of Mercialys' portfolio:

- BNP Real Estate Valuation conducted the appraisal of 40 sites as at December 31, 2017, on the basis of a visit to five sites during the second half of 2017, and on the basis of an update of the appraisals conducted at June 30, 2017, for the other sites. Six site visits were carried out during the first half of 2017. The appraisals performed by BNP Real Estate Valuation represent Euro 2,729.2 million including transfer taxes (Euro 2,570.0 excluding transfer taxes) or 73.1% of the property portfolio.
- Catella conducted the appraisal of 20 sites as at December 31, 2017, on the basis of an update of the appraisals conducted as at June 30, 2017. The appraisals performed by Catella represent Euro 501.7 million including transfer taxes (Euro 469.3 million excluding transfer taxes) or 13.4% of the property portfolio.
- Cushman & Wakefield conducted the appraisal of nine sites as at December 31, 2017, on the basis of a site visit. The appraisals performed by Cushman & Wakefield represent Euro 305.6 million including transfer taxes (Euro 285.9 million excluding transfer taxes) or 8.1% of the property portfolio.
- CBRE conducted the appraisal of one site as at December 31, 2017, on the basis of an update of the appraisal conducted at June 30, 2017. The appraisals performed by CBRE represent Euro 161.4 million including transfer taxes (Euro 151.0 million excluding transfer taxes) or 4.3% of the property portfolio.
- Galtier conducted the appraisal of Mercialys' other assets, *i.e.* two sites as at December 31, 2017, on the basis of an update of the appraisals conducted as at June 30, 2017. The appraisals performed by Galtier represent Euro 11.1 million including transfer taxes (Euro 10.3 million excluding transfer taxes) or 0.3% of the property portfolio.
- An internal appraisal was performed for the acquisition of the expansion of the Le Port shopping center. The latter was made at acquisition price, or Euro 27.7 million including transfer taxes (€27.0 million excluding transfer taxes) and represent 0.8% of the Portfolio.

Fees correspond to registration fees payable on the sale of property upon signing of the deed of sale before a notary.

The valuation of investment property requires some judgment and estimates. The valuations determined by independent appraisers are based on level 3 non-observable data as defined by IFRS 13.

On this basis, the portfolio was valued at Euro 3,736.7 million including transfer taxes (Euro 3,513.4 million excluding transfer taxes) at December 31, 2017, compared to Euro 3,797.3 million including transfer taxes (Euro 3,565.4 million excluding transfer taxes) at December 31, 2016.

The value of the portfolio including transfer taxes is therefore decreasing by -1.6% over 12 months (and up by +2.2% on a like-for-like basis[1]). The average appraisal yield was 5.13% as at December 31, 2017. The average appraisal yield was 5.25% as at December 31, 2016.

The change in the fair value of assets excluding transfer taxes for the 2017 period stemmed from:

- the effect of rental income on a like-for-like basis of Euro 5 million;
- a fall in the average capitalization rate (reflecting the appreciation of appraisers as to the sustainability and recurrence of income generated by property assets) which had an impact of Euro 72 million;
- changes in the scope of consolidation (acquisitions net of asset sales): Euro (129) million.

Note that the contribution of Casual Leasing activity[2] to value creation is significant because it represents Euro 178 million in the appraisal value at December 31, 2017 (Euro 170 million as at December 31, 2016) while involving no investments.

| Type of property(1) | Average yield 12/31/2017(2) | Average yield 06/30/2017(2) | Average yield 12/31/2016(2) |
|---|---|---|---|
| Regional / Large shopping centers | 4.82% | 4.94% | 5.02% |
| Neighborhood shopping centers and city-center assets | 6.13% | 5.79% | 5.91% |
| Total portfolio(3) | 5.13% | 5.14% | 5.25% |

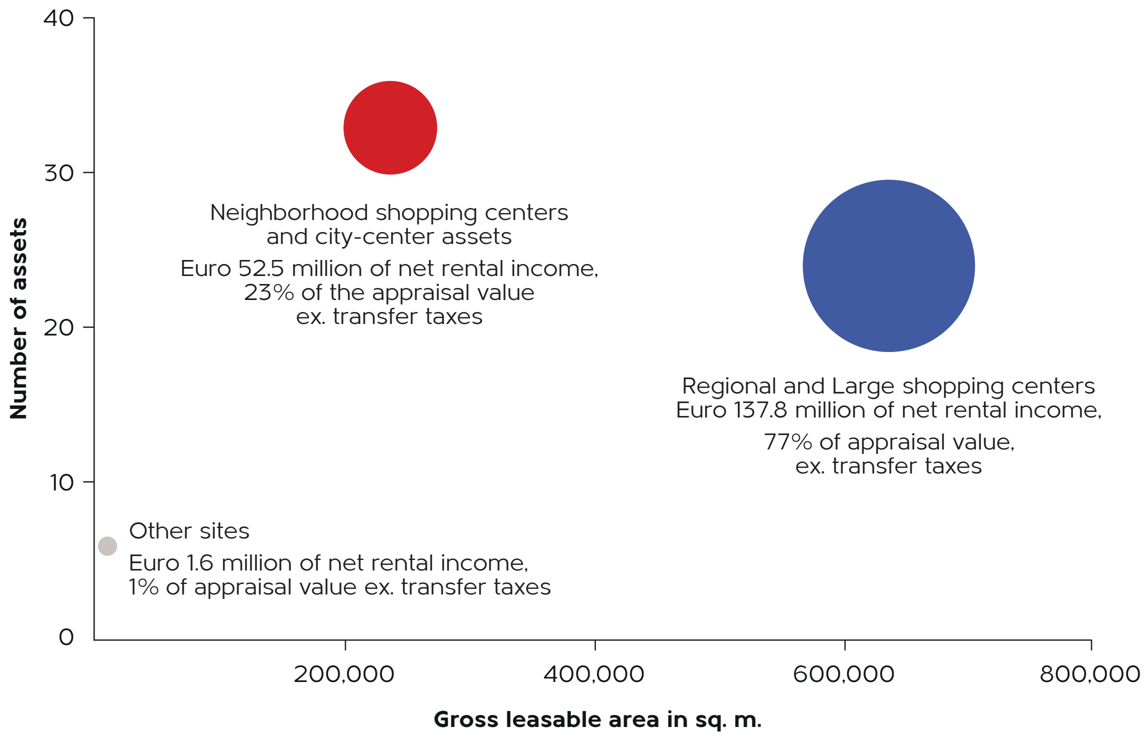
*(1) Classification in accordance with CNCC system.*
*(2) Rates calculated on the basis of the appraised rental income including occupied and vacant premises.*
*(3) Including the Other sites.*

(1) *Sites on a constant surface basis.*
(2) *Small stalls temporarily installed in the common parts.*

The following table gives the breakdown of fair value and gross leasable area (GLA) of Mercialys' real estate portfolio, by type of property at December 31, 2017, as well as the corresponding appraised rental income:

| Type of property[(1)] | Number of assets at 12/31/2017 | Appraisal value (excluding transfer taxes) at 12/31/2017 (in €M) | (%) | Appraisal value (including transfer taxes) at 12/31/2017 (in €M) | (%) | Gross leasable area at 12/31/2017 (sq.m) | (%) | Appraised potential net rental income (in €M) | (%) |
|---|---|---|---|---|---|---|---|---|---|
| Regional / Large shopping centers | 24 | 2,687.9 | 76.5% | 2,856.0 | 76.4% | 633,450 | 72.1% | 137.8 | 71.8% |
| Neighborhood shopping centers and city-center assets | 33 | 802.8 | 22.9% | 856.5 | 22.9% | 235,736 | 26.8% | 52.5 | 27.4% |
| **Sub-total shopping centers** | **57** | **3,490.8** | **99.4%** | **3,712.5** | **99.4%** | **869,186** | **99.0%** | **190.3** | **99.2%** |
| Other sites[(2)] | 6 | 22.7 | 0.6% | 24.2 | 0.6% | 9,102 | 1.0% | 1.6 | 0.8% |
| **TOTAL** | **63** | **3,513.4** | **100.0%** | **3,736.7** | **100.0%** | **878,288** | **100.0%** | **191.9** | **100.0%** |

*(1) Classification in accordance with CNCC system.*
*(2) Mainly large specialty stores, convenience stores and cafeterias.*
- *LFS: Large food stores (food store with gross leasable area of over 750 sq.m).*
- *LSS: Large specialty stores (store specialized in a business sector with gross leasable area of over 750 sq.m).*




Because of the high correlation between the yield rate and the discount rate in our experts' model, the sensitivity test to changes in yield rate also shows the sensitivity to changes in the discount rate.

Thus, based on an assumption of annual appraised rents of Euro 192 million and a capitalization rate of 5.46%:

| Sensitivity criteria | Impact on appraisal value (excluding transfer taxes) *(In millions of euros)* |
|---|---|
| Decrease of 0.5% in capitalization rate | 354.1 |
| Increase of 10% in rents | 351.3 |
| Increase of 0.5% in capitalization rate | (294.7) |
| Decrease of 10% in rents | (351.3) |

Fees charged to Mercialys for the appraisals detailed above amounted to Euro 203,000 for the financial year ended December 31, 2017, compared to Euro 213,000 at December 31, 2016.

## 8.2 INVESTMENT PROPERTY HELD FOR SALE

### Accounting principle

Investment property held for sale is stated at the lower of their carrying cost and their fair value, less the costs of sale.

They are classified as assets held for sale if their carrying cost is recovered primarily by means of a sale rather than continuing use.

This condition is deemed to have been met only if the sale is highly probable and the asset held for sale is available with a view to being sold immediately in its current state. Executive Management must have planned to sell the asset, which in accounting terms should result in the conclusion of a sale within one year of the date of this classification.

Once classified as held for sale, intangible assets, property, plant and equipment and investment property are no longer depreciated.

### Change in investment property held for sale

| *(In thousands of euros)* | Land and land improvements | Buildings, fixtures and fittings | Other property, plant and equipment | Property, plant and equipment in progress | Total |
|---|---|---|---|---|---|
| **As at January 1, 2016** | **891** | **2,097** | **-** | **107** | **3,095** |
| Disposals for the period | (891) | (2,097) | - | (107) | (3,096) |
| Reclassification as assets held for sale | 31,212 | 26,215 | 383 | 3,139 | 60,949 |
| **AS AT DECEMBER 31, 2016** | **31,212** | **26,215** | **383** | **3,139** | **60,949** |
| Disposals for the period (see note 6.7, p. 125) | (81,550) | (59,431) | (495) | (6,503) | (147,979)[(2)] |
| Reclassification as assets held for sale[(1)] (see note 8.1.2.3, p. 130) | 50,451 | 33,216 | 112 | 3,364 | 87,143 |
| **AS AT DECEMBER 31, 2017** | **113** | **-** | **-** | **-** | **113** |

*(1) Reclassifications during the period mainly consist of the Poitiers sites for Euro 67.2 million and Fontaine-lès-Dijon for Euro 21.8 million. These sites are identified as assets held for sale and sold during the year (see note 6.7, p. 125).*
*(2) Of which Euro 0.6 million of reversal of provision on site without impact on cash-flows (see note 4.3, p. 121).*

# Note 9 Finance leases

## Accounting principle

Finance leases, which are leases that transfer to the lessee virtually all risks and rewards incidental to ownership of the leased property, are recognized in the balance sheet at inception of the lease at the fair value of the leased property or the present value of minimum lease payments, whichever is lower.

Properties held by the Group under finance leases are treated in the balance sheet and consolidated income statement as if they had been purchased and financed by borrowing. An asset is recognized as leased property, and a corresponding liability is recognized for the financing provided by the lease. Lease payments are allocated between interest expense and amortization of the outstanding loan.

Future payments in respect of finance leases are discounted and recorded on the Group balance sheet under financial liabilities.

Leased assets are depreciated over their expected useful life in the same way as other similar assets, or over the term of the lease, if shorter and if the Group cannot be reasonably certain that it will become the owner of the asset at the end of the lease.

At December 31, 2017, the Group had no finance leases.

# Note 10 Other non-current assets

## Accounting principle

Non-current assets consist essentially of financial assets available for sale and amounts receivable from tenants under construction leases; in substance, the return of the construction by the tenant to the landlord at the end of the lease is considered to be an additional rent payable in kind and is spread over the term of the lease. At the end of the lease, when the asset is returned by the lessor, the accrued revenue is cancelled by recognizing an equivalent amount as a long-term asset. Because the maturity of these financial assets is greater than one year at the outset, the amounts are discounted to present value.

### BREAKDOWN OF OTHER NON-CURRENT ASSETS

| *(In thousands of euros)* | Total | Financial assets vailable for sale(1) | Construction leases | Real estate guarantees | Non-current hedging assets(2) | Loans and interest(3) |
|---|---|---|---|---|---|---|
| **December 31, 2015** | **34,154** | **10,392** | **9,171** | **142** | **14,449** | **-** |
| Increase | 3,188 | - | - | - | - | 3,188 |
| Change in fair value | 16,583 | 87 | - | - | 16,496 | - |
| Decrease | (2,415) | - | (2,295) | (120) | - | - |
| Discounting/Accretion | 475 | - | 483 | - | - | (8) |
| Reclassification | 2,685 | - | - | - | - | 2,685 |
| **DECEMBER 31, 2016** | **54,672** | **10,480** | **7,359** | **22** | **30,945** | **5,865** |
| Increase | 28 | - | - | - | - | 28 |
| Change in fair value | (16,314) | 375 | - | - | (16,689) | - |
| Decrease | (1,391) | - | (1,391) | - | - | - |
| Discounting/Accretion | 535 | - | 546 | - | - | (11) |
| **DECEMBER 31, 2017** | **37,529** | **10,855** | **6,514** | **22** | **14,256** | **5,882** |

*(1) Financial assets available for sale are primarily made up of shares in the UIR II mutual fund. This mutual fund is owned 80.01% by Union Investment and 19.99% by Mercialys. It operates a property in Pessac which provides it with rental income. UIR II also paid out a dividend of Euro 276,000 at the end of December 2017 (see note 6.3, p. 124).*

*(2) The fair value hedging derivatives (hedge for interest rate risk) mature between March 26, 2019 and March 31, 2023 (see note 14.2.3, p. 140).*

*(3) Euro 2.7 million corresponded to the reclassification of the advance granted to UIR II (AFS) previously recognized in the current account. The increase of Euro 3.2 million corresponded mainly to the loan granted by Mercialys to SCI Rennes-Anglet (see note 25.11, p. 156).*

# Note 11 Impairment of non-current assets

## Accounting principle

IAS 36 sets out the procedures that a business entity must follow to ensure that the carrying cost of its assets (intangible, property, plant and equipment and investment property) does not exceed the recoverable amount, *i.e.* the amount that will be recovered by their use or sale.

The recoverable value of an asset is estimated each time there is evidence that this asset may have lost its value.

### Cash generating unit (CGU)

A Cash Generating Unit is the smallest group of assets that includes an asset the continuing use of which generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Group defines CGU as a center (Large regional centers of neighborhood shopping centers).

### Evidence of impairment

Assets are tested for impairment every six months. An impairment provision for investment property is recognized when an appraisal indicates a fair value, excluding transfer taxes, that is below the net carrying cost of the assets.

### Measuring the recoverable amount

The recoverable amount of an asset is the value which is the higher of:

- the fair value less costs, corresponding to the price that would be received for the sale of an asset, or paid for the transfer of a liability, during a normal transaction between market operators on the date of the valuation;
- and the fair value excluding transfer taxes, measured by independent appraisers, corresponding to the future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. It is determined in accordance with the two approaches described in note 10, page 134.

### Loss of value

A loss of value is recognized as soon as the carrying cost of an asset is higher than its recoverable amount. Losses of value are recognized under “Other operating expenses”.

In some cases, the Group may have to recognize all or part of the loss of value recognized in previous years.

## IMPAIRMENT OF INVESTMENT PROPERTY

On the basis of the appraisals described in note 8, page 127, an impairment loss on investment property concerning the Arles, Brive and Millau sites was recognized at end December 2017 for an amount of Euro 7.6 million in other operating expenses.

# Note 12 Trade accounts and other receivables

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Trade accounts and other receivables | 21,909 | 35,549 |
| Impairment | (6,070) | (5,756) |
| **TRADE ACCOUNTS AND OTHER RECEIVABLES, NET** | **15,839** | **29,793** |

Trade receivables as at December 31, 2017, comprise primarily rents, lease rights and advisory services invoiced at the end of the year.

Trade receivables are examined on a case-by-case basis and are impaired if necessary to take account of any collection difficulties to which they may give rise.

The aging of trade receivables breaks down as follows:

| Trade accounts and other receivables | Assets not due and not impaired | Assets due and not impaired at closing date | | | | | Impaired assets | Total |
|---|---|---|---|---|---|---|---|---|
| *(In thousands of euros)* | Total | In arrears for less than 3 months | In arrears for 3 to 6 months | In arrears for 6 to 12 months | In arrears for more than 12 months | Total | Total | |
| As at December 31, 2016 | 11,562 | 8,230 | 691 | 683 | (106) | 9,498 | 14,489 | 35,549 |
| **AS AT DECEMBER 31, 2017** | **3,952** | **4,487** | **1,386** | **1,081** | **786** | **7,741** | **10,215** | **21,909** |

# Note 13 Other current assets

## Accounting principle

Assets to be realized, consumed or sold in the course of the normal operating cycle or within twelve months of the reporting date are classified as “current assets”, as are assets held for sale, cash and cash equivalents. All other assets are classified as “non-current assets”.

| *(In thousands of euros)* | Notes | 12/2017 | 12/2016 |
|---|---|---|---|
| Advances and down payments paid on orders | | 2,584 | 3,285 |
| Receivables on assets | | 1,149 | 474 |
| VAT credit | | 3,267 | 9,062 |
| Other operating receivables(1) | | 27,583 | 20,469 |
| Prepaid expenses | | 4,466 | 3,527 |
| Current hedging instruments | 14.2.4 | 20,663 | 20,114 |
| **OTHER RECEIVABLES** | | **59,713** | **56,931** |

*(1) Other operating receivables primarily include VAT credits, mainly relating to calls for funds issued by the Sudeco property manager.*

# Note 14 Financial structure

## 14.1 NET FINANCIAL INCOME (EXPENSE)

### 14.1.1 Cost of net financial debt

#### Accounting principle

The cost of net financial debt consists of all income and expenses arising on components of net financial debt during the reporting period, including the income and profit on the sale of cash equivalents, as well as interest charges relating to finance leases.

Net financial debt comprises all financial liabilities including derivatives recognized using hedge accounting, less (i) cash and cash equivalents, (ii) derivatives with a positive fair value recognized using hedge accounting concerning borrowings and financial liabilities.

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Cost of the debt incurred | (36,909) | (38,781) |
| Impact of hedging instruments | 6,690 | 8,240 |
| **Cost of gross financial debt** | **(30,219)** | **(30,541)** |
| Net proceeds of sales of investment securities | 156 | 140 |
| **REVENUES FROM NET CASH/(COST OF NET FINANCIAL DEBT)** | **(30,063)** | **(30,401)** |

The cost of net financial debt incurred include, in particular, the interest expense on bonds for Euro (33.7) million in 2017, compared with Euro (33.2) million in 2016.

### 14.1.2 Other financial income and expenses

#### Accounting principle

This concerns financial income and expenses that do not form part of the cost of net financial debt. In particular, this includes commitment fees, the costs relating to undrawn bank loans, dividends received, interest on current accounts with companies not in the Mercialys Group, and discounting adjustments.

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Other financial income | 254 | 1,159 |
| **Interest income** | **254** | **1,159** |
| Other financial charges | (2,173) | (2,029) |
| **Interest expense** | **(2,173)** | **(2,029)** |
| **TOTAL OTHER FINANCIAL INCOME AND COSTS** | **(1,919)** | **(870)** |

In 2017, as in 2016, other financial income and expenses include commitment fees and the deferral of costs relating to undrawn bank loans (RCF) in the amount of Euro (2) million, and interests on current accounts of affiliated companies.

## 14.2 FINANCIAL ASSETS AND LIABILITIES

### Accounting principle

#### Financial assets

Financial assets are classified into four categories according to their nature and the intention to hold them:

- investments held to maturity;
- financial assets measured at fair value through profit or loss;
- loans and receivables;
- assets available for sale.

Only the last two categories are relevant to Mercialys.

The breakdown of financial assets between current and non-current is determined according to their maturity at the reporting date: less or more than one year.

##### Measurement and initial recognition of financial assets

All financial assets are initially recognized at fair value plus transaction costs (with the exception of the transaction costs of assets measured at fair value through profit or loss, which are recognized at cost).

##### Loans and receivables

Loans and receivables are primarily composed of short-term trade receivables. After their initial recognition, they are measured at amortized cost, using the effective interest rate method. Long term loans and receivables not bearing interest or bearing interest at a rate below the market rate are, when the amounts are significant, discounted at a rate representative of market conditions. Any impairments are recognized in profit or loss.

Trade receivables are recognized and measured at the initial invoice amount, less impairment allowances for any non-recoverable amounts. They are maintained as assets on the balance sheet provided all the risks and rewards associated with them have not been transferred to a third party.

##### Assets available for sale

This category comprises mainly non-consolidated interests.

Assets available for sale are presented as non-current financial assets. They are measured at fair value and changes in fair value are recognized as other items of comprehensive income, net of deferred tax until the asset is sold, cashed or disposed of in another manner, or until it is demonstrated that the asset has lost value in a prolonged and significant way. In this case, the profit or loss – previously recognized in the relevant fair value reserve (as equity) – is transferred to profit or loss.

The impairment of an asset available for sale is final. Subsequent positive changes in fair value are recognized directly in equity.

##### Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term investments.

To be eligible for classification as a cash equivalent in accordance with IAS 7, investments must meet four criteria:

- short term investments;
- highly liquid investments;
- investments that are readily convertible to a known amount of cash;
- insignificant risk of changes in value.

#### Financial liabilities

##### Definition

Financial liabilities are classified in two categories and comprise:

- borrowings at amortized cost;
- financial liabilities measured at fair value through profit or loss.

The breakdown of financial liabilities between current and non-current is determined according to their maturity at the reporting date: less than or more than one year.

##### Measurement and recognition of financial liabilities

The measurement of financial liabilities depends on their classification under IAS 39.

All financial liabilities are initially recognized at their fair value less transaction costs (with the exception of the transaction costs of liabilities measured at fair value through profit or loss, which are recognized as an expense).

##### Financial liabilities measured at amortized cost

After their initial recognition, borrowings and other financial liabilities are usually recognized at amortized cost calculated using the effective interest rate method.

Issue costs and premiums and redemption premiums form part of the amortized cost of borrowings and financial liabilities. They are deducted from or added to borrowings, depending on the case, and are amortized on an actuarial basis.

### Measurement and recognition of derivatives

Derivatives are stated in the balance sheet at fair value.

The Group uses the possibility offered by IAS 39 of applying hedge accounting:

- in the case of fair value hedges (*e.g.* fixed-rate bond swapped to variable rate), the debt is recognized at its fair value proportional to the risk hedged and any changes in fair value are recorded in income. The change in fair value of the derivative is recognized in the income statement. If the hedge is completely effective, the two effects cancel each other out completely;
- in the case of cash flow hedges (*e.g.* floating-rate bond swapped to fixed-rate), the effective portion of the change in fair value of the hedging instrument is recorded under other items of comprehensive income. The ineffective portion of the change in fair value of the derivative is recognized in the income statement. The amounts recognized under items of other comprehensive income are taken to income to match the recognition of the hedged items.

Hedge accounting is applicable if:

- the hedging relationship is clearly defined and documented as of the date of inception; and
- the effectiveness of the hedge is demonstrated at inception for as long as it lasts.

## 14.2.1 Net cash

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Cash | 196,813 | 15,477 |
| Cash equivalents | 101 | 101 |
| **Cash and cash equivalents** | **196,913** | **15,578** |
| Bank overdrafts | (444) | (280) |
| **CASH NET OF BANK OVERDRAFTS** | **196,469** | **15,298** |

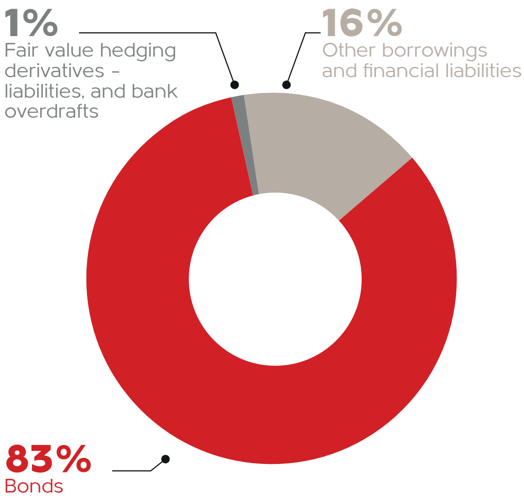
## 14.2.2 Financial liabilities

Financial liabilities amount to Euro (1,427.0) million as at December 31, 2017 compared with Euro (1,485.8) as at December 31, 2016. These liabilities comprise the following:

| | 12/2017 | | | 12/2016 | | |
|---|---|---|---|---|---|---|
| *(In thousands of euros)* | Non-current portion | Current portion | Total | Non-current portion | Current portion | Total |
| Bonds | (1,361,527) | (21,611) | (1,383,138) | (1,209,020) | (21,351) | (1,230,371) |
| Other borrowings and financial liabilities | - | (258,500) | (258,500) | - | (290,000) | (290,000) |
| Bank overdrafts | - | (444) | (444) | - | (280) | (280) |
| Fair value hedging derivatives – liabilities | (15,927) | (841) | (16,768) | (30,590) | (1,218) | (31,808) |
| **Gross financial liabilities** | **(1,377,454)** | **(281,396)** | **(1,658,850)** | **(1,239,610)** | **(312,849)** | **(1,552,459)** |
| Fair value hedging derivatives – assets | 14,256 | 20,663 | 34,919 | 30,945 | 20,114 | 51,059 |
| Cash and cash equivalents | - | 196,913 | 196,913 | - | 15,578 | 15,578 |
| **Cash and cash equivalents and other financial assets** | **14,256** | **217,576** | **231,833** | **30,945** | **35,692** | **66,637** |
| **NET FINANCIAL DEBT** | **(1,363,198)** | **(63,819)** | **(1,427,017)** | **(1,208,665)** | **(277,157)** | **(1,485,822)** |

The main flows which have affected the change in financial liabilities comprise the issuance of commercial paper net of repayments for Euro 31.5 million (see note 14.2.6, p. 140) and a new bond issue for Euro 150 million.

Breakdown of gross financial liabilities




### 14.2.3 Bonds

In November 2017, Mercialys made a bond issue of Euro 150 million, offering a fixed yield of 2% and maturing in 2027.

As at December 31, 2017, the amount of bond financings was Euro 1,379.7 million, comprising three issues:

- a Euro 750 million bond issue yielding a fixed rate of 1.787%, with a maturity of eight years and four months (due in March 2023);
- the remainder of a bond issue of Euro 479.7 million (a Euro 650 million tranche issued in March 2012, partially redeemed in December 2014), yielding a fixed rate of 4.125% and maturing in March 2019;
- a Euro 150 million bond issue yielding a fixed rate of 2%, with a maturity of 10 years (maturing in November 2027).

These bonds are subject to the standard commitment and default clauses customarily included in this type of agreement: *pari passu* ranking, a negative pledge clause that limits the security which can be granted to other lenders, and a cross-default obligation. Furthermore, if the rating is downgraded following a change of ownership (see definition below), Mercialys bondholders may request redemption of their share.

A rating downgrade is defined as a lowering of the rating by a ratings agency, a downgrade of the rating to non-investment grade (*i.e.* a downgrade of at least two notches relative to the current rating) or, if the rating is already non-investment grade, a downgrade of at least one notch. The rating downgrade must be explicitly linked to the change in control of the company.

### 14.2.4 Hedging

In addition, Mercialys introduced an interest rate hedging policy in October 2012 by means of a swap agreement, in order to hedge its interest rate risk.

Mercialys' debt structure after hedging broke down as follows at the end of December 2017: 65% fixed-rate debt and 35% floating-rate debt after hedging.

These hedging instruments are recognized in accordance with the fair value hedging method.

### 14.2.5 Confirmed credit lines

At end December 2017, the Mercialys Group's confirmed credit lines amounted to Euro 360 million, of which Euro 270 million maturing in December 2020, Euro 60 million maturing in December 2019, and Euro 30 million maturing in December 2021.

### 14.2.6 Commercial paper

A Euro 500 million commercial paper program was also set up in the second half of 2012. It has been used since 2014. The outstanding commercial paper was Euro 258.5 million as at December 31, 2017. It stood at Euro 290 million at end December 2016.

### 14.2.7 Financial covenants

Mercialys' financial liabilities are subject to default clauses (early repayment) in the event of failing to adhere to the following financial ratios:

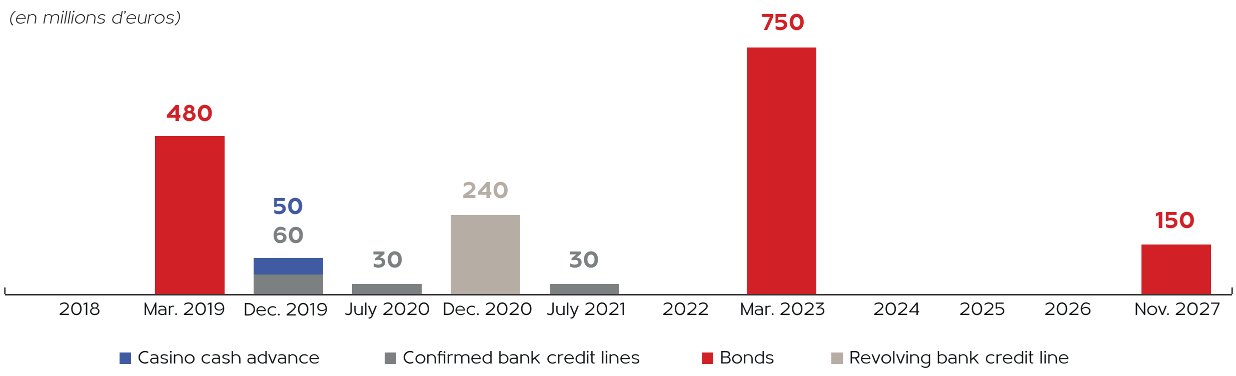
- LTV (Loan To Value): Net financial debt / (market value of the portfolio excluding transfer taxes + market value of investments in associates[1]) <50% at each reporting date;
- ICR (Interest Coverage Ratio): Consolidated EBITDA[2]/Net finance costs >2, at each reporting date;
- Secured debt/consolidated fair value of investment property excluding transfer taxes <20% at any time;
- Consolidated fair value of investment property excluding transfer taxes >Euro 1 billion at any time;
- Change of ownership clauses also apply.

| | Covenants | 12/2017 | 12/2016 |
|---|---|---|---|
| Loan To Value (LTV) | <50% | 39.9% | 41.2% |
| Interest Coverage Ratio (ICR) | >2 | 5.2x | 5.3x |

As at December 31, 2017 the two other contractual covenants (Secured debt to Consolidated fair value of investment properties excluding transfer taxes; and Consolidated fair value of investment property excluding transfer taxes), as well as the commitment and default clauses, were also respected.

(1) *In market value for 2017 and in historic value for 2016. The asset value of associates is not included in the appraisal value.*
(2) *EBITDA: Earnings before interest, taxes, depreciation, and amortization.*

**The Group's debt maturity schedule at December 31, 2017 (including undrawn financial resources and excluding commercial paper)**




# Note 15 Trade payables

As at December 31, 2017 and 2016, trade payables comprised primarily invoices not yet received and outstandings relating to supplier Sudeco – a Casino group subsidiary which manages buildings on behalf of Mercialys.

# Note 16 Other current debts and tax liabilities

## Accounting principle

Liabilities to be settled during the course of the normal operating cycle or within twelve months of the reporting date are classified as "current liabilities". The Group's normal operating cycle is twelve months.

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Amounts payable on fixed assets and related accounts | 14,412 | 31,829 |
| Advances and down payments received on orders | 4,065 | 1,595 |
| Tax and social security liabilities | 10,072 | 10,029 |
| Other liabilities | 1,676 | 1,403 |
| Prepaid income | 4,208 | 4,482 |
| **OTHER CURRENT DEBTS** | **34,432** | **49,338** |
| Current tax liabilities | 49 | 284 |
| **CURRENT TAX LIABILITIES** | **49** | **284** |

As at December 31, 2017 and December 31, 2016, the amounts payable in respect of non-current assets concerned invoices not yet received at the end of the year. Prepaid income relates to the deferring of lease rights.

# Note 17 Breakdown of financial assets and liabilities, per category of instrument

## 17.1 FINANCIAL ASSETS

### As at December 31, 2017

| (In thousands of euros) | Carrying cost on the balance sheet (A) | Non-financial assets (B) | Value of financial assets (A) – (B) | Balance sheet value under IAS 39 | | | Fair value |
|---|---|---|---|---|---|---|---|
| | | | | Hedging instruments | Loans and receivables | Assets available for sale | |
| Other non-current assets | 37,529 | 6,536 | 30,993 | 14,256 | 5,882 | 10,855 | 37,529 |
| Trade receivables | 15,839 | - | 15,839 | - | 15,839 | - | 15,839 |
| Other current assets | 59,713 | 21,759 | 37,954 | 20,663 | 17,291 | - | 59,713 |
| Cash and cash equivalents | 196,913 | - | 196,913 | - | 196,913 | - | 196,913 |

The main measurements used are: the fair value of cash, of trade receivables and of other current financial assets is the same as their carrying cost on the balance sheet, given the short maturities of these receivables.

The fair value measurement methods used with relation to assets available for sale, derivatives and cash and cash equivalents are described in note 18, page 143.

### As at December 31, 2016

| (In thousands of euros) | Carrying cost on the balance sheet (A) | Non-financial assets (B) | Value of financial assets (A) – (B) | Balance sheet value under IAS 39 | | | Fair value |
|---|---|---|---|---|---|---|---|
| | | | | Hedging instruments | Loans and receivables | Assets available for sale | |
| Other non-current assets | 54,672 | 7,381 | 47,291 | 30,945 | 5,866 | 10,480 | 54,672 |
| Trade receivables | 29,793 | - | 29,793 | - | 29,793 | - | 29,793 |
| Other current assets | 56,931 | 27,306 | 29,625 | 20,114 | 9,511 | - | 29,625 |
| Cash and cash equivalents | 15,578 | - | 15,578 | - | 15,578 | - | 15,578 |

## 17.2 FINANCIAL LIABILITIES

### As at December 31, 2017

| (In thousands of euros) | Carrying cost on the balance sheet (A) | Non-financial liabilities (B) | Value of financial liabilities (A) – (B) | Balance sheet value under IAS 39 | | | Fair value |
|---|---|---|---|---|---|---|---|
| | | | | Liabilities measured at fair value in profit or loss | Hedging instruments | Financial liabilities measured at amortized cost | |
| Bonds | 1,383,138 | - | 1,383,138 | - | - | 1,383,138 | 1,433,804 |
| Other borrowings and financial liabilities[(1)] | 258,500 | - | 258,500 | - | - | 258,500 | 258,500 |
| Fair value hedging derivatives – liabilities | 16,768 | - | 16,768 | - | 16,768 | - | 16,768 |
| Deposits and guarantees | 22,694 | - | 22,694 | - | - | 22,694 | 22,694 |
| Trade payables | 12,516 | - | 12,516 | - | - | 12,516 | 12,516 |
| Other current debts | 34,432 | 6,649 | 27,783 | - | - | 27,783 | 34,432 |
| Bank overdrafts | 444 | - | 444 | - | - | 444 | 444 |

*(1) Other borrowings and financial liabilities relate to commercial paper (see note 14.2.6, p. 140).*

As at December 31, 2016

| | | | | Balance sheet value under IAS 39 | | | |
|---|---|---|---|---|---|---|---|
| *(In thousands of euros)* | Carrying cost on the balance sheet (A) | Non-financial liabilities (B) | Value of financial liabilities (A) – (B) | Liabilities measured at fair value in profit or loss | Hedging instruments | Financial liabilities measured at amortized cost | Fair value |
| Bonds | 1,230,371 | - | 1,230,371 | - | - | 1,230,371 | 1,288,101 |
| Other borrowings and financial liabilities | 290,000 | - | 290,000 | - | - | 290,000 | 290,000 |
| Fair value hedging derivatives – liabilities | 31,808 | - | 31,808 | - | 31,808 | - | 31,808 |
| Deposits and guarantees | 22,646 | - | 22,646 | - | - | 22,646 | 22,646 |
| Trade payables | 19,561 | - | 19,561 | - | - | 19,561 | 19,561 |
| Other current debts | 49,338 | 6,998 | 42,340 | - | - | 42,340 | 42,340 |
| Bank overdrafts | 280 | - | 280 | - | - | 280 | 280 |

# Note 18 Fair value hierarchy

The Group has identified three categories of financial instrument based on the two valuation methods used (quoted prices and valuation techniques). In accordance with international accounting standards, this classification is used as the basis for presenting the characteristics of financial instruments recognized in the balance sheet at fair value at the end of the reporting period:

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

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

As at December 31, 2017

| *(In thousands of euros)* | Carrying cost | Fair value | Market price = level 1 | Models with observable inputs = level 2 | Models with non-observable inputs = level 3 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Financial assets available for sale | 10,855 | 10,855 | - | - | 10,855 |
| Fair value hedging derivatives – assets (current and non-current) | 34,919 | 34,919 | - | 34,919 | - |
| Cash equivalents | 196,913 | 196,913 | 196,913 | - | - |
| **Liabilities** | | | | | |
| Bonds | 1,383,138 | 1,433,804 | 1,433,804 | - | - |
| Fair value hedging derivatives – liabilities (current and non-current) | 16,768 | 16,768 | - | 16,768 | - |

As at December 31, 2016

| *(In thousands of euros)* | Carrying cost | Fair value | Market price = level 1 | Models with observable inputs = level 2 | Models with non-observable inputs = level 3 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Financial assets available for sale | 10,480 | 10,480 | - | - | 10,480 |
| Fair value hedging derivatives – assets (current and non-current) | 51,059 | 51,059 | - | 51,059 | - |
| Cash equivalents | 15,578 | 15,578 | 15,578 | - | - |
| **Liabilities** | | | | | |
| Bonds | 1,230,371 | 1,288,101 | 1,288,101 | - | - |
| Fair value hedging derivatives – liabilities (current and non-current) | 31,808 | 31,808 | - | 31,808 | - |

### 18.1 FINANCIAL ASSETS AVAILABLE FOR SALE

Available-for-sale financial assets (AFS) stated at fair value comprise primarily shares in OPCI funds, the fair value of which has been determined on the basis of their net asset value. This is a level 3 valuation.

### 18.2 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are valued externally using the usual valuation techniques for financial instruments of this kind. Valuation models include observable market inputs – in particular the yield curve – and the quality of the counterparty. These fair value measurements are generally category 2.

### 18.3 BOND

Fair value has been determined for listed bonds on the basis of the last quoted price as at the balance sheet closing date. This is a level 1 valuation.

# Note 19 Derivatives

To manage its exposure to the risk of changes in interest rates, the Group uses derivatives (interest rate swaps).

Assessment of sensitivity to interest rate risk

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Bank overdrafts | 444 | 280 |
| **Total floating-rate debt (excluding accrued interest)[(1)]** | **444** | **280** |
| Cash equivalents | 101 | 101 |
| Cash | 196,812 | 15,477 |
| **Total assets** | **196,913** | **15,578** |
| **Net position before management** | **(196,913)** | **(15,298)** |
| Derivatives | 580,000 | 457,500 |
| **Net position after management** | **383,087** | **442,202** |
| Net position to be renewed | 383,087 | 442,202 |
| 1% change | 3,831 | 4,422 |
| Average maturity remaining until end of year | 1 | 1 |
| Change in interest expenses | 3,831 | 4,422 |
| Cost of debt | 30,063 | 30,401 |
| **IMPACT OF CHANGES IN FINANCIAL EXPENSES/FINANCIAL COSTS** | **12.74%** | **14.60%** |

*(1) The maturity of assets and liabilities at revisable rates is that of the revised rate.*
*Debt not exposed to interest rate risk – primarily accrued interest not yet due – is not included in this calculation.*

Assessment of sensitivity to interest rate risk on derivative instruments

| Sensitivity criteria | Impact on income before tax *(In thousands of euros)* |
|---|---|
| Impact of +1% change in interest rates | (4,822) |
| Impact of -1% change in interest rates | 4,822 |

# Note 20 Financial risk management

The Group's exposure to financial risk is addressed below.

## 20.1 CREDIT RISK

The Group's exposure to credit risk is the risk of financial loss in the event that a customer (the tenants) or the counterparty to a financial instrument fails to fulfill its contractual obligations.

The Mercialys Group's exposure to credit risk is affected by the statistical profile of its tenants. On signing lease contracts, tenants provide financial securities in the form of guarantee or surety deposits, generally representing three months' rent.

As at December 31, 2017, trade receivables amounted to Euro 15.8 million (see note 12, p. 136). The Group's main client – Distribution Casino France, which is an affiliate – accounted for 19.7% of invoiced rents as at December 31, 2017. The structure of other clients is highly fragmented.

## 20.2 LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulties in paying its debts when they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquid assets to honor its liabilities when they fall due without incurring unacceptable losses or causing damage to the Group's reputation.

Mercialys has no short-term liquidity risk. As at December 31, 2017, it had a net cash position of Euro 169,469,000.

The Group has available a revolving credit facility of Euro 360 million (undrawn as at December 31, 2017) and a Casino current account advance of up to Euro 50 million (undrawn as at December 31, 2017).

The following table shows the repayment schedule for financial liabilities as at December 31, 2017, for the nominal amount plus interest and excluding discounting.

As at December 31, 2017

| | Expiry of contracts | | | | | | |
|---|---|---|---|---|---|---|---|
| *(In thousands of euros)* | Due in less than 1 year | Due between 1 and 2 years | Due between 2 and 3 years | Due between 3 and 5 years | Due in 5 or more years | Total | Amount recognized in the balance sheet |
| Bonds and other borrowings excluding derivatives and finance leases | 294,690 | 515,890 | 16,403 | 32,805 | 926,403 | 1,788,190 | 1,520,371 |
| Trade payables and other financial liabilities | 40,743 | - | - | 22,694 | - | 63,437 | 63,437 |
| **NON DERIVATIVE FINANCIAL INSTRUMENTS – LIABILITIES** | | | | | | | |
| Interest rate derivatives | | | | | | | |
| Derivative contracts – received | 25,836 | 26,264 | 10,469 | 20,753 | 13,385 | 96,708 | |
| Derivative contracts – paid | (16,337) | (8,468) | (7,900) | (21,750) | (10,916) | (65,371) | |
| **DERIVATIVE FINANCIAL INSTRUMENTS ASSETS/(LIABILITIES)** | **9,499** | **17,796** | **2,569** | **(996)** | **2,469** | **31,337** | |

As at December 31, 2016

| *(In thousands of euros)* | Expiry of contracts: Due in less than 1 year | Due between 1 and 2 years | Due between 2 and 3 years | Due between 3 and 5 years | Due in 5 or more years | Total | Amount recognized in the balance sheet |
|---|---|---|---|---|---|---|---|
| Bonds and other borrowings excluding derivatives and finance leases | 323,198 | 33,190 | 512,890 | 26,805 | 776,805 | 1,672,880 | 1,520,371 |
| Trade payables and other financial liabilities | 62,151 | 30 | - | 22,645 | - | 84,826 | 84,826 |
| **NON DERIVATIVE FINANCIAL INSTRUMENTS – LIABILITIES** | | | | | | | |
| Interest rate derivatives | | | | | | | |
| Derivative contracts – received | 23,897 | 24,438 | 25,134 | 19,329 | 18,937 | 111,734 | |
| Derivative contracts – paid | (15,763) | (15,585) | (7,564) | (14,738) | (12,483) | (66,132) | |
| **DERIVATIVE FINANCIAL INSTRUMENTS ASSETS/(LIABILITIES)** | **8,134** | **8,853** | **17,570** | **4,891** | **6,454** | **45,602** | |

### 20.3 MARKET RISK

Market risk is the risk that changes in market prices – such as exchange rates, interest rates and the prices of equity instruments – will adversely affect the Group's net income or the value of the financial instruments that it holds.

The Group's exposure to interest rate risk relates to the borrowings described in note 14, page 137. To manage its exposure to the risk of changes in interest rates, the Group uses derivatives (interest rate swaps).

The risk of a rise in interest rates must thus be analyzed considering the hedging policy put in place by Mercialys using derivative instruments. A sensitivity analysis is provided in note 19, page 144.

Mercialys operates solely in France (mainland and Reunion Island) and therefore is not exposed to currency risk.

In the first half of 2006, Mercialys entered into a liquidity contract with Oddo & Cie, with an initial deposit of Euro 1,600,000 in accordance with EU Regulation no. 2273/2003. Under this contract, the cash funds under management are invested in money-market funds. These cash funds are classified as cash equivalents. No losses were incurred on these funds in 2017 and 2016.

## Note 21 Equity and earnings per share

### Accounting principle

How a financial instrument issued by the Group is classified in equity depends on the characteristics of that instrument.

Costs attributable to equity transactions or transactions in own equity instruments are recorded as a deduction from equity, net of tax. Other transaction costs are recognized as expenses of the period.

Treasury shares are deducted from equity at cost. The proceeds from sales of treasury shares are credited to equity, with the result that any gains or losses on disposal, net of the related tax effect, have no impact in the income statement for the period.

## 21.1 SHARE CAPITAL

On December 31, 2017 the share capital stood at Euro 92,049,169. It consists of 92,049,169 fully paid shares with a par value of Euro 1.00.

| *(In number of shares)* | 12/2017 | 12/2016 |
|---|---|---|
| Beginning of year | 92,049,169 | 92,049,169 |
| **END OF YEAR** | **92,049,169** | **92,049,169** |

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Beginning of year | 92,049 | 92,049 |
| **END OF YEAR** | **92,049** | **92,049** |

As at December 31, 2017, the number of treasury shares stood at 171,961, representing Euro 2,942,000. This entire amount corresponds to the liquidity contract. The loss incurred on the sale of treasury shares totaled Euro (205,000) net of tax for the financial year ended December 31, 2017, and was recognized directly in equity.

As at December 31, 2016, the number of treasury shares stood at 128,373, representing Euro 2,156,000. This entire amount corresponded to the liquidity contract. The loss incurred on the sale of treasury shares totaled Euro 452 net of tax for the financial year ended December 31, 2016, and was recognized directly in equity.

## 21.2 MANAGEMENT OF THE CAPITAL

The Group's policy is to maintain a solid base of equity capital in order to retain the confidence of investors, creditors and the market, and to support the future growth of the business. The Group pays close attention to the number and diversity of shareholders, the rate of return on equity, the level of dividends paid to shareholders and the liquidity of its shares.

Occasionally the Group makes open market purchases of its own shares. These purchases are made for the purposes of ensuring liquidity in the market for Mercialys shares, holding its own shares for later use in payment or exchange for business acquisitions, and covering the need to provide shares for share purchase or subscription options awarded to employees and Directors and for bonus shares awarded to employees and executives.

Neither the company nor its subsidiaries are subject to any specific capital adequacy requirements imposed by law or regulation.

## 21.3 EARNINGS PER SHARE

### Accounting principle

Basic earnings per share is calculated on the basis of the weighted average number of shares in circulation during the period, less any shares held in treasury.

Diluted earnings per share are calculated using the treasury stock method. Under this method, the denominator also includes the number of potential shares arising from conversion or exercise of any dilutive instruments (warrants, options, etc.), less the number of shares that could be repurchased at market price with the proceeds received upon exercise of the instruments concerned. Market price means the average price of the share during the year.

Own equity instruments are included only if they would have a dilutive effect on earnings per share.

### 21.3.1 Basic earnings, Group share

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Net income, Group share | 86,666 | 110,049 |
| Weighted average number of | | |
| shares in circulation during the period | 92,049,169 | 92,049,169 |
| treasury shares | (218,722) | (192,454) |
| **Total number of shares before dilution** | **91,830,447** | **91,856,715** |
| **BASIC EARNINGS PER SHARE, GROUP SHARE** *(in euro)* | **0.94** | **1.20** |

### 21.3.2 Diluted net income, Group share

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Net income, Group share | 86,666 | 110,049 |
| Weighted number of shares before dilution | 91,830,447 | 91,856,715 |
| Number of shares after dilution[1] | 91,830,447 | 91,856,715 |
| **DILUTED EARNINGS, GROUP SHARE, PER SHARE** *(in euro)* | **0.94** | **1.20** |

*(1) The bonus shares awarded were part of the stock of existing bonus shares. Consequently, this award did not have a dilutive effect.*

## 21.4 PAYMENTS IN SHARES

### Accounting principle

The fair value determined on the date when the rights to payment – based on shares paid in equity instruments awarded to employees – are expensed, as an increase in equity, over the vesting period of the rights. The amount recognized as expenses is adjusted to reflect the number of rights for which it is considered that the non-market related conditions of service and performance are met, such that the amount ultimately recognized is based on the actual number of rights that meet the non-market related conditions of service and performance on the vesting date. For rights to payment based on shares combined with other conditions, the measurement of fair value on the grant date reflects these conditions, and the differences between the estimate and the actual payment will not result in a subsequent adjustment.

The fair value of bonus shares is likewise determined as a function of plan characteristics and market data at the award date and assuming employment throughout the vesting period. If the plan specifies no vesting conditions, the expense is recognized in full when the grant is awarded. Otherwise, the expense is spread over the vesting period as the conditions are fulfilled.

Since December 1, 2005, the Mercialys Group has set up bonus share plans in Mercialys shares for the benefit of executives and managers.

The vesting of bonus share plans is subject to the beneficiary being present at the end of the allocation period.

### 21.4.1 Bonus share plans

| Allocation dates | 04/20/16 | 04/20/16 | 04/20/16 | 04/20/16 | 03/20/17 | 03/20/17 | 04/27/17 | 04/27/17 | 12/21/17 |
|---|---|---|---|---|---|---|---|---|---|
| End of allocation period | 04/20/18 | 04/20/18 | 04/20/19 | 04/20/19 | 03/20/19 | 03/20/20 | 04/27/20 | 04/27/20 | 03/21/19 |
| End of holding period | 04/20/20 | 04/20/20 | 04/20/21 | 04/20/21 | 03/21/19 | 03/21/22 | 04/28/22 | 04/28/22 | 12/22/19 |
| Share price at the allocation date (in euros) | 20.01 | 20.01 | 20.01 | 20.01 | 16.75 | 16.75 | 17.93 | 17.93 | 18.09 |
| Number of beneficiaries | 4 | 11 | 4 | 10 | 114 | 11 | 2 | 3 | 3 |
| Number of bonus shares awarded at inception | 17,139 | 9,031 | 17,139 | 11,525 | 14,478 | 12,283 | 41,750 | 14,562 | 2,624 |
| Fair value of the bonus share (in euros) | 6.38 | 10.46 | 11.74 | 13.74 | 14.56 | 9.64 | 5.04 | 5.04 | 16.63 |
| Selected performance rate | 53% | 87% | 75% | 87.7% | 100% | 80% | 39% | 39% | 100% |
| **NUMBER OF SHARES IN CIRCULATION BEFORE APPLICATION OF THE PERFORMANCE CRITERIA AT DECEMBER 31, 2017** | **17,139** | **7,143** | **17,139** | **10,581** | **12,192** | **12,283** | **41,750** | **14,562** | **2,624** |

Bonus shares only vest when the Company's performance criteria have been met, assessed over a defined period that results in the determination of the percentage of shares vested.

The following performance criteria are applied:

- Absolute and relative performance of the TSR of Mercialys shares;
- Average organic growth over three years ≥2% and average TSR over three years ≥6%.

| Bonus shares currently vesting | Number of shares, current |
|---|---|
| **Shares in circulation at January 1, 2016** | **56,044** |
| Shares awarded | 54,834 |
| Adjusted shares awarded | 4,503 |
| Shares cancelled | (8,332) |
| Shares issued | (32,461) |
| **Shares in circulation at December 31, 2016** | **74,588** |
| Shares awarded | 85,697 |
| Shares cancelled | (10,426) |
| Shares issued | (14,446) |
| **SHARES IN CIRCULATION AT DECEMBER 31, 2017** | **135,413** |

### 21.4.2 Impact on earnings and equity of share-based compensation

For the year ended December 31, 2017, these share-based payments generated an expense of Euro (421,000) charged to "personnel expenses". In 2016, the share plans generated an expense of Euro (147,000), which were charged to "personnel expenses".

## 21.5 NON-CONTROLLING INTERESTS

### Condensed financial information about the main subsidiaries with insignificant non-controlling interests

The information presented in the table below complies with IFRS and is adjusted, if necessary, to reflect: fair value revaluations on the date when control is lost or gained; and restatements to bring the accounting principles in line with those of the Group. The amounts are presented before eliminations of reciprocal accounts and transactions.

| | 2017 | | 2016 | |
|---|---|---|---|---|
| *(In thousands of euros)* | SAS Hyperthetis Participations | SAS Immosiris | SAS Hyperthetis Participations | SAS Immosiris |
| % Interest | 51% | 51% | 51% | 51% |
| Net rental income | 14,290 | 7,140 | 14,356 | 7,323 |
| Operating income | 11,265 | 5,830 | 11,482 | 6,354 |
| Tax | (144) | (55) | (134) | (52) |
| **Net income** | **11,121** | **5,775** | **11,348** | **6,302** |
| Investment property | 267,373 | 138,193 | 270,052 | 139,312 |
| **Non-current assets** | **267,373** | **138,193** | **270,052** | **139,312** |
| Trade receivables | 115 | 317 | 1,783 | 564 |
| Other current assets | 954 | 1,145 | 860 | 280 |
| Cash and cash equivalents | 2,945 | 2,247 | 4,176 | 2,465 |
| **Current assets** | **4,014** | **3,708** | **6,819** | **3,309** |
| **TOTAL ASSETS** | **271,387** | **141,901** | **276,871** | **142,621** |
| **Equity** | **270,838** | **140,495** | **276,107** | **141,629** |
| Other non-current liabilities | - | 788 | - | 769 |
| **Non-current liabilities** | **-** | **788** | **-** | **769** |
| Trade payables | 383 | 613 | 627 | 139 |
| Other current liabilities | 166 | 5 | 137 | 84 |
| **Current liabilities** | **549** | **618** | **764** | **223** |
| **TOTAL EQUITY AND LIABILITIES** | **271,387** | **141,901** | **276,871** | **142,621** |

# Note 22 Dividends

As at December 31, 2016, out of these 92,049,169 shares, 91,792,082 benefited from the dividend in respect of 2016 earnings (257,087 treasury shares are exempt from dividend payment).

The Company paid its shareholders a gross dividend of Euro 1.06 per share in respect of the financial year ended December 31, 2016. An interim dividend of Euro 0.43 per share was paid in 2016, and the final dividend of Euro 0.63 per share was paid on May 4, 2017.

Payment of the final dividend represented a total of Euro 57,829,000.

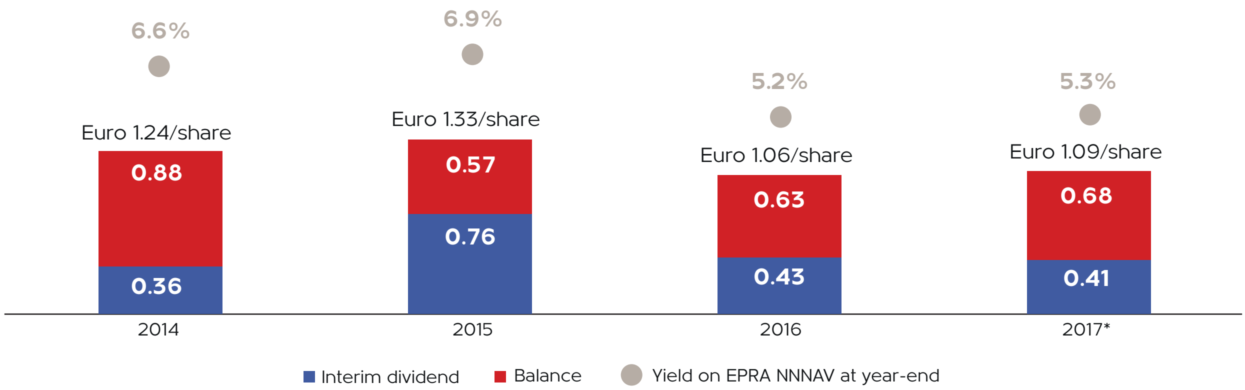
The total dividend for the 2016 financial year therefore came to Euro 97,261,000.

On October 23, 2017, Mercialys also paid an interim dividend of Euro 0.41 per share, representing an amount of Euro 37,637,000.

On February 14, 2018, the Board of Directors proposed, subject to approval by the General Meeting of April 26, 2018, to pay a dividend in respect of 2017 amounting Euro 1.09 per share (including the interim dividend of Euro 0.41 per share already paid in October 2017).

The dividend corresponds to the distribution of 95% of the parent company's recurring tax profit, on which the mandatory distribution is based according to SIIC tax rules, or Euro 0.99 per share, and Euro 0.10 per share corresponding to capital gains realized in 2016. The capital gains available for distribution in respect of 2017, to be distributed no later than 2019 under SIIC rules, amount to Euro 12.3 million.

The financial statements presented before appropriation of net income do not reflect this dividend, which is subject to approval by a forthcoming Annual General Meeting.




* *Subject to the approval of the Annual General Meeting to be held on April 26, 2018.*

# Note 23 Provisions

## Accounting principle

### Post-employment benefits

The companies of the Group participate in the instituting different kinds of benefits for their employees.

In connection with defined contribution plans, the Group is not obliged to make additional payments in addition to the contributions already paid into a fund if the latter does not have sufficient assets to provide the benefits corresponding to the service provided by the employee during current and prior periods. For these plans, contributions are recognized as expenses when they are incurred. Defined contribution plans correspond to general and supplementary schemes of French social security.

The other schemes are defined benefit schemes concerning post-employment benefits. Within the context of these plans, commitments are valued according to the projected unit credit method on the basis of agreements in force within each company. Under this method, each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligation. The final obligation is then discounted. These plans and termination benefits are subject to an actuarial valuation by independent actuaries each year for the largest plans and at regular intervals for other plans. These valuations take account in particular of the level of future compensation, employees' probable length of service, life expectancy and staff turnover.

Actuarial gains and losses arise from changes to assumptions and the differences between estimated earnings based on actuarial assumptions and actual earnings. These differences are recognized as items of other comprehensive income for all actuarial gains and losses relating to defined benefit schemes.

Past service costs, indicating the increase in an obligation following the introduction of a new plan or changes to an existing plan, are recognized immediately as expenses.

Costs relating to plans of this kind are recognized as operating income (cost of service provided, of the period and past, reductions and payments) and as "Other financial income and expenses" (financial expenses).

The provision recognized in the balance sheet corresponds to the discounted value of the commitments thus valued.

### Other provisions

A provision is recognized when the Group has a current contractual or implied obligation arising from a past event and it is probable that an outflow of resources representing economic benefits will be necessary to fulfill that obligation, provided that the amount of the liability may reliably be estimated.

When time value is material, the amount of the provision is determined by discounting the future expected cash flows.

## 23.1 BREAKDOWN AND CHANGES

| Movements<br>*(In thousands of euros)* | Other provisions | Pension provisions | Provisions for long service awards | Total |
|---|---|---|---|---|
| **As at January 1, 2016** | **2,366** | **367** | **34** | **2,767** |
| Additions | 3,339 | 47 | 8 | 3,394 |
| Reversals | 657 | - | - | 657 |
| Other changes(1) | - | 95 | - | 95 |
| **As at December 31, 2016** | **5,048** | **509** | **42** | **5,599** |
| Additions | 3,035 | 61 | 11 | 3,106 |
| Reversals | 1,817 | 3 | - | 1,820 |
| Other changes(1) | - | 238 | - | 238 |
| **AS AT DECEMBER 31, 2017** | **6,265** | **804** | **54** | **7,122** |

*(1) Other changes correspond mainly to acquisitions and actuarial gains or losses.*

Other provisions include the estimated costs of litigation and other operating risks.

The amount of these provisions is not materially different from the actual expenses incurred, in return.

The reversals of Euro 1,817,000 at the end of December 2017 correspond for Euro 607,000 to provisions that now have no object.

## 23.2 MAIN ASSUMPTIONS USED TO DETERMINE THE AMOUNT OF COMMITMENTS RELATING TO DEFINED BENEFIT PENSION SCHEMES

Defined benefit plans are exposed to risks relating to interest rates, the rate of pay rises and the mortality rate.

Details of the main actuarial assumptions made in assessing commitments are provided in the table below:

| | 12/2017 | 12/2016 |
|---|---|---|
| Discount rate | 1.5% | 1.7% |
| Expected rate of pay rises | 1.7% | 1.7% |
| Retirement age | 64 years | 64 years |

The discount rate is determined by reference to the Bloomberg 15-year index for AA composites.

The benchmark mortality tables TGH05 and TGF05 are used for the calculation.

# Note 24 Off-balance sheet commitments

The principal commitments are the following:

## 24.1 COMMITMENTS RELATING TO CURRENT ACTIVITY

### 24.1.1 Commitments received

#### 24.1.1.1 Bank guarantees received

- As security for the payment of rents and rental expenses: at December 31, 2017 they amounted to Euro 7,866,000 compared with Euro 2,053,000 at December 31, 2016.
- In connection with works ordered from suppliers: Euro 3,193,000 as at December 31, 2017, compared with Euro 1,479,000 as at December 31, 2016.

#### 24.1.1.2 Partnership agreement

Mercialys has signed a Partnership Agreement with Casino, Guichard-Perrachon. Details of this commitment are provided in note 25, page 154.

#### 24.1.1.3 Commitment in connection with the sale of the Poitiers site

The transaction for the disposal of the Poitier site was completed for Euro 78 million including transfer taxes, including Euro 2 million as an earn-out payment.

The purchaser will be due an earn-out payment of Euro 2.0 million, payable any time until December 31, 2018 if the conditions on which payment is due are fulfilled. These payment conditions are mainly based on achieving the net rents payable for vacant premises at the time of the sale which will be covered by a lease that becomes effective during the earn-out payment period.

### 24.1.2 Commitments given

#### 24.1.2.1 Monthieu commitment

In connection with the extension of the Géant Monthieu shopping center, Mercialys has agreed to contribute to the financing of the public infrastructure of the Commercial Activity Zone (ZAC) the completion of which will be to its benefit.

Mercialys will pay the sum of Euro 752,000 in several instalments between the declaration of the start of works and June 30, 2019.

#### 24.1.2.2 Rental guarantees for Rennes-Anglet

In connection with the transactions in the first half of 2016, Mercialys granted SCI Rennes-Anglet a rental guarantee on the hypermarkets in Rennes and Anglet. Mercialys committed to pay rent for the second three-year period (from June 29, 2019 to June 28, 2022) in the event of non-renewal of the lease for the hypermarkets.

#### 24.1.2.3 Poitiers rental guarantee

Mercialys granted a rental guarantee for the Poitiers hypermarket and committed to pay rent for the second three-year period (from June 30, 2020 to June 29, 2023) in the event of the departure of DCF at the end of the first three-year period.

#### 24.1.2.4 Fontaine-lès-Dijon rental guarantee

Rental guarantee on the second three-year period of the hypermarket's lease in the event of departure of DCF at the end of the first three-year period. This rental guarantee granted by Mercialys and Fiso sellers was created in an *ad-hoc* agreement between the parties.

#### 24.1.2.5 Commitment in connection with the disposal of SAS Hyperthetis Participations

In connection with the disposal of the 49% stake in SAS Hyperthetis Participations, Mercialys has a call option to purchase the company's securities or the real estate assets held by the minority interests with a guaranteed minimum price, exercisable on its initiative in 2022.

This guaranteed minimum price will be equal to the higher of the NAV and an IRR for all the company shares under option, and to the higher of the appraised fair value and an IRR for all the real estate assets held by the minorities.

At December 31, 2017 this option was valued at Euro 141.8 million, corresponding to the Company's NAV calculated on the basis of an appraised fair value of Euro 285.9 million (excluding transfer taxes).

If the options are not exercised, there is an exit clause for disposal of the assets at their fair value.

#### 24.1.2.6 Commitment made in connection with the acquisition of SNC Sacré-Cœur

A potential earn-out payment of Euro 3.7 million will be owed to the assignors in the event of the exercise of the phase 2 option (the operative event will the later of the following dates: (1) acquisition by the Company of the land required to complete the project or (2) possession of a building permit for construction of the project (see note 25.13, p. 156).

A construction contract has also been signed mentioning various indemnities, including one regarding an earn-out payment capped at Euro 2.5 million if the true value of the project exceeds the project price.

## 24.2 COMMITMENTS RELATING TO EXCEPTIONAL TRANSACTIONS

### 24.2.1 Commitments with Corin

In connection with its Partnership Agreement with Corin, in 2006 Mercialys acquired 60% of the undivided rights on certain assets in Corsica for Euro 90 million.

An amendment was made to the memorandum of understanding in 2014. This amendment made it possible to extend certain maturities and to modify the contribution mechanism of the undivided rights. The memorandum of agreement was created for a new 20-year period as from the signing of the amendment. Today, it is projected that if the agreement to hold the undivided rights in common is not renewed, the party that initiated the end of the undivided rights will be penalized when the undivided rights are shared. The rights may be shared either in kind, with the other party choosing the units (the hypermarket premises will go in priority to Mercialys in any event), or through the transfer of the undivided rights. Mercialys is irrevocably committed to acquire Corin's 40% of undivided rights but has the right to make a counterproposal, and Corin is irrevocably committed to transferring its rights to Mercialys.

On the assumption that Corin exercises its right to sell – at the earliest on January 31, 2020 – Mercialys has the option to buy Corin's undivided rights, or to assign its own rights and obligations to a third party, or to offer Corin the right to acquire its undivided rights. The memorandum of understanding specifies how the assets are valued. A 30% haircut will be applied if Mercialys opts to sell its undivided rights to Corin. Corin may likewise assign the benefit of its contractual promise to any third party.

These promises represent contingent commitments of unforeseeable outcome and are therefore not recognized in the balance sheet. In the event that the transfer takes place, the asset valuation specified in the memorandum of understanding will be representative of market value.

### 24.2.2 Other commitments

No pledge, mortgage, or other conveyance of security interest applies to the Group's assets.

The Group has received the customary warranties from the transferor companies in respect of properties transferred to it.

The Group complies with the applicable regulations. There are no manifest environmental risks that would require recognition of a liability provision or an off-balance sheet item.

## 24.3 OPERATING LEASE COMMITMENTS

### Operating leases

Almost all the leases granted by the Mercialys Group in connection with its business activity are commercial leases, but a few construction leases have been granted in special cases.

The leases signed include either a fixed rent or a double-component rent ("variable rent"). Variable rents are composed of a fixed portion (the guaranteed minimum rent) and a portion pegged to the revenue of the lessee operating the commercial premises. The guaranteed minimum rent is based on the rental value of the premises. The additional variable rent specified at the signing of the lease is due from the lessee whenever there is a positive difference between the percentage of pre-tax revenue earned by the lessee during the calendar year and the base rent.

Unless there is an indexation clause in the lease agreement that provides otherwise, rent amounts are adjusted to the index at the end of each three-year period of the lease. For all leases, the base rent, whether a fixed-only rent or the minimum guaranteed portion of a variable rent, is contractually indexed to the construction cost index or retail rent index published by INSEE in accordance with applicable regulations.

The minimum future rental income receivable under non-cancellable straight lease contracts are as follows:

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| less than one year | 135,440 | 146,612 |
| between one and five years | 96,443 | 108,121 |
| more than 5 years | 12,136 | 13,091 |
| **TOTAL** | **244,020** | **267,824** |

# Note 25 Related party transactions

The Mercialys Group maintains contractual relations with various companies of the Casino group. The main agreements are described below:

## 25.1 IDENTIFICATION OF THE CONSOLIDATING COMPANY

Since June 21, 2013, Mercialys is consolidated under the equity method in the financial statements of the Casino group.

## 25.2 LEASES GRANTED BY THE GROUP TO CASINO GROUP COMPANIES

As at December 31, 2017, the breakdown of operating leases to Casino group companies was as follows:

- **Casino Restauration:** 10 leases, four of which are under the Casino Cafeteria name and six under other brands (compared with nine leases at December 31, 2016);
- **Other Casino group entities:** 64 leases (compared with 70 leases at December 31, 2016).

Invoiced rents under these leases during the reporting period amounted to:

- Euro 36,802,000 for Distribution Casino France (compared with Euro 40,653,000 at December 31, 2016);
- Euro 9,321,000 for Monoprix (compared with Euro 8,916,000 at December 31, 2016);
- Euro 8,573,000 for the other entities (compared with Euro 9,539,000 at December 31, 2016).

## 25.3 PROPERTY MANAGEMENT ACTIVITIES

Mercialys outsources Property Management activities for nearly all its sites to Sudeco, a subsidiary of Immobilière Groupe Casino. These activities include rental management, management of common service charges, real estate administration and administration of the tenant associations or Economic Interest Groups (EIGs) which exist at most of its shopping centers. In connection with Property Management activities, fees paid by Mercialys and its subsidiaries to Sudeco as at December 31, 2017, amounted to Euro 6,122,000 compared with Euro 5,874,000 as at December 31, 2016.

## 25.4 PARTNERSHIP AGREEMENT WITH CASINO

The Partnership Agreement was approved by the Board of Directors on June 22, 2012. An amendment to this agreement was signed on November 12, 2014.

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

The initial Agreement concerned a pipeline of projects, listed at an early stage, offering sufficient visibility. The new agreement enables Mercialys to propose new projects which will be examined by Casino and monitored by the Monitoring Committee.

- Casino will only begin works once the order has been confirmed by Mercialys after the final authorizations have been obtained and at least 60% of developments have been pre-let (as a percentage of projected rental income – leases signed).
- The acquisition price for the projects developed by Casino, determined only within the framework of the initial agreement on the basis of a capitalization rate defined according to a matrix – updated twice a year depending on changes in appraisal rates for Mercialys' portfolio – and to a projected rental income for the project, may also be also determined based on a projected selling price calculated on the basis of a projected IRR (8 to 10%).
- The principle of a 50/50 split of the upside/downside is maintained to take account of the actual conditions under which the properties will be marketed. Therefore, if there is an upside (positive) or negative (downside) difference between the actual rents resulting from letting and the rents expected at the outset, the price will be adjusted upwards or downwards by 50% of the difference thus observed. A "review clause" between the two parties is provided in the contracts under the early acquisition process mentioned earlier.

In return for this exclusivity, Mercialys has made a commitment not to invest in any transactions that may have a significant competitive impact within the catchment area of a site with a Casino group food store.

Mercialys has extended its Partnership Agreement with the Casino group by three years, until the end of 2020.

In 2017 and in connection with the Partnership Agreement, the Group acquired an extension project for the Port shopping center (Reunion Island) (see note 2, p. 114).

## 25.5 AGREEMENT WITH CASINO FOR THE PROVISION OF SERVICES

The Company has entered into an agreement with the Casino group for the provision of services, the purpose of which is to manage provision of the support services that Mercialys requires for its operation and, in particular, for administrative management, accounting and finance, and real estate services and information systems. The amount paid by Mercialys to the Casino group under the Services Agreement was Euro 2,142,000 for the year ended December 31, 2017, compared with Euro 2,080,000 to December 31, 2016.

## 25.6 CONSULTANCY AGREEMENT BETWEEN MERCIALYS GROUP AND THE CASINO GROUP

Mercialys Gestion has entered into an agreement with Mercialys and Casino group companies, to provide consulting services to those companies. The purpose of this agreement is to make Mercialys Gestion's team of specialists in property portfolio valuation available to those companies. The advisory services contract was signed on July 27, 2007 for an initial term of six years, automatically renewable thereafter for one year at a time, with each party free to terminate its participation on six months' notice. On June 1, 2011 Mercialys Gestion's teams in charge of asset management, marketing and communication were transferred to Mercialys. As a result, an amendment was drafted, specifying that Mercialys is now the new service provider.

On March 23, 2015, Mercialys, Immobilière Groupe Casino and Plouescadis signed a document amending the advisory services master agreement (the "Advisory Services Master Agreement").

Mercialys received remuneration of Euro 280,000 in connection with this agreement at end December 2017, compared with Euro 208,000 as at December 31, 2016.

## 25.7 CURRENT ACCOUNT AND CASH MANAGEMENT AGREEMENT WITH CASINO

On September 8, 2005, Mercialys signed a Current Account and Cash Management Agreement with Casino. Mercialys and Casino thereby set up a shareholders' current account that recorded all payments, withdrawals or advances of sums that may be made reciprocally between the two companies.

After Casino reduced its stake in Mercialys, the two parties decided to terminate the existing Current Account and Cash Management Agreement and sign a new Current Account Agreement. This Agreement will enable Mercialys to keep a current account with Casino enabling it to receive cash advances from Casino up to the current threshold of Euro 50 million.

The term of the Agreement was extended in 2016 and is now set to mature on December 31, 2020.

## 25.8 AGREEMENTS ENTERED INTO WITH THE CASINO GROUP RELATING TO TRANSACTIONS FOR THE ACQUISITION OF PROPERTY ASSET PORTFOLIOS

In connection with the acquisitions transactions and in addition to the business contribution agreements, various contracts and guarantees were signed with the Casino group companies.

Given the nature of the projects undertaken by Mercialys, the contracts and guarantees that may be entered into are as follows:

First, in connection with the projects executed with the Casino group, the acquisition price paid by Mercialys is determined through the Partnership Agreement, and the Group Casino provides no guarantees following the transfer of ownership. Second, in connection with acquisitions from the Casino group of redevelopment properties, hypermarket premises, or city center assets including development projects to be implemented by the real estate company (through urban retail projects as well as offices, hotels or housing units), Mercialys may enter into delegated project management or property development contracts with the Casino group, since the real estate company itself does not carry out construction-related functions.

Delegated project management contracts have been signed with IGC Services to counter-guarantee the commitments undertaken by the latter as delegated project manager concerning the cost and deadlines for completion of the works. Amounts prepaid by the Group to IGC Services and not used as of December 31, 2017 amounted to Euro 1,690,000 compared with Euro 1,687,000 at December 31, 2016. As at December 31, 2016, there were no unused prepaid amounts under the delegated management or project management assistance contracts entered into with IGC Promotion and Alcudia Promotion.

Property Development Agreements were also signed with IGC Services, the price of which was deducted from the discounted value of the contributions. In this context, calls for funds have been made. These calls for funds, recognized as receivables, totaled Euro 353,000 at December 31, 2017.

The residual commitment under these property development and delegated project management contracts stands at Euro 43,146,000.

The short-term occupancy agreements entered into with Distribution Casino France guarantee the payment of rents to Mercialys before the site is opened to the public. These agreements were terminated in favor of an early termination protocol on several sites, with the overall invoiced amount remaining unchanged. The amounts invoiced as at December 31, 2017 totaled Euro 1,834,000, of which Euro 1,433,000 was linked to the early termination (compared with Euro 1,125,000 as at December 31, 2016 invoiced to Immobilière Groupe Casino).

Residual risks relating to the development are subject to an autonomous completion guarantee from the contributing companies, comprising a guarantee to pay the sums required to complete the development and a financial guarantee if the deadline is not met.

## 25.9 EXCLUSIVE AGENCY AGREEMENTS WITH IGC SERVICES

In connection with the transactions for sale of its asset portfolios, Mercialys calls upon the expertise of IGC Services to find any legal entities that may be interested in acquiring one or more assets. In 2017, the payment for this service amounted to Euro 560,000.

## 25.10 DISPOSAL OF FONTAINE-LÈS-DIJON

Settlement agreement with Distribution Casino France:

- Exceptions to the rules concerning the rental conditions of the hypermarket occupied by DCF had to be granted in order to enable completion of the transaction (a/ setting the first renewal rent, b/ arrangement of the preferential right benefiting the tenant by excluding certain transactions).
- The Mercialys Group paid to Distribution Casino France a compensation of Euro 250,000 in 2017.

## 25.11 THE RELATED-PARTY TRANSACTIONS OF SCI RENNES-ANGLET

- Loan by Mercialys to SCI Rennes-Anglet:

  Mercialys granted a loan to SCI Rennes-Anglet totaling Euro 3,064,000 at the end of December 2017. This current account loan earns interest at the average annual percentage rate charged by credit institutions and finance companies for floating-rate loans with an initial term of more than two years. It was entered into for the term of the agreement, *i.e.* 15 years automatically renewable for successive periods of five years.
- SCI Rennes-Anglet entered into several agreements:
  - with Mercialys Gestion, a marketing fund management mandate and a tenant finders mandate;
  - with Mercialys, a brand license agreement;
  - with companies of the Casino group, a rental management mandate (Sudeco) and a services agreement (IGC services).

## 25.12 TRANSACTIONS WITH SCI AMR

Mercialys entered into the following agreements with SCI AMR:

- Real Estate Advisory Services: under this five-year agreement, SCI AMR entrusts Mercialys with providing general assistance in the management of its property assets;
- exclusive marketing mandate for a period of five years;
- a center management agreement with Mercialys Gestion.

AMR also signed a property management agreement with Sudeco, a Casino group company.

These transactions amounted to Euro 646,000.

## 25.13 TRANSACTIONS IN CONNECTION WITH THE PURCHASE OF SHARES IN SACRÉ-CŒUR

On December 28, 2017, Mercialys acquired from Plouescadis and Opalodis, subsidiaries of the Casino group, the shares of SNC Sacré-Cœur for Euro 15.7 million and purchased the current account of SNC Sacré-Cœur from Plouescadis for Euro 11.2 million.

