

**GRI**  
REPORT

**20**  
**12**

COMMITTED TO  
SUSTAINABILITY

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# ABOUT THIS REPORT<sup>1</sup>



## Company Profile

HCP, Inc. (NYSE:HCP), an S&P 500 company, is a fully integrated, self-administered, real estate investment trust (REIT) that invests primarily in real estate serving the healthcare industry. In 2011, HCP was named to the prestigious S&P 500 Dividend Aristocrats Index and is the only real estate investment trust (REIT) to achieve this designation.

## Reporting Standard

This report outlines HCP's sustainability performance in 2012 and the progress we have made in integrating best practice concepts related to the environment, society, and corporate governance into our business and culture. The report also presents the challenges and opportunities we have identified as we proceed towards a more sustainable future.

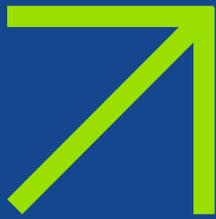
Covering 323 properties within our boundary, this sustainability report is in accordance with B+ level reporting requirements as established under the G3.1 Guidelines and utilizes aspects of the GRI Construction & Real Estate Sector Supplement, while also integrating disclosures from our 2012 Global Real Estate Sustainability Benchmark (GRESB) and CDP responses. Energy and greenhouse gas emissions data were prepared in accordance with the Greenhouse Gas Protocol. *A selection of our non-financial data (identified throughout the report with an asterisk (\*))* as well as in the management assertion (Appendix A: Management Assertions & Measurement Techniques) included at the end of this report) has been independently and externally assured by PricewaterhouseCoopers (PwC).

Our GRI report, as well as the CDP and GRESB Responses, are available online at <http://www.hcpi.com/sustainability>. We welcome your feedback on this report and our sustainability performance. Please email [sustainability@hcpi.com](mailto:sustainability@hcpi.com).

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<sup>1</sup> 3.1, 3.2 3.3, 3.4, 3.11

## OUR SUSTAINABILITY VISION



We strive to create shareholder value by providing real estate, capital and innovation to our partners and employees to ensure that our facilities integrate sustainable business practices to operate efficiently and support the healthcare industry.



## HCP HAS EMBRACED SUSTAINABILITY AS A CORE VALUE OF OUR BUSINESS AND HAS INTEGRATED IT INTO OUR OPERATIONS.

### CEO LETTER<sup>2</sup>

James F. Flaherty III

2012 was one of HCP's most complete years in its corporate history. On top of our acquisition, asset management, and balance sheet accomplishments, HCP established new all-time bests in operating efficiency, sustainability, and occupancy for our life science and medical office sectors. By year-end, our life science portfolio was 91.3% occupied, and our medical office portfolio was 92% occupied. A continued commitment to sustainability, prudent management, increased occupancy, and attractive same-property performance all have contributed to significant operating momentum for HCP.

Capitalizing on the strength of our 5x5 business model, HCP's general and administrative (G&A) expense amounted to just 32 basis points of assets under management in 2012.

We have 149 HCP employees and at our current enterprise value of \$31 billion, this translates to over \$200 million of enterprise value per employee. Now that's productivity, and I want to acknowledge the significant contributions made by each of HCP's 149 employees to these important accomplishments.

We also believe our success stems from our adoption of sustainable business practices over the past several years. HCP has embraced sustainability as a core value of our business and has integrated it into our operations.

In 2012, across the Company, we concentrated our efforts on reducing our environmental impact. We added two LEED certified buildings to our portfolio—bringing our total LEED certified buildings to six. We exceeded our ENERGY STAR certification goal by adding a total of 35 new and renewed ENERGY STAR awards for a total of 93. We also met our long-term energy and conservation goal by reducing our greenhouse gas emissions by 6.4% in our attempt to reach a 15% reduction rate from our 2011 baselines by 2020. For our efforts, we were awarded NAREIT's Healthcare Leader in the Light award. This recognition exemplifies how well we have positioned ourselves as environmental stewards and it inspires us to do even more. We will continue to invest in innovative technologies, share best practices, introduce equipment and strategies to reduce waste, and retrofit and develop properties in an environmentally conscientious manner.

HCP understands the importance of community engagement and support, and this year we established a Social Responsibility Subcommittee of our Sustainability Committee to oversee our philanthropic and charitable contributions and employee volunteer programs to donate our time and talent to worthwhile causes within our communities.

We see great opportunities to make a difference in the healthcare REIT industry. HCP is motivated to take action and innovate to deliver positive impacts for years to come. We are excited about our accomplishment and our plans for the future. We hope you enjoy this report reflecting our business directives that embrace sustainability in our everyday operations.

# THE REIT INDUSTRY AND HCP'S PROFILE <sup>3</sup>

Founded in 1985, HCP is headquartered in Long Beach, California and has offices in Nashville, Tennessee, and San Francisco, California.

We primarily invest in real estate serving the healthcare industry—the single largest industry in the U.S. based on gross domestic product. We acquire, develop, lease, sell, and manage healthcare real estate in addition to providing mortgage and other financing to healthcare providers.

HCP has one of the largest and most diversified portfolios of any healthcare REIT. Our investment portfolio under management includes 1,160 facilities spanning across 46 states. We focus on five principle healthcare sectors, including senior housing, post-acute/skilled nursing, life science, medical office building (MOB), and hospital. HCP makes investments within these five healthcare sectors using five investment products: properties under lease, debt investments, developments and redevelopments, investment management, and REIT Investment Diversification and Empowerment Act (RIDEA) investments (our RIDEA investments currently include senior housing operations). We believe in maintaining a wide portfolio of healthcare investment products in order to reduce the potential for risks that could materially affect HCP. This strategic approach, referred to as our 5x5 business model, allows us to persevere—even in times of volatility that could lead to instability in various market sectors.

## HCP'S 5x5 BUSINESS MODEL

This model allows HCP to invest in five different types of properties through five different investment product strategies.

	 Senior Housing	 Post-Acute Skilled Nursing	 Life Science	 Medical Office	 Hospital
Real Estate					
Joint Venture					—
Development		—			—
Debt Investment			—	—	
RIDEA		—	—	—	—

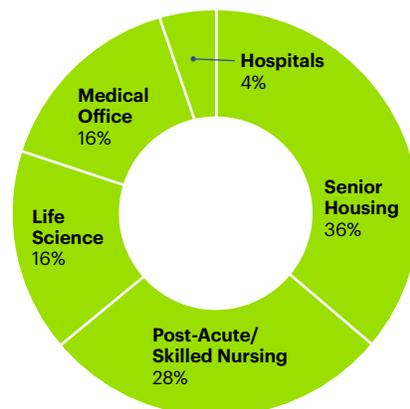
 Current Investments     2012 Investments    — Unlikely Investments     Original 1985 IPO Portfolio

<sup>3</sup> 2.1, 2.2, 2.3, 2.4, 2.5, 2.6, 2.7

## ASSETS UNDER MANAGEMENT

AS OF DECEMBER 31, 2012,  
OUR PORTFOLIO OF PROPERTIES UNDER  
MANAGEMENT CONSISTED OF  
**441** SENIOR HOUSING PROPERTIES,  
**312** POST ACUTE/SKILLED NURSING PROPERTIES,  
**113** LIFE SCIENCE PROPERTIES,  
**273** MEDICAL OFFICES, AND **21** HOSPITALS.  
OF THESE FACILITIES,  
WE MAINTAIN OPERATING CONTROL  
OVER A TOTAL OF **323** PROPERTIES—  
**236** MOB, **67** LIFE SCIENCE  
AND **20** SENIOR HOUSING.

WITH DIVERSIFIED INVESTMENTS  
AND INVESTMENT PRODUCTS  
IN MULTIPLE SECTORS, WE CAN LEVERAGE  
OPPORTUNITIES THAT WILL POSITION US WELL  
TO MEET OUR OVERALL STRATEGIC GOAL  
OF DRIVING GROWTH AND  
SUPPORTING INNOVATION IN THE  
**HEALTHCARE INDUSTRY.**



**GRAPH 1.**  
**\$21.3**  
billion in assets  
under management  
As of 12.31.2012

# HCP'S 8 CORE VALUES

Our operating principles guide the work that each HCP employee performs on a daily basis.

## 8

### Judgment

You make wise decisions despite ambiguity;  
You identify root causes and get beyond treating symptoms.

### Communication

You listen well, instead of reacting fast, so you can better understand;  
You are concise and articulate in speech and writing;  
You maintain calm poise in stressful situations.

### Courage

You question actions inconsistent with our values;  
You make tough decisions without excessive agonizing;  
You are not afraid to challenge the status quo.

### Passion

You inspire others with your thirst for excellence;  
You celebrate wins;  
You are tenacious;  
You care intensely about HCP's success.

### Integrity

You are known for candor and directness;  
You are non-political when you disagree with others;  
You only say things about fellow employees you will say to their face;  
You are quick to admit mistakes.

### Impact + Initiative

You demonstrate consistently strong performance so colleagues can rely upon you;  
You exhibit bias-to-action and avoid analysis-paralysis;  
You keep us nimble by minimizing complexity and finding time;  
You focus on great results.

### Selflessness + Collaboration

You seek what is best for HCP, rather than what is best for yourself or your group;  
You share information openly and proactively;  
You work collaboratively with the team;  
You treat people with respect independent of their status or disagreement with you;  
You contribute effectively outside of your specialty.

### Sustainability

You are sensitive to the environmental impact of HCP's actions and work to reduce HCP's energy consumption and carbon footprint;  
You consider the social impact of your decisions on our company and our stakeholders;  
You comply with HCP's corporate governance programs and policies, act ethically, and avoid conflicts of interest.

# OUR SUSTAINABILITY STRATEGY

At HCP we understand that sustainable practices must be implemented now in order to create a better environment for tomorrow. We have pursued sustainability reporting to ensure we monitor, evaluate, and alter practices that do not align with this goal. Our commitment to sustainability began when we determined to better communicate what we were already doing sustainability-wise and to further institutionalize sustainable business practices throughout our organization. Over the last year, we have accelerated our efforts and are motivated by what we have accomplished.

Our organizational mission has always been to create shareholder value, but it is how we endeavor to reach this mission that solidifies our status as a good corporate citizen. However, our operational control is limited. We do not have full control over all of the buildings we own, but we can certainly influence those outside our boundary to consider our shared impacts and to be more considerate of people and the planet.

By infusing sustainability into our internal and external communications, surveys and site evaluations, we have not only motivated our employees, but we have also prompted our partners to adjust their business practices and include sustainability as an important value for moving forward together.

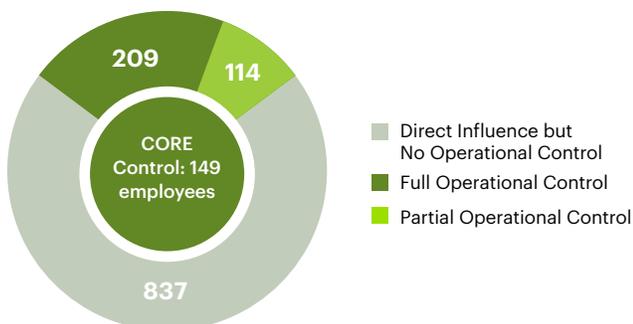
In order to bring our sustainability vision to fruition, we will continue to strengthen our core as a model for excellence in corporate governance, financial integrity, environmental best practices, and social responsibility. Key components of our integrated approach will help guide readers through this 2012 calendar year report, which covers activities for the 323 properties under our operational control. This boundary has expanded from 2011 by 23 existing properties in our MOB, life science, and senior housing segments in addition to 19 newly acquired properties. As such, our 2011 base year was adjusted to reflect a rolling baseline year to evidence our growth.

HCP chose our boundary buildings based upon any portion of the building that we had actual operational control over. We define operational control as the square footage of the building that we maintained and had the authority to implement operating policies with respect to energy usage, water usage and waste disposal.

## Defining our Boundary<sup>4</sup>

### GRAPH 2.

HCP Reporting Boundary, 2012  
323 Properties



*Shades of green indicate HCP's Reporting Boundary, consisting of core administration and 323 properties under Operational Control (210 under full control and 113 under partial operational control).<sup>5</sup>*

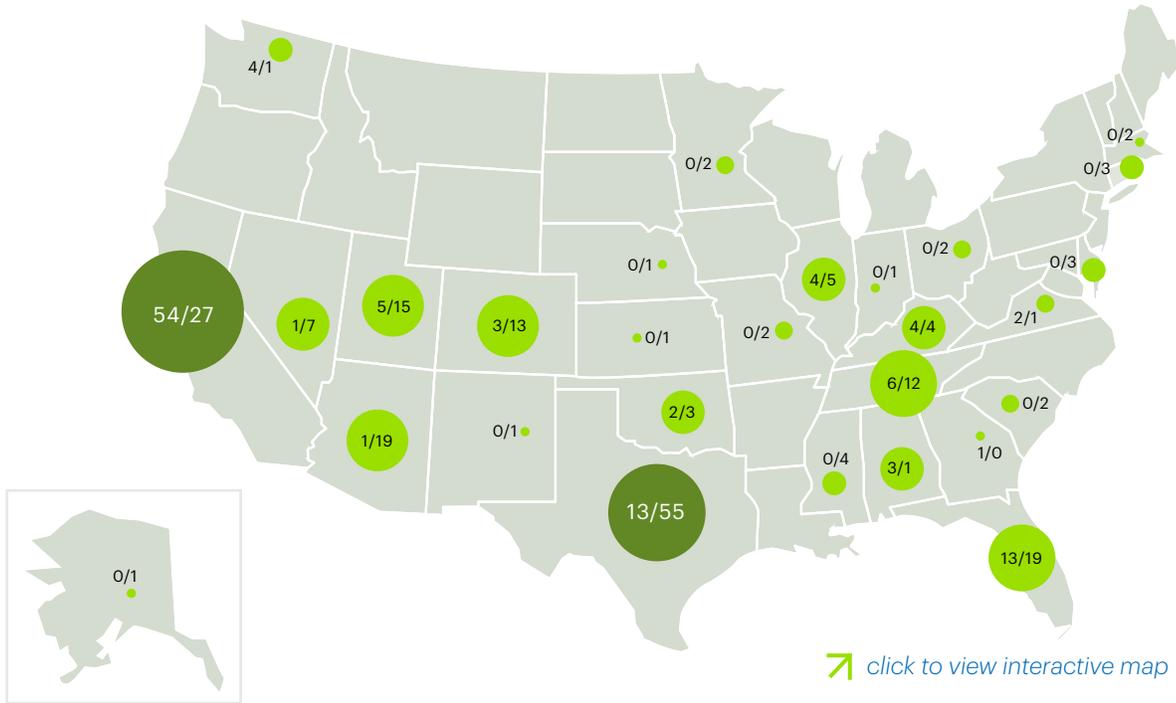
<sup>4</sup> 3.6, 3.7, 3.8, 3.9, 3.10

<sup>5</sup> Total properties under management (including our JV properties): 1,160

# PROPERTIES UNDER HCP CONTROL

**GRAPH 3.**

Partial Control/Full Control



For a fully controlled building, we capture all the utilities that are under our control. We define a partial control building using one of the two following categories:

(1) Partial control based on, as appropriate, either the streams (water, waste disposal, individual sources of energy) over which we have operational control or the percentage of square footage in which we have actual operational control, which in many cases includes certain floors, common areas or vacant spaces where maintenance is performed. We report this specific area of square footage as well as the utility usage for this area as under our operational control.

