# Unlocking potential

**Great Portland Estates plc** Annual Report 2016

**Cover image:**
12/14 New Fetter Lane, EC4

Strategic Report – Overview

# Who we are

**Great Portland Estates is a property investment and development company owning over £3.7 billion of real estate, 100% in central London.**

We have a simple strategy – to generate superior portfolio and shareholder returns from investing in and improving central London real estate, a market that we know inside out.

We aim to achieve this through our intense, customer-focused approach to managing our properties combined with an effective reading of the property cycle, increasing and reducing risk as appropriate.

"With our single focus on our central London portfolio, our experienced team has delivered further organic growth and another year of strong property and financial returns, driven by our profitable recycling activity and a record leasing year as we deliver our largest ever development programme. Our 2016 Strategic Report on pages 1 to 74 has been reviewed and approved by the Board."

On behalf of the Board

**Martin Scicluna**
Chairman

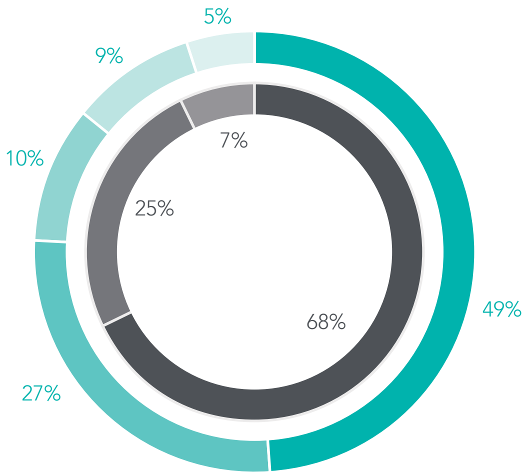
# What we do

We aim to deliver superior returns by unlocking the often hidden potential in commercial real estate in central London. Our integrated team is focused on meeting tenants' needs through repositioning properties in tune with London's property cycle.

## Our portfolio – 76% in West End

**Locations**
- North of Oxford Street £1,791.6m
- Rest of West End £1,009.8m
- City £376.6m
- Southwark £341.5m
- Midtown £184.4m

**Business mix**
- Office £2,539.7m
- Retail £916.3m
- Residential £247.9m




- £3,704 million portfolio valuation
- 3.6 million sq ft
- 59% in development programme
- 67 properties, 42 sites
- 425 tenants
- £96.8 million annual rent roll
- £45.30 average office rent per sq ft
- 9.9% rental value growth in year
- 33.1% reversionary potential
- 3.1% vacancy rate
- 86% <800 metres from a Crossrail station

## Performance highlights

Total Property Return
**18.9%**
2015: 21.5%

Portfolio valuation (like-for-like) growth
**14.7%**
2015: 18.0%

EPRA NAV per share growth
**19.5%**
2015: 24.6%

Dividend per share growth
**2.2%**
2015: 2.3%

Loan to value
**17.4%**
2015: 21.8%

Total Shareholder Return
**(9.3)%**
2015: 30.3%

**See our KPIs and operational measures** on pages 20 and 21

## Our integrated team

### Investment management

Buying well and selling at the right point in the cycle is key to crystallising portfolio returns. Our deep knowledge of our local markets and close network of contacts and advisers means we often acquire properties, off-market, that are rich with opportunity for improvement.

**Accretive sales activity**

£470m

**See more** on pages 32 and 33

### Development management

Upgrading our portfolio with targeted capital expenditure improves its tenant appeal and longevity, enhancing both rental values and capital returns. Our strong relationships with planning authorities, contractors and local communities are central to our profitable development activities.

**Profit on cost on committed schemes**

27.1%

**See more** on pages 34 to 37

### Asset management

Keeping close to our 425 tenants to understand their needs helps us to ensure their satisfaction which, in turn, drives sustainable rental growth and minimises vacancy.

**Record lettings in year**

£31.8m

**See more** on pages 38 and 39

### Financial management

Robust financial management is core to enabling the Group's activities. Conservative financial leverage provides security in our cyclical markets and firepower to buy when opportunities arise.

**Cash and undrawn facilities**

£472m

**See more** on pages 40 and 41

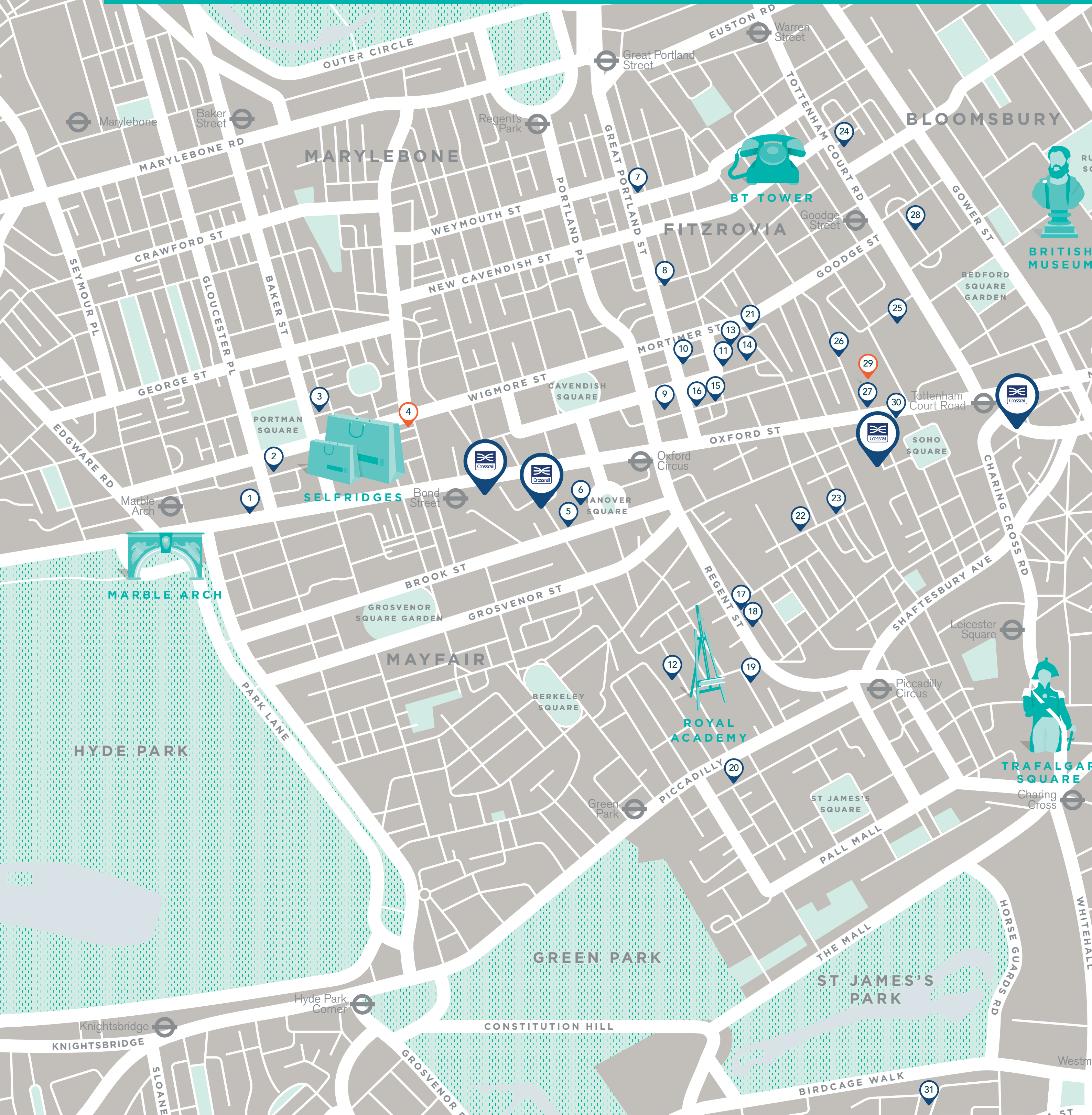
# Where we do it

**North of Oxford Street**

1. Mount Royal
2. 35 Portman Square
3. Orchard Court
4. Wigmore Street Buildings
7. 160 Great Portland Street
8. 78/92 Great Portland Street
9. Walmar House
10. 32/36 Great Portland Street
11. Elsley House
13. Wells & More
14. Tasman House
15. 6/10 Market Place
16. Kent House
21. 27/35, 37/41, 42/44 Mortimer Street
24. 183/190 Tottenham Court Road
25. Percy House
26. 23/24 Newman Street
27. Oxford House
28. 31/34 Alfred Place
29. Rathbone Square

**Featured properties**

- 4 — 95 Wigmore Street See pages 12 and 13
- 42 — 50 Finsbury Square See pages 14 and 15
- 29 — Rathbone Square See pages 16 and 17
- 33 — 200 Gray's Inn Road See pages 18 and 19

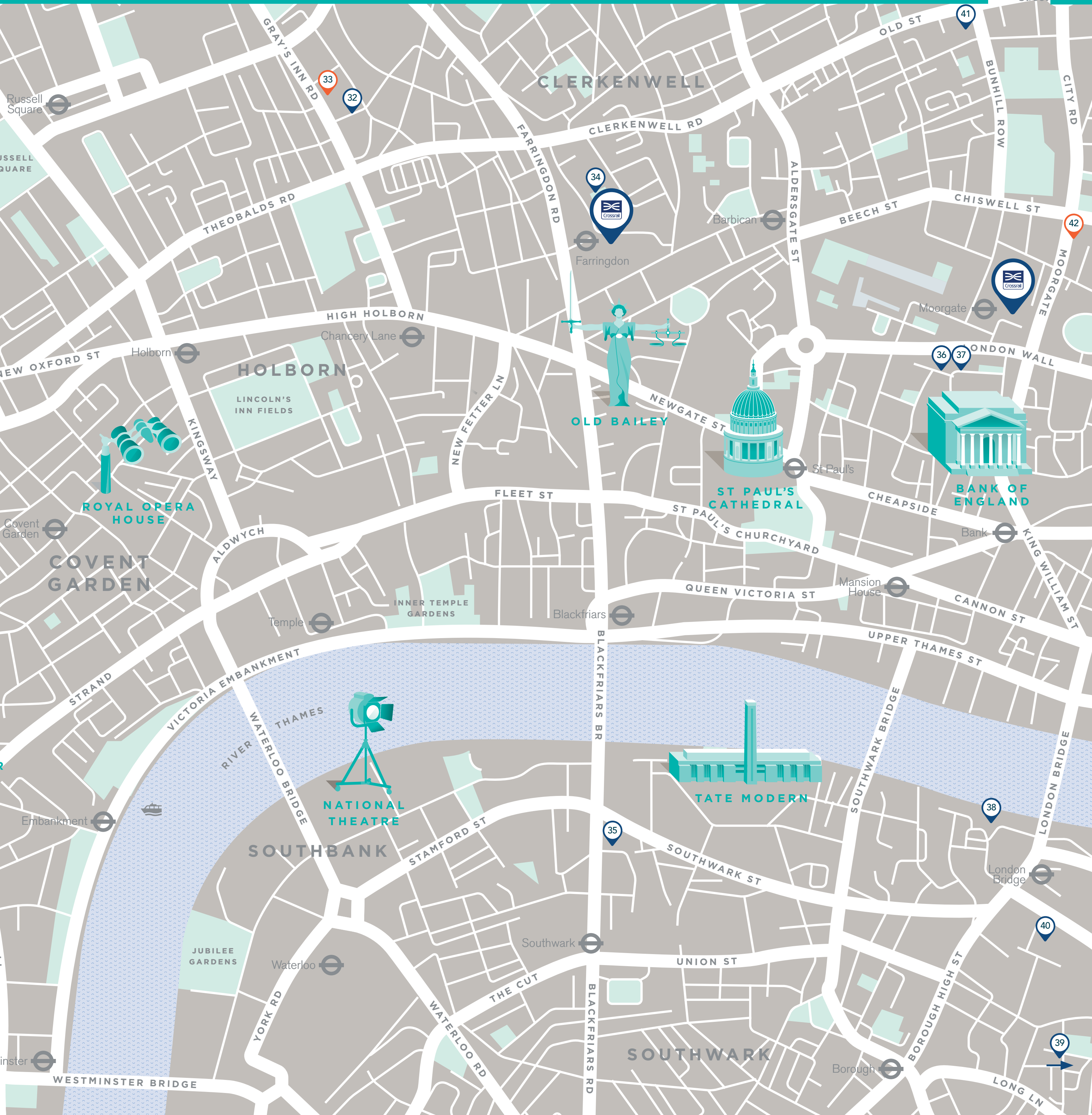


### Rest of West End

5. 6 Brook Street
6. Hanover Square Estate
12. Pollen House
17. Carrington House
18. Kingsland House
19. 103/113 Regent Street
20. The Piccadilly Buildings
22. 48/54 Broadwick Street
23. 30 Broadwick Street
30. 73/89 Oxford Street
31. 40/48 Broadway & 1/15 Carteret Street