A property development contract was signed between Sacré-Cœur and Mercialys (Project managers) and IGC Services (Developer), subsidiary of the Casino group, for Euro 47.2 million excluding tax. The latter is responsible for the construction of the project in two phases according defined terms, timetable and cost:

- phase 1: an extension, a parking silo and a food park for Euro 40.8 million excluding tax;
- phase 2 optional: a retail park for Euro 6.4 million excluding tax.

## 25.14 GROSS REMUNERATION ALLOCATED TO THE COMPANY'S KEY EXECUTIVES

Mercialys, a *société anonyme* (limited liability company) under French law, has opted for a governance structure with a Board of Directors. As at December 31, 2017, the Board had 11 members, in addition to the Chairman, seven of whom are independent directors. The remuneration amounts shown below are total amounts paid to the directors and the key executives.

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Short-term benefits(1) | 1,722 | 1,820 |
| **TOTAL** | **1,722** | **1,820** |

*(1) Gross salaries (excluding employer contributions), bonuses, incentives, profit-sharing, benefits in kind and director's fees.*

No members of senior management held options on Mercialys shares as at the end of December 2017.

## 25.15 RELATED-PARTY TRANSACTIONS – SUMMARY

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| **Income/(Expenses)** | | |
| Invoiced rents | | |
| Distribution Casino France | 36,802 | 40,653 |
| Monoprix | 9,321 | 8,916 |
| Other Casino group entities | 8,573 | 9,539 |
| Advisory Services Agreement received by Mercialys | 280 | 208 |
| Short-term occupancy agreement billed by Mercialys to the Casino group | 1,834 | 1,125 |
| Property management income paid to the Casino group | (6,122) | (5,874) |
| Service Agreement paid to the Casino group | (2,142) | (2,080) |
| Cash agreement with the Casino group | - | - |
| Exclusive agency agreement with IGC Services | (560) | (946) |
| Income from sale of fixed assets to SCI AMR | - | 24,035 |
| Income from the sale of five service malls to the Casino group (see note 2, p. 114) | 4,445 | - |
| Income from the sale of the transformed Toulouse Fenouillet hypermarket to the Casino group (see note 2, p. 114) | 3,328 | - |
| **Assets/(Liabilities)** | | |
| Project management agreements prepaid by Mercialys to the Casino group | 1,690 | 2,594 |
| Call for funds for property development contracts | 353 | 347 |
| Loan to SCI Rennes-Anglet | 3,064 | 3,064 |
| Sale of fixed assets to SCI AMR | - | 89,081 |
| Current account reimbursement from Fenouillet Participation to Foncière Euris | - | 25,528 |
| Earn-out on Toulouse Fenouillet to Casino | - | 18,187 |
| Earn-out on Angers to Casino | 702 | - |
| Acquisitions of fixed assets from the Casino group | 3,118 | 74,900 |
| Acquisitions of shares in Fenouillet Participation from Foncière Euris | - | 11,241 |
| Acquisition of shares in Sacré-Cœur from Plouescadis (see note 2, p. 114) | 15,735 | - |
| Sacré-Cœur current account repayment to Plouescadis (see note 2, p. 114) | 11,221 | - |

## 25.16 OTHER TRANSACTIONS WITH ASSOCIATES

| | Income | Expenses | Payables | Receivables | Loans |
|---|---|---|---|---|---|
| *(In thousands of euros)* | concerning related parties | | | | |
| 2016 | 191 | 613 | 77 | 252 | 3,109 |
| 2017 | 159 | 834 | 44 | 225 | 3,115 |

## Note 26 Statutory Auditors' fees

Recurring fees for the Group's Statutory Auditors amounted to Euro 461,000 for the year ended December 31, 2017, compared with Euro 393,000 as at December 31, 2016.

| Fees *(In thousands of euros)* | 12/2017 |
|---|---|
| Fees for certification of the financial statements | 392 |
| Fees other than for certification of the financial statements(1) | 69 |
| **TOTAL** | **461** |

*(1) Fees other than for certification of the financial statements include:*
- *The issue of a comfort letter in connection with the bond issue;*
- *Reports on the planned distribution of interim dividends;*
- *The CSR report.*

## Note 27 Workforce

| Number of employees | 12/2017 | 12/2016 |
|---|---|---|
| Workforce at closing date(1) | 114 | 116 |
| Full time equivalent(2) | 111 | 115 |

*(1) Full-time and part-time staff.*
*(2) Average number of full-time equivalent employees over the year.*

## Note 28 Subsequent events

Mercialys signed a preliminary sales agreement in January for Euro 14.6 million including transfer taxes.

On February 20, 2018, Mercialys successfully placed a bond issue of Euro 300 million maturing in eight years. This transaction covers the Company's general requirements and provides for the redemption of the Euro 479.7 million bond issue at maturity in March 2019. It follows the issue of a private placement of Euro 150 million of bonds made in November 2017.

# 3.1.3 Statutory Auditors' report on the consolidated financial statements

Financial year ended on December 31, 2017

To the Annual General Meeting of Mercialys S.A.,

## OPINION

In accordance with the mission entrusted to us by your Annual General Meeting, we have audited the consolidated financial statements of Mercialys S.A. for the financial year ended December 31, 2017, as attached to this report.

In our opinion, in accordance with the International Financial Reporting Standards as adopted by the European Union, the consolidated financial statements give a true and fair view of the funds from operations for the financial year ended and of the financial position and assets and liabilities of the Group and its consolidated entities, at the end of said year.

The opinion expressed above is consistent with the content of our report to the Audit Committee.

## BASIS OF OUR OPINION

### Audit standards

We conducted our audit in accordance with the professional standards applicable in France. We believe that the evidence we have obtained is a sufficient and appropriate basis for our audit opinion.

Our responsibilities under these standards are indicated in the section entitled "Statutory auditors' responsibilities regarding the audit of the consolidated financial statements" of this report.

### Independence

We performed our audit in accordance with the rules of independence applicable to us, for the period starting from January 1, 2017 to the date on which we issued our report, and in particular, we provided no services prohibited by Article 5, paragraph 1 of (EU) Regulation no. 537/2014 or by the Code of Ethics of the statutory auditing profession.

### Justification for assessments - Key points of the audit

Pursuant to the provisions of Articles L.823-9 and R.823-7 of the French Commercial Code relating to the justification for our assessments, we hereby present the key points of the audit relating to the risks of material misstatements which, in our professional opinion, were the most significant for the audit of the consolidated financial statements for the year, and the solutions we found to address those risks.

These assessments were made in connection with our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed above. We have no opinion about the items in these consolidated financial statements taken separately.

#### Measurement of investment property

**Identified risk**

At December 31, 2017, the net carrying value of the Group's investment properties amounted to Euro 2,305 million. Investment properties are recognized at cost, broken down into components and are depreciated over their useful lives. Note 8 in the notes to the consolidated financial statements describes the accounting rules and methods adopted by the Group for the recognition and measurement of investment properties, and their impairment.

The Group uses the fair values, excluding transfer taxes, of investment properties determined by independent appraisers to:

- indicate this information in the notes to the consolidated financial statements, as required by IAS 40;
- assess the absence of impairment on these investment properties or recognize provisions for impaired investment properties, if any.

The measurement of investment properties requires some significant judgment and estimates from management and from the independent appraisers. These appraisers mainly base their assessment on the specific information of each asset, such as the location, rental revenues, yield rate, capital expenditures and any recent comparable transactions on the market.

The measurement of investment properties is considered to be a key point of the audit due to:

- the significant amount of the fair value excluding transfer taxes presented in the notes to the Group's consolidated financial statements;
- the use, by the independent appraisers, of level 3 non-observable inputs as defined by IFRS 13 "Fair Value Measurement", to determine fair value. Consequently, these fair values are based on estimates;
- of the sensitivity of fair value to the assumptions adopted by the appraisers and the latter is used to assess the absence of impairment in the investment properties.

### Audit procedures implemented to address this risk

In connection with our audit of Mercialys' consolidated financial statements, we implemented the following procedures:

- Assessment of the competence, independence and integrity of the independent appraisers mandated by the company;
- Analysis of the significant changes in fair values, by investment property;
- Testing the operational effectiveness of management verifications of the data sent to the appraisers and used to value the investment properties and the verifications made by management on the fair values derived from these independent appraisals;
- Conducting an interview, in the presence of our real estate specialists, with the independent appraisers in order to understand and assess the relevance of the estimates, assumptions and the measuring methodology applied;
- Comparison, over a selection of assets, of the data used by the independent appraisers with the data present in the supporting documents such as rental statements and the investment budgets that we received from the company;
- For a selection of assets, analyzing, with our real estate specialists, the consistency of the main measuring assumptions adopted by the independent real estate appraisers, in particular the yield rate, with the available market information;
- Comparison of the evidence taken into account to determine the amount of provisions to recognize for the impaired investment properties (comparison of the net carrying values with the audited financial statements and fair value with the independent appraisal);
- Examining the suitability of the information given in Note 8 of the notes to the consolidated financial statements.

### Related-party real estate transactions

**Identified risk**

The Group performs property transactions with the Casino Group, its main shareholder. The note entitled "Significant events of the period" and Note 25 of the notes to the consolidated financial statements present related-party transactions.

These transactions involve substantial amounts and may follow a different approval channel depending on whether or not they are considered to be regulated. Therefore, the presentation of this information in the notes requires that the Group should be able to identify and collate any information if necessary. Accordingly, we considered the completeness of the information presented in the Notes about real estate transactions with the Casino Group companies to be a key point of the audit.

**Audit procedures implemented to address this risk**

As part of our audit of the Group's consolidated financial statements, we implemented the following procedures in order to assess the completeness of the information given in the notes to the consolidated financial statements:

- Identifying the agreements concerning real estate transactions with the Casino Group companies, in particular the regulated agreements, reviewing the minutes of meetings of the Board of Directors and investment committees held during the financial year;
- Examining the disclosures in these notes in the light of the information in the agreements.

### Verification of disclosures about the Group in the management report

As required by the law and in accordance with the professional standards applicable in France, we performed a specific verification of the disclosures about the Group, presented in the Board of Director's management report.

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

## OTHER REQUIRED LEGAL AND REGULATORY DISCLOSURES

### Appointment of Statutory Auditors

We were appointed as the statutory auditors of Mercialys S.A. by your Annual General Meeting of May 6, 2010.

At December 31, 2017, our firms were in their eighth year of uninterrupted auditing for your Group.

Previously, ERNST & YOUNG Audit had been the statutory auditor since 1999.

## RESPONSIBILITIES OF MANAGEMENT AND OF THE MEMBERS OF CORPORATE GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS.

Management is responsible for preparing the consolidated financial statements presenting a fair view in accordance with the International Financial Reporting Standards as adopted in the European Union and for setting up the internal control system that it considers necessary for the preparation of the consolidated financial statements without any material misstatements, whether as a result of fraud or errors.

While preparing the consolidated financial statements, it is the responsibility of management to evaluate the company's capacity to continue operating, to present in these financial statements, if applicable, the necessary information regarding the going concern principle and to apply the accounting policy of going concern, unless there are plans to liquidate the company or to discontinue its activity.

The Audit Committee has a duty to monitor the preparation of financial information and to monitor the effectiveness of internal control and risk management systems, as well as, where applicable, internal audit systems, in terms of procedures relating to the production and processing of accounting and financial information.

These consolidated financial statements have been approved by the Board of Directors.

## RESPONSIBILITIES OF THE STATUTORY AUDITORS FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

### Audit objective and approach

It is our responsibility to prepare a report on the consolidated financial statements. We seek to obtain reasonable assurance that the consolidated financial statements taken as a whole are free of any material misstatements. Reasonable assurance corresponds to a high level of assurance, without, however, guaranteeing that an audit performed in accordance with professional standards can systematically detect all material misstatements. Misstatements may stem from fraud or from errors and are considered to be material when we can reasonably expect that taken individually or together, they may influence the economic decisions that the users of the financial statements may make on the basis of such statements.

As specified by Article L.823-10-1 of the French Commercial Code, our mission to certify the financial statements does not require us to guarantee the sustainability or the quality of the management of your company.

During an audit performed in accordance with the professional standards applicable in France, the statutory auditors use their professional judgment throughout such audit. Furthermore:

- they identify and evaluate the risks that the financial statements may include material misstatements, whether they stem from fraud or from errors; they define and implement audit procedures to address these risks and collect evidence that they consider sufficient and appropriate to justify their opinion. The risk of not detecting a material misstatement caused by fraud is higher than that of a material misstatement caused by an error, because fraud may imply collusion, falsification, deliberate omissions, false statements or circumvention of internal control;
- they review the internal control relevant to the audit in order to define the audit procedures that are best suited to the circumstance, and not for the purpose of expressing an opinion about the effectiveness of internal control;
- they evaluate the suitability of the accounting methods adopted and the reasonable nature of the accounting estimates made by management, and the relevant disclosures in the consolidated financial statements;
- they assess the proper application by management of the accounting principle of going concern and, depending on the evidence collected, the existence or not of a material uncertainty linked to events or circumstances likely to jeopardize the company's capacity to continue operating. This assessment relies on the evidence collected until the date of their report, while stressing, however, that subsequent circumstances or events may undermine the going concern. Should the auditors find the existence of a material uncertainty, they will draw the attention of the readers of their report to the disclosures in the consolidated financial statements about this uncertainty or, if such disclosures do not exist or are irrelevant, they will issue a qualified certification or refuse to certify;
- they assess the overall presentation of the consolidated financial statements and determine whether the consolidated financial statements reflect the underlying operations and events so as to provide a true and fair view;
- concerning the financial information of persons or entities included in the scope of consolidation, they collect the evidence that they consider sufficient and appropriate to express an opinion on the consolidated financial statements. They are responsible for managing, overseeing and performing the audit of the consolidated financial statements and for the opinion expressed on those financial statements.

### Report to the Audit Committee

We submit a report to the Audit Committee which presents, in particular, the scope of the audit works and the work program implemented, in addition to the findings from our work. We also bring to its attention any material weaknesses that we may identify in the internal control system with respect to the procedures relating to the preparation and processing of accounting and financial information.

The items communicated in the report to the Audit Committee include the material misstatements that we consider to be the most significant for the audit of the consolidated financial statements for the year and which therefore constitute the key points of the audit that we are required to describe in this report.

We also provide the Audit Committee with the statement specified in Article 6 of (EU) Regulation no. 537-2014 confirming our independence, as defined by the rules applicable in France as these are fixed in particular by Articles L. 822-10 to L.822-14 of the French Commercial Code and in the Code of Ethics of the auditing profession. If necessary, we discuss the risks affecting our independence and the precautionary measures applied with the Audit Committee.

The Statutory Auditors

Paris-La Défense and Lyon, March 19, 2018

KPMG S.A.
Isabelle Goalec
*Partner*

Ernst & Young et Autres
Nicolas Perlier
*Partner*

# 3.2 CORPORATE FINANCIAL STATEMENTS

## 3.2.1 Financial statements

### 3.2.1.1 INCOME STATEMENT

| *(In thousands of euros)* | Notes | 12/2017 | 12/2016 |
|---|---|---|---|
| Rental revenues | | 135,607 | 142,679 |
| Unrecovered property taxes | | (21) | (633) |
| Unrecovered service charges | | (4,191) | (2,737) |
| Property operating expenses | | (9,121) | (8,654) |
| **Net rental income** | **3** | **122,274** | **130,655** |
| Income from management, administration and other activities | 4 | 4,710 | 4,309 |
| Depreciation | | (22,823) | (21,386) |
| Provisions | | (2,203) | (687) |
| Personnel expenses | 5 | (8,100) | (7,854) |
| Other expenses | 6 | (11,766) | (13,439) |
| **Operating income** | | **82,092** | **91,598** |
| Net financial income (expense) | 7 | 12,163 | (12,084) |
| Net exceptional items | 8 | 191,693 | 34,776 |
| Corporate income tax | 9 | 1,332 | (103) |
| **NET INCOME** | | **287,280** | **114,187** |

### 3.2.1.2 BALANCE SHEET

Assets

| *(In thousands of euros)* | Notes | 12/2017 | 12/2016 |
|---|---|---|---|
| Intangible assets | | 4,872 | 3,673 |
| Depreciation and impairment | | (2,187) | (1,301) |
| **Sub-total** | | **2,685** | **2,372** |
| Tangible assets | | 1,661,102 | 1,706,732 |
| Depreciation and impairment | | (144,536) | (130,960) |
| **Sub-total** | | **1,516,566** | **1,575,772** |
| Investments | | 739,564 | 581,795 |
| Impairment of investments | | (11,984) | (12,969) |
| **Sub-total** | | **727,580** | **568,826** |
| **Total non-current assets** | **10** | **2,246,831** | **2,146,970** |
| **Current assets** | | | |
| Receivables | 11 | 216,194 | 219,950 |
| Cash | 12 | 196,207 | 12,217 |
| Adjustment accounts | | 3,252 | 2,470 |
| **Total current assets** | | **415,653** | **234,637** |
| Expenses to be spread over several financial years | | 4,887 | 4,473 |
| Bond redemption premiums | | 21,138 | 24,465 |
| **TOTAL ASSETS** | | **2,688,509** | **2,410,545** |

Liabilities

| *(In thousands of euros)* | Notes | 12/2017 | 12/2016 |
|---|---|---|---|
| Share capital and share premium | | 544,839 | 544,839 |
| Reserves | | 9,205 | 9,205 |
| Revaluation adjustment | | 15,635 | 15,635 |
| Retained earnings | | 112,726 | 95,799 |
| Net income | | 287,280 | 114,187 |
| Interim dividend | | (37,637) | (39,432) |
| Statutory provisions | | 2,857 | 15,522 |
| **Equity** | **13** | **934,905** | **755,755** |
| Provisions | 14 | 7,973 | 6,890 |
| Borrowings and financial debts | 15 | 1,683,756 | 1,563,667 |
| Payables | 16 | 55,408 | 77,331 |
| Adjustment accounts | 17 | 6,467 | 6,901 |
| **Current liabilities** | | **1,753,604** | **1,654,789** |
| **TOTAL LIABILITIES** | | **2,688,509** | **2,410,545** |

### 3.2.1.3 CASH FLOW STATEMENT

| *(In thousands of euros)* | Notes | 12/2017 | 12/2016 |
|---|---|---|---|
| Net income | | 287,280 | 114,187 |
| - Depreciation, amortization, and impairment allowances net of reversals | | 17,163 | 38,018 |
| - Income from asset disposals | | (187,536) | (48,333) |
| - Other calculated expenses/(income) | | 4,360 | 2,418 |
| **Cash flow** | | **121,267** | **106,290** |
| **Change in working capital requirement(1)** | | **(10,639)** | **(348)** |
| **Net cash flow from operating activities** | | **110,628** | **105,943** |
| Acquisitions of investment assets | | (371,596) | (183,140) |
| Sale of investment assets(2) | | 434,797 | 144,902 |
| Change in loans and advances granted(3) | | (12,236) | (98,803) |
| **Net cash flow from investing activities** | | **50,965** | **(137,042)** |
| Dividends and interim dividends paid | 13 | (95,466) | (91,760) |
| Increase or decrease in capital | | - | - |
| Increase in borrowings(4) | | 1,281,418 | 1,001,495 |
| Decrease in borrowings(4) | | (1,164,500) | (878,593) |
| **Net cash flow from financing activities** | | **21,452** | **31,141** |
| **Change in net cash position** | | **183,045** | **42** |
| Net cash at beginning of year | | 11,062 | 11,020 |
| Net cash at end of year | 12 | 194,107 | 11,062 |
| **Net cash at end of year** | | **194,107** | **11,062** |
| **Cash on balance sheet** | | **196,207** | **12,217** |
| **Bank overdrafts** | | **(2,100)** | **(1,155)** |

*(1) The change in working capital requirement breaks down as follows:*

| | | |
|---|---|---|
| *Trade receivables* | *9,202* | *(2,618)* |
| *Trade payables* | *(2,327)* | *(4,802)* |
| *Other receivables* | *(4,111)* | *11,573* |
| *Other payables* | *(12,187)* | *(2,146)* |
| *Adjustment accounts* | *(1,216)* | *(2,354)* |
| *Change* | *(10,639)* | *(348)* |

*(2) In 2016, the main receipts on disposals concerned hypermarket premises in Rennes and Anglet for Euro 57 million net of expenses and the shopping centers in Niort and Albertville for Euro 80.8 million.*
*In 2017, main cash inflows are linked to disposals of participating interests for Euro 309,300 and disposals of assets located in Poitiers for Euro 41,200 net of expenses, in Toulouse Fenouillet for Euro 30,600 net of expenses, of five service malls for Euro 28,900 net of expenses.*

*(3) In 2016, Mercialys granted loans to the following subsidiaries: Euro 3,064,000 for SCI Rennes-Anglet, Euro 70,194,000 for SNC Fenouillet Immobilier and Euro 25,528,000 for SNC Fenouillet Participation. In 2017, additional loans were arranged for Euro 3,999,000.*

*(4) Increases and decreases in borrowings and financial liabilities correspond exclusively to changes in confirmed credit lines and to the arrangement of a new bond issue for Euro 150,000,000 (see note 15, p. 178).*

## 3.2.2 Notes to the financial statements

# Information about Mercialys SA

Mercialys is a *société anonyme* (limited liability company) under French law. Its shares are listed on Euronext Paris in compartment A.

The financial statements are presented in thousands of euros and have been rounded up or down to the nearest thousand, and include figures that have been rounded individually. There may be differences between the arithmetic totals of these figures and the aggregates or subtotals shown.

# Note 1 Accounting principles and measurement methods

The financial statements are prepared in accordance with the prescriptions of the 2016 general chart of accounts based on French accounting Regulation ANC 2016-07 of November 4, 2016, approved by the decree of September 26, 2016, which amends Regulation ANC 2014-03 on the general chart of accounts approved by the decree of September 8, 2014. The application of regulation 2015-05 of July 2, 2015 on forward financial instruments and hedge transactions is mandatory since July 1, 2017.

Mercialys has been using derivative instruments for several years now to hedge the interest rate risk on its borrowings. The application of this regulation had no impact on the accounting principles applied to these instruments in Mercialys' financial statements, detailed in paragraph 1.5, page 168.

The other accounting principles and policies have been applied consistently in the periods presented.

## 1.1 INTANGIBLE ASSETS

"Lease rights" represent the intangible value of property finance leases, which is defined as the value of the right to the lease for the remainder of the lease term plus the value of any purchase options in the lease agreement.

When a purchase option is exercised, the value of the finance lease and purchase option is transferred to property, plant and equipment. Prior to exercise, purchase options are subject to excess tax depreciation on the amortizable portion of the assets concerned.

## 1.2 PROPERTY, PLANT & EQUIPMENT OTHER THAN INVESTMENT PROPERTY

Property, plant and equipment other than investment property are recorded in the balance sheet at cost or transfer value.

Assets are depreciated using the component method.

For buildings, four components have been identified: structural elements, roofing, fire protection of the building shell, and fixtures.

"Roofing" and "Fire protection" are identified as separate components only in the case of major renovations. In all other cases, they are not separated from the "structural" elements.

Property, plant and equipment assets are depreciated using either the straight-line method or the diminishing balance method, depending on the characteristics of each asset. For assets received in the contribution, the depreciable life of fixtures, fittings and improvements is limited to the estimated remaining useful life.

Depreciation expense calculated according to the straight line method corresponds to economic depreciation. The depreciable lives used for the main types of tangible assets are as follows:

| Type of asset | Depreciation period |
|---|---|
| Land arrangements and improvements | 40 years |
| Buildings (structural elements) | 50 years |
| Roofing | 15 years |
| Fire protection of the building shell | 25 years |
| Fixtures and fittings and renovation of premises | 10 - 20 years |

For all land and constructions, the net carrying values thus defined are compared to the fair values. Fair value is determined by appraisals conducted for the Company on a regular basis by independent appraisers. The valuation of investment property requires some judgment and estimates.

The shopping centers owned by Mercialys are appraised by experts in accordance with RICS (Royal Institution of Chartered Surveyors) Code of Ethics, appraisal and valuation standards using the open market value appraisal methods recommended by the 1998 property appraisal and valuation charter and the 2000 report published by the joint working group of the Commission des Opérations de Bourse (COB) and the Conseil National de la Comptabilité (CNC) on property asset valuations for listed companies.

Moreover, Mercialys complies with the Code of Ethics for French REIT (SIIC) in terms of the rotation of appraisers.

All assets in Mercialys' portfolio have been valued and those undergoing full appraisal have been subjected to planning, market and competition surveys and site visits. In accordance with the 2000 COB/CNC report, two methods have been used to determine the fair value of each asset:

- the first approach, capitalization of rental income, consists of measuring net rental income from the asset and applying a rate of return corresponding to the market rate for assets of the same type, based on the retail area, configuration, location, competition, means of ownership, rental and extension potential and comparability with recent transactions, and taking into account the actual level of rent, less non rebillable expenses and works relative to the corresponding market price and the vacancy rate;
- the second approach, discounted cash flow (DCF), which consists of discounting future flows of income and expenses, takes into consideration projected rent increases and vacancy rates in future years, as well as other forecast parameters such as the duration of the period during which the property will be in the lease market and the investment outlays borne by the lessor.

The discount rate used takes into account the market risk-free rate (TEC 10-year OAT), plus a risk premium and a real estate market liquidity premium, as well as any risk premiums for obsolescence and rental risk.

Small assets have been valued by comparison with market transactions in similar assets.

The Company does not incur any maintenance expenditure on its properties that would fall within the scope of major repair and maintenance programs spanning several years. Accordingly, the provisions of ANC regulation 2014-03 on asset depreciation and impairment relating to major repairs and maintenance do not apply.

Carrying amounts of assets may include compensation paid to a tenant evicted upon early termination of a lease when:

### The tenant is replaced

If payment of eviction compensation enables the performance of the asset to be enhanced (increasing rental revenue, and thereby the market value of the asset), this expenditure is capitalized as part of the cost of the asset, provided such increase in value is confirmed by appraisal; if not, this expenditure is charged to expense in the year incurred.

### The site is renovated

If payment of eviction compensation is due to renovation work on the building, this expenditure is included in the cost of this work.

## 1.3 INVESTMENTS

Participating interests are recorded in the balance sheet at cost or transfer value. An impairment allowance is recognized if the carrying cost is less than fair value. If the fall in value is unusual and temporary, no impairment is recorded.

The value in use is determined on the basis of several criteria such as net assets of the relevant companies at year-end (restated to reflect appraisals of property assets, see paragraph 1.2, page 167), level of profitability, outlook and usefulness to the Company.

## 1.4 PROVISIONS

Any obligation to a third party that entails a probable future outflow of resources without offsetting consideration is recognized by a provision whenever the liability can be reliably estimated.

Managers and other employees receive a post-employment benefit (end-of-career allowance) on retirement, commensurate with their length of service.

In accordance with CNC Recommendation 2003-R.01, a provision is recognized for the estimated liability in respect of all vested rights to post-employment benefits. The amount of this provision has been determined by the projected unit credit method and includes related payroll taxes.

The Company has established bonus share plans for the benefit of executives and employees of Mercialys Group. A provision is established for the duration of the plan to cover the Company's probable liability, taking into account the award criteria and assuming that the beneficiaries are still employed by the Company at the end of the vesting period.

Receivables and payables are measured at nominal value. Provisions for impairment are booked for receivables in the event of recovery difficulties.

## 1.5 FINANCIAL INSTRUMENTS

The Company uses several financial instruments to reduce its interest rate risk. In this case, the nominal number of forward contracts is reported under off-balance sheet commitments. Only accrued coupons for the period are recognized in income, against other receivables for derivatives (assets) and other payables for derivatives (liabilities).

### 1.6 RENTAL REVENUES

Rental revenues comprise the rental of properties by Mercialys to its tenants. The amounts invoiced are recognized as revenue for the applicable period. In the case of construction leases, the value of the asset built by the lessee and transferred to the lessor for no consideration at the end of the lease is analyzed as additional rent payable in kind and is spread over the term of the lease.

Benefits granted to tenants are recognized on a straight-line basis over the term of the contract.

Stepped rents and rent holidays are accounted for by spreading an amount as a decrease or increase to rental revenues of the period. The spreading is done over the committed term of the lease.

Rental revenue also includes upfront payments made by tenants upon signing the lease. If such payments are considered to be supplemental rent, they are spread over the initial committed term of the lease, generally three years. If not, they are recognized in full in income over the period in which the tenant takes possession.

Net rental income is the difference between rental revenue and directly attributable expenses. Directly attributable expenses include unrecovered property taxes and charges as well as other property operating expenses. These expenses do not include expenses recognized by the Company as “Other expenses” or “Personnel expenses”.

### 1.7 TAX

The tax regime for French SIICs (analogous to exchange-traded REITs) exempts such companies from corporate income tax on income from real estate activities provided that a minimum of 95% of net income from rental activities, 60% of gains on property asset disposals, and 100% of dividends from SIIC subsidiaries are distributed as dividends to shareholders.

The tax expense in the income statement corresponds to tax payable on interest and similar income from cash, equity holdings and the liquidity contract agreement less the proportionate share of the Company’s general costs allocated to taxable business activities, and taxation of fees and services billed to third parties.

### 1.8 NET EXCEPTIONAL ITEMS

Net exceptional items are income and expense items that by virtue of their nature, infrequent occurrence or amount, are not representative of the Company’s recurring activities.

This line item includes in particular income from the disposal of investment property.

## Note 2 Significant events of the period

The significant events of the period are as follows:

- In January 2017, Mercialys sold five service malls to the Casino group for a total amount of Euro 31 million including transfer taxes and an exit yield rate of 5.8%.
- In January 2017, Mercialys also sold the transformed hypermarket at Toulouse Fenouillet to the Casino group for Euro 32.8 million including transfer taxes, for an exit yield rate of 5.0%.
- In June 2017, Mercialys finalized the sale of the Poitiers Beaulieu site with a family office financed by HSBC for Euro 46.4 million including transfer taxes, corresponding to an exit yield rate of 5.8%.
- In July 2017, Mercialys sold the Fontaine-lès-Dijon site to a fund created by Stam Europe for Helaba Invest for Euro 21.9 million, including transfer taxes.
- In October 2017, Mercialys decided to redevelop its assets by and consequently tendered its participating interests to its subsidiary La Diane, for an amount of Euro 295.1 million. Details about this transaction are presented in notes 8 and 10, page 173.
- On October 25, 2017, Mercialys issued a Euro 150 million bond, maturing in 2027. This transaction covers the Company’s general requirements, including the partial refinancing of the Euro 479.7 million bond maturing in March 2019.

## Note 3 Net rental income

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Rents | 134,214 | 140,815 |
| Lease rights and other payments | 1,393 | 1,864 |
| **Rental revenues** | **135,607** | **142,679** |
| Property tax | (9,447) | (10,815) |
| Rebilling to tenants | 9,426 | 10,182 |
| **Unrecovered property taxes** | **(21)** | **(633)** |
| Service charges | (27,568) | (28,762) |
| Rebilling to tenants | 23,377 | 26,024 |
| **Unrecovered service charges** | **(4,191)** | **(2,737)** |
| Management fees | (7,995) | (4,728) |
| Rebilling to tenants | 2,709 | 2,910 |
| Other expenses | (3,835) | (6,836) |
| **Property operating expenses** | **(9,121)** | **(8,654)** |
| **NET RENTAL INCOME** | **122,274** | **130,655** |

"Other expenses" include in particular rents paid by the Company on construction leases and very long-term ground leases, fees paid to third parties, and non-recoverable, non-capitalizable shopping center maintenance costs.

## Note 4 Income from management, administration and other activities

The income from management, administration and other activities comprise primarily fees charged in respect of services provided by certain Mercialys staff – whether in connection with: advisory services provided by the team dedicated to extension/renovation programs, which works on a cross-functional basis for Mercialys and the Casino group; or with shopping center management services provided by teams – as well as letting, asset management and advisory fees relating to the partnerships formed with Union Investment and Amundi Immobilier. The income from management is unchanged compared with the previous year.

## Note 5 Personnel expenses

Personnel expenses comprise salaries and benefits granted to the Company's employees.

The proceeds from the tax credit for competitiveness and employment (CICE) is accounted for as and when the qualifying remuneration on which it is based is recognized. It amounted to Euro 17,300 for 2017 (compared with Euro 11,500 in 2016), deducted from personnel expenses.

This tax credit has helped to improve the Company's competitiveness, particularly through:

- Investments in software or other IT developments to improve competitiveness, such as the Euro 14,700 investment in the Salesforce CRM software;
- Non-attributable training actions (not included in the training plan) identified as improving competitiveness for Euro 2,700.

On average over the year, the Company had 52 employees in 2017 (43 managers, two supervisors and four clerical staff), compared with 43 employees in 2016.

## Note 6 Other expenses

Other expenses comprise shopping center advertising and overhead costs. Overhead costs consist primarily of: the cost of investor relations, corporate communications costs, research and marketing and service functioning; directors' fees paid to Board members; fees paid for subcontracted services (accounting, financial management, human resources, IT, marketing); the fees paid to the statutory auditors; and the costs incurred for appraisals and for management of the property assets.

## Note 7 Net financial income (expense)

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| **Interest income** | **73,308** | **51,965** |
| Provision for bonus share plans | - | 92 |
| Provision for treasury shares | - | 89 |
| Reversal of provision for impairment of participating interests | 3,185 | 495 |
| - Point Confort | 589 | 296 |
| - La Diane | 2,596 | 48 |
| - Other | - | 151 |
| Income from consolidated interests | 39,339 | 19,998 |
| - Kerbernard | 2,951 | 3,129 |
| - Timur | 2,040 | - |
| - Fiso | 3,135 | 2,238 |
| - Point Confort | 277 | - |
| - Les Salins | 826 | - |
| - Caserne de Bonne | 2,074 | 1,666 |
| - Géante de Périaz | 522 | 1,042 |
| - Narbonne | 345 | 857 |
| - La Diane | 6,319 | - |
| - Dentelle | 223 | 84 |
| - Agout | 140 | - |
| - AMR | 2,994 | 540 |
| - Alcudia Albertville | 4,577 | 57 |
| - Mercialys Gestion | 183 | 690 |
| - Aix 2 | 529 | 298 |
| - Immosiris | 3,524 | 2,808 |
| - Hyperthétis Participations | 8,359 | 6,773 |
| - Other | 321 | 506 |
| Interests in affiliated companies | 1,524 | 1,935 |
| Net income/sale of treasury shares | 659 | 1,083 |
| Financial income from investments | 885 | 224 |
| Interest income on hedging derivatives | 27,685 | 27,330 |
| Other financial income | 31 | 29 |
| **Interest expense** | **(61,145)** | **(64,049)** |
| Provision for bonus share plans | (406) | - |
| Provision for treasury shares | - | - |
| Depreciation of bond redemption premium | (4,654) | (4,542) |
| Provision for participating interests | (2,200) | (4,533) |
| - Alcudia Albertville | (1,130) | - |
| - AMR | (1,070) | (4,533) |
| Interests in affiliated companies | (141) | (145) |
| Interest on borrowings | (33,675) | (33,260) |
| Interest on commercial papers issued | - | (50) |
| Interest charges on hedging derivatives | (18,970) | (19,372) |
| Net expense/sale of treasury shares | (972) | (1,772) |
| Capitalization of borrowing costs | 272 | - |
| Other interest on debt | - | (1) |
| Other financial charges | (399) | (374) |
| **NET FINANCIAL INCOME (EXPENSE)** | **12,163** | **(12,084)** |

# Note 8 Net exceptional items

Net exceptional items reported in 2017 correspond to:

- the decrease in the capital of La Diane, leading to a capital loss of Euro 2.5 million;
- the contribution of participating interests to La Diane, leading to a capital gain of Euro 169.9 million;
- capital gains on fixed asset disposals leading to a capital gain net of expenses of Euro 20.1 million.

# Note 9 Tax

Tax expense corresponds to tax due on income from the Company's taxable business activities, plus the additional contribution owing on the amounts paid out. Since the taxable sector reported a net loss, no tax expense has been recognized for 2017; the recognized income can be mainly explained by an adjustment of the additional corporate income tax levy on dividend payouts, which has been ruled as unconstitutional by the French *Conseil Constitutionnel*.

Deferred tax assets and liabilities are not material.

# Note 10 Non-current assets

## 10.1 BREAKDOWN

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Software | 4,135 | 3,204 |
| Leasehold rights | 252 | 356 |
| Other intangible assets | 485 | 113 |
| Depreciation and impairment | (2,187) | (1,301) |
| **Net intangible assets** | **2,685** | **2,372** |
| Land and land improvements | 951,529 | 994,825 |
| Depreciation and impairment | (15,095) | (9,295) |
| **Net land and land improvements** | **936,434** | **985,530** |
| Buildings, fixtures and fittings | 694,085 | 671,409 |
| Depreciation and impairment | (126,202) | (118,788) |
| **Net buildings, fixtures and fittings** | **567,883** | **552,621** |
| Other property, plant and equipment | 15,488 | 40,498 |
| Depreciation and impairment | (3,239) | (2,876) |
| **Other net property, plant & equipment other than investment property** | **12,249** | **37,621** |
| Participating interests | 614,667 | 461,517 |
| Impairment of participating interests | (11,984) | (12,969) |
| Loans | 124,882 | 120,263 |
| Other non-current financial assets | 15 | 15 |
| **Net investments** | **727,580** | **568,826** |
| **NET NON-CURRENT ASSETS** | **2,246,831** | **2,146,970** |

Other property, plant & equipment other than investment property consist of fixed assets in progress for Euro 7,516,000 as at December 31, 2017, compared to Euro 34,478,000 as at December 31, 2016.

Participating interests are presented in detail in the table of subsidiaries and associated companies (see note 23, p. 186).

## 10.2 CHANGES

| *(In thousands of euros)* | | Gross | Depreciation and impairment | Net |
|---|---|---|---|---|
| **As at December 31, 2015** | Intangible assets | 2,162 | (833) | 1,329 |
| | Property, plant and equipment other than investment property | 1,671,047 | (117,235) | 1,553,812 |
| | Investments | 413,166 | (8,931) | 404,235 |
| | **Total** | **2,086,376** | **(126,999)** | **1,959,376** |
| Increases | Intangible assets | 1,581 | (530) | 1,051 |
| | Property, plant and equipment other than investment property | 141,742 | (23,498) | 118,244 |
| | Investments | 168,905 | (4,284) | 164,621 |
| | **Total** | **312,228** | **(28,312)** | **283,916** |
| Decreases | Intangible assets | 70 | (62) | 8 |
| | Property, plant and equipment other than investment property | 106,057 | (9,773) | 96,284 |
| | Investments | 276 | (245) | 31 |
| | **Total** | **106,403** | **(10,080)** | **96,323** |
| **As at December 31, 2016** | Intangible assets | 3,673 | (1,301) | 2,372 |
| | Property, plant and equipment other than investment property | 1,706,732 | (130,960) | 1,575,772 |
| | Investments | 581,795 | (12,970) | 568,826 |
| | **Total** | **2,292,200** | **(145,231)** | **2,146,970** |
| Increases | Intangible assets | 1,303 | (887) | 416 |
| | Property, plant and equipment other than investment property | 74,836 | (29,509) | 45,327 |
| | Investments | 302,967 | (2,200) | 300,768 |
| | **Total** | **379,106** | **(32,596)** | **346,510** |
| Decreases | Intangible assets | 104 | (1) | 103 |
| | Property, plant and equipment other than investment property | 120,466 | (15,933) | 104,533 |
| | Investments | 145,198 | (3185) | 142,013 |
| | **Total** | **265,768** | **(19,119)** | **246,649** |
| **As at December 31, 2017** | Intangible assets | 4,872 | (2,187) | 2,685 |
| | Property, plant and equipment other than investment property | 1,661,102 | (144,536) | 1,516,566 |
| | Investments | 739,564 | (11,985) | 727,580 |
| | **TOTAL** | **2,405,538** | **(158,707)** | **2,246,831** |

### Intangible assets and property, plant & equipment other than investment property

The increases for the period consist essentially of:

- the acquisition of units on the Rennes Saint Grégoire site for an amount of Euro 16.9 million, the extension of the Monthieu shopping center for Euro 15.9 million, the extension of the Morlaix shopping center for Euro 8.2 million and the extension of the Quimper shopping center for Euro 6.4 million;

Decreases for the period correspond primarily to:

- disposals of the Villeneuve Loubet, Fontaine-lès-Dijon, Valence Sud, Toulouse Fenouillet, Saint-Martin-d'Hères, Chalon-sur-Saône, Castres and Poitiers assets for a net carrying cost of Euro 105.8 million generating a capital gain of Euro 20.1 million net of expenses.

### Investments

In September 2017, La Diane carried out a capital reduction transaction by repaying its associates thereby generating a reduction in the value of its shares by Euro 16.7 million.

In October 2017, Mercialys transferred its participating interests to its subsidiary La Diane. This transaction concerned the securities of SCI Kerbernard, SNC Fiso, SNC CC Narbonne, SNC Géante de Périaz, SAS Les Salins, SCI Timur, SCI Caserne de Bonne and SNC Fenouillet Participation for a net carrying cost of Euro 125.2 million. In exchange, Mercialys received new securities from La Diane for an amount of Euro 295.1 million.

Mercialys has entered into several current account agreements with its subsidiaries. Loans realized as at December 31, 2017 were as follows (including interest income):

- SNC Fenouillet Participation: Euro 44,439,000;
- SNC Fenouillet Immobilier: Euro 74,558,000;
- SCI Rennes Anglet: Euro 3,115,000;
- OPCI UIR II: Euro 2,729,000.

### 10.3 IMPAIRMENT

At December 31, 2017, Mercialys recognized Euro 7,572,000 as impairment expense for property, plant & equipment other than investment property and reversed an impairment of Euro 665,000 for its property assets compared with an allowance of Euro 2,640,000 in 2016.

On participating interests, impairment changes concern Point Confort, Alcuda Albertville, AMR and La Diane for Euro 11,985,000 at December 31, 2017 compared with Euro 12,970,000 at December 31, 2016.

Allowances for Euro 2,200,000 and reversals for Euro 3,185,000 were recognized during the financial period.

These impairment charges relate primarily to the reduction in these subsidiaries' revalued net cash position as a result of dividends paid out in the course of the year.

## Note 11 Receivables

### 11.1 BREAKDOWN

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Trade receivables | 16,493 | 25,334 |
| Impairment | (3,984) | (3,596) |
| **Net trade receivables** | **12,509** | **21,738** |
| Other operating receivables | 52,781 | 52,368 |
| Current accounts of affiliated companies | 150,941 | 145,881 |
| Impairment | (37) | (37) |
| **Other net receivables** | **203,685** | **198,212** |
| **RECEIVABLES** | **216,194** | **219,950** |

The aging of trade receivables breaks down as follows:

| Trade accounts and other receivables | Assets not due and not impaired | Assets due and not impaired at closing date | | | | | Impaired assets | Total |
|---|---|---|---|---|---|---|---|---|
| *(In thousands of euros)* | Total | In arrears for less than 3 months | In arrears for 3 to 6 months | In arrears for 6 to 12 months | In arrears for more than 12 months | Total | Total | |
| As at December 31, 2016 | 6,435 | 8,304 | 687 | 668 | (218) | 9,441 | 9,458 | 25,334 |
| **AS AT DECEMBER 31, 2017** | **4,517** | **2,357** | **1,520** | **941** | **326** | **5,144** | **6,833** | **16,494** |

Trade receivables as at December 31, 2017, comprise primarily rents, lease rights and advisory services invoiced at the end of the year.

Other operating receivables consist essentially of:

- tax receivables of Euro 14,652,000 as at December 31, 2017, compared with Euro 17,444,000 at December 31, 2016;
- amounts receivable from tenants under construction leases standing at Euro 5,889,000 as at December 31, 2017 compared with Euro 6,814,000 as at December 31, 2016. In substance, the value of the asset built by the lessee and transferred to the lessor for no consideration at the end of the lease is analyzed as additional rent payable in kind and is spread over the term of the lease. At the end of the lease, the accrued revenue is canceled by recognizing an equivalent amount as a property asset;
- dividends to be received of Euro 1,126,000 as at December 31, 2017 compared with Euro 690,000 as at December 31, 2016.

Current accounts of affiliated companies mainly include the current accounts with SCI Caserne de Bonne for Euro 75,495,000, compared with Euro 77,354,000 as at December 31, 2016, and SNC FISO for Euro 10,205,000, compared with Euro 40,543,000 as at December 31, 2016 and SARL La Diane for Euro 35,307,000.

These receivables include accounts receivable of Euro 30,804,000, compared with Euro 36,220,000 as at December 31, 2016, including primarily:

- trade receivables: Euro 1,955,000 (Euro 3,905,000 as at December 31, 2016);
- other operating receivables: Euro 26,365,000 (Euro 27,160,000 as at December 31, 2016);
- current accounts of affiliated companies: Euro 544,000 (Euro 764,000 as at December 31, 2016).

### 11.2 DEBT MATURITY SCHEDULE

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Less than one year | 210,714 | 213,630 |
| More than one year | 5,480 | 6,319 |
| **RECEIVABLES** | **216,194** | **219,950** |

## Note 12 Net cash

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Treasury shares | 2,942 | 2,156 |
| Impairment | - | - |
| Liquidity contract | 101 | 101 |
| Banks | 193,164 | 9,960 |
| **CASH** | **196,207** | **12,217** |

The Company held 127,534 treasury shares under the liquidity contract with the service providers as at December 31, 2017, compared with 69,500 as at December 31, 2016.

## Note 13 Equity

### 13.1 CHANGE IN EQUITY BEFORE ALLOCATION OF NET INCOME FOR THE YEAR

| *(In thousands of euros)* | Share capital and share premium | Reserves and net income | Regulated provisions | Equity |
|---|---|---|---|---|
| **As at December 31, 2015** | **544,839** | **172,967** | **10,319** | **728,125** |
| Increase in share capital | | | | - |
| Decrease in share capital | | | | - |
| Allocation of net income | | | | - |
| Dividends paid | | (52,327) | | (52,327) |
| Net income for the period | | 114,187 | | 114,187 |
| Interim dividend | | (39,432) | | (39,432) |
| Other movements | | | 5,202 | 5,202 |
| **As at December 31, 2016** | **544,839** | **195,395** | **15,521** | **755,755** |
| Increase in share capital | | | | - |
| Decrease in share capital | | | | - |
| Allocation of net income | | | | - |
| Dividends paid | | (57,829) | | (57,829) |
| Net income for the period | | 287,280 | | 287,280 |
| Interim dividend | | (37,637) | | (37,637) |
| Other movements | | | (12,665) | (12,665) |
| **AS AT DECEMBER 31, 2017** | **544,839** | **387,209** | **2,857** | **934,905** |

The 2017 interim dividend resulted in a cash payment of Euro 37,637,000.

As at December 31, 2017, the authorized share capital consisted of 92,049,169 shares with a par value of Euro 1.00.

## 13.2 DIVIDENDS

As at December 31, 2016, out of these 92,049,169 shares, 91,792,082 benefited from the dividend in respect of 2016 earnings (257,087 treasury shares are exempt from dividend payment).

The Company paid its shareholders a gross dividend of Euro 1.06 per share in respect of the financial year ended December 31, 2016. An interim dividend of Euro 0.43 per share was paid in 2016, and the final dividend of Euro 0.63 per share was paid on May 04, 2017.

Payment of the final dividend represented a total of Euro 57,829,000.

The total dividend for the 2016 financial year therefore came to Euro 97,261,000.

On October 23, 2017, Mercialys also paid an interim dividend of Euro 0.41 per share, representing an amount of Euro 37,637,000.

On February 14, 2018, the Board of Directors proposed, subject to approval by the General Meeting of April 26, 2017, to pay a dividend in respect of 2017 amounting Euro 1.09 per share (including the interim dividend of Euro 0.41 per share already paid in October 2017).

This dividend corresponds to the distribution of 95% of recurring earnings, arising from the requirement introduced by the SIIC status, *i.e.* Euro 0.99 per share and Euro 0.10 per share corresponding to the balance of capital gains realized in 2016. Capital gains distributable in respect of 2017 amount to Euro 12.3 million, which will be paid out in 2019.

The financial statements presented before appropriation of net income do not reflect this dividend, which is subject to approval by a forthcoming Annual General Meeting.

## 13.3 PAYMENT IN SHARES

Since December 1, 2005, the Mercialys Group has set up bonus share plans in Mercialys shares for the benefit of executives and managers.

The vesting of bonus share plans is subject to the beneficiary being present at the end of the allocation period.

| Bonus shares currently vesting | Number of shares, current |
|---|---|
| **Shares in circulation at January 1, 2016** | **56,044** |
| Shares awarded | 4,503 |
| Shares cancelled | (8,332) |
| Shares issued | (32,461) |
| **Shares in circulation at December 31, 2016** | **74,588** |
| Shares awarded | 85,697 |
| Shares cancelled | (10,426) |
| Shares issued | (14,446) |
| **SHARES IN CIRCULATION AT DECEMBER 31, 2017** | **135,413** |

## 13.4 BONUS SHARE PLANS

| Allocation dates | 04/20/16 | 04/20/16 | 04/20/16 | 04/20/16 | 03/20/17 | 03/20/17 | 04/27/17 | 04/27/17 | 12/21/17 |
|---|---|---|---|---|---|---|---|---|---|
| End of allocation period | 04/20/18 | 04/20/18 | 04/20/19 | 04/20/19 | 03/20/19 | 03/20/20 | 04/27/20 | 04/27/20 | 03/21/19 |
| End of holding period | 04/20/20 | 04/20/20 | 04/20/21 | 04/20/21 | 03/21/19 | 03/21/22 | 04/28/22 | 04/28/22 | 12/22/19 |
| Share price at the allocation date (in euros) | 20.01 | 20.01 | 20.01 | 20.01 | 16.75 | 16.75 | 17.93 | 17.93 | 18.09 |
| Number of beneficiaries | 4 | 11 | 4 | 10 | 114 | 11 | 2 | 3 | 3 |
| Number of bonus shares awarded at inception | 17,139 | 9,031 | 17,139 | 11,525 | 14,478 | 12,283 | 41,75 | 14,562 | 2,624 |
| Fair value of the bonus share (in euros) | 6.38 | 10.46 | 11.74 | 13.74 | 14.56 | 9.64 | 5.04 | 5.04 | 16.63 |
| Selected performance rate | 53% | 87% | 75% | 87.7% | 100% | 80% | 39% | 39% | 100% |
| **NUMBER OF SHARES IN CIRCULATION BEFORE APPLICATION OF THE PERFORMANCE CRITERIA AT DECEMBER 31, 2017** | **17,139** | **7,143** | **17,139** | **10,581** | **12,192** | **12,283** | **41,750** | **14,562** | **2,624** |

Bonus shares only vest when the Company's performance criteria have been met, assessed over a defined period that results in the determination of the percentage of shares vested.

The following performance criteria are applied:

- Absolute and relative performance of the TSR of Mercialys shares;
- Average organic growth over 3 years ≥ 2% and average TSR over 3 years ≥ 6%.

# Note 14 Provisions

## CHANGES

| *(In thousands of euros)* | 12/31/2016 | Additions | Reversal | 12/31/2017 |
|---|---|---|---|---|
| For liabilities and charges | 6,717 | 2,915 | 1,872 | 7,760 |
| For end of career severance allowances | 160 | 35 | - | 195 |
| For long service awards | 13 | 5 | - | 18 |
| **PROVISIONS** | **6,890** | **2,955** | **1,872** | **7,973** |
| o/w operating | | 1,734 | 593 | |
| o/w financial | | 406 | - | |
| o/w exceptional | | 815 | 1279 | |

Provisions for liabilities and charges include the estimated costs of litigation and other operating risks.

The amount of these provisions is not materially different from the actual expenses incurred.

# Note 15 Borrowings and miscellaneous financial liabilities

## 15.1 BREAKDOWN

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Bonds | 1,405,553 | 1,255,068 |
| Borrowings and debts from credit institutions | 258,500 | 290,000 |
| Bank overdrafts | 2,100 | 1,155 |
| Other financial debts (security deposits received) | 17,602 | 17,444 |
| **BORROWINGS AND FINANCIAL DEBTS** | **1,683,756** | **1,563,667** |

Security deposits received are repayable to tenants when they leave or, at the earliest, at the next three-year expiry date. Because occupancy rates on the Company's properties are very high, these deposits received constitute a near-permanent source of financing of indeterminable maturity.

## 15.2 BOND

As at December 31, 2017, the amount of bond financing was Euro 1,379.7 million, divided into three issues:

- a Euro 150 million bond issue yielding a fixed rate of 2.00%, with a maturity of 10 years (maturing in November 2027);
- a Euro 750 million bond issue yielding a fixed rate of 1.787%, with a maturity of 8 years and 4 months (due in March 2023);
- the Euro 479.7 million remainder of a bond issue of Euro 650 million, issued in March 2012 and partially redeemed in December 2015, yielding a fixed rate of 4.125% and maturing in March 2019.

The new Euro bond issue of Euro 150 million resulted in the recognition of a Euro 0.4 million bond exchange premium as well as Euro 1.3 million in bond issuance costs.

As for the other bonds, the exchange premiums and issue costs are spread according to the effective interest method, over the life span of the new issue.

The bond exchange and repayment premiums, as well as the issue costs, are shown as assets on the balance sheet.

These bonds are subject to the standard commitment and default clauses customarily included in this type of agreement:

*pari passu* ranking, a negative pledge clause that limits the security that can be granted to other lenders, and a cross-default obligation. Furthermore, if the rating is downgraded following a change of ownership (see definition below), Mercialys bondholders may request redemption of their share.

A rating downgrade is defined as a lowering of the rating by a ratings agency, a downgrade of the rating to non-investment grade (*i.e.* a downgrade of at least two notches relative to the current rating) or, if the rating is already non-investment grade, a downgrade of at least one notch. The rating downgrade must be explicitly linked to the change in control of the Company.

## 15.3 HEDGING

In addition, Mercialys introduced an interest rate hedging policy in October 2012 through swaps in order to enable it to spread out its interest rate risk over time.

Breakdown of hedges as at December 31, 2017

| *(In thousands of euros)* | Notional | Marked to market Net | Marked to market Asset | Marked to market Liability | Premium | Provision |
|---|---|---|---|---|---|---|
| Fixed/floating rate swaps | 1,282,000 | 31,557 | 34,919 | (3,174) | - | - |

At end December 2017, Mercialys' debt structure after hedging broke down as follows: 65% fixed-rate debt and 35% variable-rate debt.

## 15.4 CONFIRMED CREDIT LINE

The credit line is Euro 240 million. The conditions were revised and the maturity fixed at five years starting from December 2014, then extended by another year, taking maturity to December 2020. The costs amounting to Euro 1.6 million are spread over time.

Mercialys also set up:

- in December 2014, confirmed credit lines for a total amount of Euro 60 million with a 3-year maturity (with a double one-year extension option);
- in July 2016, confirmed credit line for a total amount of Euro 30 million with a three-year maturity (with a double one-year extension option), taking it to December 2019 and a confirmed bank credit line for a total amount of Euro 30 million with a three-year maturity renewed for one year (with a double one-year extension option).

At the end of December 2017, the Mercialys Group's confirmed credit facilities therefore amounted to Euro 360 million.

## 15.5 COMMERCIAL PAPER

A Euro 500 million commercial paper program was issued in the second half of 2012. It has been used since 2014. As at December 31, 2017, the outstanding stood at Euro 258.5 million.

## 15.6 FINANCIAL COVENANTS

Mercialys' financial liabilities are subject to default clauses (early repayment) in the event of failing to adhere to the following financial ratios:

- LTV (Loan To Value): Consolidated net financial debt/ (consolidated market value of the portfolio excluding transfer taxes + market value of investments in associates[(1)]) <50% at each reporting date;
- Interest Coverage Ratio (ICR): Consolidated EBITDA[(2)]/Net finance costs > 2, at reach reporting date;
- Secured debt/consolidated fair value of investment property excluding transfer tax < 20% at any time;
- Consolidated fair value of investment property excluding transfer tax > Euro 1 billion at any time;
- Change of ownership clauses also apply.

| | Covenants | 12/2017 | 12/2016 |
|---|---|---|---|
| Loan To Value (LTV) | <50% | 39.9% | 42.5% |
| Interest Coverage Ratio (ICR) | >2 | 5.2x | 5.3x |

As at December 31, 2017 the two other contractual covenants (Secured debt to Consolidated fair value of investment properties excluding transfer taxes; and Consolidated fair value of investment property excluding transfer taxes), as well as the commitment and default clauses, were also respected.

(1) *In market value for 2017 and in historic value for 2016. The asset value of associates is not included in the appraisal value.*
(2) *EBITDA: Earnings before interest, taxes, depreciation, and amortization.*

# Note 16 Debts

## 16.1 BREAKDOWN

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Trade payables | 18,679 | 21,008 |
| Tax and social security liabilities | 5,235 | 5,833 |
| Income tax | - | - |
| Current accounts of affiliated companies | 17,084 | 27,803 |
| Trade payables on assets | 10,350 | 19,529 |
| Other liabilities | 4,060 | 3,158 |
| **DEBTS** | **55,408** | **77,331** |

Current accounts of affiliated companies mainly correspond to the following subsidiaries:

| *(In thousands of euros)* | |
|---|---|
| SNC Agout | 9,619 |
| SCI Timur | 3,299 |
| SNC Dentelle | 2,338 |
| SNC Géante Périaz | 1,700 |

Charges to be paid amount to Euro 31,902,000, compared with Euro 37,325,000 as at December 31, 2016, broken down as follows:

- trade payables: Euro 15,721,000 (Euro 17,310,000 as at December 31, 2016);
- tax and social security liabilities: Euro 3,957,000 (Euro 4,390,000 as at December 31, 2016);
- current accounts of affiliated companies: Euro 128,000 (Euro 144,000 as at December 31, 2016);
- trade payables on assets: Euro 8,211,000 (Euro 12,994,000 as at December 31, 2016);
- other liabilities: Euro 3,885,000 (Euro 2,487,000 as at December 31, 2016).

## 16.2 DEBT MATURITY SCHEDULE

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| Less than one year | 55,405 | 77,327 |
| Between one and five years | - | - |
| More than five years | - | - |
| **DEBTS** | **55,405** | **77,327** |

# Note 17 Adjustment account

This item consists essentially of lease payments still to be deferred and income from unwinding swaps.

# Note 18 Off-balance sheet commitments

The principal commitments are the following:

## 18.1 COMMITMENTS RELATING TO ORDINARY ACTIVITIES

### 18.1.1 Commitments received

#### 18.1.1.1 Bank guarantees received

- on behalf of tenants, covering payment of rent and service charges: as at December 31, 2017, these amounted to Euro 5,276,000, compared with Euro 1,423,000 as at December 31, 2016;
- within the context of work ordered from suppliers: Euro 2,563,000 as at December 31, 2017, compared with Euro 1,045,000 as at December 31, 2016.

#### 18.1.1.2 Partnership agreement

Mercialys signed a Partnership Agreement with Casino, Guichard-Perrachon, approved by the Board of Directors on June 22, 2012. An amendment to this agreement was signed on November 12, 2014.

The initial three-and-a-half-year term of the partnership was extended until the end of 2020.

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

The initial Agreement concerned a pipeline of projects, listed at an early stage, offering sufficient visibility. The new agreement enables Mercialys to propose new projects which will be examined by Casino and monitored by the Monitoring Committee.

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

The acquisition price of projects developed by Casino, determined solely based on a rent capitalization rate under the original agreement, can now also be determined on the projected selling price, calculated according to the projected IRR (8% to 10%).

The principle of upside/downside being split 50/50 is maintained to take account of the actual conditions under which the properties will be let. Therefore, if there is a positive or negative difference (upside or downside) between effective rents resulting from letting and expected rents at the outset, the price will be adjusted upwards or downwards by 50% of the difference observed. A “review clause” between the two parties is provided in the contracts under the early acquisition process mentioned earlier.

In return for this exclusivity, Mercialys has made a commitment not to invest in any transactions that may have a significant competitive impact within the catchment area of a site with a Casino group food store.

Mercialys did not carry out any acquisition in 2017 under this partnership agreement.

#### 18.1.1.3 Current account agreement

On September 8, 2005, Mercialys signed a Current Account and Cash Management Agreement with Casino. Mercialys and Casino thereby set up a shareholders’ current account that recorded all payments, withdrawals or advances of sums that may be made reciprocally between the two companies.

After Casino reduced its stake in Mercialys, the two parties decided to terminate the existing Current Account and Cash Management Agreement and sign a new Current Account Agreement. This Agreement will enable Mercialys to keep a current account with Casino enabling it to receive cash advances from Casino up to the current threshold of Euro 50 million.

The duration of the Agreement is aligned with that of the Partnership Agreement negotiated between the parties; it has therefore been extended up to December 31, 2020.

#### 18.1.1.4 Commitment in the context of the disposal of the Poitiers site

The disposal of the Poitier site was completed for Euro 46.4 million including transfer taxes, including Euro 1.5 million as earn-out payment.

The purchaser will owe the earn-out payment, payable any time until December 31, 2018 if the conditions under which payment is due are fulfilled. These payment conditions are mainly based on achieving the net rents payable for vacant premises at the time of the sale which will be covered by a lease that becomes effective during the earn-out payment period.

### 18.1.2 Commitments given

Various contracts and guarantees have been concluded with related parties in connection with acquisitions.

Mercialys is committed under Property development and project management agreements with IGC Services. Calls for funds are made for property development agreements as and when the work progresses, and are recognized as receivables. As at December 31, 2017, they amounted to Euro 353,000 compared with Euro 347,000 as at December 31, 2016.

Delegated project management agreements, signed on December 31, 2017, related to a Euro 37,959,000 envelope of work.

Residual risks relating to the development are subject to an autonomous completion guarantee from the contributing companies, comprising a guarantee to pay the sums required to complete the development and a financial guarantee if the deadline is not met.

In connection with the extension of the Géant Monthieu shopping center, Mercialys has agreed to contribute to the financing of the public infrastructure of the Commercial Activity Zone (ZAC) the completion of which will be to its benefit.

Mercialys will pay the sum of Euro 752,000 in several installments between the declaration of the start of works and June 30, 2019.

In connection with these asset disposals, Mercialys has given rental guarantees to the purchasers:

- Rennes – Anglet sites (disposals completed in the 1st half of 2016)

  Mercialys gave a rental guarantee for the Rennes and Anglet hypermarkets. Mercialys committed to pay rent for the second three-year period (from June 29, 2019 to June 28, 2022) in the event of non-renewal of the lease for the hypermarkets.
- Poitiers Beaulieu site (disposal completed in June 2017)

  Mercialys granted a rental guarantee on the Poitiers hypermarket and committed to pay rent for the second three-year period (from June 30 2020 to June 29, 2023) in the event of the departure of DCF at the end of the first three-year period.
- Fontaine-lès-Dijon site (disposal completed in July 2017)

  Rental guarantee on the second three-year period of the hypermarket's lease in the event of departure of DCF at the end of the first three-year period. This rental guarantee granted by Mercialys and Fiso sellers was created in an *ad-hoc* agreement between the parties.

Mercialys granted SAS Immosiris a rental guarantee on the Clermont-Ferrant hypermarket. Mercialys committed to pay the rent and service charges for the second three-year period in the event of non-renewal of the lease by the hypermarket, and non-reletting. In case of reletting, Mercialys committed to pay SAS Immosiris the difference between the rent and service charges that should have been paid by DCF and the rent and service charges paid by the new tenant, accounting for the rent-free periods granted to the new tenant, and this only for the second three-year period.

## 18.2 COMMITMENTS RELATING TO EXCEPTIONAL TRANSACTIONS

### 18.2.1 Commitments with Corin

In connection with its Partnership Agreement with Corin, in 2006 Mercialys acquired 60% of the undivided rights on certain assets in Corsica for Euro 90 million.

An amendment was made to the memorandum of understanding in 2014. This amendment made it possible to extend certain maturities and to modify the contribution mechanism of the undivided rights. The memorandum of agreement was created for a new 20-year period as from the signing of the amendment.

Today, it is projected that if the agreement to hold the undivided rights in common is not renewed, the party that initiated the end of the undivided rights will be penalized when the undivided rights are shared. The rights may be shared either in kind, with the other party choosing the units (the hypermarket premises will go in priority to Mercialys in any event), or through the transfer of the undivided rights.

Mercialys is irrevocably committed to acquire Corin's 40% of undivided rights but has the right to make a counterproposal, and Corin is irrevocably committed to transferring its rights to Mercialys.

On the assumption that Corin exercises its right to sell – at the earliest on January 31, 2020 – Mercialys has the option to buy Corin's undivided rights, or to assign its own rights and obligations to a third party, or to offer Corin the right to acquire its undivided rights. The memorandum of understanding specifies how the assets are valued. A 30% haircut will be applied if Mercialys opts to sell its undivided rights to Corin. Corin may likewise assign the benefit of its contractual promise to any third party.

These promises represent contingent commitments of unforeseeable outcome and are therefore not recognized in the balance sheet. In the event that the transfer takes place, the asset valuation specified in the memorandum of understanding will be representative of market value.

### 18.2.2 Commitment made in connection with the disposal of SAS Hyperthetis Participations

As part of the disposal of the 49% stake in SAS Hyperthétis Participations, Mercialys has the exclusive control of this company and has a call option to purchase the Company's securities or the real estate assets held by the minority interests with a guaranteed minimum price (the highest price between the fair value and an IRR), able to be exercised on its initiative in 2022. This option was valued at Euro 141.8 million, corresponding to the Company's NAV calculated on the basis of an appraised fair value of Euro 285.9 million (excluding transfer taxes). If the options are not exercised, there is an exit clause for disposal of the assets at their fair value.

Mercialys also granted SAS Hyperthétis Participations a rental guarantee on the hypermarkets. Mercialys committed to pay rent for the second three-year period in the event of non-renewal of the lease by the hypermarkets.

### 18.2.3 Other commitments

No pledge, mortgage or other conveyance of security interest applies to the Company's assets.

The Company has received the customary warranties from the transferor companies in respect of properties transferred to it in 2005 and 2009.

The Company complies with applicable law and regulations. There are no manifest environmental risks that would require recognition of a liability provision or an off-balance sheet item.

## 18.3 COMMITMENTS UNDER FINANCE LEASES AND OPERATING LEASES

### 18.3.1 Finance leases

As at December 31, 2017, the Group did not have any finance leases.

### 18.3.2 Operating leases

Almost all the leases granted by the Mercialys Group in connection with its business activity are commercial leases, but a few construction leases have been granted in special cases.

The leases signed include either a fixed rent or a double-component rent ("variable rent"). Variable rents are composed of a fixed portion (the guaranteed minimum rent) and a portion pegged to the revenue of the lessee operating the commercial premises. The guaranteed minimum rent is based on the rental value of the premises. The additional variable rent specified at the signing of the lease is due from the lessee whenever there is a positive difference between the percentage of pre-tax revenue earned by the lessee during the calendar year and the base rent.

Unless there is an indexation clause in the lease agreement that provides otherwise, rent amounts are adjusted to the index at the end of each three-year period of the lease. For all leases, the base rent, whether a fixed-only rent or the minimum guaranteed portion of a variable rent, is contractually indexed to the construction cost index or retail rent index published by INSEE in accordance with applicable regulations.

# Note 19 Market risk

Market risk is the risk that changes in market prices – such as exchange rates, interest rates and the prices of equity instruments – will adversely affect the Group's net income or the value of the financial instruments that it holds.

Mercialys' exposure to interest rate risk relates to the borrowings described in note 15.3. To manage its exposure to the risk of changes in interest rates, the Company uses derivatives (interest rate swaps).

# Note 20 Information concerning related parties

| *(In thousands of euros)* | 12/2017 | 12/2016 |
|---|---|---|
| **Income/(Expenses)** | | |
| Invoiced rents | | |
| Distribution Casino France | 19,824 | 22,917 |
| Monoprix | 10,268 | 8,334 |
| Casino Restauration | 776 | 2,043 |
| Other Casino group entities | 5,483 | 5,669 |
| Advisory Services Agreement received by Mercialys | 295 | 208 |
| Short-term occupancy agreement billed by Mercialys to the Casino group | 1,834 | 1,125 |
| Service agreement for Hyperthetis Participations | 100 | 100 |
| Service agreement for Immosiris | 50 | 184 |
| Service agreement paid to the Casino group | (2,142) | (2,080) |
| Property Management income paid to the Casino group | (5,037) | (4,370) |
| Interest income | 49,463 | 22,058 |
| Interest expense | (141) | (145) |
| Income from the sale of assets to related parties(1) (2) | 11,295 | 37,396 |
| Exclusive agency agreement with IGC Services | (1,136) | (946) |
| **Assets/(Liabilities)** | | |
| Loans | 124,841 | 120,245 |
| Participating interests | 606,250 | 453,100 |
| Current accounts of affiliated companies | 133,857 | 118,078 |
| Project management agreements prepaid by Mercialys to: IGC Services | 3 | 40 |
| Call for funds for IGC Services property development agreements | 353 | 347 |
| Current account reimbursement from Fenouillet Participation to Foncière Euris | - | 25,528 |
| Acquisitions of shares in Fenouillet Participation from Foncière Euris | - | 11,241 |
| Sale of fixed assets to SCI AMR | - | 87,552 |
| Acquisition of fixed assets from Casino group(3) | 1,791 | 74,900 |

*(1) This income from the disposal of fixed assets is net of expenses.*
*(2) Meaningful operations are detailed in note 2, page 169.*
*(3) Some acquisitions were completed under the Partnership Agreement described in note 18, p. 181: in 2016, the concerned sites included: Carcasonne Salvaza, Saint Germain en Laye and La Garenne-Colombes. In 2017, no acquisitions were made under this agreement.*

## 20.1 CONSULTANCY AGREEMENT BETWEEN MERCIALYS GROUP COMPANIES AND L'IMMOBILIÈRE GROUPE CASINO AND ALCUDIA PROMOTION

The purpose of this agreement is to make Mercialys' team of specialists in property portfolio valuation available to these companies. It was originally signed on July 25, 2007 between Mercialys Gestion and Mercialys, L'Immobilière Groupe Casino and Alcudia Promotion, which are Casino group companies. On June 1, 2011 Mercialys Gestion's teams in charge of asset management, marketing and communication were transferred to Mercialys. As a result, an amendment was drafted, specifying that Mercialys is now the new service provider. Its initial term was six years, automatically renewable thereafter for one year at a time, with each party free to terminate its participation with six months' notice.

On March 23, 2015, Mercialys, L'Immobilière Groupe Casino and Plouescadis signed a document amending the advisory services framework agreement.

This amending document includes the modifications to the Agreement of July 27, 2007 as well as all the other clauses that remain unchanged. The Parties therefore decided to update the terms of the workload plan as well as the financial terms of the Agreement. A review clause applies at the end of the financial year, in order to adjust the billing to the new scope of work and to determine the billing for N+1.

## 20.2 SHORT-TERM OCCUPANCY AGREEMENTS

As part of the acquisition of real estate asset portfolios from the Casino group, short-term occupancy agreements with Distribution Casino France guarantee the payment of rents to Mercialys before the site is opened to the public.

## 20.3 AGREEMENT FOR THE PROVISION OF SERVICES, ASSET MANAGEMENT AND BRAND LICENSING WITH HYPERTHETIS PARTICIPATIONS

On June 26, 2015, Hyperthetis Participations and Mercialys signed an agreement for the provision of services, asset management and brand licensing. The agreement is signed for an 8-year term and is automatically renewable. In line with the growth and operation of its assets, Hyperthetis Participations has decided to entrust Mercialys with tasks covering the following: accounting, legal and corporate governance management, strategy consultancy, and brand licensing.

Hyperthetis Participations has also signed an asset management agreement with Mercialys.

## 20.4 AGREEMENT FOR THE PROVISION OF SERVICES AND ASSET MANAGEMENT FOR IMMOSIRIS

In connection with the property transactions in 2015, Mercialys has entered into an asset management and services delivery contract with Immosiris.

## 20.5 AGREEMENT WITH CASINO FOR THE PROVISION OF SERVICES

The Company has entered into an agreement with the Casino group for the provision of services, the purpose of which is to manage provision of the support services that Mercialys requires for its operation and, in particular, for administrative management, accounting and finance, and real estate services and information systems.

## 20.6 PROPERTY MANAGEMENT ACTIVITIES

Mercialys has outsourced Property Management activities for nearly all its sites to Sudeco, a subsidiary of Immobilière Groupe Casino. These activities include rental management and the administrative management of tenant associations or Economic Interest Groups (EIGs) which together exist at most of its shopping centers.

## 20.7 EXCLUSIVE AGENCY AGREEMENTS WITH IGC SERVICES

In connection with the transactions for sale of its asset portfolios, Mercialys calls upon the expertise of IGC Services to find any legal entities that may be interested in acquiring one or more assets.

## 20.8 PARTNERSHIP AGREEMENTS

Mercialys has signed a Partnership Agreement with Casino, Guichard-Perrachon. Details of this agreement are provided in note 18.1.1.2, page 181.

## 20.9 OTHER RELATED PARTY TRANSACTIONS

### 20.9.1 SCI Rennes Anglet

At end December 2017, Mercialys granted a loan of Euro 3,064,000 to SCI Rennes-Anglet. Interest is charged on this current account advance at the average annual percentage rate applied by credit institutions and finance companies for floating rate loans with an initial term of more than two years. It was entered into for the term of the agreement, *i.e.* 15 years automatically renewable for successive periods of five years.

Mercialys and SCI Rennes-Anglet also entered into a brand license agreement.

### 20.9.2 SCI AMR

Mercialys entered into the following agreements with SCI AMR:

- Real Estate Advisory Services: under this 5-year agreement, SCI AMR entrusts Mercialys with general assistance in managing its property assets;
- Exclusive marketing mandate for a period of five years.

### 20.9.3 SNC Fenouillet Participation

At end December 2017, Mercialys granted a loan of Euro 39,778,000 to SCI Fenouillet Participation.

# Note 21 Compensation

The gross remuneration paid to officers and directors in 2017 amounted to Euro 1,525,000, compared with Euro 1,754,000 as at December 31, 2016.

# Note 22 Statutory Auditors' fees

| Fees in thousands of euros 12/2017 | Ernst & Young | KPMG |
|---|---|---|
| Fees for certification of the financial statements | 151.5 | 151.5 |
| Fees other than for certification of the financial statements(1) | 43.5 | 12.5 |
| **TOTAL** | **195.0** | **164.0** |

*(1) Fees other than for certification of the financial statements relate to:*
- *the issue of a comfort letter in connection with the bond issue;*
- *reports on the planned distribution of interim dividends;*
- *the CSR report.*

# Note 23 Subsequent events

Mercialys signed a preliminary sales agreement in January for Euro 14.6 million including transfer taxes.

On February 20, 2018, Mercialys successfully placed a bond issue of Euro 300 million maturing in eight years. This transaction covers the Company's general requirements and provides for the redemption of the Euro 479.7 million bond issue at maturity in March 2019. It follows the issue of a private placement of Euro 150 million of bonds made in November 2017.

