

28 September 2018

Dear shareholder

Operation of Directors' Remuneration Policy ("Policy")

I am writing to you in my capacity as Chairman of the Safestore Holdings Plc ("Safestore") Remuneration Committee ("Committee") to inform you of the changes we are implementing in relation to the operation of our Policy.

As you will know, the Chairman of the Board, Alan Lewis and I recently completed an extensive round of shareholder meetings to gather feedback on executive remuneration at Safestore following the significant vote against our remuneration report at the 2018 AGM. We asked our major shareholders (and their representative bodies) their views on our remuneration structure and what mitigating actions the Committee could take to deal with the issue to build greater trust with our shareholders around remuneration and gain increased support at future AGM's.

We have now meaningfully engaged with over thirty of our larger shareholders by size of holding and the major shareholder representative bodies as part of this exercise. Some of our major shareholders have chosen not to participate in the process on the basis that they have already provided the Board with detailed feedback on our remuneration structure. Notwithstanding this the Committee believes that the group of shareholders who we have engaged with represents a broad section of our register and includes shareholders who have both voted for all remuneration resolutions in the last two years and those who have voted against some or all of the resolutions.

We set out below the key themes that emerged from the engagement process in relation to our executive remuneration arrangements:

- a high proportion of shareholders we engaged with raised greater concerns around the operation of the annual bonus rather than the LTIP itself;
- for some shareholders the main issue is the LTIP both in terms of its construct and potential opportunity and they felt that we should replace the current LTIP with a conventional structure for the Executive Directors. Some shareholders just don't like one-off plans of this nature;
- for some, the level of payout and vesting at threshold performance for both the annual bonus and LTIP is too high relative to the maximum opportunity;
- the relationship between the Company's financial performance and overall bonus pay-outs and remuneration outcomes in general should be clearer;
- the selection, balance and calibration of bonus performance conditions should be re-considered; and
- the need to improve disclosure of the incentive arrangements and in particular the annual bonus outcomes in the remuneration report.

The Committee has debated at length whether the current LTIP is still the right incentive for our business or whether we replace it with a more conventional LTIP. The conclusion drawn from these discussions is that closing down the current LTIP is not the right course of action for the following reasons:-

- the LTIP construct supports our three strategic remuneration principles; below market rates for base pay, significant payment for outstanding performance **only** and a five-year time horizon which is aligned with our business model and strategy;
- the Committee has entered into contractual arrangements through the LTIP awards with over 50 of our senior employees across many grades of management and we are now already about to enter the third financial year of the measured performance period. To make unilateral changes to these arrangements

would be at best hugely demotivating and detrimental to the momentum we have built in successfully cascading our strategic plan through the business and at worst open to legal challenge;

- corporate performance remains strong and the Committee believes that the LTIP is helping drive this performance and returns to shareholders;
- the Committee is of the opinion that achieving the required adjusted EPS and relative total shareholder return metrics for full vesting over a five year period represents exceptional performance and that the projected level of payout to management is reasonable relative to the estimated value created for shareholders with this level of performance; and
- the construct is consistent with our understanding of the principles of the Investment Association Executive Remuneration Working Group which concludes that Remuneration Committees should have the ability to design remuneration structures which best support the strategy of the business and long term success of the business.

For the above reasons the Committee has decided that it is in the best interests of the Company and its shareholders to retain the current structure. It is however proposing a number of changes to the operation of the annual bonus and LTIP to address shareholder feedback where feasible. These changes are set out below:-

Issue	Committee's response
Relationship between financial performance and overall incentive pay-outs	<ul style="list-style-type: none"> • Place a financial gateway on the strategic element of the annual bonus such that there would be no pay-out for strategic measures unless threshold performance has been met for the EBITDA metric. • In light of the new Corporate Governance code, the Committee will retain the discretion to adjust the formulaic annual bonus outcome if it is not a fair and accurate reflection of business performance. The exercise of this discretion may result in a downward or upward movement in the amount of the bonus pay-out resulting from the application of the performance measures. The Committee will only apply this discretion if the circumstances at the time are, in its opinion, sufficiently exceptional, and will provide a full explanation to shareholders where discretion is exercised. • While the Committee is sensitive to the sentiment behind the new guidelines around remuneration outcomes there is a major impediment in the Committee's ability to apply discretion to the vesting of the LTIP Award given its contractual terms. Notwithstanding this the Committee strongly believes that there is adequate protection already factored into the LTIP construct and the calibration and measurement of the performance conditions to avoid the scenario of "undeserved" remuneration being caused by external factors. • The Committee will apply discretion to the formulaic outcome of all subsequent share awards to the Executive Director similar to the above provision being applied to that of the annual bonus.
Level of vesting at threshold performance	<ul style="list-style-type: none"> • The Committee will determine that there will be zero vesting under the LTIP for corporate performance at the lower end of the EPS range i.e. the threshold level of LTIP vesting will be reduced to nil (from 10% of maximum) for EPS growth between 6% and 7% p.a. unless there are exceptional circumstances justifying some payout for this level of corporate performance. The vesting schedule for 7% p.a. EPS growth and above will remain unchanged. A similar change will apply to both relative TSR measures (i.e. the level of vesting will be reduced to nil from 25% of maximum for median to 55th percentile performance) to ensure that the level of payout for threshold performance is "small" in proportion to base salaries. The vesting schedule for TSR performance in excess of the 55th percentile will remain unchanged.

Issue	Committee's response
	<ul style="list-style-type: none"> For future financial years, the Committee will reduce the annual bonus pay-out at threshold financial performance to 30% of maximum (from 40%) and reduce pay-out for on-target performance to 60% of maximum (from 70%).
Selection and balance of performance conditions	<ul style="list-style-type: none"> For this financial year and beyond, personal objectives will be removed from the bonus scorecard increasing the weighting of the financial element to 100% of salary, rebalancing to 2/3rds financial measures (100% of salary) and 1/3rd strategic objectives (50% of salary).
Improved disclosure of incentive arrangements and outcomes	<ul style="list-style-type: none"> Further improve the disclosure of achievement of the annual bonus strategic element outcomes. Improve disclosure to make it clear the LTIP award is one-off.
Risks inherent with one-off incentive plans are too high	<ul style="list-style-type: none"> There will be no replacement awards if the LTIP fails to pay-out and no other long-term incentive awards, other than the in-flight PSP and LTIP awards, will vest over the LTIP performance period i.e. before September 2022. This is fully understood by scheme participants. We intend to design our next LTIP, due for approval by shareholders in March 2020, around more conventional criterion being mindful of best practice at that time.

Finally, I would like to thank all of the shareholders with whom we have met over the summer for giving their time in order to help us during this process. I trust that the changes which we are implementing will provide you with comfort that we have listened to the views of our shareholders and acted on this in relation to our remuneration structure while remaining true to our underlying remuneration principles. However, as noted above, we understand that certain shareholders will not be supportive of the structure during the life of the current policy and this might materially impact the level of support for our remuneration resolutions and the re-election of Non-Executive Directors at the 2019 AGM.

We are advised that the above amendments to our remuneration policy do not require shareholder approval. The Company will also provide an additional statement to be placed on the Investment Association's public register and provide full details in its next Remuneration Report of the changes. Safestore's remuneration policy will be due for approval at our 2020 AGM and the Committee will start to develop a new policy which is consistent with our commitment to revert to a more conventional remuneration framework in due course ahead of engaging with shareholders on the new construct.

Yours sincerely,



Claire Balmforth

Chair of the Remuneration Committee