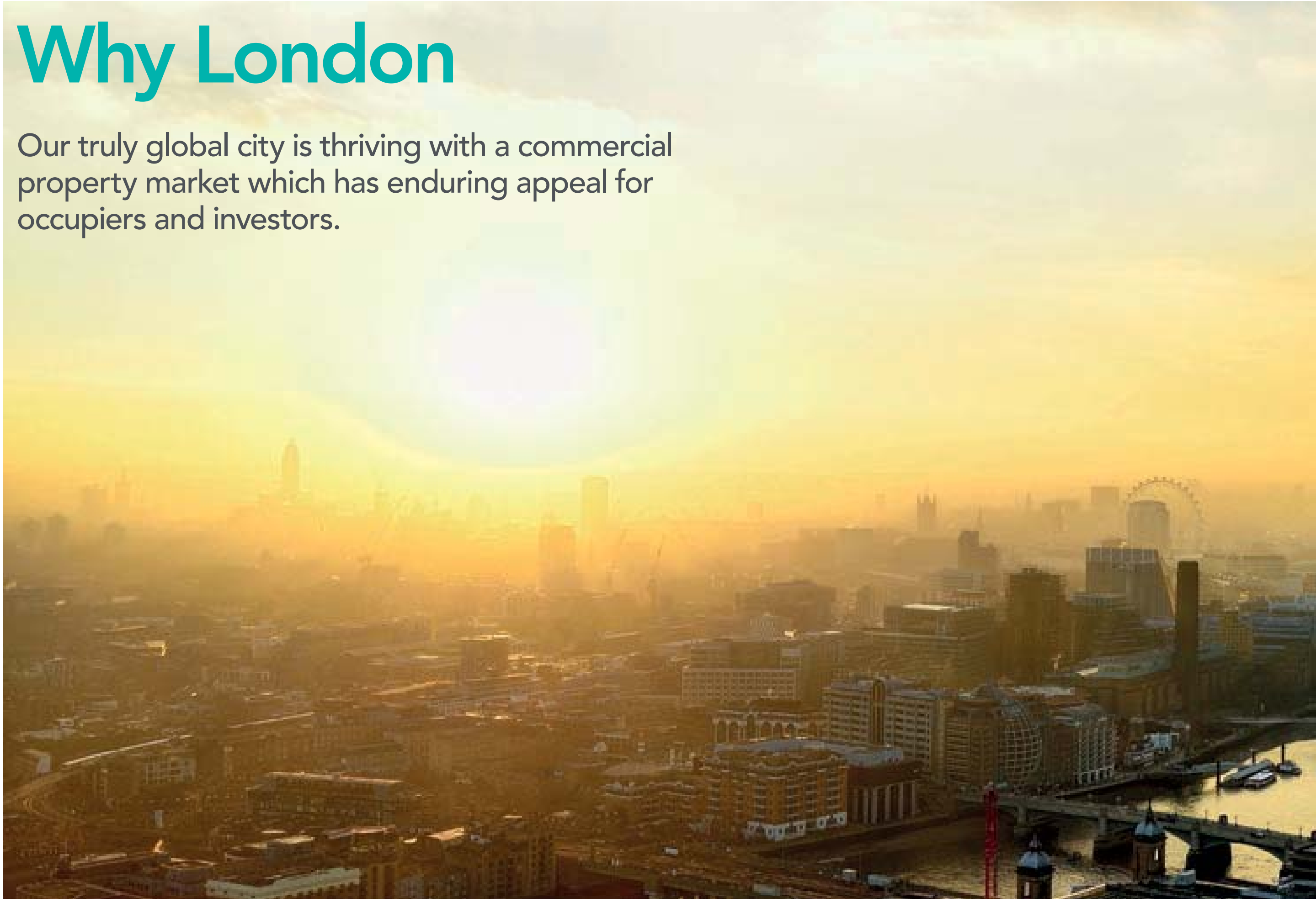
### City, Midtown and Southwark

32. Elm House
33. 200 Gray's Inn Road
34. 24/25 Britton Street
35. 240 Blackfriars Road
36. City Place House
37. City Tower
38. Minerva House
39. 46/58 Bermondsey Street
40. New City Court
41. 148 Old Street
42. 50 Finsbury Square



# Why London

Our truly global city is thriving with a commercial property market which has enduring appeal for occupiers and investors.



## London continues to grow…

With the largest economy of any city in Europe and generating around 22% of UK GDP, London is one of the world's leading commercial, creative and financial centres, and further growth is forecast as London's population is expected to increase from 8.6 million today to more than 10 million by 2030. Its combination of a strong legal system, time zone advantages, international connectivity and a welcoming attitude to international businesses has resulted in over a third of Fortune 500 companies now having their global headquarters in London.

+ **See our market section** on pages 25 to 29

## …attracting talent and visitors from around the world…

These businesses are also attracted by London's high calibre labour pool, with 1.7 million of London's workforce employed in high skilled roles (nearly 50% higher than New York, its nearest rival) and London being home to 15 top ranked universities and business schools, more than any other global city. Moreover, London was ranked the world's most popular tourist destination in 2015, supporting retailer demand for well located stores.

+ **See our market section** on pages 25 to 29

## …with a deep and liquid commercial property market…

Central London has one of the world's largest commercial real estate markets, with more than 238 million sq ft of office and retail property attracting a deep and diverse mix of occupiers and property investors, many from overseas. With our 3.6 million sq ft portfolio, our total market share is less than 2%, giving us ample scope to pursue attractive opportunities to buy and sell at favourable times in the cycle. Investment market activity continues to be healthy with £16.2 billion of transactions in 2015, providing good liquidity for us when looking to sell properties.

+ **See our case study** on pages 14 and 15

## …which we expect to remain cyclical.

Notwithstanding these attractions, the Capital's commercial property markets will always be cyclical. However, with our 100% central London focus and disciplined approach, we are well positioned to capture the opportunities that this cyclicality creates through flexing our operational risk in tune with market conditions, whilst always maintaining low levels of financial gearing.

+ **See our business model** on pages 8 and 9


## The historic heartland of London is the West End where…

With more than 390 million visitors a year, the West End provides a unique mix of commercial, retail, residential, cultural and tourist attractions, attracting businesses from a diverse range of industries to locate here. We own one of the largest commercial property portfolios (office and retail) in the core West End. With no two properties the same, our deep local knowledge remains a key competitive advantage in this complex market.

+ **See our properties and tenants** on pages 167 to 169

## …the barriers to entry continue to rise…

With tenant demand strengthening but around 70% of the core West End in a conservation area and the planning environment continuing to tighten, available space remains in short supply. Successfully navigating these barriers to development whilst delivering efficient and sustainable properties in attractive locations that meet tenants' needs remains critical to profitable real estate activities, as demonstrated by our record pre-letting to Facebook in the year.

+ **See our case study** on pages 16 and 17

## …and we are driving regeneration and rental growth.

The combination of our team's expertise, strong relationships and local experience are central to unlocking development potential and our activities are contributing to major regeneration and rental growth, such as at the east end of Oxford Street around the new Crossrail station. Crossrail is due to open in 2018 and no other office focused REIT has as much exposure as we do with 86% of our portfolio within 800 metres of a Crossrail station.

+ **See our mini case study** on page 36

"Our 100% focus on central London means it's a market that we know inside out."

**Toby Courtauld** Chief Executive

# How we create value

Our focused business model is all about repositioning properties to unlock their full potential. When combined with the effective reading of the property cycle, in a market we know inside out, we deliver attractive long-term returns for shareholders.

## The core principles of our model are…

- 100% central London; West End focus
- Reposition properties let off low rents
- Flex operational risk through the property cycle
- Maintain low financial leverage
- Deliver superior total returns by seeking to outperform our KPI benchmarks

## …underpinned by our unique combination of attributes…

### Our capital structure

- Consistently strong balance sheet and conservative financial leverage.
- Low cost, diversified debt book and plentiful liquidity.
- Disciplined allocation of capital through analytical, risk adjusted IRR decision making.
- Detailed business plan for every property reviewed quarterly.
- Support progressive dividend policy.
- Tax efficient REIT structure.

See our financial management section on pages 40 and 41

### Our relationships

- Intense, customer-focused approach to understand tenants' needs.
- High tenant retention, low vacancy rates, diverse tenant base.
- Deep relationships with key suppliers (including contractors, debt providers and advisers) and joint venture partners.
- Positive engagement with local authorities, planning departments and local communities.

See our relationships section on pages 45 to 47

### Our people

- Experienced management team supported by specialist in-house asset management, development, investment and finance teams.
- Incentivised to deliver strong total returns for shareholders and outperform our KPI benchmarks.
- Entrepreneurial and collegiate culture with disciplined approach to risk management and effective governance structure.

See our culture and people section on pages 48 to 55

## …and our proactive management of our portfolio

### Acquire

- Unloved assets in strong locations with angles to exploit.
- Below replacement cost and typically off-market.
- Off low rents.

See our investment management section on pages 32 and 33

### Reposition

- Through lease restructuring, refurbishment or redevelopment.
- Deliver new space into supportive market conditions that meet tenant needs.
- Manage risk through pre-letting, JVs and forward sales.
- Enhance the local environment and public realm.

See our approach to risk section on pages 64 to 74

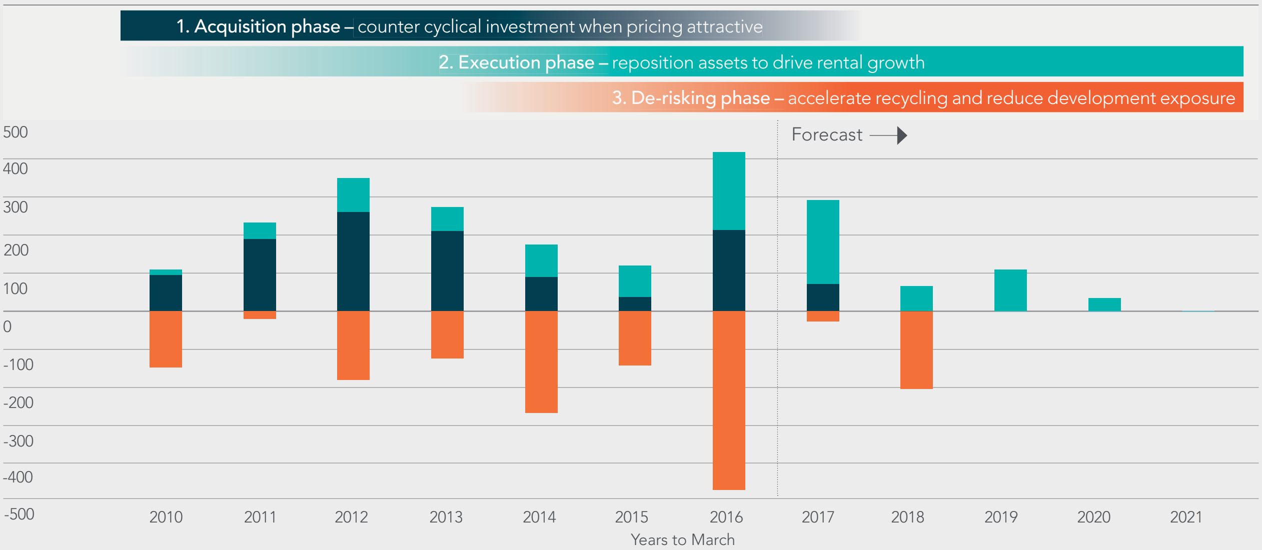
### Recycle

- Disciplined capital recycling through the sale of properties where we have executed our business plans or we are able to monetise our expected future profits.
- Reinvest proceeds into higher return opportunities.

See our case study on pages 14 and 15

## We flex our activities through the cycle…

The central London property market is highly cyclical and we analyse the cycle in three phases. Whilst we are in the execution phase, we have been taking advantage of the supportive investment market to crystallise development surpluses. The successful reading of this cycle and the flexing of our operational risk are key to delivering long-term sustainable shareholder value.




- **Acquisitions** – forecast represents currently completed or exchanged deals
- **Capex** – forecast represents committed and near-term projects
- **Sales** – forecast represents currently completed or exchanged deals

**See the GPE opportunity – our portfolio** on page 24

## …with our track record helping us…

### Acquire

- We embarked on the acquisition phase in 2009 when we saw deep value in the market to acquire raw material for the execution phase.
- Since 2009, we have bought £1.4 billion (our share: £1.2 billion) of assets or 66% of today's portfolio.

### Reposition

- Whilst we started developing early in the recovery, these activities have accelerated to drive further organic growth.
- We have completed eleven developments since 2009 (1.0 million sq ft, 56% profit on cost) and our ten committed and near-term schemes will deliver a further 1.2 million sq ft into a strong occupier market.

### Recycle

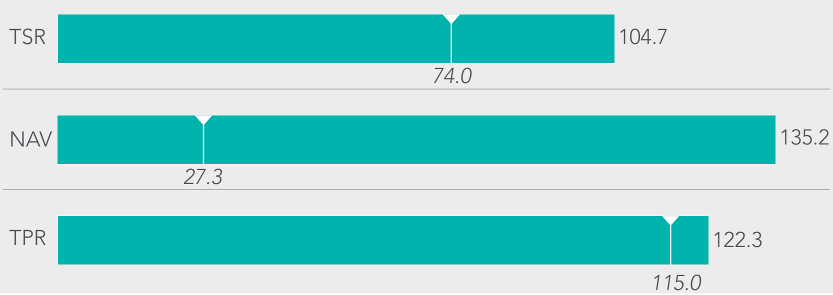
- We typically rotate 10%–20% of the portfolio every year to monetise surpluses created by our repositioning activities.
- Given the strength of the investment market, we have been a net seller in each of the last three years.

## …outperform our KPI benchmarks

Over the past five years, our proactive approach has helped us outperform our benchmarks.

*Benchmark (in italics)*

**Five year performance (%)**




**See how our KPIs are aligned to our strategic priorities and remuneration** on pages 20 and 21

# Our clear strategic priorities

We have a clear strategic focus that enables us to outperform across the property cycle. We are in the execution phase and our priorities remain focused on capturing the significant organic growth potential across our portfolio, with our financial position stronger than ever.

**See our financial management section** on pages 40 and 41

## Strategic priorities 2015/16

### 2015/16 priority: Crystallise profits through recycling

**See more** on pages 32 and 33

**Key initiatives**

- Sale of 95 Wigmore Street, W1.
- Continue to sell other properties where value has been created to crystallise returns in strong investment market.

95 Wigmore Street, W1

**See our case study** on pages 12 and 13

**2015/16 progress**

- 95 Wigmore Street, W1 sold for £222.4 million crystallising a profit on cost of 105% and 16.2% premium to book value.
- Total sales of £469.7 million at a low average net initial yield of 3.5% and an average capital value of £1,943 per sq ft.

### 2015/16 priority: Deliver development programme

**See more** on pages 34 to 37

**Key initiatives**

- Maintain programme on committed development schemes.
- Commence the next wave of the near-term development programme.
- Secure planning permission at Tasman House, W1.

50 Finsbury Square, EC2

**See our case study** on pages 14 and 15

**2015/16 progress**

- Good progress at on-site committed schemes, 61.1% pre-let or pre-sold, profit on cost 27.1%.
- Three fully consented new schemes commenced in year including 148 Old Street, EC1 and Tasman House, W1.
- New raw material secured for pipeline, including 50 Finsbury Square, EC2.