The remaining areas are operated by tenants where they maintain control of the usage themselves. In some buildings the utilities are separately metered to the tenants directly or sub-metered so that they can be billed back for their usage. In either case, tenant-controlled areas are not under HCP control and their usage is not included in partial control buildings.

(2) Partial control based on external lighting for electricity and external irrigation for water. The parking lot lighting and irrigation water is not tied to building square footage but since HCP controls the usage of and maintains the parking lighting or irrigation water, these usages are included in the CDP and GRI data. Where the building usage is completely the tenant's responsibility, and they control and maintain the building, the building square footage is not under our operational control. This is how we reported it in the 2011 updated baseline and how we are reporting it in 2012.

Any buildings under construction are not considered under the operational control of HCP and therefore, are not included in the scope of our GRI report. Such buildings will be included in our reporting efforts once they have been placed in service.

# STAKEHOLDER ENGAGEMENT AND MATERIALITY

Our intention in this second annual sustainability report is to provide a closer look at how we have continued to formalize our sustainability activities internally and externally, what we have accomplished since setting baselines in 2011, and what we foresee moving forward. We believe this report reflects what is important to HCP and our primary stakeholders in areas where we can have the greatest impact.

## Stakeholder Engagement and Prioritization<sup>6</sup>

HCP engages with a number of stakeholders throughout the year, both as part of our normal business practice and our continued expansion of our sustainability efforts. Upon the establishment of our sustainability reporting process, we conducted a peer analysis to determine relevant issues for our industry and we mapped out all stakeholders who would either impact or be impacted by our operations. Our list included, but was not limited to property managers, tenants, consultants, contractors, employees, financial institutions, government agencies, vendors, and suppliers, non-governmental institutions, and academic institutions. We also performed a tenant satisfaction survey and we achieved a response rate of 82.1%. The survey included 27 questions related to green initiatives including the tenants satisfaction with our commitment to sustainability, their likelihood of participating in various programs, how various initiatives would influence their rental decision and the importance of sustainability to their employees and customers.

Since publishing our first sustainability report to our website in 2012, we have analyzed the statistics related to the number of downloads, allowing us to further define the groups of stakeholders who share our vested interest in our sustainability performance. As a result, we<sup>7</sup> have determined it is essential to focus our attention on four major stakeholder groups: our EMPLOYEES, our SHAREHOLDERS, our TENANTS, and our PROPERTY MANAGERS. By focusing on these four core stakeholder groups, we are able to directly facilitate the alignment of our sustainability strategy to our greater organizational mission.

## Stakeholder Engagement Mechanisms<sup>8</sup>

	CONSULT	ENGAGE	COLLABORATE	COMMUNICATE
<b>Employees</b>	Employee Engagement Sustainability Committee	Social Responsibility Subcommittee Monthly Management Meetings	Green Team Philanthropic Volunteer Activities	Employee Handbook Annual Sustainability Report CDP Report GRESB Report Dow Jones Sustainability Index (DJSI)
<b>Shareholders and Investors</b>	Sustainability Performance Achievements & Accolades	NAREIT Conference Quarterly Investor Conference Calls	Sustainability Workshops 3rd Party Ratings & Rankings	Annual Sustainability Report CDP Report GRESB Report Response to Investor Questionnaires Stakeholder E-mail FTSE4 Good
<b>Tenants and Operators</b>	Tenant Satisfaction Survey Site Evaluations	Annual Conference Knowledge Share Direct Consultation Tenant Newsletter Tenant Website	Risk Mitigation Design & Implementation of Best Practices	BOMA Annual Conference ALFA Conference Annual Sustainability Report CDP Report GRESB Report
<b>Property Managers</b>	Annual Conference Sustainability Breakout Sessions	Annual Conference Cultivate & Communicate Best Practices	Annual Conference	Annual Sustainability Report CDP Report GRESB Report Tenant Satisfaction Results

<sup>6</sup> 4.14 <sup>7</sup> 4.15 <sup>8</sup> 4.16-4.17

## Determining Materiality

<sup>9</sup> We conduct our business with a view towards long-term environmental and social sustainability driven by our stakeholders' interests, which ultimately propels shareholder value. Therefore, we consider potential environmental and social impacts when making business decisions and managing our resources and infrastructure.

The world is facing major challenges that may affect our business, whereas:

- Climate change affects natural resource availability and increases risks associated with our operating expense and the costs of construction materials
- An aging population in need of medical assistance and quality healthcare requires careful design of buildings that promote environmental and human health
- Growing economic volatility affects our ability to maintain competitive pricing for our tenants and to work within the constraints of a shrinking healthcare dollar

<sup>10</sup> We want to be a part of the solution, yet we have to be conscious of our limitations and plan strategically about where we can achieve traction. We are confident that our ability to maintain and improve the quality of our buildings will have a positive impact on the healthcare industry—from our medical office buildings to our laboratories and skilled nursing facilities as well as buildings outside our operational control. We will continue to invest in the best properties, choose the best operators and choose the best people to integrate sustainable business practices throughout our properties.

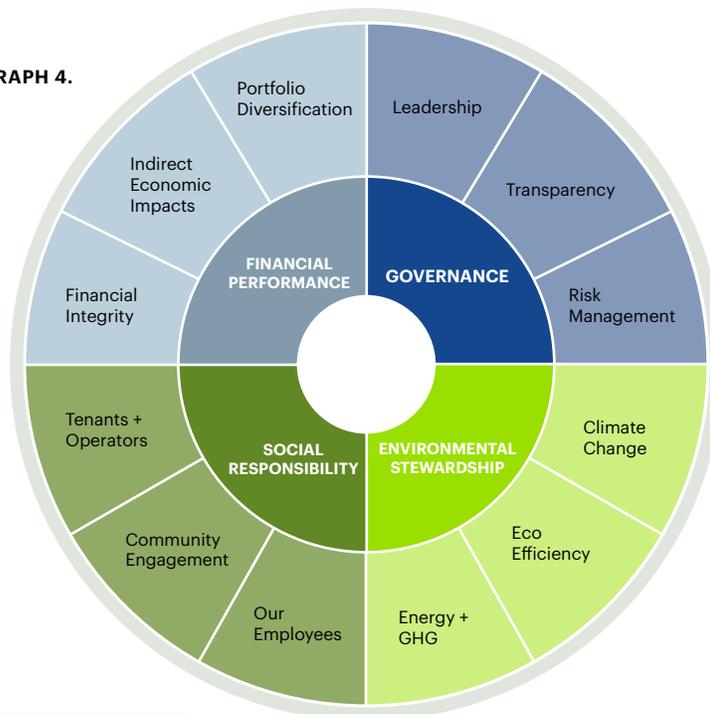
<sup>11</sup> The themes we have chosen to explore through our reporting process and implementation undertakings are based on initial benchmarking activities conducted by an external advisory group early in 2012. Through their analysis, we have identified and analyzed major industry trends and best practices in our field. Data availability via our already established monitoring systems helped us justify greater exploration in these areas. By virtue of initiation, we have since been able to strengthen processes and mobilize innovation as it relates to our sphere of influence.

Our process for determining materiality has been developed in line with the Global Reporting Initiative (GRI) G3.1 guidance and it involves evaluating the following aspects:

- Relevancy of issues affecting our business and stakeholders
- Influence to/by core stakeholder groups
- Level of direct financial impact
- Alignment to our larger organization mission

A review and update on HCP's materiality analysis will be completed every two years. In 2012, this analysis was completed internally by involving our management level sustainability committee, outside experts and internal leadership representing our core business segments. Additionally, based on lessons-learned during our first reporting cycle, we revisited our sustainability strategy and defined our sustainability vision.

GRAPH 4.



***“We are not trying to be all things to all people, but we are trying to create a dialogue and make progress. We see success when our operators are successful. We want to bring passion and integrity to the table. We want to be solution finders.”***

James F. Flaherty III,  
Chairman of the Board and  
Chief Executive Officer

GOAL: Over the next few years, we will continue to build deeper relationships with our core stakeholders and further formalize our engagement practices to promote a more structured and homogenized external stakeholder engagement approach across our operations.

# EXTERNAL COMMITMENTS AND AWARDS<sup>12</sup>

## U.S. Environmental Protection Agency's ENERGY STAR Program

ENERGY STAR is a U.S. Environmental Protection Agency (EPA) voluntary program that helps businesses and individuals save money and protect our climate through superior energy efficiency.

HCP worked with the EPA to develop and add a new category (Senior Housing) to the ENERGY STAR program. Our relationship has influenced the way in which we retrofit buildings with energy efficient fixtures.

## NAREIT®, the National Association of Real Estate Investment Trusts®

NAREIT is the worldwide representative voice for REITs and publicly traded real estate companies with an interest in U.S. real estate and capital markets. Each year, NAREIT's Leader in the Light award program honors its member companies that have demonstrated superior and sustained portfolio wide energy use practices and sustainability initiatives.

Our CEO, Jay Flaherty, serves on the Board of Governors of NAREIT, and our Sustainability Committee Chair, Tom Klaritch, serves on NAREIT's sustainability committee. Such dedication demonstrates HCP's sustainability leadership and gives us added insight to sustainability issues relative to the real estate sector.

## The Global Real Estate Sustainability Benchmark Survey (GRESB)

GRESB assesses the environmental and social performance of public and private real estate investments. Our commitment to this reporting initiative has resulted in heightened energy management and monitoring practices.

## CDP

CDP accelerates solutions to climate change by putting relevant information at the heart of business, policy, and investment decisions. Since first responding to CDP in 2012, we have significantly advanced our environmental mitigation efforts.

## Leadership in Energy and Environmental Design (LEED)

LEED is a voluntary, consensus-based, market driven program that provides third-party verification of green buildings. As a result of our involvement over the years, we have been able to successfully demonstrate the benefits of green building practices to our stakeholders.

## 2012 Awards & Accolades

We continue to be recognized for our sustainability efforts:

- We received NAREIT's 2012 Healthcare Leader in the Light award
- HCP was the leader (1st overall) in the Healthcare and Hotels Sector as a result of GRESB's 2012 survey, we earned a Green Star, the highest designation
- We were named to the FTSE4Good Index Series, including the FTSE4Good U.S. 100 Index, for meeting globally recognized corporate responsibility standards
- Our Soledad Property was named best LEED Platinum Core and Shell project in San Diego by the U.S. Green Building Council
- HCP was the leader in Energy Star certifications awarded in the MOB category
- We received a total of 35 Energy Star certifications across all categories—our highest annual total to date
- We received LEED Certifications for two of our properties: **Platinum Certification—Core and Shell** for the Soledad Business Park in San Diego, CA; and **Gold Certification—Core and Shell** for our Mass Avenue Building in Cambridge, MA
- We were recognized as "A 2020 Women on Boards Winning Company" by 2020 Women on Boards for our commitment to diversity on our Board of Directors.

These awards demonstrate our commitment to becoming a leader in sustainability best practices in the healthcare sector.

<sup>12</sup> 4.12, 4.13, 2.10

# YEAR IN REVIEW 2012

In 2012, across the Company, we concentrated our efforts on reducing our environmental impact.

NAREIT award winner

## Healthcare Leader in the Light

This recognition exemplifies how we have positioned ourselves as environmental stewards and it inspires us to do even more.

We reduced our greenhouse gas emissions by 6.4%. We are on our way to a 15% reduction rate from our 2011 baselines by 2020.

-6.4%

-15%

## Building Sustainability



6

We added two LEED certified buildings to our portfolio — bringing our total LEED certified buildings to six.

93 *energy* 

We exceeded our ENERGY STAR certification goal by adding a total of 35 new and renewed ENERGY STAR awards for a total of 93.

## Social Responsibility

Our new Social Responsibility Sub-Committee was founded to oversee our philanthropic giving, employee matching, and volunteer programs.



## GOVERNANCE PILLAR

At HCP, we strive to position ourselves as a leader in corporate citizenship. We endeavor to implement best practices in sustainability-based issues in the social, environmental and economic arenas. We believe this pursuit is accomplished through cohesive policies that seek to reduce risks, paired with consistent and transparent corporate governance practices.

Our approach to corporate governance is embedded in our philosophy and the way we conduct business; it also helps to enforce the culture of corporate responsibility throughout the company.

HCP is committed to upholding corporate governance practices that endorse a business environment reflective of the highest ethical standards. Our directors, officers, and employees are required to comply with our Code of Business Conduct and Ethics, and our Corporate Governance Guidelines set forth a common set of expectations of how we conduct business.

We believe sound principles of corporate governance serve the best interests of all our stakeholders. We also believe disclosure and financial transparency is just as important to our stakeholders. In addition to our SEC reporting requirements, we use GRI, CDP, GRESB,

and quarterly and annual reports to communicate the results of our business practices to our shareholders, stakeholders, and general public.

Effective corporate governance is an important component to achieving our business objectives, and we will continue to implement improvements to our corporate governance to address initiatives that are important to our Company, shareholders, and other stakeholders.



**James W. Mercer**

*Executive Vice President, General Counsel and Corporate Secretary since July 2011.*

*Mr. Mercer has over 40 years of experience serving as legal counsel and in senior management capacities, including 15 years as a founding partner at Hennigan, Mercer & Bennett and five years as Special Counsel at WebMD Corporation.*

# CORPORATE GOVERNANCE<sup>13</sup>

## Board Leadership Structure

Our Board of Directors possesses considerable business experience and in-depth knowledge of the issues HCP faces.

As a result of our most recent annual leadership review, our Board believes that the most effective leadership structure for HCP is for Mr. Flaherty to continue to serve as both our Chairman and Chief Executive Officer. Mr. Flaherty's combined role as Chairman and Chief Executive Officer demonstrates clearer accountability and provides a single leader who speaks with one voice to our stockholders, tenants, partners, employees, other stakeholders, and the public.

The combined Chairman and Chief Executive Officer role also seeks to enhance transparency between management and our Board by serving as an efficient and effective bridge for communication between the Board and management on significant business developments and time-sensitive matters, and provides unified leadership for carrying out our strategic initiatives and business plans. The combined Chairman and Chief Executive Officer role is both counterbalanced and enhanced by the independence of the Board, the independent leadership provided by our Lead Director and independent committee chairs, and the governance policies and practices in place at HCP.

## Committees of the Board

Our Board of Directors has a standing Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee.

Each of these committees operates pursuant to a written charter, current copies of which are posted on our website at [www.hcpi.com](http://www.hcpi.com) under Investor Relations—Corporate Governance—Committee Charters.

