

# LETTER FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE



**SIMON FRASER**  
CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholder,

I am pleased to present the report of the Remuneration Committee for the year ended 31 December 2015.

The Group's objective remains to be to deliver above average long-term returns to shareholders. In order to deliver this through the successful operation of our business model we need to recruit, retain and motivate the best people. At a senior level, the Remuneration Committee is responsible for this and aims to achieve it by implementing and maintaining a remuneration structure that meets this requirement and promotes long-term sustainable performance whilst ensuring that the structure does not create incentives for management to operate outside the Group's risk appetite.

Our remuneration policy supports the Group's objective by linking a majority of variable pay to targets which require outperformance of our competitors. Payments under these arrangements only begin to be made if we achieve at least average performance against the relevant peer group.

The Committee has considered the long-term aspects of the remuneration structure and is satisfied that the deferral part of the annual bonus, additional holding periods for vested Long-term Incentive Plan (LTIP) awards, clawback provisions and shareholding guidelines adequately promote long-term, sustainable performance.

## **Performance and reward in 2015**

The Group's strong results for 2015 are discussed in the Strategic Report and include a 21.6% increase in EPRA net asset value per share and a total return of 23.0%. Both these KPIs are measures of performance used in assessing the level of performance related pay for the Directors. To ensure that remuneration reflects a balanced performance, a scorecard of additional metrics are taken into account by the Committee when considering the non-financial element of the Group's annual bonus scheme. Taking all these measures into account resulted in a bonus entitlement of 74.2% of entitlement being earned.

Conditional awards made in 2013 under the Group's 2004 Performance Share Scheme (PSP) will vest in April 2016. These awards were subject to two performance conditions each over 50% of the award. The first element was based on total shareholder return (TSR) performance compared with that of a group of other real estate companies. This measure will be finalised in April 2016 and was estimated at the year end. The second part was based on net asset value growth compared to properties in the IPD Central London Offices Total Return Index and was measured to 31 December 2015. The combined assessment of the two performance measures as at 25 February 2016 was that 65% of the total award was expected to vest. The final vesting percentage will be ascertained in April 2016.

The Committee believes that the outturn of both the annual bonus and the PSP fairly represents the Group's performance over their respective performance periods.

## **Implementation of remuneration policy for 2016**

The Committee reviewed the executive Directors' salaries in December 2015 and agreed a basic increase of 3% for 2016. This increase is in line with the average salary increase across the rest of the Group and reflects another year of excellent performance by the management team as demonstrated by the achievements discussed in the Strategic Report.

During 2016 the Committee will make a conditional award of shares under the Group's PSP equivalent in value to 200% of the Directors' 2016 salary and confirm that the maximum entitlement under the Group's annual bonus scheme will be 150% of salary for 2016, both unchanged from 2015.

As a Committee we are committed to ensuring that rewards for executives are aligned with the interests of shareholders and other stakeholders through having all their incentive arrangements linked to stretching performance targets that are rigorously applied. These targets focus the management team on increasing net asset value and total return whilst also having regard to a number of non-financial and sustainability targets.

The current remuneration policy was approved by shareholders in 2014 and the Committee is aware that since then the executive remuneration landscape has continued to evolve and that in particular there has been a move towards simplifying structures.

The Committee has reviewed the existing policy in the light of these changes and remains confident that it continues to meet its objectives. Consequently, no changes are proposed to the remuneration policy and therefore the Committee will not be seeking any new approval for the Directors' Remuneration Policy Report at the forthcoming AGM on 13 May 2016.

**SIMON W.D. FRASER**  
CHAIRMAN OF THE REMUNERATION COMMITTEE

25 FEBRUARY 2016