### 2015/16 priority: Drive rental growth

**See more** on pages 38 and 39

**Key initiatives**

- Launch office pre-leasing campaign for Rathbone Square, W1.
- Lease two remaining floors at 240 Blackfriars Road, SE1.
- Maintain investment vacancy rate below 4%.
- Deliver annual ERV growth of around 10%.

One Rathbone Square, W1

**See our case study** on pages 16 and 17

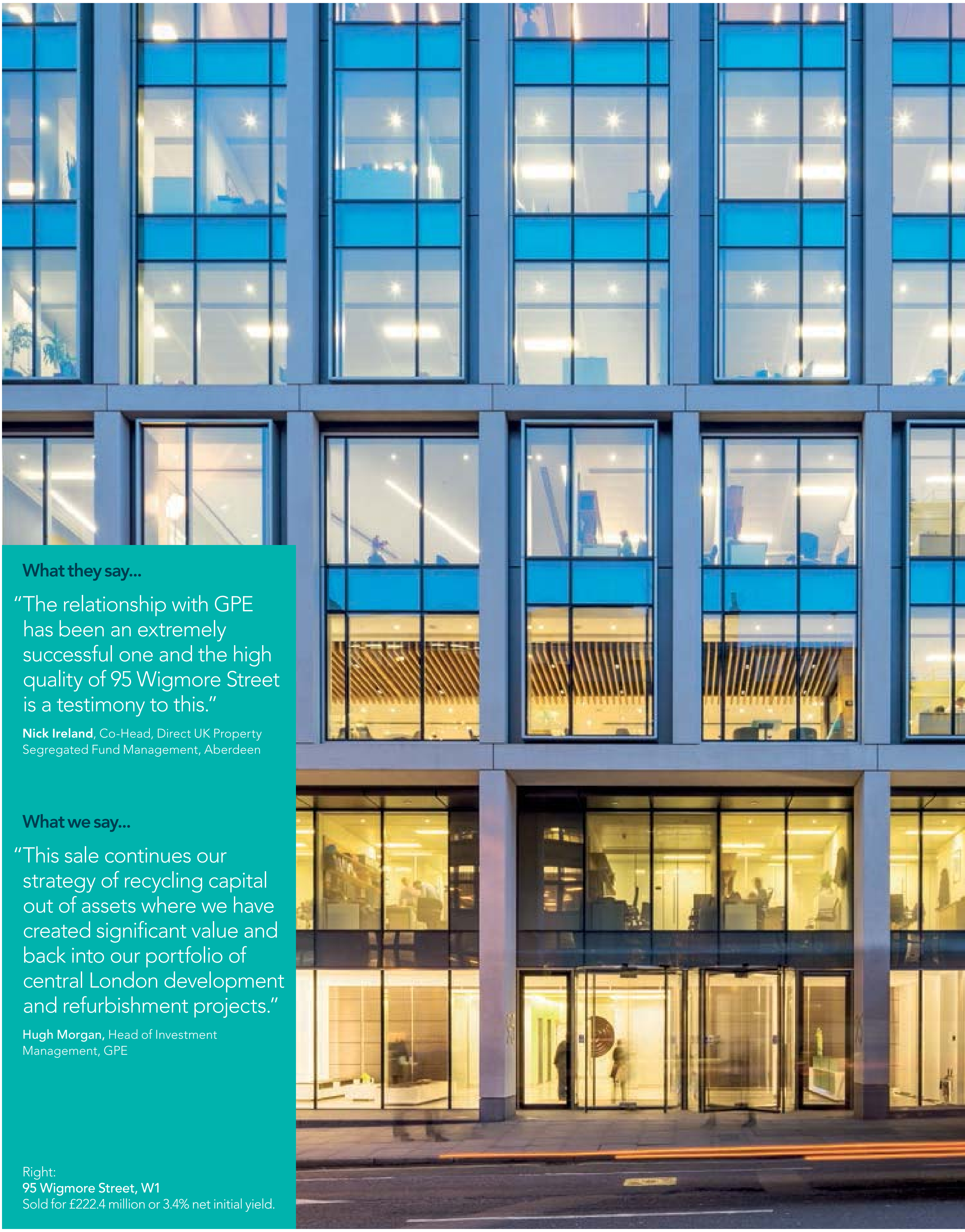
**2015/16 progress**

- One Rathbone Square, W1 offices 100% pre-let to Facebook, the largest ever West End letting.
- 240 Blackfriars Road, SE1 now fully let.
- Vacancy rate of 3.1%.
- Annual ERV growth of 9.9% in year.

## Strategic priorities 2016/17

| Impact on strategic KPIs | 2016/17 priority | Target | Risk |
|---|---|---|---|
| – Sales at premium to book value enhanced TPR and NAV.<br>– Accretive recycling and reinvestment should enhance TPR and TSR.<br>**See our KPIs and operational measures** on pages 20 and 21 | **Crystallise profits through recycling**<br>Priority/unchanged for 2015/16<br>**See more** on pages 32 and 33 | – Continue to sell properties where value has been created to crystallise returns. | – Pricing of potential disposals weakens.<br>– Insufficient market liquidity.<br>**See more** on pages 64 to 74 |
| – Development surpluses enhanced TPR and NAV.<br>– Pre-lettings accelerate TPR and mitigate voids.<br>– Extensive pipeline of development opportunities can support TSR.<br>**See our KPIs and operational measures** on pages 20 and 21 | **Deliver and lease the current development programme and prepare the pipeline**<br>**See more** on pages 34 to 37 | – Deliver Rathbone Square, W1 offices to Facebook.<br>– Complete 30 Broadwick Street and Great Portland Street developments, both W1.<br>– Prepare near-term schemes for commencement.<br>– Prepare pipeline for next cycle. | – Impact of market declines amplified by development exposure.<br>– Construction cost inflation reduces development profit.<br>– Contractor/supplier failure.<br>– Tenants' needs not met by poorly conceived building design.<br>**See more** on pages 64 to 74 |
| – Higher ERVs increase asset values and improve TPR and NAV growth.<br>– Capture of rental reversion and tenant retention supports TPR.<br>**See our KPIs and operational measures** on pages 20 and 21 | **Drive rental growth through capturing reversion**<br>**See more** on pages 38 and 39 | – Capture reversionary potential.<br>– Secure office lettings at 73/89 Oxford Street and 30 Broadwick Street, both W1.<br>– Maintain investment vacancy rate below 4%.<br>– Deliver annual ERV growth of around 5%. | – Occupational market falters.<br>– Wrong rental levels sought for local market conditions.<br>– Poor marketing of our space.<br>– Weak tenant retention.<br>**See more** on pages 64 to 74 |

# Unlocking potential by…



### What they say…

"The relationship with GPE has been an extremely successful one and the high quality of 95 Wigmore Street is a testimony to this."

**Nick Ireland**, Co-Head, Direct UK Property Segregated Fund Management, Aberdeen

### What we say…

"This sale continues our strategy of recycling capital out of assets where we have created significant value and back into our portfolio of central London development and refurbishment projects."

**Hugh Morgan**, Head of Investment Management, GPE

Right:
**95 Wigmore Street, W1**
Sold for £222.4 million or 3.4% net initial yield.

# ...taking advantage of supportive markets

**The sale of 95 Wigmore Street, W1 is the culmination of a nine year business plan delivering an exceptional development project in the heart of the West End.**

We acquired 95 Wigmore Street, W1 in 2006 on the inception of the Great Wigmore Partnership (GWP), our joint venture with Aberdeen Asset Management. We originally planned to redevelop the site in 2009 to transform a collection of poor quality buildings into 98,800 sq ft of new Grade A office and retail space. As the financial crisis took hold in early 2008, we postponed our plans and quickly relet the space on short flexible leases to preserve income.

Whilst the development was on hold, we continued to enhance the scheme's design including incorporating cycle and shower facilities, improving its efficiency and secured planning permission for an improved building. As the market started to recover in 2011, we started construction and delivered the completed BREEAM Excellent building into a resurgent rental market in July 2013. The offices were fully let within six weeks of completion at an average rent of £84.50 per sq ft.

In April 2015, we sold the building for £222.4 million setting a new benchmark low yield for this part of the West End at 3.4%. The sale crystallised a profit on cost since commitment to the development of 105%.

**See more on our sales activity** on pages 32 and 33

## Profitable development

+105%

Cost: £108.5m

Sales price: £222.4m

The development and subsequent sale of 95 Wigmore Street, W1 crystallised a profit on cost of 105%

## Unlocking potential by…

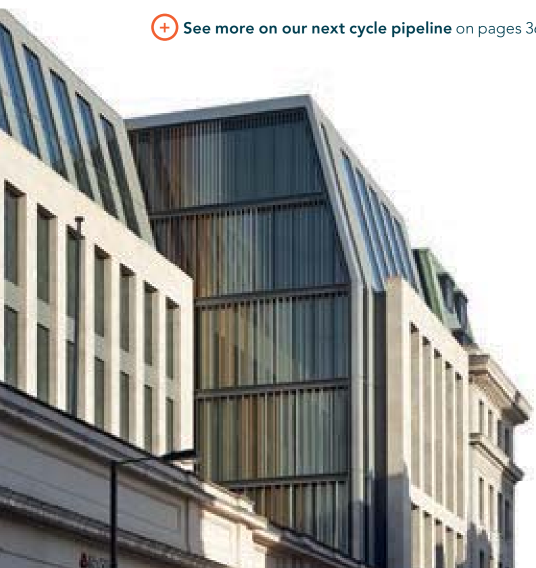
# …profitably swapping into new raw material

**Our two simultaneous off-market transactions with Deka Immobilien in January 2016 successfully crystallised our development surpluses at 33 Margaret Street, W1 and secured GPE ownership of a next-cycle repositioning opportunity at 50 Finsbury Square, EC2, whilst also releasing £97.3 million of cash for re-investment into our current development programme.**

The sale of 33 Margaret Street, W1 for £216.3 million is the profitable culmination of six years' work by our team, which has seen the property acquired, consented, built, leased and now sold. The property development was completed in December 2012 by GPE and comprises 103,700 sq ft of predominantly offices, which were fully pre-let to Savills plc for 20 years at an annual rent of £7.0 million. The sales price equates to £2,085 per sq ft, a low net initial yield of 3.3% and a 12.7% premium to the March 2015 valuation. The transaction crystallised an annualised ungeared IRR of 23.5% and a profit on cost of 137% for GPE.

We acquired 50 Finsbury Square, EC2 for £119.0 million. The 126,500 sq ft property is predominantly office space which is fully let to Bloomberg until June 2020 and generates a total annual rent of £6.6 million. The freehold property was developed in 2000 and is less than 200 metres from the Moorgate Crossrail station. The purchase price reflected £819 per sq ft on the office space and a net initial yield of 5.3%.

+ **See more on our next cycle pipeline** on pages 36 and 37



33 Margaret Street, W1
A GPE developed long-let property sold for £216.3 million.

### What they say...

"33 Margaret Street is a modern, first class building in a great West End location developed to exacting standards by GPE. As our global headquarters, the exceptional building works well for both our staff and clients."

**Mark Ridley,** CEO (UK and Europe), Savills plc

### What we say...

"50 Finsbury Square will benefit significantly from GPE's repositioning once Bloomberg vacate in a location experiencing continued growth in tenant demand from the creative/TMT sectors."

**Andrew White,** Development Director, GPE

Left:
**50 Finsbury Square, EC2**
Less than 200 metres from Crossrail station.

# Unlocking potential by…

# …creating spaces which meet tenant needs

One Rathbone Square, W1
Image of office building to be occupied by Facebook.

### What they say...

"The move to our new offices at One Rathbone Square is a fantastic opportunity to occupy a high quality new development in the heart of the West End. The location has excellent amenities and connectivity, with the very best the city has to offer right on the doorstep including Crossrail once it is established."

**Robert Cookson**, Head of EMEA, APAC and Americas Real Estate, Facebook

### What we say...

"We've long believed in the potential of the East End of Oxford Street and have built an enviable portfolio of developments totalling almost 700,000 sq ft in the area. An endorsement of this scale from one of the world's largest and most recognised brands will help transform this exciting part of the West End."

**Marc Wilder**, Leasing Director, GPE

Left:
**Rathbone Square, W1**
Construction on track for completion in 2017.

**Our pre-letting of all the office space at Rathbone Square, W1 represents one of the largest ever office lettings in the West End and continues the successful de-risking of our largest ever development scheme.**

Having already forward sold the majority of the residential units at our 418,700 sq ft mixed-use development scheme, we pre-let 242,800 sq ft of office space to Facebook in September 2015. Facebook will occupy the entirety of the office building, known as One Rathbone Square, W1 on a 15 year term without break from practical completion and will pay an annual rent of £17.8 million.

This equates to an average rent of £73.35 per sq ft on all the space or £82.90 on the above ground floors. In addition, Facebook retain a right of first offer on the 55,700 sq ft of office space at our adjoining development at Oxford House, W1.

Following this pre-letting, 92% by value of the scheme has either been pre-let or pre-sold, and we recently commenced the marketing of the 24,200 sq ft of retail space which sits around a new public garden square. The construction works are progressing well with the scheme due for completion in spring 2017 and expected to deliver a profit on cost of 24.8%.

+ **See more on our committed development programme** on pages 34 and 35

# Unlocking potential by…

## ...creating modern office space

### Driving ERV growth

ERV per sq ft


Our activities at Gray's Inn Road have transformed the space and its rental value with a 58% increase in headline ERV since purchase in 2011.

### What they say...

"The targeted capital expenditure has created high quality floorplates that appeal to the modern office user and helped rebrand the building in a dynamic occupational market."

**Tim Hayne**, Head of Property, BP Pension Fund

### What we say...

"Our approach has helped to drive returns with a 58% increase in rental values contributing to a 71% increase in capital value since purchase."

**Simon Rowley**, Leasing Manager, GPE

Right:
**200 Gray's Inn Road, WC1**
Image from our unique leasing marketing materials.

## Our multi-phase refurbishment of 200 Gray's Inn Road, WC1 has transformed the space, redefined the building and significantly increased rents.

Purchased in September 2011, by our joint venture with BP Pension Fund (Great Ropemaker Partnership), 200 Gray's Inn Road, WC1 is a 291,600 sq ft Midtown office building, three quarters of which was let to ITV and ITN. On purchase, the ERV on the best space was £38.00 per sq ft.

