

## **2017/2018 REMUNERATION REPORT INCLUDING THE REMUNERATION POLICY OF EUROCOMMERCIAL PROPERTIES N.V.**

### **Introduction**

This report has been prepared by the Board of Supervisory Directors of Eurocommercial Properties N.V. (the “Company”) and is available on the website of the Company. It addresses the remuneration policy of the Company and the remuneration for the members of the Board of Management and the Board of Supervisory Directors for the financial year 2018/2019, which will be proposed to the Annual General Meeting of Shareholders to be held on 6 November 2018 (section A and C) as well as the remuneration specifics for the financial year 2017/2018 (section B). This report will also address the way in which the policy will be pursued for the financial year 2018/2019 (section C). This report is an update of the 2016/2017 Remuneration Report of the Board of Supervisory Directors.

### **A. Remuneration policy**

#### **Goal**

The purpose of our remuneration policy is to attract, motivate and retain qualified executives and staff who will contribute to the success of the Company. The remuneration policy aims to reward management and key staff for their contribution to the performance of the Company and its group (the “Group”).

#### **Work method**

The Board of Supervisory Directors proposes the general remuneration policy and implementation of that policy to the Annual General Meeting of Shareholders based on recommendations of the Board of Management. The Annual General Meeting of Shareholders is therefore invited to approve both the policy and its implementation.

In order to implement the policy, the Board of Supervisory Directors reviews and discusses the remuneration of the members of the Board of Management at the end of each financial year. The level of remuneration for the members of the Board of Management reflects the differences in responsibilities of the Board members as well as their individual performance. The benchmark for remuneration of the Board of Management is based on an independent survey of the remuneration of Directors of international real estate companies with comparable positions, determined by the size and complexity of the organisation and the responsibilities of the Board members.

The Board of Supervisory Directors is informed about the level of remuneration for Property Directors. This level is linked to the European market and is comparable with the international (property) companies in the countries where the Company is active. External independent benchmarking of the remuneration for both the Board of Management and Property Directors has taken place annually for many years. The latest report dated May 2018 has been prepared by Michael Lamb Associates of London and the peer group for benchmarking purposes consisted of 31 listed property companies and property organisations. This peer group included British Land, Hammerson, Intu, Land Securities, Segro, Klepierre, Mercialis, Unibail-Rodamco, Deutsche Euroshop, Beni Stabili, Citycon, NSI, Vastned and Wereldhave, but also covered major real estate investment managers including Amundi, Schroder Group, Henderson Global Investors, Grosvenor, etc. and major real estate investors like CPPIB etc.

### **Remuneration package**

The Company's remuneration package for employees and members of the Board of Management comprises the following elements:

- base salary – total annual gross fixed income including holiday allowance;
- short-term variable annual performance-related gross cash bonuses;
- long-term incentives through a performance depositary receipts plan;
- pension and other benefits.

### **Base salary**

The base salary reflects the responsibilities and individual performance, in line with market standards, as described above. The total annual gross fixed income is determined each year in June and takes effect as from 1 July each year.

### **Short-term variable cash bonuses**

Variable cash bonuses may be granted each year in addition to the base salary. Variable cash bonuses for executives and members of the Board of Management are entirely and directly linked to the annual growth in the Company's net asset value per share, dividend per share as well as the annual relative performance as per 30 June of the listed depositary receipts, representing ten ordinary shares each, in the capital of the Company compared to a peer group of ten listed retail property companies active in European and UK markets. This structure is in line with the Company's strategy of producing stable to rising dividends and adding long-term value to its property portfolio, all within a defensive risk profile, but also aligning itself further with its shareholders by linking bonuses to the relative outperformance of total shareholder return (return composed of dividend and increase in stock price) to its peer group. The ten listed retail property companies are Citycon, Deutsche Euroshop, Hammerson, Intu, Klepierre, Mercialis, Unibail-Rodamco, Vastned, Wereldhave and Westfield Corporation.

These bonuses are calculated on the basis of (i) the published audited annual results of the Company for the financial year to which the bonuses relate and can therefore be verified directly using the published audited figures and (ii) the share performance report of Global Property Research, the Dutch specialist and producer of many indices for listed real estate companies, so that the data used to calculate the relative outperformance are provided by an independent external source.