# Note 24 Subsidiaries and equity holdings

## 24.1 SUBSIDIARIES (AT LEAST 50% OF SHARE CAPITAL OWNED)

| (In thousands of euros) Companies | Head office | SIREN (Company registration number) | Equity: Share capital | Equity: Other shareholders' equity | Proportion of share capital held (in %) | Carrying cost of shares held (in thousands of euros): Gross | Carrying cost of shares held (in thousands of euros): Net | Loans and advances granted | 2017 revenue, excl. tax | 2017 net income (+ or -) | Dividends received |
|---|---|---|---|---|---|---|---|---|---|---|---|
| SAS Point Confort | 1, cours A. Guichard 42000 Saint-Étienne | 306139064 | 154 | 7,324 | 100 | 8,130 | 8,130 | 659 | 458 | 347 | 277 |
| SCI La Diane | 1, cours A. Guichard 42000 Saint-Étienne | 424153815 | 293,255 | 1,853 | 100 | 295,179 | 295,179 | 35,307 | - | 6,257 | 6,260 |
| SAS Hyperthéthis Participations | 1, cours A. Guichard 42000 Saint-Étienne | 811749852 | 27,439 | 244,312 | 51 | 139,937 | 139,937 | - | 14,290 | 11,115 | 8,359 |
| SNC Alcudia Albertville | 1, cours A. Guichard 42000 Saint-Étienne | 511018681 | 1 | - | 99.99 | 1,130 | 1 | 21 | (8) | (1) | 4,577 |
| SNC Agout | 1, cours A. Guichard 42000 Saint-Étienne | 497952812 | 9,380 | 163 | 99.99 | 9,500 | 9,500 | - | (7) | 163 | 140 |
| SNC Dentelle | 1, cours A. Guichard, 42000 Saint-Étienne | 498780345 | 7,994 | 214 | 99.99 | 8,009 | 8,009 | - | 375 | 214 | 223 |
| SAS Mercialys Gestion | 1, cours A. Guichard 42000 Saint-Étienne | 484531561 | 37 | 187 | 100 | 37 | 37 | 1,527 | 11,917 | 183 | 690 |
| SAS Immosiris | 1, cours A. Guichard 42000 Saint-Étienne | 814312096 | 14,048 | 126,961 | 51 | 71,649 | 71,649 | - | 7,140 | 5,772 | 3,523 |
| SAS Astuy | 1, cours A. Guichard 42000 Saint-Étienne | 821879467 | 37 | (7) | 100 | 37 | 37 | 73 | - | (3) | - |
| SNC MS Investissement | 23, bd de Latour Maubourg 75007 Paris | 382619021 | 1 | - | 99.9 | 1 | 1 | - | - | - | - |
| SAS Epicanthe | 1, cours A. Guichard 42000 Saint-Étienne | 812269546 | 1 | (32) | 100 | 1 | 1 | 548 | - | (19) | - |
| SAS Mercialys Exploitation | 1, cours A. Guichard 42000 Saint-Étienne | 815249198 | 37 | (405) | 100 | 37 | 37 | 2,792 | 3,955 | 76 | - |
| **TOTAL** | | | | | | **533,647** | **532,518** | | | | |

## 24.2 SHAREHOLDINGS (10 TO 50% OF SHARE CAPITAL OWNED)

| (In thousands of euros) Companies | Head office | SIREN (Company registration number) | Equity: Share capital | Equity: Other shareholders' equity | Proportion of share capital held (in %) | Carrying cost in thousands of euros of shares owned: Gross | Carrying cost in thousands of euros of shares owned: Net | Loans and advances granted | 2017 revenue, excl. tax | 2017 net income (+ or -) | Dividends received |
|---|---|---|---|---|---|---|---|---|---|---|---|
| SAS Corin Asset Management | La Rocade shopping center 20600 Furiani | 492107990 | 37 | 96 | 40 | 15 | 15 | - | 1,024 | 92 | 44 |
| SCI PDP | 1, cours A. Guichard 42000 Saint-Étienne | 501644470 | 16 | (555) | 10 | 2 | - | - | - | (3) | - |
| SCI Rennes Anglet | 8, rue Lamennais 75008 Paris | 820948016 | 2,562 | 22,339 | 30 | 7,687 | 7,687 | 3,064 | 6,453 | 2,203 | - |
| SCI AMR | 91-93, bd Pasteur 75015 Paris | 791464191 | 123,016 | (8,946) | 39.90 | 57,909 | 47,056 | - | 10,473 | 1,488 | 2,994 |
| SNC AIX 2 | 1, cours A. Guichard 42000 Saint-Étienne | 512951617 | 10 | 610 | 50 | 6,991 | 6,991 | 480 | 2,105 | 610 | 224 |
| OPCI UIR II | 112, av. Kleber 75784 Paris Cedex 16 | 533700654 | 51,236 | 1,444 | 19.98 | 8,406 | 8,406 | 2,685 | 5,443 | 1,416 | 392 |
| **TOTAL** | | | | | | **81,010** | **70,155** | | | | |

## 24.3 OTHER SHAREHOLDINGS

| (In thousands of euros) Companies | Head office | SIREN (Company registration number) | Equity: Share capital | Equity: Other shareholders' equity | Proportion of share capital held (in %) | Carrying cost in thousands of euros of shares owned: Gross | Carrying cost in thousands of euros of shares owned: Net | Loans and advances granted | 2017 revenue, excl. tax | Net income (loss) 2017 (1) | Dividends received |
|---|---|---|---|---|---|---|---|---|---|---|---|
| SNC Fenouillet Immobilier | 1, cours A. Guichard, 42000 Saint-Étienne | 808659460 | 2 | 165 | - | 1 | 1 | 74,192 | 5,316 | 1,184 | - |
| GIE Grand Quartier(1) | Route de Saint-Malo 35760 Saint-Grégoire | 729300087 | 438 | 5,103 | - | 10 | 10 | - | 3,383 | (287) | - |
| **TOTAL** | | | | | | **11** | **11** | | | | |

*(1) The items concerning the GIE are taken from the balance sheet ending on December 31, 2016.*

## 3.2.3 Statutory Auditors' report on the corporate financial statements

Financial year ended December 31, 2017

To the Annual General Meeting of Mercialys,

### OPINION

In accordance with the mission entrusted to us by your Annual General Meeting, we have audited the annual financial statements of Mercialys relating to the financial year ended December 31, 2017, as attached to this report.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position for the financial year and of the company's funds from operations for said period, in accordance with French accounting principles.

The opinion given above is consistent with the content of our report to the Audit Committee.

### BASIS OF OUR OPINION

#### Audit standards

We conducted our work in accordance with the professional standards applicable in France. We believe that the evidence we have obtained is a sufficient and appropriate basis for our audit opinion.

Our responsibilities under these standards are indicated in the section entitled «Statutory auditors' responsibilities regarding the audit of the annual financial statements» of this report.

#### Independence

We performed our audit in accordance with the rules of independence applicable to us, for the period starting from January 1, 2017 to the date on which we issued our report, and in particular, we provided no services prohibited by Article 5, paragraph 1 of (EU) Regulation no. 537/2014 or by the Code of Ethics of the statutory auditing profession.

### JUSTIFICATION FOR ASSESSMENTS - KEY POINTS OF THE AUDIT

Pursuant to the provisions of Articles L.823-9 and R.823-7 of the French Commercial Code relating to the justification for our assessments, we draw your attention to the key points of the audit relating to the risks of material misstatements which, in our professional opinion, were the most significant for the audit of the annual financial statements for the year, and how we addressed those risks.

These assessments were made as part of our audit of the annual financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed above. We have no opinion about the items in these annual financial statements taken separately.

#### Measurement of property, plant and equipment other than investment property

| | |
|---|---|
| **Identified risk** | At December 31, 2017, the net carrying value of the Company's tangible assets amounted to Euro 1,517 million.<br>Note 1.2 "Property, plant & equipment other than investment property" of the "Accounting principles and measurement methods" section of the annual financial statements presents the accounting rules and methods followed by your company regarding the recognition, the breakdown of components and the methods for amortizing and measuring the property, plant and equipment other than investment property. In order to determine the presence of impairments, your company is required to make assumptions and rely on independent appraisals.<br>The measurement of property, plant & equipment other than investment property requires significant judgment and estimates from management and from the independent appraisers.<br>These independent appraisers base their assessment mainly on the specific information for each asset, such as the location, rental revenues, yield rate, capital expenditure and any recent comparable transactions on the market.<br>The measurement of property, plant & equipment other than investment property is considered to be a key point of the audit because of their substantial amount, the importance of judgment in determining the fair value of property, plant & equipment other than investment property, and the sensitivity of the assumptions adopted by the appraisers. |

| | |
|---|---|
| **Our solution** | As part of our audit of the annual financial statements of your company, we implemented the following procedures:<br>- assessment of the competence, independence and integrity of the independent appraisers mandated by your Company;<br>- analysis of the significant changes in fair values by property;<br>- testing of the operational effectiveness of management verifications of the data sent to the appraisers and used to value the properties and the verifications made by management on the fair values derived from these independent appraisals;<br>- conducting interviews, in the presence of our real estate specialists, with the independent appraisers in order to understand and assess the relevance of the estimates, assumptions and the measuring methodology applied;<br>- comparison, over a selection of assets, of the data used by the independent appraisers with the data present in the supporting documents such as rental statements and the investment budgets that we received from your company;<br>- for a selection of assets, analyzing, with our real estate specialists, the consistency of the main measurement assumptions adopted by the independent real estate appraisers, in particular the yield rate, with the available market information;<br>- comparison of the items taken into account to determine the amount of provisions to recognize for the impaired properties (comparison of the net carrying values with the audited financial statements, and of the fair value with the independent appraisal);<br>- examining the suitability of the information given in Note 8 of the notes to the annual financial statements. |

### Measurement of participating interests

| | |
|---|---|
| **Identified risk** | Participating interests are reported in the balance sheet at December 31, 2017 for a net amount of Euro 728 million. They are recognized at acquisition cost or their contribution value and are amortized on the basis of their value in use if lower. As indicated in Note 1.3 "Investments" of the "Accounting principles and measurement methods" section of the notes to the annual financial statements, the value in use of the participating interests is determined on the basis of several assessment factors such as the Net Asset Value ("NAV") according to the appraisals made on the real estate portfolio of the companies concerned, their profitability level and their future outlook and use.<br>The estimation of the value in use of participating interests is considered to be a key point of the audit because of its sensitivity to the adopted assumptions. |
| **Our solution** | We implemented the following procedures:<br>- examination of the justification for the measurement method used for the participating interests based on the information provided to us;<br>- comparison of the equity value used to determine the values in use with the equity value in the financial statements of entities that have been audited or subjected to cost accounting procedures and an assessment of whether the adjustments made, if any, on the equity are based on probative documentation;<br>- comparison of the adopted net carrying values of the properties with those reported in the financial statements of the entities concerned that have been audited or subjected to cost accounting procedures;<br>- comparison of the adopted fair values of the properties with those estimated by the independent appraisers, by performing works identical to those presented above on the measurements of property, plant & equipment other than investment property.<br>Our works also consisted in:<br>- an assessment of the recognition of a provision for risks if the Company has undertaken to bear the losses of a subsidiary presenting negative equity;<br>- an examination of the suitability of the information provided in Note 1.3 "Investments" of the notes to the annual financial statements. |

### Related party real estate transactions

| | |
|---|---|
| **Identified risk** | Your company executes property transactions with the Casino Group, its main shareholder. The note entitled "Significant events of the period" and Note 20 of the notes to the annual financial statements present related party transactions.<br>These transactions involve substantial amounts and may follow a different approval channel depending on whether or not they are considered to be regulated. Therefore, the presentation of this information in the notes requires that the Group be able to identify and collate any information if required. Accordingly, we considered the completeness of the information presented in the Notes about real estate transactions with the Casino Group companies as a key point of the audit. |
| **Our solution** | As part of our audit of your company's financial statements, we implemented the following procedures in order to assess the completeness of the disclosures in the notes "Significant events of the period" and Note 20 of the notes to the annual financial statements:<br>- identifying the agreements concerning real estate transactions with the Casino Group companies, in particular the regulated agreements, reviewing the minutes of meetings of the Board of Directors and investment committees held during the financial year;<br>- examining the disclosures in these notes in the light of the information in the agreements. |

## VERIFICATION OF THE MANAGEMENT REPORT AND OTHER DOCUMENTS ADDRESSED TO SHAREHOLDERS

We also performed, in accordance with the professional standards applicable in France, the specific verifications required by French law.

### Disclosures in the management report and in the other documents addressed to shareholders on the financial position and annual financial statements

We have no matters to report as to the fair presentation and the consistency with the annual financial statements of the disclosures in the Board of Directors' management and in the other documents addressed to the shareholders with respect to the financial position and the annual financial statements.

### Corporate governance report

We certify the existence, in the Board of Directors' report on corporate governance, of the information required by Articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code.

Concerning the information provided in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code relating to remuneration and benefits received by the directors and any other agreements made in their favor, we verified its consistency with the financial statements or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling your Company or controlled by it. Based on this work, we certify that this information is accurate and presented fairly.

Concerning information relating to the items which your Company considered likely to have an impact in the event of a public purchase or exchange offer, provided in accordance with the provisions of Article L.225-37-5 of the French Commercial Code, we verified the compliance with the documents underlying them which were communicated to us. Based on this work, we have no observation to make about this information.

### Other disclosures

In accordance with French law, we verified that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders or holders of the voting rights has been properly disclosed in the management report.

## OTHER REQUIRED LEGAL AND REGULATORY DISCLOSURES

### Appointment of Statutory Auditors

We were appointed as the statutory auditors of Mercialys S.A. by your Annual General Meeting of May 6, 2010.

At December 31, 2017, our firms were in their eighth year of uninterrupted auditing for your Group.

Previously, ERNST & YOUNG Audit had been the statutory auditor since 1999.

## RESPONSIBILITIES OF MANAGEMENT AND OF THE MEMBERS OF CORPORATE GOVERNANCE FOR THE ANNUAL FINANCIAL STATEMENTS

Management is responsible for preparing the annual financial statements presenting a fair view in accordance with the French accounting principles and for setting up the internal control system that it considers necessary for the preparation of the annual financial statements without any material misstatements, whether as a result of fraud or error.

While preparing the annual financial statements, it is the responsibility of management to evaluate the company's capacity to continue its operations, to present in these financial statements, if applicable, the necessary information regarding the going concern principle and to apply the going concern accounting policy, unless there are plans to liquidate the company or to discontinue its activity.

The Audit Committee has a duty to monitor the preparation of financial information and to monitor the effectiveness of internal control and risk management systems, as well as, where applicable, internal audit systems, in terms of procedures relating to the production and processing of accounting and financial information.

The annual financial statements have been approved by the Board of Directors.

## RESPONSIBILITIES OF THE STATUTORY AUDITORS FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

### Audit objective and approach

It is our responsibility to prepare a report on the annual financial statements. We seek to obtain reasonable assurance that the annual financial statements taken as a whole are free of any material misstatements. Reasonable assurance corresponds to a high level of assurance, without, however, guaranteeing that an audit performed in accordance with professional standards can systematically detect all material misstatements. Misstatements may stem from fraud or from errors and are considered as material when we can reasonably expect that, taken individually or together, they may influence the economic decisions that the users of the financial statements may make on the basis of such statements.

As specified by Article L.823-10-1 of the French Commercial Code, our mission to certify the financial statements does not require us to guarantee the sustainability or the quality of the management of your company.

During an audit performed in accordance with the professional standards applicable in France, the statutory auditors use their professional judgment throughout such audit. Furthermore:

- they identify and evaluate the risks that the annual financial statements may include material misstatements, whether they stem from fraud or from errors; they define and implement audit procedures to address these risks and collect evidence that they consider sufficient and appropriate to justify their opinion. The risk of not detecting a material misstatement caused by fraud is higher than that of a material misstatement caused by error, because fraud may imply collusion, falsification, deliberate omissions, false statements or circumvention of internal control;
- they review the internal control relevant to the audit in order to define the audit procedures that are best suited to the circumstance, and not for the purpose of expressing an opinion about the effectiveness of internal control;
- they evaluate the suitability of the accounting methods adopted and the reasonable nature of the accounting estimates made by management, and the relevant disclosures in the annual financial statements;
- they assess the proper application by management of the going concern accounting principle and, depending on the evidence collected, the existence or not of a material uncertainty linked to events or circumstances likely to jeopardize the Company's capacity to continue its operations. This assessment relies on the evidence collected until the date of their report, while stressing, however, that subsequent circumstances or events may undermine the going concern. Should the auditors find the existence of a material uncertainty, they will draw the attention of the readers of their report to the disclosures in the annual financial statements about this uncertainty or, if such disclosures do not exist or are irrelevant, they will issue a qualified certification or refuse to certify;
- they assess the overall presentation of the annual financial statements and determine whether the annual financial statements reflect the underlying operations and events so as to provide a true and fair view.

## Report to the Audit Committee

We submit a report to the Audit Committee which presents, in particular, the scope of the audit works and the work program implemented, in addition to the findings from our work. We also bring to its attention any material weaknesses that we may identify in the internal control system with respect to the procedures relating to the preparation and processing of accounting and financial information.

The items communicated in the report to the Audit Committee include the material misstatements that we consider as the most significant for the audit of the annual financial statements for the year and which therefore constitute the key points of the audit that we are required to describe in this report.

We also provide the Audit Committee with the statement specified in Article 6 of (EU) Regulation no. 537-2014 confirming our independence, as defined by the rules applicable in France as these are fixed in particular by Articles L. 822-10 to L.822-14 of the French Commercial Code and in the Code of Ethics of the auditing profession. If necessary, we discuss the risks affecting our independence and the precautionary measures applied with the Audit Committee.

At Paris-La Défense and Lyon, on March 19, 2018

The Statutory Auditors

| KPMG S.A. | ERNST & YOUNG et Autres |
|---|---|
| Isabelle Goalec | Nicolas Perlier |

# 3.2.4 Statutory Auditors' report on related agreements and commitment

**Annual General Meeting to approve the financial statements for the financial year ended on December 31, 2017**

At the Annual General Meeting of Mercialys,

In our capacity as Statutory Auditors of your Company, we hereby report on certain related party agreements and commitments.

It is our responsibility, on the basis of the information provided to us, to communicate to you the characteristics, essential terms and conditions, as well as the reasons for the Company's interest in the agreements and commitments of which we have been advised, or which we have discovered during our assignment, without commenting on their usefulness or validity, or identifying the existence of other such agreements or commitments. It is your duty, under the terms of Article R. 225-31 of the French Commercial Code, to evaluate the interest related to the conclusion of these agreements and commitments in view of their approval.

In addition, we are required, where applicable, to provide you with the information specified in Article R. 225-31 of the French Commercial Code, concerning the implementation, during the financial year, of the agreements and commitments already approved by the Annual General Meeting.

We performed those procedures which we considered necessary to comply with professional guidelines issued by the national auditing body in France relating to this type of undertaking. These procedures consisted in verifying that the information provided to us was consistent with the original documents from which it was taken.

## AGREEMENTS AND COMMITMENTS SUBMITTED FOR APPROVAL BY THE ANNUAL GENERAL MEETING

Pursuant to Article L. 225-40 of the French Commercial Code, we have been informed about the following agreements and commitments entered into during the past year which had been authorized by your Board of Directors.

### With L'Immobiliere Groupe Casino, the controlling shareholder holding more than 10% of the capital of your Company.

**Amendment no. 1 to the document amending the Consultancy Services Master Agreement dated March 23, 2015**

#### Nature and purpose

Your Company, together with L'Immobilière Groupe Casino and IGC Promotion, signed a Consultancy Services Agreement on July 25, 2007 with Mercialys Gestion, which had formed a team of specialists in the valuation of real estate assets. On March 23, 2015, your Company, on the one hand, and L'Immobilière Groupe Casino and Plouescadis on the other hand, signed a document amending the consultancy services master agreement (hereinafter the 'Consultancy Services Master Agreement') incorporating the changes made to the Agreement on July 27, 2007 together with all the provisions that remain unchanged.

At its meeting of April 27, 2017, your Board of Directors authorized the signing of Amendment no. 1 to the Consultancy Services Master Agreement. This amendment, signed on May 18, 2017, was signed in order to enable the subsidiaries directly controlled by L'Immobilière Groupe Casino and Plouescadis to benefit from the services provided by your Company, and to update the financial terms of the Agreement. This addendum entered into force on January 1, 2017.

Your Company, in its capacity as Service Provider, undertakes to provide operational services for the completion of shopping center enhancement projects. These services may cover asset management duties, letting assignments on operational sites or on planned sites (excluding projects completed in connection with the Partnership Agreement between your Company and Casino), as well as wider marketing activities.

Billing in respect of this Consultancy Services Master Agreement varies from one year to the next. A review clause is thus provided at the end of the year to adjust the billing to the scope of work in fact completed, and to determine the billing in N+1. In fact, billing is based on time spent by your Company's asset management teams on the determination and implementation of projects completed by the Casino group.

#### Terms and conditions

For the 2017 financial year, your Company received remuneration for an amount of Euro 280,000 excluding tax under this agreement.

#### Reasons for the Company's interest in the agreement

In accordance with the law, we inform you that the prior authorization given by the Board of Directors does not include the reasons justifying the Company's interest in the agreement as provided for by Article L. 225-38 of the French Commercial Code.

## AGREEMENTS AND COMMITMENTS ALREADY APPROVED BY THE ANNUAL GENERAL MEETING

### Agreements and commitments approved in previous years

#### a) the performance of which continued during the past year

Under Article R. 225-30 of the French Commercial Code, we have been informed that the performance of the following agreements and commitments, already approved by the Annual General Meeting during previous years continued during the past year.

#### 1. With Casino, Guichard-Perrachon, a director of your Company

**a) Document amending the Real Estate Partnership Agreement signed**

Persons concerned

Michel Savart and Jacques Dumas, directors both of your Company and of Casino, Guichard-Perrachon.

Nature and purpose

The Partnership Agreement signed on July 2, 2012 between Casino, Guichard-Perrachon and your Company, for a term expiring on December 31, 2015, has been the subject of amendments and of successive extensions, the latter having been made by an amending document dated January 31, 2017, authorized by the meeting of your Board of Directors on December 14, 2016 and approved by the Annual General Meeting of April 27, 2017. Pursuant to this amending document, the said agreement was extended up to December 31, 2020 and various changes were made to improve the methods of collaboration between the parties, while maintaining the general principles of the Agreement and the original balance between the respective rights and obligations of the parties.

The scope of the Partnership Agreement corresponds to your Company's sector of activity (shopping centers and medium sized stores, excluding food stores, *i.e.*, supermarkets and hypermarkets).

The general principles of this Partnership Agreement are as follows:

- Privileged access (right of priority) to the retailing real estate projects developed by Casino and/or its subsidiaries in France in its field of activity:

  The three types of project that fall within, or could fall within, the scope of application of the Partnership Agreement are:
  - "New Projects" which are projects, within the scope of the agreement, the development of which your Company may decide to undertake and which are subject to an undertaking by Casino, Guichard-Perrachon to present them your Company. Your Company has the right to submit any project to Casino, Guichard-Perrachon, whether or not it falls within the scope of the agreement. Casino, Guichard-Perrachon undertakes to study the proposal so that it can decide whether or not it wishes to be involved in its development.
  - "Projects to be Confirmed" are "New Projects" which have been approved by the governing bodies of the parties, which undertake to make their best efforts to validate the projects.
  - "Validated Projects" are "Projects to be Confirmed" for which an order has been placed.
- Reciprocal commitments which are arranged into several stages to accompany the development of the projects:
  - identification of the "Projects to be Confirmed" (projects under development that do not yet offer sufficient visibility and security to enable an order to be placed);
  - placing of an order for "Validated Projects" (projects with good visibility and sufficient profitability for both parties);
  - confirmation of the order based on the final, determined project (except for the usual flexibility/tenants' requests) when the final authorizations have been obtained and upon achievement of a pre-letting rate of 60% (in value) of leases signed;
  - sale of the asset (transfer of ownership at the opening of the project and payment by your Company at delivery with a 50/50 sharing of the "upside or downside"), with the possibility of basing the asset's valuation on a forecast IRR for the project.

  The agreement provides for the possibility of introducing a fast track project approval process, by signing the deed of sale directly after approval by the governing bodies.
- Valuation of projects on the basis of the forecast rental income; the terms and conditions for setting and adjusting the price are as follows:
  - setting the price, at the time of placing the order, based on actual or forecast rental income determined by an independent appraiser, capitalized on the basis of rates determined according to the type of the assets concerned (see below), while the surface areas taken into account are based on the "Gross Leasing Area" (GLA) of the shopping centers after extension and including the large food store;
  - present-valuing the price on confirmation of the order to take into account changes in the letting and in the capitalization rate;
  - The price is present-valued at the time of sale depending on the rental situation two months before opening to the public, without present-valuing the capitalization rate.

In order to take account of fluctuations in market conditions, the capitalization rates applicable under the Partnership Agreement are revised by the parties concerned every six months. The capitalization rates for 2017 were as follows:

- First half 2017

| | Shopping center | | Retail Parks | | High street |
|---|---|---|---|---|---|
| Type of property | Mainland France | Corsica and Overseas departments & territories | Mainland France | Corsica and Overseas departments & territories | |
| > 20,000 sq.m | 5.6% | 6.2% | 6.2% | 6.5% | 5.4% |
| 5,000 to 20,000 sq.m. | 6.1% | 6.5% | 6.5% | 6.9% | 5.7% |
| < 5,000 sq.m | 6.5% | 6.9% | 6.9% | 7.6% | 6.2% |

- Second half 2017

| | Shopping center | | Retail Parks | | High street |
|---|---|---|---|---|---|
| Type of property | Mainland France | Corsica and Overseas departments & territories | Mainland France | Corsica and Overseas departments & territories | |
| > 20,000 sq.m | 5.5% | 6.0% | 6.0% | 6.4% | 5.3% |
| 5,000 to 20,000 sq.m | 6.0% | 6.4% | 6.4% | 6.8% | 5.6% |
| < 5,000 sq.m | 6.4% | 6.8% | 6.8% | 7.4% | 6.0% |

The Partnership Agreement, as an exception to the foregoing, provides that either party may suggest calculating the provisional selling price for a specific project based on the provisional internal rate of return (IRR) of this project. This IRR is calculated based on the provisional business plan for the project. For guidance, the aim of the parties is to target projects which have the potential to deliver a projected IRR of around 8% to 10%.

In return for the right of priority granted to your Company, the Partnership Agreement includes a non-compete clause in favor of Casino, Guichard-Perrachon, which will apply for the whole term of the Partnership Agreement. This non-compete clause was strengthened as part of the amendment of the Partnership Agreement. Thus, your Company may not invest in a "New Project" which is a food retailing competitor of the Casino group without the consent of Casino, Guichard-Perrachon. A "New Project" is defined as:

- any project involving a new food store with a sales area exceeding 1,000 sq.m, located on a greenfield site; or
- any existing shopping center with a food retailing area exceeding 1,000 sq.m which is the subject of an extension representing 30% or more of the total floor area of the existing shopping center before extension; or
- any existing shopping center with a food retailing area which is the subject of an extension resulting in the retailing area becoming greater than 1,000 sq.m after the extension.

This non-compete clause is applicable for a period of three years following the termination of the Partnership Agreement.

- An "annual meeting" clause.

Terms and conditions

Pursuant to this Partnership Agreement, your Company or its subsidiaries have acquired, from Casino, Guichard-Perrachon, during the 2017 financial year, a project to extend Le Port shopping center on Reunion Island, for an amount of Euro 27.7 million, based on an IRR of around 8%.

## 2. With Casino Finance

**Document amending to the Cash Advances Agreement**

Persons concerned

Casino, Guichard-Perrachon, a director of your Company and the parent company of Casino Finance.

Michel Savart and Jacques Dumas, directors both of your Company and of Casino, Guichard-Perrachon.

Nature and purpose

During its meeting of October 15, 2014, the Board of Directors authorized the signature of a document amending the Cash Advances Agreement entered into between Casino, Guichard-Perrachon and your Company on July 25, 2012, whereby Casino, Guichard-Perrachon granted your Company a credit facility of up to a maximum of Euro 50 million in the form of 'A' Advances, meaning any advance of a sum in principal of less than Euro 10 million, and/or 'B' Advances, meaning any advance of a sum in principal of at least Euro 10 million. These advances are intended exclusively for the short-term financing of your Company's general requirements.

The document amending the Cash Advances Agreement was signed on February 26, 2015, and Casino Finance (a subsidiary of Casino, Guichard-Perrachon and the entity centralizing financings and cash flows for the Casino group) replaced Casino, Guichard-Perrachon in its rights and obligations.

The cash advance agreement which expired on December 31, 2015 was extended until December 31, 2017.

As regards interest, all 'A' Advances will bear interest at one-month EURIBOR plus Margin A, and all 'B' Advances will bear at the EURIBOR corresponding to the drawdown period plus Margin B, it being understood that these margins may change each year, depending on Casino Finance's then current refinancing costs. Margin A and Margin B are 0.60% and 0.85% respectively, for 2016.

At its meeting of December 14, 2016, the Board of Directors authorized the signature of an amendment to the Cash Advances Agreement signed with Casino Finance, as amended on February 26, 2015. This amendment was signed on February 14, 2017 and extends the agreement until December 2019. The terms and conditions will change as follows, given the cost of Casino's financial resources:

- for the tranche capped at Euro 10 million ('B' Advances), the margin is reduced from 0.60% to 0.40%;
- for the tranche of Euro 50 million ('A' Advances), the margin is increased from 0.85% to 0.95%, given that drawdown cost of Casino's RCF rose, it being understood that since the level of this ratio was calculated on the basis of Casino's estimated Net Financial Debt/EBITDA ratio at the end of 2016, the margin will be revised in March 2017 if the selected ratio comes within a range which is different from the estimate.

Terms and conditions

For the financial year ended December 31, 2017, your Company paid a commitment fee of Euro 192,000 to Casino Finance.

### 3. Loss of employment insurance and welfare/pension scheme for managers

Persons concerned

Éric Le Gentil, Chairman & CEO with effect from July 17, 2013;

Vincent Ravat, Chief Operating Officer with effect from August 30, 2016.

Nature and amount of the sums paid during the financial year

Éric Le Gentil and Vincent Ravat benefit, while in office, from the senior executive unemployment insurance scheme and the compulsory collective supplementary pension and welfare schemes offered within your Company.

In respect of the unemployment insurance and welfare schemes, the contributions paid by your Company in 2017 amounted to Euro 14,301 for Éric Le Gentil and Euro 9,569 for Vincent Ravat.

In addition, Éric Le Gentil and Vincent Ravat benefit, while in office, from commitments based on the terms of collective and mandatory retirement provision systems, the contributions for which are determined in accordance with national labor management agreements.

### 4. With L'Immobilière Groupe Casino

**Trademarks license agreement**

Nature and importance of the services provided

In respect of this agreement entered into on September 8, 2005, L'Immobilière Groupe Casino grants, free of charge, a non-exclusive right of use, only in France, and relating to the "Cap Costières" trademark.

Your Company has a preferential right of purchase of this trademark if L'Immobilière Groupe Casino's intends to sell it.

## b) which were not implemented during the year

In addition, we have been informed of the continuation of the following agreements and commitments, already approved by the Annual General Meeting in previous financial years, which were not implemented during the year.

### 1. With Casino, Guichard-Perrachon, a director of your Company

**Trademarks license agreement**

Nature and importance of the services provided

Under this agreement entered into on May 24, 2007, Casino, Guichard-Perrachon grants your Company, free of charge, a non-exclusive right of use, only in France and relating to:

- the word mark "Nacarat" and the semi-figurative mark;
- the word mark "Beaulieu" and the semi-figurative mark.

Your Company benefits from a preferential right to purchase these trademarks if Casino, Guichard-Perrachon intends to sell them.

### 2. With Éric Le Gentil, CEO of your Company since July 17, 2013

**Non-compete clause**

Nature and purpose

At its meeting on July 17, 2013, the Board of Directors authorized a non-compete and non-solicitation obligation concerning Éric Le Gentil that would apply, in the event of the termination of his duties, for a period not exceeding the length of his presence in the Company, capped at one year, it being specified that the Company may reduce the term of the clause or waive its application.

In return, Mr. Éric Le Gentil will receive monthly compensation equivalent to one twelfth of 50% of his annual fixed compensation.

Terms and conditions

This agreement was not applied in the 2017 financial year.

### 3. With Vincent Ravat, Chief Operating Officer of your Company as of August 30, 2016

**Non-compete clause**

Nature and purpose

At its meeting on August 30, 2016, the Board of Directors authorized a non-compete obligation concerning Vincent Ravat that would apply, in the event of termination of his duties, for a period not exceeding the length of his presence in the Company, capped at one year, it being specified that the Company may reduce the term of the clause or waive its application.

In return, Vincent Ravat will receive monthly compensation equivalent to one twelfth of 50% of his annual fixed compensation.

Terms and conditions

This agreement was not applied in the 2017 financial year.

Paris-La Défense and Lyon, on March 19, 2018

The Statutory Auditors

| KPMG SA | ERNST & YOUNG et Autres |
|---|---|
| Isabelle Goalec | Nicolas Perlier |

## 3.2.5 Five-year results of Mercialys SA

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Financial position at year-end** | | | | | |
| Share capital *(in thousands of euros)* | 92,049.2 | 92,049.2 | 92,049.2 | 92,049.2 | 92,049.2 |
| Number of shares issued | 92,049,169 | 92,049,169 | 92,049,169 | 92,049,169 | 92,049,169 |
| **Comprehensive income** *(in thousands of euros)* | | | | | |
| Revenues excluding VAT | 137,899.9 | 144,453.3 | 142,180.1 | 131,192.0 | 128,227.0 |
| Income before tax, employee profit-sharing, amortization, depreciation and provisions | 308,152.8 | 156,656.3 | 179,623.5 | 149,901.8 | 172,743.1 |
| Income tax expense | (1,332.4) | 102.6 | 1,119.3 | - | 235.0 |
| Employee profit-sharing | - | - | 58.1 | 70.0 | 14.7 |
| Income after tax, employee profit-sharing, amortization, depreciation and provisions | 287,280.2 | 114,187.3 | 148,251.5 | 126,583.8 | 145,997.1 |
| Total dividend payment to shareholders | 100,333.6(1) | 97,572.1 | 122,425.4 | 114,141.0 | 106,777.0 |
| **Comprehensive income per share** *(in euros)* | | | | | |
| Income after tax, employee profit-sharing, but before amortization, depreciation and provisions | 3.37 | 1.70 | 1.95 | 1.63 | 1.88 |
| Income after tax, employee profit-sharing, amortization, depreciation and provisions | 3.12 | 1.24 | 1.61 | 1.38 | 1.59 |
| Dividend paid per share | 1.09(1) | 1.06 | 1.33 | 1.24 | 1.16 |
| **Workforce** | | | | | |
| Number of employees (full-time equivalent) | 50.3 | 43.2 | 41.4 | 40.5 | 39.4 |
| Payroll *(in thousands of euros)* | 6,040.8 | 5,092.6 | 5,061.2 | 4,904.6 | 3,582.9 |
| Amount paid for employee benefits social security and social programs *(in thousands of euros)* | 2,341.3 | 2,099.7 | 1,959.6 | 2,028.3 | 1,670.5 |

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

## 3.2.6 Information on the terms of payment of Mercialys SA

The table below provides information on payment terms for trade payables and receivables as at December 31, 2017 in thousands of euros, prepared in accordance with the provisions required by Article D. 441-4 of the French Commercial Code.

**Invoices received and issued due but not paid as of the reporting date.**

| | Art. D. 441 L-1: Invoices received due but not paid as of the reporting date | | | | | | Art. D. 441 L-2: Invoices issued due but not paid as of the reporting date | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0 day (for information) | 1 to 30 days | 31 to 60 days | 61 to 90 days | Over 90 days | Total (1 day and more) | 0 day (for information) | 1 to 30 days | 31 to 60 days | 61 to 90 days | Over 90 days | Total (1 day and more) |
| **(A) Overdue payment brackets** | | | | | | | | | | | | |
| Number of invoices concerned | insignificant | | | | | 184 | insignificant | | | | | 2,235 |
| Total amount of invoices concerned including tax | 224 | 1,079 | 233 | 36 | (78) | 1,270 | 965 | 106 | (351) | 1,079 | (433) | 401 |
| Percentage of the total amount of purchases for the period excluding tax | 0% | 2% | 0% | 0% | 0% | 2% | | | | | | |
| Percentage of revenue for the period excluding tax | | | | | | | 0.7% | 0.1% | (0.3)% | 0.8% | (0.3)% | 0.3% |
| **(B) Invoices excluded from (A) concerning payables and receivables in dispute or not recognized in the accounts** | | | | | | | | | | | | |
| Number of invoices excluded | | | | | | 18 | | | | | | 1,763 |
| Total amount of invoices excluded including tax | | | | | | (37) | | | | | | 10,162 |
| **(C) Benchmark terms for payment used (contractual or statutory term – Article L. 441-6 or Article L. 443-1 of the French Commercial Code).** | | | | | | | | | | | | |
| Payment terms used to calculate overdue payments | Statutory term: 60 days from invoice date | | | | | | Contractual term: Quarterly billing with payments in advance | | | | | |


**50%**
Proportion of women on the Board of Directors

**58.3%**
Proportion of independent members on the Board of Directors

**91%**
Attendance rate at the Board of Directors

Grand Quartier, Rennes

# 4

# CORPORATE GOVERNANCE

# 4.1 MANAGEMENT AND CONTROL OF THE COMPANY

## 4.1.1 Board of Directors

The Company is incorporated as *société anonyme* (limited liability company). The roles of Chairman and Chief Executive Officer have been combined since July 17, 2013, ensuring consistency, in a constantly changing environment, between the Company's strategy and operational management, thereby shortening the decision-making process.

The Company refers to the corporate Governance Code for listed companies published by the *Association française des entreprises privées* (AFEP, the French Association of Private Companies) and the *Mouvement des entreprises de France* (MEDEF, the Organization of French companies) (the AFEP-MEDEF Code). The AFEP-MEDEF Code is available for consultation on the AFEP website at the address provided below: www.afep.com.

In accordance with the AFEP-MEDEF Code, and pursuant to Article L. 225-37 of the French Commercial Code, the Company complies with all the recommendations of this Code.

### 4.1.1.1 COMPOSITION OF THE BOARD OF DIRECTORS

#### A. Current composition of the Board

As of February 14, 2018, the reporting date for the 2017 fiscal year, the Board of Directors had twelve members, seven of whom were independent (58.3%) as defined by the AFEP-MEDEF Corporate Governance Code, and six were women (50%).

The positions of Chairman of the Board of Directors and Chief Executive Officer are combined and held by Éric Le Gentil. He is assisted by a Chief Operating Officer. Since August 30, 2016, these positions have been held by Vincent Ravat.

The table below is a condensed presentation of the composition of the Board of Directors at February 14, 2018, and the position of the Board during fiscal year 2017.

| | Gender | Age (at 12/31) | First appointed on: | Date of the Annual General Meeting at which the directorship expires | Rate of attendance at Board meetings | Membership of Committees/Rate of attendance: Audit, Risks and Sustainable Development Committee | Investment Committee | Appointments and Compensation Committee |
|---|---|---|---|---|---|---|---|---|
| **Executive corporate officer** | | | | | | | | |
| Éric Le Gentil | M | 57 | 02/13/2013 | 2019 | 100% | | M<br>100% | |
| **Independent Directors** | | | | | | | | |
| Victoire Boissier | W | 50 | 04/20/2016 | 04/26/2018 | 100% | | | M[2]<br>100% |
| Bernard Bouloc *(until 10/24/2017)* | M | 81 | 10/14/2005 | 2019 | 100% | M<br>100% | | C<br>100% |
| Anne-Marie de Chalambert | W | 74 | 07/23/2013 | 04/26/2018 | 89% | | C<br>100% | M<br>100% |
| Élisabeth Cunin-Diéterlé | W | 57 | 06/06/2012 | 2019 | 100% | | | M/C[2]<br>100% |
| Marie-Christine Levet | W | 50 | 06/06/2012 | 2019 | 89% | C<br>100% | | |
| Ingrid Nappi-Choulet | W | 51 | 04/30/2014 | 2020 | 67% | M<br>75% | | |
| Pascale Roque[1] *(from 10/24/2017)* | W | 56 | 10/24/2017 | 2019 | 100% | M[3] | | |
| Generali Vie | | | 04/30/2014 | 04/26/2018 | | | | |
| Bruno Servant representative of the company | M | 57 | 04/30/2014 | | 100% | | M<br>100% | |

*M: Member C: Chairman.*
*(1) Ratification of the appointment by cooption presented to the Annual General Meeting of April 26, 2018*
*(2) Since October 24, 2017.*
*(3) Since December 21, 2017 – No meeting held between December 21 and 31, 2017.*

| | Gender | Age (at 12/31) | First appointed on: | Date of the Annual General Meeting at which the directorship expires | Rate of attendance at Board meetings | Membership of Committees/Rate of attendance: Audit, Risks and Sustainable Development Committee | Investment Committee | Appointments and Compensation Committee |
|---|---|---|---|---|---|---|---|---|
| **Directors representing the majority shareholder** | | | | | | | | |
| La Forézienne de Participations | | | 12/10/2010 | 04/26/2018 | | | | |
| Yves Desjacques, representative of the company *(11/13/2017)* | M | 50 | 06/08/2012 | | 62.5% | | | M 100% |
| David Lubek, representative of the company *(since 11/13/2017)* | M | 44 | 11/13/2017 | | 100% | M(3) | | |
| Jacques Dumas | M | 67 | 08/22/2005 | 2020 | 100% | M(4) 100% | | M(3) |
| Casino, Guichard-Perrachon | | | 08/19/1999 | 2020 | | | | |
| Antoine Giscard d'Estaing, representative of the company | M | 56 | 04/06/2009 | | 78% | | M 100% | |
| Michel Savart | M | 55 | 05/06/2010 | 2020 | 100% | | M 80% | M 80% |
| **Number of meetings** | | | | | **9** | **4** | **5** | **5** |
| **Rate of attendance** | | | | | **91%** | **75%** | **96%** | **96%** |

*M: Member C: Chairman.*
*(3) Since December 21, 2017 – No meeting held between December 21 and 31, 2017.*
*(4) Until December 21, 2017.*

## Balanced representation

With 58.3% independent Directors and complete gender parity, the Company is in line with the highest international standards.

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 that its duties are accomplished with the required independence and objectivity.

By co-opting Pascale Roque on October 24, 2017, to replace Bernard Bouloc, Mercialys confirmed its strong commitment to the independence of its governance and the diversity of its Board of Directors.

## Balanced gender representation on the Board of Directors

The Board of Directors consists of six women out of twelve Directors, *i.e.*, 50%.

As Anne-Marie de Chalambert has expressed her wish not to renew her directorship, a proposal will be submitted to the Annual General Meeting on April 26, 2018 for the appointment a new female independent director to maintain the gender balance.

Furthermore, each Committee is chaired by a female independent director.

## Diversity policy

The Board of Directors endeavors to apply the principles of the AFEP-MEDEF Code concerning its composition. With the support of the Appointments and Compensation Committee, it periodically assesses its size, structure and composition, as it does for its Committees. New candidacies and proposals for reappointment take into account the findings of evaluations of the functioning of the Board and form the basis of recommendations from the Appointments and Compensation Committee.

The size of the Board is considered appropriate. The Board pursues its objective of maintaining the diversity and complementarity of its technical skills and experience, the balanced gender representation of women and men, and the percentage of independent Directors above the 50% threshold recommended by the AFEP-MEDEF Code for companies with dispersed ownership without controlling shareholders.

Reappointments and nominations of Directors are proposed with a view to maintaining these balances and ensuring the availability of a set of skills commensurate with the Company's activities and the tasks devolved to the Board Committees. Consideration is also given to their wish to be associated with the Company's development, their commitments to Mercialys' corporate social responsibility, and their availability, given the frequency of Board and Committee meetings.

The Board of Directors has also endeavored to achieve a balanced gender representation on its specialized committees. As at February 14, 2018, each Committee is chaired by a woman, while a majority of the members of the Audit, Risks and Sustainable Development Committee and the Appointments and Compensation Committee are women.

The diversity of the skills represented on the Board is presented in the section below.

### Diverse, cross-functional and complementary skills

The Board of Directors also supports the diversity of its skills with a panel of experienced members with proven expertise in real estate, asset management, finance, legal, human resources, marketing, retail, as well as in economic research, corporate social responsibility (CSR), new technologies or the digital economy:

| | Real estate/ Construction/ Urban planning | Research | Legal/ Human Resources | Finance/ Accounting | New technologies | Management of companies | Insurance | Retail/ hospitality | Other* |
|---|---|---|---|---|---|---|---|---|---|
| Éric Le Gentil | ■ | | ■ | ■ | | ■ | ■ | | ■ |
| Victoire Boissier | ■ | | | ■ | | ■ | | ■ | |
| Anne-Marie de Chalambert | ■ | | | ■ | | ■ | ■ | | |
| Élisabeth Cunin-Diéterlé | ■ | | ■ | ■ | | ■ | | | ■ |
| Jacques Dumas | ■ | | ■ | ■ | | ■ | | ■ | |
| Antoine Giscard d'Estaing | ■ | | | ■ | | ■ | | ■ | |
| Marie-Christine Levet | | | ■ | ■ | ■ | ■ | | | |
| David Lubek | ■ | | | ■ | | ■ | ■ | ■ | |
| Ingrid Nappi-Choulet | ■ | ■ | | ■ | | | | | ■ |
| Pascale Roque | ■ | | ■ | ■ | | ■ | | ■ | |
| Michel Savart | ■ | | ■ | ■ | | ■ | | ■ | |
| Bruno Servant | ■ | | | ■ | | | ■ | | ■ |

* *IT, Health, CSR…*

### A Board composed of 58.3% independent Directors

As regards the duties entrusted to it, the Appointments and Compensation Committee is tasked with monitoring the position of each of the Directors in terms of any relationships they might have with the Company or Group companies to ensure that there is nothing that might compromise their freedom of judgment or might lead to possible conflicts of interest with the Company.

In this capacity, the Appointments and Compensation Committee conducts an annual review of the composition of the Board of Directors and, more specifically, of the independence of Board members with regard to the criteria set out in the AFEP-MEDEF Corporate Governance Code:

- criterion 1: not to be an employee or executive corporate officer of the Company, nor an employee, executive corporate officer or director of a company consolidated by the Company, nor of the Company's parent company nor of a company consolidated by this parent company and not have been in such a position in the previous five years;
- criterion 2: not to be an executive corporate officer of a company in which the Company directly or indirectly holds a directorship or in which an employee appointed as such or an executive corporate officer of the Company (currently in office or having held such office in the previous five years) is a director;
- criterion 3: not to be a major customer, supplier, corporate banker, or financial banker of the Company or of its Group, or for whom the Company or its Group represents a significant part of its business;
- criterion 4: not to have a close family tie to a corporate officer of the Company;
- criterion 5: not to have been the Company's Statutory Auditor in the last five years;
- criterion 6: not to have been a director of the Company for more than twelve years (independent status is lost after twelve years);
- criterion 7: not to be, or to be controlled by or represent, a shareholder holding alone or in concert more than 10% of the voting rights at the Company's General Meetings.

Every year, the Board pays particular attention to the criterion of significant business ties (criterion 3). Where business dealings or relationships have been identified between the Company and the companies in which the Directors considered as independent hold positions or directorships, certain qualitative and/or quantitative factors are generally considered by the Board as confirming the independence of the directors concerned: for example, the insignificance of the amount from the viewpoint of each of the parties, or the gap in time between the relationship and the appointment.

Last year, seven Directors met all the independence criteria: Victoire Boissier, Anne-Marie de Chalambert, Élisabeth Cunin-Diéterlé, Marie-Christine Levet, Ingrid Nappi-Choulet, Pascale Roque, and Bruno Servant the representative of Generali Vie.

Concerning Élisabeth Cunin-Diéterlé, the Board confirmed its analysis that the business dealings between the Camaïeu group (of which she is an executive) and Mercialys were not likely to compromise the exercise of her judgment on the Board or to lead to conflicts of interests. Indeed, only 20 of the 653 stores operated by the Camaïeu group in France are located in Mercialys shopping centers. The rents paid by Camaïeu to Mercialys represent 1.17% of the total rents received by Mercialys. The flow of business between Mercialys and Camaïeu is therefore not significant.

Furthermore, remember that on the basis of the AFEP-MEDEF Code criteria revised in 2016, Bernard Bouloc lost his status as independent director in October 2017 since his directorship has reached a term of twelve years. He therefore resigned from his position, and the Board of Directors co-opted Pascale Roque, a new director who meets the aforesaid independence criteria.

The table below provides a summary analysis of the position of each of the Directors regarding the independence criteria of the AFEP-MEDEF Corporate Governance Code:

| Directors | Criterion 1 | Criterion 2 | Criterion 3 | Criterion 4 | Criterion 5 | Criterion 6 | Criterion 7 |
|---|---|---|---|---|---|---|---|
| **Independent Directors** | | | | | | | |
| Victoire Boissier | yes | yes | yes | yes | yes | yes | yes |
| Anne-Marie de Chalambert | yes | yes | yes | yes | yes | yes | yes |
| Élisabeth Cunin-Diéterlé | yes | yes | yes | yes | yes | yes | yes |
| Marie-Christine Levet | yes | yes | yes | yes | yes | yes | yes |
| Ingrid Nappi-Choulet | yes | yes | yes | yes | yes | yes | yes |
| Pascale Roque | yes | yes | yes | yes | yes | yes | yes |
| Bruno Servant, representative of Generali Vie | yes | yes | yes | yes | yes | yes | yes |
| **Non-independent Directors** | | | | | | | |
| Jacques Dumas | no | yes | yes | yes | yes | yes | no |
| Antoine Giscard d'Estaing, representative of Casino, Guichard-Perrachon | no | yes | yes | yes | yes | yes | no |
| Éric Le Gentil | no | yes | yes | yes | yes | yes | no |
| David Lubek, representative of Forézienne de Participations | no | yes | yes | yes | yes | yes | no |
| Michel Savart | no | yes | yes | yes | yes | yes | no |

## B. Directorships and positions held by members of the Board of Directors, the Chief Executive Officer and the Chief Operating Officer

### Éric Le Gentil

Chairman and Chief Executive Officer

Date of birth: June 20, 1960

French citizen

Business address: 148, rue de l'Université – 75007 Paris

Number of Mercialys shares held: 18,400

#### Expertise and experience

Éric Le Gentil is a graduate of the École Polytechnique, the Institut d'Études Politiques de Paris and of the Institut des Actuaires Français. He began his career in 1985 in insurance auditing. From 1986 to 1992, he held various positions within the French Ministry of Finance including that of advisor on insurance matters to Pierre Bérégovoy's cabinet. From 1992 to 1999, he held various roles at Athéna Assurances and AGF Assurances. He joined Generali France in 1999 as Chief Executive Officer of Generali Assurances Vie & Iard. In December 2004, he was appointed Chief Executive Officer of Generali France Assurances. He has been Chairman and Chief Executive Officer of Mercialys since July 17, 2013.

#### Main position

- Chairman and Chief Executive Officer of Mercialys (listed company).

#### Directorships and positions held within the Company

| Directorship/Position | Date appointed | Date when term expired |
|---|---|---|
| Director | February 13, 2013 | AGM to be held in 2019 |
| Chairman of the Board of Directors | February 13, 2013 | AGM to be held in 2019 |
| Chief Executive Officer | July 17, 2013 | AGM to be held in 2019 |
| Member of the Investment Committee | April 13, 2012 | AGM to be held in 2019 |

#### Other directorships and positions held in 2017 and in effect at February 14, 2018

**Within the Mercialys Group**

- Managing Partner of La Diane.

#### Other directorships and positions held during the past five years

(other than the directorships and positions listed above)

- Permanent representative of Generali Vie on the Board of Directors of Mercialys (listed company) and member of the Appointments and Compensation Committee;
- Chief Executive Officer of Generali France Assurances;
- Chairman of the Board of Directors of Generali Réassurance Courtage (listed company);
- Vice-Chairman of Europ Assistance Holding;
- Director of Generali France Assurances, Generali Vie, Generali Iard and Generali Réassurance Courtage;
- Permanent representative of Europ Assistance Holding on the Boards of Directors of Europ Assistance (SA) and Europ Assistance France;
- Permanent representative of Generali Iard on the Boards of Directors of Europ Assistance Holding, GFA Caraïbes and Generali Investissement (SICAV);
- Permanent representative of Generali France Assurances on the Boards of Directors of e-cie vie and Prudence Créole;
- Permanent representative of Generali Vie on the Board of Directors of Cofitem-Cofimur (listed company);
- Member of the Supervisory Board and member of the Audit Committee of ANF Immobilier (listed company);
- Member and Chairman of the Executive Committee of Cofifo;
- Member of the Investment Advisory Board of Generali Investments S.p.A.;
- Member of the Management Board of Generali Fund Management and Generali Investments Managers SA;
- Member of the Board of Directors of Generali Real Estate S.p.A.;
- Director of the Association Amis et Mécènes de l'Opéra Comique – AMOC.

### Vincent Ravat

Chief Operating Officer

Non-director

Date of birth: March 15, 1974

French citizen

Business address: 148, rue de l'Université – 75007 Paris

Number of Mercialys shares held: 6,771

#### Expertise and experience

Vincent Ravat joined Mercialys in January 2014 as Deputy CEO responsible for letting, operations, marketing & communication teams. Previously, he served from 2011 as Director of Operations France for Hammerson, a real estate development and management group, listed on the London Stock Exchange, operating in the United Kingdom and France. From 2000 to 2010, he held various positions in Asia, Switzerland, Spain and France, with the King Jouet and Distritoys SA groups, where he was a member of the Executive Committee. He is a graduate of ESC Rouen (now Neoma Business School) and Member of the Royal Institution of Chartered Surveyors (MRICS).

#### Main position

- Chief Operating Officer of Mercialys

#### Directorships and positions held within the Company

| Directorship/Position | Date appointed | Date when term expired |
|---|---|---|
| Chief Operating Officer | August 30, 2016 | AGM to be held in 2019 |

#### Other directorships and positions held in 2017 and in effect at February 14, 2018

**Within the Mercialys Group**

- Chairman of Mercialys Exploitation.

**Outside the Mercialys Group**

- Director of the Institut pour la Ville & le Commerce;
- Director of the Conseil National des Centres Commerciaux (CNCC).

#### Other directorships and positions held during the past five years

(other than the directorships and positions listed above)

- Member of the Continental Europe Management Board of Hammerson plc;
- Member of the French Management Board of Hammerson plc.

### Victoire Boissier

Independent Director (directorship submitted for renewal):

Date of birth: December 28, 1967

French citizen

Business address: 6, allée Jean Prouvé – 92110 Clichy

Number of Mercialys shares held: 800

#### Expertise and experience

With degrees from EM Lyon (major in Finance) and the INSEAD International Executive Program, Victoire Boissier began her career in 1990 in the banking sector (Barclays) and then she joined Générale de Restauration. Between 1995 and 2008 she held a series of positions within Yum France: Financial Analyst, Manager of Strategic Planning, Senior Financial Manager and Chief Financial Officer. From 2009 to 2017, Victoire Boissier has held the position of Vice-President Finance within the Louvre Hotels Group and is a member of the Executive Committee. In 2017, she joined the Grandir/Les Petits Chaperons Rouges educational group, as Chief Operating Officer.

#### Main position

- Group Chief Operating Officer Finance with Grandir/Les Petits Chaperons Rouges.

#### Directorships and positions held within the Company

| Directorship/Position | Date appointed | Date when term expired |
|---|---|---|
| Director | April 20, 2016 | AGM of April 26, 2018 |
| Member of the Appointments and Compensation Committee | October 24, 2017 | AGM of April 26, 2018 |

#### Other directorships and positions held in 2017 and in effect at February 14, 2018

None

#### Other directorships and positions held during the past five years
(other than the directorships and positions listed above)

- Director, member of the Strategic Committee and the Accounts Committee of Gascogne (listed company);
- Managing Partner of Achats Services*;
- Member of the Executive Committee and Vice-President Finance of Louvre Hotels Group*.

* *Directorships and positions ended in 2017.*

### Anne-Marie de Chalambert

Independent director (directorship not up for renewal)

Date of birth: June 07, 1943

French citizen

Business address: 148, rue de l'Université – 75007 Paris (residence for service)

Number of Mercialys shares held: 1,000

#### Expertise and experience

Anne-Marie de Chalambert began her career in 1962 as press spokesman at Pathé-Marconi. In 1969, she moved into property development as Marketing Manager of Valois. In 1980, she founded and was Chairman and Chief Executive Officer of VLGI (*Vente Location Gestion Immobilière*), a subsidiary of Banque Lazard. In 1996, she joined Generali as Manager Real Estate. She then became Chairman and Chief Executive Officer of Generali Immobilier, where she transformed Generali France's mainly residential portfolio into a portfolio consisting primarily of office properties, mostly in Paris and the Paris region. She was appointed Chairman of Generali Real Estate Europe in 2004, where she brings together the group's various European real estate teams and invests in communal projects. In 2009, she took up the role of Chairman of Generali Immobilier until March 2010. Since 2010, she has acted as a consultant to Institut Pasteur in its real estate strategy.

#### Main position

- Company director.

#### Directorships and positions held within the Company

| Directorship/Position | Date appointed | Date when term expired |
|---|---|---|
| Director | July 23, 2013 | AGM of April 26, 2018 |
| Chairman and independent member of the Investment Committee | July 23, 2013 | AGM of April 26, 2018 |
| Independent member of the Appointments and Compensation Committee | July 23, 2013 | AGM of April 26, 2018 |

#### Other directorships and positions held in 2017 and in effect at February 14, 2018

**Outside the Mercialys Group**

- Director of Foncière Lyonnaise SA (listed company);
- Member of the Compensation and Selection Committee and member of the Accounting and Audit Committee and member of the independent Directors' committee of Société Foncière Lyonnaise SA (listed company);
- Chairman of AMCH;
- Member of the Investment Committee of the Institut Pasteur.

#### Other directorships and positions held during the past five years

(other than the directorships and positions listed above)

- Director, member of the Appointments and Compensation Committee and of the Investment Committee of Nexity SA (traded company).

### Élisabeth Cunin-Diéterlé

Independent director

Date of birth: September 17, 1960

French citizen

Business address: Groupe Camaïeu – 211, avenue Jules Brame – 59100 Roubaix

Number of Mercialys shares held: 1,000

#### Expertise and experience

Élisabeth Cunin-Diéterlé holds degrees from the École Polytechnique, ENSAE and the Institut d'Études Politiques de Paris. She began her career within McKinsey. She then moved to the retail sector, first with Dia, then with Étam. She became Chief Executive Officer of André in 2001 and then of Étam Lingerie in 2005. In 2011, Élisabeth Cunin-Diéterlé became Chairman of Comptoir des Cotonniers and Princesse Tam-Tam, brands owned by Japanese group Fast Retailing, which also owns Uniqlo. In October 2013, she joined the Camaïeu Group as Chairman.

#### Main position

- Chairman of the Camaïeu Group.

#### Directorships and positions held within the Company

| Directorship/Position | Date appointed | Date when term expired |
|---|---|---|
| Director | June 06, 2012 | AGM to be held in 2019 |
| Independent member of the Appointments and Compensation Committee | November 27, 2013 | AGM to be held in 2019 |
| President of the Appointments and Compensation Committee | October 24, 2017 | AGM to be held in 2019 |

#### Other directorships and positions held in 2017 and in effect at February 14, 2018

##### Outside the Mercialys Group

- President of Camaïeu International and Financière Brame;
- Permanent representative of Camaïeu International on the Board of Directors of Mode Développement Belgique SA (Belgium);
- Permanent representative of Camaïeu International, general partner of Camaïeu Monaco & Cie;
- Executive Manager of Camaïeu Asia;
- Executive Director within Camaïeu Apparel (Shanghai) Co Ltd.

#### Other directorships and positions held during the past five years

(other than the directorships and positions listed above)

- Chairman of Créations Nelson, Comptoir des Cotonniers France, Petit Véhicule, AMB;
- Chairman and member of the Management Board of Financière Brame;
- Chief Executive Officer of Camaïeu International;
- Director of Comptoir des Cotonniers Belgium, Comptoir des Cotonniers United Kingdom, and Princesse Tam-Tam Belgium;
- Chairman of the Board of Directors of Comptoir des Cotonniers Switzerland;
- Manager of Comptoir des Cotonniers Germany, Comptoir des Cotonniers Spain, Comptoir des Cotonniers Italy, Princesse Tam-Tam Germany, Princesse Tam-Tam, Spain, Petit Véhicule Italy.

### Jacques Dumas

Director

Date of birth: May 15, 1952

French citizen

Business address: 148, rue de l'Université – 75007 Paris

Number of Mercialys shares held: 508

#### Expertise and experience

Jacques Dumas holds a Master's Degree in Law and studied at the Institut d'Études Politiques in Lyon. He began his career as a lawyer, then served as Administration Manager for Compagnie Française de l'Afrique Occidentale – CFAO – (1978-1986). In 1987 he joined Rallye as the Deputy Corporate Secretary, then became Manager of Legal Affairs of the Euris Group in 1994. He is currently Executive Vice-President of Euris and advisor to the Chairman of Casino, Guichard-Perrachon.

#### Main positions

- Advisor to the Chairman of Casino, Guichard-Perrachon (listed company);
- Executive Vice-President of Euris.

#### Directorships and positions held within the Company

| Directorship/Position | Date appointed | Date when term expired |
|---|---|---|
| Director | August 22, 2005 | 2020 AGM |
| Member of the Appointments and Compensation Committee | December 21, 2017 | 2020 AGM |

#### Other directorships and positions held in 2017 and in effect at February 14, 2018

##### Outside the Mercialys Group

**Within the Euris Group**

- Director of the Rallye company (listed company) and a Member of the Appointments and Compensation Committee;
- Permanent representative of Euris on the Board of Directors of Finatis (listed company) and member of the Audit Committee;
- Permanent representative of Euris on the Board of Directors of Casino, Guichard-Perrachon (listed company) and member of the Appointments and Compensation Committee.
- Member of the Supervisory Committee of Monoprix.

**Outside the Euris Group**

- Managing Partner of Cognacq-Parmentier and Longchamp-Thiers.

#### Other directorships and positions held during the past five years

(other than the directorships and positions listed above)

- Chairman of GreenYellow;
- Vice-Chairman and member of the Supervisory Board of Monoprix SA;
- Permanent representative of Cobivia on the Board of Directors of Casino, Guichard-Perrachon* (listed company);
- Permanent representative of Casino, Guichard-Perrachon on the Board of Directors of Monoprix SA;
- Permanent representative of Casino, Guichard-Perrachon on the Supervisory Board of Monoprix SA;
- Permanent representative of Distribution Casino France on the Board of Directors of Distribution Franprix;
- Permanent representative of Messidor SNC on the Board of Directors of Cdiscount;
- Member of the Appointments and Compensation Committee of Rallye (listed company);
- Member of the Audit, Risks and Sustainable Development Committee of Mercialys (listed company).

* *Directorships and positions ended during 2017.*

### Marie-Christine Levet

Independent director

Date of birth: March 28, 1967

French citizen

Business address: 148, rue de l'Université – 75007 Paris (residence for service)

Number of Mercialys shares held: 1,000

#### Expertise and experience

Marie-Christine Levet is a graduate of the École des Hautes Études Commerciales and an MBA of INSEAD. She began her career at Accenture before joining Disney and then Pepsico in marketing and strategy roles. She then obtained solid experience in the internet and telecoms sectors. In 1997, she founded Lycos France and moved it up the ranks to become France's number two internet portal in 2000. She was Chairman of Club-Internet from 2001 to July 2007. From 2004 to 2005, she was also Chairman of the AFA (the French Association of ISPs), representing the interests of all players in the market to the public authorities. From 2008 to 2010, she managed the hi-tech IT newsgroup Tests as well as the internet activities of the NextRadioTV group. From 2010 to 2013, she was a partner in investment fund Jaïna Capital, specializing in the financing of new innovative businesses. Marie-Christine Levet is currently a partner at Educapital, an investment fund specialized in education and training, which she created in 2017.

#### Main position

- Company director.

#### Directorships and positions held within the Company

| Directorship/Position | Date appointed | Date when term expired |
|---|---|---|
| Director | June 06, 2012 | AGM to be held in 2019 |
| President and independent member of the Audit, Risks and Sustainable Development Committee | April 30, 2014 | AGM to be held in 2019 |

#### Other directorships and positions held in 2017 and in effect at February 14, 2018

**Outside the Mercialys Group**

- Director and President of the Audit Committee of Iliad, Econocom and Maisons du Monde (listed companies);
- Director So Local (listed company).

#### Other directorships and positions held during the past five years

(other than the directorships and positions listed above)

- Independent member of the Investment Committee of Mercialys (listed company);
- Partner in investment fund Jaïna Capital;
- Director and Member of the Audit Committee of BPIFrance Financement;
- Director of FINP, the Google Digital Innovation Fund for French publishers;
- Director and then member of the Supervisory Board and Member of the Appointments and Compensation Committee of Avanquest (listed company);
- Director, member of the Appointments and Compensation Committee and of the Audit Committee of Hipay Group* (traded company);
- Non-voting director of BPIFrance Financement*.

* *Directorship and position ended in 2017.*

### Ingrid Nappi-Choulet

Independent Director

Date of birth: April 1, 1966

French citizen

Business address: ESSEC Business School – 1, avenue Bernard Hirsch, BP 50105 – 95021 Cergy-Pontoise cedex

Number of Mercialys shares held: 950

#### Expertise and experience

With a PhD in economic science from Université Paris XII and degrees from Université Paris Dauphine (HDR in management science) and the Institut d'Études Politiques in Paris (HDR in Urban Planning and Development), Ingrid Nappi-Choulet is a Professor at ESSEC (since 1994). She is also in charge of the Real Estate Economics course at the ENPC. She began her career as an economics lecturer at the École Centrale de Lille (1989-1994). She has written several books: Les bureaux, analyse d'une crise (Analysis of the office space crisis)(pub. ADEF, 1997), *Management et Marketing de l'Immobilier* (Real estate management and marketing)(pub. Dunod, 1999), *Les mutations de l'immobilier: de la Finance au Développement durable* (Transformation of the real estate market: from finance to sustainable development)(pub. Autremont, 2009), and *Immobilier d'entreprise: analyse économique des marchés* (Business real estate: an economic analysis of the markets)(pub. Economica, 2010, 2013). She has also written articles and columns for various academic and business reviews covering the property market. She was given a mandate by the Sustainable Building Plan in 2013-2014 to co-lead a working group on energy renovation and the construction industry. She is a member of several scientific committees. Ingrid Nappi-Choulet is a Fellow of the RICS (Royal Institution of Chartered Surveyors) and is also the founder and manager of the OMI (Real Estate Management Observatory).

#### Main position

- Professor and researcher.

#### Directorships and positions held within the Company

| Directorship/Position | Date appointed | Date when term expired |
|---|---|---|
| Director | April 30, 2014 | 2020 AGM |
| Independent member of the Audit, Risks and Sustainable Development Committee | May 05, 2015 | 2020 AGM |

#### Other directorships and positions held in 2017 and in effect at February 14, 2018

##### Outside the Mercialys Group

- Member of the Conseil immobilier de l'État (French government property council);
- Director of the Observatoire Régional du Foncier Île-de-France.

#### Other directorships and positions held during the past five years

(other than the directorships and positions listed above)

- Director of ADI – Association des Directeurs Immobiliers.

### Pascale Roque

Independent director (directorship to be renewed)

Date of birth: February 14, 1961

French citizen

Business address: Groupe Pierre & Vacances – L'Artois – Espace Pont de Flandre – 11, rue de Cambrai – 75019 Paris

Number of Mercialys shares held: 900

#### Expertise and experience

Pascale Roque is a graduate of ESSEC. She began her career in 1985 at Air France, a group where she spent 15 years, and became involved in topics with major operational issues and organization transformation. In 2001, she joined the Accor hotel group, where she worked as the group's Director of international sales, then sales force and then call centers. In 2006, she was promoted to Chief Executive Officer of the Formule 1 and Etap Hôtel hotels. In 2009, she joined the Pierre & Vacances group as Chief Executive Officer of Résidences Pierre & Vacances and Maeva. In 2013, she became Chief Executive Officer of the B&B Hotels chain. Since 2016, Pascale Roque has been Chief Executive Officer of Pierre & Vacances Tourisme, member of the group executive committee.

#### Main position

- Chief Executive Officer of Pierre & Vacances Tourisme;
- Member of the Executive Committee of Pierre & Vacances group.

#### Directorships and positions held within the Company

| Directorship/Position | Date appointed | Date when term expired |
|---|---|---|
| Director | October 24, 2017 | AGM to be held in 2019 |
| Independent member of the Audit, Risks and Sustainable Development Committee | December 21, 2017 | AGM to be held in 2019 |

#### Other directorships and positions held in 2017 and in effect at February 14, 2018

None

#### Other directorships and positions held during the past five years

(other than the directorships and positions listed above)

None

## Michel Savart

Director

Date of birth: April 1, 1962

French citizen

Business address: Foncière Euris – 83, rue du Faubourg-Saint-Honoré – 75008 Paris

Number of Mercialys shares held: 500

### Expertise and experience

Michel Savart is a graduate of the École Polytechnique and the École Nationale Supérieure des Mines de Paris. He started his career with Havas in 1986, then moved to Banque Louis Dreyfus in 1987 where he led various projects. Between 1988 and 1994 he managed projects for Banque Arjil (Lagardère Group) and advised the bank's Management Board. From 1995 to 1999 he served as Managing Director of Mergers & Acquisitions for Dresdner Kleinwort Benson (DKB). In October 1999, Savart joined Euris-Rallye as Head of Private Equity Investments and advisor to the Chairman. He currently holds the position of advisor to the Chairman of the Rallye-Casino group. Since August 2009, he has also been Chairman and Chief Executive Officer of Foncière Euris.

### Main positions

- Advisor to the Chairman of the Rallye/Casino group;
- Chairman and Chief Executive Officer of Foncière Euris (listed company).

### Directorships and positions held within the Company

| Directorship/Position | Date appointed | Date when term expired |
|---|---|---|
| Director | May 06, 2010 | 2020 AGM |
| Member of the Appointments and Compensation Committee | October 22, 2010 | 2020 AGM |
| Member of the Investment Committee | October 22, 2010 | 2020 AGM |

### Other directorships and positions held in 2017 and in effect at February 14, 2018

#### Outside the Mercialys Group

**Within the Euris Group**

- Managing Director and Chairman of the Management Board of Centrum Serenada Sp. Zoo and Centrum Krokus Sp. Zoo (Poland);
- Permanent representative of the Rallye company on the Board of Directors of Groupe Go Sport;
- Representative of Delano Holding, co-Manager of Delano Participations;
- Permanent representative of Foncière Euris on the Board of Directors of Casino, Guichard-Perrachon (listed company);
- Representative of Foncière Euris, Chairman of Marigny Foncière, Mat-Bel 2 and Matignon Abbeville;
- Representative of Immat Bel, co-Gérante de la société Delano Holding;
- Representative of Marigny Foncière, Co-Manager of SCI Les Deux Lions and SCI Ruban Bleu Saint-Nazaire, and Manager of SCI Pont de Grenelle and SNC Centre Commercial Porte de Châtillon;
- Representative of Mat-Bel 2, Manager of Immat Bel and Matbelys;
- Co-Manager of Guttenbergstrasse BAB5 GmbH, (Germany).

**Outside the Euris Group**

- Chairman of Aubriot Investissements;
- Managing Partner of Montmorency.

### Other directorships and positions held during the past five years

(other than the directorships and positions listed above)

- Chairman of the Board of Directors of Mercialys (listed company);
- Chairman of the Management Board of Centrum Riviera Sp. Zoo* and Centrum Wzgorze Sp. Zoo (Poland);
- Director of CDiscount;
- Representative of Fenouillet Participation, Manager of Fenouillet Immobilier*;
- Permanent representative of Finatis on the Board of Directors of Casino, Guichard-Perrachon* (listed company);
- Representative of Foncière Euris, Chairman of Marigny Belfort and Manager of SCI Sofaret and SCI Les Herbiers;
- Representative of Immat Bel, co-Manager of Marigy Fenouillet*;
- Representative of Marigny Fenouillet, Manager of Fenouillet Participation;
- Representative of Marigny Foncière, President of Mat-Bel 2 and co-Manager of SCI Palais des Marchands;
- Representative of Mat-Bel 2, Manager of Marigny Fenouillet;
- Representative of Matignon Abbeville, Manager of Centrum Z Sarl, Centrum K Sarl and Centrum J Sarl and Manager A of Centrum NS Luxembourg Sarl;
- Managing Director of Centrum Riviera Sp Zoo (Poland);
- Managing Partner of Aubriot Investissements;
- Co-Manager of Einkaufszentrumam Alex GmbH and Loop 5 Shopping Centre GmbH (Germany).

* *Directorships and positions ended in 2017.*

## Casino, Guichard-Perrachon

Director

French limited liability company with share capital of Euro 169,825,403.88

Head office: 1, cours Antoine Guichard – 42000 Saint-Étienne

554 501 171 R.C.S. Saint-Étienne

Number of Mercialys shares held: 26,452

### Directorships and positions held within the Company

| Directorship/Position | Date appointed | Date when term expired |
|---|---|---|
| Director | August 19, 1999 | 2020 AGM |

### Other directorships and positions held in 2017 and in effect at February 14, 2018

#### Outside the Mercialys Group

**Within the Casino group**

- Director of Intexa (listed company), Banque du Groupe Casino and Proxipierre;
- Member of the Supervisory Committee of Monoprix and Geimex.

**Outside the Casino group**

- Director of Loire Télé.

### Other directorships and positions held during the past five years

(other than the directorships and positions listed above)

- President of Investeur 103;
- Member of the Supervisory Board of Monoprix SA;
- Director of Loire Télé SAEML, Monoprix SA, Ségisor and Tevir.

### Antoine Giscard d'Estaing

Appointed on April 6, 2009

Permanent representative of Casino, Guichard-Perrachon

Date of birth: January 05, 1961

French citizen

Business address: 148, rue de l'Université – 75007 Paris

Number of Mercialys shares held: 500

#### Expertise and experience

Antoine Giscard d'Estaing holds a degree from the École des Hautes Études Commerciales and studied at the École Nationale d'Administration. After four years at the Inspectorate of Finances, in 1990 he started at Suez-Lyonnaise des Eaux, where he operated in particular as Chief Financial Officer. He then joined Schneider Electric in 2000 as Executive Vice-President of Finance, Management Control and Legal Affairs, before moving to Danone in 2005 as Executive Vice-President of Finance, Strategy and Information Systems. He was appointed Danone's Corporate Secretary in 2007. In 2008, he became a partner of Bain & Company, and joined the Casino group in April 2009 as Chief Financial Officer, member of the Executive Committee.

#### Main positions

- Chief Financial Officer and member of the Executive Committee of the Casino group.

#### Other directorships and positions held in 2017 and in effect at February 14, 2018

##### Within the Mercialys Group

- Member of the Investment Committee of Mercialys (listed company).

##### Outside the Mercialys Group

**Within the Casino group**

- Member of the Supervisory Committee of GreenYellow and Monoprix;
- Chairman and Chief Executive Officer and Director of Casino Finance;
- Chairman and Member of the Supervisory Committee of Cnova Pay;
- Chairman of the Board of Directors and Non-Executive Director of Cnova N.V. (listed company – Netherlands).

**Outside the Casino group**

- Director, Chairman and Member of the Audit Committee and Member of the Appointments and Compensation Committee of NRJ Group (listed company).

#### Other directorships and positions held during the past five years

(other than the directorships and positions listed above)

- Chairman of the Board of Directors and Director of Banque du Groupe Casino*;
- Vice-Chairman and Chief Operating Officer of Casino Finance*;
- Chairman of Casino Finance and GreenYellow*;
- Chairman and member of the Supervisory Board of Monoprix SA;
- Permanent representative of Germinal SNC on the Board of Directors of Monoprix SA;
- Permanent representative of Germinal SNC on the Supervisory Board of Monoprix SA;
- Director of the Board of Directors and Member of the Financial Committee of Companhia Brasileira de Distribuição (listed company – Brazil).

* *Directorships and positions ended in 2017.*

### La Forézienne de Participations

Director (directorship submitted for renewal)

Simplified joint-stock company with share capital of Euro 568,599,197

Head office: 1, cours Antoine Guichard – 42000 Saint-Étienne

501 655 336 R.C.S. Saint-Étienne

Number of Mercialys shares held: 36,042,460

#### Directorships and positions held within the Company

| Directorship/Position | Date appointed | Date when term expired |
|---|---|---|
| Director | December 10, 2010 | AGM of April 26, 2018 |

#### Other directorships and positions held in 2017 and in effect at February 14, 2018

Outside the Mercialys Group

**Within the Casino group**

- Chairman of Jekk;
- Director of Proxipierre and Shopping Property Fund 1.

#### Other directorships and positions held during the past five years

(other than the directorships and positions listed above)

None

### David Lubek

Appointed on November 13, 2017

Permanent representative of La Forézienne de Participations

Date of birth: May 13, 1973

French citizen

Business address: 148, rue de l'Université – 75007 Paris

#### Expertise and experience

Graduate of École Polytechnique and ENSAE, holder of a post-graduate degree in economics (EHESS), David Lubek began his career as assistant economics professor at ENSAE. He joined the Ministry of Finance in 2000 at the Budget Department where occupied several managerial positions (research budget, budget execution synthesis). In 2006, he joined the Finance Auditing division where he was in charge of consulting and audit assignments for the public and private sectors. He joined Groupama in 2010 as Director of the group's general audit. He has been Director of management control for the Casino group since 2013.

#### Main positions

- Manager of management control for the Casino group.

#### Other directorships and positions held in 2017 and in effect at February 14, 2018

##### Within the Mercialys Group

- Member of the Audit, Risks and Sustainable Development Committee of Mercialys (listed company).

##### Outside the Mercialys Group

**Within the Casino group**

- Permanent representative of Casino, Guichard Perrachon on the Supervisory Board of Monoprix SA.

#### Other directorships and positions held during the past five years

(other than the directorships and positions listed above)

- None

### Generali Vie

Independent director (directorship submitted for renewal)

French corporation with share capital of Euro 299,197,104

Head office: 2, rue Pillet-Will – 75009 Paris

602 062 481 R.C.S. Paris

Number of Mercialys shares held: 7,373,571

#### Directorships and positions held within the Company

| Directorship/Position | Date appointed | Date when term expired |
|---|---|---|
| Director | April 30, 2014 | AGM of April 26, 2018 |

#### Other directorships and positions held in 2017 and in effect at February 14, 2018

##### Outside the Mercialys Group

**Within the Generali France Group**

- Chairman of Haussmann Investissement;
- Director of Europ Assistance Holding, Expert et Finances, Generali IARD and Generali Luxembourg and GFA Caraïbes.

**Outside the Generali France Group**

- Director of Foncière Développement Logements (listed company), SICAV Objectif Sélection, SICAV Palatine Mediterranea, SICAV Reconnaissance Europe, SICAV Novi 1, SICAV Novi 2 and Vigeo;
- Member of the Supervisory Board of Foncière de Paris SIIC (listed company), Foncière des Murs (listed company) and SCPI Foncia Pierre Rendement.

#### Other directorships and positions held during the past five years

(other than the directorships and positions listed above)

- Non-voting director of Mercialys (listed company);
- Director of Eurosic, Foncière de Paris SIIC, Generali Actions Plus, Generali Euro Actions, Generali Euro sept/dix ans, Generali Gérance, Generali Investissement, Generali Investments France, Generali Trésorerie, SAI Les trois collines de Mougins, SICAV Eparc Continent, SICAV Fairview Small Caps, SICAV Generali Actions diversifiées, and Mercialys;
- Member of the Supervisory Board of Foncière des Regions and SCPI Rocher Pierre 1 and SCPI Generali Habitat.

