

9.1. REPORT OF THE SUPERVISORY BOARD

Approval of financial statements for the year ended December 31, 2012

Dear Shareholders,

Pursuant to the provisions of article L. 225-68 of the French Commercial Code, we are required to make our observations concerning the Executive Board report which has just been read to you as well as concerning the corporate and consolidated financial statements for the year ended December 31, 2012.

The Supervisory Board has been kept regularly up to date by the Executive Board about the Group's business and has carried out the required audits and controls.

To do this, as part of its mission, the Supervisory Board called on the services of four special-purpose committees: the Investment Committee, the Audit Committee, the Nomination and Compensation Committee and the Sustainable Development Committee.

The Supervisory Board has no special observations to make concerning the Executive Board's report and the results of fiscal year 2012. It therefore invites you to approve the financial statements and the resolutions proposed, with the exception of the sixteenth resolution.

The Supervisory Board wishes to thank the Executive Board and all Company staff for their work and effort in 2012.

The Supervisory Board

9.2. REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

Meeting of the Supervisory Board on January 29, 2013 concerning the 2012 financial year

Pursuant to article L. 225-68 of the French Commercial Code and in my capacity as Chairman of Klépierre's Supervisory Board, I have the honor of presenting to you this report, as approved by the Supervisory Board at its meeting on January 29, 2013 on the 2012 financial year. It includes information about:

- the composition of the Supervisory Board, application of the principle of gender balance on the Supervisory Board and the preparation and organization of the Supervisory Board's work;
- the internal control and risk management procedures implemented by the Klépierre group⁽¹⁾;
- corporate governance;
- arrangements for shareholders to participate at the Company's annual General Meetings;
- and publication of information concerning factors that may have an impact in the event of a public offer.

The corporate governance Code to which the Group has voluntarily referred for the purpose of drafting this report is the corporate governance Code for listed companies published in December 2008 and amended in April 2010 by AFEP (French association of private businesses) and Medef (French employers association).

It is worth noting that the Company has had the corporate form of a société anonyme (joint-stock corporation) with an Executive Board and Supervisory Board since July 21, 1998. This corporate form provides for separation between management of the Company and oversight of this management by the Supervisory Board⁽²⁾.

I – Composition and application of the principle of gender balance on the Supervisory Board – preparation and organization of the Supervisory Board's work

The primary role of the Supervisory Board is to exercise permanent control of the Executive Board's management. To this end, at all times of the year, it carries out the checks and controls it deems appropriate and may ask for any documents that it deems useful for this task to be communicated to it.

The Executive Board must report to it on its management at least once every quarter and submit the financial statements for verification and inspection.

The Supervisory Board authorizes the transactions and agreements referred to in articles L. 225-68 para. 2 and L. 225-86 of the French Commercial Code.

Pursuant to article 16 of the articles of Association⁽³⁾, it also authorizes:

- transactions likely to affect the strategy of the Company and its Group and to have an impact on their finances and the scope of their business;
- issues of negotiable securities, irrespective of their nature, which may lead to a change in the Company's capital stock;
- the following transactions where their unit amount exceeds €8 million or an equivalent amount in any other currency:
 - a) acquiring or selling any shareholdings in any companies incorporated or to be incorporated, except for Klépierre group companies to which properties belonging to the Klépierre group are contributed or sold;
 - b) acquiring or selling any real property assets, except where they are sold or contributed to a company belonging to the Klépierre group;

(1) The Klépierre group refers to all the subsidiaries of the Group in France and abroad, including Steen & Strøm, subject to the specific organizational features described below.

(2) AFEP-Medef corporate governance Code (Point 3).

(3) AFEP-Medef corporate governance Code (Point 4).

c) in the event of a dispute, entering into any agreement or settlement, and accepting any arbitration agreements.

The Supervisory Board has granted powers to its Chairman to authorize the Executive Board to carry out the transactions referred to in paragraphs a), b) and c) above where these individually do not exceed €46 million or an equivalent amount in any other currency.

The Chairman of the Supervisory Board and the Executive Board report to the Supervisory Board on the use made of these powers.

Composition of the Supervisory Board

The Supervisory Board has at least 3 members and no more than 12 members who are appointed by shareholders at the Ordinary General Meeting for a term of three years.

Each member of the Supervisory Board must hold at least 60 shares throughout his/her term in office.

The Supervisory Board chooses a Chairman and a Vice-Chairman from among these members.

From January 1 to March 14, 2012, the Supervisory Board had 9 members, namely Messrs Michel Clair (Chairman), Vivien Lévy-Garboua (Vice-Chairman), Jérôme Bédier, Bertrand de Feydeau, Dominique Hoenn, Bertrand Jacquillat, Bertrand Letamendia, Philippe Thel and Mrs Dominique Aubernon.

Upon the completion of BNP Paribas' sale of a 28.7% interest in Klépierre's capital stock to Simon Property Group, the composition of the Supervisory Board changed: on March 14, 2012, Messrs David Simon (Chairman), Steven Fivel and François Kayat were co-opted to replace Messrs Clair (Chairman), Dominique Hoenn and Philippe Thel, who resigned.

The Ordinary General Meeting of the shareholders on April 12, 2012:

- renewed the term in office of Mr Bertrand Jacquillat for a three-year period;
- appointed Mrs Rose-Marie Van Lerberghe to replace Mr Bertrand Letamendia, whose term in office expired for a three-year period;
- ratified and appointed Messrs David Simon, Steven Fivel and François Kayat for a further period of three years.

Mr Jérôme Bédier resigned from his duties as a member of the Supervisory Board on May 9, 2012. The Supervisory Board co-opted Mrs Catherine Simoni on December 20, 2012.