Our Board has determined that each member of the Audit, Compensation and Nominating and Corporate Governance Committees is independent within the meaning of applicable NYSE rules and SEC rules.

## Risk Oversight

Our Board believes that effective risk management involves our entire corporate governance framework to ensure that risks are identified, monitored and addressed to limit exposures that could prevent HCP from meeting its business objectives.

Management is responsible for identifying the material risks facing HCP, implementing appropriate risk management strategies that are responsive to HCP's risk profile, integrating consideration of risk and risk management into HCP's decision making process, and, if necessary, promulgating policies and procedures to ensure that information with respect to material risks is transmitted to senior executives, as well as to our Board and its appropriate committees.

Our Board, primarily through the work of our Audit and Compensation Committees, provides Board level oversight of these risk management activities.

Consistent with NYSE rules, the Audit Committee provides oversight at the Board level with respect to risk assessment and risk management, including the integrity of HCP's financial statements and internal control over financial reporting, as well as the performance of HCP's internal audit function.

The Board and Audit Committee are responsible for reviewing and discussing with management any significant risks or exposures faced by HCP, the steps management has taken to identify, mitigate, monitor or control such risks or exposures, and HCP's underlying policies with respect to risk assessment and risk management.

In addition, the Compensation Committee is responsible for overseeing HCP's assessment and management of risks related to compensation and stock option plans, policies and overall philosophy.



FIGURE 1:

## BOARD OF DIRECTORS

James F. Flaherty III	<i>Chairman and CEO of HCP, Inc.</i>
Brian G. Cartwright	<i>Senior Advisor at Patomak Global Partners and Scholar in Residence at the Marshall School of Business USC</i>
Christine N. Garvey	<i>Former Global Head of Corporate Real Estate Services, Deutsche Bank AG</i>
David B. Henry	<i>President and CEO of Kimco Realty Corporation</i>
Lauralee E. Martin	<i>CEO of Americas, Jones Lang LaSalle Inc.</i>
Michael D. McKee	<i>CEO of Bentall Kennedy U.S., L.P.</i>
Peter L. Rhein	<i>General Partner of Sarlot and Rhein</i>
Kenneth B. Roath	<i>Chairman Emeritus of HCP, Inc.</i>
Joseph P. Sullivan	<i>Chairman Emeritus of the Board of Advisors of Rand Health</i>

### Compensation<sup>14</sup>

Compensation for our independent directors during 2012 consisted of an annual retainer, an additional retainer for acting as lead director or the chair of one of our Board’s committees (other than the Nominating and Corporate Governance Committee) and an annual equity award. Independent Directors are required to accumulate over time shares of HCP stock equal in value to at least five times the amount of the annual cash retainer for directors (currently \$375,000). Once subject to the guidelines, a director’s level of stock ownership will be reviewed annually on May 15th for as long as the director remains in office.

A substantial portion of compensation for our executives is awarded in the form of performance-based compensation, such as annual bonuses and long-term equity incentives that vest only if certain performance goals are achieved. Our executive compensation program is geared to attract and retain highly talented key employees and to reward performance. This retention and reward is accomplished through ensuring that a significant percentage of an executive officer’s compensation is derived from incentive compensation, aligning the interests of our executives with those of our shareholders. Extensive details regarding our compensation risk assessment and compensation practices are publicly disclosed throughout our annual Proxy Statement, including the Compensation Discussion and Analysis section, which was filed with the SEC on March 15, 2013.

### Compensation Related to Sustainability Performance<sup>15</sup>

Linking a portion of executive compensation to our corporate sustainability performance provides incentives for select members of our Sustainability Committee and others from our five business sectors involved in our sustainability initiatives. For example, assessing whether an annual emission or energy reduction target is achieved is considered when calculating our incentive awards. The implementation of this method has worked to reinforce sustainability as an important driver of our business value to both our internal and external stakeholders, as well as our highest governance body.

### Board of Directors<sup>16</sup>

HCP is governed by a Board of Directors that is elected by our shareholders. Our directors are well-respected businesspersons with a complementary mix of industry experience, skills and perspectives. The size of our Board enables each director to participate meaningfully and allows for diverse perspectives. However, the quality, experience and balance of perspectives on our Board are more important to us than achieving a specific size target. Our Corporate governance guidelines provide expectations for our Board, which guide their actions to ensure that our business is conducted with honesty and integrity.

Directors are elected annually by majority voting. At HCP’s annual meeting of stockholders held in 2012, (i) each of our directors received approximately **99%** of the votes cast supporting his or her election; (ii) approximately **96%** of the votes cast supported the advisory vote on HCP’s executive compensation program (referred to as a “say-on-pay proposal”); and (iii) approximately **98%** of the votes cast ratified the appointment of our independent registered public accounting firm. Additionally, at our annual meeting of stockholders held in 2013, (i) each of our directors received approximately **99%** of the votes cast supporting his or her election; (ii) approximately **97%** of the votes cast supported the advisory vote on the say-on-pay proposal; and (iii) approximately **99%** of the votes cast ratified the appointment of our independent registered public accounting firm. We believe these overwhelmingly positive voting results affirm stockholders’ support of HCP’s directors, as well our approach to corporate governance and the executive compensation program.

HCP’s Board of Directors is currently comprised of two women and seven men, totaling nine members, eight of whom are “independent directors”, meaning, among other things, they are neither officers nor employees of the Company or its subsidiaries and they do not have a relationship which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Such directors are otherwise “independent” under the listing standards of the New York Stock Exchange (NYSE) and applicable securities laws and regulations, as the same may be in effect from time to time.

<sup>14</sup> 4.5 <sup>15</sup> 4.10 <sup>16</sup> 4.1, 4.3, 4.6, 4.7

# HIGHLIGHTS

We continue to grow through acquisition and expansion. Our significant 2012 investing, operating, and financing activities include:



**INCREASED**  
**4.2%**

same property performance

**ACHIEVED**  
**SHAREHOLDER**  
**RETURNS**

**14.2%**

one-year total

**20.0%**

three-year total

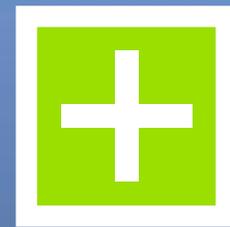


**RAISED**  
**\$3.5 BILLION**

of debt and equity capital to fund investments, repay debt and redeem preferred stock

**CLOSED**  
**\$2.5 BILLION**

of accretive investments across each of our five property types



**PURCHASED**  
**\$215 MILLION**

in unsecured notes

**HIGHEST**  
**CREDIT RATINGS**

In the past decade. HCP's current credit ratings are BBB+ from S&P, Baa1 from Moody's and BBB+ from Fitch.

RESULTS ENABLED A

**+5%**

SHAREHOLDER  
DIVIDEND INCREASE  
FOR 2013



**REPRICED  
\$1.5 BILLION  
LINE OF CREDIT**

netting a 55 basis  
point reduction in  
borrowing costs



general and administrative  
costs of the company were  
the lowest in history using  
only 0.36% of total assets  
to cover overhead



28 years of  
consecutive growth

**DIVIDEND  
ARISTOCRAT  
THE ONLY REIT**

in the S&P 500 Dividend  
Aristocrats Index

Our Board is organized into standing committees that provide leadership in specific areas of the Board's responsibility.

#### Committees of the Board of Directors:



The Board continuously assesses its performance through its actions in guiding the affairs of the Company. The Board also conducts an annual self-assessment of its performance, as well as the performance of each committee of the Board. The Nominating and Corporate Governance Committee is responsible for overseeing this self-assessment and for providing to the Board the results of such review. The Nominating and Corporate Governance Committee also utilizes the results of the self-assessment in evaluating and determining the characteristics and critical skills required of prospective candidates for election to the Board and for making recommendations to the Board with respect to assignments of Board members to various committees.

#### Assigning Directors

The Board is responsible for selecting nominees for the Board. The Nominating and Corporate Governance Committee is responsible for screening and recommending candidates. In fulfilling this role, the Nominating and Corporate Governance Committee will consider potential director nominee candidates recommended by any member of the Board, any shareholder of HCP or senior management. A firm may also be hired to assist in a search, if deemed appropriate.

The Nominating and Corporate Governance Committee does not set specific, minimum qualifications that nominees must meet in order to be recommended as a candidate for election to the Board of Directors. Rather, the Committee considers a number of factors, including those outlined above, when reviewing potential nominees for the Board.

The Nominating and Corporate Governance Committee strives to create diversity in perspective, background and experience in the Board as a whole when identifying and selecting nominees for the Board. On an annual basis, as part of the Board's self-evaluation, the Board assesses whether the mix of Board members is appropriate for the Company.<sup>17</sup>

#### Values-Corporate Governance Guidelines and Code of Business Conduct and Ethics<sup>18</sup>

HCP strives to conduct business honestly, fairly, and with integrity. We believe that effective corporate governance is an important component of achieving our business objectives and properly managing risk. The establishment of specific best practices for our Board addresses governance initiatives that are important to all of our stakeholders.

In addition to ethical business practices guiding our daily activities, conducting business in a sustainable manner is also important to our Company. HCP's *Corporate Governance Guidelines* establish the Company's expectations for ethical behavior on behalf of its Board.

Our *Code of Business Conduct and Ethics* ("Code") explicitly states the obligation of each employee and director to comply with all laws, rules, and regulations applicable to HCP. These include, without limitation, laws covering bribery and kickbacks, copyrights, trademarks and trade secrets, information privacy, insider trading, illegal political contributions, antitrust prohibitions, foreign corrupt practices, offering or receiving gratuities, environmental hazards, employment discrimination or harassment, occupational health and safety, false or misleading financial information, or misuse of corporate assets. In accordance with our Code, HCP had no incidents of non-compliance with regulations or voluntary codes concerning the health and safety impacts of our real estate serving the healthcare industry and services and none that resulted in fines or non-monetary sanctions during the 2012 reporting period.

Directors are expected to be familiar with the Code's provisions in these areas and must consult with the Company's General Counsel if they have questions about any of the Company's policies with respect to these matters. The following best practices for our Board are important to all of our stakeholders:

- Ethical Business Conduct and Practices
- Independence of Board Members
- Leadership Experience
- Accountability
- Meaningful Stock Ownership
- Economic and Sustainability Risk Oversight

<sup>17</sup> LA<sub>13</sub> <sup>18</sup> 4.8, 4.9

## **Accountability**

The primary responsibility of the directors is to exercise their business judgment in the best interests of the Company. In order to stay in touch with the needs of the Company and to incorporate the good ideas of our stakeholders, shareholders are encouraged to send correspondence to the Board.

To instill accountability within the Board, our directors developed a number of specific expectations for themselves including:

- Commitment and Attendance
- Participation in Meetings
- Loyalty and Ethics
- Communications with Stakeholders
- Limited Other Directorships
- Confidentiality
- Assessing the Board's Performance

## **Risk and Opportunities<sup>19</sup>**

Our Code, integrated across the organization, is what drives our operating philosophy. Accordingly, our management processes are aimed at proactively predicting possible risks, correcting issues, and promoting continuous improvement.

It is through open lines of communication that management can consider suggestions from shareholders, employees, and partners in determining strategies to both address potential regulatory risks and pursue innovative opportunities that also promote sustainability.



## ECONOMIC PILLAR<sup>20</sup>

2012 was another excellent year for HCP. We exceeded our earnings, financing, growth and sustainability goals. Improvement in sustainability is a key objective and a core value at HCP. From an economic perspective we continue to improve the energy efficiency of our operating facilities and innovatively invest in development projects to minimize the use of natural resources. Our efforts meaningfully reduce energy usage and allow us to be a low cost real estate provider to our tenants resulting in economic savings for our shareholders. It is an exciting time for HCP as we continue to make significant strides in all aspects of sustainability.

We manage one of the largest and most diversified real estate portfolios of any healthcare REIT. We have grown tremendously for nearly three decades and today we have 1,160 properties under management across 46 states. As a result, we have achieved sustainable dividend growth for 28 consecutive years!

We closed \$2.65 billion in accretive investments across five property types in 2012. We also lowered our general and administrative costs, or overhead, to the lowest in our history to 0.36% of total assets, received positive credit upgrades from two major rating agencies, and

achieved measurable success as we expanded our sustainability efforts.

Moving forward, we continue to invest in energy management systems and utilize renewable energy sources to improve the efficiency of our properties. During 2012, we realized estimated savings of \$446,985 from energy efficiency projects. These annual improvements are important as they provide a powerful compounding effect and result in tangible savings both in economic and environmental terms.



**Timothy M. Schoen**

*Chief Financial Officer, Executive Vice President starting in 2011*

*2009-2011 Executive Vice President—Life Science and Investment Management*

*2007-2009 Senior Vice President—Investment Management*

*2006-2007 Vice President Acquisitions/Dispositions*

*Previously employed by Kilroy Realty Corporation, a REIT that owns, develops, and operates office and industrial buildings, and served as its Vice President Corporate Finance.*

# FINANCIAL STRENGTH<sup>22</sup>

## Financial Integrity and Credit Ratings

*Our financial integrity is recognized externally as we continue to represent the only REIT in the S&P 500 Dividend Aristocrats Index, our inclusion in the FTSE4Good and several other socially responsible investor groups who have recently recognized our ability to also maximize bottom line results and sustainability initiatives.*

**FIGURE 2:**  
**Credit Ratings**

AGENCY	RATING	OUTLOOK
Fitch	BBB+	Stable
Moody's	Baa1	Stable
S & P	BBB+	Stable

## Dividend Aristocrat

HCP has achieved 28 years of consecutive dividend growth. HCP is the only REIT in the S&P 500 Dividend Aristocrats Index, which recognizes S&P 500 companies that have increased their dividend for at least 25 consecutive years.

## Continuously Generating Value

HCP continues to grow through acquisitions and internal expansion. The following are significant highlights from our investing and financing activities along with our general business operating practices for the 2012 year:

- Acquired \$1.9 billion of real estate – including a Blackstone JV acquisition of \$1.7 billion
- Purchased \$215 million ( £137 million) of senior unsecured notes and funded \$219 million of loans
- Raised \$3.5 billion of debt and equity capital to fund investments, repay debt, and redeem all outstanding preferred stock
- Paid dividends on common and preferred stock of \$865 million
- Lowered general and administrative costs of the Company to the lowest in history using only 0.36% of total assets to cover overhead
- Maintained positive credit ratings from the major credit agencies. HCP's current credit ratings are Baa1 from Moody's, BBB+ from Fitch and BBB+ from S&P
- Re-priced our \$1.5 billion line-of-credit netting a 55 basis point reduction in borrowing costs
- Achieved one-year total shareholder return of 14.2% and three-year total shareholder return of 20.0%
- In 2012, HCP closed \$2.5 billion of accretive investments across each of our five property types. Our investment portfolio had a strong performance with a same property increase of 4.2%. This excellent result enabled our Board to increase the 2013 shareholder dividend by 5%—the largest dividend increase in over ten years.