The gross variable cash bonus is equal to the sum of the growth of the dividend per share, the growth of the net asset value per share and the relative outperformance of the total shareholder return for the year ending 30 June of the listed depositary receipts, representing ten ordinary shares each, in the capital of the Company compared to the aforesaid peer group of ten listed retail property companies of the Company, which sum is multiplied by six times the base salary of the year in which the bonus is paid out. Negative growth of either the dividend per share, the net asset value per share or relative underperformance of total shareholder return will not be taken into account when applying the aforesaid formula. Also, if total shareholder return outperforms the peer group but is still negative in absolute terms, it cannot contribute to a variable cash bonus. For information purposes, the following example is included:

- assumptions: annual base salary: € 300,000, dividend per share growth 2%, net asset value per share growth 1%;
- relative outperformance of total shareholder return: 3%
- gross variable cash bonus is: € 300,000 x 6 x {2% + 1% + 3% = 6%} = € 108,000

There is no minimum guaranteed variable cash bonus for members of the Board of Management. The variable cash bonus for members of the Board of Management is capped at one year's base salary and the relative outperformance can only produce such bonus up to a maximum of half of one year's base salary, which implies that the relative outperformance up to a maximum of 8.33% will be taken into account to avoid extreme results. Any variable cash bonus awarded on the basis of incorrect financial or other data may be recovered by the Company from members of the Board of Management (claw back clause). During the last ten years, variable cash bonuses ranged between 10% and 100% of base salaries. Variable bonuses are usually paid in the first quarter in which the annual results of the Company are published.

### ***Long-term incentives***

Since 2000 the Company had a long-term incentive scheme for Group employees and directors in the form of a Stock Option Plan. The plan had a number of conditions relating to the performance of the Company in terms of net asset value and dividend growth, but suffered from the fact that the scheme by its very nature encouraged employees to exercise the options when these were in the money, but did not result in long-term shareholdings by employees in the capital of the Company.

Six years ago, the option scheme was replaced with the annual grant of free long-term Performance Shares (depository receipts), which are conditional upon the meeting of Company performance targets and that the employee remains with the Company for more than three years from the grant of the Performance Shares and holds them from that vesting date for a further two years. The details of the scheme are as follows:-

#### Entitlement

All permanent employees and directors of the Company.

#### Date of annual grant

If the Annual General Meeting of Shareholders of the Company has approved the remuneration report the Performance Shares will be granted immediately after the last day of the blackout period after the publication of the Company's first quarter results in November.

#### Conditions of grant

The employee will be granted Performance Shares that vest after three years on condition that the employee remains employed by the Company and retains them for a further two years after the vesting date. The Performance Shares will be formally blocked by the Company to ensure compliance, but a concession can be made to allow the sales of sufficient Performance Shares to enable the payment of any relevant national income tax and social security charges.

Holders of blocked Performance Shares will nevertheless be entitled to full dividend and other shareholders' rights after the vesting date.

#### Calculation of award of long-term Performance Shares

For this year the number of Performance Shares to be granted will be calculated as follows:

1. The base salary of the employee will be multiplied by three and a percentage taken of this figure as follows: -
2. The percentage increase in the audited net asset value per share of the Company will be added to the percentage increase of the dividend per share of the Company and the

sum of these percentages will be added to the annual relative performance as per 30 June of the listed depositary receipts, representing ten ordinary shares each, in the capital of the Company compared to the aforesaid peer group of ten listed retail property companies. The resulting total percentage will be applied to the grossed up salary as defined under 1) above.

3. The basic formula will be subject to the condition that, at the end of the three year vesting period, the growth of each of the Company's net asset value per share and dividend per share must have risen at least 6% each over the three year vesting period. This implies that half of the Performance Shares are conditional upon the growth of the dividend per share of at least 6% over the three year vesting period and the other half of the Performance Shares are conditional upon the growth of the net asset value per share of at least 6% over the three year vesting period. In case of a lower growth rate, a proportionally lower percentage of the number of Performance Shares granted will vest.
4. The result of multiplying three times the employee's base salary by the percentage arrived at under 3) above will be divided by the market price of a Performance Share (depositary receipt) at close of trading on the day of the grant, thus arriving at a number of Performance Shares to be granted. The calculation can be demonstrated by the following example:

Annual Salary		€ 100,000
X3		€ 300,000
Dividend Growth	2%	
Net Asset Growth	1%	
<u>Relative performance</u>	<u>3%</u>	
<u>Total Growth</u>	<u>6%</u>	
X € 300,000 =		€ 18,000
Divided by share price		
- Say € 40	=	450 Performance Shares

#### Cap on number of Performance Shares to be granted

The amount to be divided by the price of depositary receipts on the day of granting cannot exceed 50% of one year's base salary and the relative outperformance of total shareholders return can only produce such amount up to a maximum of 10% of one year's base salary, which implies that the relative outperformance up to a maximum of 3.33% will be taken into account to avoid extreme results. Also, if total shareholder return outperforms the peer group but is still negative in absolute terms, it cannot contribute to the granting of Performance Shares. Performance Shares are granted under the condition that the number of Performance Shares could be adjusted at the vesting date, if such number would be unfair due to extraordinary circumstances. Any Performance Shares granted to members of the Board of Management on the basis of incorrect financial or other data may be recovered by the Company from these members (claw back clause).