At December 31, 2012, the Supervisory Board had 9 members, namely Messrs David Simon (Chairman), Vivien Lévy-Garboua (Vice-Chairman), Bertrand de Feydeau, Steven Fivel, Bertrand Jacquillat, François Kayat and Mrs Dominique Aubernon, Mrs Catherine Simoni and Mrs Rose-Marie Van Lerberghe.

These changes in the composition of the Supervisory Board led to an increase in the percentage of women at the Supervisory Board from 11% at year-end 2011 to 33.33% at year-end 2012⁽¹⁾.

(1) AFEP-Medef corporate governance Code (Point 6).

(2) AFEP-Medef corporate governance Code (Points 7 and 8).

(3) AFEP-Medef corporate governance Code (Point 10).

Brief resumes of Supervisory Board members are provided in the Governance section of the 2012 Registration Document, and their appointments and duties are listed in the Corporate governance section of this document.

A member of the Supervisory Board is considered as independent when s/he has no relationship whatsoever with the Company, its Group or its management liable to compromise his/her freedom of judgment. According to the definition laid down in the AFEP-Medef Code, 4 of the 9 Supervisory Board members are independent based on the criteria presented, namely Messrs Bertrand de Feydeau and Bertrand Jacquillat, and Mrs Catherine Simoni and Mrs Rose-Marie Van Lerberghe⁽²⁾, (i.e. 44.44%).

BNP Paribas held a majority interest in Klépierre until March 14, 2012 when it sold a 28.7% interest in Klépierre's capital stock to Simon Property Group. Since then, given the absence of a majority shareholder, half of the members of the Supervisory Board should have been independent, which is not yet the case. That said, to move closer towards this threshold, two additional independent members were appointed during 2012, namely Mrs Catherine Simoni and Mrs Rose-Marie Van Lerberghe.

Meetings of the Supervisory Board

The Supervisory Board meets as often as the interests of the Company require.

For the Supervisory Board to deliberate validly, at least half of its members must be present. Members may participate in the Board's deliberations by video link or by any other means of telecommunication identifying them and guaranteeing that they can participate, except for deliberations involving the verification and control of the annual and consolidated financial statements.

Decisions are made based on a majority of votes cast by members present or represented.

If votes are evenly split, the Chairman of the meeting holds the casting vote.

In accordance with the provisions of article L. 823-17 of the French Commercial Code, the Company's Statutory Auditors are asked to attend Board meetings reviewing or approving the annual or interim financial statements.

The Board met 15 times during the 2012 financial year, with an attendance rate of 91.41%⁽³⁾.

The main points debated during these meetings were:

- the 2011 annual and consolidated financial statements and the corresponding management report;
- the Executive Board's quarterly business review;
- the interim individual and consolidated financial statements;
- the sale of a 28.7% interest in Klépierre's capital stock to Simon Property Group;

- the report of the Chairman of the Supervisory Board;
- the renewal and appointment of Supervisory Board members;
- the appointment of the Chairman of the Supervisory Board;
- the amendment of the internal rules of the Supervisory Board and the special-purpose committees;
- the composition of the special-purpose committees;
- the appointment of a new member to the Executive Board;
- a review of the summary produced in connection with the formal assessment of the Supervisory Board;
- the bonus share allotment plan;
- investments and disposals in France and abroad;
- financing transactions;
- the authorization granted annually to the Executive Board to issue guarantees and endorsements;
- related party agreements.

A formal assessment was undertaken in late 2011⁽¹⁾ and presented to Supervisory Board members in January 2012. This assessment was conducted based on a questionnaire covering the organization, operation and principal areas of activity of the Supervisory Board, as well as the composition and work performed by the special-purpose committees.

The basis for the assessment consisted of 39 points for evaluation using a rating scale. The Supervisory Board's members were asked to submit their suggestions about how to make improvements in each of the topics covered. The Supervisory Board's members expressed a favorable opinion concerning the organization and operation of the Supervisory Board and its committees. The principal improvements proposed related to the time devoted to the Group's strategy and a more extensive review of compensation and benefits.

Because of the shareholding modification in 2012, Group strategy as well as compensation have been regularly examined par the Board members during 2012 exercise.

At its meeting on January 29, 2013, the Supervisory Board carried out a review of its composition, organization and operation during 2012. It completed a review of the principal work by the Supervisory Board and that of its special-purpose committees and concluded that this work demonstrated that it is perfectly able to meet shareholders' expectations.

The work of the Supervisory Board and that of the special-purpose committees is prepared and organized by their respective Chairmen.

Organization and operation of the special-purpose committees assisting the Supervisory Board

To fulfill its duties, the Supervisory Board has set up special-purpose committees⁽²⁾. Within its area of expertise, each committee issues proposals, recommendations and opinions, where required, and reports on its duties to the Supervisory Board.

Additional information about the duties and operation of these committees is provided in the "Committees" section of the business review.

The committees are:

The Investment Committee

This Committee has at least 3 and no more than 6 members chosen by the Supervisory Board from among its members.

Until March 14, 2012, the Investment Committee consisted of Messrs Bertrand de Feydeau (Chairman of the Investment Committee), Jérôme Bédier, Michel Clair, Dominique Hoenn, Philippe Thel and Mrs Dominique Aubernon.

With effect from March 14, 2012, the Investment Committee consisted of Messrs David Simon (Chairman of the Investment Committee), Jérôme Bédier, Bertrand de Feydeau, Steven Fivel, François Kayat and Mrs Dominique Aubernon. Its composition has been lowered from 6 to 5 members starting May 9, 2012, date at which Jérôme Bédier resigned from his mandate of member of the Supervisory Board. 1 of its 5 members (i.e. 20%) is regarded as independent, namely Mr Bertrand de Feydeau.