### Bruno Servant

Appointed on April 30, 2014

Permanent representative of Generali Vie

Date of birth: February 26, 1960

French citizen

Business address: Generali France – 2, rue Pillet-Will – 75309 Paris Cedex 9

Number of Mercialys shares held: 850

#### Expertise and experience

As a graduate of ESSEC and the Institut d'Études Politiques de Paris, Public Service section, and the Institut des Actuaires, Bruno Servant began his career at Crédit Lyonnais in August 1985. In January 1986 he became portfolio manager at Citibank, and in May 1988 he joined Banque Shearson Lehman Hutton. He joined Deutsche Bank in May 1990, where he was head of the Institutional Investment Management department and Chairman of the Management Board of Deutsche Asset Management S.A. In September 2003, he became Chief Operating Officer of UBS Global Asset Management France SA. He then joined the Generali Group in September 2007 as Chief Operating Officer and Corporate Secretary of Generali Investments France. Since March 2012, he has been Investment Director at Generali Vie.

#### Main position

- Investment Director of Generali France.

#### Other directorships and positions held in 2017 and in effect at February 14, 2018

##### Within the Mercialys Group

- Independent member of the Investment Committee.

##### Outside the Mercialys Group

**Within the Generali France Group**

- Managing Partner of SCI GF Pierre.

**Outside the Generali France Group**

- Representative of Generali Vie on the Board of Directors of SICAV Objectif Selection;
- Chairman of the Board of Directors of Generali Investments Asia Limited (Hong Kong);
- Member of the Investment Advisory Board of Generali Investments S.p.A. (Italy);
- Member of the Supervisory Board of Lion I and Lion River II (Netherlands).

#### Other directorships and positions held during the past five years

(other than the directorships and positions listed above)

- Permanent representative of Generali Vie on the Supervisory Board of Foncière de Paris SIIC (listed company);
- Permanent representative of Generali Vie, non-voting Director on the Board of Directors of Mercialys (listed company);
- Permanent representative of Generali Vie on the Board of Directors of Generali Luxembourg (Luxembourg);
- Permanent representative of Generali France Assurances on the Supervisory Board of Foncière des Murs (listed company);
- Director of STEG.

## C. Directorships and positions held by Dominique Dudan, whose appointment as director is proposed

### Dominique Dudan

Date of birth: January 19, 1954

French citizen

Business address: 1, rue de Condé – 75006 Paris

Number of Mercialys shares held: 100

#### Expertise and experience

After scientific studies, Dominique Dudan joined the real estate industry. Admitted as a Member of the Royal Institution of Chartered Surveyors (MRICS), she has become a Fellow. Between 1996 and 2005, Dominique Dudan held the position of Head of Development with Accor Hotels & Resorts. She later joined HSBC Reim as Head of Operations and member of the Management Board, and then BNP Paribas Reim as Executive Vice-President and Head of Regulated Real Estate Funds. In 2009, Dominique Dudan created her own firm, Artio Conseil, while holding the position of Chief Executive Officer of Arcole Asset Management. In 2011, Dominique Dudan became Chairman of Union Investment Real Estate France, a position she held until July 2015. She has been a member of the Board of Directors of Gecina since 2015, and a member of the Supervisory Board of Swiss Life Reim (France) since 2017. Dominique Dudan is also a member of RICS France, of the MEDEF Economic Commission for the Groupement de Professions de Services, of the Cercle des Femmes de l'Immobilier, of the Club de l'Immobilier d'Île-de-France, of the Institut d'Études Immobilières et Foncières, and of the VoxFemina association. She is a *Chevalier* of the French National Order of Merit.

#### Main position

- Director of companies.

#### Other directorships and positions held in 2017 and in effect at February 14, 2018

**Outside the Mercialys Group**

- Director and Member of the Audit and Risks Committee of Gecina (listed company);
- Member of the Supervisory Board and Member of the Audit and Risk Committee of Swiss Life Reim (France);
- President of the Supervisory Board of Sofidy Pierre Europe (OPCI);
- Senior Advisor for the real estate section of LBO France Gestion;
- Chair of Artio Conseil;
- Manager of SCI du Terrier, SCI du 92, and SARL William's Hotel;
- Fellow of the Royal Institution of Chartered Surveyors and Member of RICS France.

#### Other directorships and positions held during the past five years

(other than the directorships and positions listed above)

- Chair of Union Investment Real Estate France;
- Co-manager of Warburg-HIH Invest France*;
- Director and Vice-President of the *Observatoire Régional de l'Immobilier d'Entreprise en Île-de-France (ORIE)**.

* *Directorships and positions ended in January 2018.*

## D. Changes to the composition of the Board of Directors in 2017

### General principles governing the Board's composition

The Board's operating procedures are established by law, the Company's articles of incorporation and the Board's internal rules. They are detailed in the internal rules of the Board of Directors, found in chapter 9, page 235 and following.

The Board of Director's composition is guided by the main principles below:

- Directorships have a term of three years and the Board is partly renewed every year, pursuant to the Company's articles of association and the AFEP-MEDEF Corporate Governance Code, to allow business continuity, promote smooth renewal of Directors and allow shareholders to sufficient opportunity for expressing their opinion about these directorships;
- The articles of association stipulate no age limit for Directors other than the statutory limit according to which no more than one third of the directors may be over the age of 70;
- The Board of Directors consists of at least three and at most eighteen members, appointed by the Annual General Meeting (see Article 14 of the articles of association);
- Under Article 23 of the Company's articles of association, one or more non-voting Directors may be selected from the Company's shareholders and appointed by the Annual General Meeting, or between two Annual General Meetings by the Board of Directors subject to approval at the next scheduled Annual General Meeting. Non-voting Directors, appointed for a three-year term, attend the meetings of the Board of Directors. In this connection, they provide comments and opinions and take part in discussions in an advisory capacity. There may not be more than five non-voting Directors. The age limit for serving as a non-voting Director is set at 80. However, the Company has no non-voting Directors;
- According to internal rules, each Director must hold a number of shares in registered form corresponding to at least the equivalent of one year's directors' fees.

### Changes in 2017 and directorships of Board members expiring in 2018

Following his loss of his status as independent Director, Bernard Bouloc resigned from his directorship on October 24, 2017. The Board of Directors accordingly co-opted Pascale Roque to replace Bernard Bouloc.

On November 13, 2017, David Lubek was appointed permanent representative of La Forézienne de Participations, to replace Yves Desjacques.

The Board of Directors therefore reviewed the composition of these three committees, which as of the date of this Registration Document, consisted of the following:

#### Appointments and Compensation Committee

- Élisabeth Cunin-Dieterle, Chairman, Independent Director;
- Victoire Boissier, Independent Director;
- Anne-Marie de Chalambert, Independent Director;
- Jacques Dumas, Director representing the majority shareholder;
- Michel Savart, Director representing the majority shareholder.

#### Audit, Risks and Sustainable Development Committee

- Marie-Christine Levet, Chairman, Independent Director;
- Ingrid Nappi-Choulet, Independent Director;
- Pascale Roque, Independent Director;
- David Lubek, representative of the majority shareholder.

#### Investment Committee

- Anne-Marie de Chalambert, Chairman, Independent Director;
- Antoine Giscard d'Estaing, Director representing the majority shareholder;
- Éric Le Gentil , Director, Chairman and Chief Executive Officer;
- Michel Savart, Director representing the majority shareholder;
- Bruno Servant, Independent Director.

The table below provides a summary of the changes in 2017 to the composition of the Board of Directors.

| Date | Departures | Nominations |
|---|---|---|
| Board of Directors of October 24, 2017 | ■ Bernard Bouloc: Director, member of the Audit and Risks Committee and member and President of the Appointments and Compensation Committee. | ■ Pascale Roque: Independent Director;<br>■ Victoire Boissier: Member of the Appointments and Compensation Committee;<br>■ Élisabeth Cunin-Diéterlé: President of the Appointments and Compensation Committee |
| November 13, 2017 | ■ Yves Desjacques: Permanent representative of La Forézienne de Participations and Member of the Appointments and Compensation Committee. | ■ David Lubek: Permanent representative of La Forézienne de Participations. |
| December 21, 2017 | ■ Jacques Dumas: Member of the Audit, Risks and Sustainable Development Committee | ■ Jacques Dumas: Member of the Appointments and Compensation Committee replacing Yves Desjacques;<br>■ Pascale Roque: Audit, Risks and Sustainable Development Committee;<br>■ David Lubek: Member of the Audit, Risks and Sustainable Development Committee. |

## Renewals – 2018 Appointments

The directorships of Victoire Boissier, Anne-Marie de Chalambert, La Forézienne de Participations, and Generali Vie will expire at the 2018 Annual General Meeting. The Board of Directors, on the recommendation of the Appointments and Compensation Committee, is proposing that the Annual General Meeting renew the directorships of Victoire Boissier, La Forézienne de Participations, Generali Vie and to appoint a new independent director. The directorship of Anne-Marie de Chalambert is not up for renewal.

The changes that occurred in Board composition in fiscal year 2017 and the proposals submitted to the Annual General Meeting are summarized as follows:

| | Annual General Meeting of April 27, 2017 | Annual General Meeting of April 26, 2018 |
|---|---|---|
| Directorship expired on | Jacques Dumas | Victoire Boissier[1] |
| | Ingrid Nappi-Choulet[1] | Anne-Marie de Chalambert[1] |
| | Michel Savart | La Forézienne de Participations |
| | Casino, Guichard-Perrachon | Generali Vie[1] |
| Renewal | Jacques Dumas | Victoire Boissier[1] |
| | Ingrid Nappi-Choulet[1] | La Forézienne de Participations |
| | Michel Savart | Generali Vie[1] |
| | Casino, Guichard-Perrachon | |
| Ratification | | Pascale Roque[1] |
| Appointment | | Dominique Dudan[1] |

*(1) Independent director.*

At the end of the Annual General Meeting of April 26, 2018, the Board will remain composed of twelve members with seven independent members as defined by the criteria of the AFEP-MEDEF Corporate Governance Code, namely: Victoire Boissier, Élisabeth Cunin-Diéterlé, Dominique Dudan, Marie-Christine Levet, Ingrid Nappi-Choulet, Pascale Roque and Generali Vie (represented by Bruno Servant).

The Board will also include four representatives of the majority shareholder: Jacques Dumas and Michel Savart, as well as Casino, Guichard-Perrachon (represented by Antoine Giscard d'Estaing) and La Forézienne de Participations (represented by David Lubek).

Independent Directors will make up 58.3% of the Board, and women 50%.

## 4.1.2 Senior Management of the Company

### 4.1.2.1 SENIOR MANAGEMENT

The roles of Chairman and Chief Executive Officer have been combined since July 17, 2013 ensuring consistency, in a constantly changing environment, between the Company's strategy and its operational management, thereby shortening the decision-making process. Since that date, these two positions have been held by Éric Le Gentil, who was reappointed by the Board of Directors meeting on April 20, 2016.

The Chairman and Chief Executive officer is assisted by a Chief Operating Officer. This latter position has been held by Vincent Ravat since August 30, 2016.

#### A. Restrictions on the powers of the Senior Management

The Chairman and Chief Executive Officer and the Chief Operating Officer have the most extensive powers to act on behalf of the Company in all circumstances, pursuant to Article L. 225-56 of the French Commercial Code. These powers are to be exercised within the scope of the Company's purpose and of the powers expressly conferred by statute on Annual General Meetings and on the Board of Directors. They represent the Company in its relations with third parties.

However, as part of good corporate governance, the Board of Directors has decided to limit the powers of Senior Management and to make certain management actions, subject to its prior approval, depending on their nature or the amount involved. Thresholds have been set to ensure that the Board of Directors approves the most significant transactions, in accordance with statute and the principles of corporate governance.

The Chief Executive Officer and Chief Operating Officer must therefore obtain the Board of Directors' prior authorization before:

- any transaction likely to affect the strategy of the Company and the companies it controls, their financial structure or the scope of their activity, in particular the signing or termination of any agreement likely to have a material effect on the future of the Company and/or its subsidiaries;
- any transaction or commitment exceeding Euro 10,000,000 (ten million) and, in particular:
  - any subscription for or purchase of securities, any *de facto* or *de jure* acquisition of an immediate or deferred equity interest in any grouping or company, and any total or partial disposal of equity interests or securities;
  - any acquisition or assignment of claims, lease rights or other intangible assets;
  - any contribution or exchange, with or without consideration, affecting assets, rights, shares or securities;
  - any acquisition or disposal of properties or real-estate rights;
  - any issue of securities by companies controlled directly or indirectly by the Company;
  - any action taken with a view to granting or obtaining any loan, credit or cash advance.

However, the Euro 10 million threshold does not apply to internal transactions of the Mercialys Group.

Furthermore, the same applies to development projects covered by the Partnership Agreement with Casino, regardless of the amount concerned, which must be submitted to the Board of Directors for prior authorization in accordance with the terms of said agreement.

Furthermore, the Chief Executive Officer and the Chief Operating Officer have specific authorized annual limits on guarantees, loans, credit facilities, commercial paper and bond issues.

Thus, in 2017, the Board of Directors authorized them, for a period of one year, to give sureties or guarantees on the Company's behalf to its subsidiaries in proportion to the stake held, subject to the limit of an annual aggregate amount of Euro 100 million and an amount per commitment of Euro 10 million.

They are also authorized to negotiate, implement, renew and extend or replace, borrowings, confirmed lines of credit, cash advances and all financing contracts, whether syndicated or not, within the limit of an annual amount of Euro 100 million.

In addition, the Chief Executive Officer and the Chief Operating Officer are authorized to negotiate and issue commercial paper up to a maximum of Euro 500 million.

Finally, they are authorized to issue bonds for a total of Euro 100 million per year and, in this regard, to set the characteristics and terms, and to carry out any related capital market transactions.

#### B. Management Committee

In addition to Senior Management, the Management Committee of Mercialys consists of the heads of the Mercialys' main operational and financial departments. The Committee is tasked with implementing the Company's strategy, as determined by the Board of Directors.

The Management Committee's duties and responsibilities thus include:

- determining the Company's main budget priorities and defining the action plans associated with all parts of its business;
- monitoring the operational performance and implementing actions to optimize such performance;
- enabling information to be exchanged between all departments, and encouraging the dissemination of best practices, especially with respect to operational management, risk control and sustainable development;
- issuing opinions on the main axes of development of the Company, on the main negotiations in process and on changes to the portfolio of projects, and to do this before they are presented to the Investment Committee, and then to the Board of Directors.

The Senior Management Committee comprises the following members:

- Éric Le Gentil, Chairman and Chief Executive Officer;
- Vincent Ravat, Chief Operating Officer;
- Nicolas Joly, Executive Vice-President;

- Thierry Augé, Human Resources Director;
- Élizabeth Blaise, Chief Financial Officer;
- Fabrice Haurani, Director of Asset Management Galeries;
- Didier Jacquel, Operations Director;
- Julie Savary, Marketing and Communication Director;
- Stéphane Vallez, Letting and B2B Marketing Director.

## 4.1.3 Preparation and organization of the Board of Directors' work

### 4.1.3.1 FUNCTIONING OF THE BOARD OF DIRECTORS

Pursuant to the provisions of Article L. 225-35 of the French Commercial Code, the Board of Directors determines the broad lines of the Company's business activities and ensures they are implemented. With the exception of the powers granted expressly to Annual General Meetings and within the scope of the Company's corporate purpose, the Board of Directors acts in all matters concerning the smooth operation of the Company and deliberates on such matters.

It also conducts such audits and reviews as it deems appropriate.

The Board of Directors also examines and approves the Company's and its subsidiaries' full-year and half-year consolidated financial statements and presents reports on their business and results; it determines the Company's business plan and financial projections. It reviews the Chairman's report with a view to approving it. It appoints the Chairman and Chief Executive Officer and determines their compensation. It determines whether Senior Management functions are combined or separated. It allocates stock warrants, stock options and bonus shares, and implements employee shareholding plans. In this connection, it reviews the Company's equal opportunities and equal pay policy every year.

The manner in which the Board of Directors' work is prepared and organized is defined by statute, by the Company's articles of association, by the provisions of the internal rules of the Board of Directors and by the charters of the specialized Committees.

The Board of Directors shall meet as often as the interest of the Company requires and whenever it deems this appropriate. Meetings of the Board of Directors are valid only if at least half its members are present. Decisions are taken by a majority of the members present or represented. In the event of a tied vote, the Chairman of the meeting shall have the casting vote.

The Chairman organizes and directs the Board of Directors' work and reports on it to the Annual General Meeting.

In this respect, the Chairman convenes meetings of the Board of Directors and draws up the agenda and minutes. The Chairman monitors the operation of the Company's management bodies and verifies, in particular, that the Directors are capable of carrying out their duties.

#### A. Internal rules of the Board of Directors

The organization and operation of the Board of Directors are governed by its internal rules adopted on August 22, 2005. They were amended for the last time on March 20, 2017 in order to reflect the statutory and regulatory changes relating to the entry into force of European Regulation no. 596/2014 on market abuses and reforms to the statutory audit, as well as the November 2016 revision of the AFEP-MEDEF code. These gather together the different rules applicable to the Board under statute, the regulations and the Company's articles of association. The internal rules also include the corporate governance principles which the Board upholds and applies.

The internal rules also describe the functioning, powers, responsibilities and tasks of the Board and its specialized Committees: the Audit and Risks Committee, the Appointments and Compensation Committee and the Investment Committee.

The professional ethics rules and good governance principles applicable to the members of the Board of Directors are set forth in paragraph 4.1.6, page 231.

The internal rules establish the principle that the functioning of the Board of Directors should be subject to regular formal appraisal.

They also describe the manner in which, and on what terms, meetings are conducted and votes are taken, and enable the Directors to take part in Board meetings by videoconference or other means of telecommunication.

The internal rules of the Board of Directors are available to shareholders in the Registration Document (see chapter 9, § 9.1.5, p. 338). They may also be consulted online at the Company's website: http://www.mercialys.com.

#### B. Information for the Board of Directors

The conditions for exercising the right to information established by statute, and the obligations of confidentiality arising therefrom are specified in the internal rules of the Board.

The Chairman and Chief Executive Officer is required to provide Directors with all the documents and information they require to perform their duties.

For this purpose, the information required for examination of the points to be discussed by the Board of Directors is provided to Board members before Board meetings. Each Director is therefore provided with a file containing all the information and documents relating to the items on the agenda, subject to its availability and depending on the progress made on these cases. A secure platform set up at the end of 2016 launched the use of electronic files for the Board and the Committees, facilitating data transmission and archiving.

Board members are informed of changes in the markets and in the competitive environment, and of the primary challenges faced, including those related to the Company's corporate social and environmental responsibility.

The Chief Administrative and Financial Officer attends all Board meetings.

Under the internal rules of the Board of Directors, Senior Management provides the Board of Directors, at least once per quarter, with a report on the activities of the Company and its main subsidiaries, including changes to revenues and results, investments and disposals, a statement of debt and the credit facilities available to the Company and its main subsidiaries, a list of the agreements referred to in Article L. 225-39 of the French Commercial Code entered into during the previous quarter, and a table showing the number of employees of the Company and its main subsidiaries.

When Directors takes office, they receive all the information necessary for the performance of their duties and may ask to be provided with all documents they believe to be useful. Interviews are organized with certain members of the Management Committee so that they can improve their knowledge of the factors specific to the Company, its businesses and its markets.

Thus, in 2017, when Pascale Roque joined the Board, she met several members of the Management Committee, who provided her with a clear operational and financial vision of the major challenges facing Mercialys. Furthermore, in early 2018, site visits were organized with the team dedicated to these projects at Mercialys.

Senior Management, the Chief Administrative and Finance Officer and the Board's secretariat are available to all Directors to provide any information or pertinent explanation.

Between Board meetings, the Directors receive all important information about the Company or about any event that significantly affects the Company, about the transactions or information previously provided to them, or the subjects discussed at meetings. They are invited to the meetings where the financial results are presented to financial analysts.

If a Director believes it is necessary, he/she may receive additional training about the specific features of the Group, its businesses and business sectors, and about the accounting or financial aspects in order to improve his/her knowledge.

## 4.1.3.2 DUTIES OF THE BOARD OF DIRECTORS

### A. Adoption of the financial statements – Business activity of the Company and its subsidiaries

The Board approved the financial statements for December 31, 2016 and the first half of 2017, as well as the business plan and financial projections of Mercialys. It approved the reports and resolutions submitted to the Combined Annual and Extraordinary General Meeting on April 27, 2017. It was also informed of the Group's operations at March 31 and September 30, 2017.

The Board of Directors approved:

- the disposals of Mercialys units at the La Galerie-Géant Beaulieu site in Poitiers, the Fontaine-lès-Dijon shopping centers; the disposal of the units held by Mercialys in the Saint-Paul shopping center on Reunion Island;
- the acquisitions completed under the Partnership agreement with Casino, particularly the acquisition of the Port site on Reunion Island.

The Board also benefited from specific presentations on the Company's gender equality policy.

The Board of Directors met 9 times in 2017. The average attendance rate of Directors was 91%.

### B. Corporate governance

The Board of Directors reviewed the situation of the Company with regard to the principles of corporate governance, including the membership and organization of the Board and its Committees, the renewal of directorships and the independence of the Directors.

The Board of Directors has approved the Chairman's report on the organization and operation of the Board of Directors and Senior Management, as well as on internal control and risk management procedures.

The Board was informed of the work of the specialized committees as described below (see § 4.1.4, p. 228).

The Company's Independent Directors also met on December 21, 2017. In this connection, they submitted a report to the Chairman and Chief Executive Officer on the observations and recommendations made in the course of this meeting.

### C. Corporate social responsibility

the Board of Directors also approved the chapter 6 of this Registration Document, presenting the Group's CSR policies as part of the progress plan launched by Mercialys. These policies are based on four fundamental principles.

1. Define an ambitious, achievable strategy that helps create differentiation;
2. Prefer experimentation prior to the roll-out of certain actions;
3. Be agile with a strong capacity to adapt to the regions;
4. Promote the implementation of partnership arrangements with certain partners).

Their roll-out is backed by the commitment of all teams to building the strategy, to setting quantitative and qualitative objectives depending on the subject, to introducing them gradually into each business line, and to developing a communication strategy tailored to the different audiences.

### D. Compensation – bonus shares allocated

After consulting the Appointments and Compensation Committee, the Board of Directors decided on the variable compensation to be paid in 2016 to Éric Le Gentil And Vincent Ravat as, respectively, Chairman and Chief Executive Officer and Chief Operating Officer, on the basis of the quantitative and qualitative objectives approved by the Board of Directors.

In connection with the 2017 compensation policy presented to the Annual General Meeting of April 27, 2017, the Board of Directors also set the 2017 objectives for the compensations of Messrs. Éric Le Gentil and Vincent Ravat, and the principles and criteria for the compensation packages of Éric Le Gentil and Vincent Ravat.

Following the approval of the 26th resolution by the Ordinary General Meeting on April 27, 2017, the Board of Directors decided to introduce bonus share plans for the benefit of all Mercialys employees, for the Group's key staff, and bonus share plans for Éric Le Gentil and Vincent Ravat (see § 4.2.2.1, B, 6, p. 242, and 4.2.2.1, C, 5, p. 245).

## 4.1.4 Specialized Committees

The Board of Directors is supported in its work by three specialized committees: the Audit, Risks and Sustainable Development Committee, the Appointments and Compensation Committee, and the Investment Committee.

All committee members are Directors. They are appointed by the Board, which also selects the Chairman of each committee.

The assignments and specific operating methods of each committee were defined by the Board when the committees were set up and included in the internal rules.

### 4.1.4.1 AUDIT, RISKS AND SUSTAINABLE DEVELOPMENT COMMITTEE

#### A. Composition

The Audit, Risks and Sustainable Development Committee consists of four members: Marie-Christine Levet, Ingrid Nappi-Choulet and Pascale Roque, independent members, and David Lubek, representing the majority shareholder.

The Committee, chaired by Marie-Christine Levet, has a majority of independent members, in accordance with the AFEP-MEDEF Corporate Governance Code. Thanks to their training and experience, the Committee's members have the necessary skills in terms of finance and accounting (see § 4.1.1.1, A, p. 204).

#### B. Duties and responsibilities

The Audit, Risks and Sustainable Development Committee helps the Board of Directors fulfill its role in reviewing and approving the full-year and half-year financial statements, and in examining any transaction, fact or event that may have a significant impact on the position of Mercialys or its subsidiaries in terms of commitments and/or risks.

In this capacity, in accordance with Article L. 823-19 of the French Commercial Code and on the responsibility of the Board of Directors, the Audit and Risks Committee is responsible for matters relating to the preparation and control of financial and accounting information.

Its duties are:

- to assist the Board of Directors in its task relating to the examination and approval of the full-year and half-year financial statements;
- to review the Group's full-year and half-year financial statements and associated reports before they are presented to the Board of Directors;
- to hear the Statutory Auditors and receive information about their auditing proceedings and their findings;
- to review and express an opinion on applications for the position of Statutory Auditor of the Company and its subsidiaries on the occasion of all appointments;
- to ensure the independence of the Statutory Auditors with whom it has regular contact and examine in this respect, all their relations with the Company and its subsidiaries and to express an opinion on the requested fees;
- to periodically examine the internal control procedures and, in general, the audit, accounting and administration procedures in effect in the Company and in the Group, in liaison with the Chief Executive Officer, Internal Audit Departments and the Statutory Auditors;
- to examine all transactions, facts or events that may have a significant impact on the position of Mercialys or its subsidiaries in terms of commitments and/or risk;
- to verify that the Company and its subsidiaries have the appropriate means (audit, accounting, and legal) to guard against risks and anomalies in the management of the business of the Company and of its subsidiaries;
- to approve the provision of services other than the certification of accounts in accordance with the legislation applicable.

At its meeting of October 24, 2017, the Board of Directors decided that this Committee would be responsible for reviewing all non-financial information and in particular information on development. The Audit and Risk Committee was therefore renamed the «Audit, Risks and Sustainable Development Committee». In this capacity, it reviews the sustainable development policy determined by Senior Management and its implementation, it seeks information about the risks associated with sustainable development through risk mapping, and it keeps abreast of regulatory changes likely to impact Mercialys' management of the different environmental, social and governance criteria.

The powers and responsibilities of the Audit, Risks and Sustainable Development Committee are confirmed in its rules of organization and operation, especially as regards the analysis of management risks and the detection and prevention of management irregularities, available on the Company's website at: www.mercialys.com

### C. Activity in 2017

The Audit, Risks and Sustainable Development Committee met four times in 2017 with an attendance rate of 75%.

On approving the full-year and half-year financial statements, the Audit, Risks and Sustainable Development Committee verified the closing processes and read the Statutory Auditors' report, which included a review of all of the Company's consolidation operations and financial statements, in particular the accounting policies applied. It also reviewed the Company's material risks and off-balance sheet commitments. It was provided with the audit schedule and the Statutory Auditors' fees for 2017.

The Committee has ascertained the independence of the Statutory Auditors. Numerous exchanges took place in particular with regards to the implementation of the new report.

The Committee examined Mercialys' risk prevention documents and the Chairman's report on internal control and risk management procedures.

It was also provided with the conclusions of the Statutory Auditors on their work concerning the procedures for the preparation and processing of accounting and financial information.

In connection with the procedure for reviewing signed related party agreements, the Audit, Risks and Sustainable Development Committee examined the Senior Management's general report on agreements with a Related Party which occurred in 2017.

In October 2017, the Committee reviewed the extension of its remit to CSR matters, and changed its name to become the Audit, Risk and Sustainable Development Committee, and the Committee's charter has been amended to reflect these new responsibilities.

The Committee also gave its opinion on an SAAC mission (for services other than the certification of financial statements at end of year) in connection with the legal reorganization of the Mercialys Group. In this capacity, the Committee approved the missions entrusted to the Statutory Auditors in connection with interim dividend payments by companies without statutory auditors. In the end, these missions were canceled.

The Chairman of the Committee reported to the Board of Directors on the work of each meeting of the Audit, Risks and Sustainable Development Committee.

## 4.1.4.2 APPOINTMENTS AND COMPENSATION COMMITTEE

### A. Composition

The Appointments and Compensation Committee consists of five members: Élisabeth Cunin-Dieterlé, Anne-Marie De Chalambert and Victoire Boissier, independent members, and Jacques Dumas and Michel Savart, representing the majority shareholder.

The Committee, chaired by Élisabeth Cunin-Diéterlé, has a majority of independent members, in accordance with the AFEP-MEDEF Corporate Governance Code. Their competences are detailed in the paragraph 4.1.1.1, A, page 204.

Éric Le Gentil is involved in the work of the Committee in connection with the process for selecting new Directors.

### B. Duties and responsibilities

The principal duties of the Appointments and Compensation Committee are to examine candidates for Senior Management positions and directorships, and to prepare decisions on the compensation of Senior Management and the allocation of directors' fees or specific compensation paid to Directors and members of the Committees. It also examines the proposed stock warrant, stock option and bonus share plans. It examines the composition of the Board of Directors.

Its duties are:

- to prepare decisions on the compensation of the Chief Executive Officer and any Chief Operating Officer(s) and to propose, as required, qualitative and quantitative criteria for determining the variable portion of such compensation;
- to assess all the other benefits and compensation awarded to the Chief Executive Officer and any Chief Operating Officer(s);
- to consider proposed stock warrant, stock option and bonus share plans for employees and senior managers so that the Board of Directors may set the aggregate and/or individual number of warrants, options or shares awarded and the terms and conditions for awarding them;
- to examine the composition of the Board of Directors;
- to examine candidacies for directorships, having regard to the candidates' business experience and skills and the extent to which they are representative in economic, social and cultural terms;
- to consider candidacies for the position of Chief Executive Officer and, where applicable, Chief Operating Officer;
- to obtain disclosure of all useful information relating to the methods of recruitment, compensation and status of the senior executives of the Company and its subsidiaries;
- to make any proposals and issue any opinion on the directors' fees or other compensation and the benefits granted to Directors and non-voting Directors;

- to assess the position of each Director in light of any relationship they might have with the Company or with the Group's companies that might compromise their freedom of judgment or lead to potential conflicts of interest with the Company;
- to start regularly assessing the Board of Directors.

The Appointments and Compensation Committee has drawn up rules confirming its powers and responsibilities, particularly with regard to implementing and organizing the appraisal of the operation of the Board of Directors, and reviewing compliance with – and the correct application of – the principles of corporate governance and ethical rules, particularly those derived from the Board's internal rules available on the Company's website at www.mercialys.com.

The Appointments and Compensation Committee, in accordance with the duties assigned to it, annually reviews the composition of the Board of Directors with a view regarding the criteria for good governance, particularly in respect of the representation of women and independent members, but also in terms of the expertise, experience, complementary skills and involvement of each member. In particular, it has reviewed the position of each Director in light of any relationship they may have with Group companies that might compromise their freedom of judgment or lead to conflicts of interest.

### C. Activity in 2017

The Committee met five times in 2017 with an attendance rate of 96%.

The Committee conducted its annual review of the organization and operation of the Board of Directors and its specialized Committees, as well as the correct application of the principles of corporate governance and of the rules of ethics in accordance with the AFEP-MEDEF Corporate Governance Code and the Board's internal rules. It presented its recommendations to the Board of Directors.

The Committee also reviewed the position of all the Directors in light of any connections with Group companies that may compromise their freedom of judgment or engender a conflict of interest, particularly as regards renewing the directorships of Board members.

It reviewed the Chairman's report on the organization of the Board of Directors' work, as well as the information concerning corporate governance mentioned in the management report.

It was informed about the methods used to determine the fixed and variable compensation payable to the Chief Executive Officer and Chief Operating Officer in 2016 and the results of the 2016 long-term incentive arrangements for the Chief Executive Officer and the Chief Operating Officer, as well as of the renewal of the specific annual powers of Senior Management regarding sureties and guarantees, loans and credit facilities, and the issuance of bonds and commercial paper.

Furthermore, the Committee reviewed the pre-2017 policy for compensation of the Chairman and Chief Executive Officer and of the Chief Operating Officer, as submitted for approval to the Annual General Meeting of April 27, 2017 pursuant to Article L. 225-37-2 of the French Commercial Code, introduced by the Law of December 9, 2016 relating to transparency, anti-corruption and the modernization of modern life («Sapin Law 2»).

It examined the procedures for setting up bonus share awards for all employees of the Mercialys Group and for Mercialys key staff as well as the performance criteria determined for the plans applicable to the members of the Management Committee.

The Committee also examined the membership of the specialized committees following the changes that occurred in the second half of 2017.

The Appointments and Compensation Committee also examined the question of the succession of the executive corporate officer and noted that the presence of a Chief Operating Officer makes it possible to mitigate the effect of an unexpected replacement the Chief Executive Officer, and to do so in accordance with the provisions of Article L. 225-55, paragraph 2 of the French Commercial Code which states that "when the Chief Executive Officer ceases to carry out or is prevented from carrying out his/her duties, the Chief Operating Officers, unless otherwise decided by the Board, keep their duties and responsibilities until the appointment of the new Chief Executive Officer".

The Committee also reviewed the outcome of the assessment of the work of the Board of Directors conducted by an external firm (see § 4.1.5, p. 231).

It was also informed about the methods for allocating Directors' directors' fees to members of the Board of Directors and the specialized Committees.

The Chairman of the Committee reported to the Board of Directors on the work of each meeting of the Appointments and Compensation Committee.

## 4.1.4.3 INVESTMENT COMMITTEE

### A. Composition

The Investment Committee consists of five members: Anne-Marie de Chalambert and Bruno Servant, independent members, Michel Savart and Antoine Giscard d'Estaing representing the majority shareholder, and Éric Le Gentil, Chairman of the Board of Directors.

The Committee is chaired by Anne-Marie de Chalambert. Its members' competences are detailed on paragraph 4.1.1.1, A, page 204.

### B. Duties and responsibilities

The Investment Committee has drawn up a charter to confirm its powers and responsibilities, firstly, in connection with the determination of the strategy and the monitoring of the Company's investment activity, and secondly, the prior authorizations which the Company has to give to Senior Management, available on the Company's website at: www.mercialys.com.

The Investment Committee's primary duties are to examine the investment strategy, to express its opinion on the annual investment budget and to assess any proposed investments or disposals. It is also responsible for examining and giving an opinion on all renegotiations relating to the Partnership Agreement with Casino concerning development projects, with regard to all projects affected by said agreement.

Its duties are:

- to examine the investment strategy and ensure that planned acquisitions and disposals are consistent with this strategy; in this respect, the Committee shall be regularly informed of planned investments and disposals;
- to examine and issue an opinion on the annual investment budget;
- to study and issue an opinion on planned investments and disposals subject to prior authorization by the Board of Directors;
- to examine all negotiations (annual or others) concerning the Partnership Agreement signed with Casino concerning property development and acquisitions, on which it issues an opinion to the Board of Directors;
- to carry out all appropriate studies or assignments.

The Committee's opinions are adopted by simple majority. When the Investment Committee considers a transaction involving the Casino group, the two representatives of the majority shareholder take part in the discussions in an advisory capacity.

### C. Activity in 2017

This Committee met five times in 2017 with an attendance rate of 96%.

The Committee issued its recommendations regarding the various plans for enlargement, for acquisitions and for asset sales submitted to the Board of Directors. It also issued its recommendations in connection with the setting up of partnership arrangements.

The Chairman of the Committee reported to the Board of Directors on the work of each Investment Committee meeting.

## 4.1.5 Assessment of the functioning of the Board of Directors

As recommended by the AFEP-MEDEF Code, the internal rules provide for annual discussion and regular appraisal of the functioning of the Board of Directors by the Appointments and Compensation Committee charged with organizing the implementation of this code and assisted by an outside consultant, if it so wishes.

In 2017, the Appointments and Compensation Committee entrusted this assessment to an external consultant who performed this assessment based on an analysis of each of the completed questionnaires submitted personally and in confidence by each of the twelve Directors.

The assessment revealed Mercialys' very good governance in respect of both the membership and functioning of the Board. All the Directors declared their satisfaction with the smooth functioning of the Board and of its Committees and with the relations of the latter two with the Company's Chairman and Chief Executive Officer and its Chief Operating Officer.

A few points for improvement were raised in order to help strengthen the Board and its Committees, in particular regarding some organizational aspects.

It also stressed that the individual contribution of some Directors could be improved.

The Board of Directors has duly noted this assessment, noted the proposed areas for improvement, and took steps in order to further improve its best practices.

The next assessment will be carried out in the second half of 2020.

## 4.1.6 Ethics

The internal rules of the Board of Directors, and particularly Section V, spell out the compliance rules to which the Directors are subject. This section was completed and updated in 2016 and early 2017. It reminds the Directors that each of them should be able to perform their duties in accordance with the rules of independence, ethics, trust and integrity. In particular it includes instructions on the Directors' obligation to be informed, in defense of the corporate interest, about the prevention and management of conflicts of interest, the diligence of Directors, the protection of confidentiality and about ownership by the Directors of shares in the Company's equity capital. Measures regarding the prevention of insider trading were included in the Insider Trading Policy which was adopted in 2017 and to which specific reference is made by the internal rules. These documents may be consulted on the Company's website: www.mercialys.com.

Section V of the internal rules specifies that, before accepting their nomination, all Directors must acquaint themselves with the laws and regulations relating to their position, the applicable codes of good conduct and governance, and any requirements specific to the Company arising from the articles of association and these internal rules.

Directors have a duty to request the information which they believe is necessary for the fulfillment of their duties. For this purpose, they must make a request to the Chairman, within the appropriate time limits, for all useful information required to participate effectively in the subjects on the agenda for meetings of the Board.

In 2015, the Board of Directors decided to modify or complete its internal existing procedures and thus consolidate the good governance approach. A decision was therefore made to introduce a process of reviewing all related-party agreements.

Regarding the rules relating to the prevention and management of conflicts of interest, the internal rules specify that all Directors are obliged to inform the Board of Directors about any actual or potential conflict in which a Director may, directly or indirectly, be involved; and are obliged to abstain from participating in any discussion and from voting on the corresponding resolution. Furthermore, each Director shall consult the Chairman before becoming involved in any business activity or accepting any position or obligation that may place the Director in a situation of actual or potential conflict of interest. The Chairman may refer these matters to the Appointments and Compensation Committee.

### 4.1.6.1 PROCEDURE FOR THE PRIOR REVIEW BY THE AUDIT COMMITTEE AND THE INVESTMENT COMMITTEE OF RELATED-PARTY AGREEMENTS

Mercialys decided to pay particular attention to the agreements between the various companies of the Mercialys Group and to the agreements entered into between, on one hand, the companies of the Mercialys Group and, on the other, the companies of the Casino group, Mercialys' majority shareholder, and/or the companies that control it.

In this connection and thus targeting conflicts of interest, the Board of Directors has established a systematic review procedure for agreements with related parties (by involving the Audit, Risks and Sustainable Development Committee and the Investment Committee), over and above the procedure for related-party agreements as provided for by the French Commercial Code.

Thus, the Board of Directors has implemented a prior review procedure by the Audit and Risks Committee or by the Investment Committee, according to the nature of the agreement in question, before presentation to the Board for information or authorization, of all agreements starting at the thresholds it has defined, with some exceptions, between Mercialys or its wholly owned subsidiaries and a related party.

A related party means: (i) any company solely or jointly and directly or indirectly controlled by Mercialys, with the exception of wholly owned subsidiaries; (ii) any company that has a significant direct or indirect influence on Mercialys; (iii) any company directly or indirectly controlled by a company with a significant influence on Mercialys.

The regulated agreements entered into by the Company are also subject to this procedure, regardless of their amount. At the request of Senior Management, this procedure may be applied to any agreement that does not fall within the scope of this procedure due to its characteristics. The Board of Directors may also, at the request of the Chairman and Chief Executive Officer or the Chairman of the Audit Committee or the Chairman of the Investment Committee, decide to entrust an *ad hoc* Committee with the prior review of an agreement with a specific related-party due to the nature and importance of the proposed transaction.

A specific organization and operational charter for the procedure was established and approved by the Board of Directors, after an opinion from the Audit and Risks Committee. The internal rules of the Board of Directors also include provisions relating to the principle of prior review of the related-party agreements by the Audit, Risks and Sustainable Development Committee and the Investment Committee.

### 4.1.6.2 CONVICTIONS

To the Company's knowledge, no member of the Board of Directors has, in the past five years:

- received a conviction for fraud or been indicted and/or been subject to an official public penalty from the statutory or regulatory authorities;
- been associated as a senior executive with a bankruptcy, receivership or liquidation;
- been banned by a court from acting as a member of an administrative, management, or supervisory body of a publicly traded company, or from being involved in the management or conduct of a publicly traded company.

### 4.1.6.3 RESTRICTIONS ACCEPTED BY THE MEMBERS OF THE BOARD OF DIRECTORS CONCERNING THE DISPOSAL OF THEIR SHARES

Pursuant to the Company's articles of association, each Director should own at least 100 of the Company's shares. Pursuant to the internal rules, each Director, whether an individual, a legal entity or a permanent representative, undertakes to hold a number of shares in the Company that corresponds to at least the equivalent of one year's directors' fees – and said shares may be acquired using the aforesaid attendance fee.

Subject to the above, there is, to the best Company's knowledge, no restriction on the members of the Board of Directors concerning the disposal of their investment in the Company's equity capital other than the applicable statutory or regulatory provisions regarding the prohibition against trading in the Company's shares in connection with the prevention of misconduct and insider trading.

### 4.1.6.4 PREVENTION OF MISCONDUCT AND INSIDER TRADING

In 2016 and early 2017, the Company updated its internal rules and recommendations following the changes to the legislative and regulatory framework for preventing market abuse with the entry into force on July 3, 2016 of EU regulation no. 596/2014 of April 16, 2014 on market abuse.

On the recommendation of the Governance Committee, the internal rules of the Board of Directors were amended and an Insider Trading Policy was adopted. This policy includes in particular a description (i) of the applicable laws and regulations, (ii) the definition of insider information (iii) measures taken by the Company in the context of the prevention of insider trading, (iv) obligations of persons with access to insider information and (v) applicable sanctions.

The policy applies to members of the Board of Directors, executives and persons having close personal relations with them and more generally employees likely to have access to sensitive or insider information.

It created a Stock Market Ethics Committee tasked primarily with addressing all questions concerned with the application of the Insider Trading Policy.

The Insider Trading Policy, just like the internal rules of the Board of Directors, refers to observance of the prohibition against executing any transactions in the Company's securities and financial instruments:

- during the 30 calendar days preceding the date of public disclosure by the Company of a press release announcing its annual and half-year results and the day of said publication;
- during the 15 calendar days preceding the date of public disclosure by the Company of a press release announcing its quarterly financial disclosures and the day of said publication;
- starting from the date when a person has insider information and until such information ceases to be privileged, in particular because it has been publicly disclosed.

### 4.1.6.5 DILIGENCE AND ACCUMULATION OF DIRECTORSHIPS

The internal rules of the Board of Directors states that Directors are required to devote the necessary time and attention to their duties. They must endeavor to be diligent and attend all Board of Directors meetings, Annual General Meetings, and meetings of Committees of which they are members. The procedures for setting and allocating Directors' fees adopted by the Company are in accordance with the AFEP-MEDEF Code which recommends that the variable component linked to diligence should be predominant.

It has been verified that no Directors whose directorships comes up for renewal at the Annual General Meeting, are in a position where they are accumulating directorships. The internal rules of the Board of Directors remind Directors that they are required to comply with the statutory rules and with the recommendations of the AFEP-MEDEF Code which states as follows:

- the executive corporate officer shall not hold more than two other directorships in other listed companies which are not part of its group, including foreign companies, and shall receive the Board's opinion before accepting a new corporate office in a listed company outside the Group;
- Directors shall not hold more than four other directorships in non-Group listed companies, including foreign companies. This recommendation applies during at the time of the nomination or of later reappointment to the directorship. All the Directors shall inform the Company of any directorships they may have in other French or foreign companies. They will inform the Company about any new directorship or professional responsibility without undue delay.

## 4.1.7 Conflicts of interest involving Directors and Executive Officers

The Company has an important business development relationship with the Casino group, its majority shareholder (see chapter 6, p. 275 et seq.). The Casino group may decide to favor its own interests over those of the Company. However, in any event, the organization of governance, the manner in which it enters into contracts, and the use of independent appraisals etc., guarantee that the interests of Mercialys are not affected.

Messrs. Jacques Dumas, Antoine Giscard d'Estaing (permanent representative of Casino, Guichard-Perrachon), David Lubek (permanent representative of La Forézienne de Participations) and Michel Savart, are all Directors with management positions and/or membership of the corporate bodies of the majority shareholder of Mercialys or of the companies that control it, and receive compensation and/or directors' fees in this capacity.

Apart from these links, there are no potential conflicts of interest between the obligations of any member of the Board of Directors and of the Senior Management as regards the Company and his/her private interests.

There are no service provision agreements between the Company and its Chairman and Chief Executive Officer.

The duties conferred on the Audit, Risks and Sustainable Development Committee, the Investment Committee, and the Appointments and Compensation Committee on which the independent Directors sit, enable the prevention of conflicts of interest. During Investment Committee discussions about a transaction involving the Casino group, the majority shareholder's two representatives take part in the deliberations only in an advisory capacity.

The duties conferred on the Audit, Risks and Sustainable Development Committee and the Investment Committee, particularly through the process of prior examination of related-party agreements, on which the independent Directors sit, help to prevent conflicts of interest.

Furthermore, to the best of the Company's knowledge, there are no family ties between members of the Company's Board of Directors.

No agreement has been directly or indirectly entered into between a subsidiary of Mercialys and a senior executive or major shareholder of the Company.

The Company has not given any loans or guarantees to any members of its Board of Directors.

With the exception of the contracts binding Casino, Guichard-Perrachon and its subsidiaries to Mercialys (see chapter 6, p. 275 et seq.), no other service agreement exists between the Directors and Mercialys.

# 4.2 COMPENSATION AND BENEFITS OF DIRECTORS AND CORPORATE OFFICERS

## 4.2.1 Compensation and benefits of Directors

### 4.2.1.1 DIRECTORS' COMPENSATION POLICY

The total amount of directors' fees allocated to the members of the Board of Directors is set by the Annual General Meeting. The Board of Directors sets the rules for the allocation of Directors' directors' fees to Directors and members of the Committees on the basis of the recommendations of the Appointments and Compensation Committee, in accordance with the recommendations of the AFEP-MEDEF Corporate Governance Code.

The variable portion of directors' fees payable to Directors or Committee members who have been absent is not reallocated. Individual or additional directors' fees payable to members representing or employed by the majority shareholder or its group of controlled companies are limited to 50% of the aforesaid amounts. The aforesaid individual or additional directors' fees are paid *prorata temporis* depending on the date when the duties began or ended.

The directors' fees and compensation of Committee members are paid in the month following the end of each fiscal year.

The corporate officers of Mercialys benefit from an insurance policy taken out by the Company and covering the civil, personal or joint liability of all its senior executives and corporate officers, including those of its subsidiaries, whether directly or indirectly owned. The tax authorities have ruled that this insurance policy covers the risks inherent in corporate officers' activity and that the insurance premium paid by the Company does not, therefore, constitute a taxable benefit.

The Annual General Meeting of June 20, 2016 set the total amount of directors' fees to be paid to members of the Board of Directors and its Committees at Euro 325,000. This amount was previously Euro 305,000.

On the basis of the recommendations of the Appointments and Compensation Committee, the Board of Directors, at its meeting of December 14, 2016, set the rules for allocating directors' fees among the members as follows:

- the annual individual amount of directors' fees was set at Euro 15,000 comprising a fixed portion of Euro 5,000 per year and a variable portion of Euro 10,000 per year, awarded on the basis of attendance at meetings of the Board of Directors;
- an additional attendance fee in an annual amount of Euro 20,000 is paid to the Chairman of the Board of Directors;
- members of the specialized Committees receive an additional attendance fee comprising a fixed portion of Euro 4,000 per year and a variable portion of Euro 11,000 per year for members of the Investment Committee, and Euro 6,000 for members of the Audit and Risks Committee, and the Appointments and Compensation Committee, awarded on the basis of attendance at meetings;
- an additional attendance fee of Euro 5,000 per year is paid to the Chairman of each of these Committees.

These rules did not evolve in 2017.

### 4.2.1.2 COMPENSATION OF DIRECTORS IN RESPECT OF 2017

In accordance with the rules on the allocation of directors' fees as described here above, the total gross amount of directors' fees paid in January 2018, for fiscal 2017, to the members of the Board of Directors and the members of the specialized Committees was Euro 309,098 compared with Euro 307,593 for fiscal 2016.

The tables below detail the directors' fees paid by the Company in 2016, 2017 and 2018 to each director and member of the specialized Committees (excluding Éric Le Gentil, whose information is provided in paragraph 4.2.2.1, B, 2, p. 239). It is specified that no directors' fees or compensation was paid by the companies Mercialys controls and that the Company is not controlled within the meaning of Article L. 233-16 of the French Commercial Code.

### Directors' directors' fees paid in 2016 and 2017 (for fiscal 2015 and 2016)

| *(in euros)* | 2016 | 2017 |
|---|---|---|
| Victoire Boissier[1] | - | 9,493 |
| Bernard Bouloc | 40,000 | 41,200 |
| Anne-Marie de Chalambert | 44,000 | 45,000 |
| Élisabeth Cunin-Dieterlé | 23,000 | 24,000 |
| Yves Desjacques | 10,250 | 11,600 |
| Jacques Dumas | 12,500 | 12,500 |
| Antoine Giscard d'Estaing | 11,750 | 13,000 |
| Marie-Christine Levet | 30,000 | 29,000 |
| Ingrid Nappi-Choulet | 19,641 | 21,800 |
| Michel Savart | 19,500 | 20,000 |
| Bruno Servant | 29,000 | 30,000 |

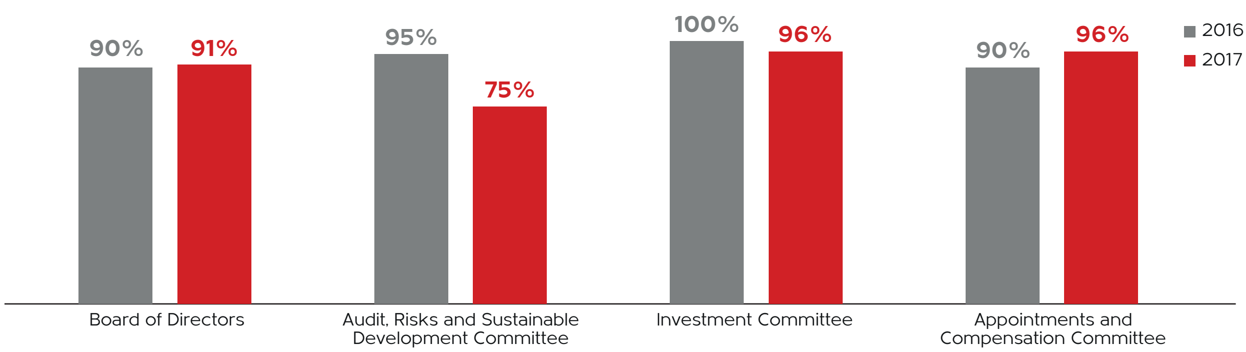
*(1) Appointed on April 20, 2016.*

### Directors' fees paid in 2018 (for fiscal year 2017)

| | Directors | | Committees | | |
|---|---|---|---|---|---|
| *(in euros)* | Fixed component | Variable component | Fixed component | Variable component | Total |
| Victoire Boissier | 5,000 | 10,000 | 2,000 | 600 | 17,600 |
| Bernard Bouloc[1] | 4,068 | 7,778 | 12,055 | 10,800 | 34,701 |
| Anne-Marie de Chalambert | 5,000 | 8,889 | 13,000 | 17,000 | 43,889 |
| Élisabeth Cunin-Diéterlé | 5,000 | 10,000 | 4,945 | 6,000 | 25,945 |
| Yves Desjacques[2] | 2,288 | 2,778 | 1,830 | 2,400 | 9,296 |
| Jacques Dumas | 2,500 | 5,000 | 2,000 | 3,000 | 12,500 |
| Antoine Giscard d'Estaing | 2,500 | 3,889 | 2,000 | 5,500 | 13,889 |
| Marie-Christine Levet | 5,000 | 8,889 | 9,000 | 6,000 | 28,889 |
| David Lubek[2] | 212 | 556 | - | - | 768 |
| Ingrid Nappi-Choulet | 5,000 | 6,667 | 4,000 | 4,500 | 20,167 |
| Pascale Roque[1] | 932 | 2,222 | - | - | 3,154 |
| Michel Savart | 2,500 | 5,000 | 4,000 | 6,800 | 18,300 |
| Bruno Servant | 5,000 | 10,000 | 4,000 | 11,000 | 30,000 |

*(1) Resignation of Bernard Bouloc from his duties on October 24, 2017/cooptation of Pascale Roque on October 24, 2017.*
*(2) David Lubek was appointed permanent representative of La Forézienne de Participations on November 13, 2017, to replace Yves Desjacques.*

### Rate of attendance at meetings of the Board of Directors and Committees



# 4.2.2 Compensation and benefits of executives and corporate officers

## 4.2.2.1 COMPENSATION OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER AND THE CHIEF OPERATING OFFICER IN RESPECT OF 2017

### A. Principles and criteria for determining, distributing and awarding the compensation components of the Chairman and Chief Executive Officer and of the Chief Operating Officer adopted in 2017

Pursuant to the provisions of Article L. 225-37-2 of the French Commercial Code, the principles and criteria for determining, distributing and awarding the fixed, variable and exceptional components of the total compensation and benefits of any kind attributable for 2017 to the Chairman and Chief Executive Officer and the Chief Operating Officer for their corporate directorships, were submitted for adoption by the Annual General Meeting on April 27, 2017 (Resolutions 10 and 11).

At the Annual General Meeting of April 27, 2017, the shareholders approved the principles and criteria for determining and awarding the compensation of the Chairman and Chief Executive Officer and of the Chief Operating Officer.

The principles for determining the compensation of executive corporate officers submitted to the Annual General Meeting are those of the AFEP-MEDEF Code: completeness, balance between the compensation components, benchmarking, consistency, and intelligibility of the rules and measurements.

The compensation policy for 2017 is recalled below.

#### 1. Compensation components of the Chairman and Chief Executive Officer approved in 2017

**a) Fixed compensation**

Set at Euro 450,000 on March 1, 2015, the fixed compensation did not change in 2016 and remains unchanged in 2017.

**b) Annual variable compensation**

Variable compensation may represent 50% of his fixed annual compensation if the objectives defined are achieved, and may equal up to 100% of his fixed annual compensation if the objectives are exceeded.

It is determined on the basis of the achievement of quantitative objectives at 70% (*vs.* 50% in 2016) and of managerial objectives at 30% (*vs.* 50% in 2016).

The criteria selected and their weight in determining the variable compensation are as follows:

| | | % of the fixed compensation | | |
|---|---|---|---|---|
| | | Minimum | Target | Maximum |
| **Mercialys quantitative objectives (20% of the total variable compensation)** | Organic growth in rental revenues (excluding indexation) | 0% | 5% | 10% |
| | Growth in FFO 2017 (excluding disposals) | 0% | 5% | 10% |
| **Individual quantitative objectives (50% of the total variable compensation)** | EBITDA margin | 0% | 5% | 10% |
| | Prorated impact of 2017 openings (rental income) | 0% | 5% | 10% |
| | IRR on projects started in 2017 | 0% | 5% | 10% |
| | Current financial vacancy rate | 0% | 5% | 10% |
| | Footfall spread between Mercialys centers and the total CNCC market | 0% | 5% | 10% |
| **Managerial objectives (30% of the total variable compensation)** | | 0% | 15% | 30% |
| **TOTAL VARIABLE COMPENSATION AS % OF FIXED COMPENSATION** | | **0%** | **50%** | **100%** |

For each quantitative criterion, a minimum threshold of achievement is set as well as a target level corresponding to the objectives of Mercialys for a performance that meets objectives, and a level of outperformance of the targets. Variable compensation is calculated in a linear fashion between the minimum threshold and the maximum threshold.

Pursuant to the provisions of Article L. 225-37-2 of the French Commercial Code, the payment of the variable portion of the compensation due for fiscal 2017, after determining the amount on the basis of the achievement of the objectives defined above, depends on the approval of the Company's Annual General Meeting to be held in 2018.

**c) Long-term incentive**

In order to permanently associate the Chairman and Chief Executive Officer with the Company's stock performance, the Board of Directors approved the principle of an allotment of bonus shares that would replace the long-term variable compensation mechanisms awarded to the corporate executive officers in the last three years.

This allotment would represent a target of 75% of fixed salary (*i.e.* Euro 337,500) and could represent up to 112.50% of fixed salary (*i.e.* Euro 506,250) in the event of outperformance.

The bonus shares allotted would only become fully vested in the Chairman and Chief Executive Officer at the end of a 3-year vesting period and subject to conditions of continued employment and company performance, the latter being assessed for all three years on the basis of the following two criteria and evaluation grids:

- The absolute performance of Mercialys' shares, dividend included (Total Shareholder Return – TSR), measured between January 1, 2017 and December 31, 2019 for 25% of the allotment:

| Average of the annual Mercialys TSR over 3 years | Multiplier |
|---|---|
| [0% to 6%[ | 0% |
| [6% to 7%[ | 33.33% |
| [7% to 8%[ | 66.66% |
| [8% to 9%[ | 100% |
| [9% to 10%[ | 125% |
| >= 10% | 150% |

- The relative performance of the Mercialys share, dividend included (Total Shareholder Return – TSR) in relation to the performance of the companies composing the EPRA/NAREIT Eurozone index at January 1, 2017, measured between January 1, 2017 and December 31, 2019, for the remaining 75%:

| Mercialys ranking compared with the companies in the index over three years | Multiplier |
|---|---|
| [0 to 20%] | 150% |
| ]20 to 40%] | 125% |
| ]40 to 50%] | 100% |
| ]50 to 60%] | 75% |
| ]60 to 80%] | 50% |
| ]80% to 100%] | 0% |

50% of the shares fully vested in the Chairman and Chief Executive Officer should be held in registered form until the end of his appointment, and 50% held for a period of two years.

### d) Other compensation components

The Chairman and Chief Executive Officer does not benefit from any additional pension plan. He participates in the mandatory group pension and insurance plan (ARRCO and AGIRC) in effect within the Company for all employees. He also benefits from senior executive unemployment insurance. He does not receive any other benefit of any kind.

No severance allowance shall be paid to the Chairman and Chief Executive Officer by reason of the termination of, or change in, his position.

The Chairman and Chief Executive Officer may also benefit from an allowance relating to a non-compete clause. Indeed, in the event of the termination of his position, the Chairman and Chief Executive Officer would be bound by a non-compete and non-solicitation obligation that would apply for a period not to exceed the time of his employment in the Company, up to a maximum of one year; it is specified that the Company may reduce or waive the application period. In return, the Chairman and Chief Executive Officer would be paid a monthly compensation equivalent to one-twelfth of 50% of his annual fixed compensation.

In addition, the Chairman and Chief Executive Officer receives, for his service on the Board of Directors, compensation comprising a fixed and a variable component determined on the basis of attendance at Board meetings. For 2016, this fee totaled Euro 50,000.

## 2. Compensation components of the Chief Operating Officer approved in 2017

### a) Fixed compensation

Given his success in his position, the Board of Directors at its meeting held on February 14, 2017 and on the recommendation of the Appointments and Compensation Committee, decided to raise the annual fixed compensation of the Chief Operating Officer to Euro 300,000 gross as of March 1, 2017. At the time when he was appointed Chief Operating Officer on August 30, 2016, this compensation had been set, after analysis of benchmarking performed by a specialized consulting firm, at Euro 270,000 gross as of September 1, 2016.

The annual fixed and variable compensation of the Chief Operating Officer is divided, as to two-thirds for Mercialys and one-third for Mercialys Gestion, a wholly owned subsidiary of Mercialys, because he maintains his salaried positions as Director of letting within Mercialys Gestion.

### b) Annual variable compensation

Variable compensation may represent 40% of his fixed annual compensation if the objectives defined are achieved, and may equal up to 80% of his fixed annual compensation if the objectives are exceeded.

It is determined on the basis of the achievement of quantitative objectives at 70% (*vs.* 50% in 2016) and of managerial objectives at 30% (vs 50% in 2016).

The criteria selected and their weight in determining the variable compensation are as follows:

| | | % of the fixed compensation | | |
|---|---|---|---|---|
| | | Minimum | Target | Maximum |
| **Mercialys quantitative objectives (20% of the total variable compensation)** | Organic growth in rental revenues (excluding indexation) | 0% | 4% | 8% |
| | Growth in FFO 2017 (excluding disposals) | 0% | 4% | 8% |
| **Individual quantitative objectives (50% of the total variable compensation)** | EBITDA margin | 0% | 4% | 8% |
| | Prorated impact of 2017 openings (rental income) | 0% | 4% | 8% |
| | IRR on projects started in 2017 | 0% | 4% | 8% |
| | Current financial vacancy rate | 0% | 4% | 8% |
| | Footfall spread between Mercialys centers and the total CNCC market | 0% | 4% | 8% |
| **Managerial objectives (30% of the total variable compensation)** | | 0% | 12% | 24% |
| **TOTAL VARIABLE COMPENSATION AS % OF THE FIXED COMPENSATION** | | **0%** | **40%** | **80%** |

For each quantitative criterion, a minimum threshold of achievement is set as well as a target level corresponding to the objectives of Mercialys for a performance that meets objectives, and a level of outperformance of the targets. Variable compensation is calculated in a linear fashion between the minimum threshold and the maximum threshold.

Pursuant to the provisions of Article L. 225-37-2 of the French Commercial Code, the payment of the variable portion of the compensation due for fiscal 2017, after determining the amount on the basis of the achievement of the objectives defined above, depends on the approval of the Company's Annual General Meeting to be held in 2018.

### c) Long-term incentive

In order to permanently associate the Chief Operating Officer with the Company's share price performance, the Board of Directors approved the principle of a bonus share award that would replace the long-term variable incentive mechanisms awarded to the corporate executive officers in the last three years.

This award represents a target of 50% of fixed salary (Euro 150,000) and could represent up to 75% of fixed salary (Euro 225,000) in the event of outperformance.

The bonus shares allotted would only become fully vested in the Chief Operating Officer at the end of a 3-year vesting period and subject to conditions of continued employment and company performance, the latter being assessed for all three years on the basis of the following two criteria and evaluation grids:

- The absolute performance of Mercialys' shares, dividend included (Total Shareholder Return – TSR), measured between January 1, 2017 and December 31, 2019 for 25% of the allotment:

| Average of the annual Mercialys TSR over 3 years | Multiplier |
|---|---|
| [0% to 6%[ | 0% |
| [6% to 7%[ | 33.33% |
| [7% to 8%[ | 66.66% |
| [8% to 9%[ | 100% |
| [9% to 10%[ | 125% |
| >= 10% | 150% |

- The relative performance of the Mercialys share, dividend included (Total Shareholder Return – TSR) in relation to the performance of the companies composing the EPRA/NAREIT Eurozone index at January 1, 2017, measured between January 1, 2017 and December 31, 2019, for the remaining 75%.

| Mercialys ranking compared with the companies in the index over three years | Multiplier |
|---|---|
| ]0 to 20%] | 150% |
| ]20 to 40%] | 125% |
| ]40 to 50%] | 100% |
| ]50 to 60%] | 75% |
| ]60 to 80%] | 50% |
| ]80% to 100%] | 0% |

50% of the shares fully vested in the Chief Operating Officer should be held in registered form until the end of his appointment, and 50% held for a period of two years.

### d) Other compensation components

The Chief Operating Officer does not benefit from any additional pension plan. He participates in the mandatory group pension and insurance plan (ARRCO and AGIRC) in effect within the Company for all employees. He also benefits from senior executive unemployment insurance. He does not receive any other benefit, except a company car.

No severance allowance shall be paid to the Chief Operating Officer due to the termination of, or change in, his position.

The Chief Operating Officer may also benefit from an allowance relating to a non-compete clause. Indeed, in the event of the termination of his position, the Chief Operating Officer would be bound by a non-compete and non-solicitation obligation that would apply for a period not to exceed the time of his employment in the Company, up to a maximum of one year; it is specified that the Company may reduce or waive the application period. In return, the Chief Operating Officer would be paid a monthly compensation equivalent to one-twelfth of 50% of his annual fixed compensation.

## B. Compensation of Éric Le Gentil, Chairman and Chief Executive Officer

### 1. Summary of compensation payable by Mercialys and the companies it controls or which control it

The compensation, directors' fees and benefits of any kind payable by Mercialys to Éric Le Gentil for fiscal 2016 and 2017 are as follows, given that he receives no compensation in the form of attendance or other fees from the companies controlled by Mercialys and that Mercialys is not controlled as defined by Article L. 233-16 of the French Commercial Code:

**Table 1 – Position – AMF recommendation number 2009-16**

| (in euros) | Fiscal year 2017 | Fiscal year 2016 |
|---|---|---|
| Compensation due for the fiscal year (see paragraph 2 below) | 1,043,554 | 1,337,671 |
| Valuation of multi-year variable incentive awarded during the year | - | - |
| Valuation of options awarded during the year | - | - |
| Valuation of bonus shares awarded | 97,116 | - |
| **TOTAL** | **1,140,670** | **1,337,671** |

### 2. Compensation paid by Mercialys and the companies it controls

Éric Le Gentil received the following compensation, directors' fees and benefits from Mercialys in his capacity as Chairman of the Board of Directors and Chief Executive Officer in fiscal 2016 and 2017:

**Table 2 – Position – AMF recommendation number 2009-16**

| | Fiscal year 2017 | | Fiscal year 2016 | |
|---|---|---|---|---|
| *(in euros)* | Amount due (9) | Amount paid (10) | Amount due (9) | Amount paid (10) |
| Fixed compensation(1)(2) | 452,191 | 452,191 | 453,446 | 453,446 |
| Annual variable compensation (1)(3) | 344,250(3) | 320,625 | 320,625 | 382,500 |
| Multi-year variable compensation(1)(4) | 182,812 | 326, 188(5) | 325,000 | - |
| Exceptional compensation(6) | - | 150,000 | 175,000 | 175,000 |
| Appointment allowances | - | - | - | 105,000(7) |
| Directors' fees | 50,000 | 50,000 | 50,000 | 50,000 |
| Benefits in kind(8) | 14,301 | 14,301 | 13,600 | 13,600 |
| **TOTAL** | **1,043,554** | **1,313,305** | **1,337,671** | **1,179,546** |

*(1) Gross compensation before social security contributions and tax.*
*(2) The amounts indicated also include paid leave.*
*(3) The methods for determining variable compensation are restated in the 2017 compensation policy, as approved at the Ordinary Shareholders' Meeting of April 26, 2017, under under paragraph 4.2.2.1, A, 1, b, p. 236, and clarifications are provided in table 3 below. It should be noted that the payment of this amount will be subject to the approval of the fourth resolution presented to the Ordinary Shareholders' Meeting of April 26, 2018.*
*(4) Éric Le Gentil will receive Euro 182,812, this compensation must gain the approval of the Resolution 4 by the Company's shareholders at the Company's Annual General Meeting,under the 2015 long-term incentive facility according to the terms and provisions set out by the Board Meeting of March 23, 2015 (see paragraph 4 below).*
*(5) In March 2017, Éric Le Gentil received the sum of Euro 325,000, in addition to Euro 1,188 corresponding to banking costs in connection with the reinvestment of this sum in shares, i.e. Euro 326,188.*
*(6) See paragraph 5 below.*
*(7) Having appointed him at their meeting of July 17, 2013 as Chief Executive Officer of the Company, the Board of Directors decided, on the advice of the Appointments and Compensation Committee, to award Éric Le Gentil an exceptional deferred and conditional bonus in the amount of Euro 105,000 vesting after a period of three years. This indemnity was paid in July 2016.*
*(8) Senior executive unemployment insurance and benefit plan covering all the Company's employees.*
*(9) Compensation paid in respect of the fiscal year, regardless of the payment date.*
*(10) All compensation paid during the fiscal year.*

Éric Le Gentil does not receive any compensation, directors' fees or other benefits from companies controlled by Mercialys.

### 3. Annual variable compensation

The variable compensation of Éric Le Gentil for fiscal year 2017 was determined by the Board of Directors at its meeting of March 07, 2018, on the recommendation of the proposal of the Appointments and Compensation Committee, applying the criteria in the table below:

| | | | Minimum | Target | Maximum | Actual |
|---|---|---|---|---|---|---|
| **Mercialys quantitative objectives (20% of total variable compensation)** | Organic growth of rental revenues (excluding indexation) | *% of the fixed compensation* | 0% | 5% | 10% | 7.5% |
| | | Value of the indicator | | 2.4% | | 2.6% |
| | Growth of 2017 FFO (excluding disposals) | *As % of fixed compensation* | 0% | 5% | 10% | 10% |
| | | Value of the indicator | | 4.5% | | 6.1% |
| **Individual quantitative objectives (50% of total variable compensation)** | EBITDA margin | *As % of the fixed compensation* | 0% | 5% | 10% | 0% |
| | | Value of the indicator | | 84.5% | | 83.7% |
| | Prorated impact of 2017 openings (rental income) | *As % of fixed compensation* | 0% | 5% | 10% | 10% |
| | | Value of the indicator | | Euro 3.3 M | | Euro 3.6 M |
| | IRR on projects started in 2017 | *As % of fixed compensation* | 0% | 5% | 10% | 9% |
| | | Value of the indicator | | 9% | | 9.8% |
| | Current financial vacancy rate | *As % of fixed compensation* | 0% | 5% | 10% | 0% |
| | | Value of the indicator | | 2.2% | | 2.5% |
| | Footfall spread in Mercialys centers as compared to the total CNCC market | *% of the fixed compensation* | 0% | 5% | 10% | 10% |
| | | Value of the indicator | | 240 bps | | 390 bps |
| **Managerial objectives (30% of total variable compensation)** | | *% of the fixed compensation* | 0% | 15% | 30% | 30% |
| **TOTAL VARIABLE COMPENSATION AS % OF FIXED COMPENSATION** | | | **0%** | **50%** | **100%** | **76.5%** |

Before payment, this compensation has to be approved by the Company's shareholders at the Company's Annual General Meeting held on April 26, 2018 (see resolution 4, p. 312).

### 4. Long-term variable incentive – Obligation to hold Mercialys shares

Éric Le Gentil is the beneficiary of two long-term variable incentives set up, on the advice of the Appointments and Compensation Committee, by the Board of Directors' meetings of March 23, 2015 and March 11, 2016, as the arrangements made by the Board meeting of March 11, 2014 expired at the end of 2017. In this respect, Éric Le Gentil received the sum of Euro 326,188 in March 2017 and, in accordance with the obligation to reinvest, acquired 17,400 shares (Euro 289,000, i.e., the allotted amount, net of payroll taxes) corresponding to an amount exceeding the obligation set by the Board of Directors' meeting of March 11, 2014 (Euro 162,000).

It should be noted that these long-term variable incentive plans will be paid to him only at the end of a three-year period provided that he fulfills the condition of continued employment, and subject to the following two performance conditions, which are assessed annually on the basis of three consecutive years, with each of them applying to half of the target incentive:

- absolute performance of the Company's shares, dividend included (Total Shareholder Return – TSR), corresponding to the total return for the shareholder;
- relative performance of the Company's share, dividend included (Total Shareholder Return – TSR) in relation to the performance of the companies making up the EPRA/NAREIT Eurozone index, with the percentage of the incentive actually vested varying according to the Company's position in the rankings.

The assessment of the achievement of performance conditions for 2015 and 2016, carried out by an external third party, shows the following elements:

### Long-term variable incentive plan dated March 23, 2015

| | 2015 | 2016 | 2017 |
|---|---|---|---|
| Absolute performance of Mercialys shares, dividend included | | | |
| Annual Mercialys TSR | 15% | 5.2% | 2.19% |
| Multiplier | 150% | 0% | 0% |
| Performance of Mercialys shares, dividend included, relative to that of companies making up the EPRA/NAREIT Eurozone index | | | |
| Mercialys ranking | 23rd | 14th | 30th |
| Position as a percentile | 59th | 36th | 83rd |
| Multiplier | 100% | 125% | 0% |
| Overall performance | 125% | 62.5% | 0% |
| Amount vested (payment made in 2018 subject to the condition of continued employment) | Euro 112,500 | Euro 70,312 | Euro 0 |

Éric Le Gentil is required to reinvest in shares 75% of the incentive thus acquired in shares, after deducting social security contributions and income tax at the maximum marginal rate, and to hold the corresponding shares throughout the term of his directorship.

### Long-term variable incentive plan dated March 11, 2016

| | 2016 | 2017 |
|---|---|---|
| Absolute performance of Mercialys shares, dividend included | | |
| Annual Mercialys TSR | 5.2% | 2.19% |
| Multiplier | 0% | 0% |
| Performance of Mercialys shares, dividend included, relative to that of companies making up the EPRA/NAREIT Eurozone index | | |
| Mercialys ranking | 16th | 39th |
| Position as a percentile | 33rd | 86th |
| Multiplier | 125% | 0% |
| Overall performance | 62.5% | 0% |
| Amount vested (payment made in 2019 subject to the condition of continued employment) | Euro 70,312 | Euro 0 |

Éric Le Gentil is required to reinvest in shares 50% of the incentive thus acquired in shares, after deducting social security contributions and income tax at the maximum marginal rate, and to hold the corresponding shares throughout the term of his directorship.

## 5. One-off compensation

To recognize his decisive contribution to the profound reorganization of the Company and the success of Mercialys' new strategy, marked by a return to growth in a difficult climate, the Board of Directors, at its meeting of February 11, 2015 and following the recommendation of the Appointments and Compensation Committee, decided to award Éric Le Gentil an exceptional bonus of Euro 300,000, 50% of which was paid in cash in March 2015. The remaining 50%, which is subject to his continued service with the company, was paid to him in March 2017.

The Board of Directors, at its meeting of February 10, 2016, decided, on the recommendation of the Appointments and Compensation Committee, to recognize his contribution to the exceeding if the objectives set for 2015 – particularly: (i) in terms of investments, the acquisition of 10 hypermarkets from Casino and five sites to be transformed from Monoprix; (ii) three disposals made with an investor in connection with asset allocation and preserving the financial profile; (iii) on the commercial side, the signature of global transactions with international brands and new innovative retailers; (iv) in terms of marketing, the complete overhaul of the internal and external concept, its fast deployment onto facades and the creation of a new corporate identity – to award him an exceptional bonus of Euro 350,000, half of which was paid in cash in February 2016 and half of which will be paid in February 2018 subject to the condition of continued presence.

## 6. Stock warrants or stock options and bonus shares awarded by the Company and/or the companies it controls

No stock warrants or stock options were awarded by the Company and/or companies that it controls to Eric Le Gentil.

Following the approval of the 2017 compensation policy (26th resolution of the Extraordinary Shareholders' Meeting of April 27, 2017), authorizing the award of bonus shares to corporate officers, Éric Le Gentil received a bonus share award according to the criteria and terms below:

### Table 6 – Position – AMF recommendation number 2009-16

| No. and date of the plan | Bonus shares awarded to Éric Le Gentil | | | | |
|---|---|---|---|---|---|
| | Number of shares awarded in the year | Valuation of the shares according to the method adopted for the consolidated financial statements | Vesting date | Availability date(2) | Performance conditions(3) |
| Plan 24, of 04/27/2017 | 19,269(1) | Euro 97,116 | 04/27/2020 | 04/28/2022 | YES |
| **TOTAL** | **19,269(1)** | **Euro 97,116** | **04/27/2020** | **04/28/2022** | **YES** |

*(1) If the performance criteria are exceeded, the maximum number of shares that can be awarded to Éric Le Gentil will amount to 28,904 shares corresponding to a value of Euro 145,676.*
*(2) The Board of Directors has set at 50% the number of bonus shares definitively awarded which the beneficiary is required to hold in registered form until the end of his term as Chairman and Chief Executive Officer of Mercialys.*
*(3) Bonus shares become vested only if the beneficiary is still employed by the Company at the vesting date of the shares, and subject to fulfillment of two business performance criteria: the absolute performance of the Company's share price, including dividends, corresponding to the total shareholder return (TSR), assessed annually between January 1, 2017 and January 31, 2019 for 25% of the initial award; and the relative performance of the Company's share price dividends included (Total Shareholder Return – TSR) with respect to the performance of the companies in the EPRA/NAREIT Eurozone index at January 1, 2017, measured between January 1, 2017 and December 31, 2019, for 75% of the initial award.*

Moreover, no share became available in fiscal year 2017.

## 7. Employment contract, special pension plans, severance pay and non-compete compensation

### Table 11 – Position – recommendation AMF number 2009-16

| Employment contract | | Supplementary pension plan | | Compensation or benefits due, based on termination of, or change in, duties | | Compensation linked to a non-compete clause(3) | |
|---|---|---|---|---|---|---|---|
| Yes | No(1) | Yes | No(2) | Yes | No | Yes | No |
| | X | | X | | X | X | |

*(1) In accordance with the provisions of the Corporate Governance Code, the Chairman and Chief Executive Officer, Éric Le Gentil does not have an employment contract with the Mercialys Group.*
*(2) Éric Le Gentil does not benefit from any supplementary pension plan. He is included in the mandatory group pension plan (ARRCO and ARGIC) and the benefit plan covering all the Company's employees.*
*(3) Éric Le Gentil may benefit from a payment linked to a non-compete and non-solicitation obligation that would apply for a period not to exceed the time of his employment in the Company, up to a maximum of one year; it is specified that the Company may reduce or waive the application period. In exchange, he would be paid a monthly sum equivalent to one-twelfth of 50% of his annual fixed compensation.*

Note that none of the AMF tables (Position-recommendation no. 2009-16) which do not appear in the foregoing pages apply to Eric Le Gentil, namely:

- table 3, on directors' fees and other compensations received by non-executive corporate officers;
- table 4, on the stock warrants or stock options awarded in the fiscal year to each executive corporate officer by the issuer and by any Group company;
- table 5, on the stock warrants, stock options or purchases of shares exercised in the fiscal year by each executive corporate officer;
- table 7, on awarded bonus shares that have vested in favor of each corporate officer;
- table 8, on the history of grants of stock warrants and stock options;
- table 9, on the stock warrants or stock options granted to the top ten employees who are not corporate officers and the options they have exercised;
- table 10, on the history of grants of bonus shares.