As important, our 2013 earnings forecast shows that our dividend payout ratio is expected to trend lower, representing over a decade of improvement. This provides a substantial margin of safety for the existing dividend and augurs well for the possibility of continued dividend increases in future years.

# A MANAGEMENT OUTLOOK ON SUSTAINABILITY + VALUE

Determining investment feasibility and projected cost-savings requires an innovative management approach. By increasing the energy efficiency of our buildings and training of our staff, we can make our buildings more attractive to tenants, helping lead to further revenue increase and shareholder value, while making more sustainable decisions.



## Green Budget Planning

Dedicated green budget categories are developed each year to accommodate energy efficient products.



## Business Intelligence

We stay up to date with climate change risks, best practices, and innovations so that our team may quickly assess opportunity costs.



## Financial Modeling

Once projects are identified, we calculate financial metrics including return on investment, payback period, and net present value.



## Ongoing Management + Reporting

We then integrate environmental management systems to track effectiveness and savings over time.

Innovation Point, San Diego, California



# HEALTHCARE MARKET IN THE US

The healthcare market in the United States continues to grow. Healthcare is the single largest industry in the U.S. based on Gross Domestic Product (GDP). According to the National Health Expenditures report by the Centers for Medicare and Medicaid Services, national health expenditures are projected to grow 3.8% in 2013 and 7.4% in 2014. The average compounded annual growth rate for national health expenditures, over the projection period of 2015 to 2021, is anticipated to be 6.2%; and the healthcare industry is projected to represent 17.8% of U.S. GDP in 2013.

HCP's financial health directly affects our stakeholders. By increasing revenue we are able to increase shareholder value, increase the wages and benefits provided to our employees, increase the dividends paid to our investors, and increase our donations and other community investments. A table with more detailed information and actual dollar amounts of our direct economic value and economic value distribution in 2012 can be found on page 28.

Similarly, by investing in our properties, we are able to stimulate economic growth both on our property sites and in the local community. On our property sites we are able to provide employment for individuals to build, maintain and work within our facilities. As HCP upgrades, develops and redevelops properties, we hire local contractors and purchase local goods.

## **Incorporating Climate Change into the Equation**

Investments in energy efficiency and renewable energies are more than just good economic business practices; they are good for the planet.<sup>23</sup> We recognize that the consumption of energy is directly related to greenhouse gas emissions and to potential adverse effects on the global climate.

HCP understands that we may be directly affected by the physical, economic and legislative risks associated with climate change. Rising sea levels, extreme weather events, energy price fluctuations, and governmental regulatory changes are our biggest drivers of risk and

opportunity associated with climate change. While not all these issues are imminent, we realize the severity of their potential impacts. We are dedicated to taking a proactive stance when developing strategies to deal with such situations if they occur. The scope of our procedures includes the assessment of financial implications and our reputation at the company level and the assessment of weather-related implications at the asset level. These risks and opportunities are assessed quarterly, or as needed in cases where immediate action is necessary. The degree of materiality of any climate change risk or opportunity is assessed and measured by the applicable leaders of each of our five business sectors as well as senior management and is prioritized accordingly.

Rising sea levels and extreme weather such as drastic temperature changes, floods, droughts or hurricanes are a threat and could lead to major financial implications. Extreme weather patterns could increase the frequency of damage to our buildings, increase insurance premiums and deductibles, and lead to loss of revenue due to disruptions in services. An example of one such extreme weather occurrence was Superstorm Sandy, which hit the Northeast in 2012. The devastation of the storm caused 15 of our buildings to use emergency generators due to a total loss of power. Additionally, two of our east coast facilities were flooded by the rising seawater and had to be fully evacuated. Damage to one of these facilities was over \$2 million dollars. To mitigate these types of risks, our insurance program includes coverage for extreme weather conditions, including flooding. As a result of our prudent risk management disciplines, our cost exposure was limited to our insurance deductible instead of the \$2 million loss.

Changes in temperature affect our buildings' heating and cooling expenses. In order to mitigate the effect of extreme weather risks, we have established emergency preparedness and business continuity plans, invested in energy efficient equipment and implemented best practices for operational efficiency. In addition to these actions, we have invested in other opportunities related to these risks. We expanded our green building practices, which have resulted in reduction in energy consumption, and building operating costs. We have also improved our building design practices to better deal with power shortages, flooding, and drought.

Energy prices directly affect the cost of our overall operational and construction activities. HCP has implemented internal energy conservation programs in order to educate employees and third party property managers about how and why they should actively work to reduce energy use. We have also installed energy efficient equipment to reduce consumption.

As such, HCP evaluates and implements heating, ventilation and air conditioning (HVAC) replacement projects based on efficiency and value. Replacing old HVAC systems with new and more efficient models can result in reducing overall operating costs by up to over half a million dollars in just a few years. Beyond cost savings to our tenants, newer systems release significantly lower emissions into the atmosphere. Our HVAC retrofits in 2012 have resulted in an estimated savings of \$113,784 per year.

Other initiatives that contribute to economic value include focusing on energy efficiency through renewable energy investments. We have already progressed towards our goal by installing cutting edge technologies at several properties and we will continue to research and invest in alternative energy sources such as solar, wind, geothermal, and hydrogen power as costs permit.

Regulatory changes could increase building costs if stricter standards require the purchasing and installation of more energy efficient equipment and more staff training to meet compliance procedures. As a result, HCP endeavors to stay ahead of the curve by voluntarily constructing buildings to codes that exceed current standards and providing specialized training to in-house staff through seminars and webinars. By increasing the energy efficiency of our buildings and training of our staff, we hope to make buildings more attractive to tenants and thereby further increase revenue, which drives shareholder value.



# ECONOMIC PERFORMANCE INDICATORS<sup>24</sup>

**FIGURE 3: HCP 2012 INVESTMENTS**

(USD\$) In Millions	Senior Housing	Post-Acute/ Skilled Nursing	Life Science	Medical Office Building	Hospital
Real Estate	\$6,784	\$5,670	\$3,362	\$2,613	\$651
Joint Venture	-	-	\$68	\$40	-
Development	-	\$1	\$439	\$82	\$18
Debt Investment	\$124	\$329	-	-	\$46
RIDEA	\$759	-	-	-	-
<b>Total Investments</b>	<b>\$7,667</b>	<b>\$6,000</b>	<b>\$3,869</b>	<b>\$2,735</b>	<b>\$715</b>

EC1: Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, related to earnings, and payments to capital providers and governments.

**FIGURE 4: ECONOMIC VALUE GENERATED**

(USD \$) In Thousands	2010	2011	2012
<b>Direct Economic Value Generated</b>			
Total Revenue	\$1,253,454	\$1,725,386	\$1,900,722
<b>Direct Economic Value Distributed</b>			
Operating Cost	\$210,202	\$220,167	\$283,998
G&A (inclusive of employee wages & benefits)	\$83,048	\$96,150	\$79,454
Community Investments	\$0	\$0	\$0
Payments to Governments	\$1,765	\$1,710	\$1,790
Payments to Capital Providers (inclusive of bond payments)	\$888,804	\$1,151,359	\$1,270,690
<b>Economic Value Retained</b>	<b>\$93,974</b>	<b>\$316,138</b>	<b>\$1,407,790</b>

**FIGURE 5: FINANCIAL HIGHLIGHTS REF.: 2012 ANNUAL REPORT**

(USD \$) In Thousands	2010	2011	2012
Total Revenues	\$1,253,454	\$1,725,386	\$1,900,722
Income from Continuing Operations	\$320,719	\$550,332	\$812,884
Total Assets (Long-lived)	\$13,331,923	\$17,408,475	\$19,915,555
Total Debt	\$4,646,345	\$7,722,619	\$8,693,820
Shareholder's Equity	\$8,146,047	\$9,220,622	\$10,753,777



## ENVIRONMENT PILLAR<sup>25</sup>

For us at HCP, instituting environmental sustainability practices is not just a quick trending phase. We have developed proactive and long-term green strategies that include ambitious energy reduction goals and best practice sharing across all of our sectors in order to make meaningful and lasting changes in the areas in which we operate. We work closely with operating partners to ensure that all facilities run with excellence through sustainable business practices. Building and operating in an environmentally conscious manner mitigates environmental impact, lowers costs, increases property value, is good for current and future generations, and provides a better living environment for our tenants.

To identify relevant environmental issues and pinpoint areas of action, we stress multi-stakeholder involvement in detection, strategy, and action. Environmental data is collected on our properties using various sustainability management software systems, through feedback from our tenants and partners in surveys and face-to-face conversations, and with internal and external stakeholders during our annual management conference where best sustainability practices are shared. At HCP we know that we don't have all the answers, but we are in a position to listen, learn, and put into action plans that will really make a difference.

We have accomplished a great deal in the last year. We were able to reduce our energy use by 1.8% and waste by 15%. Our water usage increased slightly in 2012 by 1.4%. We reduced our 2012 annual emission target by 6.4%, exceeding by 3.9% our goal of 2.5%. In 2011, we achieved recognition for having the most buildings that were ENERGY STAR certified in the medical office category. In 2012 we achieved 35 ENERGY STAR certifications, which exceeded our annual goal of 32. Our goal for 2013 is to

exceed 35 certifications. For our efforts, we were named leader in our sector in the Global Real Estate Sustainability Benchmark also receiving the highest designation—"Green Star". Our Soledad property was named the best LEED Platinum property in San Diego.

While these achievements are significant, we know we can do more. One of our biggest challenges is influencing best practices at properties falling outside our operational control. To address this, a major goal for 2013 is to expand our initiatives to our third party operators.

We also hope to position ourselves as the prevalent leader in sustainability in our field, openly communicating the benefits and best practices of sustainability projects. Another goal for 2013 is to continue reducing our greenhouse gas emissions so that we may meet our 2020 goal of a 15% reduction from our 2011 rolling baseline. We will continue to invest in new innovative technology, retrofit buildings and equipment, monitor and remediate energy waste, and implement best practices across our entire portfolio.



**Thomas M. Klaritch**

*Executive Vice President—  
Medical Office Properties*

*Chair of Sustainability Committee*

*2003-2008 he served as Senior Vice  
President—Medical Office Properties.*

*Founding member and Chief Financial  
Officer of MedCap Properties LLC, which  
was acquired by HCP in 2003.*

*Certified Public Accountant*

*Fellow of the Healthcare Financial  
Management Association*

# ENVIRONMENTAL BEST PRACTICES

## Our Commitment

HCP believes that sustainability is everyone's business. As an organization we have adopted long-term strategies to protect the environment by minimizing the carbon footprint of our buildings. This has led to the implementation of proactive energy conscious initiatives throughout all sectors of our business model.

During 2012, we improved our environmental monitoring and reporting methods, increased our focus on best operating practices, and amplified sustainability training delivered to our executives, staff, property managers, and tenants. By doing so, we remained on par with our stringent energy reduction goals and increased our investment in energy efficient technologies.

These efforts resulted in HCP receiving several accolades and awards in the environmental sustainability field.

## Where We Are Headed

At HCP, our long-term energy and conservation goal is aimed at a 15% reduction in emissions across our operationally controlled properties by 2020, which is measured against our updated 2011 baseline.

During 2012, we decreased our greenhouse gas emissions by 6.4%, far surpassing (by 3.9%) our yearly goal. This goal was met by identifying and implementing multiple emissions and energy reduction projects. Projects included lighting sensors, energy management systems, programmable thermostats, lighting retrofits, HVAC replacements, window tinting, and white/reflective roof systems.

The practice of more closely monitoring utility bills to track electric, gas, and water usage in our MOB's has been replicated throughout a broader property base so that we can more quickly identify anomalies and take corrective action. Our goal is to embrace a greater number of Life Science properties in this process.

# REDUCING WASTE + IMPACT

HCP has embraced sustainability as a core value and integrated the concept into our operations. In 2012, across the Company, we concentrated our efforts on reducing our environmental impact.

## Building Our Sustainable Portfolio



**+2**

We added 2 LEED Certified Buildings to our portfolio, for a total of six

## Continuing to Invest in Sustainable Practices



Investing in new technologies



Introducing waste reduction equipment and strategies



Sharing best practices



Retrofitting and developing properties in a conscientious manner



Reduced CO<sub>2</sub>e emissions by 16,820 metric tons



Reduced greenhouse gas emissions toward our longer term goal of 15% reduction of 2011 baselines by 2020

**+35** NEW & RENEWED ENERGY STAR AWARDS

**93** ENERGY STAR TOTAL AWARDS

20 MOB | 11 LIFE SCIENCE  
4 SENIOR HOUSING

## ZERO ROCKS



Our sustainability strategy includes finding new uses for raw materials. During a re-roof at 3820 American Drive the rock removed from the roof was reclaimed and reused in new ways at North Texas properties. **How much rock was taken to the landfill? ZERO.**

### ROCK WAS REUSED:



As edging material to reduce the water footprint of landscaping  
3801 W. 15th St. and 4001 W. 15th St.



Surrounding storm drains to help capture refuse and prevent its flow into the water system  
Cityview location



As fill material to prevent excess runoff and impact on plant life  
3820 American Drive



As weed abatement to reduce weed control measures  
Trophy Club



Donated for residential use

## KNOWLEDGE SHARING IS ESSENTIAL TO UNDERSTANDING THE ENVIRONMENTAL ISSUES THAT PRESENT RISKS TO OUR BUSINESS.

### INSPIRING OUR PARTNERS

Many of our substantial business decisions are influenced by best operating practices tied to innovative environmental management policies. In order to galvanize leadership and leverage internal and external participation for effective application, HCP developed its own Sustainability Committee and Green Team in 2011.

HCP realizes that by encouraging effective management we can mitigate negative environmental impacts in partnership with our operators. Internally, the HCP Green Team is in charge of bringing us up to date on environmental governance, policy development and implementation.

By contracting with experienced third party property management companies and operators that can help us identify and address potential risks, we are able to feed these best practices through the value chain. Additionally, we engage with architects, surveyors, and other licensed, reputable professionals to obtain requisite approvals and ensure compliance with set standards. We conduct regular rotational property visits and engage in constructive dialogue with our operators and property management companies to identify strengths and weaknesses within the facilities.

Knowledge sharing is essential to understanding the environmental issues that present risks to our business. Therefore, sustainability awareness occupies a significant portion of our annual MOB Conference agenda. Property managers and engineering personnel are engaged in discussions around environmental industry trends and best practices. Agenda items include energy reduction, water conservation and preventive and corrective maintenance techniques. After the conference concludes, we continue to explore solutions to concerns shared.

Internal focus groups meet regularly to review HCP's environmental procedures and construct educational tools for implementation on the ground. Using step-by-step guides, we are able to translate our expectations into advisable actions that our partners can take so that we may achieve our collective objectives.

