management, good judgement and financial discipline in acquisitions and divestments, and the ability of management to articulate a clear strategy for long term growth. The market intelligence reviewed by the Committee and the Board suggests that since the creation of Westfield Corporation in 2014, the reputation of the management team in these areas has only been enhanced.

With the inception of Westfield Corporation, our team has established clear objectives relating to those goals which are fundamental to the long term success of the new entity, including:

- maintaining Westfield's reputation for consistent and predictable operating performance reflected in the operating metrics of the Group's portfolio of assets and in achievement of earnings and distributions forecasts;
- implementation and execution of the Group's $9.5 billion development pipeline, with particular emphasis on timely project commencements, execution of developments in accordance with approved budgets and project milestones and achievement of stabilised project yields consistent with Board approved feasibilities; and
- continuing the Group's focus on the importance of innovation and technology and the engagement of employees in a program of cultural change (known as the Westfield Edge) which emphasises the need for innovation in all aspects of the business and the need to achieve a greater connection with our retailers and customers, through our emerging digital platform and otherwise.

Our remuneration policies are designed to reward many aspects of individual performance which contribute to achieving these objectives – including financial and non-financial targets relating to all aspects of the Group's business. An indication of the broad nature of these targets is given in section 8.4 which sets out the STI objectives for KMP and the Hurdles applicable under the Group's LTI Plan.

Westfield Corporation's remuneration outcomes are focussed heavily on individual and corporate outcomes and not on remunerating executives based on movement in the share price. The Board's view over time has been that, consistent with the broad objectives outlined above, executives should be rewarded for sound operating performance and strategic decision making which enhances the underlying business and not based on movements in the price of the Group's securities.

*Outstanding Retention Arrangements*

In previous years, we have highlighted the ability to attract and retain key executives as a major human resource issue for the Group. Whilst many companies place a similar emphasis on attracting and retaining executives, the long term nature of our business means that this objective is particularly important for Westfield. In particular, the significant investment which the Group makes in its portfolio requires highly skilled and experienced executives to plan, develop, construct, lease and operate our assets which characteristically involve long lead times from initiation to completion.

This need is increasing over time as we sell non-core assets and reinvest the proceeds in the development of Flagship assets. No other global REIT has a development pipeline of a similar scale, despite a number of other REITs having significantly larger property portfolios.

These projects require material capital investment and typically take up to a decade to complete. Retaining executives with the skills and experience required to complete these developments and then transfer those skills and learnings to the next development is central to the continuing success of the business.

Provided management maintains its leadership position and this is reflected in increasing shareholder value over time, we aim to pay our KMP and high potential executives at or near the top of the markets in which they operate. This typically reflects the standing of those executives in their markets and acts as a deterrent to the poaching of those executives by competitors and other entities with significant property interests.

Some years ago, in a period of heightened competitive pressures, the former Westfield Group issued "Retention Awards" to some members of the Senior Executive Team. The Co-CEOs did not receive Retention Awards. The terms of these awards required that the executive remain with Westfield Group (as it then was) for the full vesting period of 5 years. The awards had no Performance Hurdles other than a requirement that the executive receive 50% of their target STI in each year. At the end of the 5 year vesting period, the awards vested in full. Westfield Corporation inherited these arrangements in respect of a number of senior executives (although the former Westfield Group had ceased issuing Retention Awards in the years immediately preceding the Restructure).

Although Retention Awards served as a valuable tool in securing key executives for the long term, Westfield Corporation has determined previously that it will not issue Retention Awards. The Board recognises that the issue of awards without Performance Hurdles and with a single vesting date at the end of 5 years gives rise to a concern amongst some investors that there is an insufficient link between that element of remuneration and the performance of the Group.

The Board notes that, as of the end of the Financial Year, there are very few Retention Awards outstanding. Executives with maturing Retention Awards will be considered for:

(a) additional awards granted over time under the LTI Plan; or

(b) in a limited number of cases, the grant of Target Incentive Rights (see section 8.4).

*Equity Incentive Deferral and Vesting*

Despite continuing concerns regarding an increasing level of competitor approaches to our key executives, the Board believes that it has the policies in place to secure an appropriate level of retention within the Senior Executive Team as required to ensure the long term future of the Group. Those policies relate not only to the overall level of remuneration, but to the structure of our remuneration packages which include a 3 year deferral of vesting of awards granted under the STI Plan and the 5 year period required for full vesting of awards under the LTI Plan. Each of these requirements encourages our executives to remain with the Group, and continue to perform at a high level, for an extended period.

*Securityholder Alignment*

It is the objective of the Group to align executive remuneration with the interests of securityholders. Broadly, the Group adopts policies and structures which encourage intensive focus on the operating business, to create sustainable growth in earnings and achieve competitive returns on equity over time.

Alignment is achieved in a number of ways including:

- through the application of appropriate performance criteria in the STI Plan including the deferral of a portion of the annual bonus into unvested equity for a three year period;
- through measurement of team performance against the Performance Hurdles set in respect of awards made under the LTI Plan that is aimed at driving sustainable financial performance and long term shareholder wealth creation;
- through participation by the executive team in the Group's Equity Linked Plans where the value derived by executives on maturity reflects movements in the share price over time;
- through a culture which rewards performance and decision making aimed at creating long term value for securityholders; and
- through the recently introduced minimum shareholding requirement for Executive KMP.

Broadly, as executives gain seniority in the Group, the balance of the remuneration mix moves to a higher proportion of contingent incentives (both short and long term), and a lesser proportion in base salary. These short and long term incentives are performance related and are considered to be "at risk".

**8.3 Corporate Performance**

Full details of the Group's various financial and operating achievements are contained in section 1 of the Directors' Report and various specific outcomes are noted in this section and sections 8.4(b) and (e).

Financial highlights during the Financial Year include:

- Net profit of $1,366.1 million;
- Funds from Operation (FFO) was $700.4 million, representing 33.7 cents per security; and
- Distributions for the 12 months were 25.1 cents per security.

The results for the Financial Year were in line with forecasts made to the market in August 2016, which were revised to include the impact of the depreciation of the British Pound against the US Dollar which occurred following the Brexit decision. This impacted the FFO forecast made in February 2016. The forecast distribution announced in February 2016 was not changed.

The following pages contain an analysis of the Group's performance using various metrics. As the Group has only been in existence since July 2014 (the first reporting period being the six months from 1 July 2014 – 31 December 2014), comparisons over time are limited at this stage.