The role of this Committee is to consider potential investments and disposals proposed to it before they are formally authorized by the Supervisory Board. To this end, it reviews the real estate, commercial, legal and financial aspects of the transactions. In particular, it ensures that these transactions are consistent with the strategy and satisfy the investment criteria of the Klépierre group. Before giving the go-ahead, the Investment Committee may, if needed, ask for additional information about or recommend changes in some or all of the real estate, commercial, legal or financial aspects.

It met six times during the 2012 financial year, with an attendance rate of 96.88%⁽³⁾.

Its work focused on 27 potential investments and disposals. Eighteen of these transactions have been completed or initiated and 5 are currently being studied or under negotiation. 4 of these transactions did not go ahead.

The most significant proposals related to:

- the Kristianstad development (Sweden),
- extension of the Louvain-la-Neuve (Belgium), Val d'Europe (France) and Romagna (Italy) shopping centers,
- the sale of the Equilis and Le Séreinis buildings in Issy-les-Moulineaux (France) the sale of Les Collines de l'Arche at La Défense (France),
- the sale of the Dijon Quetigny, Rambouillet, Nimes Étoile, Flins-sur-Seine, Lomme (France) shopping malls.

(1) AFEP-Medef corporate governance Code (Point 9).

(2) AFEP-Medef corporate governance Code (Point 13).

(3) AFEP-Medef corporate governance Code (Point 10).

The Audit Committee⁽¹⁾

This Committee has at least 3 and no more than 6 members chosen by the Supervisory Board from among its members. Committee members' term in office exactly replicates their appointment as a member of the Supervisory Board.

Until March 14, 2012, the Audit Committee consisted of Messrs Bertrand Jacquillat (Chairman of the Audit Committee), Dominique Hoenn, Bertrand Letamendia and Vivien Lévy-Garboua.

With effect from March 14, 2012, the Committee consisted of Messrs Bertrand Jacquillat (Chairman of the Audit Committee), François Kayat, Bertrand Letamendia and Vivien Lévy-Garboua. At the General Meeting held on April 12, 2012, Mrs Rose-Marie Van Lerberghe was appointed as member of the Supervisory Board in replacement of Bertrand Letamendia whose mandate was not renewed. Two of its 4 members (ratio of 50%) are considered as independent, namely Mr Bertrand Jacquillat and Mrs Rose-Marie Van Lerberghe⁽²⁾.

The Committee meets at least twice per year based on a schedule of meetings determined by the Supervisory Board. Even so, the Committee may meet at the request of at least 2 of its members.

For it to be able to deliberate validly, at least half of the Committee's members must be present. One Committee member cannot be represented by another. Those attending Committee meetings are the Chairman of the Executive Board, Executive Board members, representatives of the Statutory Auditors and any other persons from whom the Committee wishes to hear.

The Audit Committee is tasked with:

- review and assessment of the financial documents distributed at the end of accounting periods;
- review and assessment of the conclusions and recommendations of the Statutory Auditors, as well as appointing them and determining their fees;
- review and assessment of internal control systems and how the Company discharges its regulatory internal control obligations.

To help it fulfill its tasks, the Committee may ask the Executive Board to conduct any interviews and provide it with any information it requires.

It met three times during the 2012 financial year, with an attendance rate of 66.67%⁽³⁾. Its work focused mainly on:

- reviewing the annual and interim individual and consolidated financial statements;
- monitoring the principal indicators, such as cash flow, net asset value and EPRA earnings;

(1) AFEP-Medef corporate governance Code (Point 14).

(2) AFEP-Medef corporate governance Code (Point 14): The composition of the Audit Committee is not fully compliant with the Code, which recommends that independent members should account for at least two-thirds of its members. The departure from these recommendations is justified by the change in the composition of the Supervisory Board during 2012 following the sale by the BNP Paribas Group of a 28.7% interest in Klépierre's capital stock to Simon Property Group. Nonetheless, the Supervisory Board ensured that the Audit Committee had two independent members in 2012 and will continue moving in the direction of compliance as soon as possible.

(3) AFEP-Medef corporate governance Code (Point 10).

(4) AFEP-Medef corporate governance Code (Point 15).

(5) AFEP-Medef corporate governance Code (Points 15 and 16): The composition of the Nomination and Compensation Committee is not fully compliant with the Code, which recommends that independent members should account for a majority of members. The departure from these recommendations is justified by the change in the composition of the Supervisory Board during 2012 following the sale by the BNP Paribas Group of a 28.7% interest in Klépierre's capital stock to Simon Property Group. Nonetheless, the Supervisory Board ensured that the Audit Committee had two independent members in 2012 and will continue moving in the direction of compliance as soon as possible.

(6) AFEP-Medef corporate governance Code (Point 10).

- tracking bank covenants;
- keeping track of areas of expertise and expert methodology;
- tax review of the Group;
- reviewing the conclusions issued by the Statutory Auditors, their budgets for 2012 and 2013, the renewal of the signatories and their declaration of independence;
- assessing changes in the information system, and
- reviewing the Group's new internal control framework, the report by periodic control and permanent control on their activities during 2012 and validating their action plan for 2013.

The Nomination and Compensation Committee⁽⁴⁾

This Committee has at least 2 and no more than 5 members chosen by the Supervisory Board from among its members.

