

MERCIALYS

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Compensation for executive officers

(published in accordance with the AFEP-MEDEF corporate governance code)

During its meeting on March 8, 2018, and after consulting with the Appointments and Compensation Committee, the Company's Board of Directors approved the following items of compensation for the Chairman and Chief Executive Officer and the Chief Operating Officer:

. **Fiscal year 2017:**

The Board of Directors set the amount of variable compensation for the Chairman and Chief Executive Officer and the Chief Operating Officer for 2017.

For reference, the target represented 50% of fixed annual compensation for the Chairman and Chief Executive Officer, with a maximum of 100%, and 40% for the Chief Operating Officer, with a maximum of 80%.

It was based on the achievement of quantitative targets for Mercialys for 20%, individual quantitative targets for 50% and managerial targets for 30%.

The Board of Directors acknowledged the levels of performance achieved and set the amount of variable compensation for 2017 as follows:

- . For the Chairman and Chief Executive Officer, a gross total of Euro 344,250;
- . For the Chief Operating Officer, a gross total of Euro 172,800.

. **Fiscal year 2018:**

In accordance with Article L.225-37-2 of the French commercial code (Code de commerce), the principles and criteria for determining, distributing and awarding the fixed, variable and exceptional elements from the overall pay package and the benefits of any kind awarded for 2018 to the Chairman and Chief Executive Officer and the Chief Operating Officer for their corporate offices were set by the Board of Directors on March 7, 2018 after consulting with the Appointments and Compensation Committee, and will be submitted for approval at the General Meeting on April 26, 2018.

The Board of Directors' specific report detailing all of these elements will be presented in the 2017 registration document and the General Meeting brochure.



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Fixed compensation

Set at Euro 450,000 on March 1, 2015, the Chairman and Chief Executive Officer's fixed compensation did not change in 2017 and will remain unchanged in 2018.

Considering the success achieved following the Chief Operating Officer's appointment, during its meeting on February 14, 2017, and after consulting with the Appointments and Compensation Committee, the Board of Directors decided to increase his annual fixed compensation to Euro 300,000 from March 1, 2017. This amount will remain unchanged in 2018.

The Chief Operating Officer's fixed and variable annual compensation is split between Mercialys for two thirds and Mercialys Gestion, a fully-owned Mercialys subsidiary, for one third, since he is still employed by Mercialys Gestion as Director in charge of operations, letting and marketing.

Annual variable compensation

The Board of Directors also set the conditions for determining the variable compensation for the Chairman and Chief Executive Officer and the Chief Operating Officer for 2018. To further strengthen the focus on corporate social responsibility (CSR) within the strategic priorities, it is proposed to adjust the mechanism for 2018 variable compensation that will be paid to the corporate officers in 2019.

This change involves incorporating a quantifiable CSR target and reducing the percentage for managerial targets.

Variable compensation is therefore structured around two types of targets:

1. Quantitative targets, with an 80% weighting (vs 70% for 2017), including one CSR target for 10%, and
2. Managerial targets, reduced to 20% (vs 30% in 2017).

In addition, with regard to the Chairman and Chief Executive Officer's variable compensation, based on the findings from the benchmark carried out in April 2017 with the consultancy Mercer, it has been decided, in order to reduce the difference in level compared with standard market practices and to motivate and retain the Chairman and Chief Executive Officer, to modify his target variable compensation and align it with the 1st quartile, i.e. 70% vs 50% currently.



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The amount of variable compensation may therefore represent:

- For the Chairman and Chief Executive Officer, 70% of his fixed annual compensation if the targets set are achieved, and up to 140% of his fixed annual compensation if the targets are exceeded;
- For the Chief Operating Officer, 40% of his fixed annual compensation if the targets set are achieved, and up to 80% of his fixed annual compensation if the targets are exceeded.

For each quantitative criterion, a minimum achievement limit is defined beforehand, along with a target level corresponding to Mercialys' targets for performance in line with the objectives, and a level of outperformance in relation to the target. Variable compensation is calculated on a straight-line basis between the minimum and maximum limits.

Long-term incentives

To align the interests of the Chairman and Chief Executive Officer and the Chief Operating Officer with the company's shareholder performance over the long term, the Board of Directors, subject to Article L.225-197-6 of the French commercial code, has decided on the principle for awarding bonus shares.

This award would represent a target based on:

- 75% of the Chairman and Chief Executive Officer's fixed pay (i.e. Euro 337,500) and potentially up to 112.50% of his fixed pay (i.e. Euro 506,250) if the performance conditions are exceeded;
- 50% of the Chief Operating Officer's fixed pay (i.e. Euro 150,000) and potentially up to 75% of his fixed pay (i.e. Euro 225,000) if the performance conditions are exceeded.

The bonus shares awarded would only be vested by the Chairman and Chief Executive Officer and the Chief Operating Officer after a three-year vesting period, subject to company performance and employment conditions, with this performance assessed over the full three-year period based on the following criteria and assessment schedule:

- Relative performance of Mercialys' share, dividends included (Total Shareholder Return - TSR), in relation to the performance of companies making up the EPRA/NAREIT Eurozone index at January 1, 2018, measured between January 1, 2018 and December 31, 2020 for 50% of the shares awarded;



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- Organic rental revenue growth, including casual leasing, excluding indexation, measured based on an annual average over three years between January 1, 2018 and December 31, 2020, for 25% of the initial allocation;
- FFO growth (excluding carrying cost of 2019 debt financing for 2018), measured based on an annual average over three years between January 1, 2018 and December 31, 2020 for the remaining 25% of the initial allocation.

The Chairman and Chief Executive Officer and the Chief Operating Officer will be required to retain 50% of these shares for two years following the end of this three-year vesting period, with the other 50% to be retained until they no longer hold their positions with the company.

Furthermore, in accordance with the final paragraph of Article 24.3.3 of the AFEP-MEDEF Code, revised in November 2016, the Chairman and Chief Executive Officer and the Chief Operating Officer undertake to not use risk hedging operations until the end of the lock-up period for their shares.

Paris, March 16, 2018



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