Whilst fundamentally a good quality building, the office floors were tired, inefficient and lacked character. We knew from our research that there was strong demand from the technology and media sectors for large modern floorplates with a difference. In 2013, we agreed surrenders with ITN and ITV to allow us to refurbish, together with some vacant space, 33,400 sq ft of space and adapt it to meet this demand.

This meant high ceilings, bespoke energy efficient LED lighting and exposed concrete. A new building management system with better zonal control helped improve energy efficiency and the refurbished floors achieved SKA silver awards. Our marketing campaign emphasised these features (including a tank!) and in 2014, we successfully let the new space to Warner Bros and Metapack increasing the ERV on the best space to £57.50 per sq ft.

Today, we have embarked on Phase 2 and are refurbishing a further 36,500 sq ft which will complete in October 2016. And there is more to come. In Phase 3, we will undertake a transformational refurbishment of the reception and common parts to further rebrand the building, create exciting collaborative space and improve its presence on the street.

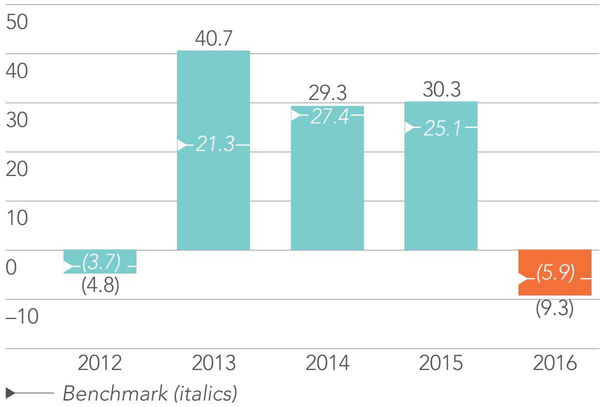
**See more on our leasing successes** on pages 38 and 39

# Our KPI benchmarks

Our key performance indicators (KPIs) measure the principal metrics that we focus on in running the business and they help determine how we are remunerated. Over the medium-term, we aim to outperform our benchmarks through successfully executing our strategic priorities.

## KPIs

### Total Shareholder Return (%) (TSR)

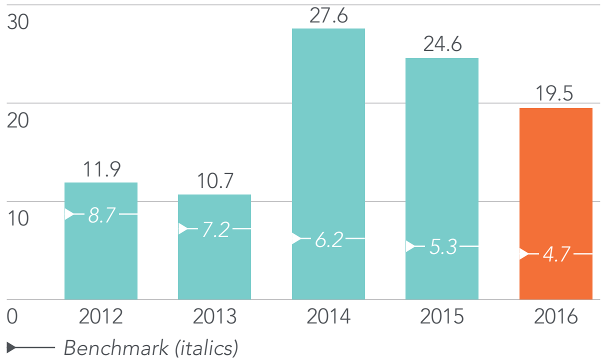



**Commentary**
TSR is the most direct way of measuring the returns to shareholders during the year. TSR of the Group is benchmarked against the TSR of the FTSE 350 Real Estate index (excluding agencies).

The TSR of the Group was –9.3% for the year compared to –5.9% for the benchmark following a de-rating of the share prices of GPE and other London focused property companies relative to the benchmark index, in part due to adverse market sentiment ahead of the upcoming EU referendum.

**Alignment with remuneration**
Performance criteria for Executive Directors' and certain senior managers' long-term incentives.

### EPRA net assets per share growth (%) (NAV growth)




**Commentary**
NAV growth is the traditional industry measure of the Group's success at creating value. We compare our NAV growth with the increase in the retail price index (RPI) plus minimum and maximum hurdles of 9%–27% over three years used as performance criteria for the long-term incentives. For the benchmark, we have used the minimum hurdle.

NAV growth in the year was 19.5% as property values rose due to the Group's successful asset, investment and development management activities. This NAV growth resulted in a 14.8 percentage point relative outperformance for the year.

**Alignment with remuneration**
Performance criteria for Executive Directors' and certain senior managers' long-term incentives, and for Executive Directors' and employees' annual bonus.

## Operational measures

In addition to our KPIs, there are several key operational metrics that we actively monitor to assess the performance of the business which feed into our KPIs. As well as measuring our financial performance, these operational metrics also measure our risk profile and our achievements against some of our sustainability targets. Each of these metrics for the year to 31 March 2016 is shown on the right.

| Investment management | |
|---|---|
| Purchases | **£214.3m** |
| Purchases – capital value per sq ft | **£704** |
| Purchases – net initial yield | **5.1%** |
| Sales | **£469.7m** |
| Sales – premium to book value | **10.0%** |
| Total investment transactions | **£684.0m** |
| Net investment | **£(255.4)m** |

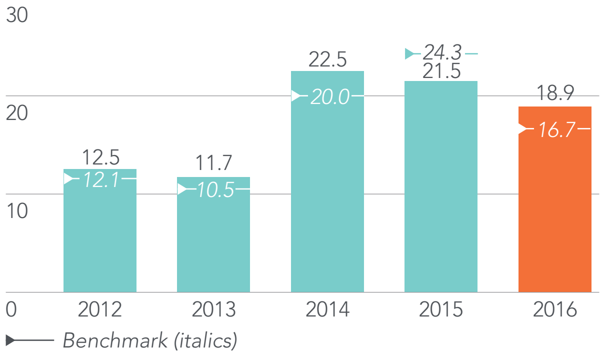
| Development management | |
|---|---|
| Profit on cost | **27.1%** |
| Ungeared IRR | **18.0%** |
| Yield on cost | **5.7%** |
| Income/GDV already secured | **61.1%** |
| BREEAM Excellent | **n/a** |
| Committed capital expenditure | **£269.9m** |

**See our approach to risk section** on pages 64 to 74

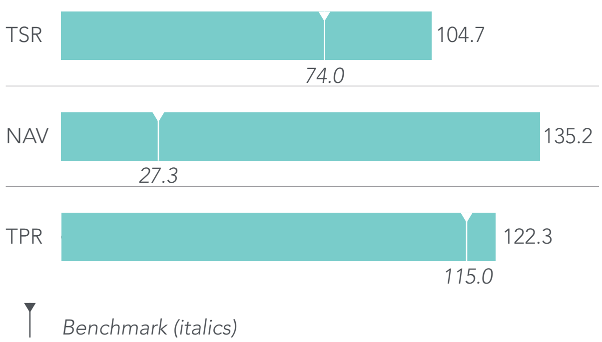
**See more** on pages 32 and 33

**See more** on pages 34 to 37

### Total Property Return (%) (TPR)




### Five year performance (%)




**Commentary**
TPR is calculated from the net capital growth of the portfolio plus net rental income derived from holding these properties plus profit or loss on disposals expressed as a percentage return on the period's opening value. TPR is compared to a universe of £57.5 billion of similar assets included in the IPD central London benchmark. The Group generated a portfolio TPR of 18.9% in the year whereas the benchmark produced a total return of 16.7%. This outperformance was driven by our development, pre-letting and recycling successes.

**Alignment with remuneration**
Performance criteria for Executive Directors' and certain senior managers' long-term incentives. The capital element of TPR is a performance criteria for Executive Directors' and employees' annual bonus.

**Commentary**
Over the last five years, our proactive approach and strong performance against our benchmarks has delivered a total shareholder return of 104.7% (or 15.4% p.a.), outperforming the comparator group by 30.7 percentage points.

| Asset management | |
|---|---|
| New lettings and renewals | £31.8m |
| Premium to ERV (market lettings) | 10.4% |
| Vacancy rate | 3.1% |
| ERV growth | 9.9% |
| Reversionary potential | 33.1% |
| Rent collected within 7 days | 99.9% |
| Tenant retention rate | 28.1% |

See more on pages 38 and 39

| Financial management | |
|---|---|
| EPRA earnings per share | 13.5p |
| Gearing | 19.5% |
| Loan to value | 17.4% |
| Interest cover | 12.5x |
| Cash and undrawn facilities | £472m |
| Weighted average interest rate | 3.7% |

See more on pages 40 and 41

| People | |
|---|---|
| Staff retention | 88% |
| Training provided per employee | 3.1 days |
| Employees participating in optional Share Incentive Plan | 66% |

See more on pages 48 to 55

| Sustainability | |
|---|---|
| Change in total energy consumption across our managed buildings | (13)% |
| GRESB rating | GreenStar |

See more on pages 56 to 63

# Strategic Report
## Annual Review

In this section we describe the trends in our marketplace, present our progress across the business and set out our approaches to sustainability and risk management.

**In this section:**



Helen Hare (Senior Project Manager) on-site with Tom Walker and Paul Mohit from Lend Lease, our main contractor at Rathbone Square, W1

# Statement from the Chief Executive

"We have continued to invest in our enviable portfolio through our largest ever development programme, meeting occupier demand and delivering record leasing results. With our balance sheet and talented team stronger than ever, we are well placed to continue delivering long-term, market leading returns."

**Toby Courtauld**
Chief Executive

**We are pleased to report another excellent set of results driven by market-beating portfolio returns, particularly in our development business, and some outstanding leasing activity including securing one of the largest ever West End lettings.**

The property portfolio delivered underlying capital growth of 14.7% in the year with a total property return of 18.9%, well ahead of IPD central London at 16.7%. As a result, EPRA NAV per share increased by 19.5% over the year, with dividends of 9.2 pence per share up 2.2% on 2015.

## Exploiting favourable market conditions in the execution phase

Central London's property markets remained supportive with economic growth driving employment and business expansion across the Capital. With record low vacancy levels and constrained supply of new space, healthy tenant demand enabled us to again deliver strong annual rental growth of around 10%. In the investment market, the weight of money has maintained transaction volumes and competition for assets at robust levels, pushing yields marginally lower during the first half of the year, although, as we warned at the interims in November, investors have approached pricing with more caution in recent months.

Looking ahead, we expect rental growth and development returns to remain the principal drivers of our valuation growth as we capture our substantial reversion, deliver the remaining development projects planned for this cycle and recycle capital through profitable disposals.

## Successfully delivering our largest ever development programme and unlocking potential over the long-term

So far this cycle we have successfully delivered eleven projects (995,400 sq ft), generating a profit on cost of 56% on development investment of £479 million, more than 50% ahead of last cycle's expenditure. Today, our expanded committed programme comprises eight schemes (851,200 sq ft), principally focused on the regeneration of the east end of Oxford Street, and all due to complete in the next 24 months with an expected profit on cost of 27.1% on development investment of £1.1 billion. Combined with two near-term schemes (311,800 sq ft), our expected development capex to come stands at £428.4 million.

Looking further ahead, excellent progress has been made in preparing our expanded pipeline of development opportunities, which extends to 1.4 million sq ft across 14 schemes, up by two schemes over the past year. Our development programme now totals 2.6 million sq ft and covers 59% of our existing portfolio.

## Record leasing activity – managing operational risk and capturing rental reversion

Our team has secured new lettings and lease renewals of £31.8 million in annual rent, including £20.4 million of pre-lettings, across 447,000 sq ft, with market lettings on average 10.4% above our valuer's ERV. As a result, our committed developments are already 61% pre-let or pre-sold, with our largest ever development scheme, Rathbone Square, W1, now over 90% de-risked following our record £17.8 million pre-let to Facebook in September. Since the year-end, our letting success has continued with £2.6 million secured, including a further pre-letting, and we can look forward to further rental income growth given our significant reversionary potential of 33% off low average office rents of £45.30 per sq ft.

## Disciplined and profitable capital recycling into robust investment market

For the third consecutive year, we were a net seller, crystallising surpluses and recycling capital into our development programme and new pipeline acquisitions. Our £469.7 million of sales were of long-let, low-yielding, high capital value properties (£1,943 per sq ft on average), including 33 Margaret Street, W1 and 95 Wigmore Street, W1, while our £214.3 million of acquisitions were short-let, higher yielding, lower capital value properties (£704 per sq ft) in attractive locations with longer-term development angles.

**Delivering attractive shareholder returns (five years)**

| | |
|---|---|
| TSR | 104.7% |
| NAV growth | 135.2% |
| TPR | 122.3% |

**See more on our KPIs** on pages 20 and 21

# Statement from the Chief Executive

## Financial strength and talented team to deliver organic growth

Our financial position is stronger than ever, with a record low loan to value ratio of 17.4% and £472 million of cash and committed undrawn liquidity giving us plentiful financial firepower. Moreover, we have supplemented our experienced team with the recent appointment of Steven Mew as Portfolio Director and Robin Matthews as Investment Director, replacing Ben Chambers who leaves with our best wishes. Both will join our Executive Committee which we expanded last summer with the promotion of Andrew White to Development Director and Marc Wilder to Leasing Director.

## Well-positioned against more uncertain market outlook

Global economic and political uncertainties, including the upcoming EU referendum, are affecting broader business confidence and investor appetite. It is too early to tell what the impact on the London property market will be although an extended political stalemate as the consequences of the referendum result are worked out would be unhelpful.

Despite this more uncertain back drop, London's commercial property market fundamentals remain supportive: London's economy is growing, its workforce expanding and demand for quality office space remains robust. With new supply limited and vacancy rates at or near record lows, we expect to secure further pre-lettings and generate attractive rental value growth across our portfolio of around 5% over the next year. In the investment market, as rental growth is captured, we can expect some mild expansion of yields, particularly for some secondary assets where pricing has run ahead of the growth on offer.