HCP frequently engages senior housing and skilled nursing facilities on sustainability issues as well. As a result of recent discussions, we are currently in the process of redesigning our management approach with the end-user in mind. Through individualized site assessments, we are able to prioritize installments and retrofits of state-of-the-art equipment that supports electricity, gas, and water efficiency. Another component of our exploratory process will include an investigation of ground-breaking green building practices that promote health and well-being.

## Environmental Regulations

At HCP we carefully monitor our facilities to ensure we are in compliance with all environmental laws and regulations. Unfortunately, regulations sometime change during the ownership period. As an example, when renovating several properties in Utah and Nevada, we were required to install new fire sprinklers, which had not been a requirement under previous building codes.

Other policy related compliance installations made in 2012 include:<sup>26</sup>

- ADA walkways were added to the parking lot during renovations of a building in California
- Upgrades to railings of stairwells as part of a renovation in California
- Bathrooms were redesigned and upgraded to be compliant with current ADA requirements in California, Texas, and Tennessee
- Paths of entry were installed to meet ADA requirements from building entry to the parking lot in a Tennessee project
- Parking lots were redesigned to make them ADA compliant in Texas and California

To date, HCP has not received any administrative or judicial sanctions for failure to abide to environmental regulations where we operate.

## Eco Efficiency

<sup>27</sup>Collecting accurate data is important to us because it allows us to make more informed business decisions. With this in mind, we are investing in a new environmental management system. It is a total energy and sustainability management software system that will ultimately help us improve efficiencies by better managing energy, water, waste, and emissions data. We are now in the process of converting all properties within our boundary to this system and by 2013 all of our environmental data will be available in one location. This will provide an easier avenue to analyze and compare performance across properties and business sectors with a certain period of time.

### Quick Facts:

- The majority of our direct energy consumed, which represents about 12% of total energy within our boundary, is mainly derived from natural gas used for comfort heating and heating domestic water.
- Our total indirect energy consumption is one hundred percent composed of purchased electricity, chilled water and steam from local providers.

## <sup>28</sup>Energy and Greenhouse Gas Emissions

This year, we added 2,318, 540 square feet to our boundary, which equates to an additional 17,959 metric tonnes of CO<sub>2</sub>e under our responsibility. With these emissions representing 7.3% of total emissions within our boundary, recognizing the full scope of our impact helps us develop appropriate mitigation measures. In an effort to minimize our impacts, we have strengthened our emissions monitoring to include emissions from refrigerants used in heating, ventilation, and air conditioning equipment. Data breakdown of this information can be seen in the charts at the end of this section.

<sup>29</sup>HCP has also completed 213 emission reduction projects with an estimated 3,156 tonnes of CO<sub>2</sub>e in savings.<sup>30</sup> Our Capital Asset Management department, along with third party engineering staff, developed a plan for HCP management to repair, rebuild, or replace inefficient HVACs with high efficiency systems that reduce kilowatt per ton consumption. Less efficient HVAC equipment such as package water source heat pumps, split system units, and rooftop package systems are replaced with newer and more efficient equipment. The new HVAC systems that we are using are typically 40% more energy efficient than the old equipment and use R-410A refrigerant, which is much more environmentally friendly than R-22 refrigerant. The protocol for identifying replacement systems will continue over the next several years and could generate a total operational cost savings of approximately \$425,000 to \$625,000 dollars.

<sup>31</sup>Other efforts to reduce emissions include:

- Lighting retrofits
- De-lamping in areas that receive sufficient natural light
- Calibrating thermostats so that proper temperature settings are maintained including after hour temperature setbacks
- Installing power correction devices
- Adjusting and calibrating fresh air dampers to eliminate unnecessary HVAC cooling
- Installing solar window film to reduce the amount of heat load that enters windows
- Utilizing timer controls and occupancy sensors for lighting fixtures
- Retrofitting roofs with reflective/white roof membrane material or coating materials to reduce the heat effect of the sun
- Implementing hot water reset devices

12%

The majority of our direct energy consumed, which represents about 12% of total energy within our boundary, is mainly derived from natural gas used for comfort heating and heating domestic water

## Direct Energy

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100

Our total indirect energy consumption is one hundred percent composed of purchased electricity, chilled water and steam from local providers

## Indirect Energy

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2012

Because of the implementation of our efficiency improvement projects, in 2012 HCP was able to save \$1.6 million on a same-property basis in our MOB and Life Science facilities through decreased utility expenses. HCP has been able to drive value financially and environmentally through improved and expanded monitoring and energy efficient upgrades. Energy savings has translated into CO<sub>2</sub>e emissions reductions of 3,156 metric tonnes. Specific examples of emissions avoided over the 2012 calendar year include:

- Installation of 41 lighting motion sensor and time projects that reduced the annual CO<sub>2</sub>e by 113 metric tonnes
- Renovation of a Building Automation System (BAS) that gave full control of roof top units and variable air volume units allowing for night time and weekend setbacks which reduced the annual CO<sub>2</sub>e by 493 metric tonnes
- Installation of 52 programmable thermostats at one facility reducing the annual CO<sub>2</sub>e by 71 metric tonnes
- Implementation of a T12 to T5 lighting conversion project at a building which reduced the annual CO<sub>2</sub>e by 51 metric tonnes.

## Water

<sup>32</sup>HCP is conscious of the fact that many of the areas in which we operate are drought-susceptible regions of the country. As such, issues surrounding water use and management are especially important to us.

All of the water consumed by HCP's properties is taken from local municipal water supply systems. We are dedicated to taking every step we can to equip our buildings with smart water systems, while also influencing others to help protect this precious resource.

We have installed motion sensors and aerator faucets, low flow toilets, a retention pond, recycled materials for landscaping, such as recycled roof rock ballast or recycled tire material, turf block, water saving irrigation devices including rain sensors, and used drought resistant plants in site landscaping on our properties. In California, we installed xeriscape projects; one of these projects had an annual estimated savings of 46,800 gallons (177 m<sup>3</sup>). We evaluate site water runoff conditions and where applicable or required, we may use turf block or similar products. We have also investigated using green roofing and pervious pavement to help with wastewater management.

HCP is currently looking at formulating a quantifiable water goal. This goal will be defined and included in future reports.

## Waste

HCP only directly manages non-hazardous waste removal; hazardous waste removal is the responsibility of our tenants and therefore is outside HCP's boundary.<sup>33</sup> Non-hazardous waste removal is managed through two sources: recycling and landfill disposal. For most properties, waste is not actually weighed on site; rather it is estimated based on the assumed mix of waste and a corresponding density factor to convert the waste into weight for reporting. The sources for estimated weight of waste are third party vendors and waste consultants. Vendors and consultants use the standard measurement equivalent sheet provided by the hauler to determine the weight. Yardage is multiplied by lb/yard rate (typically 80lb/yd for solid waste and 40 lb/yd for recycled waste) and multiplied by 12 for annual weight.

Landfill waste can leak into soil and water supplies. It can also generate methane gas, which is explosive and contributes to greenhouse gases. Therefore,<sup>34</sup> HCP encourages office recycling as well as the recycling of demolition waste from construction on redevelopment and tenant improvement projects. Over the past year, we have included recycling as a point of discussion during our staff trainings and we increased the number of large outside recycling containers on our building sites and inside containers for single stream recycling. We had a minor decline in the percentage of recycled waste to total waste dropping slightly from 7.9% in the 2011 rolling baseline to 7.1% in 2012.<sup>35</sup>

While building waste disposal is typically the responsibility of third party contractors, we require that contractors recycle waste on all new development projects however, we do not currently report on these figures in the GRI report. Five projects fell under these latest requirements during 2012.<sup>36</sup>

In addition to recycling at our property sites, we have also worked to reduce landfill waste linked to our own administrative activities by utilizing electronic reports in order to reduce paper consumption and using building and office materials in an efficient and conservative manner.

## Noise

<sup>37</sup>Noise pollutants commonly occur during construction and when generators are used. At HCP we understand that we can mitigate noise based upon the location of the generator, time of operation, and proximity to tenants, neighboring facilities and residences. When applicable we build sound barrier walls to reduce noise levels.

## Alternative Energy Projects

We know that it is imperative to adapt and embrace new technologies with the changing times. This includes evaluating and implementing new technologies associated with alternative energy sourcing. We have been assessing the benefits of such technologies as fuel cell technology, ground coupled heat pump systems, solar water panel systems, real time power monitoring systems, photovoltaic panels (solar cell panels), and wind power. For example, three of our properties have been fitted with solar cell panels. We continue to make improvements in our energy technology and are eager to see what the future brings.

## LEED Buildings

In the past year, we were able to add two LEED certified buildings to our portfolio—for a total of six; including one platinum and one gold LEED certification. Additionally, we have two more LEED applications in process. Our Soledad Property was named best LEED Platinum Core and Shell project property in San Diego by the U.S. Green Building Council. We have also continued to assess the feasibility of bringing other properties in our current portfolio up to LEED standards. Our goal is to continuously surpass our year-to-year LEED accomplishments.

## ENERGY STAR

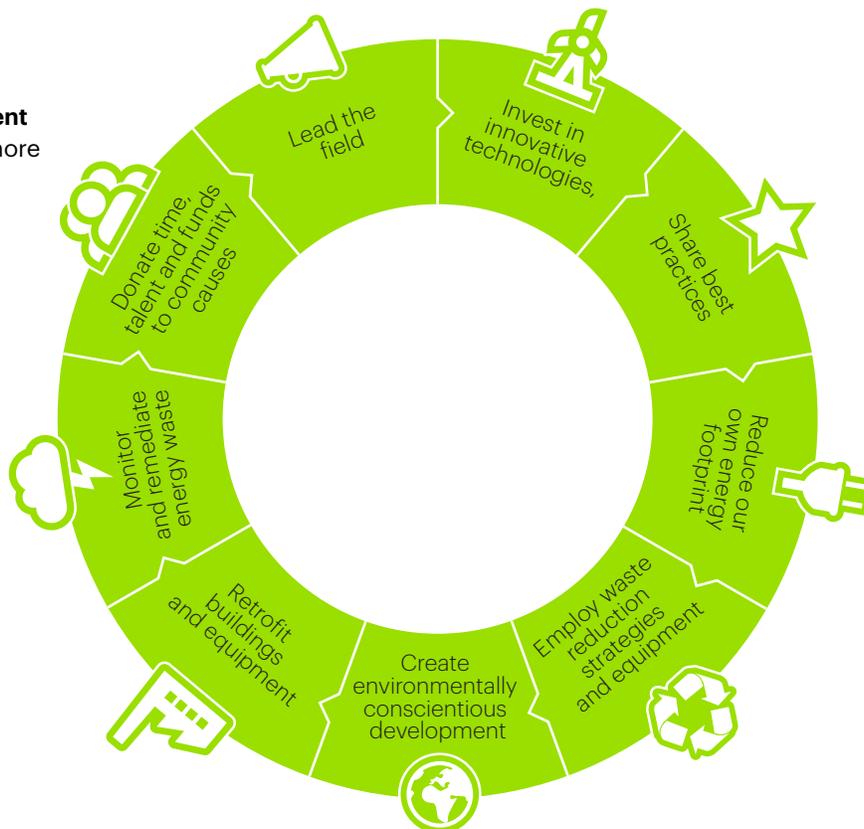
Our ENERGY STAR certifications continue to grow. ENERGY STAR labeled buildings represents the top 25% of all facilities in terms of having lower energy consumption in combined gas and electric usage. An ENERGY STAR certified facility produces 35% less CO2 emissions and uses 40% less energy than traditional buildings. Our goal for 2012 was to obtain 32 new and renewal ENERGY STAR certifications – from 27 ENERGY STAR certifications in 2011. We were able to exceed this goal by adding a total of 35 new and renewed ENERGY STAR awards (for a total of 93). This is the highest amount for our sector.

Benchmarking our buildings on ENERGY STAR portfolio manager, HCP is able to monitor and compare our progress regarding our energy performance on an ongoing basis. In our MOB portfolio we have been able to decrease utility expenses by \$1.3 million on the same-property basis in 2012 versus 2011. As projects are implemented to reduce energy usage and emissions, we will continue to reduce our environmental impact while making economic and health improvements in the communities in which we operate.

As a leading real estate investment trust we hope to utilize our position to improve and influence the sustainability approach of others. We are moving in a positive direction and are excited about our progress and accomplishments in the sustainability field.

GRAPH 6.

### Continued Investment We continue to do more



# SOLEDAD BUSINESS PARK SAN DIEGO, CA

## LEED PLATINUM CERTIFIED



# 65



The number of homes the building's 100KW PV array system could power when operating at peak production

Energy-efficient roofing and glazing systems

Custom built aluminum shade structures

Project low-flow plumbing fixtures reduce indoor water consumption more than 40% compared to a standard building

**-40%**



The project is designed to achieve 31% energy cost savings compared with an equivalent building that meets the requirements of California's Title 24

**-31%**



Soledad Business Park is a 53,000 SF project with two buildings located in Sorrento Mesa, near San Diego, CA. HCP launched a \$13 million renovation when La Jolla Pharmaceutical Company vacated the project in July 2009.

Cibus Global initially leased 46% of the project and subsequently expanded to lease 100% and include sister company Nucelis, Inc.; both bio-technology companies.

Best LEED CS 2.0 Platinum Core and Shell project in San Diego for 2012 by the San Diego Chapter of the US Green Building Council

1st Place in the California Friendly Landscape Maintenance Category in 2011

### LEED SCORECARD Platinum 48/62

	Sustainable Sites	8 of 15
	Water Efficiency	5 of 5
	Energy and Atmosphere	13 of 14
	Material and Resources	10 of 11
	Indoor Environmental Quality	7 of 12
	Innovation	5 of 5

# ENVIRONMENTAL PERFORMANCE INDICATORS

## ENERGY CONSUMPTION

EN3: Direct energy consumption by primary energy source.

**FIGURE 6: DIRECT ENERGY CONSUMPTION**

Year	2011		2012	
<b>Source</b>	<b>Amount (MWH)</b>	<b>Amount (GJ)</b>	<b>Amount (MWH)</b>	<b>Amount (GJ)</b>
Natural Gas- metered	136,691	492,088	135,016	486,058
Motor Gasoline- non-metered	1,585	5,706	1,624	5,846
Diesel/Gas Oil- non-metered	488	1,757	1,333	4,799
Propane non-metered	9	32	2	7
<b>TOTAL</b>	<b>138,773</b>	<b>499,583</b>	<b>137,975*</b>	<b>496,710*</b>

EN4: Indirect energy consumption by primary energy source.

**FIGURE 7: INDIRECT ENERGY CONSUMPTION**

Year	2011		2012	
<b>Source</b>	<b>Amount (MWH)</b>	<b>Amount (GJ)</b>	<b>Amount (MWH)</b>	<b>Amount (GJ)</b>
Purchased Electricity	410,591	1,478,128	400,117	1,440,421
Steam	2,482	8,935	3,514	12,650
Chilled Water ( Cooling)			159	573
<b>TOTAL</b>	<b>413,073</b>	<b>1,487,063</b>	<b>403,790 *</b>	<b>1,453,644 *</b>

CRE 1 (Sector Supplement): Building energy intensity.