Until March 14, 2012, the Nomination and Compensation Committee had the following members, namely Messrs Bertrand Letamendia (Chairman of the Nomination and Compensation Committee until March 12, 2012, date at which he was replaced by Bertrand de Feydeau), Bertrand de Feydeau, Dominique Hoenn and Vivien Lévy-Garboua.

With effect from March 14, 2012, the Committee consisted of Messrs. Bertrand de Feydeau (Chairman of the Nomination and Compensation Committee), Steven Fivel, Bertrand Letamendia, Vivien Lévy-Garboua and Mrs Rose-Marie Van Lerberghe. At the General Meeting held on April 12, 2012, Mrs Rose-Marie Van Lerberghe was appointed as member of the Supervisory Board in replacement of Mr Bertrand Letamendia whose mandate was not renewed. Two of its 4 members (ratio of 50%) are considered as independent, namely Mr Bertrand de Feydeau and Mrs Rose-Marie Van Lerberghe⁽⁵⁾.

This Committee, which meets at least once every year, prepares recommendations for the Supervisory Board concerning the nomination and compensation of Executive Committee members, pension and personal protection plans, benefits in kind, and stock option plans and bonus shares plans.

It met 7 times during the 2012 financial year, with an attendance rate of 100%⁽⁶⁾. Its work focused mainly on:

- the 2011 variable compensation of Executive Committee members as well as arrangements for determining the 2012 variable compensation;
- a review of the terms in office of Supervisory Board members due to expire and the appointment of a new member of the Supervisory Board;
- recruitment and compensation of a third Executive Board member;
- the composition of the special-purpose committees;
- the compensation and benefits of the Chairman of the Supervisory Board and the Chairman of the Executive Board;

- the 2012 policy of granting bonus shares and stock options;
- achievement rating of the performance criteria for stock option plans set up in previous years;
- review of a 2012 bonus share allotment plan;
- amendments to the 2012 bonus share allotment plan.

The Sustainable Development Committee

This Committee has at least 2 and no more than 4 members chosen by the Supervisory Board from among its members.

Until March 14, 2012, the Sustainable Development Committee consisted of Messrs Jérôme Bédier (Chairman of the Sustainable Development Committee), Michel Clair, Vivien Lévy-Garboua and Philippe Thel.

With effect from March 14, 2012, the Committee consisted of Messrs. Jérôme Bédier (Chairman of the Sustainable Development Committee), who resigned with effect from May 9, 2012, Steven Fivel, François Kayat and Vivien Lévy-Garboua.

This Committee, which meets at least twice every year, is tasked with:

- cataloguing the principal categories of risk to which Klépierre's business is exposed;
- monitoring the action program drawn up to contend with these;
- and reviewing the Klépierre group's contribution to sustainable development.

It met once during the 2012 financial year, with an attendance rate of 100%⁽¹⁾. Its work focused mainly on:

- 2012: developments, operations;
- Priorities and objectives for 2013.

II – Internal control and risk management framework

The Klépierre group's internal control framework is predicated on the general risk management and internal control principles laid down in the reference framework published by the Autorité des marchés financiers in July 2010.

I) Objectives and principles

Internal control is the organization of processes, procedures and controls implemented by management for the ultimate purpose of ensuring overall control of risks and providing reasonable assurance that strategic goals will be achieved.

In particular, this organization is predicated on:

- applying instructions and guidelines laid down by the Executive Board;
- making operations as efficient as possible and ensuring the Group's internal processes work smoothly;
- safeguard the reliability of information provided to internal and external users;
- complying with the laws and regulations.

Every manager needs to implement effective controls over the activities for which s/he is responsible. Every Klépierre group employee contributes to the internal control framework in an environment in which:

- the description of the Group's governance and organization of its business lines and functions provides the general framework for achieving its objectives;
- there is a repository of guidelines laying down and circulating the internal rules and procedures to be followed while systematically incorporating instructions about the controls to be carried out;
- the principle of delegation represents the cornerstone of the system. It is reflected in the use of correspondents who are responsible for consistent implementation of the Group's policies;
- duties are segregated by keeping the operational roles separate from supervisory roles;
- the corporate ethics policy targeting compliance with the laws and regulations puts an emphasis on ethical behavior through the introduction of conduct rules for employees, especially in relation to data confidentiality, a good practice code for relationships with third parties and the use of information system resources.

The internal control framework applies to all the (operational and corporate) entities in the Klépierre group.

The internal control framework designed to meet the various objectives outlined above does not, however, provide any certainty that the objectives set will be achieved owing to the inherent limitations of all procedures. Even so, it aims to make a major contribution towards attaining them.

II) Organization of risk management and internal control

To oversee developments of the Group's internal control framework, an internal control division was set up in December 2012. Reporting to the Executive Board, it encompasses the permanent control, periodic control and ethics & compliance functions.

The Internal Control division is ultimately responsible for ensuring the consistency and efficacy of internal control. Within the business lines and foreign subsidiaries, it has direct access to the risk and internal control officers, who form a functional network reporting to it. It is responsible for implementing risk monitoring and mitigation tools and systems, such as risk mapping and an incident database. It is also in charge of work on business continuity planning (BCP) and the crisis management unit. Lastly, it handles reporting to the Executive Board and the Audit Committee.

Risk management

The Klépierre group aims to anticipate and manage the major risk factors likely to affect attainment of its objectives and compromise compliance with the laws and regulations. Risks are catalogued as part of a risk mapping process updated periodically, especially through interviews conducted with Executive Committee members and operational managers. During each update, the Group ensures that it is able to:

- identify and assess the risks at strategic and operational level by adopting a process-based approach;

(1) AFEP-Medef corporate governance Code (Point 10).