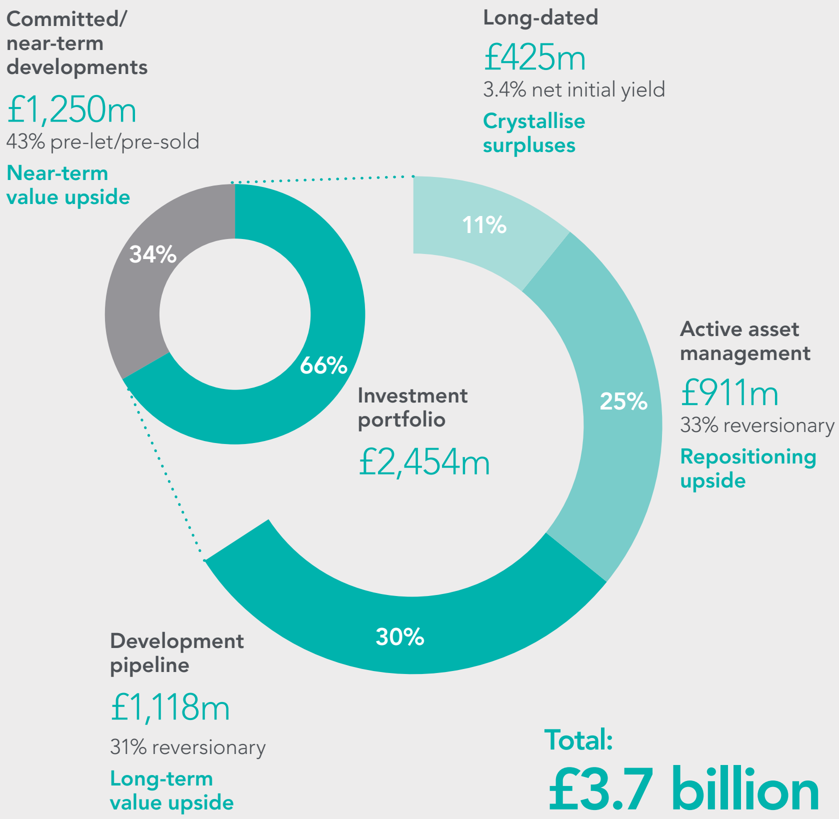
Whichever way this summer's political drama unfolds, we are well positioned to take advantage of opportunities as they arise: We have a clear strategic focus; our opportunity-rich portfolio is let off low rents to a diverse tenant base with significant reversionary potential; our development pipeline has never been longer; our balance sheet has never been stronger; plus we have a first class team to help us continue delivering long-term, market-leading returns for shareholders.

## The GPE opportunity – our portfolio

Our 100% central London portfolio is rich with opportunity to deliver both near-term surpluses and long-term value creation.

The **committed/near-term developments** have been significantly de-risked through pre-lettings and pre-sales with more profits to come. The investment portfolio comprises:

- **long-dated** investment properties which we developed with average lease lengths of 12.8 years where we expect to crystallise surpluses over time through recycling;
- classic **active asset management** investments on shorter leases with significant repositioning upside and reversionary potential to capture; and
- our future **development pipeline** where the reversionary potential is already significant even before redevelopment, giving us real long-term value potential.




**Total: £3.7 billion**

# Our market

"Central London's economy and commercial property markets have continued to prosper with rents rising and a healthy investment appetite, supporting our development and recycling activities."

**Neil Thompson**
Executive Director



## London – a thriving global city

With the largest economy of any city in Europe and generating around 22% of UK GDP, London is one of the world's leading commercial, creative and financial centres. While the rate of UK economic growth appears to be moderating, with consensus forecasts of 2.0% GDP growth for 2016 and similar levels of growth expected thereafter, London is expected to continue to outperform with Oxford Economics forecasting annual growth of 3.0% over the next five years, making it one of Europe's fastest growing cities.

London's population is forecast to grow to more than ten million by 2030 and CBRE/Oxford Economics forecast inner London office-based employment growth of 1.7% p.a. over the next five years. In addition, a recent Deloitte report ("Global cities, global talent") highlights that London is accelerating away as the world's foremost business hub, having created 235,000 new high-skilled jobs since 2013 with London businesses now employing 1.7 million workers in high-skilled roles compared to 1.2 million in New York (its nearest rival). With London's deep pool of talented labour and collection of world-class universities and business schools, more than a third of Fortune 500 companies now have their global headquarters in London.

Notwithstanding these positive prospects, uncertainties around the political and economic outlook persist given continued stock market volatility, ongoing concerns on Chinese and other emerging market economies' weakness and the outlook for global interest rates. Closer to home, the upcoming UK referendum on EU membership already appears to be weighing on broader business confidence with a recent survey of UK CFOs indicating that the referendum is their dominant business concern, partly explaining why their risk appetite has more than halved over the last 12 months. Although it is too early to tell what the impact of an exit would be on the London economy and its property market, we will maintain close scrutiny of prevailing market conditions and the fortunes of our diverse tenant base.

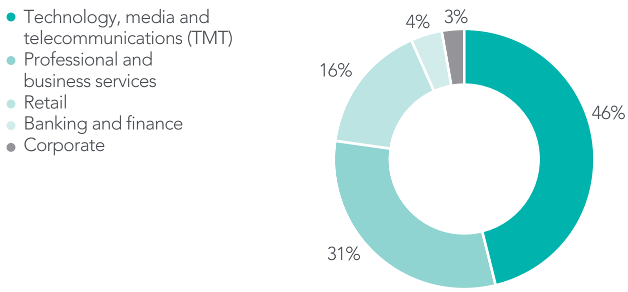
In addition, we will be watching closely for policy changes following the recent election of the new London mayor and in particular his position on measures to support economic growth including investing in transport infrastructure and housing.

**See more on Why London** on pages 6 and 7

## Occupational markets still favouring landlords

On the demand side, the levels of economic activity in London remain supportive of employment growth, business expansion and, in turn, healthy tenant demand for new space. For the year ended 31 March 2016, central London take-up was 14.7 million sq ft, marginally below the preceding 12 months but well ahead of the ten year annual average of 12.9 million sq ft. This take-up was again from a broad range of industries, including TMT businesses (22%), banking and finance (25%) and professional and business services (22%). Our own leasing successes in recent years have been focused in particular on the TMT and professional services sectors.

**GPE development and pre-lettings over the last five years**
by tenant sector



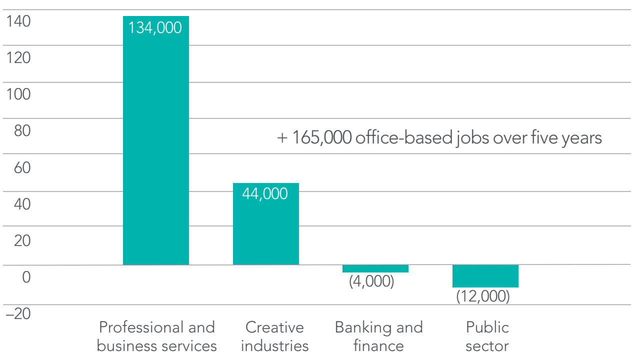

Looking ahead, CBRE/Oxford Economics expect 165,000 new office-based jobs to be created in London over the next five years, predominantly from the professional, business services and creative sectors.

# 1.7 million

London workers in highly-skilled roles

# Our market

**Forecast office-based employment growth in London (next five years)** thousands of people




Source: CBRE/Oxford Economics

The central London availability rate remains low at 5.5%, which is encouraging more occupiers to seek to secure new space earlier and ahead of lease events. This is supporting both rental growth and pre-letting across our markets, as demonstrated by our record office letting to Facebook at Rathbone Square, W1 in September.

**See our case study** on pages 16 and 17

However, against a backdrop of rising rental levels, it is expected that business rates will increase in 2017 which will likely raise occupational costs in central London and may affect future rental growth as these costs are absorbed by tenants. The new rates will be set based on rental levels at April 2015, which for many of our properties will be higher than the April 2008 rental levels against which current rates are set, although some transitional relief is anticipated. Importantly, our low average rents will provide some protection to our tenants from rates rises.

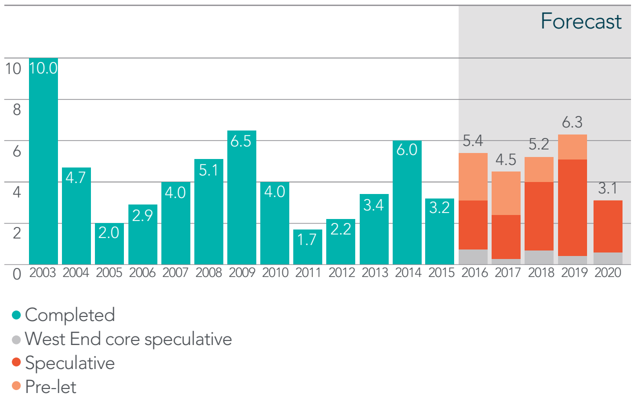
**See our approach to risk** on page 67

## New office supply remains tight

On the supply side, whilst development completions across central London had been rising, this was from an exceptionally low base and in a market with vacancy rates at historic lows. Across the central London office market as a whole, development completions in the year to 31 March 2016 fell to 3.6 million sq ft, down from 5.1 million sq ft in the preceding 12 months. Moreover, in the core of the West End, the focus of our development activities, completions totalled only 1.0 million sq ft in the year. This supply shortage has meant that pre-lets represented around 21% of central London office take-up in the year to 31 March 2016.

Looking ahead, as shown in the chart, the speculative development pipeline has increased as developers respond to stronger occupier demand levels and the prospect of rental growth, although planning delays, limited development debt financing availability and economic uncertainty may lead to some of the pipeline being delayed or postponed.

**Central London office potential completions** million sq ft




Source: CBRE/GPE

In addition, some schemes may not proceed given that the major cost consultants continue to forecast annual cost inflation of 3%–7% for commercial schemes. However, across our business, we have already secured almost 100% of construction costs on our committed schemes and we expect to be able to largely mitigate cost increases on our near-term schemes through rental growth, our deep relationships with contractors, effective supply chain management and our pipeline of opportunities.

## West End occupational markets

Over the year to 31 March 2016, West End office take-up was 4.3 million sq ft, broadly in line with the preceding year, while availability has increased to 4.3 million sq ft. Despite the upcoming EU referendum, take-up in the quarter to 31 March 2016 was healthy at 0.9 million sq ft, although we expect that activity may be slower in the current quarter ahead of the vote, notwithstanding our own strong leasing start to the financial year. Vacancy rates remain low with Grade A space vacancy estimated by CBRE to be only 2.3%.

CBRE has reported that prime office rental values in the West End continued to grow over the year and are now £120 and £90 per sq ft respectively for Mayfair & St. James's and for North of Oxford Street. Looking ahead, rents are forecast by CBRE to show attractive growth over the next few years with North of Oxford Street prime office rents expected to grow by 12.1% over the next two years.

"With a low availability rate in central London, more occupiers are seeking to secure new space earlier and ahead of lease events."

**Marc Wilder**
Leasing Director

The West End prime retail market (where 31.8% of our West End portfolio by value is located) has continued to witness strong rental growth. Over the last year, strong demand for prime retail space has maintained a near zero vacancy, with significant leasing activity supporting prime rental values. Our most recent retail pre-letting to Benetton at the east end of Oxford Street has again demonstrated our ability to re-rate rental levels upwards on the back of our development activities.

+ **See our mini-case study** on page 35

## City, Midtown and Southwark occupational markets

Over the year to 31 March 2016, City office take-up was 5.9 million sq ft, down 12% on the preceding year, with availability low at 4.8 million sq ft. Although higher than in the West End, vacancy rates remain low with Grade A space vacancy estimated by CBRE to be only 3.0%. CBRE has also reported that City prime rental values marginally increased during the year to £68.50 per sq ft today.

Midtown and Southwark office take-up was 3.0 million sq ft, down 7.4% on the preceding year, while availability remains low at 2.3 million sq ft. This has supported rental growth of 17.6% and 13.6% respectively for the year, with CBRE reporting prime office rents of £80.00 and £62.50 per sq ft respectively at 31 March 2016.

## Further rental growth expected over the next 12 months

With continued good occupational demand and restricted supply favouring the landlord, barring a major deterioration in the economic situation or extended period of uncertainty following the EU referendum, we estimate that for the next 12 months rental value growth across our office and retail portfolio will be attractive at around 5%, particularly in the context of a very low inflation environment. Additionally, with our office portfolio let off low average rents of only £45.30 per sq ft, there is further reversionary potential across the Group of 33.1%.

# £16.2 billion

Central London office property investment transactions

## Active investment market, although expected slowdown in the first half of 2016

Central London office investment activity has remained robust with CBRE reporting £16.2 billion of deals in 2015, including £5.6 billion in the West End. Overall volumes were around £2 billion down on 2014 due to reduced activity in the second half of 2015 given concerns about the slowdown in global economic growth, particularly in emerging markets. In the first quarter of 2016, deals across central London totalled £3.5 billion, lower than in previous quarters and consistent with a slowdown across the wider UK property market. Furthermore, some investors may await the result of the upcoming EU referendum before making investment decisions, particularly given recent and potential future gyrations in the Sterling exchange rate. However, according to Savills, activity in the West End in the first quarter was at record levels exceeding £2.0 billion, although it is expected to slow until the referendum outcome is known.

Overseas investors continue to be the largest buyer constituency, accounting for 58% of transactions over the 12 months to December 2015, with London maintaining its reputation as a safe investment haven for international investors seeking to diversify away from their domestic markets whilst also offering the prospects of attractive real rental growth.

We reported in May 2015 that we estimated £40 billion of equity capital was seeking to invest in commercial property across central London compared to only £2 billion of stock on the market available to buy. This strong competition for limited stock drove investment yields for office properties to record lows with prime yields in the West End and City of 3.5% and 4.0% respectively at 30 September 2015, according to CBRE. Since this time, prime yields have held firm in spite of increased stock coming to the market in the final quarter of 2015 whilst investors are approaching pricing with more caution, particularly for more secondary assets.

Investment transaction volumes in prime London retail hit record levels in 2015, exceeding £3 billion for the first time, with 42% of all deals on Oxford Street. As a result, prime yields remained firm during the year at 2.25% on Bond Street and 2.50% on Oxford Street.

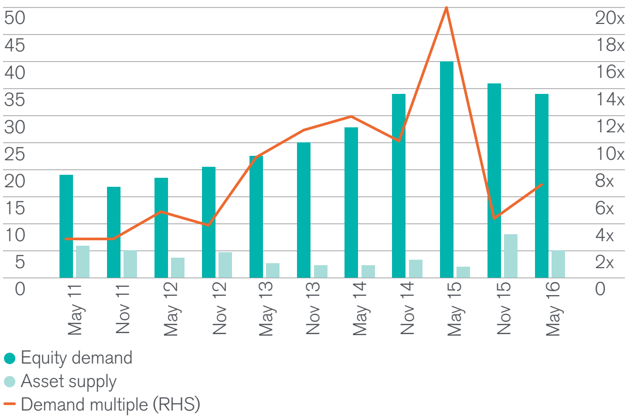
While the central London residential market continues to be impacted by new stamp duty rates, over-supply concerns and cooling measures implemented in some Asian international markets, our experience at Rathbone Square, W1 demonstrated that appropriately priced, well specified, modern apartments in attractive locations in our core West End market continued to be in demand. We have now exchanged contracts to sell 139 of the 142 private units, with nine contracts exchanged during the year.