**FIGURE 8: BUILDING ENERGY INTENSITY**

Year	2011		2012	
<b>Building Type</b>	<b>LIFE SCIENCE</b>			
Total Energy Consumption	MWH	GJ	MWH	GJ
	55,023	198,082	47,049	169,378
Corresponding Floor Area	Ft2	M2	Ft2	M2
	1,311,242	121,818	1,260,852	117,137
<b>Building Energy Intensity</b>	<b>MWH/ft2</b>	<b>GJ/m2</b>	<b>MWH/ft2</b>	<b>GJ/m2</b>
	0.041962529	1.626051249	0.03731574	1.445987805
<b>Building Type</b>	<b>MOB</b>			
Total Energy Consumption	MWH	GJ	MWH	GJ
	411,500	1,481,399	414,652	1,492,748
Corresponding Floor Area	Ft2	M2	Ft2	M2
	14,123,352	1,312,102	14,086,850	1,308,711

<b>Building Energy Intensity</b>	<b>MWH/ft2</b>	<b>GJ/m2</b>	<b>MWH/ft2</b>	<b>GJ/m2</b>
	0.029136122	1.129027003	0.029435416	1.140624658
<b>Building Type</b>	<b>SENIOR HOUSING</b>			
Total Energy Consumption	MWH	GJ	MWH	GJ
	85,323	307,161	80,064	288,229
Corresponding Floor Area	Ft2	M2	Ft2	M2
	5,117,655	475,446	5,117,655	475,446
<b>Building Energy Intensity</b>	<b>MWH/ft2</b>	<b>GJ/m2</b>	<b>MWH/ft2</b>	<b>GJ/m2</b>
	0.01667221	0.646049866	0.015644593	0.606229172

## GREENHOUSE GAS EMISSIONS

EN16: Total Direct and Indirect Greenhouse Gas emissions by type.

**FIGURE 9: DIRECT & INDIRECT GHG EMISSIONS BY TYPE**

<b>Year</b>	<b>2011</b>	<b>2012</b>
<b>Measurement</b>	<b>Amount (tCO<sub>2</sub>e)</b>	<b>Amount (tCO<sub>2</sub>e)</b>
Direct Emissions	28,198	28,940 *
Indirect Emissions	234,449	216,887 *
<b>TOTAL DIRECT AND INDIRECT EMISSIONS</b>	<b>262,647</b>	<b>245,827</b>

CRE 3 (Sector Supplement): Greenhouse gas emissions intensity from buildings.

**FIGURE 10: GHG EMISSIONS INTENSITY**

<b>Year</b>	<b>2011</b>		<b>2012</b>	
<b>Building Type</b>	<b>LIFE SCIENCE</b>			
Total Direct and Indirect Emissions	Amount (tCO <sub>2</sub> e)		Amount (tCO <sub>2</sub> e)	
	13,092		11,013	
Corresponding Floor Area	Ft2	M2	Ft2	M2
	1,311,242	121,818	1,260,852	117,137
<b>Building GHG Emissions Intensity</b>	<b>tCO<sub>2</sub>e/ft2</b>	<b>tCO<sub>2</sub>e/m2</b>	<b>tCO<sub>2</sub>e/ft2</b>	<b>tCO<sub>2</sub>e/m2</b>
	0.009984245	0.107469514	0.008734347	0.094015727
<b>Building Type</b>	<b>MOB</b>			
Total Direct and Indirect Emissions	Amount (tCO <sub>2</sub> e)		Amount (tCO <sub>2</sub> e)	
	211,308		200,216	
Corresponding Floor Area	Ft2	M2	Ft2	M2
	14,123,352	1,312,102	14,086,850	1,308,711
<b>Building GHG Emissions Intensity</b>	<b>tCO<sub>2</sub>e/ft2</b>	<b>tCO<sub>2</sub>e/m2</b>	<b>tCO<sub>2</sub>e/ft2</b>	<b>tCO<sub>2</sub>e/m2</b>
	0.014961627	0.161045616	0.014212948	0.152986899
<b>Building Type</b>	<b>SENIOR HOUSING</b>			
Total Direct and Indirect Emissions	Amount (tCO <sub>2</sub> e)		Amount (tCO <sub>2</sub> e)	
	37,079		33,422	
Corresponding Floor Area	Ft2	M2	Ft2	M2
	5,117,655	475,446	5,117,655	475,446
<b>Building GHG Emissions Intensity</b>	<b>tCO<sub>2</sub>e/ft2</b>	<b>tCO<sub>2</sub>e/m2</b>	<b>tCO<sub>2</sub>e/ft2</b>	<b>tCO<sub>2</sub>e/m2</b>
	0.007245263	0.077987357	0.006530687	0.070295734

# WATER

EN8: Total water withdrawal by source.

**FIGURE 11: TOTAL WATER WITHDRAWAL BY SOURCE**

Year	2011	2012
<b>Measurement</b>	<b>Amount (Gallons)</b>	<b>Amount (Gallons)</b>
Water Consumption for shared landlord services	723,951,978	734,277,148 *

Note: Water consumption for 2011 was recalculated to take into consideration some errors identified during the review process (in addition to the new properties in boundaries)

# WASTE

EN22: Total weight of waste by type and disposal method

**FIGURE 12: TOTAL WEIGHT OF WASTE BY TYPE AND DISPOSAL METHOD.**

Year	2011	2012
<b>Measurement</b>	<b>Amount (t)</b>	<b>Amount (t)</b>
Total Weight of Non-Hazardous Waste	18,017	15,317 *
<b>TOTAL WEIGHT OF WASTE</b>		
% Recycled	8%	7% *
% Landfill	92%	93% *



## SOCIAL PILLAR<sup>38</sup>

Our business is not static. At HCP, we are constantly looking to improve in all areas while remaining committed to our core fundamental values. We work to attract and attain the best possible employees and encourage them to act with a team mentality in the interest of all our stakeholders. Upholding ethical conduct at all times is a commitment we make to our stakeholders and is essential to how we operate.

We offer our employees competitive salary and benefit packages that include vacation, sick-time, comprehensive insurance, and retirement planning. We provide financial assistance to employees for academic and professional development, which allows them to improve their on-the-job performance and increase their opportunities for advancement.

Our community-based engagement comes in all forms. During 2012, we continued long-standing traditions of a Thanksgiving Food Drive and a Christmas Toy Drive for our local communities.

In addition, this year, we were extremely excited to announce the development of a Social Responsibility Subcommittee of our Sustainability Committee that oversees our charitable giving, employee matching program, and employee volunteer initiatives. With the new Social Responsibility Subcommittee in place, we expect to significantly increase our social engagement across the board.

We intend to expand the level of our philanthropic and community outreach projects consistent with the mission of our program: *to encourage community involvement, education, and research through charitable initiatives for the health and well-being of the Company's core constituency, the elderly, as well as the advancement of healthcare in general.*

We look forward to what's ahead!



**Susan M. Tate**

*Executive Vice President—Post-Acute and Hospitals since 2012*

*Head of the Social Responsibility Subcommittee of our Sustainability Committee*

*2009-2012 served as Executive Vice President—Asset Management and Senior Housing*

*2007 – 2009 served as Senior Vice President—Asset Management*

*Worked for 19 years at JPMorgan and its predecessor institutions in both healthcare and real estate lending positions, including Vice President, Real Estate Corporate Banking*

# SOCIAL RESPONSIBILITY BEST PRACTICES

## Our Commitment

HCP's commitment to our stakeholders goes beyond the realm of our shareholders and investors. Operating within the healthcare sector, we are dedicated to improving individual lives and community well-being. This commitment starts at home by providing our employees with a great work environment, expands to our clients through fair, honest, and exceptional services, and reaches everyday citizens when stepping into our buildings.

## Improving Conditions for Tenants & Property Managers

### *Site Reviews*

Each year, we complete between 250 and 350 Property Condition Assessment (PCA) reports on our properties. As part of the report, we look at safety issues related to the building such as stairways, storage in electrical rooms, fire code requirements and much more. PCAs are conducted for properties both inside and outside of our boundary.

HCP also completes insurance reviews annually, which includes periodic safety assessments. If a property is not up to code, it will be evaluated more heavily until issues are resolved and the property reaches the required standards.

In addition, we have developed a company-wide business continuity plan that outlines the procedures to be taken in the event of a disaster in order to ensure the safety of employees and the continuity of our business.

## Community Outreach

This year, we created a Social Responsibility Sub-Committee to our Sustainability Committee as a corporate-wide initiative aimed at expanding the level of our philanthropic and community outreach projects.

One of our first accomplishments was the establishment of a charitable fund to support research, education, public policy and other activities focused on improving the health and well-being of HCP's core constituency, the nations' elderly population. Funds will be utilized for both direct grants and employee matching gifts mainly supporting organizations that support the advancement of healthcare in general, as well as organizations that address the key challenges for the elderly: isolation, proper nutrition and cognitive functioning.

In addition to expanding our gift-matching program, we continued annual traditions of a Thanksgiving Food Drive and a Christmas Toy Drive for our local communities. We are a Platinum corporate sponsor of the Alliance Partners, an organization that supports quality nursing home care. And, for the third consecutive year, we sponsored Hoag Hospital's Toshiba Classic golf tournament, a fundraiser for the Mary & Dick Allen Diabetes Center at Hoag and additional local charities.

As a formal committee, we have enacted a charter and initiated discussions with a select group of charitable, education and research organizations that share our goals.

In 2013, we are committed to do much more. First, we intend to adopt one or two community projects that our staff can collectively contribute to and we plan to become more involved in Long Beach, where we are headquartered. The establishment of this committee has not only signified our presence outside our core business activities, but it has motivated the individuals that we depend on—our employees.

## Empowering our People - Diversity and Recruitment

At HCP we strive to hire the best people, value and embrace their diversity, treat and compensate them fairly, develop opportunities for them to reach their full potential, and provide them with a safe and happy work environment. With a relatively small employee base of 149 people, we carefully seek out individuals to join our team, who are competent leaders, experienced in our industry, and dedicated to our mission and vision.<sup>39</sup>

HCP is committed to promoting a work environment that emphasizes respect for the dignity of all our employees. Accordingly, we fundamentally support the protection of human rights and are committed to providing equal opportunity and fair treatment to all individuals on the basis of merit, without discrimination because of race, color, religion, national origin, sex (including gestation), sexual orientation, age, disability, veteran status, or other characteristics.<sup>40</sup>

We employ with demographics mirroring our policy of diversity and inclusion.<sup>41</sup> Employee breakdowns based on diversity by gender, type, age, and ethnic group can be seen on page 48.<sup>42</sup> Employee salary and remuneration is based on the associates' position, determined by merit, skill set, education and years with the Company. Our pledge to provide equal opportunity and fair treatment

<sup>39</sup> HR<sub>4</sub> <sup>40</sup> LA<sub>1</sub>, LA<sub>13</sub> <sup>41</sup> HR<sub>4</sub> <sup>42</sup> LA<sub>14</sub>

to all individuals throughout the years has resulted in no reported incidents of discrimination in 2012.

### Required on the Job Training

While working at HCP, employees are briefed on our corporate policies that enable them to guide daily work activities according to our highest standards. Employees are required to complete approximately 2 hours of on the job training per year. Nearly all of our employees completed our Code of Business Conduct and Ethics training in 2012. The training explicitly instructs individuals on their obligations to comply with all laws, rules and regulations applicable to HCP. These include, without limitation, laws covering bribery and kickbacks, copyrights, trademarks and trade secrets, information privacy, insider trading, illegal political contributions, antitrust prohibitions, foreign corrupt practices, offering or receiving gratuities, environmental hazards, employment discrimination or harassment, occupational health and safety, false or misleading financial information, or misuse of corporate assets.

In accordance with our Code,<sup>43</sup> HCP experienced no incidents of non-compliance with regulations or voluntary codes concerning the health and safety impacts of our real estate that serves the healthcare industry and none that resulted in fines or non-monetary sanctions during the 2012 reporting period.

Employees must learn and uphold policies that are critical to our business' ability to minimize harmful impacts on the health and safety of our tenants and the environment. These policies include: Insurance Claim Reporting, Emergency Response, Disaster Recovery, Utility Management, and Environmental Policy.

### Skills Development and Lifelong Learning

We are not only interested in investing in real estate; one of our priorities is investing in the development of our people. HCP has created a learning culture that enables each employee to maximize his or her individual potential, helping them develop in ways that are meaningful and create long-term value for the individual. HCP reimburses employees for education that takes place outside our hallways such as specialized certificate courses, conferences, and training such as continuing legal education for our attorneys and paralegals, continuing professional education for our certified public accountants and tax professionals and professional in human resources re-certification for certain human resource employees. Additionally, HCP pays up to \$5,000 dollars per year—per person—for higher education that is related to our Company and individual professional development.

HCP also holds internal educational courses for our employees through our HCP University. HCP University is a program designed to educate our employees on current issues that could affect our company. Some of the courses we offered in 2012 to our employees included Healthcare REITs and Capital Markets Update presented by our Finance Team, and the Importance of Internal Controls presented by our Internal Audit Department.

### Employees Performance Reviews

<sup>44</sup>We conduct biannual performance reviews of our employees. New, regular fulltime hires receive a performance evaluation at, or near, the conclusion of the initial trial period on the job. We believe that performance evaluations encourage communication regarding job performance, feedback, and expectations. Objectives and development plans are also discussed during the performance review. Mid-year performance evaluations are conducted to evaluate progress and determine if objectives are being met.

All of our 149 full-time employees received full performance reviews. Our executive management team is reviewed by one another and the Board. HCP has also begun to incentivize management's performance related to sustainability. Sustainability objectives have been built into individual performance goals along with prescriptive measures suggested for meeting the Company's overall strategic sustainability priorities.

<sup>45</sup>Through open dialogue, we are able to bring resolution to concerns shared by our employees and quickly devise methods for further strengthening the organization. Our low turnover rate is a testament to our ability to attract and retain a winning workforce. While we currently do not have data on employee satisfaction rates, we hope to begin collecting other non-traditional data points to help us improve the happiness, health, and well-being of our employees in 2013.



Social Responsibility Subcommittee

<sup>43</sup> SO<sub>8</sub> PR<sub>2</sub> <sup>44</sup> LA<sub>12</sub> <sup>45</sup> LA<sub>2</sub>

## Employees Health and Safety

Keeping employees happy and healthy is the key to producing and retaining a productive workforce. Our commitment to providing a safe work place has paid off.<sup>46</sup> In 2012, we maintained a record of zero incidents of workplace injuries, work-related fatalities and lost days or absenteeism due to occupational related illness.