## C. Details of the compensation of Vincent Ravat, Chief Operating Officer

Vincent Ravat, Chief Operating Officer, currently holds the position of Director in charge of operations, letting and marketing at Mercialys Gestion, a company controlled by Mercialys and is in this respect, an employee of that company. The fixed and variable compensation of Vincent Ravat is divided into two parts, with two thirds paid by Mercialys and one third paid by Mercialys Gestion.

### 1. Summary of compensation payable by Mercialys and the companies it controls or which control it

The compensation, directors' fees and benefits of any kind payable to Vincent Ravat for fiscal year 2017 by Mercialys and the companies it controls were established as follows. It should be noted that Mercialys is not controlled within the meaning of Article L. 233-16 of the French Commercial Code:

#### Table 1 – Position – AMF recommendation number 2009-16

| (in euros) | Fiscal year 2017 | Fiscal year 2016 |
|---|---|---|
| Compensation due for the fiscal year (see paragraph 2, below) | 486,149 | 216,338 |
| Valuation of multi-year variable incentive awarded during the year | - | - |
| Valuation of options awarded during the year | - | - |
| Valuation of bonus shares awarded | 43,163 | - |
| **TOTAL** | **529,312** | **216,338** |

### 2. Compensation paid by Mercialys and the companies it controls

Vincent Ravat was appointed Chief Operating Officer on August 30, 2016 and therefore the compensation received for 2016 does not correspond to a full fiscal year and is therefore not comparable with 2017.

Vincent Ravat received the following compensation, directors' fees and benefits of all kinds from Mercialys in his capacity as Chief Operating Officer during 2017:

#### Table 2 – Position – AMF recommendation number 2009-16

| | Fiscal year 2017 | | Fiscal year 2016 | |
|---|---|---|---|---|
| *(in euros)* | Amount due(7) | Amount paid(8) | Amount due(7) | Amount paid(8) |
| Fixed compensation(1)(2) | 197,233 | 194,156 | 69,231 | 41,538 |
| Annual variable compensation(1)(3) | 115,200(3) | 33,240 | 33,240 | - |
| Multi-year variable compensation(1)(4) | - | - | - | - |
| Exceptional compensation(5) | - | 33,340 | 33,340 | - |
| Directors' fees | - | - | - | - |
| Benefits in kind(6) | 9,569 | 9,569 | 4,219 | 4,219 |
| **TOTAL** | **322,002** | **270,305** | **140,030** | **45,757** |

*(1) Gross compensation before social security contributions and tax. On the recommendation of the Appointments and Compensation Committee, the Board of Directors decided, on the basis of a benchmark created by a specialized consulting firm, to increase Vincent Ravat's gross fixed annual compensation to Euro 300,000 as of March 1, 2017.*
*(2) The amounts indicated also include paid leave.*
*(3) The methods for determining variable compensation are restated in the 2017 compensation policy, as approved at the Ordinary Shareholders' Meeting of April 26, 2017, under under paragraph 4.2.2.1, A, 2, b, page 237, and clarifications are provided in table 3 below. It should be noted that the payment of this amount will be subject to the approval of the fifth resolution presented to the Ordinary Shareholders' Meeting of April 26, 2018.*
*(4) Vincent Ravat does not receive multi-year compensation.*
*(5) See paragraph 4 below.*
*(6) Senior executive unemployment insurance and benefit plan covering all the Company's employees.*
*(7) Compensation paid in respect of the fiscal year, regardless of the date of payment.*
*(8) All compensation paid during the fiscal year.*

In addition, Vincent Ravat also performs the duties of Director in charge of letting at Mercialys Gestion. For this reason, the amounts of the compensation and benefits of all kinds due for 2017 were as follows:

**Table 2 – Position – recommendation AMF number 2009-16**

| | Fiscal year 2017 | | Fiscal year 2016 | |
|---|---|---|---|---|
| *(in euros)* | Amount due[7] | Amount paid[8] | Amount due[7] | Amount paid[8] |
| Fixed compensation[1][2] | 102,779 | 101,277 | 40,191 | 23,249 |
| Annual variable compensation[1][3] | 57,600[3] | 16,620 | 16,620 | - |
| Multi-year variable compensation[1][4] | - | - | - | - |
| Exceptional compensation[5] | - | 16,660 | 16,660 | - |
| Directors' fees | - | - | - | - |
| Benefits in kind[6] | 3,768 | 3,768 | 2,837 | 2,837 |
| **TOTAL** | **164,147** | **138,325** | **76,308** | **26,086** |

*(1) Gross compensation before social security contributions and tax. On the recommendation of the Appointments and Compensation Committee, the Board of Directors decided, on the basis of a benchmark created by a specialized consulting firm, to increase Vincent Ravat's gross fixed annual compensation to Euro 300,000 as of March 1, 2017.*
*(2) The amounts indicated also include paid leave.*
*(3) The methods for determining variable compensation are restated in paragraph 4.2.2.1, A, 2, b, page 237, and clarifications are provided in table 3 below. It should be noted that the payment of this amount will be subject to the approval of the fifth resolution presented to the Ordinary Shareholders' Meeting of April 26, 2018.*
*(4) Vincent Ravat does not receive multi-year compensation.*
*(5) See paragraph 4 below.*
*(6) Senior executive unemployment insurance and benefit plan covering all the Company's employees and company car.*
*(7) Compensation paid in respect of the fiscal year, regardless of the date of payment.*
*(8) All compensation paid during the fiscal year.*

## 3. Annual variable incentive

Vincent Ravat's variable compensation for fiscal year 2017 was determined by the Board of Directors at its meeting of March 07, 2018, on the proposal of the Appointments and Compensation Committee, applying the criteria in the table below:

| | | | Minimum | Target | Maximum | Actual |
|---|---|---|---|---|---|---|
| **Mercialys quantitative objectives (20% of total variable compensation)** | Organic growth of rental revenues (excluding indexation) | *% of the fixed compensation* | 0% | 4% | 8% | 6% |
| | | Value of the indicator | | 2.4% | | 2.6% |
| | Growth of 2017 FFO (excluding disposals) | *As % of the fixed compensation* | 0% | 4% | 8% | 8% |
| | | Value of the indicator | | 4.5% | | 6.1% |
| **Individual quantitative objectives (50% of total variable compensation)** | EBITDA margin | *As % of the fixed compensation* | 0% | 4% | 8% | 0% |
| | | Value of the indicator | | 84.5% | | 83.7% |
| | Prorated impact of 2017 openings (rental income) | *As % of the fixed compensation* | 0% | 4% | 8% | 8% |
| | | Value of the indicator | | Euro 3.3 M | | Euro 3.6 M |
| | IRR on projects started in 2017 | *As % of the fixed compensation* | 0% | 4% | 8% | 7.2% |
| | | Value of the indicator | | 9% | | 9.8% |
| | Current financial vacancy rate | *As % of the fixed compensation* | 0% | 4% | 8% | 0% |
| | | Value of the indicator | | 2.2% | | 2.5% |
| | Footfall spread in Mercialys centers as compared to the total CNCC market | *% of the fixed compensation* | 0% | 4% | 8% | 8% |
| | | Value of the indicator | | 240 bps | | 390 bps |
| **Managerial objectives (30% of total variable compensation)** | | *% of the fixed compensation* | 0% | 12% | 24% | 20.4% |
| **TOTAL VARIABLE COMPENSATION AS % OF FIXED COMPENSATION** | | | **0%** | **40%** | **80%** | **57.6%** |

Before payout, this compensation must gain the approval of the Company's shareholders at the Company's Ordinary General Meeting on April 26, 2018 (see resolution 5, p. 313).

## 4. One-off compensation

At its meeting of February 14, 2017 and on the recommendation of the Appointments and Compensation Committee, the Board of Directors decided to recognize Vincent Ravat's exceptional contribution to the success of the implementation of the Toulouse Fenouillet project, opened on November 8, 2016, by giving him an extraordinary bonus of Euro 100,000 in cash, half of it paid in February 2017 and the other half to be paid in February 2019, subject to his continued employment.

In accordance with the provisions governing the distribution of Vincent Ravat's compensation package, Mercialys paid Vincent Ravat the sum of Euro 33,340 and Mercialys Gestion paid him the sum of Euro 16,660 in February 2017. This distribution will be identical for the amount to be received in February 2019, subject to the condition of continued employment.

## 5. Stock warrants or stock options and bonus shares awarded by the Company and/or the companies it controls

No stock warrants or stock options were awarded to Vincent Ravat in 2017.

It is, however, specified that in 2014 and 2016 Vincent Ravat benefited from bonus share allotment plans, which were made in the context of his salaried duties and before his appointment as Chief Operating Officer (see paragraph 7.2.5.3, p. 306).

Following the approval of the 2017 compensation policy (26th resolution of the Extraordinary Shareholders' Meeting of April 27, 2017), authorizing the award of bonus shares to corporate officers, Vincent Ravat received a bonus share award according to the criteria and terms below:

### Table 6 – Position – AMF recommendation number 2009-16

| | Bonus shares awarded to Vincent Ravat | | | | |
|---|---|---|---|---|---|
| No. and date of the plan | Number of shares awarded in the year | Valuation of the shares according to the method adopted for the consolidated financial statements | Vesting date | Availability date[2] | Performance conditions[3] |
| Plan 24, of 04/27/2017 | 8,564[1] | Euro 43,163 | 04/27/2020 | 04/28/2022 | YES |
| **TOTAL** | **8,564[1]** | **Euro 43,163** | **04/27/2020** | **04/28/2022** | **YES** |

*(1) If the performance criteria are exceeded, the maximum number of shares that can be awarded to Vincent Ravat will be 12,846 shares corresponding to a value of Euro 64,744.*
*(2) The Board of Directors has set at 50% the number of bonus shares definitively awarded which the beneficiary is required to hold in registered form until the end of his term as Chief Operating Officer of Mercialys.*
*(3) Bonus shares become vested only if the beneficiary is still employed by the Company at the vesting date of the shares, and subject to fulfillment of two business performance criteria: the absolute performance of the Company's share price, including dividends, corresponding to the total shareholder return (TSR), assessed annually between January 1, 2017 and January 31, 2019 for 25% of the initial award; and the relative performance of the Company's share price dividends included (Total Shareholder Return – TSR) with respect to the performance of the companies in the EPRA/NAREIT Eurozone index at January 1, 2017, measured between January 1, 2017 and December 31, 2019, for 75% of the initial award.*

Moreover, no share became available in 2017.

## 6. Employment contract, special pension plans, severance pay and non-compete compensation

### Table 11 – Position – recommendation AMF number 2009-16

| Employment contract | | Supplementary pension plan | | Compensation or benefits due, based on termination of, or change in, duties | | Compensation linked to a non-compete clause[3] | |
|---|---|---|---|---|---|---|---|
| Yes | No[1] | Yes | No[2] | Yes | No | Yes | No |
| | X | | X | | X | X | |

*(1) Vincent Ravat has an employment contract with Mercialys Gestion. He holds the position of Director in charge of the operations, letting and marketing.*
*(2) Vincent Ravat does not benefit from any additional pension plan. He is included in the mandatory group pension plan (ARRCO and ARGIC) and the benefit plan covering all the Company's employees.*
*(3) Vincent Ravat may benefit from a payment linked to a non-compete clause and non-solicitation obligation that would apply for a period not to exceed the time of his employment in the Company, up to a maximum of one year; it is specified that the Company may reduce or waive the application period. In exchange, he would be paid a monthly sum equivalent to one-twelfth of 50% of his annual fixed compensation.*

As mentioned for Éric Le Gentil on page 238, note that none of the AMF tables (Position-recommendation no. 2009-16) which do not appear in the foregoing pages apply to Vincent Ravat.

Pursuant to the provisions of Article L. 225-100, II, of the French Commercial Code, the Ordinary Shareholders' Meeting of April 26, 2018 is called to approve the fixed, variable and exceptional components of the compensation package and the benefits of any kind paid or awarded in respect of 2017 to the Chairman and Chief Executive Officer and to the Chief Operating Officer for their mandate. Details and comments about these components can be found in the table attached in annex 1, page 320 and following.

## 4.2.3 Principles and criteria for determining, distributing and awarding the compensation components of the Chairman and Chief Executive Officer and of the Chief Operating Officer adopted for fiscal year 2018

**BOARD OF DIRECTORS' REPORT ON THE PRINCIPLES AND CRITERIA FOR DETERMINING, DISTRIBUTING AND AWARDING THE COMPENSATION COMPONENTS OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER AND OF THE CHIEF OPERATING OFFICER FOR FISCAL YEAR 2018.**

***(Sixth and seventh resolutions to be submitted to the Ordinary Shareholders' Meeting of April 26, 2018)***

Pursuant to the provisions of Article L. 225-37-2 of the French Commercial Code, the principles and criteria for determining, distributing and awarding the fixed, variable and exceptional components of the compensation package and the benefits of any kind, attributable for 2018 to the Chairman and Chief Executive Officer and the Chief Operating Officer for their corporate positions, are subject to the approval of the Ordinary Shareholders' Meeting of April 26, 2018.

In this connection, the Board of Directors, at its meeting on March 7, 2018, established, on the basis of the recommendations of the Appointments and Compensation Committee, the principles for determining the structure of the compensation of the Chairman and Chief Executive Officer and the Chief Operating Officer for 2018.

### I. Principles

The Board of Directors refers to the principles of the AFEP-MEDEF code for determining the compensation of the corporate executive officers: completeness, balance among the compensation components, benchmark, consistency, intelligibility of the rules and measurements.

In accordance with the recommendations of the AFEP-MEDEF Corporate Governance Code, the Board of Directors deliberates without the interested parties being present.

The Board of Directors ensures that the compensation policy is aligned with the corporate interests and with the interests of the shareholders and stakeholders. The performance indicator selected for the variable compensation component must be in line with the Mercialys strategy.

### II. Compensation components of the Chairman and Chief Executive Officer

#### Fixed compensation

Fixed at Euro 450,000 on March 1, 2015, this compensation will remain unchanged in 2018.

#### Annual variable compensation

In order to firmly place Corporate Social Responsibility (CSR) at the core of the Group's strategic priorities, it is proposed to change the mechanism for the 2018 variable compensation paid in 2019 to the corporate officers.

This change involves incorporating a quantifiable CSR target and reducing the percentage for managerial targets, taking out the measurement of the social and societal criterion.

The variable compensation will therefore be structured around two types of objectives:

1/ quantitative objectives, weighted at 80% (*versus* 70% in 2017) of which 1 CSR objective at 10%; and

2/ managerial objectives, which is reduced to 20% (*versus* 30% in 2017).

The results of the compensation benchmarking performed in 2017 with the Mercer consultancy firm show that:

- the fixed compensation for the Chairman and Chief Executive Officer ranks between the 1st quartile and the median of the market;
- the target bonus is less competitive, as it ranks below the 1st quartile of the market.

In order to reduce the difference in level with respect to market practices, and to motivate and retain the Chairman and Chief Executive Officer, it was decided that the target variable compensation of the Chairman and Chief Executive Officer would be changed and would be raised to the level of the 1st quartile, that is 70% *versus* the current 50%.

The variable compensation may therefore represent 70% of his fixed annual compensation if the fixed objectives are achieved and may be up to 140% (*versus* 100% in 2017) of his fixed annual compensation if the objectives are exceeded.

It is determined on the basis of having achieved 80% (*versus* 70% in 2017) of the quantitative objectives and of having achieved 20% (*versus* 30% in 2017) of the managerial objectives.

The selected criteria, and their weighting in determining the variable compensation, are as follows:

| | | % of the fixed compensation | | |
|---|---|---|---|---|
| | | Minimum | Target | Maximum |
| **Mercialys quantitative objectives (80% of the total variable compensation)** | FFO growth excluding the carrying cost of the 2019 debt refinancing | 0% | 14% | 28% |
| | Organic growth in rental revenues (excluding indexation) | 0% | 7% | 14% |
| | EBITDA margin | 0% | 7% | 14% |
| | Improvement in CSR classifications: GRESB and EPRA | 0% | 7% | 14% |
| | Footfall spread in Mercialys centers as compared to the total CNCC market | 0% | 7% | 14% |
| | Current financial vacancy rate | 0% | 7% | 14% |
| | Annualized rental income from 2018 openings | 0% | 7% | 14% |
| **Managerial objectives (20% of the total variable compensation)** | | 0% | 14% | 28% |
| **TOTAL VARIABLE COMPENSATION AS % OF FIXED COMPENSATION** | | **0%** | **70%** | **140%** |

For each quantitative criterion, a minimum threshold of achievement is set, as is a target level corresponding to the objectives of Mercialys for a performance that meets objectives, and a performance level that exceeds the target. Variable compensation is calculated in a linear fashion between the minimum threshold and the maximum threshold.

Pursuant to the provisions of Article L. 225-37-2 of the French Commercial Code, payment of the variable portion of the compensation due for the 2018 financial year, after determining its amount based on the achievement of the objectives defined above, is conditional on approval by the Company's Ordinary General Meeting to be held in 2019.

## Long term compensation

Remember that Éric Le Gentil benefits from a long term variable incentive plan, established on the advice of Appointments and Compensation Committee, by the Board of Directors' meeting of March 11, 2016. This compensation will only be paid to Mr. Le Gentil after a period of three years, *i.e.* in 2019, subject to his continuing employment in the company, and to two performance conditions, as described in paragraph 4, page 240 and following. In 2017, the Board resolved to adopt the principle of a bonus share award in order to associate the Chairman and Chief Executive Officer over the long term with the Company's performance, subject to compliance with the provisions of Article L. 225-197-6 of the French Commercial Code. This award would replace the previously granted long term variable incentive plan. This principle of awarding bonus shares has been renewed for 2018.

So, that bonus shares may only be awarded to corporate officers if the Company grants to its employees, and to at least 90% of the employees of its subsidiaries, one of the following benefits:

- stock options and/or stock warrants;
- bonus shares;
- the introduction of a profit sharing arrangement or of an exceptional participation agreement. For companies that already have such agreements, the first allocation authorized by the Ordinary General Meeting held after the Law of December 3, 2018, assumes that each of them (the listed company, and its concerned subsidiaries) changes the manner of calculating one of these agreements or pays an additional profit share or profit sharing supplement.

This award would represent a target of 75% of his fixed salary (*i.e.* Euro 337,500) and could represent up to 112.50% of his fixed salary (*i.e.* Euro 506,250) in the event of outperformance.

The bonus shares awarded would only be fully vested by the Chairman and Chief Executive Officer at the end of a three-year vesting period, subject to conditions of continued employment and of company performance, the latter being assessed on all three years, on the basis of the following criteria and evaluation grids:

- Relative performance of the Mercialys share, dividend included (Total Shareholder Return – TSR), compared to the performance of the companies composing the EPRA/NAREIT Eurozone index at January 1, 2018, measured between January 1, 2018 and December 31, 2020, for 50% of the allotted shares:

| Ranking of the three-year average annual TSR of Mercialys compared with the companies comprising the index | Multiplier |
|---|---|
| [0 to 20%] | 150% |
| ]20 to 40%] | 125% |
| ]40 to 50%] | 100% |
| ]50 to 60%] | 75% |
| ]60 to 80%] | 50% |
| ]80% to 100%] | 0% |

- Organic growth of rental revenues, including casual leasing, excluding indexation, measured as the three-year annual average between January 1, 2018 and December 31, 2020, for 25% of the initial allocation.

  At the end of the three-year period, the number of shares vested under this performance criterion will be determined in accordance with the average obtained, based on the grid presented below:

| Three-year annual average of organic growth in rental revenues | Multiplier |
|---|---|
| 2.00% | 0% |
| 2.30% | 100% |
| 2.60% or more | 150% |

The multiplier moves in a straight line between the defined limits.

- FFO growth (excluding the carrying costs of the 2019 debt financing, for fiscal year 2018) measured as the three-year annual average between January 1, 2018 and December 31, 2020, for the remaining 25% of the initial allocation.

  At the end of the three-year period, the number of shares vested under this performance criterion will be determined in accordance with the average obtained, based on the grid presented below:

| Three-year annual average of organic growth in FFO | Multiplier |
|---|---|
| 2.00% | 0% |
| 3.00% | 100% |
| 4.00% or more | 150% |

The multiplier moves in a straight line between the defined limits.

The bonus shares awarded in 2018 will become the property of the beneficiary after a vesting period of at least three years which will end in 2021.

At the end of this three-year vesting period, the Chairman and Chief Executive Officer will be required to hold 50% of his shares for a period of at least two years after they are fully vested, and to hold the remaining 50% until the termination of his position.

Furthermore, in accordance with the provisions of the final subparagraph of Article 24.3.3 of the AFEP-MEDEF Code, revised in November 2016, the Chairman and Chief Executive Officer undertakes not to make use of risk hedging transactions until the end of the period for holding the shares.

### Other compensation components

The Chairman and Chief Executive Officer does not benefit from any additional pension plan. He participates in the mandatory group supplementary pension plan (ARRCO and AGIRC) in the pension plan in force within the Company for all employees. He also benefits from senior executive unemployment insurance. He does not receive any other benefit of any kind.

No severance allowance shall be paid to the Chairman and Chief Executive Officer as a result of the termination of, or change in, his position.

The Chairman and Chief Executive Officer may also benefit from an allowance relating to a non-compete clause. Indeed, if his position is terminated, the Chairman and Chief Executive Officer will be bound by a non-compete and non-solicitation obligation that would apply for a period not to exceed the time of his employment in the Company, up to a maximum of one year, it being specified that the Company may reduce or waive the application period. In return, the Chairman and Chief Executive Officer will be paid a monthly compensation equivalent to one-twelfth of 50% of his annual fixed compensation.

In addition, the Chairman and Chief Executive Officer receives, for his service on the Board of Directors, directors' fees comprising a fixed and a variable component determined on the basis of attendance at Board meetings. For 2017, these fees totaled Euro 50,000.

## III. Compensation components of the Chief Operating Officer

### Fixed compensation

The annual fixed compensation of the Chief Operating Officer was set at Euro 270,000 on his appointment on August 30, 2016, with effect from September 1, 2016, on the basis of the benchmarking conducted by a specialized firm. At the Appointments and Compensation Committee meeting of August 30, 2016, it was duly recorded that the Chief Operating Officer's compensation would change in time to reflect the successful assumption of his position. Given the successful assumption of his position, the Board of Directors, at its meeting held on February 14, 2017 and on the recommendation of the Appointments and Compensation Committee, decided to raise his annual fixed compensation to Euro 300,000 with effect from March 1, 2017, *i.e.* an increase of 11%. This amount will remain unchanged in 2018.

The annual fixed and variable compensation of the Chief Operating Officer is divided in two: two-thirds paid by Mercialys and one-third by Mercialys Gestion, a wholly owned subsidiary of Mercialys, because he keeps his salaried positions as Director in charge of letting within Mercialys Gestion.

### Annual variable compensation

In order to firmly place Corporate Social Responsibility (CSR) at the core of the Group's strategic priorities, it is proposed to change the mechanism for the 2018 variable compensation paid in 2019 to the corporate officers.

This change involves incorporating a quantifiable CSR target and reducing the percentage for managerial targets, taking out the measurement of the social and societal criterion.

The variable compensation will therefore be structured around two types of objectives:

1/ quantitative objectives, weighted at 80% (*versus* 70% in 2017) of which 1 CSR objective at 10%; and

2/ managerial objectives, which is reduced to 20% (*versus* 30% in 2017).

The variable compensation of the Chief Operating Officer may represent 40% of his fixed annual compensation if the defined objectives are achieved and may equal up to 80% of his fixed annual compensation if these objectives are exceeded.

It is determined on the basis of having achieved 80% (*versus* 70% in 2017) of the quantitative objectives and of having achieved 20% (*versus* 30% in 2017) of the managerial objectives.

The selected criteria, and their weighting in determining the variable compensation, are as follows:

| | | % of the fixed compensation | | |
|---|---|---|---|---|
| | | Minimum | Target | Maximum |
| **Mercialys quantitative objectives (80% of the total variable compensation)** | FFO growth excluding carrying cost of 2019 debt refinancing | 0% | 4% | 8% |
| | Organic growth in rental revenues (excluding indexation) | 0% | 4% | 8% |
| | EBITDA margin | 0% | 4% | 8% |
| | Improvement in CSR rankings: GRESB and EPRA | 0% | 4% | 8% |
| | Footfall spread in Mercialys centers as compared to the total CNCC market | 0% | 4% | 8% |
| | Current financial vacancy rate | 0% | 4% | 8% |
| | Annualized rental income from 2018 openings | 0% | 4% | 8% |
| | Number of qualified customers in the Mercialys databases | 0% | 4% | 8% |
| **Managerial targets (20% of the total variable compensation)** | | 0% | 8% | 16% |
| **TOTAL VARIABLE COMPENSATION AS % OF FIXED COMPENSATION** | | **0%** | **40%** | **80%** |

For each quantitative criterion, a minimum threshold of achievement is set, as is a target level corresponding to the objectives of Mercialys for a performance that meets objectives, and a performance level that exceeds the target. Variable compensation is calculated in a linear fashion between the minimum threshold and the maximum threshold.

Pursuant to the provisions of Article L. 225-37-2 of the French Commercial Code, payment of the variable portion of the compensation due for the 2018 financial year, after determining its amount based on the achievement of the objectives defined above, is conditional on approval by the Company's Ordinary General Meeting to be held in 2019.

## Long term compensation

In order to permanently associate the Chief Operating Officer with the Company's shareholding performance, the Board of Directors has decided, subject to compliance with the provisions of Article L. 225-197-6 of the French Commercial Code, on the principle of bonus share awards.

This allotment would represent a target of 50% of his fixed salary (*i.e.* Euro 150,000) and could represent up to 75% of his fixed salary (*i.e.* Euro 225,000) in the event of outperformance.

The awarded bonus shares will only be fully vested by the Chief Operating Officer at the end of a three-year vesting period, subject to conditions of employment and company performance, the latter being assessed on all three years on the basis of the following criteria and evaluation grids:

- Relative performance of the Mercialys share, dividend included (Total Shareholder Return – TSR), compared to the performance of the companies composing the EPRA/NAREIT Eurozone index at January 1, 2018, measured between January 1, 2018 and December 31, 2020, for 50% of the allotted shares:

| Ranking of the three-year average annual TSR of Mercialys compared with the companies comprising the index | Multiplier |
|---|---|
| [0 to 20%] | 150% |
| ]20 to 40%] | 125% |
| ]40 to 50%] | 100% |
| ]50 to 60%] | 75% |
| ]60 to 80%] | 50% |
| ]80% to 100%] | 0% |

- Organic growth of rental revenues, including casual leasing, excluding indexation, measured as the three-year annual average between January 1, 2018 and December 31, 2020, for 25% of the initial allocation.
  At the end of the three-year period, the number of shares vested under this performance criterion will be determined in accordance with the average obtained, based on the grid presented below:

| Three-year average annual organic growth in rental revenues | Multiplier |
|---|---|
| 2.00% | 0% |
| 2.30% | 100% |
| 2.60% or more | 150% |

The multiplier moves in a straight line between the defined limits.

- FFO growth (excluding the carrying cost of the 2019 debt financing, for fiscal year 2018) measured as the three-year annual average between January 1, 2018 and December 31, 2020, for the remaining 25% of the initial allocation.

  At the end of the three-year period, the number of shares vested under this performance criterion will be determined in accordance with the average obtained, based on the grid presented below:

| Three-year average annual organic growth in FFO | Multiplier |
|---|---|
| 2.00% | 0% |
| 3.00% | 100% |
| 4.00% or more | 150% |

The multiplier moves in a straight line between the defined limits.

The bonus shares awarded in 2018 will become the property of the beneficiary after a vesting period of at least three years which will end in 2021.

At the end of this three-year vesting period, the Chief Operating Officer will be required to keep 50% of his shares for a period of at least two years after they are fully vested, and to hold the remaining 50% until the termination of his position.

Furthermore, in accordance with the provisions of the final paragraph of Article 24.3.3 of the AFEP-MEDEF Code, revised in November 2016, the Chief Operating Officer undertakes not to make use of risk hedging transactions until the end of the period for holding the shares.

Moreover, remember that Vincent Ravat is the beneficiary of bonus share plans which were awarded to him as a Mercialys employee, prior to his appointment as Chief Operating Officer.

### Other compensation components

The Chief Operating Officer does not benefit from any additional pension plan. He participates in the mandatory group supplementary pension plan (ARRCO and AGIRC) and in the pension plan in force within the Company for all employees. He also benefits from senior executive unemployment insurance. He does not receive any other benefit of any kind, except a company car.

No severance allowance shall be paid to the Chief Operating Officer resulting from the termination of, or change in, his position.

The Chief Operating Officer may also benefit from an indemnity relating to a non-compete clause. In effect, in the event of the termination of his position, the Chief Operating Officer will be bound by a non-compete and non-solicitation obligation that would apply for a period not to exceed the time of his employment in the Company, up to a maximum of one year; it is specified that the Company may reduce or waive the application period. In return, the Chief Operating Officer would be paid a monthly compensation equivalent to one-twelfth of 50% of his annual fixed compensation.


**€1,638 M**
Drawn debt at end-2017

**39.9%**
LTV excluding transfer taxes

**1.9%**
Average cost of drawn debt

La Galerie Espace Anjou, Angers

# 5

# RISK FACTORS

# 5.1 ORGANIZATION OF INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

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

## 5.1.1 Internal control and risk management structures and bodies

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

### 5.1.1.1 AUDIT, RISKS AND SUSTAINABLE DEVELOPMENT COMMITTEE

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

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

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

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

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

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

### 5.1.1.2 RISKS PREVENTION COMMITTEE

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

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

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

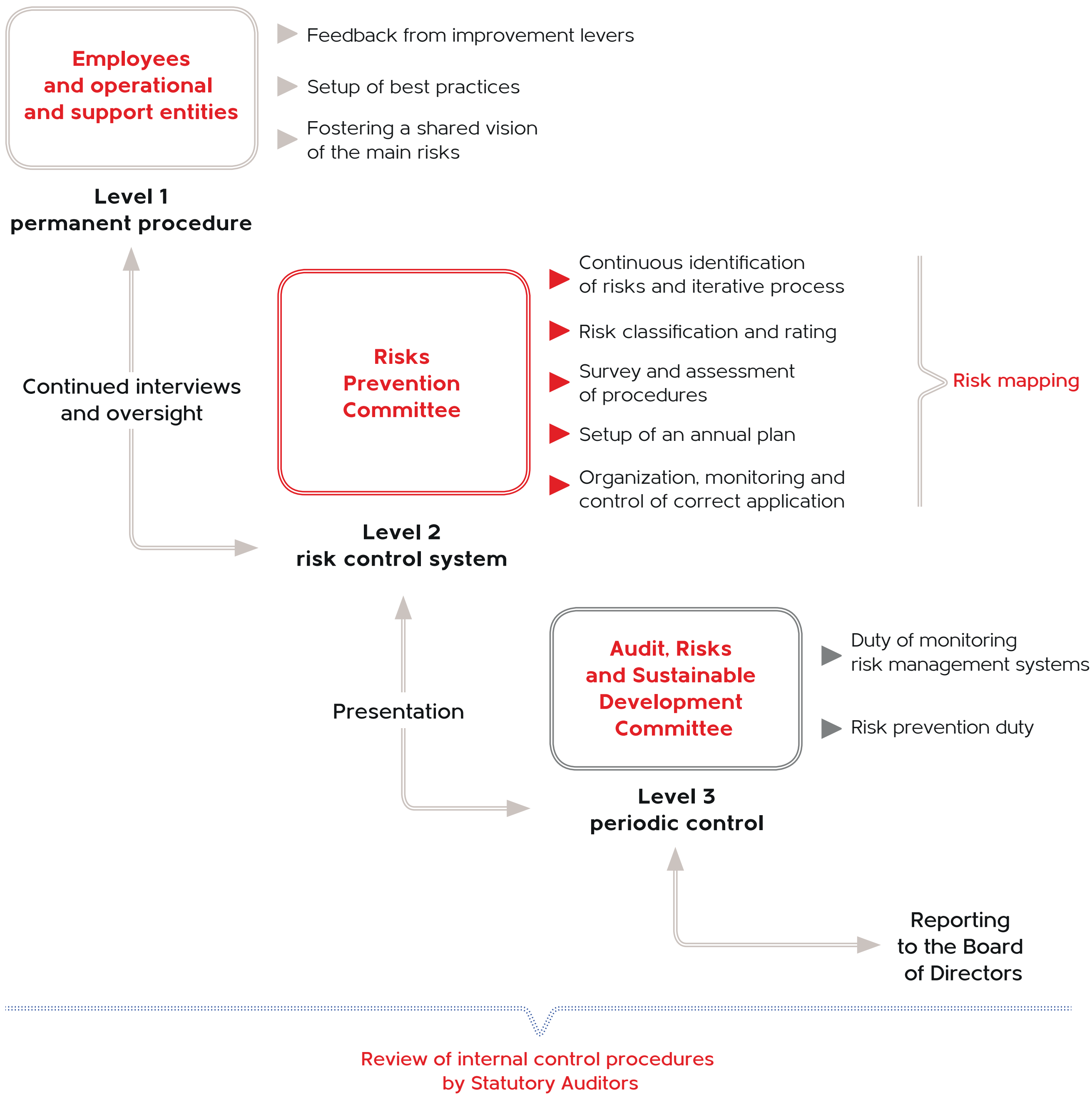
The Committee meets once a month and reports to the Audit, Risks and Sustainable Development Committee. It makes regular *ad hoc* presentations to the Management Committee.

### 5.1.1.3 EMPLOYEES

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

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

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



## 5.1.2 General principles of internal control and risk management

### 5.1.2.1 PROCESS AND PRIOR REQUIREMENT

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

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

Effective internal control and risk management require two preliminary stages:

- Firstly, setting and communicating the Company's strategic and financial objectives. Mercialys' strategic and financial objectives are set by Executive Management in a three-year plan that is fully reviewed and updated every year. This plan is put together under the leadership of Mercialys' Executive Management, which is responsible for checking that the Company's overall structure is in balance, particularly in terms of investments and allocation of financial resources, as well as monitoring implementation of the plan.
- Secondly, rules of conduct and integrity known and respected by all. In this respect, Mercialys has defined a Charter of Ethics and Code of Business Conduct which formally sets out its ethical commitments and resulting rules of conduct to be followed by all its employees daily. The charter is sent annually to all employees, who by signing it, undertake to strictly comply with its principles. Standards for managerial attitudes and behavior have also been set up and distributed to the Company's entire Management, as guidelines for their daily actions.

### 5.1.2.2 OPERATING METHODS

| | Internal control | Risk management |
|---|---|---|
| **Definition** | Internal control is a set of procedures, defined and implemented under the Company's responsibility allowing it to maintain control over its business activities, carrying out its transactions effectively, and using its resources efficiently. It is also designed to take appropriate account of significant risks that could prevent the Company from achieving its objectives. | Mercialys' risk management system consists of a series of methods, behavioral practices, procedures and actions suited to its characteristics. The aim is to enable managers, if they cannot make these risks disappear, at least to keep them at an acceptable level for the Company. |
| **Objectives** | Internal control is specifically designed to ensure:<br>- compliance with legal and regulatory requirements;<br>- application of instructions and guidelines given by Executive Management;<br>- correct implementation of procedures, particularly those contributing to the safeguarding of the assets;<br>- reliability of financial information. | Risk management aims in particular to help to:<br>- create and protect value, assets and the Company's reputation;<br>- secure decision-making and company processes in order to help achieve objectives;<br>- help to ensure that initiatives are in line with the Company's values;<br>- foster a shared vision among employees of the principal risks. |

| | Internal control | Risk management |
|---|---|---|
| **Organizational framework** | The organization of internal control at Mercialys complies with the principles below:<br>**1/ responsibility and powers:**<br>- Each department head is responsible for organizing its own structure, functions and activities to ensure that the separation of duties is respected. This organizational structure is set out in an organization chart.<br>- Delegations of signatures are requested by the proxy to resolve a situation where a signature cannot be obtained for a specific transaction.<br>- Delegations of powers are managed and monitored by the entity's Human Resources Department in conjunction with the Casino group's Legal Department pursuant to the service agreement.<br>**2/ human resources management policy:**<br>- The administration of Mercialys' human resources policy is handled by Mercialys' Human Resources Department, which is supported by the Casino group's Human Resources Shared Services Centers as part of the aforementioned service agreement. The policy aims to ensure the correct allocation of resources *via* structured recruitment and career management policies to allow the Company to achieve its current and future objectives.<br>- Mercialys is also in charge of training policies primarily in the areas of management, personal development and the Company's business activities.<br>- In order to ensure employee motivation, the compensation policy for the Group's business entities is dependent on an analysis of wage positioning relative to the market and based on the principles of internal fairness.<br>- The compliance of managerial practices with the standards of management attitudes and managerial behaviors is evaluated each year as part of the annual performance review, and has a partial effect on the variable compensation paid.<br>**3/ IT systems:**<br>- Mercialys subcontracts its IT operations to the Casino group, which focuses on the implementation of integrated management software packages and use of professional IT standards and baselines, with the aim of ensuring that the information systems are relevant for the Company's current and future objectives and addressing issues such as physical and software security, preservation of archived information, and operational continuity. | Mercialys' Executive Management and managerial staff are responsible for identifying risks specific to its activities, and analyzing the level of risk so as to manage it in the best way possible.<br>The Risks Prevention Committee meets once a month.<br>Its activities aim to reduce risks identified by management that may prevent the Company from achieving its objectives.<br>As part of the service agreement, Mercialys may, where appropriate, call upon the Casino group's specialist crisis management unit, which, depending on the circumstances, gathers all internal or external expertise necessary to ensure its smooth functioning, in coordination with the Executive Management and Mercialys' teams.<br>Within the framework of the service agreement between Mercialys and the Casino group, Mercialys informs the Casino group Insurance Department of changes likely to impact risk assessment. Under the service agreement, the Casino group's Insurance Department is in charge of subscribing to and managing Mercialys' insurance policies. Such insurance coverage is either incorporated into the Casino group's centralized programs or subscribed to through dedicated insurance policies. The Casino group's Insurance Department also handles the management of claims as explained in paragraph 5.5, page 269.<br>All functions delegated as part of the service agreement between Mercialys and the Casino group are subject to a control process carried out by Mercialys to verify the quality of the delegated services and accordingly update its risk mapping on a yearly basis. |

**Internal dissemination of information**

Managers are responsible for disseminating relevant information to employees and to functional or operational management.

Procedures specific to Mercialys activities are disseminated on a regular basis to the concerned Mercialys employees and to those concerned by sub-contracting activities under the service agreement.

The time frames for disseminating information throughout the Company are established such that the parties concerned have the opportunity to take appropriate action.

Furthermore, the rapid production of reliable information depends on IT systems, organized in order to help the parties concerned perform their activities in an optimal manner.

**Monitoring**

Internal control and risk management procedures are monitored under the aegis of the Executive Management *via* a number of bodies. The Executive Management is regularly informed of any potential failings in the internal control and risk management procedures and of whether such procedures are suitable to the Company's activities, and also monitors the implementation of the necessary corrective measures.

Managers play a day-to-day role in the on-going supervision of the effective implementation of the internal control and risk management system. They are responsible for implementing corrective action plans or reporting any major failings to the Executive Management, where necessary. The Company's Chief Financial Officer is responsible for monitoring Mercialys' existing internal control and risk management procedures as well as the internal control procedures applicable to the activities carried out by the Casino group.

# 5.2 INTERNAL CONTROL RELATING TO PUBLISHED ACCOUNTING AND FINANCIAL INFORMATION

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

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

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

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

## 5.2.1 Process for the oversight of accounting and financial organization

### 5.2.1.1 GENERAL ORGANIZATION

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

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

### 5.2.1.2 APPLICATION AND CONTROL OF ACCOUNTING AND TAX RULES

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

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

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

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

## 5.2.2 Process for the preparation of published accounting and financial information

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

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

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

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

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

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

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

In accordance with legal requirements, Mercialys has two Statutory Auditors, whose office was renewed in 2016. They are responsible for ensuring that the annual financial statements are accurate, comply with accounting rules and principles and give a true and fair view of the results of operations in the past accounting period and of the Company's financial position, assets and liabilities at year-end.

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

#### B. Management of external financial information

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

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

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

# 5.3 DESCRIPTION AND MANAGEMENT OF RISKS

## 5.3.1 Identification and classification of risks

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

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

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

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

### 5.3.1.1 RISK FAMILIES

The risk mapping has identified 11 risk families:

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

### 5.3.1.2 DEFINITION OF MATERIALITY

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

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

## 5.3.2 Summary of risks

## I. MARKET ABUSE RISK

### Description of the risk

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

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

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

### Risk management and coverage

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

#### Abstention requirement

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

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

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

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

#### Notification requirements specific to management, directors and their close relations

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

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

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

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

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

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

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

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

Procedures on this topic are updated on a regular basis.

## II. RISK SPECIFIC TO THE PROPERTY MARKET

### Description of the risk

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

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

Two sub-risks have been identified under cyclical risk:

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

### Risk management and coverage

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

This system is made up of:

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

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

### Description of the risk

Mercialys employees are required to handle several types of IT data: data concerning other employees (human resources, internal communication), data on visitors to centers *via* the development of digital tools (apps for centers, *Challenge Fidélité* loyalty program, etc.) and data on retailers *via* the development of the "La Galerie des Services" service platform and the use of a CRM tool.

This risk therefore exists in different forms:

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

### Risk management and coverage

Several actions are carried out to manage this risk:

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

## IV. RISK LINKED TO LETTING

### Description of the risk

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

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

The second risk linked to letting comes from the fact that the commercial real estate business on which Mercialys exercises its activity is characterized by steady changes in the consumer behavior and habits of the environment and by changing customer demand. This could potentially lead Mercialys to tailor the design of its centers and the breakdown of tenant retailers to consumer expectations to ensure that it can efficiently anticipate and respond to changes in the sector.

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

### Risk management and coverage

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

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

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

## V. RENTAL MANAGEMENT RISK

### Description of the risk

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

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

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

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

### Risk management and coverage

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

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

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

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

## VI. RISK LINKED TO CLIMATE CHANGE

### Description of the risk

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

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

### Risk management and coverage

Mercialys manages this risk in different ways:

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

## VII. SECURITY/SAFETY RISK

### Description of the risk

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

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

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

### Risk management and coverage

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

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

## VIII. NATURAL AND TECHNOLOGICAL RISK ON A SIGNIFICANT PORTION OF THE PORTFOLIO

### Description of the risk

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

A natural or technological risk may occur on a significant portion of the portfolio through the occurrence of the same risk on a large number of property assets (such as an earthquake or floods affecting a large area), or in the event of simultaneous occurrences of several types of risks affecting a large number of assets (*i.e.* flood combined with a technological risk).

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

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

### Risk management and coverage

Several actions are carried out to manage this risk:

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

## IX. INSURANCE COVERAGE RISK

### Description of the risk

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

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

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

### Risk management and coverage

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

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

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

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

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

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

## X. RISK LINKED TO INTEREST RATE AND COST OF DEBT

### Description of the risk

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

### Risk management and coverage

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

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

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

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

## XI. CAPITALIZATION RATE AND PORTFOLIO VALUE RISK

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

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

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

### Risk management and coverage

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

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

As such, all assets comprising the Mercialys portfolio are valued on a half-yearly basis, in accordance with the AMF recommendations, allowing continuous adjustment if necessary. Two valuation approaches have been selected by experts. First, the capitalization of income method, which consists of taking the rental revenues generated by the asset and dividing it by a market yield for similar assets, taking into account the actual rent level compared with market levels. Second, the discounted cash flow (DCF) method, which takes into account expected year-after-year increases in provisional rent, vacancies, and other provisional factors, such as expected letting periods and investment expenses borne by the lessor.

## XII. RISK OF FINANCIAL COUNTERPARTIES (RETAILERS)

### Description of the risk

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

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

### Risk management and coverage

#### 1. Mercialys diversifies its tenant portfolio

##### Concentration with respect to a tenant or retailer

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

##### Concentration with respect to a sector

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

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

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

## XIII. RISKS RELATED TO MACRO-ECONOMIC ENVIRONMENT

### Description of the risk

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

### Risk management and coverage

Mercialys covers this risk through:

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

## XIV. SUPPLIERS' PAYMENT RISK

### Description of the risk

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

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

### Risk management and coverage

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

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

## XV. RISK OF SUPPLIER OR SUB-CONTRACTOR DEFAULT

### Description of the risk

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

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

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

### Risk management and coverage

Several actions are implemented to manage this risk:

- monitoring of the financial strength of key service providers;
- for each significant service provider, at the time of signing the contract, the Company searches for an "equivalent" alternative service provider;
- the contracts and legal provisions in particular are monitored and a breach of contract procedure is available.

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

### Description of the risk

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

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

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

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

### Risk management and coverage

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

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

## XVII. PORTFOLIO IMPAIRMENT/ DETERIORATION RISK

### Description of the risk

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

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

### Risk management and coverage

Mercialys manages this risk in two different ways:

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

# 5.4 RELATIONS WITH THE CASINO GROUP

## 5.4.1 Risks related to agreements made with the Casino group

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

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

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

On March 11, 2015, the Company also entered into a new service agreement (the "Service Agreement") with the Casino group, which replaces the agreement signed on September 8, 2005. This Service Agreement defines the terms for the provision of necessary support functions for the Company (administrative management, mainly for legal issues and human resources, accounting and financial assistance, IT services and services in connection with the property business). These services concern the Company's support functions. They also provide access, for the Company's property activities, to the expertise and technical resources of the Casino group's development team, particularly for development and restructuring projects the Company conducts on its own behalf. Although the Casino group no longer controls the Company, the service agreements between the two companies have been maintained. The non-renewal of such contracts on expiry could give rise to extra costs for the replacement and training of alternative service providers, or for creating in-house services. This could generate additional costs and potential delays in setting up these services, and could have an adverse effect on the Company's business and earnings.

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

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

## 5.4.2 Main shareholder risk

The loss of control by the Casino group, the majority shareholder, of the majority of voting rights at shareholders meetings was recognized at the Annual general meeting on June 21, 2013. However, in the event of a very low attendance rate by other shareholders, the Casino group may make important decisions at its sole discretion, in particular concerning the members of the Board of directors, approval of annual financial statements and dividend payouts.

# 5.5 INSURANCE AND LEGAL RISK

## 5.5.1 Insurance and risk coverage

### 5.5.1.1 GENERAL DESCRIPTION OF INSURANCE POLICIES

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

This assistance primarily concerns:

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

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

### 5.5.1.2 PRINCIPAL INSURANCE COVERAGE IN PLACE

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

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

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

### 5.5.1.3 SELF-INSURANCE

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

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

### 5.5.1.4 INSURANCE COVERAGE

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

#### A. Property damage and/or operating loss insurance

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

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

### B. Third-party liability

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

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

### C. Building insurance

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

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

### 5.5.1.5 CLAIMS MANAGEMENT

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

## 5.5.2 Legal risks

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

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

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

### 5.5.2.1 RISKS RELATING TO REGULATIONS CONCERNING COMMERCIAL LEASES

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

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

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

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

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

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

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

The Company's activities are subject to city planning regulations, in particular the system of authorizations for commercial operation. In addition to administrative sanctions for failing to comply with these requirements – such as formal notice from the local governor, subject to a daily fine, to bring the site concerned into line with the authorization given, or a decision to close illegally operating sites to the public until the situation is resolved, also subject to a daily fine – penal sanctions may also be imposed.

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

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

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

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

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

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

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

### 5.5.2.4 LEGAL AND ARBITRATION PROCEEDINGS

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

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

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

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

## 5.6 CLIMATE CHANGE SYSTEM

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

The Company is very much aware of this challenge and is thus striving to reduce the carbon footprint of its business by 20%, by slashing its power consumption, limiting refrigerant leaks, working on the carbon impact of its works and encouraging visitors to use low-carbon transport solutions.

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

## 5.7 CORRUPTION RISK CONTROL SYSTEM

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

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

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

Secondly, **internal control procedures at operational and financial level.** These procedures include in particular (i) the limitation of the power to make commitments on behalf of the Company, (ii) the multi-department validation process for expenditure and transactions with tenants, and (iii) the capacity to make payments on behalf of Mercialys, which is restricted to four persons within executive management (no cash payment may be made nor accepted by employees).

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

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

**12**
Project completions in 2017

**€5.2 M**
Additionnal annualized rental income

**€825 M**
Projects portfolio over the 2018-2024 period


La Galerie Géant La Valentine, Marseille

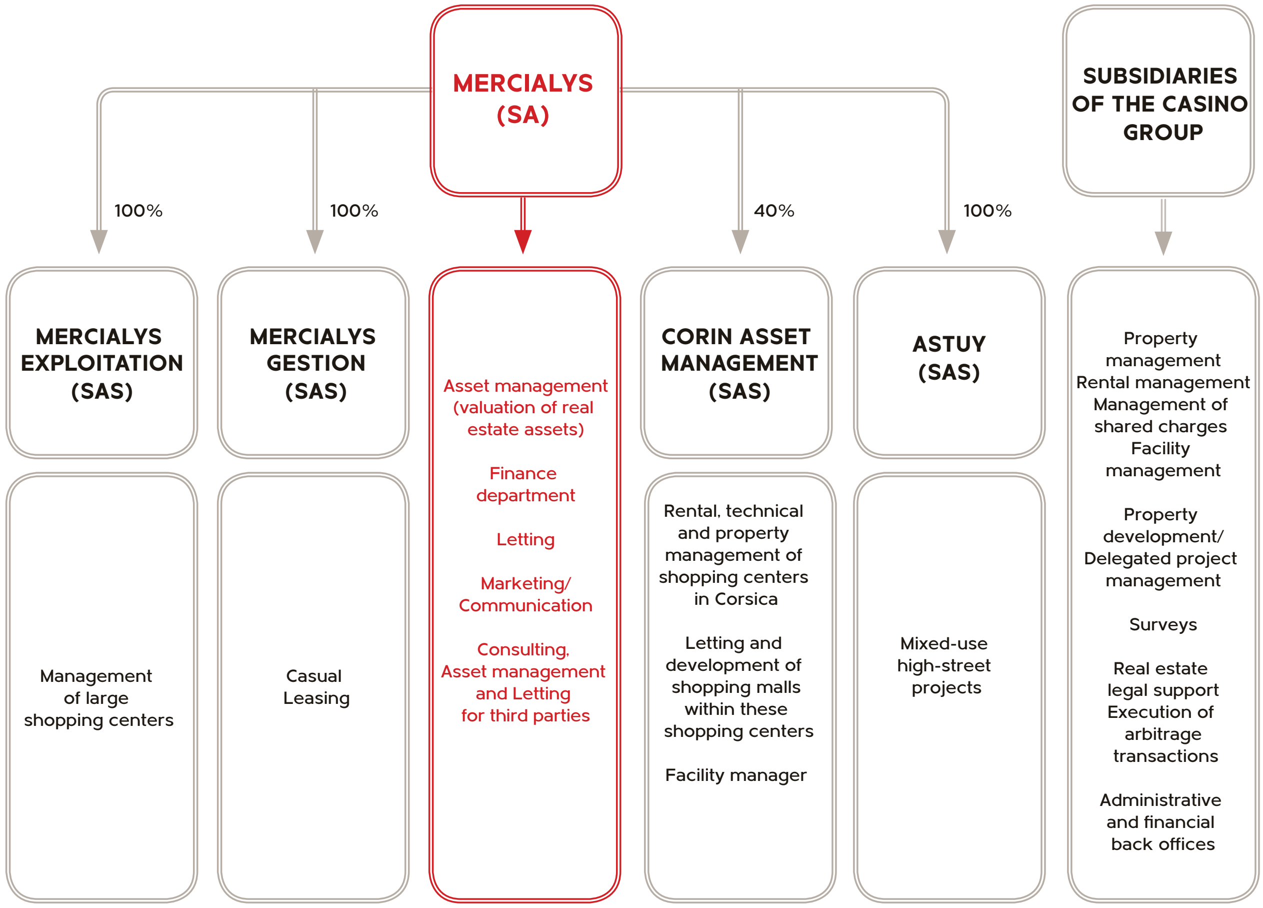
# 6

# ORGANIZATION OF THE MERCIALYS GROUP AND BUSINESS RELATIONSHIPS WITH CASINO GROUP COMPANIES

# 6.1 OPERATIONAL ORGANIZATION

Mercialys' operational organization is briefly described in chapter 4, page 201 and following, and chapter 5, page 253 and following.

The organization chart, below, shows the operational structure of the Mercialys Group and its main business relationships (other than leases) with the Casino group companies:



# 6.2 BUSINESS RELATIONSHIPS WITH CASINO GROUP COMPANIES

Mercialys has contractual relations with various Casino group companies. The Company has also entered into various agreements with other Casino group entities regarding:

- priority access to commercial real estate development and acquisition projects conducted by the Casino group (excluding food stores) within the scope of the Company's business activity (see § 6.2.2, p. 277);
- property management activities, primarily related to rental management, management of service charges and managing agent activity (see § 6.2.3, p. 279);
- administrative and financial services (see § 6.2.4, p. 280);
- consulting on shopping center enhancement projects (see § 6.2.8, p. 282).

The main agreements entered into by the Company with Casino, Guichard-Perrachon and the Casino group companies are described below.

Furthermore, at its meeting of February 11, 2015, the Board of Directors of Mercialys, as part of the strengthening of the Company's governance, authorized the introduction of a procedure for the Agreements entered into between the companies of the Mercialys Group and related parties (see chapter 4, § 4.1.6.1, p. 232).

The following agreements have been subject to approval by Mercialys' Board of Directors:

- the Partnership agreement (see § 6.2.2, p. 277);
- the Current account advance agreement (see § 6.2.5, p. 281);
- the brand license agreements (see § 6.2.6 and 6.2.7, p. 281 and 282);
- the Consulting agreement (see § 6.2.8, p. 282).

The other agreements relate to standard transactions entered into on normal terms and conditions, as defined in Article L. 225-39 of the French Commercial Code.

## 6.2.1 Principal leases granted by Mercialys to Casino group companies

Mercialys and its subsidiaries manage leases entered into with various Casino group entities (other than Casino Restauration). These include: Distribution Casino France, Banque du Groupe Casino, Pacam 2, Sodico 2, Poretta 2, Lion de Toga 2, Hyper Rocade 2, Floréal and Monoprix, which can use premises in the Company's shopping centers.

The rents charged in 2017 under these leases amounted to Euro 53.6 million. They amounted to Euro 56.9 million in 2016.

The terms and conditions of these leases are similar to those of the leases signed with companies that are not part of the Casino group.

Furthermore, in view of the installation of solar panels and solar power plants within shopping centers located on Reunion Island, in Marseille, Bordeaux-Pessac and Fréjus, Mercialys has signed long-term leases with the companies operating the power plants. The leases agreed in 2009 have a term of 20 years from commissioning of the plant, subject to an annual fee of Euro 2 per sq.m equipped. The amount of discounted rents was paid in advance to Mercialys, which re-invested them in the capital of GreenYellow, a subsidiary of Casino, Guichard-Perrachon, specializing in the production and sale of solar energy, as well as optimizing energy efficiency. In 2014, Mercialys disposed of its interest in GreenYellow to Casino. The leases signed since 2010 have a 23-year term in return for a flat fee payable annually on July 1 each year.

Casino Restauration, a wholly-owned subsidiary of the Casino group, operates 10 catering outlets (including four cafeterias totaling 4,440 sq.m) in buildings leased from Mercialys, located for the most part on sites occupied by Casino group stores.

Cafeteria leases are drawn up on the basis of a standard contract.

Rents invoiced in fiscal year 2017 under the terms of leases granted by Mercialys to Casino Restauration amounted to Euro 1.1 million, compared to Euro 2.2 million in 2016.

## 6.2.2 Partnership agreement with Casino, Guichard-Perrachon

The Partnership agreement (hereinafter the "Agreement") signed on July 2, 2012 by Mercialys and Casino, Guichard-Perrachon was extended in 2014 until December 31, 2017. In January 2017, this Agreement was extended until December 31, 2020, the Annual General Meeting having approved this amendment in April 2017.

Three types of project were defined as falling within, or which could fall within, the Agreement's scope of application:

- "new projects" which may later be included within the scope of the Partnership agreement at the request of Mercialys, should Casino decide to commit to them;

- "projects to be confirmed", which correspond to "new projects" which have been approved by the governing bodies of parties who undertake to make their best efforts to validate the projects;
- "validated projects", which correspond to "projects to be confirmed", and are the subject of an order.

An accelerated project validation procedure enables both parties to decide to sign directly a deed of sale for greater flexibility.

The Agreement is based on the following principles:

- privileged access for Mercialys to the commercial real estate projects developed by Casino and/or its subsidiaries in France in its area of activity (right of priority) and the possibility for Mercialys to propose projects upstream;
- in return, a commitment from Mercialys not to invest in a new project likely to have a material impact on a Casino group food store site (food retail space of 1,000 sq.m) with a survival clause over a three-year period as from the termination of the agreement;
- multi-level reciprocal and staggered commitments to support the development of projects, from the identification of "projects to be confirmed" until the disposal of the projects at their opening;
- valuation of projects on the basis of projected rents capitalized by application of the grid rates outlined in the Agreement, with a 50/50 sharing of any upside/downside at opening with the possibility of backing the asset valuation on the basis of a projected IRR.

The main adjustments made to the Agreement by Mercialys and Casino, on January 31, 2017, included:

- renewal of the Partnership agreement for a further three years (maturing on December 31, 2020). This extension thus allows Mercialys to continue feeding its development pipeline, particularly on already existing sites which benefit from excellent visibility;
- confirmation of the fast-track project approval procedure, implemented in 2014 on an exceptional basis, by formally defining and drafting its terms of use, which is still subject to the agreement of both parties;
- maintaining the pricing mechanisms (grid or IRR) with the following adjustments:
  - clarifications on how to determine the applicable rate when the grid is used, by explicitly including the large food store (hypermarket) in the calculation;
  - use of the surface area of centers after extension to determine the center's category in the grid (instead of the average surface areas before/after extension), which helps to avoid any material threshold impacts that could generate an additional unjustified discount in the valuation of the asset.

To take account of fluctuations in market conditions, capitalization rates applicable within the framework of the Partnership agreement are revised by the parties concerned twice a year.

Applicable capitalization rates for confirmed orders signed by Mercialys in the second half of 2017 were as follows:

| | Shopping centers | | Retail parks | | City center |
|---|---|---|---|---|---|
| Type of property | Mainland France | Corsica and Overseas departments & territories | Mainland France | Corsica and Overseas departments & territories | |
| > 20,000 sq.m | 5.5% | 6.0% | 6.0% | 6.4% | 5.3% |
| from 5,000 to 20,000 sq.m | 6.0% | 6.4% | 6.4% | 6.8% | 5.6% |
| < 5,000 sq.m | 6.4% | 6.8% | 6.8% | 7.4% | 6.0% |

After taking into account changes in the average appraised yield for Mercialys' portfolio compared to June 30, 2017, the capitalization rates applicable for the first half of 2018 are as follows:

| | Shopping center | | Retail parks | | City center |
|---|---|---|---|---|---|
| Type of property | Mainland France | Corsica and Overseas departments & territories | Mainland France | Corsica and Overseas departments & territories | |
| > 20,000 sq.m | 5.5% | 6.0% | 6.0% | 6.4% | 5.3% |
| 5,000 to 20,000 sq.m | 5.9% | 6.4% | 6.4% | 6.8% | 5.6% |
| < 5,000 sq.m | 6.4% | 6.8% | 6.8% | 7.4% | 6.0% |

On the date of the sale, the price is adjusted to take account of the actual letting conditions for these properties. Therefore, if there is a positive or negative difference (upside or downside) between the price stated in the order confirmation based on projected rents, and the price calculated when signing the deed of sale based on actual rents set out in the contract, the price will be adjusted upwards or downwards by 50% of the difference observed.

For properties that are vacant when they open to the public, their price will be calculated taking account of said vacancy, based on projected net rents, stepped rents and rent-free periods determined by mutual agreement between the parties, or if there is no agreement, based on an appraisal in accordance with the conditions of Article 1592 of the French Civil Code.

In addition, the price will be increased for the costs payable by Casino for the delivery and completion of audit procedures relating to the sale of developments.

In 2017, the Company acquired, under the Partnership agreement, an extension project for the Le Port shopping center in Reunion Island.

## 6.2.3 Property management activities

Mercialys outsources property management services for almost all its sites, except for its Corsican sites managed by Corin Asset Management (see § 6.3.2.3, p. 288), to Sudeco, a wholly-owned subsidiary of L'Immobilière Groupe Casino. These services include rental management, service charge administration, real estate management and administrative management of site-specific associations or economic interest groups (EIGs) composed of tenants at the majority of the shopping centers it owns. In recent years, Mercialys Gestion has also taken on responsibility for the administration of tenant associations or EIGs (mainly at Large Shopping Centers).

Sudeco was created in 1988 and specializes in rental management and real estate administration. It acts primarily for the Company and the Casino group, and for other clients that own shopping centers, most of whom are institutional investors. Sudeco currently manages virtually all Mercialys' properties.

Agency contracts governing the rental management services provided by Sudeco to Mercialys have been entered into for each site. Under the contracts, Sudeco acts as Mercialys' agent in providing rental management services. These services include: (i) billing, collecting and issuing receipts for rent due to Mercialys, (ii) ensuring that tenants fulfill their contractual commitments, and, (iii) on instruction from Mercialys, managing the renewal of expired leases (notice, renewal offers and procedures to set the rents and terms of new leases). Sudeco's fee under these contracts is a percentage of the rent collected at the end of each calendar quarter. When a tenant's business is sold, involving drafting a new lease and the negotiation of a new rent, or when expired leases are renewed, Sudeco collects fees corresponding to a percentage of the difference between the new rent and the previous rent.

The Company and Sudeco have also signed agency contracts on a site-by-site basis for the administrative management of service charges.

Agreements made with Sudeco (rent and arrears management mandate and technical and administrative management mandate) were signed for a period of five years from January 1, 2015, *i.e.* until December 31, 2019. After the initial term, these mandates may be renewed annually for a period of one year. These initial mandates may not be renewed more than five times.

When signing these new mandates, no calls for tender were made. However, PricewaterhouseCoopers conducted a benchmarking assignment, the findings of which were presented in February 2015, indicating that, for the services covered by a Sudeco mandate, the analysis of billing percentages did not reveal any differences between these practices on the market.

The internal procedure leading to the selection of the subcontractor is based both on a dialog between the asset management and letting teams and Executive Management. Assets held by Mercialys being often interlinked with assets held by the Casino group, choosing Sudeco for this role provides Mercialys with economies of scale.

As part of the implementation, in 2015, of a charter on agreements entered into between related parties, the Mercialys Investment Committee will decide on the potential extension of these agreements when they next come up for renewal.

Under these contracts, Sudeco divides up the general and specific service charges among tenants, enabling the Company to bill tenants separately for their respective portion. Sudeco: (i) prepares the projected service charge budget and collects payment, (ii) helps to negotiate and draw up contracts with service providers, (iii) ensures the monitoring and completion of contracted services, (iv) concludes mandatory contracts (fire safety and electrical equipment inspections) and (v) draws up end-of-year financial statements. Sudeco can also represent Mercialys within the tenants association or EIG and, when requested by the association or the EIG, participates in the center animation.

Sudeco also provides specific services to Mercialys, such as overseeing and carrying out special alterations and major repairs.

Sudeco collects fees representing a percentage of the annual budget. Sudeco's fees for overseeing alterations and repairs are based on a scale according to the type of work involved.

The fees payable to Sudeco in the event of a change in the rules of tenure, the rules of procedure or in any other document providing a regulatory framework for shopping centers, are billed separately.

All agency contracts, whether they concern rental management or service charge administration, share the characteristics described in the following paragraphs.

Mercialys reserves the right to commission external audits to evaluate the quality of Sudeco's services, its fees and its compliance with its obligations under each agency contract.

Each agency contract is entered into for an initial one-year term, renewable unless terminated by either party by registered letter with acknowledgement of receipt giving three months' notice.

In addition, Mercialys may terminate Sudeco's agency contracts at any time, provided it gives Sudeco three months' notice. Moreover, each of these contracts may be terminated automatically, without compensation, without notice and at the Company's discretion in the event of: (i) non-compliance with the legal and regulatory obligations imposed on Sudeco (professional conduct, financial guarantee), (ii) termination of professional insurance that Sudeco has agreed to maintain for the term of the agency contract and (iii) Sudeco defaulting on its obligations.

The fees paid by the Company and its subsidiaries to Sudeco for its various services in 2017 totaled Euro 6,122,000 compared to Euro 5,874,000 at December 31, 2016 (see chapter 3, note 25.3, p. 154).

## 6.2.4 Services agreement with Casino

Mercialys entered into a Services agreement with the Casino group on September 8, 2005, setting out the terms under which the Casino group supplies Mercialys with the support functions necessary for its operations.

In accordance with the provisions of this Services agreement of December 8, 2005, the parties decided to update the scope of services depending on the changes in their respective models and to create a benchmark in order to define the corresponding remuneration base.

A new service agreement (the "New services agreement") was thus entered into with the Casino group on March 11, 2015, replacing the Services agreement of December 8, 2005.

The Services agreement with Casino runs until December 31, 2019. When signing the New services agreement in March 2015, incorporating new ways of billing, no calls for tender were made. A PricewaterhouseCoopers benchmarking assignment was conducted to approve the relevance of the compensation arrangements in view of the new scope for services rendered, as well as practices in other groups. On this basis, in the context of the control procedure in place for Agreements between related parties, the Audit, Risks and Sustainable Development Committee issued a favorable opinion on this New services agreement, which was approved by the Board of Directors of Mercialys.

A new benchmark analysis, intended to monitor billing, was requested by the Audit, Risks and Sustainable Development Committee and conducted in the second half of 2016, with the conclusion that the billing method was balanced for Mercialys and Casino.

Under this New services agreement, Mercialys receives assistance in the following areas:

- in administrative management: legal, human resources, insurance and tax issues;
- in accounting and finance: accounts, preparation of the company financial statements and the consolidated annual and semi-annual financial statements, financial engineering and transactions, analysis and monitoring of financial risks, management of bank and cash transactions, assistance in the management of the financial structure, management and renewal of bank and bond financing, management of interest rate risk;
- in real estate: rental management of the Company's assets, service charge administration, outsourced project management, assistance provided on a case-by-case basis by Casino's real estate development unit *via* conventional real estate development contracts for Mercialys' asset restructuring projects, assistance provided by the Casino group's Studies and Expansion unit;
- in information technology: hardware and software assistance, maintenance and upgrading of tools, applications and infrastructures, operation of IT systems, access to hotline support, management of computer equipment, management of telephone subscriptions and equipment, as well as specific IT studies and developments in project mode, on a case-by-case basis.

An annual flat fee is charged for the provision of administrative management, accounting-finance, real estate and IT services (excluding studies and bespoke development and management of PCs and laptops which is outsourced). It will be revised each year by mutual consent between the parties, on the basis of costs budgeted by Casino, at the latest by the November 30 of the then current year. The parties may decide to adjust the amount of the flat fee in the fourth quarter of each year.

Should the parties fail to agree on a revised amount, the fee is equal to the amount paid the previous year, for identical services.

In situations liable to give rise to the risk of a conflict of interest with the Company, the service provider must take appropriate steps, in consultation with Mercialys, to safeguard Mercialys' interests.

An annual flat fee is charged for the provision of legal, tax, human resources, insurance, accounting, consolidation, centralization, management control, cash management and IT services (excluding studies and bespoke development and the management of PCs and laptops). The fee is reviewed each year by mutual consent based on Casino's budgeted costs.

Mercialys may arrange qualitative and financial benchmarking of the services provided. Casino has agreed to take the results of any such study into account to offer the Company improved service quality and/or better value for money.

The cost of special services, such as current account agreement, rental management, management of service charges and occupancy agreements, is provided for under specific agreements.

For services agreed on a case-by-case basis, such as outsourced project management or real estate development agreements, or assistance from the Casino group's Studies and Expansion unit, the fee is set by mutual agreement on a case-by-case basis based on the market price.

The parties may terminate all or part of this Agreement at any time, ending the performance of one or more services, without indemnity, subject to the provision of twelve months' notice by registered letter with acknowledgment of receipt.

In 2016, the parties decided to amend the New services agreement, specifically by revising the budget upwards from Euro 1,950,000 to Euro 2,080,000. This increase can be explained by specific additional fund management services provided to Mercialys and the revaluation of services in accounting, consolidation and centralization.

Mercialys paid Euro 2,142,000 excluding taxes, for these services in 2017, compared to Euro 2,080,000 in 2016 (see chapter 3, note 25.5, p. 154), the increase being due to the revaluation of legal and corporate services.

## 6.2.5 Current account advance agreement with Casino

On July 25, 2012, Mercialys and Casino, Guichard-Perrachon signed an agreement for advances on current account with a maturity of three years, enabling Mercialys to benefit from a confirmed advance from Casino of up to Euro 50 million. By an amendment dated February 26, 2015, this agreement was extended until December 2017 and Casino Finance replaced Casino, Guichard-Perrachon in its rights and obligations.

This advance is composed of two tranches as follows:

- a first tranche capped at Euro 10 million, available on the same day, bearing interest at 1-month Euribor plus a margin of 60 basis points, revisable annually based on Casino's updated refinancing costs (Margin A);
- a second tranche for a maximum amount of Euro 50 million, available within three days, bearing interest at 1-month, 2-month or 3-month Euribor plus a margin of 85 basis points, revisable annually, depending on Casino's discounted refinancing costs (Margin B);
- a non-use fee of 40% of the margin, in line with the revolving credit facility set up by Mercialys with its banks.

By amendment no. 1 to the amending act of said Agreement, signed on February 14, 2017, Mercialys and Casino Finance decided to extend this agreement until December 2019, so that this advance will continue to be included in the liquidity ratio calculated by Standard & Poor's and participate in Mercialys' BBB/stable outlook rating, as well as adapt the terms and conditions as follows, given Casino's cost of financial resources:

- the tranche capped at Euro 10 million will bear interest at 1-month Euribor (with a 0% floor) plus a margin of 40 basis points, reduced by 20 basis points;
- the margin for the Euro 50 million tranche was increased to 95 basis points, given that Casino's RCF drawdown costs increased.

In connection with the procedure for agreements between related parties, these changes were examined by Mercialys' Audit, Risks and Sustainable Development Committee, which issued a favorable opinion, and were subsequently approved by the meeting of Mercialys' Board of Directors on December 14, 2016.

For 2017, the amount paid by Mercialys for the undrawn portion of this line amounted to Euro 192,000 excluding taxes, compared to Euro 173,000, excluding taxes, paid in 2016.

## 6.2.6 Brand license agreement with L'Immobilière Groupe Casino

Under the terms of this agreement, concluded on September 8, 2005, L'Immobilière Groupe Casino grants a non-exclusive right for Mercialys to use, free of charge, the "Cap Costières" trademark, filed with the *Institut National de la Propriété Industrielle* (the French national patents office) on October 14, 2002 and registered in Class 35 under number 02 3 188 709, renewed in 2012.

This license is granted *intuitu personae*, only for France and for an initial period of 10 years, renewable from year to year by tacit agreement. Each party retains the right to terminate the agreement subject to three months' prior notice.

If L'Immobilière Groupe Casino wishes to sell the brand, Mercialys has a pre-emptive right which it must exercise within 30 days.

In the event of serious misconduct, or if either party fails to fulfill some or all of its obligations, this agreement may be terminated at any time without compensation or notice if the situation has not been rectified eight days after service of formal notice to do so.

## 6.2.7 Brand license agreement with Casino, Guichard-Perrachon

On May 24, 2007 Mercialys entered into a brand license agreement with Casino, Guichard-Perrachon, under the terms of which Casino grants Mercialys, free of charge, a non-exclusive right to use the French brands listed below:

| Brand | Registration date | Renewal declaration date | Registered number | Classes |
|---|---|---|---|---|
| BEAULIEU (name) | 01/23/2006 | 01/06/2016 | 06 3 405 097 | 16, 35 and 36 |
| BEAULIEU... pour une promenade (color visual) | 03/21/2006 | 01/07/2016 | 06 3 417 884 | 5, 16, 35 and 36 |
| NACARAT (name) | 01/20/2006 | 01/22/2016 | 06 3 404 612 | 16, 35 and 36 |
| NACARAT (color visual) | 01/27/2006 | 01/22/2016 | 06 3 406 367 | 16, 35 and 36 |

This license is granted *intuitu personae*, only for France and for an initial period of 10 years, renewable thereafter from year to year by tacit agreement. Each party retains the right to terminate the agreement, subject to three months' notice.

If Casino wishes to sell one or more of the brands, Mercialys has a pre-emption right which it must exercise within thirty days.

In the event of serious misconduct, or if either party fails to fulfill some or all of its obligations, this agreement may be terminated at any time without compensation or notice if the situation has not been rectified eight days after service of formal notice to do so.

## 6.2.8 Consulting agreement between Mercialys, L'Immobilière Groupe Casino and Plouescadis

On March 23, 2015, Mercialys, L'Immobilière Groupe Casino and Plouescadis signed a document amending the advisory services framework agreement (the "Advisory services framework agreement") incorporating the arrangements set out on the Agreement on July 27, 2007 along with all the terms and conditions which remain unchanged.

Mercialys, in its capacity as service provider, undertakes to provide operational services for the completion of shopping center enhancement projects. These services may cover asset management duties, letting assignments on operating or planned sites (excluding projects completed in connection with of the Partnership agreement between Mercialys and Casino), as well as wider marketing activities.

Billing in respect of this Advisory services framework agreement varies from one year to the next. A review clause is thus provided at the end of the year to adjust the billing to the scope of work effectively completed and to determine the billing for N+1. Actually, billing is based on time spent by Mercialys' asset management teams on the determination and implementation of projects completed by the Casino group. Given the overall cost of this staff and the actual proportion of the time concerned under the workload plan, the financial terms of the Agreement were set at Euro 280,000 excluding taxes, for fiscal year 2017.

For 2017, Mercialys received remuneration in the amount of Euro 280,000 excluding taxes, compared to Euro 208,000 excluding taxes for 2016.

### 6.2.9 AFUL

Among the real estate assets transferred by L'Immobilière Groupe Casino in October 2005, a very large number are subdivided and organized into *Associations Foncières Urbaines Libre* ("AFUL" or Free Urban Land Associations), in which each member has a number of votes proportionate to the surface area in the buildings it owns. Depending on the type of decisions to be taken, the AFUL Annual General Meetings may decide on a simple majority vote, on an absolute majority vote, on a two-thirds majority vote, or on a unanimous vote.

As a general rule, decisions of the Annual General Meeting are taken by a simple majority, *i.e.* the majority of the votes cast by members attending or represented.

However, an absolute majority of the vote of all AFUL members is required for permission to erect a sign, install an aerial or introduce pay parking. If there is no decision by absolute majority, another General Meeting may be convened at which decisions will be taken by simple majority.