# Our market

## Weight of money and low interest rates providing support for yields

As the chart below shows, while the excess of equity capital to invest over commercial property available to buy across central London has reduced, it remains high (estimated at £33.8 billion versus £4.9 billion respectively). Moreover, as expectations of interest rate increases in the UK continue to be pushed back, the real yield spread remains above the long-term average.

**London equity demand and asset supply** £bn




Source: CBRE/GPE

Notwithstanding these factors, if current supportive market conditions persist and our expected annual rental value growth across our portfolio of around 5% over the next year is delivered, we expect to witness some modest expansion of prime yields as this rental growth is consumed. For some secondary properties, stronger upward pressure could result where pricing has run ahead of the growth on offer or in the event of an extended period of uncertainty following the EU referendum.

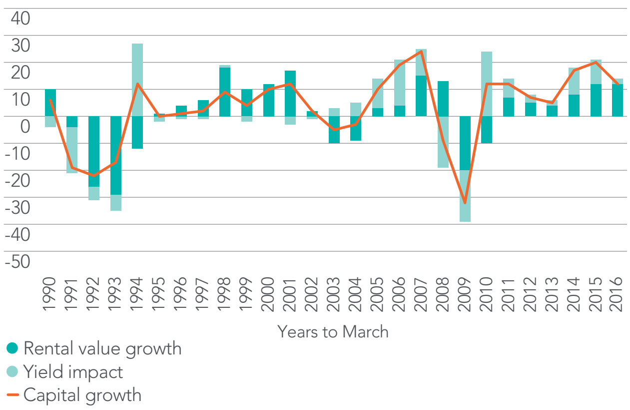
# £33.8 billion

Equity demand for central London commercial properties

## Rental growth to be the principal driver of capital value growth

As the chart below shows, yield compression tends to drive capital value growth early in the cycle, although its contribution has been more sustained this cycle given elevated liquidity levels due to quantitative easing and unprecedentedly loose monetary policy. However, rental growth has been the principal driver of capital growth across the central London commercial real estate market for the last two years and we expect this to continue this year.

**Capital growth attribution – IPD West End and Midtown** %




Source: IPD UK monthly property index

## Our lead indicators remain supportive

Given the cyclical nature of our markets, we actively monitor numerous lead indicators to help identify key trends in our marketplace.

Despite some weakening of our property capital value indicators over the period given capital market volatility, investment activity in the central London commercial property market continues to be strong, with the real yield spread increasing given lower gilt yields and supportive conditions in the real estate debt markets. Moreover, although forecast rates of economic growth and business confidence levels have moderated, our rental value indicators remain supportive with growing employment levels in London and a record low vacancy rate in the central London office market. Accordingly, absent a deterioration in the economic situation, we expect that rental values will continue to rise for sensibly priced, well specified space in attractively located central London properties and have positioned our portfolio to take advantage of these prospective conditions.

+ **See the GPE opportunity** on page 24

| Selected lead indicators | Change over 12 months to March 2016 |
|---|---|
| **Property capital values** | |
| Equity prices | ↓ |
| Bond prices | ↘ |
| Real yield spread (West End property)[1] | ↑ |
| Volume of net new property lending (including from non-bank sources) | ↗ |
| Transaction volumes in central London direct real estate investment markets | ↘ |
| Weight of money seeking to invest in central London commercial property | ↘ |
| **Rental values** | |
| Forecast UK GDP rate of growth | ↘ |
| Forecast London GVA rate of growth | ↘ |
| Business confidence levels in the central London economy | ↘ |
| UK output from the financial and business services sector | ↗ |
| Employment levels in London's finance, creative and professional services sectors | ↑ |
| Vacancy rate (central London offices)[2] | ↓ |
| Central London office market balance[3] | ↑ |

1. West End property yields over ten year gilt yields adjusted for inflation.
2. The reduction in the vacancy rate over the 12 months is supportive to rental values.
3. Amount of space available to let given current rates of take-up expressed in terms of months, with a reduction being supportive to rental values.

# Valuation

## The valuation of the Group's properties rose to £3,703.9 million during the year, delivering valuation growth of 14.7% on a like-for-like basis. Our development properties delivered valuation growth of 26.2%.

### Portfolio performance

| | | Wholly-owned £m | Joint ventures[1] £m | Total £m | Proportion of portfolio % | Valuation movement % |
|---|---|---|---|---|---|---|
| North of Oxford Street | Office | 808.0 | – | 808.0 | 21.8 | 10.7 |
| | Retail | 257.3 | 127.3 | 384.6 | 10.4 | 11.2 |
| | Residential | 6.8 | 11.0 | 17.8 | 0.5 | 14.1 |
| Rest of West End | Office | 263.9 | 118.2 | 382.1 | 10.3 | 9.6 |
| | Retail | 183.6 | 76.3 | 259.9 | 7.0 | 9.1 |
| | Residential | 14.3 | 3.0 | 17.3 | 0.5 | 40.9 |
| Total West End | | 1,533.9 | 335.8 | 1,869.7 | 50.5 | 10.7 |
| City, Midtown and Southwark | Office | 257.5 | 258.8 | 516.3 | 13.9 | 10.3 |
| | Retail | 5.9 | 2.0 | 7.9 | 0.2 | 3.1 |
| | Residential | 1.7 | – | 1.7 | 0.1 | 6.5 |
| Total City, Midtown and Southwark | | 265.1 | 260.8 | 525.9 | 14.2 | 10.2 |
| **Investment property portfolio** | | **1,799.0** | **596.6** | **2,395.6** | **64.7** | **10.6** |
| Development property | | 931.7 | 31.1 | 962.8 | 26.0 | 26.2 |
| **Total properties held throughout the year** | | **2,730.7** | **627.7** | **3,358.4** | **90.7** | **14.7** |
| Acquisitions | | 345.5 | – | 345.5 | 9.3 | 7.0 |
| **Total property portfolio** | | **3,076.2** | **627.7** | **3,703.9** | **100.0** | **13.9** |

1. GPE share.

### Portfolio characteristics

| | | Investment properties £m | Development properties £m | Total property portfolio £m | Office £m | Retail £m | Residential £m | Total £m | Net internal area sq ft 000's |
|---|---|---|---|---|---|---|---|---|---|
| North of Oxford Street | | 1,210.4 | 581.2 | 1,791.6 | 1,094.5 | 468.2 | 228.9 | 1,791.6 | 1,432 |
| Rest of West End | | 659.3 | 350.5 | 1,009.8 | 570.7 | 421.8 | 17.3 | 1,009.8 | 652 |
| **Total West End** | | **1,869.7** | **931.7** | **2,801.4** | **1,665.2** | **890.0** | **246.2** | **2,801.4** | **2,084** |
| City, Midtown and Southwark | | 871.4 | 31.1 | 902.5 | 874.5 | 26.3 | 1.7 | 902.5 | 1,472 |
| **Total** | | **2,741.1** | **962.8** | **3,703.9** | **2,539.7** | **916.3** | **247.9** | **3,703.9** | **3,556** |
| By use: | Office | 2,033.4 | 506.3 | 2,539.7 | | | | | |
| | Retail | 670.9 | 245.4 | 916.3 | | | | | |
| | Residential | 36.8 | 211.1 | 247.9 | | | | | |
| **Total** | | **2,741.1** | **962.8** | **3,703.9** | | | | | |
| Net internal area sq ft 000's | | 2,705 | 851 | 3,556 | | | | | |

26.2%

Valuation uplift on development properties

At 31 March 2016, the wholly-owned portfolio was valued at £3,076.2 million and the Group had four active joint ventures which owned properties valued at £627.7 million (our share) by CBRE. The combined valuation of the portfolio of £3,703.9 million was up 14.7% on a like-for-like basis or £429.2 million since 31 March 2015.

## Rental value growth driving valuations

The key drivers behind the Group's valuation movement for the year were:

– rental value growth – solid tenant demand outweighed the tight supply of high quality, well-located buildings in our key markets. These positive market dynamics, combined with our active management of the portfolio, increased our rental values by 9.9% during the year, comprising a 10.6% and 7.7% increase for office and retail rental values respectively. At 31 March 2016, the portfolio was 33.1% reversionary;

+ **See our market** on pages 25 to 29

– development properties – the valuation of current development properties increased by 26.2% to £962.8 million during the year. In particular, Rathbone Square, W1 benefited by our pre-letting of all the office space to Facebook, helping increase its value by 22.6% over the year;

+ **See development management** on pages 34 to 37

– intensive asset management – during another record year, 72 new leases, rent reviews and renewals were completed, securing £37.7 million (our share) of annual income which supported valuation growth over the year;

+ **See asset management** on pages 38 and 39

– lower investment yields – continued demand for commercial property helped to reduce investment yields across central London during the year. A number of key transactions, including our sale of 95 Wigmore Street, W1 helped reduce the West End benchmark yield, thus reducing our portfolio equivalent yield by 20 basis points (2015: 27 basis point reduction) during the year. At 31 March 2016, the portfolio equivalent yield was 4.4%; and

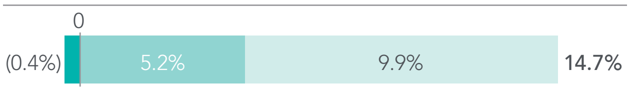
+ **See our market** on pages 25 to 29

– stamp duty – the 1% increase in stamp duty on commercial properties in excess of £250,000 reduced values by 1% in the March 2016 valuation, as values are stated net of transaction costs.

+ **See our approach to risk** on page 73

Including rent from pre-lets and leases currently in rent-free periods, the adjusted initial yield of the investment portfolio at 31 March 2016 was 3.2%, 20 basis points lower than at the start of the financial year.

### Drivers of valuation growth

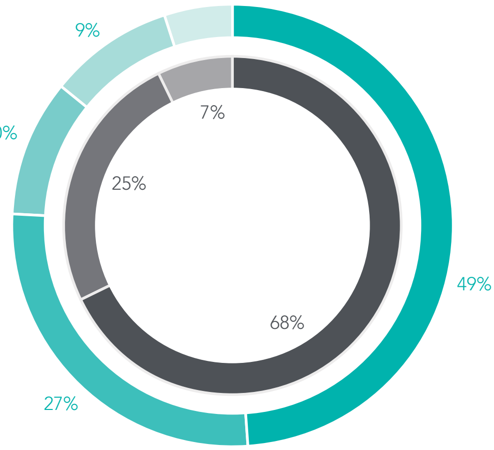



● Residual ● Yield ● Rental value

### Our portfolio – 100% central London

**Locations**
- North of Oxford Street £1,791.6m
- Rest of West End £1,009.8m
- City £376.6m
- Southwark £341.5m
- Midtown £184.4m

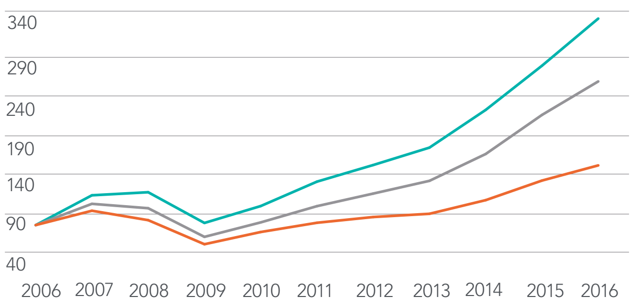
**Business mix**
- Office £2,539.7m
- Retail £916.3m
- Residential £247.9m




Our Rest of West End portfolio produced a strong performance over the year, increasing in value by 10.1% on a like-for-like basis, in part driven by retail capital value growth of 9.1%. Our North of Oxford Street assets saw an 11.1% uplift in values and the City, Midtown and Southwark properties grew by 10.2%. Our joint venture properties rose in value by 9.1% over the year while the wholly-owned portfolio rose by 16.0% on a like-for-like basis.

The Group delivered a total property return (TPR) for the year of 18.9%, compared to the central London IPD benchmark of 16.7% and a capital return of 16.3% versus 13.3% for IPD. This out-performance resulted from our development, pre-letting and recycling successes.

### Capital return (indexed)
### Cumulative relative performance to IPD benchmarks
Years to 31 March




● GPE
● IPD Central & Inner London
● IPD Universe

# Investment management

During the year, we continued to capitalise on the strength of the investment market to sell assets where business plans were complete to capture the value we have created. As a result, we were again a net seller, with sales of £469.7 million and acquisitions of £214.3 million during the year.

"Our disciplined recycling activities have crystallised significant surpluses for shareholders with sales at a high average capital value of £1,943 per sq ft."

**Hugh Morgan**
Head of Investment Management

## 2015/16 Strategic priority: Crystallise profits through recycling

### Operational measures

| | | | |
|---|---|---|---|
| Purchases | **£214.3m** 2015: £37.1m | Sales | **£469.7m** 2015: £343.6m |
| Purchases – capital value per sq ft | **£704** 2015: £531 | Sales – premium to book value[1] | **10.0%** 2015: 11.0% |
| Purchases – net initial yield | **5.1%** 2015: 3.0% | Total investment transactions[2] | **£684.0m** 2015: £380.7m |
| Net investment[3] | **£(255.4)m** 2015: £(306.5)m | | |

1. Based on book values at start of financial year.
2. Purchases plus sales.
3. Purchases less sales.

## Our approach

Buying at the right price and selling at the right time is central to our business model. Using its extensive network of market contacts, our investment team pursues a disciplined approach with the following acquisition criteria:

- Complex properties in attractive locations;
- Purchase price beneath replacement cost;
- Off-market;
- Low average rents per sq ft;
- Short- to medium-term income; and
- Development potential.

Once a property is acquired, the investment team works closely with our asset management and development teams on detailed individual asset business plans to maximise the property's potential. Every asset has a business plan; these are updated quarterly and provide estimates of forward look returns under different market scenarios. These plans also help to inform our sales activities, with the assets providing the lower risk adjusted returns often being sold and the proceeds recycled into better performing opportunities.