The introduction of Performance Shares did not imply that any options granted under the Stock Option Plan in the past were cancelled.

#### ***Pension and other benefits***

The Company has a competitive package of benefits. Members of the Board of Management and (some) Group employees receive allowances and benefits in accordance with the general Group rules. These benefits include, in some cases, usage of a company car or a travel allowance, health insurance and travel and accident insurance. Pension plans differ from country to country. All offices of the Company have their own pension plans or follow the local (state) pension practice. For The Netherlands, the pension scheme is based on a defined contribution plan. For the United Kingdom pensions are mostly based on defined benefits plans with capped pensionable salaries. Only one member of the Board of Management has joined a pension scheme. This scheme is a defined contribution scheme with current annual premiums being capped using a maximum pensionable salary of € 105,000, which is now the compulsory maximum cap in The Netherlands (in previous years the maximum was € 170,000). The Company makes an annual gross-up compensation payment of 23.3% of the difference between the old and the new maximum pensionable salary.

## **B. Remuneration in 2017/2018**

### **Remuneration of the Board of Management**

In the reporting year, the Company's remuneration policy resulted in the following variable and non-variable rewards to the Board of Management.

### **Specification of the base salaries, variable cash bonuses, pension premiums and social security charges for the Board of Management for the financial years 2001/2002 to 2017/2018**

(Amounts in € '000)	J.P. Lewis	E.J. van Garderen	Total
<b>Base salary</b>			
2017/2018	<b>689</b>	<b>450</b>	<b>1,139</b>
2016/2017	689	435	1,124
2015/2016	689	435	1,124
2014/2015	677	415	1,092
2013/2014	616	415	1,031
2012/2013	563	381	944
2011/2012	498	369	867
2010/2011	467	351	818
2009/2010	451	334	785
2008/2009	451	334	785
2007/2008	450	318	768
2006/2007	488	318	806
2005/2006	482	318	800
2004/2005	445	306	751
2003/2004	443	294	737
2002/2003	435	285	720
2001/2002	417	272	689
<b>Variable cash bonuses</b>			
2017/2018	<b>465</b>	<b>305</b>	<b>770</b>
2016/2017	430	281	711
2015/2016	623	435	1,058
2014/2015	386	231	617
2013/2014	362	234	596

2012/2013	111	77	188
2011/2012	73	49	122
2010/2011	464	326	790
2009/2010	200	143	343
2008/2009	46	34	80
2007/2008	215	164	379
2006/2007	526	356	882
2005/2006	433	250	683
2004/2005	293	201	494
2003/2004	201	140	341
2002/2003	109	73	182
2001/2002	250	169	419
<b>Pension premiums and compensation</b>			
2017/2018	<b>0</b>	<b>50</b>	<b>50</b>
2016/2017	0	57	57
2015/2016	0	49	49
2014/2015	0	37	37
2013/2014	0	37	37
2012/2013	0	37	37
2011/2012	0	37	37
2010/2011	0	37	37
2009/2010	0	37	37
2008/2009	0	37	37
2007/2008	0	38	38
2006/2007	0	41	41
2005/2006	7	41	48
2004/2005	7	40	47
2003/2004	7	37	44
2002/2003	6	34	40
2001/2002	7	29	36
<b>Total rewards</b>			
2017/2018	<b>1,154</b>	<b>805</b>	<b>1,959</b>
2016/2017	1,119	773	1,892
2015/2016	1,312	919	2,231
2014/2015	1,063	683	1,746
2013/2014	978	686	1,664
2012/2013	674	495	1,169
2011/2012	571	455	1,026
2010/2011	931	714	1,645
2009/2010	651	514	1,165
2008/2009	497	405	902
2007/2008	665	520	1,185
2006/2007	1,014	715	1,729
2005/2006	922	609	1,531
2004/2005	745	547	1,292
2003/2004	651	471	1,122
2002/2003	550	392	942
2001/2002	674	470	1,144

