

CHAIRMAN'S LETTER ON CORPORATE GOVERNANCE

Dear Shareholder,

On behalf of the Board I am pleased to present the Group's Corporate Governance report for 2014.

The Company is subject to the provisions and principles of the UK Corporate Governance Code (the Code) which is published and regularly updated by the Financial Reporting Council (FRC). The latest applicable update was released in September 2012 and the Board believes that, in 2014, the Company has complied with the main and supporting principles of the Code except for provision B.1.1. This provision addresses the independence of the Company's non-executive Directors and is discussed below and on page 83.

In September 2014 the FRC published its latest revision of the Code which is effective for accounting periods commencing on or after 1 October 2014. As such, this is not yet binding on the Company but I am pleased to be able to report that the Group is largely compliant with the new requirements.

Following the significant changes over the last two years in the reporting of both the Remuneration Committee and the Audit Committee, 2014 has been a year of consolidation for these Committees. Meanwhile, the agenda for the Risk Committee continues to grow and some of these developments are discussed below.

Risk

With the publication in September 2014 of the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting attention was drawn to the adequacy of the systems companies use to manage their portfolio of risks. The Group's risk assessment process has been externally reviewed and found to be consistent both with these latest guidelines and the relevant international standard.

Given the current debate on UK taxation, the Board has determined that tax can represent a significant risk. Therefore, it is again pleasing that, following the annual review, the company has retained its low risk rating with HMRC.

Board composition

One of the cornerstones of effective corporate governance is maintaining a properly balanced Board which facilitates effective challenge by the non-executive Directors. Over the last few years the Nominations Committee has worked steadily to achieve this through the recruitment of a number of independent non-executive Directors and the Board has asked the Committee to continue the refreshment process to ensure that the Board remains properly balanced. In November 2014, one of the non-executive Directors, Richard Dakin, was appointed Managing Director of Capital Advisors Limited, a wholly owned subsidiary of CBRE Limited, and became a member of their UK Management Board. The Valuation Advisory division of CBRE acts as the Group's external valuer and, recognising the effect that this was likely to have on the perception of his independence, the Board reviewed Richard's position. Following this, the Board is completely satisfied that he remains independent in judgement and character and it has established a protocol to ensure that Richard has no involvement, at any stage, in the Group's valuation exercise and that he takes no part in any discussions concerning CBRE's role or fees.

Audit

In my letter last year I mentioned that the Audit Committee was leading an audit tendering process. This was completed in March 2014 and I am delighted to welcome PricewaterhouseCoopers as the Group's new Auditor.

Maintaining the governance framework requires a significant allocation of resources at all levels of the Group. However, the Board remains convinced that such a framework not only ensures compliance with governance regulations but is an essential element of running a sustainable and successful business.

As always, I would encourage you to attend the Group's Annual General Meeting on 15 May 2015 and take the opportunity to meet the management team at this important event.

On behalf of the Board.

ROBERT A. RAYNE
CHAIRMAN

26 FEBRUARY 2015