- assess both inherent risks⁽¹⁾ and "controllable" risks;
- assess both risks and the internal control framework;
- reinforce and instill a culture of internal control within the Group.

During 2011, the Group updated the risk mapping ahead of implementation of ERP (*Enterprise Resource Planning*) software. This ERP suite, which has been implemented across Europe at the vast majority of subsidiaries, has transformed the overall information system and helped to modernize processes at every level of the business lines and functions, enhance the fluidity of data flows by providing a unified platform and to make the organization more effective and secure.

The European roll-out of this integrated ERP system has also helped to strengthen the internal control framework by introducing unified terminology and processes, together with common Group-wide rules. In addition, it has automated a large number of first-level controls, so teams can concentrate their efforts on second-level controls.

In 2012, the ERP system covered main regions of Klépierre such as France, Iberia and Central Europe. It has been extended to Italy from 2013. The progress of this project is one of the main subjects addressed by the Audit Committee, and it is also monitored on a regular basis by the Executive Committee.

Overall internal control plan

The internal control division draws up the overall permanent control and periodic control plan.

The role of the permanent control function is to coordinate a framework in which operational staff play the leading role. To this end:

- it raises their awareness and trains them in the principles of internal control;
- it coordinates the measures they take;
- it ensures that first- and second-level control plans exist and are integrated within formally defined procedures, and;
- it oversees the Group's regulatory watch.

The periodic control function is handled by the internal audit division, which is responsible for assessing the operation of the risk management and internal control frameworks, regularly monitoring them and making recommendations to enhance them. It plays a part in raising awareness and training managers in internal control, but is not involved in introducing the framework or implementing it on a daily basis. Its analyses and observations help to guide the work of the permanent control function and to identify areas for improvement and strengthen procedures.

The periodic control function's scope of action encompasses all the Group's activities and risks across all of its units, including the activities of subsidiaries and those outsourced contractually. In addition, the identification of a risk automatically justifies the use of the periodic control function's power to launch any investigation it deems necessary. The internal audit function conducted 9 assignments during 2012.

The Ethics & Compliance function ensures that the Group complies with ethical and professional standards, prevents insider trading and controls the anti-money-laundering measures taken. The Group introduced the Ethical Whistleblowing framework under which any employee can raise questions about the risk of compliance breaches that s/he may encounter.

Oversight and supervision

Under the supervision of the Supervisory Board, the Executive Board is responsible for the Group's overall internal control framework. The Executive Board's role is to lay down the general principles for the internal control framework, design and implement the appropriate internal control system and the corresponding roles and responsibilities and make sure that it works smoothly, improving it where necessary.

At least once every year, it reports to the Audit Committee on the Group's internal control framework, any changes in it and the findings of the work performed by the various framework participants. A presentation was given to the Audit Committee on activities during 2012 and the action plan for 2013.

Under the responsibility of the Internal Control Division, an internal control coordination committee will meet at least twice a year, bringing together the managers from the permanent control, periodic control, ethics & compliance, finance and legal affairs functions. Its work and conclusions will be reported to Klépierre's Executive Board, as well as to the Audit Committee.

Supervision also makes use of the comments and recommendations made by the Statutory Auditors or by the regulatory/supervisory bodies. Implementation of remedial action plans is monitored centrally by the Internal Control division and the Accounting division.

III) Control measures addressing major risks

The control measures are described by major risk area:

a) Security and safety of individuals and assets

The Klépierre group attaches great importance to ensuring the safety and security of individuals and assets across its entire portfolio.

During a project construction or extension phase, a dedicated team from the legal affairs division is responsible for consulting insurance companies and negotiating and arranging insurance policies covering every development, all aspects of project contracting and all project risks in line with a formal procedure. Suppliers are selected using an internal process based on various criteria concerning their qualification, reputation and financial position. Klépierre requires its suppliers to declare all their subcontractors, which are subject to Klépierre's approval. In addition, it has a compliance charter, and the compliance clause is incorporated in all contracts with suppliers.

Assets in service undergo security and safety checks performed by local teams, which report back to head office in a standardized format at least once every quarter. Regional technical managers conduct annual inspections of shopping centers, leading to the preparation of action

⁽¹⁾ It is worth noting that the risks described in the "Risk Factors" section of the management report correspond more to the risks inherent in Klépierre's business activities arising from the market, macroeconomic conditions and changes in the regulatory framework.

plans and a lifting of restrictions procedure. Furthermore, external control organizations also conduct safety and security checks. Every shopping center manager has an annual schedule of inspection visits. A Monitoring committee is held on a monthly basis to examine the weekly management chart on follow-up of the action plan. In addition, a Risk Management Committee meets 3 times every year and is charged with learning the lessons of incidents reported and performing the regulatory watch.

Since 2011, an incident database has been implemented across the French shopping centers. It is updated on a daily basis and helps to monitor the risks associated with the safety and security of individuals and assets in the shopping centers. These indicators are monitored by the Risk Management Committee.

At the same time, the Internal Audit function conducts audits in France of compliance with the regulations and internal procedures in connection with the management of shopping malls every three years using standard reference frameworks covering the safety and security of individuals and assets and in particular compliance with the regulations applicable to facilities open to the general public.

b) Investments

All proposals to acquire, develop or sell assets are studied during a pre-committee with the Investment Director before they are reviewed by the Development Committee. There is a standard file for the Development Committee containing all the data required for a decision to be made rapidly. For projects costing less than €8 million, the decision is handled by the Executive Board. For transactions in excess of €8 million are authorized by the Supervisory Board after they have been reviewed by the Investment Committee composed of some members of the Supervisory Board.