<b>Social security charges</b>			
2017/2018	<b>148</b>	<b>48</b>	<b>196</b>
2016/2017	138	9	147
2015/2016	183	6	189
2014/2015	151	7	158
2013/2014	128	7	135
2012/2013	77	8	85
2011/2012	72	8	80
2010/2011	74	5	79
2009/2010	80	8	88
2008/2009	63	10	73
2007/2008	84	6	90
2006/2007	127	7	134
2005/2006	114	5	119
2004/2005	87	4	91
2003/2004	83	4	87
2002/2003	59	4	63
2001/2002	76	5	81
<b>Total</b>			
2017/2018	<b>1,302</b>	<b>853</b>	<b>2,155</b>
2016/2017	1,257	782	2,039
2015/2016	1,495	925	2,420
2014/2015	1,214	690	1,904
2013/2014	1,106	693	1,799
2012/2013	751	503	1,254
2011/2012	643	463	1,106
2010/2011	1,005	719	1,724
2009/2010	731	522	1,253
2008/2009	560	415	975
2007/2008	749	526	1,275
2006/2007	1,141	722	1,863
2005/2006	1,036	614	1,650
2004/2005	832	551	1,383
2003/2004	734	475	1,209
2002/2003	609	396	1,005
2001/2002	750	475	1,225

### **Base salary**

The base salary for J.P. Lewis for the financial year 2017/2018 compared to the financial year 2016/2017 remained unchanged. The base salary for E.J. van Garderen for the financial year 2017/2018 increased to € 450,000.

### **Variable cash bonuses**

Variable cash bonuses are awarded over the financial year to which they relate and reflect the growth of the net asset value per share, dividend per share and relative outperformance of total shareholders return realised, as described above. For the financial year 2017/2018 using the above described formula, J.P. Lewis and E.J. van Garderen are awarded a gross cash bonus equal to 64% of the relevant base salary.

### **Long-term incentive – stock option plan**

The movements in options granted under the existing Stock Option Plan are highlighted in the table below:

	J.P. Lewis	E.J. van Garderen	Total
options at 30/06/17	43,750	35,625	79,375
2017/2018 movements in options			
Lapsed	43,750	35,625	79,375
Exercised	0	0	0
Granted	0	0	0
Number of options at 30/06/18	0	0	0

The remaining outstanding 79,375 options (79,375: 2007 options, exercise price of € 37.28) held by the Board of Management at the beginning of the financial year lapsed during the year and represented 0.165% of the current issued share capital of the Company. These options granted in 2007 were unconditional due to the expiry of the three year blocking period and the fact that the conditions prevailing were partially met, which implied that 6.25% of the options initially granted did not vest. At the date of granting of these options the fair value per option was € 4.10, whereas at the date of vesting the intrinsic value per option was € 0.00. These options were not exercised in the period until the expiry date 12 November 2017 and therefore have lapsed.

The amount charged to the profit and loss account for the lapsed 79,375 options was nil for the financial year 2017/2018.

As at 30 June 2018 other executives and employees of the Group hold 68,808 options representing 0.14% of the current issued share capital of the Company.

No options have been granted since 2010 as the option scheme has been replaced by the Performance Shares plan.

### **Long-term incentive – Performance Shares**

The movements in Performance Shares (PS) granted under the Performance Shares Option Plan are highlighted in the table below:

	J.P. Lewis	E.J. van Garderen	Total
Number of PS at 30/06/17	18,965	12,588	31,553
2017/2018 movements in PS			
Not vested	0	0	0
Sold	0	0	0
Granted	6,062	3,959	10,021
Number of PS at 30/06/17	25,027	16,547	41,574



The outstanding 41,574 Performance Shares held by the Board of Management represent 0.08% of the current issued share capital of the Company.

The 10,021 Performance Shares granted in 2017 are conditional as explained on page 3 of this report, and will become unconditional on 13 November 2022, provided the conditions prevailing are met. At the date of granting of these Performance Shares the fair value per Performance Share was € 29.82.

The amount charged to the profit and loss account for the 10,021 Performance Shares granted in November 2017, the 14,825 Performance Shares granted in November 2016, the 7,707 Performance Shares granted in November 2015 and the 4,220 Performance Shares granted in November 2014 was € 312,779 for the financial year 2017/2018.

As at 30 June 2018 other executives and employees of the Group hold 41,765 Performance Shares representing 0.08% of the current issued share capital of the Company.

The scenario analyses as referred to in best practice provision 3.2.1 of the Code have been carried out.