<sup>47</sup>Beyond taking precautionary measures to limit illnesses and potential accidents from occurring,<sup>48</sup> HCP extends competitive benefit packages to all permanent full-time employees that maximize ongoing physical and financial well-being. At the base of our program lies a competitive compensation and benefits package managed through our corporate headquarters. We offer medical, dental, vision, life, and accidental death and dismemberment (AD&D) insurance. Our employees benefit from the peace of mind of knowing that paid time-off is available during illness or disability, when medical attention is needed, or for the arrival of a child. We offer a 401(k) plan with a generous company match for retirement planning.

<sup>49</sup>HCP grants employees who have more than 12 months of service, 12 weeks of unpaid time off in a 12-month period for birth, adoption, or foster care placement of their child. This leave can also be used for their own serious health condition or that of their child, parent, spouse or registered domestic partner. This policy is in compliance with the Federal Family and Medical Leave Act (FMLA) and the California Rights Act (CFRA). Even if not eligible for CRFA leave, employees are entitled to pregnancy disability leave for up to four months. In 2012, 100% of our workforce returned to work after taking family, medical, or maternity leave.

## Maintaining Customer Satisfaction

<sup>50</sup>Just like employee satisfaction, HCP realizes that customer satisfaction is critical to sustaining and growing our business. Since 2001, we have partnered with a research and consulting firm to implement a customer feedback system. Last year, we integrated 25 more sustainability related questions to the initial two distributed throughout our network in 2011. The overall tenant survey response rate was an industry high of 82.1% in 2012. The survey revealed the following key results for tenant satisfaction:

**OVERALL SATISFACTION: 83%**  
**PROPERTY RECOMMENDATION: 82%**  
**MANAGEMENT OVERALL SATISFACTION: 86%**  
**MANAGEMENT COMMUNICATION: 86%**  
**LEASING PROCESS OVERALL SATISFACTION: 80%**

These results serve as a means for identifying opportunities for growth and areas where additional business investments are warranted. We have identified the following areas of most importance to our tenants' overall satisfaction in the MOB sector: problem resolution, accommodation of special requests, responsiveness, communication, accessibility, and professionalism/courtesy. Improvements to satisfaction in these areas will lead to higher likelihood of renewal, increased referral and greater rental rate tolerance.

We consider tenant needs and desires as a priority in all our development and redevelopment projects, as well as through annual maintenance and investments in our existing facilities.<sup>51</sup> In promoting safe working and living conditions in some instances, we evaluate health and safety impacts using environmental impact assessments, property review assessments, and insurance review assessments. Related factors include:

- Indoor air quality
- Lighting quality and increased day lighting
- Thermal comfort
- Higher efficiency HVAC units
- Compliance with voluntary standards such as LEED and ENERGY STAR

## Working Together to Promote Community Health



<sup>52</sup>By providing sustainable buildings for our customers, we help them achieve their mission of delivering the highest quality healthcare to the communities they serve. This creates a brighter future for our customers and theirs alike. We pride ourselves on doing things right and for the right reasons.

Prior to entering a community, the healthcare and senior housing providers we work with conduct a thorough needs-based assessment to determine how their services may fill a void and elevate community health.



During the property development phase, HCP makes sure a strategic plan is in place to ensure that adequate resources and management are devoted to the project. Members of the project team, including the development manager, contractor, architect and other professionals are engaged to review local zoning, design and LEED sustainability requirements. Before breaking ground on the site, HCP assumes responsibility for conducting environmental risk assessments, for which local environmental issues are evaluated and addressed. Our customers know that they can depend on us to accommodate their individual needs through day-to-day management of properties. This approach has been applied to 100% of the new construction projects falling within our reporting boundary.

Over the years, we have realized that we are more than just a healthcare real estate provider; we have the ability and reach to make positive environmental, health, social, and economic changes in the areas in which we operate. At HCP we are honored and humbled by this fact and it has motivated us to increase our investment in social sustainability.

### Incentivizing Better Management Practices

We hope to influence others by creating a replicable model for best practices and rewarding our tenants' strengths. We recognize the good work of our tenants and provide our tenants with awards. We developed the HCP Green Challenge and the winners were provided sustainable trophies and tenant events.

We held a competition among our tenants across our Life Science portfolio evaluating their electricity usage by quarter through a sustainability scorecard. We created a list of best practices with operators in addition to efficiency tips and checklists for tenants with 20 to 30 items to help them achieve a higher level of sustainability. Additionally, our MOB and Life Science properties have begun collecting data on a number of recycling programs and the amount of energy savings from retrofits.

# WORKING TOGETHER PROPERTY MANAGEMENT GROUP AND TENANT



## HCP Green Challenge Competition

- Rated various sustainability metrics for tenants in the Bay Area and San Diego Portfolios
- Awarded trophies and tenant events to winners in each sub market categorized as large labs (50,000 square feet or greater), smaller labs (less than 50,000 square feet) and offices
  - Best overall scorecard
  - Greatest energy savings
- Used results to develop and distribute best practices worksheet



## Agilent Technologies

### Tenant Highlight

Agilent (Managed by Cushman & Wakefield)

### Green Challenge Award

Large lab—energy reduction category.

### Accomplishments

- Consolidating freezer equipment used to preserve specimens
- Adjusting janitorial schedule from Sundays to Fridays in order to reduce energy use over the weekend
- Conducting a thermostat study aimed at fine tuning systems and replacing faulty units



## Property Management Group

Cushman & Wakefield

### Management Portfolio

HCP's San Diego Life Science portfolio consisting of approximately 1.5 million square feet throughout the Torrey Pines biotech cluster and Sorrento Mesa region.

### 2012 Green Challenge Approach

Cushman & Wakefield worked in tandem with tenants to complete the scorecard and review year-over-year energy savings.

### Outcomes

Tenants that reduced annual energy use received a prize; a plaque and a luncheon provided by HCP. HCP's interest in what tenants are doing and helping them realize the benefits involved with energy conservation has had a positive impact. Common strategies have influenced the way Cushman & Wakefield manages other properties outside the HCP portfolio and sustainability has become central to weekly internal management discussion.

# SOCIAL PERFORMANCE INDICATORS

## LABOR PRACTICES

LA1: Total workforce by employment type, employment contract, and region broken down by gender.

**FIGURE 13: % OF WORKFORCE BY EMPLOYMENT TYPE.**

Category	FEMALE		MALE		TOTAL	
	Count	%	Count	%	Count	%
Hourly	34	49%*	8	10%*	42	28%*
Salary	36	51%*	71	90%*	107	72%*
<b>TOTAL</b>	<b>70*</b>	<b>100%</b>	<b>79*</b>	<b>100%</b>	<b>149*</b>	<b>100%</b>

LA2: Total number and rate of new employee hires and employee turnover by age group, gender, and region.

**FIGURE 14: NEW HIRES BY AGE CATEGORY AND GENDER.**

Category	FEMALE		MALE		TOTAL	
	Count	%	Count	%	Count	%
<30	3*	50%	2*	20%	5*	31%
30-50	3*	50%	5*	50%	8*	50%
>50	0*	0.0%	3*	30%	3*	19%
<b>TOTAL</b>	<b>6</b>	<b>100%</b>	<b>10</b>	<b>100%</b>	<b>16</b>	<b>100%</b>

**FIGURE 15: TERMS BY AGE CATEGORY AND GENDER.**

Category	FEMALE		MALE		TOTAL	
	Count	%	Count	%	Count	%
<30	0*	0.0%	1*	11%	1*	7%
30-50	3*	60%	6*	67%	9*	64%
>50	2*	40%	2*	22%	4*	29%
<b>TOTAL</b>	<b>5</b>	<b>100%</b>	<b>9</b>	<b>100%</b>	<b>14</b>	<b>100.0%</b>

LA13: Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.

**FIGURE 16: EMPLOYEES BY AGE CATEGORY AND GENDER.**

Category	FEMALE		MALE		TOTAL	
	Count	%	Count	%	Count	%
<30	8	11%*	6	8%*	14	9%*
30-50	42	60%*	47	59%*	89	60%*
>50	20	29%*	26	33%*	46	31%*
<b>TOTAL</b>	<b>70</b>	<b>100%</b>	<b>79</b>	<b>100%</b>	<b>149</b>	<b>100%</b>

**FIGURE 17: ETHNICITY GROUP BY GENDER.**

Category	FEMALE		MALE		TOTAL	
	Count	%	Count	%	Count	%
Asian	19	27%*	15	19%*	34	23%*
Black/African American	2	3%*	1	1%*	3	2%*
Hispanic or Latino	9	13%*	4	5%*	13	9%*
Hawaiian/Pacific Island	0	0%*	1	1%*	1	1%*
White	40	57%*	58	74%*	98	65%*
<b>TOTAL</b>	<b>70</b>	<b>100%</b>	<b>79</b>	<b>100%</b>	<b>149</b>	<b>100%</b>

LA14: Ratio of basic salary of men to women by employee category.

**FIGURE 18: RATIO OF REMUNERATION BY GENDER AND LEVEL.**

Category	MALE/FEMALE	
	Base Salary	Total Remuneration
EVP	116%*	164%*
SVP/VP	114%*	126%*
Non- Management	122%*	113%*

LA15: Return to work and retention rates after parental leave, by gender.

**FIGURE 19: TOTAL EMPLOYEES ENTITLED TO LEAVE AND RETURN RATES.**

Category	EMPLOYEES ENTITLED TO LEAVE		EMPLOYEES WHO TOOK LEAVE	
	Count	%	Count	RETURN RATE IN 2012
Female	70	47%	6*	100%*
Male	79	53%	8*	100%*
<b>TOTAL</b>	<b>149</b>	<b>100%</b>	<b>14</b>	<b>100%</b>



## Report of Independent Accountants

To the Board of Directors of HCP, Inc.

We have reviewed Management Assertion and Measurement Techniques ("management's assertion") included in the accompanying Appendix A, that the selected sustainability metrics identified below and denoted by an asterisk (\*) within HCP, Inc.'s 2012 Sustainability Report for the year ending December 31, 2012 are presented in conformity with the assessment criteria set forth in management's assertion (the "assessment criteria") in Appendix A.

- Direct energy consumption
- Indirect energy consumption
- Direct and indirect greenhouse gas ("GHG") emissions
- Total water withdrawal
- Total weight of waste and percentage by disposal method
- Percentage of workforce by employment type
- New hires by age category and gender
- Terms by age category and gender
- Percentage of employees by age category and gender
- Percentage of ethnicity group by gender
- Salary and remuneration by category and gender
- Parental leave by gender
- Percentage of return to work and retention after parental leave

HCP, Inc. and its consolidated subsidiaries ("HCP") management is responsible for management's assertion and for the assessment criteria which it has identified as an objective basis against which it assesses and reports on the selected sustainability metrics. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of selected data that is free from material misstatement, whether due to fraud or error.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is designed to provide limited assurance, and as such is less in scope than an examination, the objective of which is the expression of an opinion on management's assertion. Accordingly, we do not express such an opinion. The procedures we performed included inquiries of persons responsible for the selected sustainability metrics, understanding the processes for collecting and reporting the selected sustainability metrics, analytical procedures, and inspection of documents.

Greenhouse gas ("GHG") quantification is subject to inherent uncertainty because of such things as emission factors that are used in mathematical models to calculate emissions and the inability of those models, due to incomplete scientific knowledge and other factors, to precisely characterize under all circumstances the relationship between various inputs and the resultant emissions. Environmental and energy use data used in GHG emissions calculations are subject to inherent limitations, given the nature and the methods used for determining such data. The selection of different but acceptable measurement techniques may result in materially different measurements.

Data related to certain of the other sustainability metrics is subject to inherent limitations given the nature and the methods used for determining such data. The selection of different but acceptable measurement techniques can result in materially different measurements.

Based on our review, nothing came to our attention that caused us to believe that the selected sustainability metrics referred to above are not fairly stated, in all material respects, based on the corresponding assessment criteria set forth in Appendix A.

*PricewaterhouseCoopers LLP*

May 23, 2013

PricewaterhouseCoopers LLP, 350 South Grand Avenue, Los Angeles, CA 90071  
[www.pwc.com](http://www.pwc.com)

## APPENDIX A—MANAGEMENT ASSERTIONS AND MEASUREMENT TECHNIQUES<sup>53</sup>

HCP, Inc. and its consolidated subsidiaries (“HCP”) is responsible for the completeness, accuracy and validity of the sustainability metrics contained in this assertion and in the 2012 Sustainability Report for the year ending December 31, 2012. The sustainability metrics presented include all HCP’s operations. Data was collected for properties where HCP determines having operational control, in alignment with the GHG protocol and based on the building (or portion of the building) that we maintained, provided service to and/or had the authority to implement operating policies with respect to energy usage, water usage and/or waste disposal.

With respect to the sustainability metrics in the following table and in the 2012 Sustainability Report identified and denoted by an asterisk (\*), Management of HCP asserts that such sustainability metrics are presented in conformity with the assessment criteria set forth below.

Metric Description	Definition of Metric	Metric Quantity
Direct energy consumption	Total gigajoules (“GJ”) and Megawatt hours (“MWh”) of direct energy purchased, including natural gas, diesel, gasoline and liquid propane for year ending December 31, 2012, as either (1) third-party invoices recorded in environmental/utilities management systems or (2) based upon estimation methodology. See Estimation Methodology for direct and indirect energy consumption section below for additional information.	496,710 GJ 137,975 MWh
Indirect energy consumption	Total GJ and MWh of indirect energy purchased, including electricity, steam and chilled water for the year ending December 31, 2012, as either (1) third-party invoices recorded in environmental/utilities management systems or (2) based upon estimation methodology. See Estimation Methodology for direct and indirect energy consumption section below for additional information.	1,453,644 GJ 403,790 MWh
Direct and indirect greenhouse gas (“GHG”) emissions	The quantity of greenhouse gas (“GHG”) emissions in metric tonnes of carbon dioxide equivalent (“CO2e”) for the year ending December 31, 2012, based on direct (Scope 1) and indirect (Scope 2) energy consumption. Scope 1 emissions are based on direct energy consumption multiplied by their associated emission factor as well as refrigerants emissions. Scope 2 emissions are based on indirect energy consumption multiplied by their associated emission factor. See Uncertainty, GHG Emission Factors and Estimation Methodology for Refrigerant Emissions sections below for additional information on GHG emission factors and estimates.	Scope 1 – 28,940 metric tonnes CO2e Scope 2 – 216,887 metric tonnes CO2e
Total water withdrawal	The quantity in gallons of potable water withdrawal by HCP related operations for the year ending December 31, 2012 as either (1) third-party invoices recorded in environmental/utilities management systems or (2) based upon estimation methodology. See Estimation Methodology for Water Withdrawal section below for additional information.	734,277,148 gallons
Total weight of waste and percentage by disposal method	Waste disposed of in metric tonnes as well as the percentage of waste going to landfill or being recycled, for the year ending December 31, 2012, as either (1) third-party invoices recorded in environmental/utilities management systems or (2) based upon estimation methodology. See Estimation Methodology for direct and indirect energy consumption section below for additional information.	Total: 15,317 metric tonnes Percent of waste sent to landfill: 93% Percent of waste sent to recycling: 7
Percentage of workforce by employment type	Diversity of HCP employees according to gender and employment type as recorded in HCP’s Human Resource system as of December 31, 2012.	Total employees Number: 149 Salary: 72% Hourly: 28% Men Number: 79 Salary: 90% Hourly: 10% Women Number: 70 Salary: 51% Hourly: 49%