The services of lawyers, notaries and technical experts from highly reputed firms are used to identify risks of all types during the due diligence process.

Opportunities for development projects are discussed with the Director of Development and analyzed. Next the Development Committee selects projects for further analysis and approves a research budget. To gain greater insight into the competitive environment, an internal department handles the competitor watch—a role sometimes entrusted to external firms outside France. The legal affairs division reviews all aspects of compliance with the laws and regulations.

To keep a tighter grip on costs, a technical team dedicated to supporting the project leader determines the specifications and budget with the assistance of construction analysts and highly reputed project managers. The project's progress and use of the budgeted funds are tracked on a weekly basis by the operational team, which reports regularly to the regional managers and on a quarterly basis to the Operations Committee.

All of Klépierre's assets are valued by external firms twice a year. The asset managers in each area are tasked with providing checked data to experts, who may ask for explanations in the event of major fluctuations in values. The figures duly verified by expert assessments are then controlled and analyzed by the Investment department and by the Accounting department.

All of Klépierre's assets are scored each year using an internal qualitative and quantitative tool. Assets considered as sensitive are subject to extensive and regular tracking. Decisions concerning asset disposals are made in line with the same approach to authorizations as outlined above.

c) Commercialisation

The performance and returns on Klépierre's portfolio as a whole are monitored regularly. The Group has performance indicators covering its assets, revenues, footfall, etc., which are produced automatically. In the event of an abrupt or severe deterioration, meetings are held at the owner's request, and an action plan is then drawn up.

The inter-business Letting Committee meets every two weeks to review all the projects, raise difficulties and make the appropriate decisions. A rental grid and management chart are prepared with indicators used to monitor project lettings. The Development Committee approves the budget and rental grid for the project and makes any requisite adjustments in the event of warnings about the level of the occupancy cost ratio and financial terms.

The lease renewal report is reviewed by the Renewal Committee every two months. Vacant premises are monitored by a special monthly Committee using a specific management chart listing the measures to be carried out.

d) Business continuity

Under its risk management policy, Klépierre has to:

- identify its business continuity requirements;
- draw up the corresponding action plans;
- perform regular tests to measure the efficiency of this plan;
- define and implement a specific crisis management framework.

In 2010, the Group updated its business continuity plan (BCP) again. The framework is predicated on a set of organizational and functional procedures geared to the possible types of incident. The following scenarios are covered:

- a central building is damaged;
- the Group's server room is damaged;
- a pandemic is declared.

The BCP is fleshed out by individual divisions and departments: each manager defines the activities covered, the relevant staff and requisite requirements for ensuring continuity of business. If a central building is affected, teams are transferred to a failover site.

In the event of a crisis, a crisis unit is responsible for coordinating the overall response to the situation that has occurred, ensuring the safety of the Group's entire staff and business continuity. It also has to make sure that its response to the crisis helps to create confidence in the Group and to reduce the public's potential concerns.

During periods of crisis management, the crisis unit makes any decisions necessary for the smooth operation of the Group, until the situation reverts to normal.

e) Treasury and financing

Klépierre identifies and assesses on a regular basis its exposure to the various sources of risk (interest rate, liquidity, currency and counterparty). The interest-rate hedging strategy was outlined in the financial report, including the quantitative results of interest-rate sensitivity tests.

Financial risk management and in particular the Group's financial position, financing requirements and interest-rate risk hedging are handled by the Treasury and Financing division. From a financing standpoint, a special-purpose tool has been rolled out across Europe to record and value financing and derivative products. The Treasury and Financing division also has a system monitoring the capital markets in real time.

The Treasury and Financing division reports to the Deputy CEO in charge of Finance and Office Property Segment (Executive Board member), bearing in mind that all major financing and hedging transactions are validated in advance by the Supervisory Board. At the end of the year, the Supervisory Board validates projected financing plan for the following year, which lays down the major guidelines in terms of determining the size and type of borrowings and hedging interest-rate risk. During the year, the principal decisions in terms of financial transactions are presented individually for approval to the Supervisory Board, and a report on these transactions is given to it once they have been completed. Trends in the covenant situation (financial ratios) are monitored on a semi-annual basis and in particular when a new transaction is arranged, and this is one of main issues reviewed by the Audit Committee.

Treasury is managed by the Treasury and Financing division, which coordinates the reporting and monitoring of the subsidiaries' cash projections, supporting a cash pooling system covering the entire Group except for Scandinavia. Reporting takes place on a monthly basis.

The Treasury & Financing division also drafts internal procedures stating the roles of the Group's various participants in relation to cash management and the implementation of Klépierre's share buyback programs. In addition, it validates the choice of banks and financial terms every time the Group requests the opening of, changes to or close of a bank account.

f) Legal affairs and regulations

The Group Legal Affairs division, which reports to the Executive Board and has functional responsibility for the legal affairs units in each country, ensures that legal risks arising from the business lines and functions are managed properly in line with the integrated risk management process. The regulatory watch is carried out in constant liaison with specialized external firms.

The Group Legal Affairs division has developed a reporting procedure covering disputes. It works closely together with the relevant legal affairs units to defend the Group's interests. Accordingly, it helps to curb and to manage the legal risks to which the Group is exposed owing in particular to its owner/manager status.

It drafts and verifies the contractual undertakings given by the Group and ensures that they comply with the provisions of the law and the regulations. For example, the Group Legal Affairs division is working together with the legal affairs units in various countries on drafting a European-type lease to harmonize legal practices and establish unified positions vis-à-vis international store chains.