### ***Pension***

All pension costs as explained above are incurred by the Company. Only E.J. van Garderen is a member of a pension scheme. This is a defined contribution scheme with retirement age of 68 and current annual premiums being capped using a maximum pensionable salary of € 105,000.

### ***Other arrangements***

All members of the Board of Management were employed on indefinite contracts, but have accepted the amendments that (i) they are appointed for a maximum period of four years (latest appointment on 1 November 2016) and subsequently may be reappointed for a term of not more than four years at a time and that (ii) the amount of compensation which they may receive on termination of their employment may not exceed one year's base salary. There are no loans granted by the Company to the members of the Board of Management and there are no guarantees issued by the Company for the members of the Board of Management.

### ***Shareholdings***

J.P. Lewis and entities associated with him hold 1,015,760 depositary receipts, which include 5,421 vested Performance Shares, in total representing 2.06% of the issued share capital of the Company. E.J. van Garderen holds 21,101 depositary receipts, which includes 3,600 vested Performance Shares, in total representing 0.04% of the issued share capital of the Company.

### ***Internal pay ratio***

The amended Netherlands Corporate Governance Code (principle 3.4.1, item iv) recommends to provide an internal pay ratio. The Company's internal pay ratio is based on the Company's financial reporting under IFRS and calculated as the total compensation of the Chief Executive Mr J.P. Lewis as disclosed in note 29 to the consolidated financial statements for the financial year ended 30 June 2018 divided by the average employee compensation in the Group as disclosed in note 9 to the consolidated financial statements for the financial year ended 30 June 2018. This results in a ratio of 6.4 (2016/2017: 6.4).

### **Remuneration of the Board of Supervisory Directors**

In the reporting year, the total remuneration of the Board of Supervisory Directors amounted to € 284,000 and is specified below.

**Specification of the remuneration of the Board of Supervisory Directors for the financial years 2008/2009 to 2017/2018**

(Amounts in € '000)	17/18	16/17	15/16	14/15	13/14	12/13	11/12	10/11	09/10	08/09
Previous board members		0	0	30	109.6	148.0	138.0	130.0	122.0	122.0
C. Croff	46	45	42	39	24.3					
B.M. Carrière	46	45	42	26						
R.R. Foulkes	46	45	42	26						
P.W. Haasbroek		45	42	39	37.0	34.0	32.0	30.0	28.0	18.7
J.Å. Persson	46	45	42	39	24.3					
B.T.M. Steins Bisschop	60	59	55	33						
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Total	244	284	265	232	195.2	180.0	170.0	1600	150.0	140.7

Members of the Board of Supervisory Directors do not receive options on (or compensation in) depositary receipts in the Company, nor will personal loans or guarantees be granted to them by the Company.

As at 30 June 2018 members of the Board of Supervisory Directors held no depositary receipts in the Company.

**Other employees**

As at 30 June 2018 employees, excluding the Board of Management, held in total 81,405 depositary receipts, representing in total 0.16% of the issued share capital in the Company. Two senior executives have notice periods of 24 months.

**C. Remuneration policy in 2018/2019**

In 2017/2018, the remuneration policy as stated above was pursued. It is the intention that the current policy will be continued in the next financial year.

It is proposed that with respect to the base salaries of the members of the Board of Management for the financial year 2018/2019 the base salary for Mr J.P. Lewis will be increased to € 723,000 and the base salary for Mr E.J. van Garderen will be increased to € 475,000. It is proposed that with respect to the base salaries of the two proposed members of the Board of Management for the financial year 2018/2019 the base salary for Mr R. Fraticelli

remains unchanged at € 508,000 and for Mr J.P.C. Mills also remains unchanged at GBP 400,000.

For the senior executives the result of the benchmark study held in the spring of 2018 is used as guidance, resulting in increases ranging between 1% and 8% of base salaries.

It is proposed that under the existing Performance Shares Plan a certain number of Performance Shares is granted to permanent employees and directors of the Company based upon the financial results for the financial year ended 30 June 2018 and the relative outperformance of total shareholders return for the year up to 30 June 2018. This implies the issue of Performance Shares in November 2018, which reflect a value of 17.1% of base salaries having regard to the basic formula explained in this report, as the growth of the dividend and the net asset value was in total 2.381%. The relative outperformance reached the cap of 3.33% and therefore this metric did contribute to the granting of Performance Shares.

It is also proposed that for the financial year 2018/2019 the remuneration for the Chairman of the Board of Supervisory Directors will be increased to € 61,000 and the remuneration for each of the other members of the Board of Supervisory Directors will be increased to € 47,000.