⊕ **See our approach to sustainability** on page 57

## We have continued to crystallise surpluses with £469.7 million of sales

Over the year to 31 March 2016, London's investment market strength continued and competition for good quality stock remained robust. Against this backdrop, we were again net sellers with our investment management activities focusing on crystallising asset values where business plans are complete and future opportunities for growth limited. During the year, we completed sales generating £469.7 million in gross proceeds and at a blended net initial yield of 3.5% and premium of 10.0% to 31 March 2015 book values.

### Sales for the year ended 31 March 2016

| | Gross price[1] £m | Premium to book value | NIY | Price per sq ft £ |
|---|---|---|---|---|
| 95 Wigmore Street, W1 | 111.2 | 16.2% | 3.4% | 2,209 |
| 60 Great Portland Street, W1 | 103.2 | 3.0% | 3.9% | 1,308 |
| 33 Margaret Street, W1 | 216.3 | 12.7% | 3.3% | 2,085 |
| Rathbone Residential, W1 | 39.0 | – | n/a | 2,437 |
| **Total** | **469.7** | **10.0%** | **3.5%** | **1,943** |

1. Joint ventures at share.

In April 2015, the Great Wigmore Partnership (GWP), our 50:50 joint venture with Aberdeen Asset Management, sold 95 Wigmore Street, W1, its 98,800 sq ft newly constructed and fully-let office and retail property. The purchaser acquired the property for £222.4 million, reflecting a net initial yield of 3.4% and a capital value of £2,209 per sq ft. The sale price was 16.2% ahead of the March 2015 book value and crystallised a profit on cost since commitment to the development in 2011 of 105%.

In January 2016, we sold 60 Great Portland Street, W1 for £103.2 million, 3.0% ahead of the March 2015 valuation. The price reflected a net initial yield of 3.9% and a capital value of £1,300 per sq ft overall or £1,480 per sq ft on the office element. 60 Great Portland Street was comprehensively refurbished and extended by GPE in 2007 to provide 65,400 sq ft of offices over ground to fifth floor and 11,100 sq ft of ground and basement retail space. The offices are let to The Engine Group until 2028 and the retail space to Evans Cycles until 2024. The sale also included 48/50 Mortimer Street and 1/3 Little Titchfield Street comprising two ground and basement retail units extending to 2,100 sq ft and a total of 17 apartments which are sold off on long-term occupational leases.

Also in January 2016, we sold 33 Margaret Street, W1 to Deka Immobilien Investment GmbH (Deka) for £216.3 million, reflecting £2,085 per sq ft and a net initial yield of 3.3%.

3.5%

Net initial yield on sales

33 Margaret Street is part freehold/part leasehold and comprises 103,700 sq ft of predominately office space, developed by GPE in December 2012. The offices were fully let to Savills plc at practical completion for a term of 20 years at an annual rent of £7.0 million. Including two retail units fronting Regent Street, the total net rent is £7.55 million and the sale price reflected a 12.7% premium to the March 2015 valuation. The sale crystallised an annualised ungeared IRR of 23.5% and a profit on cost of 137%.

The residential sales programme at Rathbone Square, W1 continues to progress positively with the sale of a further nine units totalling £39.0 million during the year at an average of £2,437 per sq ft. To date we have sold 139 of the 142 private units and have collected deposits of £57.2 million in advance of completion in June 2017.

## £214.3 million of off-market acquisitions

Rather than compete for assets in a highly competitive investment market, we bought three assets off-market totalling £214.3 million at an average net initial yield of 5.1% and cost of £704 per sq ft.

### Purchases for the year ended 31 March 2016

| | Price paid[1] £m | NIY | Area sq ft | Cost per sq ft £ |
|---|---|---|---|---|
| City Tower, EC2 | 43.3 | 4.7% | 134,300 | 645 |
| City Place House, EC2 | 52.0 | 4.8% | 176,500 | 580 |
| 50 Finsbury Square, EC2 | 119.0 | 5.3% | 126,500 | 941 |
| **Total** | **214.3** | **5.1%** | **437,300** | **704** |

1. Joint ventures at share.

In April 2015, we purchased Starwood Capital's 50% interest in The Great Star Partnership (GSP) for £61.4 million. On completion, GPE redeemed 100% of the £73.1 million in outstanding debt secured against the joint venture's properties. The transaction equated to a property price of £190.6 million and gave GPE full ownership of the leasehold interests in City Tower, 40 Basinghall Street, EC2 and the adjacent City Place House, 55 Basinghall Street, EC2. The properties together occupy a 1.3 acre core City site, presenting us with an attractive mix of asset management and development opportunities. The acquisition price reflected £608 per sq ft and a yield of 5.3% on the contracted rent roll, or 4.8% after deducting void costs on the vacant space.

Simultaneously with the sale of 33 Margaret Street, W1 (see above) in January 2016, GPE acquired 50 Finsbury Square, EC2 from Deka for £119.0 million, reflecting £941 per sq ft or £819 per sq ft for the office element and a net initial yield of 5.3% after costs. 50 Finsbury Square is freehold and comprises 126,500 sq ft of predominately office space, developed in 2000. The offices are fully let to Bloomberg until June 2020 at £5.7 million p.a. reflecting an average rent of £48.24 per sq ft. Including four retail units fronting Finsbury Pavement, the total annual rent is £6.6 million. The building will benefit significantly from GPE's repositioning once Bloomberg vacate, as expected. In addition, the exciting transformation of this area resulting from Crossrail (with the Moorgate Crossrail station only 200 metres away) and the continued growth in tenant demand from the creative/TMT sector will provide a further catalyst for growth.

## Expected net sellers for the forthcoming year

Since the year end, we have sold Mortimer House, 37/41 Mortimer Street, W1 for £27.0 million and purchased the freehold of 73/89 Oxford Street, W1 (where we were the long leasehold tenant) and 95/96 New Bond Street, W1 for £71.0 million. However, given current pricing in the London investment market, we expect to be net sellers over the forthcoming year, continuing to crystallise the value we have created through executing our business plans.

## Buying future development opportunities

The purchase of Starwood's 50% interest in GSP provides us with control over two buildings on a 1.3 acre site on Basinghall Street in the heart of the City. This is an area that is set to dramatically improve with the opening of Crossrail in 2018 (Moorgate Crossrail Station 200 metres away) and the associated substantial investment along London Wall that has already commenced.

City Place House is an exciting addition to our development pipeline, where we are considering a number of options to reposition the asset, including relocating the entrance from Basinghall Street onto Aldermanbury Square and introducing retail and restaurant uses at ground floor to enliven the local environment. We are also considering a new build opportunity that could add significant additional space and completely transform the site.

At the adjacent City Tower, we aim to complete our rolling refurbishment programme and refurbish the remaining 23% of the building as floors fall vacant.

Strategic Report – Annual review

# Development management

Our largest ever development programme is delivering significant surpluses, with our eight committed schemes already 61.1% pre-let or pre-sold and forecast to deliver a profit on cost of 27.1%. Our future opportunity has never been deeper, with two schemes with potential starts in the next 18 months and a further 14 schemes which we are already preparing for the next cycle.

"We have had a successful year. Our committed schemes remain on time and budget and with more than two-thirds of the space pre-let or pre-sold, they are substantially de-risked."

**Andrew White**
Development Director

## 2015/16 Strategic priority: Deliver development programme

### Operational measures

| | | | |
|---|---|---|---|
| Profit on cost[1] | **27.1%** 2015: 18.2% | Ungeared IRR[1] | **18.0%** 2015: 12.3% |
| Yield on cost[1] | **5.7%** 2015: 5.6% | Income/GDV already secured[2] | **61.1%** 2015: 29.5% |
| BREEAM Excellent[3] | **n/a** 2015: 100% | Committed capital expenditure | **£269.9m** 2015: £325m |

1. Committed developments.
2. Income/gross development value (GDV) secured on committed developments at date of this report.
3. New build developments completed in financial year.

## Our approach

The cyclical nature of central London property markets means it is critical for us to match our development activity to the appropriate points in the cycle, delivering new buildings into a supportive market when quality space is scarce and demand is resilient. By combining our forensic analysis of market conditions with our active property management, we are able to remain opportunistic and flexible when planning the start and completion dates for our schemes. Today, we remain in the execution phase of this property cycle and the delivery of the Group's development programme, along with the continued preparation of the longer dated development pipeline, forms a key near-term strategic priority.

+ **See our approach to sustainability** on pages 58 to 60

## High levels of activity executing business plans

Since 2009, we have completed eleven schemes, including one this year, delivering 995,400 sq ft of high quality space with an average profit on cost of 56%. We currently have eight committed schemes (851,200 sq ft of space), all but one in the West End. Taken together, these schemes have an expected profit on cost of 27.1%, a yield on cost of 5.7% and an ungeared IRR of 18.0%. To date, 61.1% of the space has already been pre-let or pre-sold, helping to manage our development risk.

Capital expenditure to come at our committed schemes totals £269.9 million, which could rise to £428.4 million (our share) if the two near-term uncommitted schemes were to commence. At 31 March 2016, the committed development properties were valued at £962.8 million and the near-term development properties at £281.3 million (our share).

## Eight committed schemes on-site; progressing well

Construction of our largest ever development, the 418,700 sq ft mixed-use Rathbone Square, W1 scheme, is progressing well. The building topped out in February 2016 and cladding of the building's exterior is underway along with the fit out of the residential element. In September 2015, in our largest ever letting, we pre-let the entire office building (known as One Rathbone Square) to Facebook on a 15 year lease (no breaks). Having now secured planning consent for the change of use of 13,700 sq ft of space from retail to office use, Facebook will pay rent of £17.8 million p.a. on 242,800 sq ft of office space, equating to an average of £82.90 per sq ft for the upper six office floors (182,300 sq ft) or an overall average rent of £73.35 per sq ft when including the basement and ground floors. This is 7.5% ahead of the ERV of the equivalent office space at 31 March 2015. Facebook will receive 30 months rent free from completion of the offices to a shell and core condition. We will launch the marketing campaign for the 24,200 sq ft of retail and restaurant units in May 2016 and expect good interest in the space. During the year, we also continued with our residential sales programme, selling a further nine apartments and today only three of the 142 private units are available for sale.

At 148 Old Street, EC1, we have commenced demolition to transform the existing 97,800 sq ft building into around 161,900 sq ft of high quality office and retail space. With a construction contract secured, we are targeting completion in late 2017 and our pre-letting campaign has commenced.

At 30 Broadwick Street, W1, structural works of our 91,800 sq ft new-build office and retail scheme are complete and the project is on schedule to complete in September 2016. The pre-letting campaign for the scheme commenced in January 2016 and we already have one floor under offer. We are encouraged by the healthy interest shown in the remainder of the building.

At 73/89 Oxford Street, W1, which will deliver 90,700 sq ft of new-build retail and office space directly opposite the Dean Street entrance to the Tottenham Court Road Crossrail station, we have now demolished the building and the main contract works have begun. Following the pre-let of all the retail space (47,100 sq ft), 63% of the scheme's ERV has been secured. The marketing campaign for the 43,600 sq ft of offices commenced in April 2016, and we currently have three of the four office floors under offer.

At Tasman House, 59/63 Wells Street, W1, the demolition of the existing 1950's building is complete and the main construction contract has commenced. The new building will deliver 37,300 sq ft of new office and retail space into an area that is benefiting from significant local investment including our activities at Rathbone Square.

We are currently on-site at three schemes on Great Portland Street, W1, where we are delivering 50,800 sq ft of mixed-use space, including the off-site residential requirements for Hanover Square, 30 Broadwick Street and Tasman House, all W1. The schemes are progressing well, with completions from June 2016, and we will shortly be embarking on the pre-letting campaign for the office element.

## Setting new benchmark retail rents

During the year, we have continued our letting success at 73/89 Oxford Street, W1. In January 2016, we pre-let the remaining 15,300 sq ft flagship retail store to Benetton for £2.6 million p.a. Benetton will take a 20 year lease and will trade alongside New Look, to whom GPE pre-let a 31,800 sq ft store in March 2015.

Our activities have helped to lift the rental tone at the eastern end of Oxford Street by delivering new, larger, high quality units into a retail pitch that will improve dramatically with the arrival of Crossrail in 2018. When we bought the building the average zone A retail rent was £238 per sq ft. The letting to New Look increased this to £600 per sq ft and the Benetton letting has moved it on again to £707 per sq ft, a record for this end of London's leading retail street.

## Our committed schemes – 851,200 sq ft

| Rathbone Square, W1 | |
|---|---|
| Size | 418,700 sq ft |
| Construction cost | £288.6m |
| Completion date | June 2017 |
| Crossrail station | 80 metres[1] |

| 30 Broadwick Street, W1 | |
|---|---|
| Size | 91,800 sq ft |
| Construction cost | £39.9m |
| Completion date | Sept 2016 |
| Crossrail station | 290 metres[1] |

| 73/89 Oxford Street, W1 | |
|---|---|
| Size | 90,700 sq ft |
| Construction cost | £53.6m |
| Completion date | May 2017 |
| Crossrail station | 10 metres[1] |

| 148 Old Street, EC1 | |
|---|---|
| Size | 161,900 sq ft |
| Construction cost | £32.8m |
| Completion date | Dec 17 |
| Crossrail station | 760 metres[1] |

| Tasman House, W1 | |
|---|---|
| Size | 37,300 sq ft |
| Construction cost | £25.4m |
| Completion date | Oct 17 |
| Crossrail station | 390 metres[1] |

| 78/82 Great Portland St, W1 | |
|---|---|
| Size | 18,900 sq ft |
| Construction cost | £9.6m |
| Completion date | Sept 16 |
| Crossrail station | 530 metres[1] |

| 84/86 Great Portland St, W1 | |
|---|---|
| Size | 23,100 sq ft |
| Construction cost | £11.1m |
| Completion date | Dec 16 |
| Crossrail station | 540 metres[1] |

| 90/92 Great Portland St, W1 | |
|---|---|
| Size | 8,800 sq ft |
| Construction cost | £3.2m |
| Completion date | June 16 |
| Crossrail station | 550 metres[1] |

1. Distance to nearest Crossrail station.

# Development management

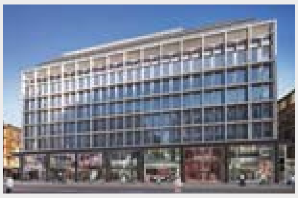
## Two schemes in the near-term programme

Our near-term development programme comprises two schemes (311,800 sq ft), both with potential starts over the next 18 months.