The Group Legal Affairs division assists operational staff with the arrangement of specific contracts and generally speaking with any out-of-the-ordinary requests to ensure that the applicable regulations are complied with, irrespective of the country in which the Group is operating.

Likewise, the procedures implemented by the Group Legal Affairs division to curb the risks to which the Group's operations are exposed and to ensure the proper completion of the requisite legal formalities.

The Group Legal Affairs division is also in charge of arranging delegations of authority governing the actions of all the Group's employees. It also ensures compliance with the selection procedures for the Group's corporate officers.

Finally, as a listed company, Klépierre also has to abide by the rules concerning publications (see the Financial Reporting section, hereafter), corporate governance (see the first section) and insider trading. To prevent the risk of insider trading, the Company has adopted a code of conduct governing transactions in its shares, which is updated regularly. Permanent insiders are authorized to carry out transactions in the Company's shares only during clearly defined periods.

g) Information system

Advances in information technology have paved the way for significant development of corporate information systems. Good information systems governance enhances the efficiency of internal control rules.

Klépierre, which is present in 13 European countries that used to have multiple interfaces between various tools, decided to implement an ERP system across all its principal subsidiaries with a view to:

- providing investors with reliable and consistent business and financial information;
- harmonizing and aligning processes to enhance the Group's image and create shared terminology and also to facilitate the integration of new units;
- simplifying the architecture of the corporate information system by curbing local systems and facilitating data exchanges;

- operational gain through automated transactions and organizational improvements.

The principal control measures are implemented at the project design stage:

- the use of an ERP system with a single data repository helps to eliminate the majority of interfaces between business lines and accounting and ensures the integrity of data;
- the activation of critical controls in the system safeguards the consistency of repositories in particular, thereby curbing manual inputs and guaranteeing the unity of records;
- the segregation of input and validation duties for transactions is a principle supported by the system through authorization profiles. Every time data considered as sensitive is created or edited, it has to be validated before it can be used in operations (bank data, commitments, etc.);
- the development of reporting supplements control measures that cannot be automated. Use of this reporting is incorporated in the operational procedures;
- the core model concept guarantees the consistency of the framework across all the countries in which the Group is present, thereby making the higher-level controls more reliable.

In 2012, the ERP system was rolled out in the Group's main countries covering regions such as France, Central Europe and Spain & Portugal. From the beginning of 2013, it has been extended to Italy.

All the data is processed using IT procedures, including daily backups, with the storage media being kept away from operating sites.

IV) Preparation and processing of financial and accounting data

The reliability of the financial and accounting data, as well as compliance with the regulations in force and internal instructions form two of the principal internal control goals in the accounting production process.

To ensure adequate coverage of the major accounting risks, accounting internal control is predicated on knowledge of the operational processes and how they are translated in the accounts, on the definition of the responsibilities of the various participants in the process and on information system security.

Accounting organization

Accounting tasks are carried out by the finance department in each country in which Klépierre has a presence. The individual and consolidated financial statements are prepared by the accounting, management control and information system division, which reports directly to the Executive Board.

The deployment of an ERP system across the Group makes it possible to record day-to-day transactions and enter accounting data in an integrated and automated manner. The whole process, which aims to deliver reliable and consistent data for internal and external users, is designed and built around a single repository and common rules, to guarantee data integrity and enhance the consistency of the quality of the accounting data and its traceability. Furthermore, the integration of what traditionally were manual controls in the ERP system helps to reduce sources of error. The restriction on manual entries helps to boost the quality of the data in the system.

All the processes used to prepare accounting data are subject to accounting control programs at various levels, including validation rules, authorizations and instructions concerning supporting evidence for and documentation of accounting tasks. The "accounting internal control" unit, which reports directly to the Director of accounting, management control and the information system is in charge of defining and distributing the accounting control rules and ensuring the smooth operation of the internal control environment. In particular, it is involved in the payment process at Group level with defining the segregation of duties and authorizations.

The quarterly reporting system for management control (present at the head office and at the subsidiaries) is used to track trends in the principal key performance indicators by country and by asset and to ensure that these are properly geared to the objectives laid down in the annual budget approved by management. In addition, global reconciliation is handled by Group management control to ensure the consistency of the accounting results with the consolidated management results.

The clarity of financial reporting and the pertinence of accounting methods are overseen by the Audit Committee, in tandem with the Statutory Auditors. Financial reporting and accounting data is then presented to and commented on by the Supervisory Board.

Account closing process and consolidation

The accounts are consolidated by the Consolidation division for the entire scope of the Group. Data for the consolidation system used at almost all Klépierre subsidiaries is provided by the finance department in each country via interfaces with the local accounts. Off-balance sheet commitments are also held centrally in it by consolidated unit.

The consolidated financial statements are prepared using a process laid down in instructions and predicated on a detailed schedule circulated to all the finance departments to ensure that the deadlines are met and that the data produced complies with the Group's accounting standards.

The principal accounting controls carried out at each quarterly close in the consolidation process are:

- controls on changes in the scope of consolidation;

- analysis of and supporting evidence for all consolidation adjustments;
- analysis of and explanations for all deviations from budgets and projections.

At each quarterly close, the Accounting division coordinates an internal certification process for the accounting data reported by country, as well as the controls performed, in which the finance director for each country certifies:

- the reliability and compliance of the accounting data provided with the regulations in force and the Group standards;
- smooth operation of the accounting internal control system, safeguarding the quality of the accounting data;
- significant events that occurred after the close of the accounts and their financial impact on the consolidated financial statements.