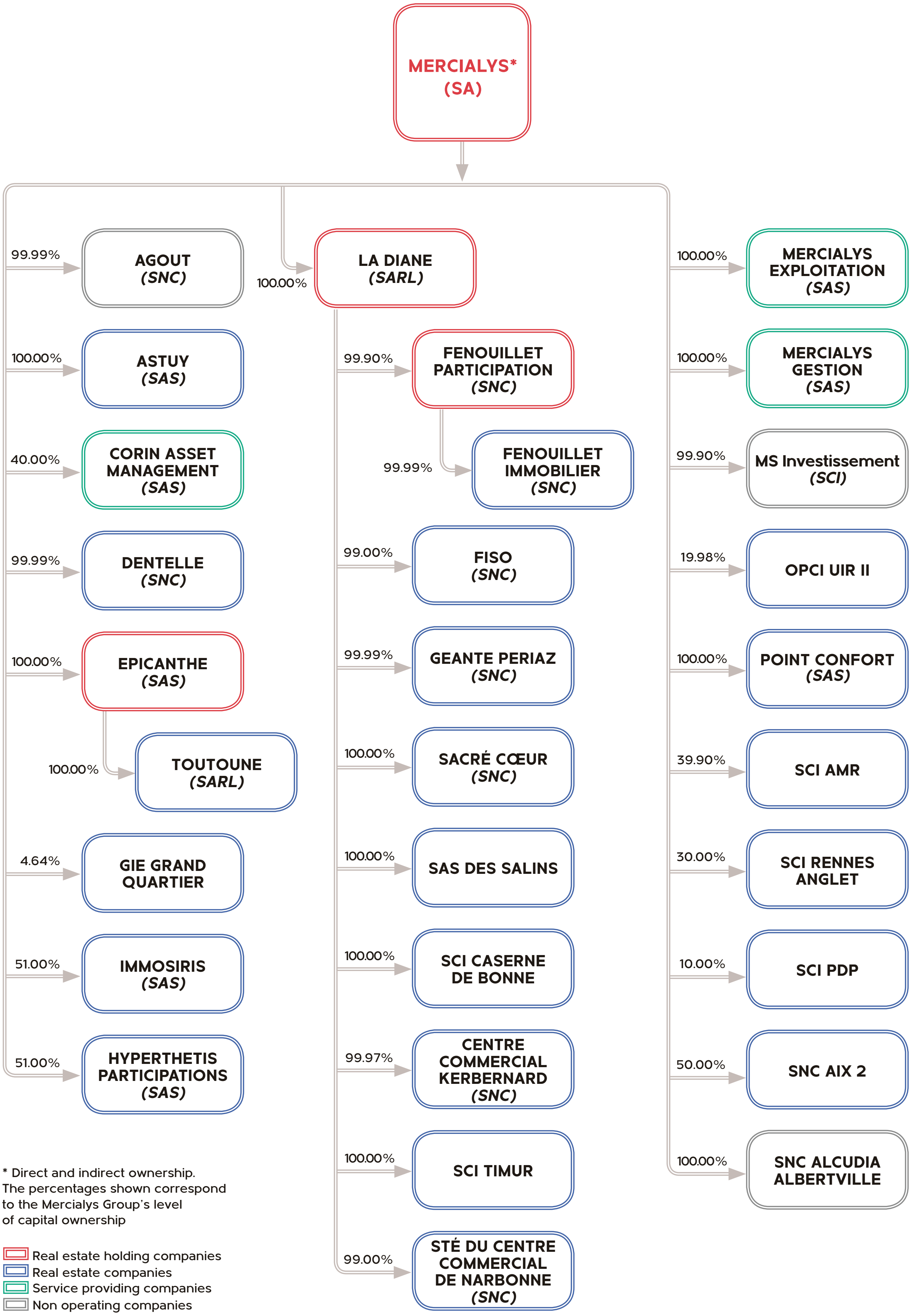
Decisions relating to refurbishment work, new facilities, extension of parking lots and outdoor access to parking lots or to the enforcement of provisions (other than for the collection of charges) contained either in the descriptive statement of subdivision by volume or in the internal regulations of the shopping center, shall be approved by a majority of the members of the AFUL representing at least two-thirds of the votes. Decisions relating to the amendment of these two documents shall also be taken by a two-thirds majority vote. Finally, decisions relating to a change in the allocation of service charges not caused by a change in the building's subdivision by volume must be taken by a unanimous vote of the members of the AFUL.

## 6.3 MERCIALYS ORGANIZATION CHART – SUBSIDIARIES AND SHAREHOLDINGS

The chart below shows the structure of the Mercialys Group. In the second half of 2017, ownership of eight subsidiaries was transferred from Mercialys SA to La Diane SARL by means of a contribution of securities transaction. La Diane has the status of a *Société d'Investissement Immobilier Cotée* (a "SIIC" or Listed Real Estate Investment Trust). All the subsidiaries are located in France.

In December 2017, Mercialys acquired, through La Diane, the SNC Sacré Cœur and its 9,600 sq.m project to extend the shopping center at Le Port, in Reunion Island. In December 2017, La Diane also acquired 50 shares in SNC Kerbernard (1.69% of the capital) from a minority shareholder. Following the transaction, La Diane therefore owned all of the shares of SNC Kerbernard.

A table showing the subsidiaries and shareholdings can be found in chapter 3, note 24, page 187. In addition to revenues generated and the net income for the year, the table also shows, for each company, the shareholders' equity, the net asset value of the shares, and the dividends received.




* Direct and indirect ownership.
The percentages shown correspond to the Mercialys Group's level of capital ownership

Real estate holding companies
Real estate companies
Service providing companies
Non operating companies

# 6.3.1 Subsidiaries

## 6.3.1.1 SERVICE PROVIDING COMPANIES

### A. Mercialys Gestion, SAS

Mercialys Gestion is responsible for the management of large shopping centers, the letting of shopping malls and the development of Casual Leasing.

The company reported revenue, excluding taxes, of Euro 11.9 million for the year ended December 31, 2017 compared to Euro 12.7 million in 2016. Net income for 2017 totaled Euro 183,000 compared to Euro 690,000 at December 31, 2016.

### B. Mercialys Exploitation, SAS

The activity of this subsidiary, incorporated on December 3, 2015, is the commercial operation of shopping centers.

The company reported revenue, excluding taxes, of Euro 4 million for the year ended December 31, 2017, compared to Euro 2.4 million in 2016.The result for fiscal year 2017 is a profit of Euro 76,000 compared to a loss of Euro 481,000 at December 31, 2016.

## 6.3.1.2 REAL ESTATE COMPANIES

### A. Dentelle, SNC

Dentelle owns various parcels of land in Puy-en-Velay and Vals-près-le-Puy (Haute-Loire), on which a 6,100 sq.m SHON (net floor area) retail park was built and opened in 2013 in the immediate proximity to the Géant Casino hypermarket.

The company reported revenue, excluding taxes, of Euro 375,000 for the year ended December 31, 2017, compared to Euro 375,000 at December 31, 2016. Net income for the year totaled Euro 214,000, compared to Euro 223,000 at December 31, 2016.

### B. Fiso, SNC

This subsidiary, which became part of the Group on July 30, 2008, lets the real estate it owns at the Istres and Angers shopping centers, comprising 42 and 116 retail units respectively. It also owns a stake in OPCI UIR II.

The company reported revenue, excluding taxes, of Euro 3 million for the year ended December 31, 2017 compared to Euro 4 million in 2016. Net income for the year totaled Euro 94,000 compared to Euro 3.2 million at December 31, 2016.

### C. Géante Périaz, SNC

Géante Périaz owns properties attached to a complex in Seynod (Haute-Savoie) where an extension to the shopping center, representing the creation of 4,900 sq.m. of gross leasable area and 32 shops was completed and opened to the public on October 20, 2010.

The company reported revenue, excluding taxes, of Euro 1.4 million for the year ended December 31, 2017, compared to Euro 1.5 million in 2016. Net income totaled Euro 1.1 million, compared to Euro 522,000 at December 31, 2016.

### D. Hyperthetis Participations, SAS

Hyperthetis Participations is 51% owned by Mercialys and 49% by OPCI SPF2, and owns nine hypermarkets, three of which are to be redeveloped: Aix-en-Provence, Angers, Brest, Nîmes, Niort, Fréjus, Istres, Narbonne and Vals-près-le-Puy.

The company reported revenue, excluding taxes, of Euro 14.3 million for the year ended December 31, 2017, compared to Euro 14.4 million at December 31, 2016. Net income totaled Euro 11.1 million, compared to Euro 11.3 million at December 31, 2016.

An agreement was signed between the partners of Hyperthétis Participations to organize the Company's governance. The agreement provides for a lock-up period for the Company's shares ending on April 30, 2022, except in the case of free transfers as defined in the agreement.

Casino has a call option on the Company's shares and on the Company's real estate assets. This latter option may be exercised only once and covers all the real estate assets.

Mercialys has a call option on all of SPF 2 Hyperthe shares and on this company's real estate assets.

Additionally, the partners have a reciprocal call option if one of them no longer benefits from the exemption regime set out in Article 208 C of the General Tax Code, either temporarily or permanently. Upon the exercise of this option, the partner who no longer benefits from the regime will not be obliged to compensate the Company for any prejudice suffered by it due to the loss of the tax exemption regime. However, if the reciprocal option is not exercised, the partner who no longer benefits from the regime must compensate the Company for any prejudice suffered by it because of the loss of this exemption regime.

At the end of the lock-up period, each partner has a right of first refusal, followed by a tag-along right.

Hyperthétis Participations and Mercialys have entered into a services agreement, with a trademark licensing agreement.

### E. Immosiris, SAS

This company is 51% owned by Mercialys and 49% by OPCI REAF, managed by BNP Paribas REIM France, and owns the shopping center in Clermont-Ferrand, as well as the hypermarket adjoining the shopping center.

The company reported revenue, excluding taxes, of Euro 7.1 million for the year ended December 31, 2017, compared to Euro 7.3 million at December 31, 2016. Net income totaled Euro 5.8 million, compared to Euro 6.3 million at December 31, 2016.

An agreement has been signed by the partners of Immosiris to organize the governance of the Company. The agreement schedules a lock-up period for the Company's shares ending on April 30, 2023, except in the event of free transfers as defined in the agreement.

Mercialys has a liquidity clause on all the shares held by Real Estate Access Fund (REAF). This option may be exercised only in the event of a change of manager or change of control in REAF, or in the event of the entry by a competitor into the capital of REAF or new investors.

The agreement also schedules the exercise of a call option on the hypermarket to the benefit of Casino (or one of its affiliates).

Additionally, the partners have a reciprocal call option if one of them no longer benefits from the exemption regime set out in Article 208 C of the General Tax Code, either temporarily or permanently. Upon the exercise of this option, the partner who no longer benefits from the regime will not be obliged to compensate the Company for any prejudice suffered by it due to the loss of the tax exemption regime. However, if the reciprocal option is not exercised, the partner who no longer benefits from the regime must compensate the Company for any prejudice suffered by it because of the loss of this exemption regime.

At the end of the lock-up period, each partner has a right of first refusal, followed by a tag-along right.

Lastly, Real Estate Access Fund has a right of first refusal in the event of the sale of the shopping center occurring subsequent to or after the exercise, by Casino (or one of its affiliates), of the call option on the hypermarket.

Furthermore, a service agreement and an asset management agreement were signed by Immosiris and Mercialys at the same time.

## F. Point Confort, SAS

This subsidiary is the owner of a 1,500 sq.m extension of the Aurillac shopping center.

It also holds stakes in Fiso SNC, Société du Centre Commercial de Narbonne SNC, SNC Agout, SNC Dentelle, SNC Géante Périaz, SCI Timur, SCI Caserne de Bonne, SNC Alcudia Albertville, MS Investissement, SNC Kerbernard, SNC Fenouillet Participation, SNC Sacré Cœur and OPCI UIR II.

The company reported revenue, excluding taxes, of Euro 458,000 for the year ended December 31, 2017, compared to Euro 419,000 in 2016. Net income totaled Euro 347,000, compared to Euro 285,000 at December 31, 2016.

## G. SAS des Salins

SAS des Salins owns the shopping center extension at the Fréjus site on Allée des Hirondelles, comprising 23 stores, acquired in July 2012, and five commercial properties in the Zone Industrielle de la Bouriette, an industrial estate in Carcassonne.

The company reported revenue, excluding taxes, of Euro 1.5 million for the year ended December 31, 2017, compared to Euro 1.5 million in 2016. Net income totaled Euro 1.3 million, compared to Euro 872,000 at December 31, 2016.

## H. SCI Caserne de Bonne

This subsidiary, which became part of the Group on December 31, 2010, owns the La Caserne de Bonne shopping center in Grenoble, comprising retail units with a combined GLA of 19,100 sq.m: nine large and medium-sized stores including Monoprix, Au Vieux Campeur and Decathlon, 40 shops, of which six restaurants, 1,100 sq.m of office space and 300 parking spaces. The center, which opened in September 2010, is part of a larger scheme to redevelop 8.5 hectares of a former military base, including 850 dwellings, an apartment hotel, a four-star hotel, student accommodation, a cinema, a swimming pool, a school and two parks.

The company reported revenue, excluding taxes, of Euro 5.4 million for the year ended December 31, 2017, compared to Euro 5.5 million in 2016. Net income totaled Euro 1.5 million, compared to Euro 2.1 million at December 31, 2016.

## I. Société civile immobilière Timur

Timur owns the parking lots at the Sainte Marie Duparc shopping center in Reunion Island, as well as a retail complex with a GLA of around 15,500 sq.m including service areas, restaurants and retail space.

The company reported revenue, excluding taxes, of Euro 5.7 million for the year ended December 31, 2017, compared to Euro 4.6 million in 2016. Net income totaled Euro 6.9 million, compared to Euro 2.2 million at December 31, 2016.

## J. Société du Centre Commercial de Narbonne, SNC

This subsidiary, which became part of the Group on July 30, 2008, lets the real estate it owns within the Narbonne shopping center, comprising 29 retail units.

The company reported revenue, excluding taxes, of Euro 1 million for the year ended December 31, 2017, compared to Euro 1.1 million in 2016. Net income totaled Euro 794,000, compared to Euro 348,000 at December 31, 2016.

## K. Centre Commercial Kerbernard, SNC

This company owns most of the retail units at the Géant Casino shopping center in Brest, together with the parking lots. In December 2017, the company changed its legal structure from a property investment company (SCI) to a general partnership (SNC).

In December 2017, SARL La Diane acquired the 50 shares (1.69% of the capital) held by a minority partner. La Diane therefore owns 100% of this subsidiary.

The company reported revenue, excluding taxes, of Euro 4 million for the year ended December 31, 2017, compared to Euro 4.1 million in 2016. Net income totaled Euro 3.6 million, compared to Euro 3 million at December 31, 2016.

### L. Astuy, SAS

Astuy was incorporated on August 3, 2016. The company's purpose is to take over real estate development projects, especially based around Monoprix high-street assets.

The company recorded a net loss of Euro 3,100 at December 31, 2017, compared to a net loss of Euro 4,000 at December 31, 2016.

### M. Fenouillet Immobilier, SNC and Fenouillet Participation, SNC

Fenouillet Immobilier owns the extension of the Toulouse Fenouillet shopping center. This project was developed by Foncière Euris within the context of a partnership with Mercialys.

Fenouillet Participation wholly owns Fenouillet Immobilier. At the end of 2016, Mercialys exercised the fair value option it held on the shopping center extension project. Mercialys previously owned 10% of the shares in Fenouillet Participation.

At December 31, 2016, Mercialys owned 100% of the shares.

Fenouillet Immobilier reported revenue at December 31, 2017 of Euro 5.3 million compared to Euro 2.1 million at December 31, 2016. It reported a profit of Euro 1.2 million at December 31, 2017, compared to a loss of Euro 452,000 in 2016.

Fenouillet Participation ended 2017 with a loss of Euro 14,000 compared to a loss of Euro 564,000 at December 31, 2016.

### N. Sacré Cœur, SNC

This company was acquired by SARL La Diane on December 28, 2017. It did not conduct any business between this date and December 31, 2017. Sacré Cœur is in charge of the extension project for the Le Port shopping center (Reunion Island), which is scheduled to open in November 2018.

## 6.3.1.3 REAL ESTATE HOLDING COMPANIES

### A. La Diane, SARL

La Diane has equity interests in nine real estate companies. It also owns a stake in OPCI UIR II.

In December 2017, the legal structure of the company was changed from a property investment company (SCI) to a limited liability company (SARL). This company has the status of a Société d'Investissement Immobilier Cotée (Listed Real Estate Investment Trust).

As in 2016, the company generated no revenue during the year ended December 31, 2017. Net income totaled Euro 6,257,000, compared to Euro 48,000 at December 31, 2016.

### B. Epicanthe, SAS

In October 2015, Mercialys acquired the simplified joint stock company Epicanthe.

In November 2015, Epicanthe SAS acquired the shares of SARL Toutoune, owner of an eight hectare plot in Saint-André in Reunion Island.

The company reported a loss of Euro 19,000 for the year ended December 31, 2017, compared to Euro 20,000 at December 31, 2016.

## 6.3.1.4 NON OPERATING COMPANIES

### A. Agout, SNC

In January 2017, Agout sold a property attached to a retail complex in Castres (Tarn), including a 2,350 sq.m shopping center that opened to the public in May 2010.

At the end of 2017, the company no longer owned any assets.

The amounts recognized as revenue for 2017 correspond to credit notes issued to tenants. Agout had generated revenues of Euro 537,000 at December 31, 2016. Net income at December 31, 2017 totaled Euro 163,000, compared to Euro 148,000 in 2016.

### B. Alcudia Albertville, SNC

This company does not hold any assets and did not conduct any business during 2017.

The amounts recognized as revenue for 2017 correspond to credit notes issued to tenants. Alcudia Albertville had generated revenues of Euro 286,000 at December 31, 2016. It reported a loss of Euro 1,000 at December 31, 2017, compared to net income of Euro 4.6 million in 2016.

### C. MS Investissements, SCI

This company does not hold any assets and did not conduct any business during 2017.

## 6.3.2 Equity interests

### 6.3.2.1 SNC AIX 2

Under the terms of the Partnership agreement, Mercialys acquired the Casino group's stake in SNC Aix 2 on December 2, 2013. This company is now jointly owned by Mercialys and the Altarea Group.

SNC Aix 2 has developed the proposed extension of the Aix-en-Provence shopping center allowing for the accommodation of 28 new stores. The extension opened to the public in two phases: one in May 2014 and the other in April 2015.

The company reported revenue, excluding taxes, of Euro 2.1 million for the year ended December 31, 2017, compared to Euro 1.9 million in 2016. Net income totaled Euro 610,000, compared to Euro 449,000 at December 31, 2016.

### 6.3.2.2 SCI AMR

In April 2013, Mercialys formed a partnership with Amundi when it set up SCI AMR, 43.4% owned by Mercialys and 56.6% by OPCIMMO (a collective investment scheme specializing in real estate and open to the general public, managed by Amundi), to which Mercialys sold or transferred four shopping centers: Paris Saint-Didier, Montauban, Valence 2 and Angoulême. The SCI AMR also acquired the Niort and Albertville sites, sold by Mercialys, on December 29, 2016. Following this transaction, and the entry of two SCPIs into the capital of SCI AMR, Mercialys' holding was reduced to 39.9%.

An agreement was signed by the partners of SCI AMR to organize the governance of the Company.

On December 29, 2016 the partners signed an amendment to the original agreement specifically to include the two new assets, Niort and Albertville, to incorporate both SCPIs but also to extend the term of the SCI, initially scheduled to be 10 years. The partners also amended the *rendez-vous* clause, in order to rule on the extension of the company's term within eight years of December 29, 2016. The extension of the Company's term requires a reinforced majority decision of two-thirds. If a minority partner were to refuse the extension, said partner has the right to sell its holding based on a price determined according to a NAV. In the event of disagreement between the partners, the company will be liquidated.

The agreement provides for a right of refusal in the event of partial or total transfer of the shares of one or more of the partners.

Mercialys also has an asset management mandate, a letting mandate and a mandate for the exclusive communication of mutual interests.

The company reported revenue, excluding taxes, of Euro 10.3 million (recognized rents) for the year ended December 31, 2017, compared to Euro 5.5 million in 2016. The company recorded a profit of Euro 1.5 million for the period, compared to a loss of Euro 7.6 million at December 31, 2016.

### 6.3.2.3 CORIN ASSET MANAGEMENT

Corin Asset Management is jointly owned by Mercialys and Corin, which owns 60% of the share capital.

It provides rental, technical and real-estate management services for the five Corsican shopping centers of which Mercialys acquired 60% of the indivisible property rights in December 2006 and January 2007. It is also responsible for letting and developing the shopping malls within these centers and manages the co-ownership contract between Corin and Mercialys.

Corin Asset Management's byelaws provide for a non-transferable shares clause. This period ended on September 19, 2015.

A pre-emption right exists in the event of transfer of shares, proportional to each partner's stake in the capital, excluding the shares offered.

A rental management and service charge management mandate was entered into between Corin Asset Management and the indivisible ownership of five shopping centers in Corsica (of which Mercialys owns 60% of the indivisible property rights).

The company reported revenue, excluding taxes, of Euro 1,024,000 for the year ended December 31, 2017, compared to Euro 1,027,000 in 2016. Net income totaled Euro 92,000 compared to Euro 111,000 at December 31, 2016.

### 6.3.2.4 OPCI UIR II

In July 2011, Mercialys and Union Investment, a German fund manager active in the real estate market, created an OPCI fund named OPCI UIR II, designed to acquire mature retail properties as opportunities arise on the market.

The fund is 19.99%-owned by Mercialys. In 2011, it acquired the shopping mall within the Bordeaux-Pessac shopping center.

Mercialys and Union Investment entered into a shareholder agreement which provides that:

- Mercialys had a call option from July 1, 2014 to July 28, 2014;
- Mercialys had a "lock-up period" put option from July 8, 2011 to January 1, 2016;
- Union Investment had a put option from May 31, 2014 to June 30, 2014.

The partners have preferential subscription rights in the event of a partial or total transfer of the shares of one or more of the partners.

The shareholder agreement also provides for a total or proportional joint exit right and a drag-along right.

An asset management mandate, a letting mandate and an exclusive communication of mutual interest mandate exists between Mercialys and UIR II.

For the year ended December 31, 2017, the fund reported revenue, excluding taxes, of Euro 5.4 million (real estate income recognized) compared to Euro 5.3 million in 2016. Net income totaled Euro 1.4 million, compared to Euro 1.4 million at December 31, 2016.

### 6.3.2.5 SCI RENNES ANGLET

SCI Rennes Anglet was established on June 15, 2016. It owns and operates the sites at Rennes and Anglet. It is 30% owned by Mercialys and 70% by OPPCI SEREIT France.

The company reported revenue, excluding taxes, of Euro 6.5 million for the year ended December 31, 2017, compared to Euro 2.2 million in 2016. The profit for the year totaled Euro 2.2 million, compared to a loss of Euro 2.9 million at December 31, 2016.

An agreement was signed by the partners of SCI Rennes Anglet to organize the governance of the company.

The agreement provides for a lock-up period for the company's shares ending June 30, 2022 (inclusive), except in the event of "free" transfers as defined in the agreement.

Distribution Casino France has a call option on the company's shares, reserved for the restrictive cases outlined in the agreement. Distribution Casino France also has a call option on all the property assets held by the Company, on terms and conditions outlined comprehensively in the agreement.

At the end of the lock-up period, the partners have a right of first offer, followed by a tag-along right.

A tag-along obligation also exists at the end of the lock-up period, if SEREIT receives a bid from a third party to purchase all the Company's shares.

The agreement provides the partner SEREIT with a right of first refusal over the other assets located on the site of the property complexes.

Mandates to find tenants and to manage marketing funds exist between SCI Rennes Anglet and Mercialys Gestion. Finally, Mercialys and SCI Rennes Anglet have signed a trademark license agreement.

**€1.09**
Dividend per share

**€0.41**
Interim dividend per share paid in October

**5.9%**
Yield on end-2017 share price


La Galerie Espace Monthieu, Saint-Etienne

# 7

# STOCK MARKET INFORMATION AND SHARE CAPITAL

# 7.1 STOCK MARKET INFORMATION

## 7.1.1 Mercialys' share performance

Mercialys shares have been listed on Compartment A of the Euronext Paris stock exchange (ISIN code: FR0010241638 – Ticker symbol: MERY) since October 12, 2005. They have been eligible for the *Service à Règlement Différé* (French Deferred Settlement Service) since February 26, 2008.

Mercialys is included in the SBF 120 and EPRA indices.

The Company has also issued four bonds: one in 2012, which is listed in Luxembourg; a second in 2014, which is listed in Paris on Euronext; a third in 2015, in the form of an extension on the bond issued in 2014; and a fourth in 2017 also listed in Paris.

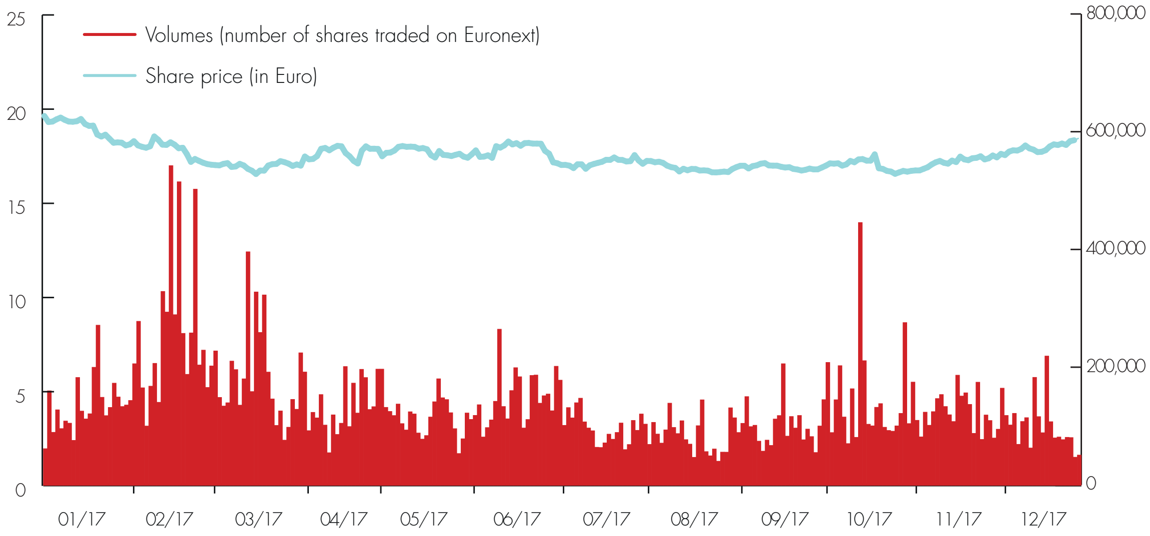
Mercialys is rated BBB/stable outlook by Standard & Poor's.

**Trading volume and share price over the last 18 months[1]**

| | Share price *(in euros)* | | Number of shares traded *(in thousands)* | Value of shares traded *(in thousands of euros)* |
|---|---|---|---|---|
| | High | Low | | |
| **2016** | | | | |
| August | 21.330 | 20.310 | 1,923 | 40,124 |
| September | 21.940 | 20.300 | 3,515 | 73,691 |
| October | 21.465 | 18.840 | 3,084 | 60,777 |
| November | 19.060 | 17.675 | 3,233 | 59,291 |
| December | 19.300 | 17.900 | 2,465 | 45,289 |
| **2017** | | | | |
| January | 19.700 | 18.010 | 2,951 | 55,771 |
| February | 18.700 | 16.870 | 5,223 | 93,067 |
| March | 17.490 | 16.505 | 4,247 | 71,861 |
| April | 18.230 | 17.065 | 2,366 | 41,923 |
| May | 18.120 | 17.290 | 2,500 | 44,297 |
| June | 18.390 | 17.110 | 3,252 | 58,169 |
| July | 17.560 | 16.680 | 2,025 | 34,690 |
| August | 17.305 | 16.505 | 1,932 | 32,630 |
| September | 17.200 | 16.655 | 2,117 | 35,809 |
| October | 17.600 | 16.540 | 3,245 | 55,188 |
| November | 17.625 | 16.700 | 2,721 | 46,845 |
| December | 18.445 | 17.500 | 1,891 | 33,816 |
| **2018** | | | | |
| January | 18.750 | 18.080 | 2,120 | 39,042 |

*(1) Source: Euronext Paris.*

Share price in 2017




Stock market performance over the last 5 years

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Share price *(in euros)*[1] | | | | | |
| High | 17.58 | 19.26 | 24.56 | 21.94 | 19.70 |
| Low | 13.96 | 14.80 | 17.98 | 17.43 | 16.51 |
| December 31 (closing price) | 15.25 | 18.44 | 18.64 | 19.25 | 18.45 |
| **MARKET CAPITALIZATION AT DECEMBER 31** *(in millions of euros)* | **1,403** | **1,696** | **1,715** | **1,771** | **1,698** |

*(1) Source: Euronext Paris*

# 7.1.2 Share buyback program

## 7.1.2.1 CURRENT SHARE BUYBACK PROGRAM

The Annual General Meeting of April 27, 2017 authorized the Board of Directors to purchase or arrange for the purchase of the Company's shares in accordance with the provisions of articles L. 225-209 *et seq.* of the French Commercial Code, of articles 241-1 to 241-5 of the General regulation of the *Autorité des marchés financiers* (AMF), and the European regulation applicable to market abuse (and specifically European regulations no. 596/2014 of April 16, 2014 and no. 2273/2003 of December 22, 2003), primarily for the following purposes:

- to maintain liquidity and stimulate the market for the Company's shares through an investment services provider acting independently on behalf of the Company, in connection with a liquidity contract compliant with a code of conduct recognized by the AMF;
- to implement any Company stock option plan, under the provisions of articles L. 225-177 *et seq.* of the French Commercial Code, any savings scheme in accordance with articles L. 3332-1 *et seq.* of the French Employment Code or any allocation of bonus shares under the provisions of articles L. 225-197-1 *et seq.* of the French Commercial Code, or any other scheme for payment in shares;
- to deliver these shares when the rights attached to negotiable securities conferring a right to shares are exercised by reimbursement, conversion, exchange, the presentation of a warrant or debt security convertible or exchangeable into shares of the Company, or by any other means that confers a right to shares of the Company;
- to keep them with a view to subsequently using them as payment or exchange in connection with, or following, any external growth transaction within the limit specified by article L. 225-209, paragraph 6 of the French Commercial Code;
- to cancel all or part of them in order to optimize net earnings per share in connection with a share capital reduction in the manner specified by law;
- to conduct any further market practice authorized by the AMF and generally to carry out any transaction compliant with applicable regulations.

These shares may be acquired, sold, transferred, or exchanged by any means, including on the regulated market or over the counter and by block trade transactions. These means include the use of any derivative financial instrument traded on a regulated market or over the counter and the implementation of options strategies in the manner authorized by the competent market authorities, provided that such means do not contribute to a significant increase in share volatility. The shares may also be loaned, pursuant to articles L. 211-22 *et seq.* of the French Monetary and Financial Code.

The purchase price of the shares shall not exceed Euro 35 (excluding purchase costs) per share with a par value of Euro 1 (one).

This authorization may be implemented within the limit of a number of shares representing 10% of the Company's share capital on the date of the Annual General Meeting of April 27, 2017, on the understanding that when the Company's shares are purchased under a liquidity agreement, the number of these shares taken into account to calculate the 10% threshold specified above, will correspond to the number of those purchased shares, after deducting the number of shares resold under the liquidity agreement during the authorization period. However, the number of shares purchased by the Company to be kept and subsequently used as payment or exchange in connection with an external growth transaction may not exceed 5% of the share capital. Purchases made by the Company may not, under any circumstances, result in the Company holding at any time whatsoever, more than 10% of the shares making up its share capital.

In the event of a public offer for shares, securities or transferable securities issued by the Company, the Company may only use this authorization to satisfy its commitments regarding the delivery of securities, particularly in the context of bonus share award plans or strategic transactions committed to and announced before the launch of the public offer.

### 7.1.2.2 TRANSACTIONS CARRIED OUT IN 2017 AND UNTIL JANUARY 31, 2018

#### A. Liquidity contract

In an effort to increase the liquidity of the Group's shares and ensure share price stability, as well as to avoid big fluctuations in the Company's share price unwarranted by market trends, the Company entered into a liquidity contract with Oddo Corporate Finance on February 20, 2006. This contract complies with the AMAFI (French financial markets association) Code of conduct approved by the AMF on October 1, 2008. The Company allocated Euro 1,600,000 to a liquidity account to implement this liquidity contract.

The Company added Euro 800,000 to the liquidity account on January 20, 2009, a further Euro 3,000,000 on March 9, 2009, and Euro 6,000,000 on May 25, 2009, bringing the total sum allocated to Euro 11,400,000. On December 5, 2011, the Company decided to make a partial withdrawal of Euro 3,400,000, reducing the amount allocated to the liquidity contract from Euro 11,400,000 to Euro 8,000,000.

During 2017, a total of 2,894,790 Mercialys shares were purchased at an average price of Euro 17.591, and 2,836,756 Mercialys shares were sold at an average price of Euro 17.563. At December 31, 2017, the liquidity account contained: 127,534 shares and Euro 5,900,659.

Between January 1 and January 31, 2018, a total of 176,366 Mercialys shares were purchased at an average price of Euro 18.383 and 146,212 Mercialys shares were sold at an average price of Euro 18.440. At January 31, 2018, the liquidity account contained: 157,688 shares and Euro 5,354,538.

#### B. Other transactions

No shares were canceled during the 24-month period from February 1, 2016 to January 31, 2018.

Between January 1, 2018 and January 31, 2018 the Company did not carry out any transactions on its own shares, apart from the above-mentioned transactions.

#### C. Summary of transactions

The table below summarizes the transactions carried out by the Company in its own shares between January 1 and December 31, 2017 and between January 1 and January 31, 2018, and indicates the number of shares held by the Company:

| | Number of shares | % of capital |
|---|---|---|
| **Number of shares held as at December 31, 2016** | **128,373** | **0.14%** |
| Number of shares purchased under the liquidity contract | 2,894,790 | |
| Number of shares sold under the liquidity contract | (2,836,756) | |
| Number of shares canceled | 0 | |
| Number of bonus shares | (14,446) | |
| **Number of shares held as at December 31, 2017** | **171,961** | **0.19%** |
| Number of shares purchased under the liquidity contract | 176,366 | |
| Number of shares sold under the liquidity contract | (146,212) | |
| **Number of shares held as at January 31, 2018** | **202,115** | **0.22%** |

The Company's position at December 31, 2017 and January 31, 2018 was as follows:

| | 12/31/2017 | 01/31/2018 |
|---|---|---|
| Number of treasury shares in portfolio | 171,961 | 202,115 |
| Percentage of share capital held directly or indirectly as treasury shares | 0.19% | 0.22% |
| Number of shares canceled during the last 24 months | 0 | 0 |
| Book value of the portfolio (in millions of euros) | 2.9 | 3.6 |
| Market value of the portfolio (in millions of euros)(1) | 3.2 | 3.7 |

*(1) Value in millions of euros based on the December 29, 2017 closing price of Euro 18.445 and the January 31, 2018 closing price of Euro 18.320.*

Mercialys has no open positions in derivative products. The 202,115 treasury shares held on January 31, 2018 were allocated as follows:

- 157,688 shares for use in connection with the liquidity contract;
- 44,427 shares for use in all the Company stock option plans, savings schemes or in the allocation of bonus shares to officers and employees of the Company and related companies.

### 7.1.2.3 DESCRIPTION OF THE SHARE BUYBACK PROGRAM SUBMITTED FOR SHAREHOLDER APPROVAL

At the Annual General Meeting of April 26, 2018, shareholders will be asked to renew the Board of Directors' authorization to purchase, directly or indirectly, shares in the Company pursuant to articles L. 225-209 *et seq.* of the French Commercial Code, articles 241-1 to 241-5 of the general Regulation of the AMF, and the European regulations applicable to market abuse (specifically European regulations no. 596/2014 of April 16, 2014 and no. 2273/2003 of December 22, 2003), in order:

- to maintain liquidity and stimulate the market for the Company's shares through an investment services provider acting independently on behalf of the Company, in connection with a liquidity contract compliant with a code of conduct recognized by the AMF;
- to implement any Company stock option plan, under the provisions of articles L. 225-177 *et seq.* of the French Commercial Code, any savings scheme in accordance with articles L. 3332-1 *et seq.* of the French Employment Code or any allocation of bonus shares under the provisions of articles L. 225-197-1 *et seq.* of the French Commercial Code, or any other scheme for payment in shares;
- to deliver these shares when the rights attached to negotiable securities conferring a right to shares are exercised by reimbursement, conversion, exchange, the presentation of a warrant or debt security convertible or exchangeable into shares of the Company, or by any other means that confers a right to shares of the Company;
- to keep them with a view to subsequently using them as payment or exchange in connection with, or following, any external growth transaction within the limit specified by article L. 225-209, paragraph 6 of the French Commercial Code;
- to cancel all or part of them in order to optimize net earnings per share in connection with a share capital reduction in the manner specified by law;
- to conduct any further market practice authorized by the AMF and generally to carry out any transaction compliant with applicable regulations.

These shares may be acquired, sold, transferred, or exchanged by any means, including on the regulated market or over the counter and by block trade transactions. These means include the use of any derivative financial instrument traded on a regulated market or over the counter and the implementation of options strategies in the manner authorized by the competent market authorities, provided that such means do not contribute to a significant increase in share volatility. The shares may also be loaned, pursuant to articles L. 211-22 *et seq.* of the French Monetary and Financial Code.

The purchase price of the shares shall not exceed Euro 25 (excluding purchase costs) per share with a par value of Euro 1 (one).

This authorization may be implemented within the limit of a number of shares representing 10% of the Company's share capital on the date of this Annual General Meeting, *i.e.* for information 9,002,801 shares on the basis of the capital at January 31, 2018, net of 202,115 treasury shares, for a maximum sum of Euro 225 million, on the understanding that when the Company's shares are purchased under a liquidity agreement, the number of these shares taken into account to calculate the 10% threshold specified above, will correspond to the number of those purchased shares, after deducting the number of shares resold under the liquidity agreement during the authorization period.

However, the number of shares purchased by the Company to be kept and subsequently used as payment or exchange in connection with an external growth transaction may not exceed 5% of the share capital. Purchases made by the Company may not, under any circumstances, result in the Company holding at any time whatsoever, more than 10% of the shares making up its share capital.

The authorization granted to the Board of Directors will be valid for a period of 18 months. It terminates and replaces the authorization previously granted by the eighteenth resolution of the Annual General Meeting of April 27, 2017.

In the event of a public tender offer relating to the shares, securities or transferable securities issued by the Company, the Company may only use this authorization to satisfy its commitments regarding the delivery of securities, particularly in connection with bonus share award plans or strategic transactions undertaken and announced before the launch of the public offer.

The Combined Ordinary and Extraordinary General Meeting of April 27, 2017 renewed the authorization granted to the Board of Directors to reduce the Company's share capital by the cancellation of treasury shares. This authorization is valid for a period of 26 months, *i.e.* until June 26, 2019.

## 7.1.3 Dividend policy

On November 24, 2005, Mercialys elected to be taxed under the regime applicable to *Sociétés d'Investissements Immobiliers Cotées* (SIICs).

As a SIIC, Mercialys is exempt from corporate income tax on its rental revenues and on capital gains generated from the sale of real estate assets or some holdings in real estate companies. In return for this tax exemption, SIICs must distribute to their shareholders at least 95% of the exempt income generated from property leasing and sub-leasing transactions. Similarly, SIICs must distribute at least 60% of the exempt income generated from the sale of any property and interests in property companies. Dividends from subsidiaries subject to corporate tax and are covered by this tax regime must be fully redistributed.

On July 26, 2017, the Board of Directors decided to pay an interim dividend of Euro 0.41 per share on 2017 earnings. This interim dividend was paid out on October 23, 2017.

At December 31, 2017, the net income generated by Mercialys, the parent company, amounted to Euro 287.3 million, including Euro 283 million of tax-exempt income and Euro 4.3 million of taxable income.

The Board of Directors will propose to the Annual General Meeting of April 26, 2018 the payment of a dividend for 2017 of Euro 1.09 per share (including the interim dividend of Euro 0.41 per share already paid in October 2017), representing a total of Euro 100.3 million based on the number of shares outstanding at December 31, 2017, without considering the cancellation of dividends on treasury shares held at the payment date. The proposed dividend offers a return of 5.3% on the EPRA NNNAV of Euro 20.54 per share at the end of 2017.

The proposed dividend corresponds to 88% of 2017 FFO, in line with the objective announced by Mercialys (range of 85% to 95% of 2017 FFO). This corresponds to the distribution requirement under SIIC status for exempted profits from letting or sub-letting transactions on buildings, *i.e.* Euro 0.99 per share, and the balance of the 60% of exempted profits in respect of 2016 from the sale of property and interests in property companies, *i.e.* Euro 0.10 per share. Furthermore, an obligation to distribute Euro 0.13 per share corresponds to the share of 60% of the distributable profits exempted under the SIIC status in respect of 2017. This amount should be distributed no later than in 2019.

Because an interim dividend of Euro 0.41 per share has already been paid, a final dividend of Euro 0.68 per share will be paid on May 3, 2018 (ex-dividend date April 30, 2018), subject to approval by the Annual General Meeting of April 26, 2018.

For the interim dividend of Euro 0.41 per share, 100% of the amount was distributed from tax-exempt income.

Dividends taken from the tax-exempt income of SIICs do not qualify for the 40% allowance provided for in article 158-3, paragraph 2, of the French General Tax Code. Only dividends taken from the non-tax-exempt income of SIICs are eligible for this allowance.

Furthermore, social security contributions (17.2%, starting from January 1, 2018) on dividends paid to individuals resident for tax purposes in France are withheld by the paying institution. In addition, since January 1, 2013, an income tax prepayment (12.8% starting from January 1, 2018) has also been withheld on these dividends by the paying institution.

The following table shows the dividends paid over the last five financial years:

| Financial year ended | Dividend per share | Dividend eligible for 40% or 50% allowance(1) | Dividend not eligible for 40% or 50% allowance(1) |
|---|---|---|---|
| December 31, 2012 | Euro 1.22 | None | Euro 1.22 |
| December 31, 2013 | Euro 1.16 | None | Euro 1.16 |
| December 31, 2014 | Euro 1.24 | None | Euro 1.24 |
| December 31, 2015 | Euro 1.33 | None | Euro 1.33 |
| December 31, 2016 | Euro 1.06 | None | Euro 1.06 |

*(1) Pursuant to article 158-3, paragraph 2, of the French General Tax Code for individuals.*

Dividends not claimed within five years of their distribution date are forfeited and handed over to the French Treasury, pursuant to articles L. 1126-1 and 1126-2 of the French Public Property Code.

## 7.1.4 Communication policy

Mercialys has set up an organized and efficient financial communication, in order to reflect its strong determination for transparency concerning its business activity and its earnings, and to raise awareness about its business.

The team in charge of the financial communication and investor relations is able to respond to requests for information and documentation from all existing or potential individual or institutional investors.

The Mercialys website (www.mercialys.com) presents the Group's activities and organization, together with all relevant financial and non-financial data, in both French and English.

The website also hosts all the Company's published documentation, including the information required by articles 221-1 *et seq.* of the General regulation of the AMF.

This information is kept for at least five years (ten years for registration documents and half-year financial reports) after their issue date.

The Company's quarterly rental revenues and interim and full-year earnings are detailed in press releases issued in French and English. These press releases, placed online on the Company's website and sent through the usual regulatory channels (wire services), are also distributed by e-mail to all investors present in the Mercialys Customer Relationship Management (CRM) database, and to any interested party. Requests may be submitted directly *via* the "Contact" page of the website, or by writing to the Financial communication and Investors relations department at the following address:

148, rue de l'Université – 75007 Paris, France

E-mail: finance@mercialys.com

Website: www.mercialys.com

Mercialys also holds at least one financial information meeting and one conference call each year to discuss the Group's earnings and strategy. Simultaneous translation into English is available in the meeting room, and the meeting is also broadcast by telephone and *via* the Internet in French and English.

Below, the list of information published or made public by Mercialys over the last twelve months

| Nature of the information | Publication date |
|---|---|
| **Activity and results** | |
| Press release on 2016 annual activity | 01/11/2017 |
| Press release on 2016 annual results | 02/14/2017 |
| Online publication of the 2016 annual results presentation | 02/15/2017 |
| Press release on 2017 first-quarter activity | 04/19/2017 |
| Press release on 2017 half-year results | 07/26/2017 |
| Online publication of the 2017 half-year results presentation | 07/27/2017 |
| Press release on the activity at end-September 2017 | 10/17/2017 |
| **Annual General Meeting of April 27, 2017** | |
| Publication of the meeting notice in the BALO | 03/22/2017 |
| Online publication of the «Notice of Meeting 2017» brochure | 03/22/2017 |
| Online publication of the proxy and mail voting application form | 03/22/2017 |
| Online publication of the number of voting rights and outstanding shares as of March 22, 2017 | 04/04/2017 |
| Press release on the procedure for the provision of preparatory documents | 04/04/2017 |
| Publication of the meeting summon in the BALO | 04/10/2017 |
| Publication of the meeting summon in the Petites Affiches | 04/10/2017 |
| Online publication of the AGM presentation | 04/27/2017 |
| Online publication of the meeting report and votes | 05/02/2017 |
| **Company** | |
| Press release on La Galerie Espaces Fenouillet shopping center | 01/17/2017 |
| Press release on the renewal of Mercialys partnership with Médecins du Mondre | 02/07/2017 |
| Press release on the opening of new retailing brands | 03/28/2017 |
| Press release on the launch of La Galerie des Services | 06/13/2017 |
| Press release on the two CNCC awards won in 2017 | 06/21/2017 |
| Press release on the disposal of the Poitiers Beaulieu shopping center | 07/03/2017 |
| Press release on the double recognition in the 2017 EPRA Awards | 09/06/2017 |
| Press release on the 2017 GRESB results | 09/13/2017 |
| Press release on the Rennes Grand Quartier project | 09/18/2017 |
| Press release on the award received at the 2017 Grands Prix de la Transparence | 09/21/2017 |
| Press release on the succesful extension of La Galerie Géant Quimper shopping center | 09/26/2017 |
| Press release on the award received from the Gaïa Index | 10/19/2017 |
| Press release on the Euro 150 million bond issue as part of a private placement | 10/25/2017 |
| Press release on the 2017 CDP results | 10/30/2017 |
| Press release on the succesful extension of La Galerie Espaces Fenouillet shopping center | 11/22/2017 |
| Press release on the Board of Directors high standards | 11/27/2017 |
| Press release on the completion of the three 2017 extension projects: Saint-Étienne, Morlaix and Rennes | 11/29/2017 |
| Press release on the customers' omnichannel experience | 12/12/2017 |

| Nature of the information | Publication date |
|---|---|
| **Shares** | |
| Press release on the summary of means available in the liquidity contract as of December 31, 2016 | 01/09/2017 |
| Press release on the number of oustanding shares and voting rights as of December 31, 2016 | 01/09/2017 |
| Press release on the number of oustanding shares and voting rights as of January 31, 2017 | 02/08/2017 |
| Press release on the number of oustanding shares and voting rights as of February 28, 2017 | 03/15/2017 |
| Press release on the number of oustanding shares and voting rights as of March 31, 2017 | 04/20/2017 |
| Press release on the number of oustanding shares and voting rights as of April 30, 2017 | 05/15/2017 |
| Press release on the number of oustanding shares and voting rights as of May 31, 2017 | 06/15/2017 |
| Press release on the number of oustanding shares and voting rights as of June 30, 2017 | 07/05/2017 |
| Press release on the summary of means available in the liquidity contract as of June 30, 2017 | 07/07/2017 |
| Press release on the number of oustanding shares and voting rights as of July 31, 2017 | 08/04/2017 |
| Press release on the number of oustanding shares and voting rights as of August 31, 2017 | 09/11/2017 |
| Press release on the number of oustanding shares and voting rights as of September 30, 2017 | 10/11/2017 |
| Press release on the number of oustanding shares and voting rights as of October 31, 2017 | 11/06/2017 |
| Press release on the number of oustanding shares and voting rights as of November 30, 2017 | 12/06/2017 |
| **Other regulated information** | |
| Press release on the remuneration of senior executives - January 5, 2017 | 01/05/2017 |
| Press release on the remuneration of senior executives - March 14, 2017 | 03/14/2017 |
| Registration and online publication of the 2016 registration document | 03/23/2017 |
| Online publication of the report on internal control and corporate governance | 03/23/2017 |
| Online publication of the fees paid to the statutory auditors | 03/23/2017 |
| Press release on the availability of the 2016 registration document | 03/23/2017 |
| Press release on the remuneration of senior executives - March 24, 2017 | 03/24/2017 |
| Press release on the availability of the 2017 half-year financial report | 07/26/2017 |
| Online publication of the 2017 half-year financial report | 07/26/2017 |
| Press release on the remuneration of senior executives - December 22, 2017 | 12/22/2017 |

## 7.1.5 Financial calendar 2018

Mercialys' financial calendar is as follows:

- First quarter activity: **April 23, 2018** after market closing – Embargo period[1] from April 6 before market opening until April 23, 2018 after market closing;
- Annual General Meeting: **April 26, 2018;**
- Half-year earnings: **July 25, 2018** after market closing – Embargo period[1] from July 10 before market opening until July 25, 2018 after market closing;
- Financial information meeting: **July 26, 2018;**
- Activity at end-September: **October 17, 2018** after market closing – Embargo period[1] from October 2 before market opening until October 17, 2018 after market closing.

It is also available on the Company's website, www.mercialys.com.

(1) *Period during which the Company will not provide financial analysts or investors with new information regarding its ongoing business transactions and earnings.*

# 7.2 SHARE CAPITAL AND SHAREHOLDINGS

## 7.2.1 Amount and changes in share capital over the last five years

At December 31, 2017, the Company's share capital stood at Euro 92,049,169 divided into 92,049,169 fully paid-up shares, of the same category, with a par value of Euro 1. During 2017, no changes were made to the share capital.

The share capital remained unchanged at January 31, 2018.

### Changes in/History of share capital over the last five years

| | Number of shares created | Increase/decrease in share capital *(in euros)* Nominal | Premium[1] | Share capital *(in euros)* | Number of shares in issue | Nominal value per share *(in euros)* |
|---|---|---|---|---|---|---|
| **2013** | | | | | | |
| Bonus shares | 26,343 | 26,343 | 23,041 | 92,049,169 | 92,049,169 | 1 |
| **2014** | - | - | - | 92,049,169 | 92,049,169 | 1 |
| **2015** | - | - | - | 92,049,169 | 92,049,169 | 1 |
| **2016** | - | - | - | 92,049,169 | 92,049,169 | 1 |
| **2017** | - | - | - | 92,049,169 | 92,049,169 | 1 |

*(1) At the time of the capital increase, before any deductions authorized by the Annual General Meeting.*

## 7.2.2 Authorized share capital not issued – Authorizations granted to the Board of Directors

The Board of Directors benefits from the following authorizations to issue securities giving access to share capital, granted by the Annual General Meeting of April 27, 2017:

| | Operation | Maximum amount | Term | Expiry |
|---|---|---|---|---|
| a) | Capital increase with PSR[1] maintained through the issuing of shares, or securities giving access to share capital, or debt securities. | Euro 32 million[2] [3] | 26 months | June 26, 2019 |
| b) | Capital increase with cancellation of PSR[1] through the issuing of shares, or securities giving access to share capital or debt securities, via public offering. | Euro 9.2 million[2] [3] | 26 months | June 26, 2019 |
| c) | Capital increase with cancellation of PSR[1] through the issuing of shares, or securities giving access to share capital or debt securities, by an offering as stated in II of the article L. 411-2 of the French Monetary and Financial Code. | Euro 9.2 million[2] [3] | 26 months | June 26, 2019 |
| d) | Capital increase through the incorporation of reserves, profits, premiums or other amounts that may be capitalized. | Euro 32 million[2] [3] | 26 months | June 26, 2019 |
| e) | Capital increase through the issuing of shares, or securities giving access to share capital in exchange for contributions in kind granted to the Company and comprising shares, or securities giving access to share capital, with cancellation of PSR[1]. | 10% of the share capital[3] | 26 months | June 26, 2019 |
| f) | Issuing of shares or securities giving access to share capital in the event of a public offering for the shares of another listed company with cancellation of PSR[1]. | Euro 9.2 million[2] [3] | 26 months | June 26, 2019 |
| g) | Capital increase reserved for employees subscribed to a savings plan of the Company or any of its affiliates with cancellation of PSR[1]. | 2% of the total number of shares in the Company's share capital at April 27, 2017 (*i.e.* 1,840,983 shares) | 26 months | June 26, 2019 |
| j) | Bonus share awards to the Company's salaried employees and to the Company's corporate officers, and to the salaried employees of its affiliates. | 0.5% of the total number of shares in the Company's share capital at April 27, 2017 (*i.e.* 460,245 shares), including 0.15% for the corporate officers (138,073 shares) | 38 months | June 26, 2020 |

*(1) PSR = preferential subscription right.*
*(2) The total par value of the debt securities that may be issued on the basis of this delegation may not exceed Euro 200 million euros or the exchange value of this amount in any other currency, or in any unit of account established by reference to multiple currencies.*
*(3) The total par value of the debt securities that may be issued on the basis of delegations a), b), c), d), e) and f) may not exceed Euro 200 million or the equivalent value in another currency or composite monetary unit. The total par value of share capital increases that may be made, immediately and/or in the future on the basis of delegations a), b), c), d), e) and f) may not exceed Euro 32 million, it being specified that the total amount of capital increases that may be made, immediately and/or in the future, without preferential subscription rights, may not exceed Euro 9.2 million, not taking account of the par value of additional shares to be issued to protect the rights of holders of securities in accordance with the law.*

None of the authorizations granted was used during 2017 with the exception of those relating to the allocation of bonus shares (see § 7.2.5.3, p. 306). In 2017, the Board of Directors allocated 85,697 bonus shares.

As no authorization is expiring, there will be no resolution concerning these authorizations at the Annual General Meeting of April 26, 2018, with the exception of the resolution on free bonus share awards.

The tax and social regime for bonus share awards has been amended by the French finance law for 2018 and the social security financing law for 2018. However, it only applies to bonus share awards made pursuant to an authorization granted by decision of an Extraordinary General Meeting subsequent to the publication of these laws. Therefore, to enable the Company to benefit from the new tax and social regime, the Annual General Meeting of April 26, 2018 is being asked to vote on a resolution aimed at terminating the authorization granted by the Extraordinary General Meeting of April 27, 2017 (for the unused portion) and to replace it with a new authorization. The characteristics of the authorization remain unchanged except for the term of the authorization which is granted for the remaining period of the initial authorization, namely for 26 months.

The Board of Directors is also authorized to reduce the Company's share capital by canceling treasury stock representing up to 10% of existing share capital at the date of cancellation, per period of twenty-four months. No use has been made of this authorization, which was granted for a period of twenty-six months from April 27, 2017, *i.e.* until June 26, 2019.

## 7.2.3 Ownership of share capital and voting rights

Article 28-III of the Company's by-laws includes the following provisions regarding voting rights:

*"All shareholders are entitled to the same number of votes as the shares they own or represent, without any limitation, the sole exception being the cases provided for by statute and the by-laws."*

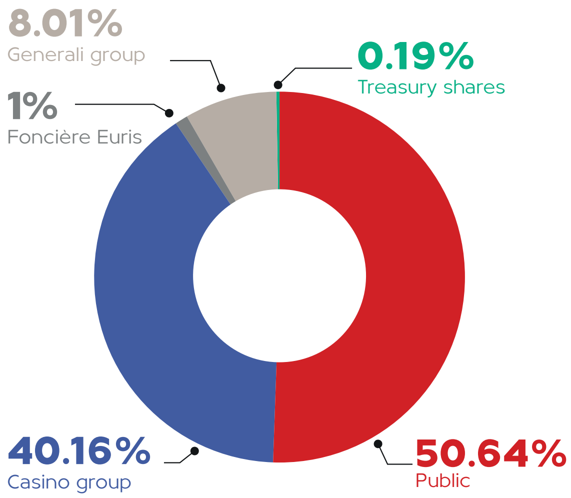
In addition, the Extraordinary General Meeting of May 5, 2015 reinstated the principle of "one share, one vote." Pursuant to the option provided for by article L. 225-123, paragraph 3, of the French Commercial Code, double voting rights are not attributed to fully paid-up shares for which proof is provided of registration for two years in the name of the same shareholder.

*"The vote or proxy issued by an intermediary who, is neither declared as an intermediary registered as a holder of securities on behalf of a third party not domiciled in France, nor has revealed the identity of the owners of the securities in respect of which such intermediary is registered, as required by the applicable regulation, will not be taken into consideration."*

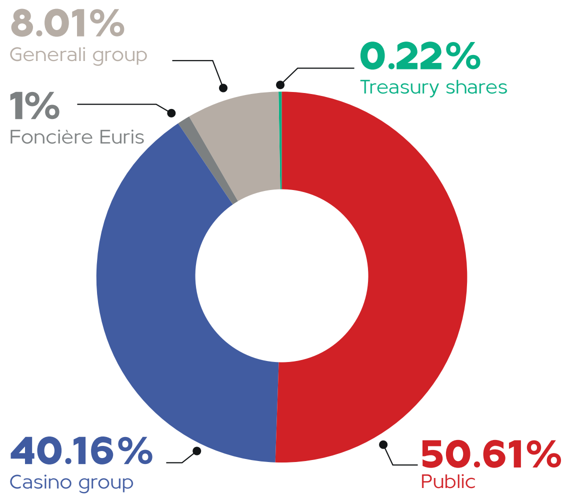
At December 31, 2017, the number of voting rights at the Annual General Meeting totaled 91,877,208 associated with 92,049,169 shares entitled to vote. The number of voting rights is different from the number of shares comprising the share capital because the Company holds a certain number of its own shares (treasury shares).

At January 31, 2018, the number of voting rights at the Annual General Meeting totaled 91,847,054 associated with 92,049,169 shares entitled to vote. The number of voting rights is different from the number of shares comprising the share capital because the Company holds a certain number of its own shares (treasury shares).

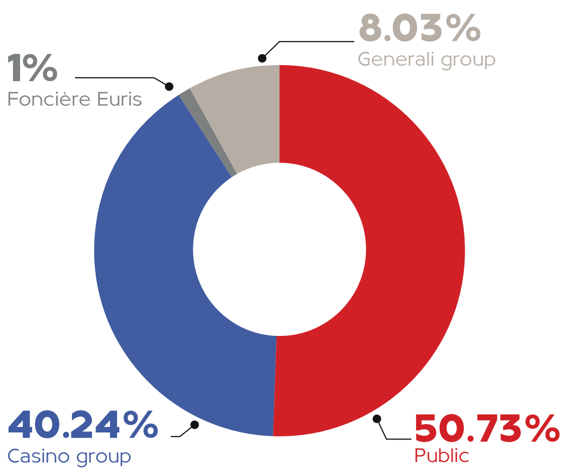
Breakdown of share capital at December 31, 2017



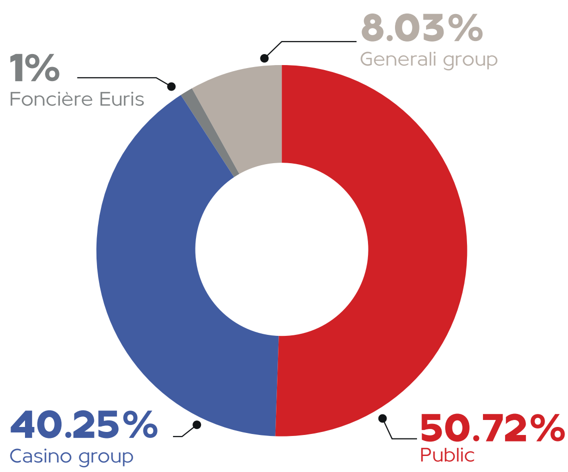

Breakdown of share capital at January 31, 2018




Breakdown of voting rights at December 31, 2017




Breakdown of voting rights at January 31, 2018



The breakdown of share capital and voting rights at closing in the last three years, and at January 31, 2018 is presented below.

No material changes have taken place in the ownership of the share capital and voting rights over the last three years.

| | Position at 12/31/2015 | | | |
|---|---|---|---|---|
| | Shares | | Voting rights at Annual General Meetings(1) | |
| Shareholders | Number | % | Number | % |
| Majority shareholders | 37,887,748 | 41.16 | 37,887,748 | 41.25 |
| *o/w Casino group* | *36,969,014* | *40.16* | *36,969,014* | *40.25* |
| *o/w other shareholders(2)* | *918,734* | *1.00* | *918,734* | *1.00* |
| Generali Group(3) | 7,373,745 | 8.01 | 7,373,745 | 8.03 |
| Treasury shares(4) | 191,334 | 0.21 | 0 | 0.00 |
| Public | 46,596,342 | 50.62 | 46,596,342 | 50.72 |
| *o/w bearer shares* | *46,214,555* | *50.21* | *46,214,555* | *50.31* |
| *o/w registered shares* | *381,787* | *0.41* | *381,787* | *0.41* |
| | **92,049,169** | **100.00** | **91,857,835** | **100.00** |

| | Position at 12/31/2016 | | | |
|---|---|---|---|---|
| | Shares | | Voting rights at Annual General Meetings(1) | |
| Shareholders | Number | % | Number | % |
| Majority shareholders | 37,887,748 | 41.16 | 37,887,748 | 41.22 |
| *o/w Casino group* | *36,969,014* | *40.16* | *36,969,014* | *40.22* |
| *o/w other shareholders(2)* | *918,734* | *1.00* | *918,734* | *1.00* |
| Generali Group(3) | 7,373,745 | 8.01 | 7,373,745 | 8.02 |
| Treasury shares(4) | 128,373 | 0.14 | 0 | 0.00 |
| Public | 46,659,303 | 50.69 | 46,659,303 | 50.76 |
| *o/w bearer shares* | *46,274,337* | *50.27* | *46,274,337* | *50.34* |
| *o/w registered shares* | *384,966* | *0.42* | *384,966* | *0.42* |
| | **92,049,169** | **100.00** | **91,920,796** | **100.00** |

| | Position at 12/31/2017 | | | |
|---|---|---|---|---|
| | Shares | | Voting rights at Annual General Meetings(1) | |
| Shareholders | Number | % | Number | % |
| Majority shareholders | 37,887,748 | 41.16 | 37,887,748 | 41.24 |
| *o/w Casino group(5)* | *36,969,014* | *40.16* | *36,969,014* | *40.24* |
| *o/w other shareholders(2)* | *918,734* | *1.00* | *918,734* | *1.00* |
| Generali Group(3) | 7,373,745 | 8.01 | 7,373,745 | 8.03 |
| Treasury shares(4) | 171,961 | 0.19 | 0 | 0.00 |
| Public | 46,615,715 | 50.64 | 46,615,715 | 50.73 |
| *o/w bearer shares* | *46,181,018* | *50.17* | *46,181,018* | *50.26* |
| *o/w registered shares* | *434,697* | *0.47* | *434,697* | *0.47* |
| | **92,049,169** | **100.00** | **91,877,208** | **100.00** |

*(1) This is the number of voting rights at Annual General Meetings, which is different from the number declared under regulations regarding share ownership thresholds (theoretical voting rights). For regulatory declarations, the total number of voting rights and shares comprising the share capital published every month, is calculated based on the total number of voting rights and shares comprising the share capital in accordance with article 223-11 of the General regulation of the AMF,* i.e. *based on all voting shares including non-voting shares (treasury shares). The difference between voting rights at Annual General Meetings and theoretical voting rights is immaterial (0.19% at December 31, 2017 and 0.22% at January 31, 2018).*

*(2) The controlling shareholders of Casino, Guichard-Perrachon, including Foncière Euris which holds 918,000 shares following exercise on October 13, 2015 of the physical option provided for in the equity swap contract it entered into on February 15, 2013 (AMF declaration 215C0429). In addition, Foncière Euris entered into equity swap contracts for 918,000 shares with an option of physical delivery of the shares expiring on March 13, 2019 (AMF declaration 214C0424 of March 20, 2014 – AMF declaration 217C0618 of March 8, 2017) and 2,300,000 shares settled exclusively in cash.*
*Rallye SA (controlled by Foncière Euris) has also entered into cash-settled equity swap contracts for 1,843,405 shares.*

*(3) Bearer shares. Information disclosed by the Company*

*(4) Shares acquired under the share buyback program and liquidity contract (see § 7.1.2, p. 293).*

*(5) At December 31, 2017, Casino, Guichard-Perrachon held directly 0.03% of the share capital and voting rights, and indirectly 40.16% of the share capital and 40.24% of the voting rights, primarily* via *La Forézienne de Participations (a subsidiary of L'Immobilière Groupe Casino), which held directly 39.16% of the Company's share capital and 39.23% of the voting rights.*

| Shareholders | Position at 01/31/2018 | | | |
|---|---|---|---|---|
| | Shares | | Voting rights at Annual General Meetings[1] | |
| | Number | % | Number | % |
| Majority shareholders | 37,887,748 | 41.16 | 37,887,748 | 41.25 |
| *o/w Casino group[5]* | *36,969,014* | *40.16* | *36,969,014* | *40.25* |
| *o/w other shareholders[2]* | *918,734* | *1.00* | *918,734* | *1.00* |
| Generali Group[3] | 7,373,745 | 8.01 | 7,373,745 | 8.03 |
| Treasury shares[4] | 202,115 | 0.22 | 0 | 0.00 |
| Public | 46,585,561 | 50.61 | 46,585,561 | 50.72 |
| *o/w bearer shares* | *46,153,619* | *50.14* | *46,153,619* | *50.25* |
| *o/w registered shares* | *431,942* | *0.47* | *431,942* | *0.47* |
| | **92,049,169** | **100.00** | **91,847,054** | **100.00** |

*(1) This is the number of voting rights at Annual General Meetings, which is different from the number declared under regulations regarding share ownership thresholds (theoretical voting rights). For regulatory declarations, the total number of voting rights and shares comprising the share capital published every month, is calculated based on the total number of voting rights and shares comprising the share capital in accordance with article 223-11 of the General regulation of the AMF, i.e. based on all voting shares including non-voting shares (treasury shares). The difference between voting rights at Annual General Meetings and theoretical voting rights is immaterial (0.19% at December 31, 2017 and 0.22% at January 31, 2018).*

*(2) The controlling shareholders of Casino, Guichard-Perrachon, including Foncière Euris which holds 918,000 shares following exercise on October 13, 2015 of the physical option provided for in the equity swap contract it entered into on February 15, 2013 (AMF declaration 215C0429). In addition, Foncière Euris entered into equity swap contracts for 918,000 shares with an option of physical delivery of the shares expiring on March 13, 2019 (AMF declaration 214C0424 of March 20, 2014 – AMF declaration 217C0618 of March 8, 2017) and 2,300,000 shares settled exclusively in cash.*
*Rallye SA (controlled by Foncière Euris) has also entered into cash-settled equity swap contracts for 1,843,405 shares.*

*(3) Bearer shares. Information disclosed by the Company*

*(4) Shares acquired under the share buyback program and liquidity contract (see § 7.1.2, p. 293).*

*(5) At January 31, 2018, Casino, Guichard-Perrachon held directly 0.03% of the share capital and voting rights, and indirectly 40.16% of the share capital and 40.25% of the voting rights, primarily via La Forézienne de Participations (a subsidiary of L'Immobilière Groupe Casino), which held directly 39.16% of the Company's share capital and 39.24% of voting rights.*

As far as the Company is aware, no shareholder, other than those listed above, holds more than 5% of its share capital or voting rights.

## 7.2.3.1 THRESHOLDS CROSSING

### A. Statutory thresholds crossing

Article 11, paragraph II of the Company's by-laws includes the following provisions regarding the disclosure of thresholds crossing:

*"In addition to the statutory obligation to inform the Company when certain percentages of share capital and associated voting rights are reached, any individual or legal entity (including any intermediary holding shares belonging to persons domiciled outside France), either alone or in concert with other individuals or legal entities, who comes to hold or ceases to hold 1% of the capital or voting rights or any multiple thereof, by any means, shall disclose to the Company, within five trading days of the crossing of either of these thresholds, by registered letter with acknowledgement of receipt, the number of shares and voting rights held directly, as well as the number of other shares or voting rights deemed to be held by the shareholder as detailed in article L. 233-9 of the French Commercial Code.*

*This shareholder shall, in the same way, inform the Company of the number of shares it holds that give future access to the share capital, as well as the number of voting rights associated with them. These disclosure obligations do not apply to shareholders holding more than 50% of the voting rights, either alone or in concert.*

*If such shareholdings are not disclosed, the voting rights associated with the shares that exceed the disclosure threshold shall be suspended at Annual General Meetings if, during such a meeting, the failure to disclose is established, and if one or more shareholders jointly holding at least 5% of the share capital or voting rights request it. Similarly, voting rights that have not been properly disclosed may not be exercised. The voting rights will be suspended at all General Meetings held within two years of the date on which the failure to disclose to the Company was rectified."*

### B. Legal thresholds crossing

Between January 1, 2017 and January 31, 2018, no shareholders disclosed to the AMF that a notifiable threshold had been crossed.

### 7.2.3.2 SHAREHOLDER AGREEMENTS

To the Company's knowledge, there were no shareholder agreements in effect as at January 31, 2018.

To the Company's knowledge, more broadly, there is no agreement the existence of which may lead to a change of ownership.

### 7.2.3.3 SHARES HELD BY THE MANAGEMENT AND EXECUTIVE BODIES

At December 31, 2017, the shares held directly and indirectly by Mercialys' management or executive bodies represented 48.21% of the share capital and 48.30% of the voting rights at Annual General Meetings.

At January 31, 2018, the shares held directly and indirectly by Mercialys' management or executive bodies represented 48.21% of the share capital and 48.32% of the voting rights at Annual General Meetings.

### 7.2.3.4 DECLARATIONS BY THE SENIOR EXECUTIVES

To the best of the Company's knowledge, the Company's senior executives, or similar persons or individuals having close personal relations with them, completed the following transactions in the Company's shares in 2017:

| Date | Persons concerned | Financial instrument | Type of transaction | Volume | Unit price *(in euros)* |
|---|---|---|---|---|---|
| February 15, 2017 | Foncière Euris, legal entity associated with Michel Savart, director | Other types of financial instruments | Extension of exclusively cash-settled equity swap contract | 1,380,000 | 20.050 |
| February 15, 2017 | Foncière Euris, legal entity associated with Michel Savart, director | Other types of financial instruments | Extension of exclusively cash-settled equity swap contract | 920,000 | 21.074 |
| February 24, 2017 | Foncière Euris, legal entity associated with Michel Savart, director | Other types of financial instruments | Extension of exclusively cash-settled equity swap contract | 918,000 | 15.900 |
| March 13, 2017 | Éric Le Gentil, Chairman and Chief executive officer | Shares | Acquisition | 17,400 | 16.614 |

### 7.2.3.5 EMPLOYEE SHARE OWNERSHIP

Note that at December 31, 2017, employees of the Company or affiliated companies held 72,500 Mercialys shares in connection with the Casino group Company Savings Plan, representing 0.08% of the share capital and voting rights.

At December 31, 2017, the Company's employees held, in registered form, no share derived from the bonus share awards authorized by an Extraordinary General Meeting subsequent to August 6, 2015 (Macron Act).

### 7.2.3.6 PLEDGED SHARES

To the best of the Company's knowledge, there were pledges on 5,641 Mercialys registered shares at December 31, 2017.

## 7.2.4 Securities not representing share capital

Not applicable.

## 7.2.5 Stock options, stock warrants and bonus share awards

### 7.2.5.1 STOCK OPTIONS

No stock option plan on the Company's shares was outstanding in 2017.

### 7.2.5.2 STOCK WARRANTS

No stock warrants on the Company's shares was outstanding in 2017.

### 7.2.5.3 BONUS SHARE AWARDS

Using the authorization granted by the Extraordinary General Meeting, the Board of Directors has set up bonus share plans for existing shares, without dilutive impact on the share capital.

Details of the various plans in effect as at December 31, 2017 are shown in the tables below:

| Date of the Annual General Meeting | Date of the Board of Directors' meeting/ Date of award | Vesting date of bonus shares awarded | Date after which shares may be sold | Number of shares awarded by the Board of Directors | Number of canceled share rights | Outstanding number of shares to be awarded at year-end |
|---|---|---|---|---|---|---|
| 04/20/2016 | 04/20/2016 | 04/20/2018(1) | 04/20/2020 | 17,139 | 0 | 17,139 |
| 04/20/2016 | 04/20/2016 | 04/20/2018(2) | 04/20/2020 | 9,031 | 1,888 | 7,143 |
| 04/20/2016 | 04/20/2016 | 04/20/2019(3) | 04/20/2021 | 17,139 | 0 | 17,139 |
| 04/20/2016 | 04/20/2016 | 04/20/2019(4) | 04/20/2021 | 11,525 | 944 | 10,581 |
| 04/20/2016 | 03/20/2017 | 03/20/2019(5) | 03/21/2019 | 14,478 | 2,286 | 12,192 |
| 04/20/2016 | 03/20/2017 | 03/20/2020(6) | 03/21/2022 | 12,283 | 0 | 12,283 |
| 04/27/2017 | 04/27/2017 | 04/27/2020(7) | 04/28/2022 | 41,750 | 0 | 41,750 |
| 04/27/2017 | 04/27/2017 | 04/27/2020(7) | 04/28/2022 | 14,562 | 0 | 14,562 |
| 04/27/2017 | 12/21/2017 | 03/21/2019(5) | 12/22/2019 | 2,624 | 0 | 2,624 |
| **TOTAL** | | | | **140,531** | **5,118** | **135,413** |

*(1) Bonus shares only vest if the beneficiary is still with the Company at the vesting date of the shares, and subject to fulfillment of two business performance criteria, each one applying to 50% of the initial award: the absolute performance of the Mercialys share price, including dividends, corresponding to the total shareholder return (absolute TSR), and the relative performance of the Mercialys share price, including dividends (relative TSR), compared with the performance of companies in the EPRA/NAREIT Eurozone index, assessed annually over two consecutive years (2016 and 2017) and enabling the shares to be acquired in halves.*

*(2) Bonus shares only vest if the beneficiary is still with the Company at the vesting date of the shares, and – for 50% of the shares allocated – subject to fulfillment of two performance criteria, each one applying to 25% of the initial award: average organic growth (excluding indexation) over two years (2016 and 2017) of 3% or more, and average performance of the Mercialys share price including dividends (average TSR), corresponding to the total shareholder return, over two years (2016 and 2017) of 8% or more.*

*(3) Bonus shares only vest if the beneficiary is still with the Company at the vesting date of the shares, and subject to fulfillment of two business performance criteria, each one applying to 50% of the initial award: the absolute performance of the Mercialys share price, including dividends, corresponding to the total shareholder return (absolute TSR), and the relative performance of the Mercialys share price, including dividends (relative TSR), compared with the performance of companies in the EPRA/NAREIT Eurozone index, assessed annually over three consecutive years (2016, 2017 and 2018) and enabling the shares to be acquired in thirds.*

*(4) Bonus shares only vest if the beneficiary is still with the Company at the vesting date of the shares, and – for 50% of the shares allocated – subject to fulfillment of two performance criteria, each one applying to 25% of the initial award: average organic growth (excluding indexation) over three years (2016, 2017 and 2018) of 3% or more, and average performance of the Mercialys share price including dividends (average TSR), corresponding to the total shareholder return, over three years (2016, 2017 and 2018) of 8% or more.*

*(5) Bonus shares only vest if the beneficiary is still with the Company at the vesting date of the shares.*

*(6) Bonus shares only vest if the beneficiary is still with the Company at the vesting date of the shares, and – for 50% of the shares allocated – subject to fulfillment of two performance criteria, each one applying to 25% of the initial award: average organic growth (excluding indexation) over three years (2017, 2018 and 2019) of 2.5% or more, and average performance of the Mercialys share price including dividends (average TSR), corresponding to the total shareholder return, over three years (2017, 2018 and 2019) of 8% or more, calculated at the end of the period.*

*(7) Bonus shares only vest if the beneficiary is still with the Company at the vesting date of the shares, and subject to fulfillment of two business performance criteria: the absolute performance of the Mercialys share price, including dividends, corresponding to the total shareholder return (absolute TSR), assessed annually between January 1, 2017 and January 31, 2019 for 25% of the initial award, and the relative performance of the Mercialys share price, including dividends (relative TSR), compared with the performance of companies in the EPRA/NAREIT Eurozone index at January 1, 2017, measured between January 1, 2017 and December 31, 2019, for 75% of the initial award.*

The bonus share award plans implemented on April 30, 2014 resulted in the vesting of shares on April 30, 2017 as follows:

| Date of the Annual General Meeting | Date of the Board of Directors meeting/ Date of award | Vesting date of bonus shares awarded | Date after which shares may be sold | Number of shares awarded by the Board of Directors | Number of canceled share rights | Number of shares definitively awarded in 2017 |
|---|---|---|---|---|---|---|
| 06/21/2013 | 04/30/2014 | 04/30/2017(1) | 04/30/2019 | 13,508 | 3,752 | 9,756 |
| 06/21/2013 | 04/30/2014 | 04/30/2017(2) | 04/30/2019 | 8,785 | 4,095 | 4,690 |
| **TOTAL** | | | | | | **14,446** |

(1) *Bonus shares only vested if the beneficiary was still with the Company at the vesting date of the shares, and were subject to fulfillment of two business performance criteria, each one applying to 50% of the initial award: the absolute performance of the Mercialys share price, including dividends, corresponding to the total shareholder return (absolute TSR), and the relative performance of the Mercialys share price, including dividends (relative TSR), compared with the performance of companies in the EPRA/NAREIT Eurozone index, assessed annually over three consecutive years (2014, 2015 and 2016) and enabling the shares to be acquired in thirds.*

(2) *Bonus shares only vest if the beneficiary is still with the Company at the vesting date of the shares, and – for 50% of the shares allocated – subject to fulfillment of two performance criteria, each one applying to 25% of the initial award: average organic growth over three years (2014, 2015 and 2016) of 2% or more, and average performance of the Mercialys share price including dividends (average TSR), corresponding to the total shareholder return, over three years (2014, 2015 and 2016) of 6% or more.*

**92,049,169**
Total number of shares

**51%**
Free float

**SBF 120**
Member since 2009


Grand Quartier, Rennes

# 8

# ANNUAL GENERAL MEETING

# 8.1 DRAFT RESOLUTIONS

## 8.1.1 Resolutions within the competence of the Ordinary General Meeting

### Resolutions 1 and 2 – Approval of the financial statements for the year

**Presentation**

In connection with the first and second resolutions, the shareholders are invited to approve the Company's corporate accounts and then its consolidated financial statements as at December 31, 2017, as well as the transactions reflected in these accounts.

The financial statements for the period do not take account of the non-deductible expenses referred to in Article 39-4 of the French General Tax Code.

These financial statements have been certified without qualification by the Statutory Auditors (see chapter 3, § 3.1.3, p.159 et seq., and § 3.2.3, p. 189 et seq.)

### FIRST RESOLUTION

#### Approval of the corporate accounts for the fiscal year ended December 31, 2017

The Ordinary General Meeting, after reviewing the Board of Directors' report and the Statutory Auditors' report, approves the financial statements for the fiscal year ended December 31, 2017, as presented to it, together with all the transactions they reflect or are mentioned in these reports. The accounts for this fiscal year end with profit of Euro 287,280,180.51.