<b>Metric Description</b>	<b>Definition of Metric</b>	<b>Metric Quantity</b>
New hire by age category and gender	Diversity of 2012 new hires according to gender and date of birth as recorded in HCP's Human Resource system as of December 31, 2012.	<b>Total new hires</b> <i>Below 30: 5</i> <i>30-50: 8</i> <i>Above 50: 3</i> <b>Men new hires</b> <i>Below 30: 2</i> <i>30-50: 5</i> <i>Above 50: 3</i> <b>Women new hires</b> <i>Below 30: 3</i> <i>30-50: 3</i> <i>Above 50: 0</i>
Terms by age category and gender	Diversity of 2012 turnover, including voluntary and involuntary departures, according to gender and age as recorded in HCP's Human Resource system as of December 31, 2012.	<b>Total turnover</b> <i>Below 30: 1</i> <i>30-50: 9</i> <i>Above 50: 4</i> <b>Men turnover</b> <i>Below 30: 1</i> <i>30-50: 6</i> <i>Above 50: 2</i> <b>Women turnover</b> <i>Below 30: 0</i> <i>30-50: 3</i> <i>Above 50: 2</i>
Percentage of employees by age category and gender	Diversity, in percentage, of employees according to gender and age as recorded in HCP's Human Resource system as of December 31, 2012.	<b>Total employees</b> <i>Below 30: 9%</i> <i>30-50: 60%</i> <i>Above 50: 31%</i> <b>Men</b> <i>Below 30: 8%</i> <i>30-50: 59%</i> <i>Above 50: 33%</i> <b>Women</b> <i>Below 30: 11%</i> <i>30-50: 60%</i> <i>Above 50: 29%</i>
Percentage of ethnicity group by gender	Diversity, in percentage, of employees according to gender and ethnicity group as recorded in HCP's Human Resources system as of December 31, 2012.	<b>Total employees</b> <i>White: 66%</i> <i>Hawaiian/Pacific Island: 1%</i> <i>Hispanic/Latino: 9%</i> <i>Black/African American: 2%</i> <i>Asian: 23%</i> <b>Men</b> <i>White: 74%</i> <i>Hawaiian/Pacific Island: 1%</i> <i>Hispanic or Latino: 5%</i> <i>Black/African American: 1%</i> <i>Asian: 19%</i> <b>Women</b> <i>White: 57%</i> <i>Hawaiian/Pacific Island: 0%</i> <i>Hispanic or Latino: 13%</i> <i>Black/African American: 3%</i> <i>Asian: 27%</i>

<b>Metric Description</b>	<b>Definition of Metric</b>	<b>Metric Quantity</b>
Salary and remuneration by category and gender	Ratio of base salary and total remuneration, including base, bonus and equity, of employees according to category and gender as recorded in HCP's Human Resources system for the year ending December 31, 2012.	<p><b>Executive Vice Presidents:</b>  <i>Ratio of base salary men/women: 116%</i>  <i>Ratio of total remuneration men/women: 164%</i></p> <p><b>Management:</b>  <i>Ratio of base salary men/women: 114%</i>  <i>Ration of total remuneration men/women: 126%</i></p> <p><b>Non-Management:</b>  <i>Ratio of base salary men/women: 122%</i>  <i>Ration of total remuneration men/women: 113%</i></p>
Parental leave by gender	Number of parental leaves taken as recorded in HCP's Human Resources system as of December 31, 2012.	<p><b>Number of leaves taken</b>  <i>Men: 8</i>  <i>Women: 6</i></p>
Percentage of return to work and retention after parental leave by gender	Percentage of employees who have returned to work from a parental leave in 2012 and percentage of employees who have returned from a parental leave in 2011 and are still employed 12 months later, as recorded in HCP's Human Resources system as of December 31, 2012.	<p><b>Employees who returned to work after leave</b>  <i>Men: 100%</i>  <i>Women: 100%</i></p> <p><b>Employees who returned to work after leave, and still employed 12 months after returning from leave</b>  <i>Men: 100%</i>  <i>Women: 100%</i></p>

## Organizational Boundary

HCP is using the operational control approach, in conformance with the GHG protocol, to report its direct and indirect energy consumption as well as its GHG emissions. HCP's complete portfolio was analyzed to determine whether HCP has operational control. As a result, 323 properties out of the 1,160 properties in HCP's portfolio (assets under management) were identified as being controlled by HCP. For those properties where HCP retains operational control but only over a limited space of the property, the proportion of the consumption controlled by HCP has been reported. See estimation methodology section below for more details.

In order to promote consistency, the same boundaries have been applied to all environmental metrics.

For labor related metrics, HCP is reporting on persons employed by HCP.

## Uncertainty

GHG quantification is subject to inherent uncertainty because of such things as emissions factors that are used in mathematical models to calculate emissions and the inability of those models, due to incomplete scientific knowledge and other factors, to precisely characterize under all circumstances the relationship between various inputs and the resultant emissions. Environmental and energy use data used in GHG emissions calculations are subject to inherent limitations, given the nature and the methods used for determining such data. The selection of different but acceptable measurement techniques may result in materially different measurements.

## GHG Emission Factors

The GHG emissions associated with the activities noted above have been determined on the basis of measured or estimated energy and fuel use, multiplied by relevant carbon emission factors. Published emission factors were used to calculate emissions from operations.

Emission Source	Emission Source Type	Emission Factor Employed
Scope 1	Natural gas	GHG emissions for natural gas are calculated using the US EPA emission factors from <i>ENERGY STAR Portfolio Manager - Methodology for Greenhouse Gas Inventory and Tracking Calculations (November 2011)</i> .
Scope 1	Diesel, gasoline, liquid propane	GHG emissions for diesel, gasoline and liquid propane are calculated using factors from <i>WRI Emission Factors Compilation from Cross-Sector Tools (August 2012)</i> .
Scope 1	Refrigerants	Global warming potentials used to convert refrigerant emissions into CO <sub>2</sub> e are from <i>IPCC Second Assessment Report (1995)</i> .
Scope 2	Electricity	US EPA eGRID sub-regional emission factors are used for electricity purchased. Electricity emission factors are updated annually based on current year data. HCP used the most up-to-date sets of factors available as of April 1, 2013.
Scope 2	Steam	GHG emissions from purchased steam are calculating using the US EPA emission factors from <i>Energy Information Administration (2010); Voluntary Reporting of Greenhouse Gases, 1605(b) Program</i> .
Scope 2	Chilled water	GHG emissions for chilled water are calculated using the US EPA emission factor from <i>ENERGY STAR Portfolio Manager - Methodology for Greenhouse Gas Inventory and Tracking Calculations (November 2011)</i> .

## **Base Data**

Base data utilized in the calculation of consolidated energy purchased, Scope 1 and Scope 2 GHG emissions, water withdrawal and waste disposal is obtained from direct measurements, third-party invoices or estimates. HCP estimates are used where measurement data is not readily available.

## **Estimation Methodology for Direct and Indirect Energy Consumption**

For the properties where HCP retains operational control over a limited amount of space and where there are no dedicated meter to obtain actual consumption, estimation of area based upon square footage controlled as a percentage of total square feet was determined based on occupancy. This estimate percentage was then used to determine HCP's portion of consumption against total property consumption.

For properties where there is a vehicle fleet but no fuel tracking system in place, diesel and gasoline consumption was estimated based on the type of vehicle and the annual mileage. Averages of 20 miles/gallons for cars and 10 miles/gallons for buses and trucks were used.

Approximately 10% of the direct energy consumption and approximately 5% of indirect energy consumption have been estimated by HCP for the year ending December 31, 2012.

## **Estimation Methodology for Refrigerant Emissions**

For the properties where HVAC units are controlled by HCP, emissions were estimated based on each unit capacity of refrigerant and a common percentage of loss. The percentage of loss used by HCP is 5%, as per US EPA guidance, consistent with *IPCC Good Practice Guidance and Uncertainty Management in National Greenhouse Gas Inventories*.

## **Estimation Methodology for Water Withdrawal**

For the properties where HCP retains operational control over a limited amount of space and where there are no dedicated meters to obtain actual consumption, estimation of area based upon square footage controlled as a percentage of total square feet was determined based on occupancy. This estimate percentage was then used to determine HCP's portion of consumption against total property consumption.

Approximately less than 1% of the water withdrawal has been estimated by HCP for the calendar year 2012.

## **Estimation Methodology for Waste**

For the properties where no actual or estimated weight is provided by the waste management company, HCP has estimated the weight of waste disposed of based on the size of the container (in yards), the number of pick-ups per week and an average weight per yard. For most properties, the yards, number of pick-ups per week and average weight were provided by the waste management company or provided on waste invoices.

In addition, for those properties for which this information was not available from the waste management company, the yards, number of pick-ups per week and average weight were estimated by an environmental consultant, in collaboration with the property manager.

HCP recognizes that the level of uncertainty for the waste metric is higher than for the other environmental metrics, primarily because of the estimation methodology that is based on an average weight per yard that does not take into account the actual density of the waste, as well as the measurement technique that assumes waste containers are fully loaded for each pick up.

Approximately 70-80% of the waste disposal has been estimated by HCP for the calendar year 2012.

# GRI CONTENT INDEX

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	CDP Alignment	GRES Alignment
1.1 CEO Statement		●
1.2 Introduction of Key Impacts, Risks & Opportunities	●	●

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**Organizational Profile**

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	CDP Alignment	GRES Alignment
2.1 Name of the Organization	●	●
2.2 Primary Brands, Products and/or services	●	●
2.3 Operational Structure of the Organization, including main divisions, operating companies, subsidiaries, and joint ventures	●	●
2.4 Location of organization's headquarters	●	●
2.5 Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	●	●
2.6 Nature of ownership and legal form	●	●
2.7 Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	●	●
2.8 Scale of the organization	●	●
2.9 Significant changes during the reporting period regarding size, structure, or ownership		
2.10 Awards received in the reporting period	●	●

## Report Parameters

	CDP Alignment	GRES Alignment
3.1 Reporting Period	●	●
3.2 Date of most recent report		
3.3 Reporting Cycle	●	●
3.4 Contact regarding report or its content		
3.5 Process for determining report content, including: determining materiality, prioritizing topics within the report, and identifying stakeholders the organization expects to use the report		
3.6 Boundary of the report	●	●
3.7 State any specific limitations on the scope or boundary of the report	●	●
3.8 Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations	●	●
3.9 Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols Appendix A	●	●
3.10 Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	●	●
3.11 Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	●	●
3.12 Table identifying the location of the Standard Disclosures in the report GRI Content Index		
3.13 Policy and current practice with regard to seeking external assurance for the report PWC Report of Independent Accountants	●	●

## Governance, Commitments and Engagements

	CDP Alignment	GRES Alignment
4.1 Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight	●	●
4.2 Indicate whether the Chair of the highest governance body is also an executive officer		●
4.3 For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members		
4.4 Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	●	
4.5 Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance)	●	●
4.6 Processes in place for the highest governance body to ensure conflicts of interest are avoided		
4.7 Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics		

	CDP Alignment	GRES Alignment
4.8 Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	●	
4.9 Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles		●
4.10 Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance		
4.11 Explanation of whether and how the precautionary approach or principle is addressed by the organization		
4.12 Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	●	●
4.13 Memberships in associations (such as industry associations) and/or national/international advocacy organizations	●	●
4.14 List of stakeholder groups engaged by the organization		
4.15 Basis for identification and selection of stakeholders with whom to engage		
4.16 Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group		
4.17 Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting		

**Environmental Disclosures on Management Approach**  
Tom Klaritch Statement

	CDP Alignment	GRES Alignment
<b>ENVIRONMENTAL PERFORMANCE INDICATORS</b>		
N <sub>3</sub> Direct energy consumption by primary energy source (Core)	●	●
N <sub>4</sub> Indirect energy consumption by primary source (Core)	●	●
RE <sub>1</sub> (Sector Supplement): Building energy intensity	●	●
N <sub>5</sub> Energy saved due to conservation and efficiency improvements (Additional)	●	●
N <sub>6</sub> Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives (Additional)	●	●
N <sub>8</sub> Total water withdrawal by source (Core)	●	
N <sub>1,6</sub> Total direct and indirect greenhouse gas emissions by weight (Core)	●	●
RE <sub>3</sub> (Sector Supplement): Greenhouse gas emissions intensity from buildings	●	●
N <sub>1,7</sub> Other relevant indirect greenhouse gas emissions by weight (Core)	●	●
N <sub>1,8</sub> Initiatives to reduce greenhouse gas emissions and reductions achieved (Additional)	●	●
EN <sub>2,2</sub> Total weight of waste by type and disposal method (Core)	●	●
EN <sub>2,6</sub> Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation (Core)		●
EN <sub>2,8</sub> Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations (Core)	●	●

**Social Disclosures on Management Approach**  
Susan Tate Statement

	CDP Alignment	GRES Alignment
<b>LABOR PERFORMANCE INDICATORS</b>		
LA <sub>1</sub> Total workforce by employment type, employment contract, and region (Core)	●	
LA <sub>2</sub> Total number and rate of employee turnover by age group, gender, and region (Core)		
LA <sub>3</sub> Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations (Additional)		
LA <sub>4</sub> Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region (Core)		
LA <sub>8</sub> Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases (Core)		
LA <sub>12</sub> Percentage of employees receiving regular performance and career development reviews (Additional)	●	
LA <sub>13</sub> Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity. (Core)		
LA <sub>14</sub> Ratio of basic salary of men to women by employee category. (Core)	●	
LA <sub>15</sub> Return to Work and retention rates after parental leave, by gender. (Core)		
<b>HUMAN RIGHTS PERFORMANCE INDICATORS</b>		
HR <sub>4</sub> Total number of incidents of discrimination and actions taken (Core)	●	
<b>SOCIETY PERFORMANCE INDICATORS</b>		
SO <sub>1</sub> Percentage of operations with implemented local community engagement, impact assessments, and development programs (Core)		
SO <sub>8</sub> Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations (Core)		
<b>PRODUCT RESPONSIBILITY PERFORMANCE INDICATORS</b>		
PR <sub>1</sub> Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures. (Core)	●	●
PR <sub>2</sub> Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes (Additional)		
PR <sub>5</sub> Practices related to customer satisfaction, including results if surveys measuring customer satisfaction (Additional)	●	

**Economic Disclosures on Management Approach**  
Timothy Schoen Statement

	CDP Alignment	GRES Alignment
<b>ECONOMIC PERFORMANCE INDICATORS</b>		
EC <sub>1</sub> Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, related to earnings, and payments to capital providers and governments (Core)		
EC <sub>2</sub> Financial implications and other risks and opportunities for the organization's activities due to climate change (Core)	●	●