**Financial reporting
(press releases, theme-based presentations, etc.)**

The Financing and Financial Reporting department within the Finance division is responsible for managing the Group's financial reporting obligations vis-à-vis the market authorities. It is tasked with producing and drafting the financial reporting documents published with a view to presenting the Group's various activities to shareholders, institutional investors, financial analysts and rating agencies, explaining its results and outlining its expansion strategy.

The financial reporting team continuously monitors its reporting obligations. The disclosure of information to the financial markets takes place according to a precise schedule that is circulated internally. With support from various departments, the team designs the earnings and theme-based presentations. In conjunction with the Legal Affairs division, it makes sure that information is provided in line with the required deadlines and in compliance with the relevant laws and regulations.

III – Corporate Governance

At its meeting on December 19, 2008, the members of the Supervisory Board confirmed that the Company had agreed to adopt the corporate governance rules laid down in the AFEP/Medef Code (available on the web site at www.medef.fr).

Compensation of Supervisory Board and special-purpose committee members⁽¹⁾:

The compensation paid to Supervisory Board and special-purpose committee members comprises attendance fees.

The overall allocation of attendance fees set aside for Supervisory Board members stood at 270 000 euros for 2012, to be paid out based on the following conditions:

- 90 000 euros to be allocated between Supervisory Board members appointed as Chairman or Vice-Chairman of the Supervisory Board, Chairman of the Audit Committee, Chairman of the Investment Committee, Chairman of the Nomination and Compensation Committee and Chairman of the Sustainable Development Committee, i.e. a

fixed allocation of 15 000 euros.

- 126 000 euros to be allocated between Supervisory Board members appointed as members of said Supervisory Board, comprising:

- 72 000 euros allocated as a fixed payment evenly between Supervisory Board members;
- 54 000 euros allocated as a variable payment between Supervisory Board members based on their actual attendance at Supervisory Board meetings;

- 54 000 euros to be allocated as a variable payment between Supervisory Board members appointed as a member of one or more committees, based on their actual attendance at meetings of the committees on which they sit;

The share of the attendance fees paid individually to each member of the Supervisory Board in 2012 is shown in the Compensation and benefits paid to corporate officers section of the 2012 Registration Document.

Internal rules governing the Supervisory Board and its Committees

The internal rules of the Supervisory Board and each of its committees are part of a transparency-based approach, in line with the corporate governance principles applicable to listed companies.

These internal rules lay down the duties and modus operandi of the Supervisory Board and the various Committees. They have been reviewed by the Supervisory Board on March 14, 2012, at the time of the entry of the company Simon Property Group in the shareholding in order to facilitate the good running of the Committees and Supervisory Board meetings.

IV – Arrangements for shareholders to participate at the Company's Annual General Meetings

The rules applicable to General Meetings and in particular to shareholder participation are laid down in Section V of the Company's articles of Association and in the General Information section of the 2012 Registration Document.

V – Information about factors that may have an impact in the event of a public offer

Information about factors that may have an impact in the event of a public offer is disclosed in the General Information section concerning the capital stock in the 2012 Registration Document (capital structure/delegations of powers and authorizations granted to the Executive Board by the General Meetings of the shareholders on April 9, 2009, April 7, 2011 and April 12, 2012) and in the notes to the consolidated financial statements - Note 8.2. Liquidity risk (agreements entered into by the Company that may be terminated in the event of a change in control: bonds in case of the deterioration of the rating to "non investment grade" status resulting from a change of control).

David Simon,
Chairman of the Supervisory Board

⁽¹⁾ AFEP-Medef corporate governance Code (Point 18).

GENERAL MEETING

Statutory auditors' report prepared in accordance with article L. 225-235 of the French Commercial Code on the report prepared by the chairman of the company's supervisory board

9.3. STATUTORY AUDITORS' REPORT PREPARED IN ACCORDANCE WITH ARTICLE L. 225-235 OF THE FRENCH COMMERCIAL CODE ON THE REPORT PREPARED BY THE CHAIRMAN OF THE COMPANY'S SUPERVISORY BOARD

This is a free translation into English of the Statutory auditors' report prepared pursuant to article L.225-235 of the French Commercial Code on the report prepared by the Chairman of the company's Supervisory Board issued in the French language and is provided solely for the convenience of English speaking users.

This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In our capacity as Statutory auditors of Klépierre and in accordance with article L. 225-235 of the French Commercial Code (*Code de commerce*), we hereby report to you on the report prepared by the Chairman of the Supervisory Board of your company in accordance with article L. 225-68 of the French Commercial Code, for the year ended December 31, 2012.

It is the Chairman's responsibility to prepare, and submit to the Supervisory Board for approval, a report on the internal control and risk management procedures implemented by the Company and containing the other disclosures required by article L. 225-68 of the French Commercial Code, particularly in terms of corporate governance.

It is our responsibility:

- to report to you on the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of accounting and financial information; and
- to attest that the report contains the other disclosures required by article L. 225-68 of the French Commercial Code, it being specified that we are not responsible for verifying the fairness of those disclosures.

We conducted our work in accordance with the professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of accounting and financial information. These procedures mainly consisted in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based, as well as of the existing documentation;
- obtaining an understanding of the work involved in the preparation of that information, and of the existing documentation;
- determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of accounting and financial information noted in the course of our engagement have been properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Supervisory Board in accordance with article L. 225-68 of the French Commercial Code.

Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by article L. 225-68 of the French Commercial Code.

Paris La Défense and Neuilly-sur-Seine, March 1st, 2013

The Statutory auditors
French original signed by

Mazars
Julien MARIN-PACHE

Gilles MAGNAN

Deloitte & Associés
Joël ASSAYAH

José-Luis GARCIA