The Annual General Meeting acknowledges that the financial statements for the past fiscal year do not take account of the non-deductible expenses referred to in Article 39-4 of the French General Tax Code.

It also notes the transfer to the "Retained earnings" account, in accordance with the resolution adopted by the Annual General Meeting of April 20, 2017, of the dividends allocated for the 2016 fiscal year to the shares held by the Company on the dividend payment date and totaling Euro 311,001.09.

### SECOND RESOLUTION

#### Approval of the consolidated financial statements for the fiscal year ended December 31, 2017

The Ordinary General Meeting, after reviewing the Board of Directors' report and the Statutory Auditors' report, approves the Consolidated Financial Statements for the fiscal year ended December 31, 2017, as presented to it, together with all of the transactions reflected or mentioned in these reports. The consolidated financial statements for the fiscal year in question report a consolidated net profit of Euro 86.666 million.

## Resolution 3 – Appropriation of income – Setting the dividend

**Presentation**

With the third resolution, the Board of Directors requests your approval for the distribution of a dividend of Euro 1.09 per share. The proposed dividend corresponds to 88% of the 2017 FFO, in accordance with the objective announced by Mercialys (range of 85% to 95% of the 2017 FFO and at least unchanged compared with 2016), up by 2.8% compared to 2016.

Taking into account the interim dividend of Euro 0.41 per share paid on October 23, 2017, the final dividend amounts to Euro 0.68 per share. The ex-dividend date for the final dividend is April 30, 2018. The payment date will be May 03, 2018.

### THIRD RESOLUTION

### Appropriation of income – Setting the dividend

The Ordinary General Meeting, after reviewing the Board of Directors' report, resolves to allocate income for the fiscal year ended December 31, 2017, as follows:

| | | |
|---|---|---|
| Profit for the year | | Euro 287,280,180.51 |
| Retained earnings | (+) | Euro 112,725,649.20 |
| **Distributable income** | **(=)** | **Euro 400,005,829.71** |
| Dividend | (-) | Euro 100,333,594.21 |
| Appropriation to "Retained earnings" | (=) | Euro 299,672,235.50 |

Each share will receive a dividend of Euro 1.09.

The Ordinary General Meeting hereby notes that:

- the amount of the dividend it has determined (Euro 1.09) includes the interim dividend of Euro 0.41 per share paid on October 23, 2017;
- consequently, the final dividend amounts to Euro 0.68 per share and will be paid on May 3, 2018.

The distribution under the exempt sector represents 100% of the amount of the dividend.

Distributions of dividends from exempt profits of listed real estate investment companies (SIIC) do not qualify for the 40% deduction mentioned in Article 158-3.2 of the French General Tax Code. Only distributions of dividends from the non-exempt profits of SIICs are eligible for this reduction.

The General Meeting notes that the dividends distributed in respect of the last three years were as follows:

| Fiscal year | Dividend per share | Distributed dividend eligible for the 40% allowance | Distributed dividend not eligible for the 40% allowance |
|---|---|---|---|
| 12/31/16 | | | |
| *Interim dividend (paid in 2016)* | *Euro 0.43* | *None* | *Euro 0.43* |
| *Final dividend (paid in 2017)* | *Euro 0.63* | *None* | *Euro 0.63* |
| **Total** | **Euro 1.06** | **None** | **Euro 1.06** |
| 12/31/15 | | | |
| *Interim dividend (paid in 2015)* | *Euro 0.76* | *None* | *Euro 0.76* |
| *Final dividend (paid in 2016)* | *Euro 0.57* | *None* | *Euro 0.57* |
| **Total** | **Euro 1.33** | **None** | **Euro 1.33** |
| 12/31/14 | | | |
| *Interim dividend (paid in 2014)* | *Euro 0.36* | *None* | *Euro 0.36* |
| *Final dividend (paid in 2015)* | *Euro 0.88* | *None* | *Euro 0.88* |
| **Total** | **Euro 1.24** | **None** | **Euro 1.24** |

## Resolution 4 – Approval of the fixed, variable and exceptional components of the compensation package and the benefits in kind paid or awarded in respect of 2017 to the Chairman and Chief Executive Officer

**Presentation**

While the AFEP-MEDEF Code provided for an advisory vote of the shareholders on the compensation due or awarded to the Chairman and Chief Executive Officer for the previous fiscal year, the Law of December 9, 2016 relating to transparency, the fight against corruption and the modernization of economic life (known as the «Sapin Law II») introduced a vote binding on the shareholders (Article L. 225-100 II of the French Commercial Code).

Under the fourth resolution, pursuant to Article L. 225-100 II of the French Commercial Code, you are hereby requested to approve the fixed, variable and exceptional components of the compensation package and benefits in kind paid or awarded in respect of fiscal year 2017 to Éric Le Gentil, in connection with his duties as Chairman and Chief Executive Officer, as detailed and commented upon in the table enclosed in annex 1, page 320 et seq. All these items are also presented in the part of the Board of Directors' report on corporate governance in chapter 4, paragraph 4.2.2.1, B, page 239 et seq.

We recall that the fixed compensation of Éric Le Gentil has been the same since March 1, 2015. His annual variable compensation has increased by 7% compared to 2016 particularly in view of his having exceeded three objectives (*versus* two in 2016), namely: exceeding the prorated impact of openings in 2017; exceeding the IRR of the projects started in 2017; and exceeding the footfall spread of Mercialys shopping centers compared with the French Council of shopping centers (CNCC) total market. The variable compensation therefore amounts to Euro 344,250 and he does not receive any exceptional compensation in respect of fiscal year 2017.

As required by Articles L. 225-37-2 and L. 225-100 of the French Commercial Code, the payment of the variable portion of the Chairman and Chief Executive Officer's compensation for 2017 is thus contingent on the approval of this resolution by the Annual General Meeting.

We recall that the principles and criteria used for determining, allocating and awarding the components of the Chairman and Chief Executive Officer's compensation for 2017 were subject, as required by Article L. 225-37-2 of the French Commercial Code, to the vote of the Annual General Meeting held on April 27, 2017, which approved them (by a majority of 70.85%). The components of variable compensation payment of which was conditional on the approval of the Annual General Meeting, had in this context been determined in accordance with the law. (see chapter 4, § 4.2.2.1, A, p. 236)

## FOURTH RESOLUTION

### Approval of the fixed, variable and exceptional components of the compensation package and the benefits in kind paid or awarded in respect of 2017 to the Chairman and Chief Executive Officer

The Ordinary General Meeting, pursuant to Articles L. 225-37-2 and L. 225-100 of the French Commercial Code, after reviewing the Board of Directors' report on corporate governance attached to the management report, approves the fixed, variable and exceptional components of the compensation package and the benefits in kind paid or awarded in respect of fiscal year 2017 to the Chairman and Chief Executive Officer, in connection with his mandate, as presented in the said report.

## Resolution 5 – Approval of the fixed, variable and exceptional components of the compensation package and the benefits in kind paid or awarded in 2017 to the Chief Operating Officer

**Presentation**

While the AFEP-MEDEF Code provided for an advisory vote of the shareholders on the compensation due or awarded to the Chief Operating Officer for the previous fiscal year, the Law of December 9, 2016 relating to transparency, the fight against corruption and the modernization of economic life (known as the «Sapin Law II») introduced a vote binding on the shareholders (Article L. 225-100 II of the French Commercial Code).

Under the fifth resolution, pursuant to Article L. 225-100 II of the French Commercial Code, you are hereby requested to approve the fixed, variable and exceptional components of the compensation package and benefits in kind paid or awarded in respect of fiscal year 2017 to Vincent Ravat, for his duties as Chief Operating Officer, as detailed and commented upon in the table in annex 1, page 320 et seq. All these components are also presented in the Board of Directors' report on corporate governance in chapter 4, paragraph 4.2.2.1, C, page 243 et seq.

We recall that Vincent Ravat was appointed Chief Operating Officer on August 30, 2016. In this capacity, the compensation paid or awarded for 2017 is therefore not comparable to the compensation paid or awarded for 2016.

The fixed compensation of Vincent Ravat was set at Euro 300,000 starting from March 1, 2017, two thirds of which is paid by Mercialys and one third by Mercialys Gestion, a wholly owned subsidiary of Mercialys within which Vincent Ravat holds the position of Director in charge of operations, lettings and marketing. His annual variable compensation amounts to Euro 172,800 and he receives no exceptional compensation for 2017.

Pursuant to Articles L. 225-37-2 and L. 225-100 of the French Commercial Code, the payment of the variable portion of the Chief Operating Officer's compensation for 2017 is thus conditional on the approval of the present resolution by the Annual General Meeting.

We recall that the principles and criteria used for determining, allocating and awarding the components of the Chief Operating Officer's compensation for 2017 were subject, as required by Article L. 225-37-2 of the French Commercial Code, to the vote of the Annual General Meeting held on April 27, 2017, which approved them (by a majority of 72.56%). The components of variable compensation payment of which was conditional on the approval of the Annual General Meeting, had in this context been determined in accordance with the law. (see chapter 4, § 4.2.2.1, A, p. 236)

### FIFTH RESOLUTION

#### Approval of the fixed, variable and exceptional components of the compensation package and the benefits in kind paid or awarded in respect of 2017 to the Chief Operating Officer

The Ordinary General Meeting, pursuant to Articles L. 225-37-2 and L. 225-100 of the French Commercial Code, after reviewing the Board of Directors' report on corporate governance attached to the management report, approves the fixed, variable and exceptional components of the compensation package and the benefits in kind paid or awarded in respect of fiscal year 2017 to the Chief Operating Officer, in connection with his mandate, as presented in the said report.

## Resolutions 6 and 7 – Approval of the principles and criteria for determining, distributing and awarding the compensation components of the Chairman and Chief Executive Officer and of the Chief Operating Officer for fiscal year 2018

**Presentation**

Pursuant to Article L. 225-37-2 of the French Commercial Code, the principles and criteria for determining, distributing and awarding the fixed, variable and exceptional components of the compensation package and the benefits of any kind, attributable to the Chairman and Chief Executive Officer and the Chief Operating Officer for their corporate positions, must be submitted at least annually for the approval of the Annual General Meeting.

Under the sixth and seventh resolutions, you are hereby requested to approve the principles and components of the compensation of Éric Le Gentil, Chairman and Chief Executive Officer and of Vincent Ravat, Chief Operating Officer, determined by the Board of Directors' meeting of March 7, 2018 on the recommendation of the Appointments and Compensation Committee as presented in chapter 4, paragraphe 4.2.3, page 246 et seq.

### SIXTH RESOLUTION

#### Approval of the principles and criteria for determining, distributing and awarding the compensation components of the Chairman and Chief Executive Officer in respect of fiscal year 2018

The Ordinary General Meeting, pursuant to the provisions of Article L. 225-37-2 of the French Commercial Code, after reviewing the Board of Directors' report on corporate governance attached to the management report, approves the principles and criteria for determining, distributing and awarding the fixed, variable and exceptional components of the compensation package and the benefits of any kind attributable to the Chairman and Chief Executive Officer, by reason of his position, as detailed in the said report.

### SEVENTH RESOLUTION

#### Approval of the principles and criteria for determining, distributing and awarding the compensation components of the Chief Operating Officer in respect of fiscal year 2018

The Ordinary General Meeting, pursuant to the provisions of Article L. 225-37-2 of the French Commercial Code, after reviewing the Board of Directors' report on corporate governance, attached to the management report, approves the principles and criteria for determining, distributing and awarding the fixed, variable and exceptional components of the compensation package and the benefits of any kind to which the Chief Operating Officer is entitled in connection with his position, as detailed in the said report.

## Resolution 8 – Ratification of the appointment of Pascale Roque

**Presentation**

Under the eighth resolution, you are being asked to ratify the appointment of Pascale Roque, temporarily appointed by the Board Meeting of October 24, 2017 to replace Bernard Bouloc, for the remaining period of his directorship.

Pascale Roque is an independent director, in accordance with the recommendations of the AFEP-MEDEF Code.

### EIGHTH RESOLUTION

#### Ratification of the appointment of Pascale Roque as a Director

he Ordinary General Meeting hereby ratifies, after reviewing the Board of Directors' report, the temporary appointment made by the Board of Directors, at its meeting on October 24, 2017, of Pascale Roque, as a Director, to replace Bernard Bouloc, for the remaining period of his directorship, *i.e.*, until the Ordinary Shareholders' Meeting to be held in 2019 to approve the financial statements for the year ended December 31, 2018.

## Resolutions 9 to 12 – Renewal of the directorships of three directors and the appointment of an independent director

**Presentation**

The Board of Directors is currently composed of 12 Directors. Under the ninth, tenth and eleventh resolutions, you are being asked, on the recommendation of the Appointments and Compensation Committee, to renew, for a period of three years, the directorships of Victoire Boissier, of La Forézienne de Participations, and of Generali Vie (see presentation in § 4.1.1.1, B and D, p. 208, 218, 220 and 223).

Under the twelfth resolution, you are being asked to approve the appointment of a new independent director, Dominique Dudan (see presentation in § 4.1.1.1, C, p. 222). After completing her scientific studies, she joined the real estate sector. Admitted as a Member of the Royal Institution of Chartered Surveyors (RICS), of which she is now a Fellow. Between 1996 and 2005, Dominique Dudan held the position of Development Manager with Accor Hotels & Resorts. She then joined, first, HSBC Reim as Operations Manager and member of the Management Board and then BNP Paribas Reim, as Executive Vice-President and Head of regulated real estate funds. In 2009, Dominique Dudan created her own organization, Artio Conseil, while holding the position of Chief Executive Officer of Arcole Asset Management. In January 2011, Dominique Dudan became President of Union Investment Real Estate France, a position she held until July 2015. Since 2015 she has been a Senior Advisor at LBO France Gestion and a director of Gecina, and, since 2017, a member of the Supervisory Board of Swiss Life Reim (France). Dominique Dudan is also a member of the *Observatoire Régional de l'Immobilier d'Entreprise en Île-de-France* (ORIE – Regional observatory for commercial real estate in Île-de-France), of RICS France, of the Economic Committee of MEDEF economic commission in connection with the Groupement des Professions de Services, the *Cercle des Femmes de l'Immobilier*, and of the *Club de l'Immobilier d'Île-de-France*. She is a Chevalier of the French National Order of Merit.

If you approve these proposals, the Board will maintain its equal gender representation, since it will include 50% of women, and 58.3% of independent Directors.

### NINTH RESOLUTION

#### Renewal of the directorship of Victoire Boissier

After reviewing the Board of Directors' report and acknowledging that Victoire Boissier's directorship is expiring at the end of this Meeting, the Ordinary General Meeting resolves to renew the directorship of Victoire Boissier for a period of three years, *i.e.* until the end of the Ordinary General Meeting that will be held in 2021 to approve the financial statements for the fiscal year ended December 31, 2020.

### TENTH RESOLUTION

#### Renewal of the directorship of La Forézienne de Participations

After reviewing the Board of Directors' report and acknowledging that the directorship of La Forézienne de Participations is expiring at the end of this Meeting, the Ordinary General Meeting resolves to renew the directorship of La Forézienne de Participations for a period of three years, *i.e.* until the end of the Ordinary General Meeting that will be held in 2021 to approve the financial statements for the fiscal year ended December 31, 2020.

### ELEVENTH RESOLUTION

#### Renewal of the directorship of Generali Vie

After reviewing the Board of Directors' report and acknowledging that the directorship of Generali Vie is expiring at the end of this Meeting, the Ordinary General Meeting resolves to renew the directorship of Generali Vie for a period of three years, *i.e.* until the end of the Ordinary General Meeting that will be held in 2021 to approve the financial statements for the fiscal year ended December 31, 2020.

### TWELFTH RESOLUTION

#### Appointment of Dominique Dudan as Director

After reviewing the Board of Directors' report, the Ordinary General Meeting resolves to appoint Dominique Dudan as a new director for a period of three years, *i.e.* until the Ordinary General Meeting convened in 2021 to approve the financial statements for the fiscal year ended December 31, 2020.

## Resolution 13 – Regulated agreement with L'Immobilière Groupe Casino and Plouescadis

**Presentation**

Under the thirteenth resolution, the Board of Directors is asking you to approve Addendum no. 1 to the document amending the Advisory Services Framework Agreement of March 23, 2015 for advice granted by Mercialys to L'Immobilière Groupe Casino and Plouescadis.

In connection with this agreement, and in its capacity as service provider, Mercialys has undertaken to provide advisory services for the completion of shopping center enhancement projects. These services may include asset management tasks, letting assignments on sites in operation or on planned sites (excluding projects completed in connection with the Partnership Agreement between Mercialys and Casino), as well as wider marketing activities or strategic operations initiated and announced prior to the launch of the offering.

The purpose of Addendum no. 1 is to grant the subsidiaries directly controlled by L'Immobilière Groupe Casino and Plouescadis the benefit of the services delivered by Mercialys and to update the financial terms of the Agreement which, for fiscal year 2017, amounts to Euro 280,000 (compared with Euro 208,000 previously). This change has become necessary because of the volume of projects implemented on behalf of L'Immobilière Groupe Casino and Plouescadis. This addendum entered into force on January 1, 2017.

Therefore, for fiscal year 2017, Mercialys received remuneration of Euro 280,000 excluding tax, compared with Euro 208,000 excluding tax in 2016.

### THIRTEENTH RESOLUTION

**Regulated agreement: approval of Addendum no. 1 to the document amending the Advisory Services Framework Agreement signed with L'Immobilière Groupe Casino and with Plouescadis**

The Ordinary General Meeting, after reviewing the Statutory Auditors' special report on the agreements referred to in Article L.225-38 of the French Commercial Code, approves Addendum no. 1, to the document amending of the Advisory Services Framework Agreement signed with L'Immobilière Groupe Casino and with Plouescadis which entered into force on January 1, 2017.

## Resolution 14 – Purchase by the Company of its own shares

**Presentation**

The fourteenth resolution renews the authorization given to the Board of Directors, for a period of 18 months, to purchase the Company's shares. The maximum purchase price is set at Euro 25 per share and the maximum number of shares that may be purchased would be limited to 10% of the number of shares comprising the Company's share capital on the date of the Annual General Meeting. For example, on the basis of the capital at January 31, 2018, after deducting the 202,115 shares held in treasury, the maximum theoretical amount which the Company could devote to share purchases would be Euro 225 million, corresponding to 9,002,801 shares.

In connection with the authorization granted by the Annual General Meeting of April 27, 2017 and on the basis of the information at January 31, 2018, the Company bought 2,021,552 shares, and sold 2,079,869 shares.

At January 31, 2018, the Company held 202,115 shares (0.22% of share capital), including 44,427 shares allocated for the purpose of covering any stock option plans, savings plans or bonus share plans, and 157,688 shares under the liquidity agreement.

Details of the objectives of the share buyback program are provided below in the fourteenth resolution, and in the description of the share buyback program in chapter 7, paragraph 7.1.2.3, page 295.

In the event of a public tender offer relating to the shares or securities issued by the Company, the Company may only use this authorization to meet its commitments regarding the delivery of securities, particularly in the context of bonus share award plans or strategic transactions undertaken and announced before the launch of the tender offer.

## FOURTEENTH RESOLUTION

### Authorization for the Company to purchase its own shares

The Ordinary General Meeting, after reviewing the Board of Directors' report, authorizes the Board of Directors to purchase, or arrange for the purchase, of the Company's shares in accordance with the provisions of Articles L. 225-209 *et seq.* of the French Commercial Code, of Articles 241-1 to 241-5 of the General Regulation of the *Autorité des Marchés Financiers* (AMF), and the European regulation applicable to market abuse (and specifically European Regulations no. 596/2014 of April 16, 2014 and no. 2273/2003 of December 22, 2003), primarily for the following purposes:

- to maintain liquidity and stimulate the market for the Company's shares *via* an investment services provider acting independently and on behalf of the Company, in connection with a liquidity contract compliant with a code of conduct recognized by the AMF;
- to implement any Company stock option plan, under the provisions of Articles L. 225-177 *et seq.* of the French Commercial Code, any savings scheme in accordance with Articles L. 3332-1 *et seq.* of the French Employment Code or any award of bonus shares under the provisions of Articles L. 225-197-1 *et seq.* of the French Commercial Code, or any other stock based compensation scheme;
- to deliver these shares when the rights attached to negotiable securities conferring a right to shares are exercised *via* a reimbursement, conversion, exchange, the presentation of a warrant or a debt security convertible or exchangeable into shares of the Company, or by any other means that confers a right to shares of the Company;
- to hold them for the purpose of subsequently using them as payment or exchange in connection with or following any external growth transaction within the limit specified by Article L. 225-209, sub-paragraph 6 of the French Commercial Code;
- to cancel them all or in part in order to optimize net earnings per share in connection with a share capital reduction transaction in the manner provided for by the law;
- to implement any market practice that becomes authorized by the AMF and, more generally, to carry out any transaction compliant with applicable regulations.

These shares may be acquired, sold, transferred, or exchanged in any manner, including on the market or over the counter, and through block trades. These means shall include the use of any derivative financial instrument traded on a regulated market or over the counter and the implementation of options strategies in the manner authorized by the competent market authorities, provided that such means do not contribute to a significant increase in share price volatility. The shares may also be loaned, pursuant to Articles L. 211-22 *et seq.* of the French Monetary and Financial Code.

The purchase price of the shares shall not exceed Euro 25 (excluding purchase costs) per share of 1 (one) euro par value.

This authorization may be implemented within the limit of a number of shares representing 10% of the Company's share capital on the date of this General Meeting, or, for information, 9,002,801 shares based on the share capital as of January 31, 2018, after deducting the 202,115 shares held in treasury, for a maximum amount of Euro 225 million, on the understanding that when the Company's shares are purchased under a liquidity agreement, the number of these shares taken into account in calculating the 10% threshold specified above, will correspond to the number of those purchased shares, after deducting the number of shares resold under the liquidity agreement during the period of authorization. However, the number of shares purchased by the Company to be held and subsequently used as payment or exchange in connection with an external growth transaction may not exceed 5% of the share capital. Purchases made by the Company may not, under any circumstances, result in the Company holding, at any time whatsoever, more than 10% of the shares comprising its share capital.

The authorization granted to the Board of Directors is given for a period of eighteen months. It terminates and supersedes the authorization previously granted by the eleventh resolution of the Ordinary General Meeting of April 27, 2017.

In the event of a public tender offer relating to the shares or securities issued by the Company, the Company may only use this authorization to meet its commitments regarding the delivery of securities, particularly in the context of bonus share award plans or strategic transactions undertaken and announced before the launch of the public tender offer.

Consequently, full powers are granted to the Board of Directors, which may be delegated, in order to implement this authorization, to place any stock market orders and enter into any agreements in order, particularly, to keep records of the buying and selling of shares, to allocate or reallocate the shares acquired for the various purposes in question, in the applicable legal and regulatory manner, to make any declarations to the AMF and carry out any other formalities, and, in general, to take all necessary measures.

## 8.1.2 Resolutions within the authority of the Extraordinary General Meeting

### Resolution 15 – Allocation of bonus Company shares to employees and corporate officers of the Company

**Presentation**

The Combined Annual and Extraordinary Meeting of April 27, 2017, in its twenty-sixth resolution, authorized your Board of Directors, for a period of 38 months to award bonus shares of the Company to employees of the Company and its affiliates and to the Company's corporate officers. Corporate officers may thus benefit from this authorization provided they meet performance criteria, in addition to being employed by Mercialys.

However, in order for the Company to benefit from the new regime introduced by the 2018 Finance Act, you are being asked under the 15th resolution, on the recommendation of the Appointments and Compensation Committee, to cancel the authorization granted by the Annual General Meeting of April 27, 2017 under its twenty-sixth resolution for the unused portion, and to replace it with a new authorization, for a period reduced to 26 months (the only change).

No change has been made to the maximum amount of shares that may be awarded under bonus share award plans as set by the twenty-sixth resolution of the Annual General Meeting of April 27, 2017.

The proposed resolution thus maintains the total number of bonus shares that may be distributed over 26 months at 0.5% of the share capital as of the General Meeting date of April 27, 2017 (excluding adjustments). This ceiling includes the bonus shares granted under the twenty-sixth resolution of the Annual General Meeting of April 27, 2017.

We recall that all bonus share award plans currently in force exclusively concern existing shares, without dilutive impact on the share capital. The total number of existing shares that may be definitively allocated under allocations granted but not yet vested is set at 0.15% of the share capital at December 31, 2017.

Just as the authorization granted by the General Meeting of April 27, 2017, the authorization states that, according to legal requirements, shares are definitely allocated to their beneficiaries at the end of a vesting period set by the Board of Directors. However, the period must not be less than one year and the shares must be held by their beneficiaries for a period set by the Board of Directors, on the understanding that the aggregate vesting and holding period must not be less than two years. However, insofar as the vesting period for all or part of one or more allocations is at least two years, the Board of Directors would be authorized not to impose a holding period for the shares in question. Furthermore, if the invalidity of a beneficiary corresponds to classification in categories 2 or 3 provided for in Article L. 341-4 of the French Social Security Code, or the foreign equivalent, the Board of Directors would be authorized to arrange for the shares to be definitively allocated to the beneficiary before the end of the outstanding vesting period.

#### FIFTEENTH RESOLUTION

**Authorization granted to the Board of Directors to allocate existing or future bonus Company shares to employees and corporate officers of the Company and its affiliates; automatic waiver by shareholders of their preferential subscription rights**

After reviewing the Board of Directors' report and the Statutory Auditors' report in accordance with Article L. 225-197-1 *et seq.* of the French Commercial Code, the Extraordinary General Meeting:

- authorizes the Board of Directors, in accordance with and in the manner stipulated by the provisions of Articles L. 225-197-1 to L. 225-197-5 of the French Commercial Code, to allocate existing or future bonus shares, on one or more occasions, to employees of the Company or to certain categories of said employees and to corporate officers, as well as to employees of companies or economic interest groups affiliated to the Company, as defined under the terms of Article L. 225-197-2 of the French Commercial Code;
- resolves that the total number of shares that may be allocated may not exceed 0.5% of the total number of shares representing the Company's share capital on this date, including 0.15% for corporate officers, not taking into account the adjustments likely to be applied to protect the rights of the beneficiaries in accordance with the legal and regulatory provisions and any applicable contractual provisions;
- resolves that with regard to the Company's corporate officers, the vesting of shares in full shall be subject to fulfilling performance conditions, in addition to being employed by the Company or any company associated with it. These performance conditions shall be set by the Board of Directors in accordance with several criteria, including, as a minimum, the Total Shareholder Return (TSR) compared with that of peer companies. They will be assessed over a minimum period of three consecutive business years.

The Annual General Meeting authorizes the Board of Directors to carry out, alternatively or cumulatively, within the limits determined in the previous paragraph:

- the allocation of shares resulting from Company's buybacks in the manner stipulated in Articles L. 225-208 and L. 225-209 of the French Commercial Code; and/or
- the allocation of shares to be issued through an increase in capital; in this case, the Annual General Meeting authorizes the Board of Directors to increase the share capital by the maximum nominal amount corresponding to the number of shares allocated and takes note that this authorization automatically implies that the beneficiaries of the bonus shares allocated shall waive their preferential subscription rights to the shares to be issued.

The Annual General Meeting resolves that the shares shall be definitely allocated to the beneficiaries at the end of a vesting period set by the Board of Directors. However, the period must not be less than one year and the shares must be held by their beneficiaries for a period set by the Board of Directors, on the understanding that the aggregate vesting and holding period must be no less than two years. However, the Annual General Meeting authorizes the Board of Directors not to impose any holding period for the relevant shares insofar as the vesting period for all or part of one or more allocations is at least two years. For all practical purposes, it should be borne in mind that the Board of Directors will have the right to set different vesting and holding periods according to the regulations in force in beneficiaries' countries of residence. In addition, the Annual General Meeting authorizes the Board of Directors to decide that, in the event that the beneficiary suffers a disability classifiable in the second or third category set forth in Article L. 341-4 of the French Social Security Code, or their respective equivalents in other countries, the shares may be definitively delivered to him or her prior to the expiration of any remaining acquisition period.

The Annual General Meeting resolves that the definitive allocation of shares to employees may be subject to one or more performance conditions to be determined by the Board of Directors.

The Annual General Meeting grants full authority to the Board of Directors, which may subdelegate such powers in accordance with the law, subject to the limits set out above:

- to determine the identity of the beneficiaries, or the categories of beneficiaries of share allocations, bearing in mind that shares may not be allocated to employees and corporate officers individually holding more than 10% of the share capital, and that the allocation of bonus shares may not result in any individual beneficiary holding more than 10% of the share capital;
- to distribute the share allocation rights on one or more occasions and at the times it considers appropriate;
- to set the conditions and criteria for share allocation, including but not limited to length of service, maintaining a contract of employment or retaining corporate duties during the vesting period, and any other financial condition, or conditions relating to individual or collective performance;
- to determine, in accordance with legal conditions and limits, the final vesting period and, where appropriate, the required holding period;
- to register, where appropriate, the allocated bonus shares in a registered account opened in the name of their holder, stipulating the holding period and their term;
- to cancel the holding period attached to the shares in cases of redundancy, retirement or invalidity corresponding to categories 2 or 3 stipulated in the provisions of Article L. 341-4 of the French Social Security Code, or in the event of death;
- to set aside, as appropriate, an unavailable reserve, allocated to the rights of the beneficiaries, for an amount equal to the total nominal value of shares likely to be issued through an increase in capital, by deducting the necessary sums from all reserves freely available to the Company;
- to determine the date of taking possession, even retroactively, of the new shares resulting from the allocation of bonus shares;
- make the necessary deductions from this unavailable reserve in order to release the nominal value of the shares to be issued to their beneficiaries;
- in the event of a capital increase, to amend the articles of association accordingly and carry out all necessary formalities;
- carry out, as appropriate, during the vesting period any adjustments to the number of bonus shares allocated in connection to transactions involving the Company's capital in order to protect the rights of beneficiaries; it is specified that any shares allocated by virtue of such adjustments will be deemed to have been allocated on the same day as the shares initially allocated.

In accordance with the provisions of Articles L. 225-197-4 and L. 225-197-5 of the French Commercial Code, a special report will be drawn up each year to inform the Ordinary General Meeting of the transactions carried out under this authorization.

The Annual General Meeting sets the period during which the Board of Directors may make use of this authorization at twenty-six months. It terminates the authorization for the same purpose granted by the Annual General Meeting held on April 27, 2017 (26th Resolution), as regards the unused portion.

## Resolutions 16 – Powers for formalities

**Presentation**

The sixteenth resolution is a standard resolution that permits legal publication and formalities to be carried out.

### SIXTEENTH RESOLUTION

#### Powers for completion of formalities

The Ordinary General Meeting grants full powers to any bearer of an original version, a copy or an extract of the minutes of this General Meeting to perform the filing, disclosure or other formal requirements prescribed by law.

### ANNEX 1: INFORMATION ABOUT THE COMPONENTS OF THE COMPENSATION DUE OR AWARDED TO THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER AND THE CHIEF OPERATING OFFICER FOR FISCAL YEAR 2017

#### Compensation package of the Chairman and Chief Executive Officer for 2017

| Components of the compensation paid or awarded for the previous fiscal year | Amounts or accounting valuation submitted to the vote | Presentation |
|---|---|---|
| **Fixed compensation** | **Euro 450,000**<br>**(amount paid)** | Amount unchanged since March 1, 2015 |
| **Annual variable compensation** | **Euro 344,250**<br>**(amount awarded subject to the approval of the 4th resolution)** | The amount of the variable portion, expressed as a percentage, breaks down as follows:<br>- 7.5% for the organic growth of rental revenues: Euro 33,700;<br>- 10% for FFO growth: Euro 45,000;<br>- 0% for the EBITDA margin;<br>- 10% for the prorated impact of 2017 openings: Euro 45,000;<br>- 9% for the IRR of projects opened in 2017: Euro 40,500;<br>- 0% for the current financial vacancy rate;<br>- 10% for the spread: Euro 45,000;<br>- 30% for the managerial objectives: Euro 135,000.<br>In total, the gross amount of the 2017 variable portion is Euro 344,250 or 76.50% of his fixed compensation.<br>The detailed information is set forth in chapter 4, paragraph 4.2.2.1, B, 3, page 240. |
| **Multi-year variable compensation** | **Euro 182,812** | Éric Le Gentil benefits from two long term variable incentive plans set up by the Board of Directors meetings of March 23, 2015 and March 11, 2016 on the advice of the Appointments and Compensation Committee. These long term variable incentive plans will only be paid at the end of a period of three years, subject to the condition of continued employment, and to two specific conditions of presence, in respect of which the methodology and analysis of the performance conditions are described in chapter 4, paragraph 4.2.2.1, B, 4, page 240.<br>With respect to the long term variable compensation decided by the Board of Directors on March 23, 2015, Éric Le Gentil will receive the sum of Euro 182,812 subject to the approval of the fourth resolution presented to the Annual General Meeting. He is required to reinvest 75% of the incentive thus acquired, after deducting social security contributions and income tax at the maximum marginal rate, and to hold the corresponding shares throughout the term of his directorship. |
| **Exceptional compensation** | **Not applicable** | In accordance with the 2017 compensation policy, as approved at the Ordinary General Meeting of April 27, 2017, Éric Le Gentil will not receive any exceptional compensation for 2017. |

| Components of the compensation paid or awarded for the previous fiscal year | Amounts or accounting valuation submitted to the vote | Presentation |
|---|---|---|
| **Bonus share allotment** | **Bonus share allotment valued at Euro 97,116 (accounting valuation of the instruments awarded for the previous fiscal year)** | Pursuant to the authorization granted by the Extraordinary General Meeting of April 27, 2017 (26th resolution), the Board of Directors' meeting of April 27, 2017 decided to allot 19,269 shares to Éric Le Gentil, which may be increased to 28,904 if the performance criteria are exceeded.<br>This allotment represents 0.02% of the share capital.<br>The performance methods and criteria are described in chapter 4, paragraph 4.2.2.1, A, 1, c), page 236 and 237 and the valuation in chapter 4, paragraph 4.2.2.1, B, 6 page 242. |
| **Directors' fees** | **Euro 50,000 (amount paid)** | As a director, Eric Le Gentil gets director's fees. The gross amount of individual directors' fees has been set at Euro 15,000 per year, comprising a fixed portion of Euro 5,000 a year and a variable portion of Euro 10,000 a year awarded on the basis of attendance at Board meetings. An additional Directors' fee of Euro 20,000 gross a year is paid to the Chairman of the Board of Directors.<br>Éric Le Gentil is also a member of the Investment Committee. As such, like the other members of the Committee, he receives an additional Directors' fee comprising a fixed portion of Euro 4,000 gross a year and a variable portion of Euro 11,000 gross a year. |
| **Benefits of all kinds** | **Euro 14,301 (accounting valuation)** | The Chairman and Chief Executive Officer participates in the insurance plan in effect in the Company for all employees and benefits from the executive unemployment insurance. |
| **Severance pay** | **Not applicable** | No commitment to pay a severance allowance to the Chairman and Chief Executive Officer for the termination of his duties. |
| **Non-compete allowance** | **-** | If his position were terminated, the Chairman and Chief Executive Officer would be bound by a non-compete and non-solicitation obligation that would apply for a period not to exceed the time of employment in the Company, up to a maximum of one year; it being understood that the Company may reduce or waive the application period. In exchange, the Chairman and Chief Executive Officer would be paid a monthly compensation equivalent to one-twelfth of 50% of his annual fixed compensation. |
| **Supplementary pension scheme** | **Not applicable** | He participates in the mandatory group pension and insurance plan (ARRCO and AGIRC) in effect within the Company for all employees. He also benefits from senior executive unemployment insurance. He does not receive any other benefit of any kind. |

## Compensation package of the Chief Operating Officer for 2017

| Components of the compensation paid or awarded for the previous fiscal year | Amounts or accounting valuation submitted to the vote | Presentation |
|---|---|---|
| **Fixed compensation** | **Euro 300,000**<br>**(amount paid)** | Compensation set up with effect from March 1, 2017, unchanged in 2018. |
| **Annual variable compensation** | **Euro 172,800**<br>**(amount awarded subject to the approval of the 5th resolution)** | The amount of the variable portion, expressed as a percentage, breaks down as follows:<br>- 6% for the organic growth of rental revenues: Euro 18,000;<br>- 8% for FFO growth: Euro 24,000;<br>- 0% for the EBITDA margin;<br>- 8% for the prorated impact of 2017 openings: Euro 24,000;<br>- 7.2% for the IRR of projects opened in 2017: Euro 21,600;<br>- 0% for the current financial vacancy rate;<br>- 8% for the spread: Euro 24,000;<br>- 20.40% for the managerial objectives: Euro 61,200.<br>In total, the gross amount of the 2017 variable portion is Euro 172,800 or 57.6% of his fixed compensation.<br>The detailed information is set forth in chapter 4, paragraph 4.2.2.1, C, 3, page 244. |
| **Multi-year variable compensation** | **Not applicable** | Vincent Ravat does not receive a multi-year incentive. |
| **Exceptional compensation** | **Not applicable** | In accordance with the 2017 compensation policy, as approved by the Ordinary General Meeting of April 27, 2017, no exceptional compensation was paid for 2017. |
| **Bonus share allotment** | **Bonus share allotment valued at Euro 43,163**<br>**(accounting valuation of the instruments awarded for the previous fiscal year).** | Pursuant to the authorization granted by the Extraordinary General Meeting of April 27, 2017 (26th resolution), the Board of Directors' meeting of April 27, 2017 decided to allot 8,564 shares to Vincent Ravat, which may be increased to 12,846 if the performance criteria are exceeded. This allotment represents 0.01% of the share capital.<br>The performance methods and criteria are described in chapter 4, paragraph 4.2.2.1, A, 2, c), page 238 and 239 and the valuation in chapter 4, paragraph 4.2.2.1, C, 5 page 245. |
| **Directors' fees** | **Not applicable** | Not awarded |
| **Benefits of all kinds** | **Euro 13,337**<br>**(accounting valuation)** | The Chief Operating Officer participates in the insurance plan in effect in the Company for all employees and benefits from the executive unemployment insurance. He also has a company car. |
| **Severance pay** | **Not applicable** | No commitment to pay a severance allowance to the Chief Operating Officer for the termination of his duties |
| **Non-compete allowance** | **-** | If his position were terminated, the Chief Operating Officer would be bound by a non-compete and non-solicitation obligation that would apply for a period not to exceed the time of employment in the Company, up to a maximum of one year; it being understood that the Company may reduce or waive the application period. In exchange, the Chief Operating Officer would be paid a monthly compensation equivalent to one-twelfth of 50% of his annual fixed compensation. |
| **Supplementary pension scheme** | **Not applicable** | The Chief Operating Officer does not benefit from any additional pension plan. He participates in the mandatory group pension and insurance plan (ARRCO and AGIRC) in effect within the Company for all employees. He also benefits from senior executive unemployment insurance. |

# 8.2 STATUTORY AUDITORS' SPECIAL REPORT ON THE AUTHORIZATION TO AWARD EXISTING OR FUTURE BONUS SHARES (FIFTEENTH RESOLUTION)

Extraordinary General Meeting of April 26, 2018 - Resolution 15

To the Shareholders,

As the statutory auditors for your company and in accordance with the duties provided for in Article L. 225-197-1 of the French Commercial Code, we hereby present our report on the plan to award existing or future bonus shares to the salaried employees and corporate officers of your Company and its affiliates, a resolution on which you are asked to vote. The total number of shares which may be awarded under this authorization may not represent more than 0.5% of the Company's share capital, of which 0.15% for its corporate officers.

On the basis of its report, your Board of Directors asks you to authorize the award of existing or future bonus shares, for a period of 26 months.

It is the responsibility of the Board of Directors to prepare a report on the proposed resolution. It is our responsibility to inform you of our comments, if applicable, based on the information provided to you regarding the proposed resolution.

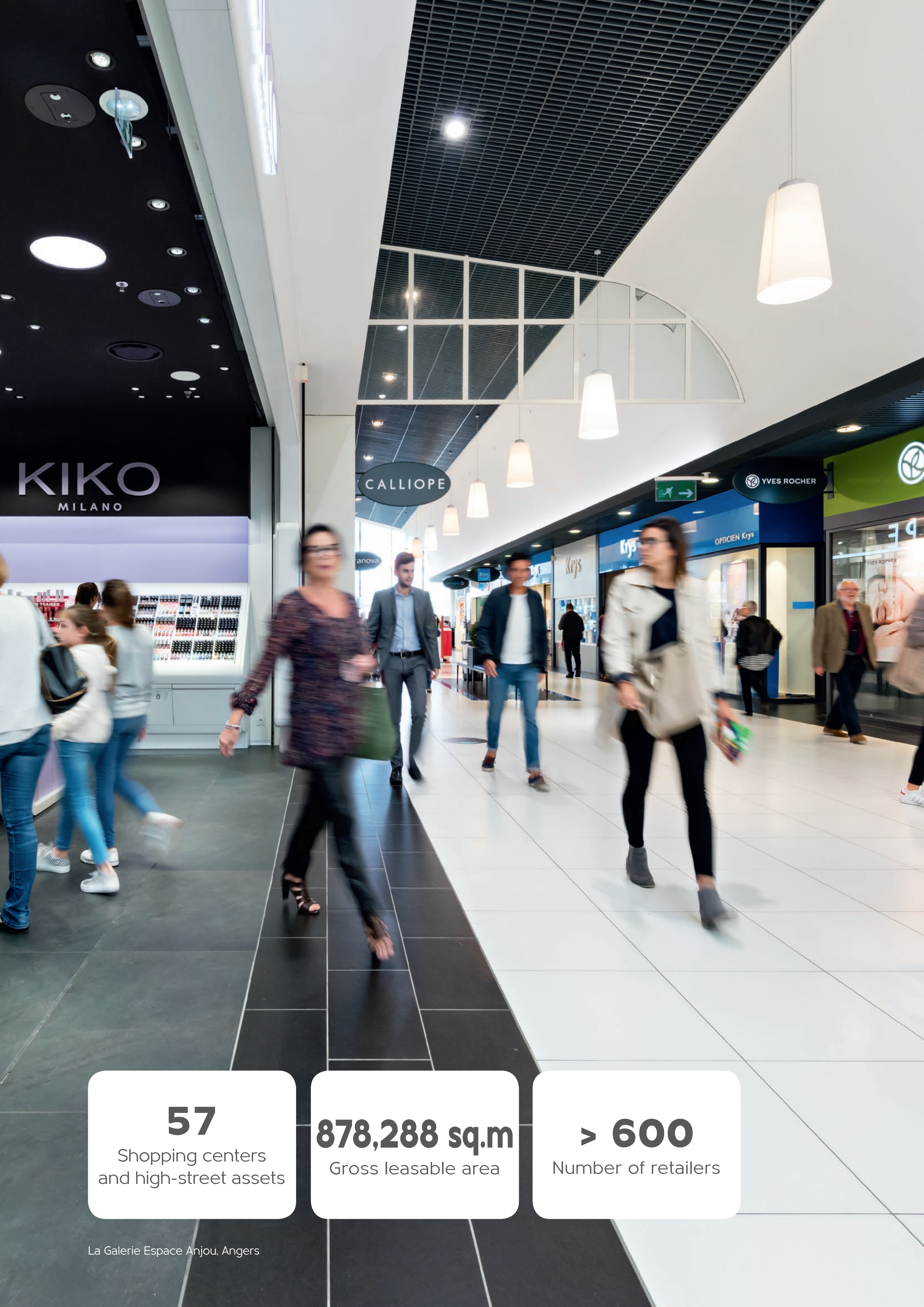
We carried out the procedures which we considered necessary with regard to the professional guidelines issued by the national auditing body in France relating to this type of undertaking. These procedures involved, in particular, ensuring that the methods proposed and described in the report of the Board of Directors are in accordance with the provisions of French law.

We have no comments to make regarding the information given in the report of the Board of Directors on the proposed resolution to authorize the awarding of bonus shares.

Paris-La Défense and Lyon, March 19, 2018

The Statutory Auditors,

| | |
|---|---|
| KPMG S.A. | Ernst & Young et Autres |
| | CoAdditional |
| Isabelle Goalec | Nicolas Perlier |
| *Partner* | *Partner* |




**57**
Shopping centers and high-street assets

**878,288 sq.m**
Gross leasable area

**> 600**
Number of retailers

La Galerie Espace Anjou, Angers

# 9

# ADDITIONAL INFORMATION

# 9.1 INFORMATION ABOUT THE COMPANY

## 9.1.1 History of the Company

Mercialys was incorporated in 1999 under the name of Patounor. It had no business activity until 2005.

In line with its objective of actively managing its real estate portfolio and enhancing the value of its assets, the Casino group took steps to reorganize its real estate holdings by transferring some of its real estate assets in France to a newly incorporated real estate investment company, a subsidiary of L'Immobilière Groupe Casino, taking the form of a *Société d'Investissements Immobiliers Cotée* (SIIC), equivalent to a real estate investment trust (REIT).

Accordingly, in 2005, the Casino group decided to transfer to Mercialys, without retroactive effect, within the context of partial transfers of assets in accordance with the regime for demergers (excluding transfers of securities), all premises of specialized superstores and shopping centers located at the sites of Casino group hypermarkets and supermarkets and cafeterias, as well as certain sites containing franchise supermarkets or convenience stores leased to third parties and owned by the Casino group.

Associated contracts, in particular related leases, were also transferred. However, the premises in which the hypermarkets, supermarkets (apart from four supermarkets) and the majority of Casino group convenience stores are located, car parks and nearly all service stations attached to hypermarkets and supermarkets were not included. The Casino group remains the owner of such premises. The Casino group intended to retain direct ownership of all hypermarkets, supermarkets, car parks and attached service stations, which make up its core business, as well as its non-retail properties (warehouses and office buildings), and to transfer to Mercialys only income-generating shopping centers.

These asset contributions concerned 146 of the Company's 147 properties (the Company had acquired a small property before the contributions were made).

In addition, SCI Vendome Commerces, a subsidiary of AXA, transferred ownership of a shopping center to Mercialys.

These transactions were definitively concluded on October 14, 2005.

On October 12, 2005, Mercialys went public through a capital increase by way of a public offering.

On November 24, 2005, the Company opted for the French tax regime applicable to SIICs in order to benefit, as of November 1, 2005, from an exemption from corporate income tax on rental revenue and capital gains on disposal of real estate properties or on disposal of certain holdings in real estate companies. In order to benefit from this tax exemption, SIICs are required to pay out at least 95% of their tax-exempt rental income in dividends to their shareholders, and at least 60% of their exempted income from disposal of real estate properties and certain holdings in real estate companies. Dividends from subsidiaries that are subject to corporate income tax and are covered by this tax regime must be fully redistributed.

In 2006, L'Immobilière Groupe Casino sold 10,935,000 shares in a block sale to institutional investors, thereby reducing the Casino group's stake from 75.29% to 60.30%. SCI Vendôme Commerces consequently increased its stake in the Company and Generali and Cardif Assurances Vie acquired stakes in the Company.

As remuneration for the contribution by Vindemia – a subsidiary of the Casino group – of four shopping malls in December 2007, the Company issued 2,231,041 shares, increasing Casino's stake in the Company to 61.48%.

On May 19, 2009, the Casino group contributed a portfolio of 25 assets to the Company as part of the "Alcudia/L'Esprit Voisin" program (a multi-year program launched in July 2006 with the aim of renovating, redeveloping, extending and creating value at 100 or so sites operated jointly with the Casino group). This portfolio concerned four distinct types of properties: three shopping malls; seven shopping mall extensions at an advanced stage of development (CDEC authorization and building permits obtained), due to be delivered turnkey to Mercialys by Casino; ten hypermarket lots (storage and/or sales areas) due to be converted into shopping center extensions by Mercialys; five hypermarkets or supermarkets in properties as part of a co-ownership complex in an urban location, requiring the consolidation of the properties before the start of extensive redevelopment works and the implementation of the "Alcudia/L'Esprit Voisin" project at these sites. As remuneration for these contributions, the Company issued 14,191,700 shares, bringing Casino's stake in its share capital to 66.08% at the time of the contribution.

Within the framework of this asset contribution, the Annual General Meeting of Casino, Guichard-Perrachon of May 19, 2009 decided to pay an additional dividend in kind to the Casino group's shareholders in the form of the allotment of one (1) Mercialys share for eight (8) Casino shares. This payment resulted in the transfer by Casino, Guichard-Perrachon of 14,013,439 Mercialys shares to its shareholders, consequently decreasing Casino, Guichard-Perrachon's participation in Mercialys' capital to 50.89%.

In 2012, Mercialys embarked on a new strategic plan based on its vision of "Foncière Commerçante," with the aim of increased differentiation, stimulating demand and proactively expanding its offering. The implementation of this business strategy is accompanied by the normalization of Mercialys' financial structure with a Euro 1 billion debt commitment, partly in the form of a bond issue.

While remaining a key shareholder, Casino reduced its stake in 2012 to 40.17% of the share capital. A new partnership agreement has been submitted to the Board of Directors. The fundamental principle of the agreement, under which Casino develops and manages a pipeline of development projects that are acquired by Mercialys to drive its growth, has been maintained on the same financial terms.

To mark the success of its first development phase and the launch of its new strategy, Mercialys wanted to return to shareholders their initial contributions by means of an exceptional dividend payout, which was approved by the General Meeting of April 13, 2012.

In 2013, Mercialys continued to implement the "L'Esprit Voisin" program. Twelve L'Esprit Voisin projects were launched for delivery in 2013 and 2014. These comprised 120 new stores with a full-year rental value of Euro 8.6 million and newly built or redeveloped GLA of 29,600 sq.m. In addition, Mercialys finalized its program of asset sales initiated in 2012, with the aim of refocusing the portfolio around properties best suited to the Company's strategy. At the end of this program, Mercialys' portfolio comprised 91 assets as at December 31, 2013, including 61 shopping centers, of which 74% were large shopping centers.

Mercialys exceeded its targets in 2014, its dynamic portfolio of shopping centers outperforming the French market. The focus also returned to external growth in 2014, with a record gross investment of Euro 522 million in terms of delivered and ongoing projects and acquisitions. New projects continued to be delivered at a steady pace throughout 2014. Mercialys' solid performance demonstrates its robust and resilient business model, built on value creation underpinned by both the fundamentals of the retail property sector and Mercialys' own strengths.

Mercialys' success continued throughout 2015, demonstrating its ability to enter into global transactions with international retailers and to attract new and innovative brands. These achievements are illustrated by relettings, the letting of redeveloped large food stores and cafeterias, and large-scale projects such as the Toulouse shopping center extension and retail park.

The development pipeline also entered a new phase in 2015, when Mercialys acquired 10 large food stores for redevelopment, either fully owned or through subsidiaries held with a third-party investor in which Mercialys owns a 51% stake.

Mercialys is also continuing to develop its innovative local real estate model by establishing a high-street retail segment. In this context, Mercialys acquired five sites for redevelopment from Monoprix for Euro 110.6 million, generating an immediate net yield of 5.9%. The sites will be developed for retail or mixed use in the medium term and the capex for the development projects will amount to around Euro 45 million.

All these investments have been achieved, while preserving a solid financial structure, with a loan-to-value (LTV) ratio of 41.0% and interest coverage ratio (ICR) of 5.1x at year-end 2015.

In 2016, Mercialys achieved an excellent operational performance. This performance illustrates the leverage from the renovation of existing properties on Mercialys' sites. Besides the reversion, organic growth has been generated by the re-letting of cafeterias vacated by the Casino group, by another double-digit increase in Casual Leasing rents, and by shopping center extensions carried out on hypermarket surfaces.

The extension of the Espaces Fenouillet shopping center in Toulouse, the largest project carried out for Mercialys to date, was also delivered in 2016. Mercialys has proven its ability to let this site successfully. This achievement resulted in a footfall of more than a million visitors in the first two months of opening.

## 9.1.2 General information

### 9.1.2.1 COMPANY NAME – TRADING NAME

The name of the Company is Mercialys.

### 9.1.2.2 REGISTER OF TRADES AND COMPANIES

The Company is entered in the Register of Trades and Companies of Paris under number 424 064 707.

### 9.1.2.3 DATE AND TERM OF INCORPORATION

The Company was formed on August 19, 1999 for a duration expiring on December 31, 2097, except in the event of early dissolution or extension.

### 9.1.2.4 REGISTERED OFFICE, TELEPHONE NUMBER, LEGAL FORM AND APPLICABLE LEGISLATION

The Company's registered office is located at 148, rue de l'Université, 75007 Paris (France) – Tel.: +33 (0)1 53 70 23 20.

The Company is a French-registered *société anonyme* (joint-stock corporation) with a Board of Directors and subject to the provisions of the French Commercial Code.

### 9.1.2.5 REGULATIONS SPECIFIC TO THE COMPANY'S ACTIVITIES

#### A. Rules applicable to the holding of real estate assets

##### 1. Acquisition/construction

Mercialys's shopping centers and other real estate assets are acquired and/or constructed either by buying the land on which these buildings are subsequently built or by the purchase of existing buildings from third party companies.

##### 2. Construction lease

Certain sites were built under "construction leases", in cases where landowners did not wish to sell their land outright but prefer simply to assign the usufruct.

A construction lease can run for a term of from 18 to 99 years, and confers upon the leaseholder temporary property rights to the land and the buildings which the latter undertakes to construct according to a defined program binding on the lessor.

The parties are free to fix the rent between them, at the time when enter into the contract.

For the entire term of the construction lease, the lessee pays the lessor the agreed rent and all charges, taxes and levies on the land as well as the buildings. The lessee is free to let the constructions and to collect rental income as if it were the full owner of the site.

At expiry of the construction lease, unless there is a specific clause to the contrary, the lessor is automatically transferred title to the constructions erected by the lessee on its land (shopping centers and large specialty stores).

The buildings revert to the lessor, usually for no consideration, unless agreed otherwise between the parties.

As the construction lease leads to the temporary transfer of title to the land and erected constructions, it should be published, just as any amendments thereto (rider, improvements, disposal, contributions, termination) at the land registry in the jurisdiction of the assets.

##### 3. Emphyteutic lease

In other cases, the shopping centers and large specialty stores were built under emphyteutic leases pursuant to which, as consideration of an agreed modest rent, the beneficiary enjoys the right to construct and rent such assets for a period of 18 to 99 years.

Emphyteutic leases are rather similar in content to construction leases, but also afford an alternative to the latter where malls exist already and no construction is necessary.

Like all leases lasting over 12 years, emphyteutic leases must be registered in the mortgage registry.

##### 4. Property leasing

A site can also be acquired by way of a property leasing transaction. The French property lease, or *crédit-bail* immobilier, is essentially a financing technique encompassing a lease with an option to purchase the real property at the end of the lease period at the latest. Such a leasing transaction therefore causes the owner of the property (the *crédit-bailleur*, or lessor) to grant the use thereof to a company (the *crédit-preneur*, or lessee). At the end of an irrevocable lease period, the lessee can acquire ownership of the real property for a fixed price, which is set at contract signing and takes into account the rents paid over the lease period.

Upon expiration of the lease period, the lessee has three options: (i) to acquire the real property for a price agreed upon at the outset (typically, one euro or the value of the bare land); (ii) to return the use thereof to the owner; or (iii) to commit to a new lease period with the agreement of the lessor.

The property lease, like any lease, must be registered in the mortgage registry when it runs for over 12 years.

### 5. Joint ownership and volume division

Shopping malls and large specialty stores, whether acquired directly, *via* construction lease, emphyteutic lease and/or property lease, are subject to specific regulations for the property management of their legal organization, such as those applicable to either joint ownership or volume division, depending typically on the environment in which the properties are located or built.

The joint ownership system is governed by the Law of July 10, 1965 and the Decree of March 17, 1967. It applies to shopping centers in which ownership of the hypermarkets, supermarkets, shopping malls or large specialty stores located therein is shared between several owners. Each joint owner has title to a lot, with exclusive rights to that private portion, plus an ownership share in the common lots. This entire ensemble is subject to functioning rules contained in the joint ownership by-laws. On his private lot, the owner benefits from all powers conferred by ownership rights attached to real estate property. The owner can also freely use the common lots, provided such use does not infringe on the rights of other joint owners.

The shares in common lots, which are attributed based on the rental values of the owner's lots, surface areas and locations, also enter into calculating the number of voting rights the owner has in joint ownership meetings and their respective shares of the common expenses thereof.

Jointly-owned property by-laws lay down rules for determining the uses and conditions of use for both private and common lots, and for the administration of common lots. The by-laws are registered in the mortgage registry. All joint owners are represented by the joint ownership association whose executive body is the facility manager. The facility manager's mission is to call General Meetings, draw up the forecast budget required for building maintenance and repair, and to act in all instances on behalf of the joint ownership association to preserve their interests. An Annual General Meeting of joint owners is called annually by the facility manager, mainly to approve the forecast budget. A meeting can also be called to approve works or to take special decisions jointly. Day-to-day operational decisions are passed by simple majority of joint owners present or represented in meetings, while administrative decisions require an absolute majority.

Other properties are subject to regulations governing what is known as "volume division." This concept issues from the practice and necessity of organizing complexes on which public property (roads, railways, metro lines) and various types of private property (offices, apartment buildings, shopping centers) have been built.

Volume division dispenses with the conventional notion of sole ownership and is based on the separation of the land, above-ground space and below-ground space, resulting in the creation of a three-dimensional volume. The property volume can be schematically defined as a right of ownership, distinct from the ground, involving a three-dimensional, homogeneous portion of above-ground space and below-ground space, corresponding to a building either erected or to be erected, geometric or not, but determined according to measured height and floor plans. These details defining the lots are set out clearly in the description of the division, which further delineates the volumes and their components. Height measurements make it possible to divide elements that are traditionally part of common lots (such as walls, piping and the base for land taxes) and to apportion the relative ownership rights to several precisely determined volumes, with easements, if applicable, benefiting other volumes.

If, in the description of the volume division, no details are given as to the allotment of such elements, they are considered for the common use of all volumes. The notion of volume division differs from co-ownership mainly because it contains no common lots owned jointly by several volume owners, with shares of such common lots attached to each volume.

With no common lots attached to different volumes, access to or through each volume is determined according to the established easements of right of way or of access. Depending on their situation, each volume will either benefit from or be subjected to such easements.

For volume divisions, the relationships between owners, easements, urban planning constraints and operating rules for the "volume division" are laid down in a document entitled "État descriptif de division" (division description). Management for the entire property complex and compliance with the rules of the division description are the responsibility of an associative syndicate or AFUL specially formed by the owners of volumes, who make up the membership.

Unlike a co-ownership organization, procedural rules for the AFUL are determined freely by the owners when drafting the AFUL by-laws.

The division description, like all co-ownership by-laws, is registered in the mortgage conservation archives.

## B. Commercial zoning regulations

Following on from the reform of the commercial operating permit system introduced by the law on the modernization of the economy (Law no. 2008-776 of August 4, 2008, or "LME" for short), which increased the thresholds from 300 to 1,000 sq.m, Law no. 2014-626 of June 18, 2014 concerning the craft and retail sectors and micro-enterprises (the "Pinel Law") thoroughly overhauled this system, with the result that the commercial operating permit is now integrated into the building permit.

According to the practical arrangements laid down by Decree no. 2015-165 of February 12, 2015 relating to commercial development, a commercial developer whose project requires a building permit will simultaneously apply both for the commercial operating permit and the building permit from a "one-stop shop" in the person of the local mayor.

A rejection by the departmental or national commercial development commission (CDAC or CNAC, as the case may be) will as a result, prevent the building permit from being issued.

For projects that do not need a building permit, the applicant will file a CDAC application with the local prefecture, as under previous legislation.

Customer collection points (drives) now also require a commercial operating permit pursuant to the ALUR Law no. 2014-366 of March 24, 2014 on housing and urban redevelopment.

As a result of this reform, building permits are now valid for three years, rather than two.

In terms of sanctions, the Pinel Law has extended the scope of Article L. 752-23 of the French Commercial Code to permanent collection points. The local governor still has the authority to order the operator concerned to bring the commercial area into line with the authorization granted within a period of one month. Without prejudice to the application of criminal sanctions, an order may be given requiring the closure to the public of retail areas operated illegally within 15 days, until the situation is resolved. The measures taken by the local governor are accompanied by a daily fine of Euro 150 per sq.m in violation of the permit. Furthermore, failure to comply with these measures is punishable by a fine of Euro 15,000.

### C. Public health regulations

The Company has an obligation to detect asbestos and, if necessary, to remove it in accordance with Articles R. 1334-14 to R. 1334-29-9 of the French Public Health Code. As of January 1, 2013, pursuant to the orders of December 28, 2012, when damaged materials likely to present a risk are identified, the property owner or occupier must commission either a periodic inspection of the materials, or the monitoring of ambient dust levels, or works to isolate or remove the asbestos. The local prefecture must also be informed and precautionary measures must be taken while waiting for works to be completed

### D. Rules on accessibility for people with disabilities

In terms of the accessibility of its centers for people with disabilities, the Company is required to comply with the Act of February 11, 2005 concerning equal opportunities, participation and citizenship of people with disabilities on the basis of:

- taking account of all forms of disability, not only motor disabilities but also sensory (visual and hearing), cognitive and psychological disabilities, and all difficulties relating to mobility;
- a commitment to look after the entire mobility chain, which includes the built environment, roads, facilities and external pathways.

Under Article 41 of the Act of February 11, 2005, existing facilities open to the public must allow people with disabilities to access and move around the building and receive information made available by means suited to various disabilities. The Order of March 21, 2007 sets out the requirements for the application of Articles R. 111-19-8 and R. 111-19-11 of the French Construction and Housing Code, relating to the accessibility of existing public buildings and amenities for people with disabilities. It also states that these measures must be implemented by January 1, 2015. Decree No. 2009-500 of April 30, 2009 relating to the accessibility of public buildings and buildings used as dwellings sets out the required time frames for accessibility assessments. These compulsory assessments determine the accessibility level of the building, identify the works to be carried out to meet the standards and estimate the cost of these works.

To complete this accessibility framework, the following legislation has extended the deadline beyond 2015 for implementation of the works to make public buildings accessible, based on the submission of “the ADAP” (*Agendas d’Accessibilité Programmée*) accessibility timetables: Act No. 2014-789 of July 10, 2014 – Act No. 2015-988 of August 5, 2015 – Order No. 2014-1090 of September 26, 2014 – Decree No. 2014-1327 of November 5, 2014.

These timetables have been submitted for the Company’s entire operational scope.

The Company is also subject to the safety regulations for public buildings (Order of June 25, 1980, as amended by the Order of September 24, 2009), which sets out the fundamental design and operation principles for a building to ensure the safe evacuation of people with disabilities. Its purpose is to take account of the inability of some members of the public to evacuate or be evacuated quickly, and to meet the requirements of Article R. 123-4 of the French Construction and Housing Code.

Details of the measures taken to support the employment and integration of disabled workers within Mercialys and at shopping centers owned by the Company are provided in chapter 2, page 63 and following.

### E. Environmental protection regulations

If the sites held by the Company are located in a municipality covered by preventive plans concerning technological or natural risks, or are located in a geologically unstable area ranked above 1, or within the scope of a *Secteur d’Information sur les Sols* area, where conducting soil studies, the Company is required – under

Article L. 125-5 of the French Environmental Code and Decree no. 2005-134 of February 15, 2005 – to inform its tenants and to display the report on the natural and technological risks of the commercial lease.

Certain sites may also be subject to the rules governing *Installations Classées pour la Protection de l'Environnement* ("ICPE") (Facilities Classified for the Protection of the Environment). A classified facility (as defined by the Law of July 19, 1976) is an activity that could cause a danger or nuisance to the neighboring area with regard to health, safety, public health or the environment.

The operator of such a classified facility must inform the local authorities of any significant renovation or transformation planned for the facility. Under the ICPE regime governing the facility (Declaration – Controlled Declaration – Registration – Authorization), the operator is required to submit a comprehensive operating report every five or ten years as specified by the Order of July 17, 2000. In addition, where the classified facility finally ceases to operate, its operator must inform the local authorities at least one month prior to the end of operations and must restore the site to a state in which any of the dangers or inconveniences provided for in Article L. 511-1 of the French Environmental Code.

The Company currently has installed equipment and material in some of its buildings for cooling and/or combustion, vital for the comfort of its customers, which in some cases are subject to the ICPE regulations.

Details of the resources implemented to prevent environmental risks are provided in chapter 5, page 253 and following.

The Company must also comply with water regulations and in particular the obligation to ensure the treatment of waste water, pursuant to the Public Health Code and the General Local Authorities Code. All the sites are connected to the public sanitation network.

The Company must also comply with the rainwater management obligation (the Water Law of January 1992).

According to Article L. 225-102-1 of the French Commercial Code, the Company is also obliged to disclose, in its management report, how it takes into account the social and environmental consequences of its activity. The latter must be checked by an independent third party pursuant to Decree no. 2012-557 of April 24, 2012.

## F. Safety regulations

As establishments open to the public, the Company's shopping centers and certain of its buildings are subject to regulations on fire safety and prevention and on the risks of panic laid down in Articles R. 123-1 to R. 123-55 of the French Construction and Housing Code, in the Order of June 25, 1980, as amended, and in the specific provisions that relate to each type of business activity. Prior to opening, the safety inspectors check every establishment intended for public access. Only after the inspectors have given their opinion may the local mayor then authorize the opening of the establishment. In addition, the safety inspectors carry out periodic visits as set out in the general safety regulations in order to check on compliance with safety standards. If they suspect that the safety regulations have not been observed they may make unannounced visits which may, if the situation warrants it, result in an application for administrative closure. The mayor, who has overall policing powers in the municipality, will decide whether or not to grant the application.

Note that, since the decree of June 13, 2017, the notional number of members of the public taken into account for Type M stores of more than 300 sq.m (hypermarkets, supermarkets, medium sized stores) is now based on a ratio of 1 person for every 3 square meters (in the basement, first floor and 2nd floors of the selling area), whereas it used to be every 2/3 square meters.

Furthermore, the frequency of visits by safety inspectors has been reviewed for certain types of public establishment. For example, "M" type inspections are now carried out every three years for category 1 and 2 establishments, and every five years for category 3 and 4 establishments.

Commercial premises are also obliged to provide security guards or surveillance where required because of their size or location. This includes taking measures to prevent crime and maintain order in public buildings, pursuant to Article L. 127-1 of the French Construction and Housing Code, amended by Law no. 2007-297 of March 5, 2007. The methods for applying this provision to commercial premises are set forth in Decree no. 97-46 of January 15, 1997 and to parking lots in Decree no. 97-47 of January 15, 1997.

This Article L. 127-1 of the French Construction and Housing Code was amended by Law no. 2007-297 of March 5, 2007 (Article 16 of French Official Journal of March 7, 2007), stating that owners, operators or assignees – as applicable – of buildings used for housing or as administrative, professional or commercial premises must, when the importance of these buildings or premises or their location justify it, arrange security guards or surveillance for such properties and take measures to avoid manifest risks to the safety and security of the premises.

## G. Commercial lease regulations

The Company is also subject to regulations concerning commercial leases in connection with its business. Commercial leases are governed by the provisions of Articles L. 145-1 *et seq.* and R. 145-1 of the French Commercial Code, and the uncodified articles of the Decree of September 30, 1953.

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

Commercial leases have a minimum term of nine years. However, the term is not imposed in the same manner on the lessor and the lessee. The lessee is entitled to terminate every three years simply by giving prior notice six months before the end of the current period. However, the parties may agree to a "firm" lease for more than nine years, such as those entered into by Mercialys.

The lessor, on the other hand, can take back its property at the end of each three-year period only if it intends, in particular, to build, rebuild, or build upwards on, the existing building. The lessor can only ask the court to terminate the lease in the event of the lessee's non-compliance with its contractual obligations.

The parties are free to set the initial rent when signing the lease. 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 construction cost index recorded since the most recent rental adjustment. Leases for shopping centers often include a variable portion of rents based on the lessee's sales, with a guaranteed minimum rent in order to limit risk for the Company in periods of economic recession. This indexation to revenues therefore avoids the rules for setting or adjusting rents as laid down in Articles L. 145-1 *et seq.* and R. 145-1 of the French Commercial Code as described above. In a commercial lease, therefore, it is only possible to the guaranteed minimum rent based on changes in the *Indice des Loyers Commerciaux* ("ILC") (commercial rent index) or the *Indice des Loyers des Activités Tertiaires* ("ILAT") (business rent index) if this is expressly provided for in the terms of the contract. At the end of the lease, the Company may refuse to renew it or give the lessee notice with an offer to renew the lease on new financial terms. The lessee, on the other hand, may request the renewal of its lease on the same terms. Failing this, the lease will automatically be renewed on the terms applicable at the end of the lease period.

If the Company refuses to renew, it must pay eviction compensation to the lessee to repair any losses incurred by the latter, unless the Company can justify non-payment of compensation for serious and legitimate cause.

If eviction compensation is due, the Company has a right to withdraw its action, *i.e.* to change its decision and offer to renew the lease in question. The right to withdraw its initial decision may be exercised only if the lessee has not made preparations to leave the premises in the interim. The right to withdraw may be exercised during the fifteen days following the definitive ruling setting the amount of the eviction compensation. Once exercised, the right to withdraw is irrevocable and gives rise to renewal of the lease starting from the date of notice that the right has been claimed, delivered to the lessee by an official process server.

If the Company gives the lessee notice with an offer to renew, or if the lessee requests renewal of the lease, the rent may be set either amicably between the parties, or failing this, by process of law. In the latter case, the party to act first must submit a request to the *Commission Départementale de Conciliation* (the Local Conciliation Board), prior to bringing any action before the *Tribunal de Grande Instance* (Regional Court), to apply for the Court's opinion on the amount of the rent in an attempt to reconcile the two parties. If no agreement is reached, the case must be brought before the Regional Court within two years of the effective lease renewal date. The rent determined for the renewed lease must meet two criteria: it must accurately reflect the rental value of the premises and comply with the "rental ceiling" rule provided by Articles L. 145-1 *et seq.* and R. 145-1 of the French Commercial Code. Unless there has been a material change in the factors that determine the rental value of the premises, the rents payable under leases which do not run for longer than nine years are capped and may not exceed the change indicated by the ILC or ILAT. However, there are exceptions to this ceiling rule for "monovalent" premises (or single use premises, which because of their specific layout can serve for only one type of business activity) or for leases with initial terms of nine years, but which, *via* the automatic renewal mechanism, have an effective term of more than twelve years. In such a case, new rental rates can be freely negotiated with lessees at the end of the contractual lease period for mono-use premises, and after the twelfth year, on prevailing market conditions for nine-year automatically renewable leases.

However, Article L. 145-34 of the French Commercial Code as amended by the Pinel Law, now provides that if there is a significant change in the factors referred to in paragraphs 1 to 4 of Article L. 145-33, or if an exception is made to the ceiling rules as a result of a clause in the contract relating to the term of the lease, the resulting change in rent may not lead to higher increases, for one year, than 10% of the rent paid in the previous year.

# 9.1.3 Memorandum of incorporation and by-laws

## 9.1.3.1 CORPORATE PURPOSE *(ARTICLE 3 OF THE BY-LAWS)*

The corporate purpose of the Company in France and abroad is:

- to acquire and/or develop all types of land, buildings, real property and real property rights for letting to tenants, management, leasing, development of all types of land, buildings and property rights, fitting out of all property complexes for letting to tenants, and all other connected or linked industrial or commercial activities relating to the aforementioned activities, and more generally the exercise of which relates to, or comprises, the operation of shopping malls or the leasing of space within shopping malls, whether directly or indirectly, either alone or in partnerships, alliances, groups or a company, with any other persons or companies;
- to participate by any means in any transactions related to the Company's purpose by acquiring interests and equity investments, by any means and in any form in a real estate, industrial or financial services company in France or abroad, notably through acquisition, the formation of new companies, the subscription or purchase of securities or ownership rights, contributions in kind, mergers, alliances, joint ventures, economic interest groups or other partnerships along with the administration, management and control of such interests and equity investments;
- in general, to carry out any property, equipment, commercial, industrial and financial transactions that may be directly or indirectly connected to the Company's purpose or facilitate the completion and development thereof, including the possibility of arbitrating assets, notably by way of disposal.

## 9.1.3.2 PROVISIONS OF THE BY-LAWS RELATING TO EXECUTIVE AND MANAGEMENT BODIES – INTERNAL RULES OF THE BOARD OF DIRECTORS

### A. Board of Directors

#### 1. Composition of the Board of Directors *(extract from Article 14 of the by-laws)*

The Company is managed by a Board of Directors comprising at least three members and a maximum of eighteen, subject to dispensation provided by law in the event of a merger with another public limited company. Board members are appointed by the Annual General Meeting of the shareholders.

#### 2. Term of office – Age limit – Replacements *(extract from Articles 15 and 16 of the by-laws)*

Members of the Board of Directors are appointed for a term of three years expiring at the close of the Annual General Meeting approving the financial statements for the previous year and held in the year in which their term of office expires. Directors may be reappointed when their term of office expires.

No one may be appointed as a Board member or permanent representative of a company if, having exceeded the age of seventy (70) years, their appointment brings the number of Board members and permanent representatives of companies above this age to more than one-third of the Board members.

When this age limit is passed, the oldest Board member or permanent representative of a company is deemed to have resigned from office at the end of the Annual General Meeting approving the financial statements for the year in which the limit was passed.

Directors are appointed or reappointed by decision of the Annual General Meeting. Directors have their terms of office renewed in rotation so that the Directors are regularly renewed in proportions that are as equal as possible. In order to enable the system of rotation to operate, the Annual General Meeting can appoint a Director for a period of one or two years, on an exceptional basis.

In the event of a vacancy in one or more Directors' seats due to death or resignation, the Board of Directors may make provisional appointments between two General Meetings. Such appointments shall be subject to ratification by the first Annual General Meeting thereafter.

If the appointment of a Director by the Board of Directors is not ratified by the Shareholders' Meeting, actions taken by the Director and decisions made by the Board of Directors during the provisional period shall remain valid.

If the number of Directors falls below three, remaining members (or in the event of a shortage a corporate officer designated at the request of any interested party by the presiding judge of the Commercial Court) must immediately convene an Annual General Meeting to appoint one or more new Directors in order to bring the number of Directors to the minimum required by law.

Directors appointed to replace another Director shall remain in office only for the remainder of their predecessor's term.

The appointment of a new Board member in addition to current members may only be decided by shareholders deliberating in a General Meeting.

Each member of the Board of Directors must hold at least 100 registered shares in the Company. If, on the day of his/her appointment, a Director does not own the required number of shares or if, during his/her term, he/she ceases to own such number of shares, and does not rectify the situation within six months, he/she is deemed to have resigned from office.

#### 3. Organization, meetings and decisions of the Board of Directors

**Chairman – Board officers** ***(extract from Articles 17 and 20 of the by-laws)***

The Board of Directors shall appoint one of its members as Chairman whose role shall be defined by law and the Company's by-laws. The Chairman of the Board of Directors shall organize and supervise the work of the Board of Directors and report thereon to shareholders at the Annual General Meeting. The Chairman is responsible for the proper running of the Company's management bodies and in particular for ensuring that the Directors are able to perform their duties.

The Chairman may be appointed for the full term of his/her office as Director, subject to the Board of Directors' right to remove him/her from the Chairmanship and his/her right to resign before the expiry of his/her term of office. The Chairman is eligible for reappointment.

The age limit for serving as Chairman is set at 75. Exceptionally, if the Chairman reaches this limit while in office, he/she shall stand down at the end of that term.

In the event of the temporary impediment or death of the Chairman, the Board of Directors may delegate the duties of Chairman to another Director. In the event of temporary impediment, such delegation shall be given for a limited term and is renewable. If the Chairman dies, the delegation shall remain valid until a new Chairman is elected.

#### Non-voting directors *(extract from Article 23 of the by-laws)*

The Annual General Meeting may appoint non-voting Directors to the Board of Directors, who may be individuals or legal entities chosen from among the shareholders. Between two Annual General Meetings, the Board of Directors may appoint non-voting Directors subject to ratification by the next General Meeting. There may not be more than five non-voting Directors.

Non-voting Directors serve a term of three years, expiring at the close of the Annual General Meeting approving the financial statements for the previous year and held in the year in which their term of office expires. Non-voting Directors are eligible for reappointment for as many terms as they wish and may be dismissed at any time by a decision of the Annual General Meeting.

Non-voting Directors attend meetings of the Board of Directors, during which they provide their opinions and observations and participate in decisions in an advisory capacity.

They may receive remuneration for their services, the aggregate amount of which is set by shareholders at the Annual General Meeting and maintained until a new decision is taken at another General Meeting. The Board of Directors shall divide such remuneration between non-voting Directors as it deems appropriate.

#### Decisions of the Board *(extract from Article 18 of the by-laws)*

The Board of Directors meets as often as necessary in the interests of the Company and whenever deemed appropriate, at the place indicated in the notice of the meeting. Notices of meetings are issued by the Chairman or in his/her name by any designated person. If the Board of Directors has not met for more than two months, one-third of Directors in office may ask the Chairman to call a meeting to discuss a predetermined agenda. The Chief Executive Officer can also ask the Chairman to call a Board of Directors meeting to consider a predetermined agenda.

The presence of at least half of the serving Directors is required to constitute a quorum for decision-making.

Decisions are made by a majority of members present or represented. In the event of a tie, the Chairman of the meeting shall have the casting vote. However, if the Board consists of fewer than five members, decisions may be made if unanimously approved by at least two Directors present.

Directors may participate in discussions by videoconference or other telecommunications means in accordance with the terms and conditions set out in applicable regulations and the rules of procedure of the Board of Directors.

### 4. Powers of the Board of Directors *(extract from Article 19 of the by-laws)*

The Board of Directors shall determine Company business policies and ensure that they are implemented. With the exception of the powers expressly granted to General Meetings and within the scope of the Company's corporate purpose, the Board of Directors acts in all matters concerning the smooth operation of the Company and deliberates on such matters. The Board of Directors performs the audits and checks that it deems necessary.

At any time and on its sole initiative, the Board of Directors may change the way in which Executive Management operates, without effecting any change in the by-laws.

The Board of Directors may establish committees, the composition and remit of which it determines, for the purpose of assisting it in its duties. The committees act within the brief granted to them and provide proposals, recommendations and opinions as appropriate.

The Board of Directors authorizes, within the conditions set by law, related party agreements other than those relating to standard transactions entered into at arm's length, as set out in Article L. 225-38 of the French Commercial Code. In accordance with Article L. 225-35 of the French Commercial Code, the Board of Directors' authorization is required for any sureties or guarantees given in the Company's name. However, the Board of Directors may authorize the Chief Executive Officer to give sureties or guarantees in the Company's name up to the global limit or maximum amount per authorized commitment each year.

Without prejudice to any legal prohibitions to the contrary, delegations of powers, duties or functions limited to one or more transactions or categories of transactions may be conferred to any person, whether a Director of the Company or not.

Furthermore, in its internal rules of procedure, the Board of Directors has adopted a number of mechanisms setting out the powers of the Company's management (see chapter 5, p. 253 et seq.).

## B. Senior Management of the Company

### 1. Senior Management *(extract from Article 21-I of the by-laws)*

The Company's Executive Management is exercised, under its responsibility, either by the Chairman of the Board of Directors or by an individual, who may or may not be a Board Member, appointed by the Board and having the title of Chief Executive Officer.

The Chief Executive Officer's term of office shall be freely determined by the Board of Directors but may not exceed three years. The Chief Executive Officer is eligible for reappointment.

The Chief Executive Officer is vested with the broadest powers to act on the Company's behalf in all circumstances. He exercises those powers within the limit of the corporate purpose subject to the powers expressly reserved by law to shareholders and to the Board of Directors. However, as a matter of internal policy, the Board of Directors may decide to limit the powers of the Chief Executive Officer (see chapter 4, page 201 and following for a description of the limits applied to the powers of the Executive Management of the Company). The Chief Executive Officer represents the Company in its dealings with third parties.

The age limit for serving as Chief Executive Officer is set at 75. However, on reaching the age limit, the Chief Executive Officer remains in office until his/her term expires.

The Board of Directors may remove the Chief Executive Officer from office at any time. If dismissal is decided without due cause, it may give rise to the payment of damages, except if the Chief Executive Officer performs the functions of Chairman of the Board of Directors.

#### 2. Chief Operating Officers *(extract from Article 21-II of the by-laws)*

On a proposal from the Chief Executive Officer, the Board of Directors may appoint up to a maximum of five natural persons to assist the Chief Executive Officer, having the title of Chief Operating Officer.

Their term of office may not exceed three years. Chief Operating Officers are eligible for reappointment. They have the same powers as the Chief Executive Officer in dealings with third parties.

The age limit for serving as Chief Operating Officer is set at 75. However, on reaching the age limit, Chief Operating Officers remain in office until their term expires.

The Chief Operating Officers may be dismissed at any time by the Board of Directors, upon the proposal of the Chief Executive Officer. If the Chairman performs the duties of Chief Executive Officer, the Chief Executive Officer or each of the Chief Operating Officers shall be authorized to grant sub-delegations or substitute powers of attorney for one or more transactions or categories of transaction.

### C. Internal rules of the Board of Directors

The Board of Directors adopted internal rules of procedure on August 22, 2005, amended for the last time on March 20, 2017. These rules of procedure are intended to complement legal and regulatory requirements and the Company's by-laws in stating the modus operandi of the Board of Directors. These rules can be found in paragraph 9.1.5, page 338 and following.

They define the organization, *modus operandi*, powers and remits of the Board of Directors and committees established from among its members, as well as the framework for the control and assessment of how it operates (see chapter 4, page 201 and following for a description of the various committees established and the limits placed on the powers of Executive Management and procedures for the control and assessment of the Board of Directors).

## 9.1.3.3 RIGHTS, PRIVILEGES AND RESTRICTIONS RELATING TO SHARES

### A. Appropriation of profits and dividend and interim dividend payments (extract from Articles 13, 33 and 34 of the by-laws)

Each share represents an interest in the assets and profits of the Company proportional to the fraction of the share capital it represents, taking into account, where necessary, the face value of shares, whether or not they are fully paid up, depreciated and non-depreciated capital and the rights of shares in different classes where any new classes of shares have been created.

#### 1. Profits – Legal reserve

No less than five per cent (5%) of profits for the year, adjusted for any prior year losses, are allocated to a reserve fund known as the "legal reserve." This allocation is no longer required once the legal reserve reaches one tenth of the Company's share capital.

Profit available for distribution is equal to profit for the year less prior year losses where applicable and amounts appropriated to the legal reserve, as mentioned in the above paragraph, and all other allocations to reserves required by law, plus retained earnings.

#### 2. Dividends

When the financial statements for the year approved by the General Meeting show the existence of profits available for distribution, the General Meeting decides, on the proposal of the Board of Directors, to carry out the necessary appropriations to reserves and depreciation of share capital, the allocation or employment of which it governs, to allocate amounts to retained earnings or to pay dividends. Amounts placed in reserve accounts may, on the proposal of the Board of Directors and by decision of the General Meeting, be distributed or capitalized at a later date. Furthermore, when the General Meeting decides to distribute amounts taken from the reserves at its disposal, such decision shall expressly indicate the reserve accounts from which funds are drawn.

#### 3. Interim dividends

The Board of Directors may decide to pay one or more interim dividends, subject to conditions required by law, before the financial statements are approved.

#### 4. Payment of dividends and interim dividends

Terms for the payment of dividends and interim dividends are determined by the General Meeting or, failing this, by the Board of Directors no later than nine months after the close of the fiscal year.

The General Meeting called to approve the financial statements for the year may grant each shareholder, for all or part of the dividend or interim dividends paid, an option of payment in cash or in shares. Requests for the payment of dividends in shares must be made no later than three months after the date of the General Meeting.

### B. Voting rights attached to shares

#### 1. Voting rights *(extract from Articles 28, 29 and 30 of the by-laws)*

Voting rights attached to shares are proportionate to the share of capital they represent. All shares have the same par value and carry one voting right.

Votes are expressed by show of hands, by electronic means or by any means of telecommunication that permits the identification of shareholders in accordance with the provisions of the law. On the proposal of the Board of Directors, the General Meeting may also decide to hold a secret ballot.

A majority vote of shareholders present in person, voting by post or represented by proxy is required for a decision to be made at an Annual General Meeting. At an Extraordinary General Meeting, a two-thirds majority of votes cast by shareholders present in person, voting by post or represented by proxy is required.

#### 2. Double voting rights

The Extraordinary General Meeting of May 5, 2015 reinstated the principle of "one share, one vote." Under Article L. 225-123-3 of the French Commercial Code, double voting rights are not attributed to fully paid-up shares for which proof is provided of registration for two years in the name of the same shareholder.

#### 3. Limitations on voting rights

Not applicable.

## 9.1.3.4 CHANGES TO SHARE CAPITAL AND TO RIGHTS ATTACHED TO SHARES *(EXTRACT FROM ARTICLES 7 AND 8 OF THE BY-LAWS)*

### A. Share Capital increase

The Extraordinary General Meeting has sole authority to decide or authorize a capital increase, immediately or in the future, except in the case of a capital increase resulting from a request by a shareholder to receive payment of all or part of a dividend or interim dividend in shares, where such an option has been granted to shareholders by the General Meeting approving the financial statements for the year.

The Extraordinary General Meeting may delegate this authority to the Board of Directors in accordance with the law, or assign to it the necessary powers to carry out the capital increase in one or more offerings within the time allowed by law, and to determine the terms, record the performance thereof and amend the by-laws accordingly.

In the event of a capital increase through the issue of shares for cash, preferential subscription rights shall, in accordance with legal conditions, be reserved for holders of existing shares. However, shareholders may waive their preferential rights on an individual basis and the General Meeting deciding on the capital increase may cancel said preferential rights in accordance with legal requirements.

### B. Reduction and redemption of share capital

The Extraordinary General Meeting may also, subject to the conditions stipulated by law, decide or authorize the Board of Directors to reduce the Company's share capital for any reason and in any manner whatsoever, including through the purchase and cancellation of a specific number of shares or by exchanging existing shares for new shares, for an equivalent number or fewer shares, with or without the same par value, with if applicable the sale or purchase of existing shares and with or without a cash balance to be paid or received.

## 9.1.3.5 ANNUAL GENERAL MEETINGS

### A. Form of Annual General Meeting *(extract from articles 29 and 30 of the by-laws)*

#### 1. Ordinary Shareholders' Meetings

The Annual General Meeting deliberates on the related party agreements covered by Article L. 225-38 of the French Commercial Code. It appoints Directors, ratifies or rejects temporary appointments made by the Board of Directors, removes Directors where it deems there to be just cause, determines the allocation of Directors' fees to the Board of Directors and sets the amount thereof. It appoints the Statutory Auditors. The Annual General Meeting ratifies any decision by the Board of Directors to transfer the registered office within the same region of France or to a neighboring region.

The Annual General Meeting meets once a year to approve, amend or reject the full-year Company financial statements and the consolidated financial statements and to determine the appropriation of profits in accordance with the Company's by-laws. It may decide, subject to the conditions stipulated by law, to grant each shareholder, in respect of all or part of the dividend or interim dividend to be paid, the option to receive payment in cash or in shares.

More generally, the Annual General Meeting deliberates on all other matters that do not fall within the scope of the Extraordinary General Meeting.

#### 2. Extraordinary Shareholders' Meetings

An Extraordinary General Meeting may make amendments to the by-laws as allowed by French company law.

### B. Convening of Annual General Meetings and powers of representation *(extracts from Articles 25, 27 and 28 of the by-laws)*

General Meetings are convened by the Board of Directors or, failing this, by the Statutory Auditors or by an agent designated by the presiding judge of the Commercial Court, on the request of one or more shareholders together representing at least 5% of the Company's share capital, or a shareholders' association in accordance with the provisions of Article L. 225-120 of the French Commercial Code.

The agenda for General Meetings is set by the person who drafts the notice. However, one or more shareholders have the right to request, subject to the conditions stipulated by applicable legislation and regulations, the inclusion of draft resolutions in the agenda.

Shareholders' Meetings are held at the Company's registered office or any other location in France, as indicated by the party giving notice.

If the Board of Directors so decides, shareholders may participate in meetings and vote by video conference or any other means of telecommunications, including the Internet, that allows for them to be identified in accordance with current regulations and the conditions decided by the Board of Directors.

All shareholders, irrespective of the number of shares they hold, have the right to take part in General Meetings.

The right to participate in General Meetings is subject to registration of the shares in the name of the shareholder or in the name of the intermediary registered on the shareholder's behalf if the shareholder resides abroad, within the time stipulated in Article R. 225-85 of the French Commercial Code. Such registration is effected either in the registered share accounts held by the Company or by the agent designated by the Company, or in bearer share accounts held by the authorized intermediary.

The registration of shares in bearer share accounts held by the authorized intermediary is acknowledged by a shareholding certificate issued by the authorized intermediary, if necessary by electronic means, as an attachment to the form for voting by post or by proxy or for requesting an admission card, filled out in the name of the shareholder or on behalf of the shareholder represented by the registered intermediary. A certificate is also issued to shareholders wishing to attend the meeting in person and who have not received an admission card within the time stipulated in Article R. 225-85 of the French Commercial Code.

Shareholders not attending the meeting in person may choose from one of the following three options, subject to the conditions provided by law and regulations:

- be represented in accordance with legal requirements;
- vote by post in accordance with legal requirements and the by-laws;
- send a proxy to the Company without naming an appointed proxy;
- the Chairman of the General Meeting will vote in favor of draft resolutions presented or approved by the Board of Directors and against all other draft resolutions; to give any other vote, shareholders must choose a proxy who agrees to vote as he/she indicates.

### C. Conducting Annual General Meetings *(extract from Articles 28, 29 and 30 of the by-laws)*

The General Meeting is chaired by the Chairman of the Board of Directors, the Vice-Chairman or a Director appointed to such effect by the Board of Directors or, failing this, by a shareholder chosen by the Meeting.

Annual General Meetings are held regularly and may deliberate validly if shareholders present in person, represented by proxy or voting by post hold at least one-fifth of shares with voting rights. If the requisite quorum is not obtained, a second meeting is held which may deliberate validly irrespective of the fraction of the share capital represented, but which may only vote on items on the agenda for the first meeting.

Extraordinary General Meetings are held regularly and may deliberate validly if shareholders present in person, represented by proxy or voting by post hold at least one-quarter of voting shares at the first meeting and one-fifth of voting shares at any second meeting. If this quorum is not obtained, the second meeting may be adjourned to a date no more than two months after the date it was called.

Decisions are recorded in minutes signed by members of the Board of Directors. Copies or extracts of the minutes of General Meetings are certified either by the Chairman of the Board of Directors or by the Chief Executive Officer if he or she is a Board Member, or by the secretary of the General Meeting.

## 9.1.3.6 FORM OF SHARES AND IDENTIFICATION OF SHAREHOLDERS *(EXTRACT FROM ARTICLES 10 AND 11 OF THE BY-LAWS)*

Shares are registered shares until they are fully paid up. When they are paid up, subject to any laws to the contrary, shareholders can choose to hold shares in registered or bearer form.

Ownership of shares, whether registered or bearer shares, is evidenced by their registration in an account in accordance with the provisions stipulated by applicable regulations.

Provisions relating to shares apply to bonds and any other marketable securities issued by the Company.

Subject to the regulatory conditions, the Company may request at any time, from the central securities depository, the name or, in the case of a legal person, the company name, nationality and address of the holders of bearer shares conferring immediate or future voting rights at General Meetings, the number of shares held by each one and any restrictions that apply to such shares, and the date of birth or, in the case of a legal person, the year of incorporation of same. On the basis of the list provided, the Company may also ask, either *via* the central depository or directly, subject to the same conditions, persons on the list whom it believes to be holding shares on behalf of others, whether the shares are held for themselves or for third parties and, in such case, to provide information to enable the Company to identify the aforementioned third party or parties. If the identity of the holder or holders of the shares is not disclosed, voting rights or the powers issued by the financial intermediary registered on behalf of the shareholder shall not be taken into consideration.

Lastly, the Company may ask any legal person holding more than 2.5% of the share capital and voting rights to disclose the identity of persons holding, either directly or indirectly, more than one-third of the legal person's share capital or voting rights exercised at General Meetings.

In the event of the failure of shareholders or financial intermediaries to comply with these disclosure requirements, in accordance with conditions stipulated by law, voting rights and rights to the payment of dividends attached to shares or securities giving immediate or future access to share capital may be suspended or cancelled.

## 9.1.4 Documents on display

The Company's by-laws, minutes of General Meetings and other Company documents, as well as historical financial information and any assessments or declarations provided by experts on the Company's request required to be made available to shareholders, in accordance with applicable legislation, are on display at the Company's registered office.

## 9.1.5 Internal rules of the Board of Directors

The Board of Directors has decided to compile, specify and, where necessary, supplement the provisions of the laws, regulations and Company by-laws that apply to it.

To this end, the Board has drawn up rules of procedure, which also incorporate the principles of the AFEP-MEDEF Corporate Governance Code (AFEP-MEDEF code) and the application guide for the High Committee on Corporate Governance to which it is affiliated, and organize their implementation.

These rules of procedure describe the organization, operation, powers and responsibilities of the Board of Directors and its committees, and the ethical rules applicable to Board members.

### I. ORGANIZATION AND FUNCTIONING OF THE BOARD OF DIRECTORS

#### Article 1: Appointment of directors

Directors shall be appointed or reappointed by shareholders at their Annual General Meeting for a three-year term. Directors may be reappointed when their term of office expires. The Board of Directors is partly renewed each year.

Proposals for appointments shall first be examined by the Appointments and Compensation Committee referred to in Articles 9 and 11 below.

Directors must be chosen for their skills, the range of their experience and their desire to take part in defining and implementing the strategy of the Company and its subsidiaries, and hence for the contribution they can make to the Board of Directors' work.

In the event of a vacancy in one or more Directors' seats due to death or resignation, the Board of Directors may make provisional appointments between two General Meetings. Such appointments shall be subject to ratification at the next General Meeting. Directors appointed to replace another Director shall remain in office only for the remainder of their predecessor's term.

No one may be appointed as Board member or permanent representative of a company if, having passed the age of seventy (70) years old, their appointment brings the number of Board members and permanent representatives of companies above this age to more than one-third of Board members.

The Board of Directors ensures that the principles of the AFEP-MEDEF code are applied in terms of its composition and in particular with regard to the representation of women and independent members, in accordance with the conditions and criteria recommended by the AFEP-MEDEF Corporate Governance Code.

## Article 2: Meetings of the Board of Directors

1. The Board of Directors shall meet as often as the interest of the Company requires and whenever the Board deems it appropriate.

   Notices of meetings are issued by the Chairman or in his name by any designated person. If the Board of Directors has not met for more than two months, at least one-third of Directors may ask the Chairman to call a meeting to discuss a predetermined agenda. The Chief Executive Officer may also ask the Chairman to call a Board meeting to consider a predetermined agenda.

   Meetings shall be held at the place specified in the notice convening the meeting.

2. A Director may empower another Director to represent him or her in a meeting of the Board of Directors. Power of attorney may be given by any means that unambiguously provides evidence of the principal's intention. Each member may only represent one other member. However, a Director attending a Board meeting by videoconference or other telecommunication means under the conditions set out below may not represent another Director.

   The provisions of the preceding paragraph also apply to the standing representatives of legal entities.

   Meetings of the Board of Directors shall only be quorate if at least half the members are present. Decisions shall be taken by a majority of the members present or represented. In the event of a tie, the Chairman of the meeting shall have the casting vote.

   In accordance with the laws and regulations, the Chairman of the Board of Directors may from time to time authorize Directors who make a substantiated request to attend meetings by videoconference or telecommunication means, under the conditions set out in the prevailing regulations.

   The videoconference or telecommunication equipment must at least transmit the participant's voice and comply with technical requirements that guarantee identification of the Directors concerned and their effective attendance at the Board meeting, the content of which must be relayed continuously and without any time lag. The system must also ensure that the discussions are kept confidential.

   Videoconferencing enables those attending the Board meeting by such means to be seen, using a camera, and heard through simultaneous voice transmission. The system used must also enable both those attending the meeting by such means and those attending the meeting in person to recognize each other.

   Telecommunication is the use of a telephone conference system that enables those attending the meeting in person and those attending by telephone to recognize the voice of each speaker beyond any conceivable doubt.

   If there is any doubt or if reception is poor, the Chairman of the meeting may decide to continue the Board meeting without counting participants whose presence or voice cannot be identified with sufficient certainty in the quorum or majority, provided that enough Board members remain for the meeting to continue to be quorate. If a technical malfunction affects the videoconference or telecommunication during a meeting such that the confidentiality of discussions can no longer be ensured, the Chairman may decide to stop attendance by the Board member concerned.

   When a videoconference or telecommunication system is used, the Chairman of the Board of Directors must ensure beforehand that all members invited to attend the meeting by such means have the required technical resources with which to do so in accordance with the required conditions.

   The minutes of the meeting shall state the name of person(s) attending the meeting by videoconference or telecommunication and note any interruptions or technical incidents that took place during the meeting.

   Directors who attend Board meetings by videoconference or telecommunication shall be deemed present when calculating the quorum and majority, except for decisions concerning the approval of the full-year financial statements, the consolidated financial statements and the management report.

   Moreover, the Chairman may authorize a Director to attend meetings by means of any other telecommunication system, but this attendance shall not be taken into account when calculating the quorum and majority.

   The Board of Directors may also authorize persons who are not members of the Board to attend Board meetings, in an advisory capacity and without voting rights, including by videoconference or telecommunication.

3. Board members present at the meeting shall sign an attendance register.

   The attendance of persons attending the meeting by videoconference or telecommunication shall be certified on the attendance register by the signature of the Chairman of the meeting.

## Article 3: Minutes

The content of Board of Directors' meetings shall be recorded in minutes signed by the Chairman of the meeting and at least one Director. The minutes shall be approved at the next meeting; to this end, a draft shall be sent to each Director beforehand.

The minutes shall mention any videoconference or telecommunication means used and the name of each Director who attended a Board meeting by such means. The minutes shall mention any technical incidents that occurred during the meeting.

To be valid, copies of, or excerpts from, minutes must be certified by the Chairman of the Board of Directors, the Chief Executive Officer, the Chief Operating Officer, a Director to whom the duties of Chairman have been temporarily delegated or the recipient of a power of attorney to that effect.

### Article 4: Compensation of Board members

1. The Board of Directors may receive, in the form of Directors' fees, total annual remuneration determined by shareholders at their Annual General Meeting.
2. The amount of Directors' fees thus allocated by shareholders at their Annual General Meeting, pursuant to Article 22-I of the articles of incorporation, shall be shared out by the Board of Directors, on a proposal or on advice from the Appointments and Compensation Committee, as follows:
   - a fixed portion allocated to each Director;
   - a variable portion determined according to actual attendance at Board meetings.

All members of the Board of Directors may also receive fixed directors' fees in recognition of their particular experience or specific assignments entrusted to them.

Where required, the Board of Directors shall set the remuneration of the Chairman and Vice-Chairman or Vice-Chairmen of the Board of Directors.

The Board of Directors may also grant exceptional remuneration for special assignments or duties entrusted to its members.

The Board of Directors' members may claim for reasonable expenses relating to the exercise of their duties upon presentation of receipts.

Each Director, whether an individual, legal entity or permanent representative, undertakes to hold a number of shares in the Company that corresponds to at least the equivalent of one year's Directors' fees – said shares possibly being acquired by means of said Directors' fees. Shares acquired in order to fulfill this obligation must be held in registered form.

## II. REMIT AND POWERS OF THE BOARD OF DIRECTORS

### Article 5: Duties and powers of the Board of Directors

In accordance with the provisions of Article L. 225-35 of the French Commercial Code:

"The Board of Directors shall determine Company business policies and ensure that they are implemented. With the exception of the powers expressly granted to General Meetings of the shareholders and within the scope of the Company's corporate purpose, the Board of Directors acts on all issues affecting the smooth operation of the Company and deliberates on these matters."

The Board of Directors also determines how the Executive Management shall be organized, *i.e.* whether it shall be assumed by the Chairman of the Board of Directors or by an individual, who may or may not be a Director, appointed by the Board and holding the title of Chief Executive Officer.

The Board of Directors shall exercise the powers provided for by law and the articles of incorporation. To this end, it shall have a right of information and disclosure, and may be assisted by specialist technical committees.

The Board of Directors ensures that shareholders and investors are provided with relevant, balanced and instructive information on the Company's strategy, business model, on how it takes into account major extra-financial challenges, as well as on its long-term outlook.

#### A. Powers specific to the Board of Directors

The Board of Directors examines and approves the full-year and half-year parent company and consolidated financial statements and the reports presented on the business and results of the Company and its subsidiaries. It draws up the business plan and financial projections. It reviews the Company's equal opportunities and equal pay policy each year.

It shall call Annual General Meetings and may issue securities if such powers are delegated to it.

#### B. Prior authorizations granted by the Board of Directors

In addition to the prior authorizations expressly provided for by law concerning sureties and guarantees given on the Company's behalf and the regulated agreements referred to in Article L. 225-38 of the French Commercial Code, the Board of Directors has decided, as a matter of internal procedure, to require its prior authorization for certain management transactions carried out by the Company on account of their nature or when they exceed a certain amount, as set out in Article 8 below.

Therefore, the Board of Directors must authorize all operations likely to affect the strategy of the Company and the companies it controls, their financial structure or their scope of activity and, in particular, the entering into or termination of all agreements likely to have a material effect on the future of the Company and its subsidiaries.

### Article 6: Information and disclosure to the Board of Directors

Throughout the year, the Board of Directors shall carry out the verifications and controls it deems appropriate. The Chairman or the Chief Executive Officer is required to provide directors with all the documents and information they require to perform their duties.

The information required for Board deliberations shall be disclosed to the members of the Board, as appropriate, before Board meetings and insofar as confidentiality requirements do not preclude such disclosure.

The Board is regularly provided with, and may consult at any time, information relating to changes in the Group's business activity and results, major risks, its financial and cash position, as well as any major events and transactions relating to the Company. The Chief Executive Officer shall provide the following information to the Board of Directors at least once per quarter:

- a report on the activities of the Company and its main subsidiaries, including revenues and results;
- a report on investments and disposals;
- a summary of debt and of the credit facilities available to the Company and its main subsidiaries;

- a list of the agreements referred to in Article L. 225-39 of the French Commercial Code that were signed during the previous quarter;
- a table showing the number of employees of the Company and its main subsidiaries.

The Board of Directors shall examine the Group's off-balance sheet commitments once every six months.

The Board members also receive information relating to market trends, the competitive landscape and the main challenges, including in terms of the Company's social and environmental responsibility.

Directors may request meetings with the Group's senior management including without executive corporate officers being present, providing that the latter are informed in advance.

Between meetings of the Board, Directors are provided will all important information relating to the Company and in particular all documents published by the Company for the benefit of its shareholders.

### Article 7: The Chairman of the Board of Directors

The Chairman of the Board of Directors shall organize and supervise the work of the Board of Directors and report thereon to shareholders at the Annual General Meeting. The Chairman monitors the operations of the Company's management bodies and in particular ensures that the Directors are able to perform their duties.

The Chairman shall give an account, in a report attached to the annual management report, of the composition of the Board, on how the Board's work is prepared and organized and on the internal control and risk management procedures set up by the Company, including a detailed description of those procedures relating to the accounting and financial information used to prepare the Company and Consolidated Financial Statements. The report shall also state any restrictions that the Board of Directors has placed on the powers of the Executive Management.

Insofar as the Company uses the AFEP-MEDEF Corporate Governance Code, which was prepared by organizations representing businesses in France, the report should also specify any provisions of this Code that have not been applied and the reasons for this. It also states where this Code may be consulted.

The report also sets out the procedures for shareholders to attend the Annual General Meeting or refers to the provisions of the articles of incorporation setting out these procedures.

The report also presents the principles and rules set down by the Board of Directors to determine remuneration and benefits all of kinds paid to corporate officers and mentions the publication in the management report of the information specified in Article L. 225-100-3 of the French Commercial Code. The report is approved by the Board of Directors and published.

The Chairman is appointed for a term that may not exceed his term of office as Director. On reaching the age limit of 75, the Chairman shall remain in office until his term expires.

If the Chairman is temporarily indisposed or dies, the Board of Directors may delegate the duties of Chairman to a Director. If he is temporarily indisposed, this delegation shall be given for a limited term and is renewable. If the Chairman dies, the delegation shall remain valid until a new Chairman is elected.

### Article 8: Senior Management

Pursuant to Article L. 225-56 of the French Commercial Code, the Chief Executive Officer is vested with the broadest powers to act on the Company's behalf in all circumstances. Nevertheless, these powers must be exercised within the scope of the Company's purpose and the powers expressly conferred by law to shareholders' meetings and the Board of Directors. The CEO represents the Company in its dealings with third parties.

However, the Board of Directors has decided, as a matter of internal procedure, to require its prior authorization for the following operations:

- any operation likely to affect the strategy of the Company and the companies it controls, their financial structure or the scope of their activity, in particular the signing or termination of any agreement likely to have a material effect on the future of the Company or its subsidiaries;
- any operation or commitment exceeding Euro ten million (Euro 10,000,000), in particular:
  - any subscription or purchase of securities, any acquisition of an equity interest, immediate or deferred, in any *de facto* or *de jure* grouping or company, and any disposal, total or partial, of equity interests or securities;
  - any acquisition or assignment of claims, lease rights or other intangible assets;
  - any contribution or exchange, with or without consideration, affecting assets, rights, stocks or securities;
  - any acquisition or disposal of properties or real-estate rights;
  - any issue of securities by companies controlled directly or indirectly by the Company;
  - any action with a view to granting or obtaining any loan, credit or cash advance;
  - any transaction or any settlement relating to a dispute.

However, the Euro 10 million threshold does not apply to the internal operations of the Mercialys Group. The same applies to development projects covered by the Partnership Agreement with Casino, regardless of the amount concerned, which must be submitted to the Board of Directors for prior authorization in accordance with the terms of the said agreement.

The Chief Executive Officer may be authorized for a renewable period of one year to give sureties or guarantees on the Company's behalf to third parties, subject to the dual limit of an annual aggregate amount and an amount per commitment.

In addition, the Chief Executive Officer may be authorized for a renewable period of one year to carry out the following operations subject to the overall limits set each year by the Board of Directors:

- Sureties and guarantees:

  The Chief Executive Officer is authorized for a period of one year to give guarantees on the Company's behalf to its subsidiaries in proportion to the stake held, subject to the limit of an annual aggregate amount of Euro 100 million and an amount per commitment of Euro 10 million.
- Loans, confirmed credit facilities, all financing agreements and cash advances:

  The Chief Executive Officer is authorized to negotiate and set up loans, confirmed credit facilities, cash advances and all financing agreements, whether syndicated or not, including their renewal and extension, up to an annual limit of Euro 100 million.
- Commercial papers:

  The Chief Executive Officer is authorized for a period of one year to negotiate and implement a commercial papers program of a maximum of Euro 500 million and to negotiate and issue commercial papers up to a maximum of Euro 500 million.
- Bonds:

  The Chief Executive Officer is authorized to issue bonds of a total of Euro 100 million per year, and in this regard to determine the characteristics and terms and to carry out any related capital market transactions.

  The Chief Executive Officer may delegate some or all of the powers granted to him, apart from in the case of bond issues. He shall regularly inform the Board of Directors of the use of such authorizations.

All these authorizations shall apply to transactions involving both the Company itself and the companies that it directly or indirectly controls.

The Chief Executive Officer's term of office shall be freely determined by the Board of Directors, but may not exceed three years. On reaching the age limit of 75, the Chairman shall remain in office until his term expires.

If the Chief Executive Officer is temporarily indisposed, the Board of Directors shall appoint an acting Chief Executive Officer whose duties shall end on the date on which the Chief Executive Officer is once again in a position to perform his duties.

On a proposal from the Chief Executive Officer, the Board of Directors may appoint one or more individuals to assist the Chief Executive Officer, having the title of Chief Operating Officer.

The maximum number of Chief Operating Officers is five.

In agreement with the Chief Executive Officer, the Board of Directors shall determine the scope and term of the powers granted to the Chief Operating Officer(s), who shall have the same powers as the Chief Executive Officer with respect to third parties.

If the Chairman performs the duties of Chief Executive Officer, the Chief Executive Officer or each of the Chief Operating Officers shall be authorized to grant sub-delegations or substitute powers of attorney for one or more transactions or categories of transaction.

## III. COMMITTEES

### Article 9: Provisions common to all specialized committees

Pursuant to Article 19-III of the articles of incorporation, the Board of Directors may establish one or more specialist committees, the composition and remit of which it shall determine, and which shall conduct their activities under its responsibility. This remit may not delegate to the committee powers that are granted to the Board of Directors by law or by the articles of incorporation. Each committee shall report to the Board of Directors on its assignments.

Committees shall have at least three members, drawn from directors who are individuals or permanent representatives or non-voting members appointed by the Board of Directors. Members are appointed personally and may not be represented by someone else.

The Board of Directors shall determine the committee members' term of office, which may be renewed.

The Board of Directors shall appoint a Chairman for each committee for a maximum term corresponding to that of his or her term of office as a member of the committee.

Each committee shall decide how often it meets.

Each committee may decide as necessary to invite any person of its choosing to meetings.

The minutes of each committee meeting shall be drawn up, except where otherwise provided, under the authority of the committee Chairman and sent to the committee members. These are also made available to all Board members once they have been approved by the Committee. Committee Chairman shall report to the Board of Directors on his/her committee's work.

A report on each committee's activity shall be given in the Company's annual report.

Within the scope of its remit, each committee shall issue proposals, recommendations and opinions as appropriate. To that end, it may carry out or commission any studies likely to inform the Board of Directors' discussions.

Committee members shall receive additional fees awarded by the Board of Directors on a recommendation from the Appointments and Compensation Committee.

At its meeting of August 22, 2005, the Board of Directors instituted the Audit and Risks Committee, the Appointments and Compensation Committee and the Investment Committee.

Each committee draws up a set of rules, subject to the Board of Directors' prior approval, describing its organization, operation, remit and attributes.

## Article 10: Audit, Risks and Sustainable Development Committee

### 10.1 Composition – Organization

The Audit and Risks Committee shall have at least three members, appointed by the Board of Directors from those of its members who have financial and management experience.

The committee shall meet at least three times a year, meetings being called by the Chairman, who may organize any additional meetings as circumstances require.

The Audit and Risks Committee may consult any person of its choosing from the support divisions of the Company and its subsidiaries, including outside the presence of the Executive Management. The Audit and Risks Committee may, in the performance of its assignment, call on any outside advisor or expert it deems useful.

The Audit and Risks Committee shall report to the Board of Directors on its work, studies and recommendations, the Board having entire discretion as to how it wishes to follow them up.

The Audit and Risks Committee draws up a set of rules, subject to the Board of Directors' prior approval, describing its organization, operation, remit and attributes.

### 10.2 Duties and responsibilities of the Audit, Risks and Sustainable Development Committee

In accordance with the provisions of Article L. 823-19 of the French Commercial Code, under the responsibility of the Board of Directors, the Audit and Risks Committee is tasked with matters relating to the preparation and control of financial and accounting information.

#### 10.2.1 Examination of accounts and financial statements

The Audit and Risks Committee's principal assignments are to assist the Board of Directors in its task relating to the examination and approval of the full-year and half-year financial statements.

In the context of monitoring the process used to prepare the accounting and financial information, the Audit and Risks Committee shall review the full-year and half-year financial statements of the Company and the Group and the related reports before they are approved by the Board of Directors. The Committee ensures that these are consistent with information of which it is aware by considering the appropriate nature of the accounting principles used and choices made and their compliance with the applicable accounting standards.

In the context of monitoring the process used to prepare the accounting and financial information, the Committee makes recommendations, where necessary, to guarantee the soundness of this information.

It shall review the terms for the approval of the financial statements and the nature, scope and results of the work carried out by the Statutory Auditors on that occasion within the Company and its subsidiaries.

As such, the Audit and Risks Committee shall consult with the Statutory Auditors, including without the representatives of the Company being present, and have access to their analyses and findings.

#### 10.2.2 Statutory Auditors

The Audit and Risks Committee oversees the procedure for selecting Statutory Auditors and is informed of the procedure implemented within Group subsidiaries. In this role, the Committee reviews and makes a recommendation on the candidacies to present for appointment or renewal by the General Meeting, which is communicated to the Board of Directors and drawn up in line with relevant regulations.

The Audit and Risks Committee ensures that the Statutory Auditors, with whom it has regular contact, respect the conditions of independence as defined by applicable law. As such, it shall examine all their dealings with the Company and its subsidiaries and issue an opinion on the fees they request.

The Audit and Risks Committee approves the provision of services other than the certification of financial statements that may be provided by the Statutory Auditors or member of their network in line with the relevant law. It defines the approval procedure under the conditions, where applicable, of the competent authorities.

It monitors how the Statutory Auditors carry out their mission.

The Audit and Risks Committee reports to the Board of Directors on the results of the mission to certify financial statements, the way in which this mission contributed to the soundness of financial information and the role it played in this process.

#### 10.2.3 Monitoring the effectiveness of the internal control and risk management systems

The Audit and Risks Committee monitors the effectiveness of internal control and risk management systems, as well as, where applicable, internal audit systems, in terms of procedures relating to the production and processing of accounting and financial information, without infringing on its independence.

The Audit and Risks Committee shall periodically examine the internal control procedures and, in general, the audit, accounting and administration procedures in effect in the Company and in the Group, in liaison with the Chief Executive Officer, Internal Audit Departments and the Statutory Auditors. The Audit and Risks Committee thus acts as the liaison body between the Board of Directors, the Statutory Auditors of the Company and its subsidiaries and the Internal Audit Departments.

The Audit and Risks Committee is also responsible for examining any transaction, fact or event that may have a significant impact on the situation of Mercialys or its subsidiaries in terms of commitments and/or risks. It shall verify that the Company and its subsidiaries have the appropriate means (audit, accounting, and legal) to guard against risks and anomalies in the management of the business of the Company and of its subsidiaries.

In the framework of the rules relating to agreements between related parties, significant transactions concluded between Mercialys or its fully-owned subsidiaries on the one hand and related parties on the other may be brought before the Audit and Risks Committee, since these agreements or transactions reach the significance threshold defined by the rules. The Audit and Risks Committee is responsible for assessing the balance of the transaction and the appropriateness of the procedure followed to approve the terms, based on the files provided by the Executive Management for each agreement and/or transaction concerned. The Audit and Risks Committee shall formulate an opinion which is sent to the Executive Management and made available to the Board of Directors.

## Article 11: Appointments and Compensation Committee

### 11.1 Composition – Organization

The Appointments and Compensation Committee shall have at least three members.

The committee shall meet at least twice a year, meetings being called by its Chairman, who may organize any additional meetings as circumstances require.

The Appointments and Compensation Committee shall have at its disposal, in liaison with the Chief Executive Officer, the services of the Human Resources Department as well as of the Group's Administrative and Financial Department, in particular in relation to information for the Committee on the compensation policy for the main non-corporate executive officers.

In the performance of its assignment, it may call on any outside advisor or expert it deems useful.

The Appointments and Compensation Committee shall report to the Board of Directors on its work, studies and recommendations, the Board having entire discretion as to how it wishes to follow them up.

### 11.2 Duties and responsibilities of the Appointments and Compensation Committee

#### 11.2.1 Duties relating to compensation

The assignments of the Committee are:

- to prepare decisions on the remuneration of the Chief Executive Officer and any Chief Operating Officer(s) and to propose, as required, qualitative and quantitative criteria for determining the variable portion of such remuneration;
- to assess all the other benefits and compensation awarded to the Chief Executive Officer and any Chief Operating Officer(s);
- to consider proposed stock option and bonus share plans for employees and senior managers so that the Board of Directors can set the aggregate and/or individual number of options or shares awarded and the terms and conditions for awarding them.

#### 11.2.2 Duties relating to governance

The assignments of the Committee are:

- to examine the composition of the Board of Directors;
- to examine candidacies for directorships, having regard to the candidates' business experience and skills and the extent to which they are representative in economic, social and cultural terms;
- to consider candidacies for the position of Chief Executive Officer and, where applicable, of Chief Operating Officer;
- to obtain disclosure of all useful information relating to the methods of recruitment, remuneration and status of the senior executives of the Company and its subsidiaries;
- to make any proposals and issue any opinion on the Directors' fees or other remuneration and benefits granted to Directors and non-voting members;
- to assess the position of each Director in the light of any relationship they might have with the Company or with the Group's companies that might compromise their freedom of judgment or lead to potential conflicts of interest with the Company. The Committee may examine any proven or potential conflict of interest of an administrator and decide what action to take;
- to carry out regular appraisals of the Board of Directors and to ensure that the implementation of the governance rules is respected within the Board with regard to the AFEP-MEDEF code and the application guide for the High Committee on Corporate Governance.

## Article 12: Investment Committee

### 12.1 Composition – Organization

The Investment Committee shall have five members, including two independent members, two members representing the majority shareholder and the Chairman of the Board of Directors.

The committee shall meet at least twice a year, meetings being called by the Chairman, who may organize any additional meetings as circumstances require.

The committee's opinions shall be adopted by a simple majority. When the Investment Committee considers a transaction involving the Casino Group, the two representatives of the majority shareholder take part in the discussions in an advisory capacity.

To this end, the Investment Committee shall have at its disposal, in liaison with the Chief Executive Officer, the services of the support and operational divisions of the Company and of the relevant subsidiaries.

In the performance of its assignment, it may also call on any outside advisor or expert it deems useful.

The Committee shall report to the Board of Directors on its work, studies and recommendations, the Board having entire discretion as to how it wishes to follow them up.

### 12.2 Duties and responsibilities of the Investment Committee

The assignments of the Investment Committee are:

- to examine the investment strategy and ensure that acquisitions and disposals are consistent with this strategy; in this respect, the committee shall be regularly informed of planned investments and disposals;
- to examine and issue an opinion on the annual investment budget;
- to study and issue an opinion on planned investments and disposals subject to prior authorization by the Board of Directors, as set out in Article 8;
- to examine and give an opinion on (i) all renegotiations (annual or other) relating to the Partnership Agreement with the Casino Group concerning development projects, (ii) all projects covered by the said agreement which must be submitted to the Board of Directors for prior authorization in accordance with the terms of the said agreement, and (iii) all decisions required for the Board of Directors in respect of the said agreement;
- to carry out all appropriate studies or assignments.

In the framework of the rules relating to agreements between related parties, significant transactions concluded between Mercialys or its fully-owned subsidiaries on the one hand and related parties on the other may be brought before the Investment Committee, since these agreements or transactions reach the significance threshold defined by the rules. The Investment Committee is responsible for assessing the balance of the transaction and the appropriateness of the procedure followed to approve the terms, based on the files provided by the Executive Management for each agreement and/or transaction concerned. The Investment Committee shall formulate an opinion which is sent to the Executive Management and made available to the Board of Directors.

## IV. NON-VOTING DIRECTORS

### Article 13: Non-voting directors

The Ordinary Annual General Meeting may appoint non-voting Directors to the Board of Directors, who may be individuals or legal entities chosen from among the shareholders. The Board of Directors may appoint a non-voting director subject to ratification at the next Annual General Meeting.

There may not be more than five non-voting directors. Their term of office is three years. They may be reappointed without limitation.

A non-voting director shall be deemed to have resigned automatically at the end of the Ordinary Annual General Meeting that votes on the accounts for the year in which the non-voting director reaches the age of 80.

Non-voting directors attend Board meetings and provide comments and advice and take part in the discussions in an advisory capacity.

They may receive remuneration for their services, the aggregate amount of which is set by shareholders at their Ordinary Annual General Meeting and maintained until a new decision is taken in another General Meeting. The Board of Directors shall divide such remuneration between non-voting directors as it deems appropriate.

## V. ETHICAL RULES APPLICABLE TO THE MEMBERS OF THE BOARD OF DIRECTORS

### Article 14: Principles

All directors must be able to perform their duties in accordance with the rules of independence, ethics and integrity.

In accordance with the principles of corporate governance, all directors shall perform their duties in good faith, in the way they consider best to further the Company's interests and with the due care expected of any normally prudent person performing such duties.

All directors undertake, in all circumstances, to maintain their freedom of appreciation, judgment, decision and action and to reject all pressure, direct or indirect, that may be exerted on them.

### Article 15: Information provided to directors

Before accepting their assignment, all Directors must acquaint themselves with the laws and regulations relating to their position, the applicable good governance practices and codes, and any requirements specific to the Company arising from the articles of association and these rules of procedure.

Directors have a duty to request the information which they believe necessary to fulfill their role. To this end, they must submit a request to the Chairman, within the appropriate time limits, for all useful information required to effectively participate in meetings with respect to the matters on the Board's agenda.

Each Director may, if he or she deems it necessary, receive additional training on the Group's specific features, businesses, and areas of activity, as well as on accounting or financial aspects in order to further their knowledge.

### Article 16: Defense of the corporate interest – Absence of conflicts of interest

Even though Directors are shareholders themselves, each Director represents all shareholders and must act in the best interest of the company under all circumstances.

Each Director has a duty of loyalty to the Company. He or she shall not act in any way that would be contrary to the interests of the Company or the Group's companies.

All Directors undertake to verify that the Company's decisions do not favor one category of shareholders over another.

All Directors shall inform the Board of any conflict of interest, real or potential, in which they may be directly or indirectly involved. They must refrain from taking part in discussions and decisions on these subjects.

Each Director must consult the Chairman before engaging in any activity or accepting any position or obligation that may place him or her in a position of conflict of interest, even if this is merely potential. The Chairman may take these matters to the Appointments and Compensation Committee.

### Article 17: Control and appraisal of the operation of the Board of Directors

The directors must be attentive to how the powers and responsibilities of the Company's corporate bodies are shared out and exercised.

The directors must verify that no person can exercise uncontrolled discretionary power over the Company. They must ensure that the specialized committees created by the Board of Directors operate smoothly.

Once a year, the Board of Directors shall organize a discussion on how it operates. The Board of Directors shall also conduct a regular appraisal of its own operation, entrusted by the Chairman of the Board of Directors to the Appointments and Compensation Committee.

The non-executive directors meet at least once a year, without the executive or internal directors being present, to discuss any subject.

### Article 18: Presence of directors – Accumulation of directorships

Each Director must comply with current legal provisions governing the accumulation of offices, as well as the recommendations of the AFEP-MEDEF code.

Each Director will inform the Company of any offices held in other French or foreign companies. He or she will inform the Company of any new office or professional responsibility without undue delay. When a Director holds an executive role within the Company, he or she must also request the opinion of the Board of Directors before accepting a new corporate office in a listed company that does not belong to the Group.

All Directors must devote the requisite time and attention to their duties. They shall be assiduous and attend all Board of Directors' meetings, General Meetings of shareholders and meetings of Committees of which they are members.

### Article 19: Confidentiality

The directors and all other persons who attend Board of Directors' meetings are subject to a general confidentiality obligation as regards the discussions and decisions of the Board and its Committees.

Information of a non-public nature passed on to a member of the Board of Directors in the context of their duties is intended for them only. They must personally ensure that the information is kept confidential and may not disclose it under any circumstances. The same obligation also applies to the representatives of legal entities who are directors and to non-voting members of the Board.

### Article 20: Shareholdings – Transactions involving Company securities

All company shares held by a Director, his or her dependent minors and/or spouse (providing they are not separated), must be held in registered form. Moreover, all Directors shall inform the Company of the number of shares in the Company they hold at December 31 of each year, at the time of any financial transaction, or at any time upon request of the Company.

Each member of the Board of Directors undertakes to comply with the provisions of the Insider Trading Policy relating to the prevention of the use of insider information and securities transactions for which he or she has received prior written information, and all applicable legal or regulatory provisions.

In particular, in accordance with Article 19 of EU regulation n° 589/2014 dated April 16, 2014 covering market abuse and Article L. 621-18-2 of the French Monetary and Financial Code ("Code monétaire et financier"), each Director must inform the French Stock Exchange Authority ("Autorité des Marchés Financiers") and the Company of any transactions carried out on the Company's financial instruments, under the conditions stipulated by the Insider Trading Policy. The same applies to persons who have close ties with members of the Board of Directors. Directors must notify persons with whom they have close ties of their reporting obligations and ensure that the Company has an up-to-date list of these persons at all times.

Directors should note that they are likely to have access to insider information and must ensure, before entering into any transactions on the Company's financial instruments, that they are not in an insider situation.

Thus, as stipulated in the Insider Trading Policy in the event of possession of inside information, Directors must, in particular, abstain from carrying out, either directly or indirectly or through an intermediary, any transactions on financial instruments to which inside information relates or on instruments to which these financial instruments are related, and must refrain from disclosing said information to third parties, for as long as the information has not been made public.

Moreover, each Director must also abstain from carrying out any transactions relating to the Company's financial instruments, directly or indirectly, on his or her own behalf or for a third party, during the 30 days preceding the publication of the Company's full-year and half-year financial statements and during the 15 days preceding the publication of the Company's quarterly revenue, as well as on the day on which said full-year and half-year financial statements and quarterly revenue are published.

## VI. ADOPTION OF THE INTERNAL RULES

These rules of procedure were approved by the Board of Directors, during its meeting on August 22, 2005. Its most recent update was approved at the March 20, 2017 meeting.

# 9.2 OTHER REGULATED INFORMATION

## 9.2.1 Factors that may have an impact in the event of a public takeover bid

The structure of holdings in the Company's share capital and of the direct and indirect stakes in the Company's share capital of which it is aware pursuant to Articles L. 233-7 and L. 233-12 of the French Commercial Code are provided in chapter 7, paragraph 7.2, page 300 and following.

There are no restrictions in the by-laws on the exercise of voting rights and transfers of shares, nor have any agreements been brought to the Company's attention in accordance with Article L. 233-11 of the French Commercial Code providing for preferential conditions for the sale or purchase of shares, nor is there any agreement between shareholders of which the Company is aware and which may result in restrictions on the transfer of shares and the exercise of voting rights.

The Company has not issued any shares carrying special control rights and there is no control mechanism provided in any employee shareholding scheme when control rights are not exercised by the latter.

Rules applying to the appointment and replacement of Board members, as well as amendments to the Company's by-laws, are described in paragraph 9.1.3.2, page 333 and following.

The powers of the Board of Directors are described in chapter 4, paragraph 4.1.2, pages 225 and 226, and in paragraph II, page 340. As regards share issues and share buybacks, the powers delegated to the Board of Directors are indicated in chapter 7, paragraph 7.2.2, page 301. Agreements signed by the Company that are amended or can potentially be terminated in the event of a change of ownership of the Company are mentioned in chapter 6, paragraph 6.2, page 277 and following.

Furthermore, there are no agreements providing for compensation for Board members or employees if they resign or are made redundant without just cause or if their employment ends as a result of a takeover.

Bank financing agreements include a clause which states that the debt may, at the request of a lending institution, become immediately refundable in the event of a change of control. Such a change of ownership will be considered to be effective in each of the following cases:

- in the event that the share of capital and voting rights held by the Casino Group in the Company falls below 20% or;
- in the event that an entity other than Casino, Guichard-Perrachon and/or its subsidiaries, acting alone or in concert with a third party, might directly or indirectly hold more than 50% of the Company's capital or voting rights.

Furthermore, the contract for issuing the Euro 650 million in bonds arranged on December 26, 2012, which reaches maturity on March 26, 2019, the contract for issuing the Euro 550 million in bonds arranged on November 28, 2014 and for the opening of a Euro 200 million tap on the pre-existing bond issue on November 27, 2015 that reaches maturity on March 31, 2023, and the contract for issuing the bonds arranged in connection with the Euro 150 million private placement on October 25, 2017, provide for an early redemption option exercisable by investors in the event of a downgrade in Mercialys' long-term senior debt rating, but only if this downgrade is attributable to a change in the Company's ownership. A change in ownership shall be deemed effective if a third party (*i.e.* any person other than Casino, Guichard-Perrachon and its subsidiaries), acting alone or in concert with other third parties, comes into possession of more than 50% of the Company's voting rights. A rating downgrade shall be deemed to have taken place in the event of (i) a withdrawal of the rating by a rating agency, (ii) a downgrade in the rating to non-investment grade (*i.e.* a downgrade of at least two notches on the current BBB rating), or, (iii) if the rating is already in the non-investment grade category, a downgrade of at least one notch.

## 9.2.2 Research and development, patents and licenses

Mercialys' real estate development business consists of acquiring, owning and managing real properties for leasing purposes. In this respect, Mercialys does not conduct any research and development activities and does not own any patents. Furthermore, the Company considers that its business activity and profitability do not depend on any trademarks, patents or licenses.

# 9.3 STATUTORY AUDITORS AND PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

## 9.3.1 Statutory Auditors: identification and fees

### 9.3.3.1 PRINCIPAL AUDITORS

**Ernst & Young et Autres**

12, place des Saisons

92400 Courbevoie Paris-La Défense 1

Signatory partner: Nicolas Perlier (since the fiscal year 2016)

Date of first appointment: August 19, 1999 (by-laws)

Renewal: Annual General Meeting of April 20, 2016

Date of expiry of final term of office: at the end of the Annual General Meeting to be held in 2022 to approve the financial statements for the fiscal year ended December 31, 2021

**KPMG S.A.**

Tour Eqho

2, avenue Gambetta

CS 60055

92066 Paris-La Défense Cedex

Signatory partner: Isabelle Goalec (since the fiscal year 2016)

Date of first appointment: May 06, 2010

Renewal: Annual General Meeting of April 20, 2016

Date of expiry of term of office: at the end of the Annual General Meeting to be held in 2022 to approve the financial statements for the year ended December 31, 2021

### 9.3.1.2 ALTERNATE AUDITORS

**Auditex**

Alternate Auditor for Ernst & Young et Autres

12, place des Saisons

92400 Courbevoie Paris-La Défense 1

Date of first appointment: May 06, 2010

Renewal: Annual General Meeting of April 20, 2016

Date of expiry of term of office: at the end of the Annual General Meeting to be held in 2022 to approve the financial statements for the year ended December 31, 2021

**Salustro Reydel**

Alternate Auditor for KPMG S.A.

Tour Eqho

2, avenue Gambetta

CS 60055

92066 Paris-La Défense Cedex

Date of first appointment: April 20, 2016

Date of expiry of term of office: at the end of the Annual General Meeting to be held in 2022 to approve the financial statements for the year ended December 31, 2021

## 9.3.1.3 FEES PAID BY THE GROUP TO STATUTORY AUDITORS AND THEIR AFFILIATES

Years covered[1] December 31, 2017 and December 31, 2016

| | Ernst & Young | | | | KPMG S.A. | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount (ex. tax) | | % | | Amount (ex. tax) | | % | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| **Audit** | | | | | | | | |
| Independent audits, certification, review of individual and consolidated financial statements[2] | | | | | | | | |
| - Issuer (parent company) | 151,500 | 141,500 | 57% | 55% | 151,500 | 141,500 | 80% | 75% |
| - Fully consolidated subsidiaries | 56,100 | 55,000 | 21% | 21% | 24,800 | 24,400 | 13% | 13% |
| **Other tasks and services directly related to the Statutory Auditor's duties[3]** | | | | | | | | |
| - Issuer (parent company) | 12,500 | 23,000 | 5% | 9% | 12,500 | 23,000 | 7% | 12% |
| - Fully consolidated subsidiaries | 12,500 | 7,500 | 5% | 4% | 0 | | - | - |
| **Sub-total** | **232,600** | **227,000** | **88%** | **89%** | **188,800** | **188,900** | **100%** | **100%** |
| **Other services performed by the networks on behalf of fully consolidated subsidiaries[4]** | | | | | | | | |
| Legal, tax, social | | | - | - | | | - | - |
| Other | 31,000 | 29,000 | 12% | 11% | - | - | - | - |
| **Sub-total** | **31,000** | | **-** | **-** | **-** | **-** | **-** | **-** |
| **TOTAL** | **236,600** | **256,000** | **100%** | **100%** | **188,800** | **188,900** | **100%** | **100%** |

*(1) For the period in question, these are the services performed in respect of a financial year taken into account in the income statement.*
*(2) Including the services of independent experts or members of the Statutory Auditors' network that they use in connection with the certification of accounts.*
*(3) This item includes the procedures and services directly related to the issuer or its subsidiaries:*
*– by the Statutory Auditors in accordance with Article 10 of the Code of Ethics;*
*– by one of the members of the Statutory Auditors' network, in accordance with Articles 23 and 24 of the Code of Ethics.*
*(4) These are non-audit services rendered, in compliance with the provisions of Article 24 of the Code of Ethics, by a member of the network to the subsidiaries of the issuer whose accounts are certified.*

## 9.3.2 Declaration of the person responsible for the Registration Document

**Person responsible for the Registration Document**

**Éric Le Gentil**, Chairman and Chief Executive Officer

"I hereby declare that having taken all reasonable care to ensure that such is the case, the information contained in this Registration Document is, to the best of my knowledge, fairly presented and free from material misstatement.

To the best of my knowledge, the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, financial position and results of the Company and all subsidiaries included in the scope of consolidation. I also declare that the management report (see cross-reference table on page 353), gives an accurate account of the development of the business, results and financial position of the Company and all subsidiaries included in the scope of consolidation, as well as a description of the main risks and uncertainties to which they are exposed.

I have obtained from the Statutory Auditors, on completion of their work, a letter in which they indicate that they have verified the information concerning the financial condition and accounts presented in this Registration Document and read the whole of the document."

In accordance with Article 28 of Commission Regulation (EC) no. 809/2004, the following information is included by reference in this Registration Document:

- In respect of the fiscal year ended on December 31, 2016:
  the management report, the consolidated financial statements, the Company's financial statements, and the corresponding Statutory Auditors' reports that appear in the 2016 Registration Document filed with the AMF on March 23, 2017 under filing number D.17-0212, on pages 17 to 59, 207 to 257 and 259 to 289 respectively.
- In respect of the fiscal year ended on December 31, 2015:
  the management report, the consolidated financial statements, the Company's financial statements, and the corresponding Statutory Auditors' reports that appear in the 2015 Registration Document filed with the AMF on March 23, 2016 under filing number D.16-0199, on pages 13 to 53, 185 to 233 and 235 to 263 respectively.

The information included in those two Registration Documents, other than the information included above, are either replaced or updated by the information present in this Registration Document. Both these Registration Documents are available for viewing at the Company's head office and on its website www.mercialys.com.

Paris, March 19, 2018,

Éric Le Gentil,

Chairman and Chief Executive Officer

# 9.4 CROSS-REFERENCE TABLES

## 9.4.1 Commission Regulation (EC) no. 809/2004 of April 29, 2009

The table below provides cross-references between the pages in the Registration Document and the key information required under Annex of the European Commission Regulation (EC) no. 809/2004 of April 29, 2004.

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| **18. MAJOR SHAREHOLDERS** | |
| 18.1. Shareholders holding more than 5% of the share capital | 302 to 304 |
| 18.2. Existence of different voting rights | n/a |
| 18.3. Direct and indirect control – Statement concerning control of the Company by the majority shareholder | n/a |
| 18.4. Arrangements that could result in a change in control | n/a |
| **19. RELATED-PARTY TRANSACTIONS** | **154, 184, 185, 277 to 283** |
| **20. FINANCIAL INFORMATION CONCERNING THE ISSUER'S PORTFOLIO, FINANCIAL POSITION AND PROFITS AND LOSSES** | |
| 20.1. Historical financial information | 34 to 51, 104 to 158, 160 to 188, 350 |
| 20.2. Pro forma financial information | n/a |
| 20.3. Financial statements | 104 to 158, 160 to 188 |
| 20.4. Auditing of historical annual financial information | 159, 189, 350 |
| 20.5. Age of latest financial information | December 31, 2017 |
| 20.6. Interim and other financial information | n/a |
| 20.7. Dividend policy | 296 |
| 20.8. Legal and arbitration proceedings | 270 to 271 |
| 20.9. Significant change in the financial or trading position | 37 to 50 |
| **21. ADDITIONAL INFORMATION** | |
| 21.1. Share capital | 300 |
| 21.2. Memorandum of incorporation and by-laws | 333 to 337 |
| **22. MATERIAL CONTRACTS** | **277 to 283** |
| **23. THIRD-PARTY INFORMATION, STATEMENTS BY EXPERTS AND DECLARATIONS OF INTEREST** | **55 to 60** |
| **24. DOCUMENTS ON DISPLAY** | **338** |
| **25. INFORMATION ON HOLDINGS** | **187, 268 to 269** |

## 9.4.2 Annual financial report

The table below provides cross-references for the information provided in the Registration Document constituting the financial report as required of listed companies in accordance with Article L. 451-1-2 of the French Monetary and Financial Code and Article 222-3 of the AMF General Regulations:

| | Pages |
|---|---|
| Corporate financial statements | 160 to 188 |
| Consolidated financial statements | 104 to 158 |
| Management report | 353 |
| Statement by the persons responsible for the annual financial report | 350 |
| Statutory Auditors' report on the corporate and the consolidated financial statements | 159, 189 |
| Board of Directors' report on corporate governance | 354 |
| Statutory Auditors' observations on the Board of Directors' report on corporate governance established pursuant to Article L.225-235 of the French Commercial Code | 191 |

## 9.4.3 Board of Directors' management report

The table below provides cross-references for the information provided in the Registration Document constituting the Board of Directors' management report in accordance with Articles L. 225-100 and L. 225-100-2 of the French Commercial Code:

## 9.4.4 Corporate governance report

The table below provides cross-references for the information provided in the Registration Document constituting the Board of Directors' Corporate governance report in accordance with Articles L. 225-37 and L. 225-37-4 of the French Commercial Code:

| | Pages |
|---|---|
| Means of Senior Management of the Company | 225 |
| Appointments and duties of corporate officers | 206 to 222 |
| Membership and conditions for preparing and organizing the Board's work | 202 to 205, 226 to 231 |
| Diversity policy applied to members of the Board of Directors | 203 |
| Limitations to the powers of the Chief Executive Officer | 225 |
| Compensation paid to corporate officers | 234 to 250 |
| Trading in the Company's shares by executives and corporate officers | 305 |
| Agreements between an executive or major shareholder and a subsidiary | 233 |
| Monitoring of capital increase authorizations | 301 |
| Methods for shareholder participation at the Annual General Meeting | 336 |
| Reference to a corporate governance code | 202 |
| Information on factors likely to have an impact in the event of a public tender offer | 347 |
| Statutory Auditors' observations on the corporate governance report | 191 |

## 9.4.5 CSR

The table below provides a summary of the minimum information required by Articles L. 225-102-1 and R. 225-105 of the French Commercial Code.

| Article R225-105 of the French Commercial Code (the Grenelle 2 Law) | Pages |
|---|---|
| Total number of employees | 88 |
| Employee breakdown by gender | 91 |
| Employee breakdown by age | 92 |
| Employee breakdown by geographical area | 96 |
| Hirings | 89 |
| Lay-offs | 89 |
| Compensation | 90 |
| Changes in compensation | 90 |
| Organization of working hours | 88 |
| Absenteeism | 94 |
| Organization of employee dialogue, particularly the procedures for informing, consulting and negotiating with employees | 93 |
| Assessment of collective agreements | 93 |
| Health and safety conditions in the workplace | 93, 94 |
| Agreements signed with unions or employee representatives on the issues of health and safety | 93 |
| Workplace accidents, in particular their frequency and seriousness, and occupational illnesses | 93 |
| Training policies implemented | 89 |
| Total number of training hours | 89 |
| Measures taken to promote gender equality | 91 |
| Measures taken to employ and integrate disabled workers | 92 |
| Anti-discrimination policy | 91, 92 |
| Actions undertaken to prevent corruption | 87, 88 |
| Promotion of and respect for the stipulations of the International Labor Organization's fundamental conventions relating to respect for freedom of association | 87, 88, 96 |

| Article R225-105 of the French Commercial Code (the Grenelle 2 Law) | Pages |
|---|---|
| Promotion of and respect for the stipulations of the International Labor Organization's fundamental conventions relating to the elimination of discrimination in employment and professional life | 96 |
| Promotion of and respect for the stipulations of the International Labor Organization's fundamental conventions on the elimination of forced or compulsory labor | 96 |
| Promotion of and respect for the stipulations of the International Labor Organization's fundamental conventions on the effective abolition of child labor | 96 |
| The territorial, economic and social impact of the Company's business activities in terms of employment and regional development | 74, 75 |
| Other actions undertaken to support human rights | 87, 96 |
| Organization of the Company to address environmental issues and, if applicable, environmental assessment or certification procedures | 64, 67, 76, 77 |
| Employee training and information initiatives concerning protection of the environment | 90 |
| Resources dedicated to the prevention of environmental risks and pollution | 72, 73 |
| Measures to prevent, reduce or treat discharges into the air, water and soil that have a serious effect on the environment | 76 to 87 |
| Measures to prevent, recycle, reuse, other forms of waste recovery and disposal | 84, 85 |
| Taking into account noise and any other form of pollution specific to an activity | 74 |
| Measures to fight food waste | 96 |
| Water consumption | 86 |
| Water supply on the basis of local requirements | 96 |
| Consumption of raw materials and the measures taken to improve the efficiency of their use | 96 |
| Energy consumption | 78 |
| Measures taken to improve energy efficiency | 77, 78 |
| Greenhouse gas emissions | 80 to 82 |
| Use of renewable energy | 79, 80 |
| Land use | 96 |
| Measures taken to protect or develop biodiversity | 85 |
| Adaptation to the consequences of climate change | 80 |
| Consequences on climate change from the Company's activity and the use of the goods and services it produces | 80 |
| Amount of the provisions and guarantees for environmental risks | 96 |
| The territorial, economic and social impact of the Company's business activities on neighboring and local populations | 74, 75 |
| Conditions for dialogue with such persons or organizations (in particular associations for integration, educational establishments, environmental protection associations, consumer associations and local populations) | 70 |
| Partnership or sponsorship initiatives | 74 |
| Factoring of social and environmental concerns into procurement policy | 74 |
| Taking account of social and environmental responsibility in relations with suppliers and subcontractors | 74 |
| Results of customer satisfaction surveys | 71, 72 |
| Importance of subcontracting | 74 |
| Measures taken to support the health and safety of consumers | 72, 73 |

# 9.5 SUBJECT INDEX AND GLOSSARY

## 9.5.1 Subject index

## 9.5.2 Glossary

### AD'AP

Since January 1, 2015, the scheduled accessibility timetables (*Agendas d'accessibilité programmée* – Ad'AP) allow managers or owners of public buildings or facilities open to the public to continue implementing or to implement the accessibility upgrades for their buildings after this date and in compliance with the obligations set by the law of February 11, 2005. An Ad'AP is thus a commitment to complete works within a determined time frame, to finance them and to respect the accessibility regulations, in exchange for the removal of the risks of sanction.

### ASBESTOS TECHNICAL REPORT

The Asbestos technical report (*Dossier Technique Amiante* – DTA) is a document drafted by a certified agency designed to organize the prevention of asbestos-related risks. The report has been compulsory since January 1, 2006, regardless of the construction date of a building and regardless of its use (residential, work, office building, buildings intended for industrial or agricultural use, common areas of community residential buildings).

### BIODIVERSITY

Biodiversity denotes all living species. It covers the diversity of genes, species and ecosystems and the way in which they interact.

### BREEAM (BUILDING RESEARCH ESTABLISHMENT ENVIRONMENTAL ASSESSMENT METHOD)

BREEAM is the method developed by the Building Research Establishment, a private UK building research body, for assessing the environmental performance of buildings. It is the equivalent of AFNOR's HQE (*Haute Qualité Environnementale*) standard in France. (www.breeam.com)

### BUILT-UP AREA

The total built-up area occupied by buildings or parts of buildings in a shopping center.

### CAPITALIZATION RATE

The capitalization rate is the ratio between net rents of the premises leased + the rental value of vacant premises + income from casual leasing, relative to the value of assets excluding transfer taxes.

### CASUAL LEASING

This concerns small stalls, generally measuring between 6 to 10 sq.m, and temporarily installed in the common parts. They are covered by specific contracts known as Short Term Agreements.

### CNCC (*CONSEIL NATIONAL DES CENTRES COMMERCIAUX*)

The CNCC, the national council of shopping centers, is the French professional organization that brings together all professionals in the shopping center industry (developers, managers, investors, brands, retailers, consultants and service providers) (www.cncc. com).

### COMPANY SAVINGS PLAN

A Company Savings Plan (PEE) is a collective savings system which allows a company's employees to build a securities portfolio with the company's help. The employee's payments to the plan may be topped up by contributions from the company. The sums are locked in for at least five years, but may be unlocked in exceptional circumstances.

### COST OF DEBT

The cost of debt is the average cost of debt drawn down by Mercialys. It incorporates all financial instruments issued in the short and the long term.

### CURRENT SCOPE/LIKE-FOR-LIKE BASIS

The current scope includes all Mercialys' portfolio at a given date, *i.e.* all the assets held in the portfolio during the period being analyzed.

The like-for-like basis restates the impact of consolidations (acquisitions and disposals) over the period analyzed, to ensure a stable basis for comparison over time.

### EBITDA

Earnings before interest, taxes, depreciation and amortization. The equivalent term in French accounting is *«excédent brut d'exploitation»*.

### ENVIRONMENTALLY PROTECTED/CLASSIFIED FACILITY

Environmentally Protected or Classified Facilities are plants, workshops, depots, worksites and, more generally, facilities operated or held by any individual or public or private company, which may present a source of danger or nuisance to the neighboring area regarding health, safety, public health, agriculture, protection of nature, environment and landscapes, rational use of energy, conservation of sites and monuments or archaeological heritage sites.

## EPRA (EUROPEAN PUBLIC REAL ESTATE ASSOCIATION)

Non-profit organization founded in 1999, bringing together many property companies listed on the stock market in Europe. EPRA specifically issues recommendations concerning the publication of financial information, in order to ensure consistency and comparability of a number of financial and operational ratios between real estate companies. (www.epra.com)

## EPRA NAV (NET ASSET VALUE)

NAV (Net Asset Value) is an indicator of the net market value of the asset of a real estate company. EPRA considers this indicator has providing a long-term vision of the company's property management of its property assets. It is calculated exclusive of transfer taxes, deferred taxation, unhedged portion of the fixed-rate debt and financial instruments. The ratio measures the value of a real estate company from the viewpoint of the business as a going concern.

## EPRA NET INITIAL YIELD RATE

The EPRA net initial yield rate is the ratio of annualized net rent in relation to the value of the asset portfolio including transfer taxes.

## EPRA NNNAV (TRIPLE NET ASSET VALUE)

NNNAV (Triple Net Asset Value) corresponds to NAV after taking into account deferred taxes and the market value of fixed-rate debt and financial instruments. This ratio aims to assess the net asset value of a real estate company, should it stop doing business.

## EPRA TOPPED-UP NET INITIAL YIELD RATE

The EPRA topped-up net initial yield rate is the annualized net rent, adjusted for rental gains on rent-free periods, step-up rents, and other benefits granted to tenants, relative to the value of the asset portfolio including transfer taxes.

## ERNMT

The ERNMT is the audit of the natural, mining and technological risks of a given property that informs the buyer or tenant of the potential risks in the municipality where such buyer or tenant plans to buy or rent. The ERNMT should be included in the *Dossier de Diagnostic Technique* (DDT or technical audit dossier), and given to the future buyer or tenant.

## FFO (FUNDS FROM OPERATIONS)

The FFO is the result of the operations reported by Mercialys. This management indicator corresponds to net profit adjusted for amortization, net capital gains on disposals, impairment of any assets, and other non-recurring items.

## FINANCIAL RATING

Rating agencies (Standard & Poor's in Mercialys' specific case) award a financial rating, after a detailed analysis of various corporate financial criteria, to show the borrower's credit quality and the level of risk associated with debt instruments from the issuer.

## GRENELLE ENVIRONMENT FORUM

The Grenelle Environment Forum is a series of political meetings which were held in France from July 6 to October 25, 2007. They brought together representatives of government and civil society in order to make long-term decisions on the environment and sustainable development. The commitments made during these consultations gave rise to five major pieces of legislation: the so-called Grenelle I law, the law on environmental liability, the GMO law, the law on organization and regulation of rail transport, and the so-called Grenelle II law. These various laws introduced measures affecting the energy, construction, transport, biodiversity, environmental risk and health sectors.

## GLOBAL WARMING POTENTIAL (GWP)

Global warming potential (GWP) is an indicator that measures the cumulative effect of all the substances that aggravate the greenhouse effect. The indicator currently only tracks direct greenhouse gases (GHG) directs, namely the six gases ($CO_2$, $CH_4$, $N_2O$, CFC, HFC, $SF_6$) listed in the Kyoto protocol. This indicator is expressed in «$CO_2$ equivalents», because, by definition, the greenhouse effect attributed to $CO_2$ is set at 1 and the effect of other substances is expressed relative to the effect of $CO_2$.

## GROSS LEASABLE AREA

The gross leasable area (GLA) of a shopping center is the sum of the sales areas of the businesses within it, excluding the collective circulation spaces (aisles in shopping centers). The gross leasable area includes storerooms and technical premises.

## ICC (CONSTRUCTION COST INDEX)

The Construction Cost Index (ICC) measures the change in the construction cost of new buildings whose main use is non-community residential housing in mainland France. It is a price index based on observation of construction contracts agreed between project owners and the companies providing building works, excluding other housing cost components (land charges, ancillary promotional costs, financial costs, etc.). This index is used, along with the Retail Rent Index (ILC), for the indexation of commercial rents. (www. insee.fr)

## ICR (INTEREST COVERAGE RATIO)

Ratio indicating the rate of cover of financial expenses: relationship between EBITDA and net cost of financial debt.

## ILC (RETAIL RENT INDEX)

The quarterly index of retail rents (ILC) consists of the weighted sum of the indices reflecting changes in consumer prices, new construction prices and retail trade revenues. It covers retail tenants and artisans undertaking a commercial activity. This index is used, along with the Construction Cost Index (ICC), in order to index retail rents. (www.insee.fr)

## INVOICED RENTS

Rents invoiced by Mercialys to its lessees, excluding lease rights and despecialization indemnities.

## LEGIONELLA

Legionella are bacteria naturally present in water and in mud, responsible for respiratory diseases (lung infection), known as legionnaire's disease. They usually colonize water networks, especially domestic hot water, air-conditioning installations and cooling towers. Certain water sources may trigger legionnaire's disease.

## LFS (LARGE FOOD STORE)

This is a food store whose gross leasable area is in excess of 750 sq.m.

## LSS (LARGE SPECIALTY STORE)

This is a store specializing in a particular sector (sports, household appliances, toys, etc.) whose gross leasable area is in excess of 750 sq.m.

## LTV (LOAN-TO-VALUE)

As its name suggests, this indicator is a measure of the loan-to-value ratio of real estate companies. It is calculated by dividing consolidated net debt by the appraisal value of total assets, including or excluding transfer taxes, plus the value of equity affiliates' securities.

## MATERIALITY

Materiality refers to things that have a material impact on a company, its activities and its capacity to create financial and non-financial value for itself and its stakeholders.

A materiality matrix is a tool used to identify and rank a company's CSR challenges, by prioritizing each challenge from both a business and a stakeholder perspective.

Challenges considered from both perspectives to be a priority are selected and reported in the CSR report.

## MINIMUM GUARANTEED RENT (MGR)

This is the minimum guaranteed rent outlined in the lease agreement. The MGR is the fixed portion of the rent, to which variable rent components can be added.

## NET RENTAL INCOME

Rental revenues, net of expenses on buildings and rental charges and property taxes not rebillable to tenants.

## OCCUPANCY COST RATIO

The occupancy cost ratio is the ratio between the rent amount including tax and the charges paid by a retailer and its revenues including tax.

## PENSION SAVINGS PLAN

A pension savings plan (PERCO) is a corporate arrangement that enables employees to build savings. The sums are locked in until retirement, but may be unlocked in exceptional circumstances. The employee's payments to the plan may be topped up by contributions from the company. At the time of retirement, the sums are released either as pension payments or, if permitted by the collective agreement, as a lump-sum.

## PORTFOLIO OF DEVELOPMENT PROJECTS / PIPELINE

The portfolio of development projects, or pipeline, comprises all investments Mercialys plans to make over a given period. These may be renovations, transformations, extensions, creations or acquisitions of assets or companies holding assets.

Mercialys splits its pipeline into three categories:

- committed projects: projects fully secured in terms of land management, planning and related development permits:
- controlled projects: projects effectively under control in terms of land management, with various points to be finalized for regulatory urban planning (constructability), planning or administrative permits;
- identified projects: projects currently being structured, in emergence phase.

## RECOVERY RATE

The recovery rate corresponds, at the end of a period, to the proportion of rents, charges and work invoiced by Mercialys to its lessees that has actually been collected.

## RENEWABLE ENERGY

Renewable energy denotes sources of energy that are replenished faster than they are used, and are thus inexhaustible on a human scale. Renewable energy is provided by the sun, wind, heat from the earth, waterfalls, tides or plant growth. It generates little waste or emissions.

## RENTAL REVENUES

Rents invoiced by Mercialys to its lessees, including lease rights and despecialization indemnities

### RETAIL PARK

Term used to denote an open-air shopping center with a parking lot shared by all outlets. A retail park is usually designed as a homogeneous shopping route, which contributes to the shopping experience.

### SALES AREA

The sales area is the area dedicated to the circulation of customers when shopping and paying (cash desks), the surface used to display the products sold, and the circulation areas for sales staff. The sales area does not include storerooms and technical premises.

### STAKEHOLDER

A partner, whether individual or collective, that is actively or passively involved in Mercialys' decisions and projects. A stakeholder may be internal (employees) or external (shareholders, customers, suppliers, government, etc.).

### SHOPPING CENTERS

A shopping center is a collection of stores grouped around one or more anchor brands (large food or specialty stores) ensuring a flow of customers or prospects. According to the CNCC, a shopping center must have at least 20 stores or services, with a gross leasable area (GLA) of at least 5,000 sq.m.

### SIIC (LISTED REAL ESTATE INVESTMENT COMPANY)

The tax regime of *Sociétés d'Investissement Immobilier Cotées* (SIICs or listed real estate investment companies) was established by the French Finance Law no. 2002-1575 of December 30, 2002 and came into effect on January 1, 2003. This regime applies to property companies investing in real estate assets with a view to leasing them. In return for a significant distribution of their income (95% of recurring revenue, as determined *via* parent company's profits, and 60% of capital gains on asset disposals), SIICs are exempt from corporate tax.

### TOTAL VACANCY RATE

The total vacancy rate is the rental value of vacant premises relative to the annualized minimum guaranteed rent for occupied premises + the rental value of vacant premises.

### VARIABLE RENTS

Rents that meet specific contractual clauses, generally established as a percentage of the revenue generated by the tenant. Variable rents are generally in addition to the minimum guaranteed minimum rent (MGR) and are triggered if a lessee reaches certain performance thresholds.

### YIELD RATE

The yield rate is the ratio between net rent for premises leased + the rental value of vacant premises + income from casual leasing, relative to the value of assets including transfer taxes.

### YIELD ON COST

The yield on cost is the estimated return on investment projects. For each project, the rate is calculated by dividing the net rental income created by the project by its total implementation cost.

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