At Oxford House, 76 Oxford Street, W1, we have submitted a planning application for an 88,200 sq ft major mixed-use refurbishment. Our plans include incorporating a significant increase in the retail space to take advantage of the strong demand for good retail units at the eastern end of Oxford Street. As part of the letting at One Rathbone Square, Facebook has a right of first offer to pre-let all the anticipated 55,700 sq ft of office space, subject to GPE obtaining planning consent for a comprehensive refurbishment of the building.

At Hanover Square, W1, we continue to make positive progress with Crossrail, who are currently building the eastern exit for the Bond Street Crossrail station underneath part of the site. In December 2015, we secured early access to the site and we commenced the demolition of the New Bond Street buildings in January 2016. This will allow us to accelerate the construction programme for the wider scheme ahead of delivery of the station structure by Crossrail in 2018. The development is owned in our 50:50 joint venture with the Hong Kong Monetary Authority.

## Our near-term schemes – 311,800 sq ft



**Oxford House, W1**

| | |
|---|---|
| Size | **88,200 sq ft** |
| Start date | **2017** |
| Planning status | **Application** |
| Crossrail station | **30 metres[1]** |

**Hanover Square, W1**

| | |
|---|---|
| Size | **223,600 sq ft** |
| Start date | **2017** |
| Planning status | **Consented** |
| Crossrail station | **0 metres[1]** |

1. Distance to nearest Crossrail station.

# 86%

of portfolio within 800 metres of a Crossrail station

## Substantial long-term development opportunity

Beyond our committed and near-term schemes, we have an extensive further pipeline of 14 uncommitted schemes (1.4 million sq ft), which we are preparing for the next cycle. These schemes include a number of exciting projects, including New City Court, SE1 where we hope to materially increase the size of the existing 97,800 sq ft building which sits within the regenerating London Bridge Quarter and the recently purchased 50 Finsbury Square, EC2 where we are already looking at a number of business plans to improve and increase the existing 126,500 sq ft floor area.

The future development opportunity for the next cycle has never been deeper. Together, these schemes total some 1.1 million sq ft, with the potential to increase this to more than 1.4 million sq ft post development and, in total, our potential development programme totals 2.6 million sq ft and covers 59% of GPE's existing portfolio.

## Developing over and around Crossrail

We believe that the opening of Crossrail in 2018 will be a game-changer for London's transport infrastructure and we have positioned our development programme to take full advantage.

An estimated 200 million passengers a year will use Crossrail and it will increase London's rail capacity by 10%, dramatically enhancing the east to west connectivity including from Heathrow airport into the heart of the West End. It will bring an extra 1.5 million people within 45 minutes of central London and Tottenham Court Road station in particular will see its passenger numbers transformed. Transport for London estimate that 108 million passengers a year will access Crossrail and London Underground at this station by 2026. 70% of our committed schemes (by area) are close to Tottenham Court Road station, and all of our committed and near-term schemes are within 800 metres of a Crossrail station. This includes our development at Hanover Square, W1, which will sit directly above the eastern ticket hall of the new Bond Street Crossrail station.

## Our total development pipeline

| | Anticipated finish | New build area sq ft | Cost to complete £m | ERV[1] £m | Office ERV[1] avg £psf | Income/GDV secured £m | % let[2]/ sold | Profit on cost[3] |
|---|---|---|---|---|---|---|---|---|
| **Committed** | | | | | | | | |
| Rathbone Square, W1 | | | | | | | | |
| – Commercial | Mar-17 | 267,000 | 155.1 | 19.6 | 73.35 | 17.9 | 91.5% | 24.8% |
| – Residential | Jun-17 | 151,700 | | – | – | 262.1 | 93.1% | |
| 148 Old Street, EC1 | Dec-17 | 161,900 | 28.4 | 4.2 | 52.50 | – | – | 16.6% |
| 30 Broadwick Street, W1 | Sept-16 | 91,800 | 16.3 | 8.0 | 87.70 | – | – | 41.9% |
| 73/89 Oxford Street, W1 | May-17 | 90,700 | 35.0 | 9.9 | 85.55 | 6.2 | 62.9% | 31.5% |
| Tasman House, W1 | Oct-17 | 37,300 | 20.6 | 2.8 | 84.95 | – | – | 19.9% |
| 78/82 Great Portland Street, W1 | Sept-16 | 18,900 | 5.3 | 0.3 | – | – | – | 28.0% |
| 84/86 Great Portland Street, W1 | Dec-16 | 23,100 | 8.3 | 1.0 | 57.00 | – | – | 12.0% |
| 90/92 Great Portland Street, W1 | Jun-16 | 8,800 | 0.9 | 0.1 | – | – | – | 9.4% |
| **Committed total** | | **851,200** | **269.9** | **45.9** | | | **61.1%** | **27.1%** |

| | New build area sq ft | Existing area sq ft | Earliest start | Planning status |
|---|---|---|---|---|
| **Near-term** | | | | |
| Oxford House, 76 Oxford Street, W1 | 88,200 | 79,400 | 2017 | Application |
| Hanover Square, W1 | 223,600 | 58,500 | 2017 | Consented |
| **Near-term total** | **311,800** | **137,900** | | |

| | Target area sq ft | Existing area sq ft | Earliest start | Opportunity area |
|---|---|---|---|---|
| **Pipeline** | | | | |
| 40/48 Broadway, SW1 | 82,100 | 73,200 | 2018 | Other |
| City Place House, EC2 | 176,500 | 176,500 | 2018 | Crossrail |
| 50 Finsbury Square, EC2 | 126,500 | 126,500 | 2020 | Crossrail |
| New City Court, SE1 | 303,700 | 97,800 | 2021 | London Bridge |
| 35 Portman Square, W1 | 73,000 | 73,000 | 2021 | Core West End |
| Elm House, WC1 | 85,000 | 48,800 | 2021 | Crossrail |
| 52/54 Broadwick Street, W1 | 47,000 | 25,900 | 2021 | Core West End |
| Jermyn Street Estate, SW1 | 132,600 | 132,600 | 2022 | Core West End |
| 31/34 Alfred Place, WC1 | 43,700 | 43,700 | 2022 | Crossrail |
| French Railways House and 50 Jermyn Street, SW1 | 75,000 | 54,500 | 2022 | Core West End |
| Mount Royal, W1 | 92,100 | 92,100 | 2022 | West End Retail |
| Kingsland/Carrington House, W1 | 51,400 | 39,800 | 2022 | West End Retail |
| Minerva House, SE1 | 120,000 | 105,200 | 2022 | London Bridge |
| 95/96 New Bond Street, W1 | 10,000 | 10,000 | 2023 | West End Retail |
| **Pipeline total** | **1,418,600** | **1,099,600** | | |
| **Total programme; 24 projects** | **2,581,600** | | | **59% of GPE's existing portfolio** |

1. Agreed pre-let rent or CBRE ERV at March 2016.
2. Based on ERV of property.
3. Based on CBRE estimate of completed value.

# Asset management

We have delivered another record leasing year; we agreed 52 new lettings, securing £31.8 million of annual rent including one of the largest ever office lettings signed in London's West End, with market lettings 10.4% ahead of the valuer's March 2015 ERV.

"Capturing the significant rental reversionary potential of 33.1% across our portfolio is a strategic priority for the year ahead."

**James Mitchell**
Head of Asset Management

## 2015/16 Strategic priority: Drive rental growth

### Operational measures

| | | | |
|---|---|---|---|
| New lettings and renewals | **£31.8m** 2015: £21.5m | Vacancy rate | **3.1%** 2015: 2.0% |
| Premium to ERV[1] (market lettings) | **10.4%** 2015: 6.0% | ERV growth | **9.9%** 2015: 10.3% |
| Reversionary potential | **33.1%** 2015: 28.4% | Rent collected within seven days[2] | **99.9%** 2015: 99.3% |
| Tenant retention rate | **28.1%** 2015: 32.5% | | |

1. ERV at beginning of financial year.
2. For March quarter.

## Our approach

We consider that a close relationship with our tenants is vital to our success. As a result, we manage all aspects of our property portfolio in-house enabling us to continually refine our understanding of what tenants want and how we can meet their needs. Our asset managers also work closely with our development team to ensure that vacant possession is achieved on a timely basis ahead of key development starts, wherever possible relocating tenants to other buildings within our portfolio. Our asset managers administer a portfolio of approximately 425 tenants in 67 buildings across 42 sites from a diverse range of industries. This diversity limits our exposure to any one tenant or sector, with our ten largest tenants at 31 March 2016 accounting for 30.5% (2015: 31.2%) of our rent roll.

+ **See our relationships** on pages 45 to 47

+ **See our approach to sustainability** on page 56

## Rental growth continued; another record leasing year

Robust tenant demand continued to outstrip the supply of good quality well located buildings in our core markets. These positive market dynamics, combined with our active portfolio management and high levels of leasing, helped increase rental values by 9.9% during the year. The key leasing highlights included:

- 52 new leases and renewals agreed (2015: 76 leases) generating annual rent of £31.8 million (our share: £31.1 million; 2015: £21.5 million, our share £17.4 million), market lettings 10.4% ahead of ERV;
- 20 rent reviews securing £9.5 million of rent (our share: £6.6 million; 2015: £7.2 million) were settled at an increase of 57.4% over the previous rent;
- total space covered by new lettings, reviews and renewals was 562,800 sq ft (2015: 510,100 sq ft); and
- a low investment portfolio vacancy rate of 3.1% at 31 March 2016 (2015: 2.0%).

At 31 March 2016, the average rent across our office portfolio was £45.30 per sq ft and our total annualised rent roll (including share of joint ventures) was £96.8 million, flat over the 12 month period despite our net sales activity.

Since 31 March 2016, we have completed six lettings delivering £2.6 million (our share: £2.2 million). We have a further 13 lettings currently under offer accounting for £8.0 million p.a. of rent (our share: £7.2 million), 1.2% ahead of March 2016 ERV.

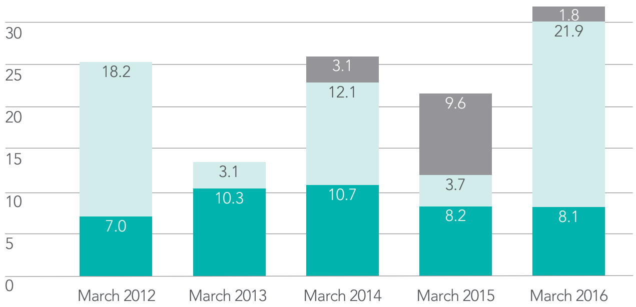
## Extensive leasing activity including significant pre-lets

Our letting activity was again dominated by leasing in our development portfolio, as detailed in the Development management section. Of the total rent secured in new lettings during the year, £23.7 million (or 74.5%), was achieved in our committed or recently completed developments. In addition to our £17.8 million pre-let to Facebook at One Rathbone Square, W1, we pre-let a further £2.6 million to Benetton at 73/89 Oxford Street, W1, reflecting a record Zone A rent of £707 per sq ft for this part of Oxford Street.

At 240 Blackfriars Road, SE1, the Great Ropemaker Partnership (a 50:50 joint venture between GPE and BP Pension Fund) leased the remaining two office floors securing rent of £61.00 per sq ft on level 7 to hurleypalmerflatt and £63.00 per sq ft to Demandware on level 8. These two lettings will generate annual rent of £1.5 million across 23,900 sq ft and conclude the 222,200 sq ft office leasing campaign, resulting in an average void across the building of just over three months.

Further successes include the letting of all the office space (27,400 sq ft) at 31/32 Alfred Place, W1 for £1.6 million and three further floors (19,000 sq ft) at City Tower, EC2 for £1.2 million with the letting for the 16th floor equating to £72.50 per sq ft, a new record for the building.

**Annual lettings by type and year** £m




- Investment lettings
- Pre-lets
- Other development lettings

During the financial year, we also continued to drive rental growth by capturing some of the significant reversionary upside across our investment portfolio. Notable lettings included the second floor at 27/35 Mortimer Street, W1 let to Digital UK at £69.50 per sq ft, capturing a reversion of 82% and four lettings at Woolyard, SE1 which captured a reversion of 87%. We have also captured reversion through 20 rent reviews, with the most significant at 101/113 Regent Street, W1 to Superdry, where we achieved an increase in annual passing rent of £1.8 million to £4.3 million.

## Tenant retention remains high, keeping our vacancy rate low

In the financial year, 89 leases covering around 371,000 sq ft of space with a rental value of £12.3 million were subject to lease expiry or tenant break. After removing 56.0% of the space where we are refurbishing or need vacant possession to enable development, tenants were retained for 28.1% of this space by area and by the end of March 2016, we had leased or put under offer a further 12.9%, leaving only 3.0% to transact. Together, our strong letting and tenant retention performance has helped keep our vacancy rate low at 3.1% at 31 March 2016.

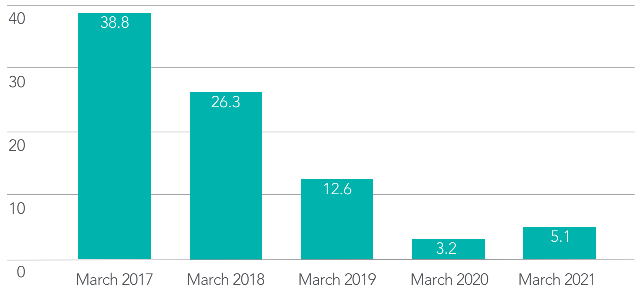
## Rent collection remains strong

The quarterly cash collection performance has been very strong throughout the year. We secured 99.9% of rent within seven working days following the March 2016 quarter date, with an average collection rate of 99.7% across the four quarter ends in the year (2015: 99.2%). Tenants on monthly payment terms represent around 4.0% of our rent roll (2015: 4.0%).

## Focus for the forthcoming year is capturing the reversion

One of our strategic priorities for the year to 31 March 2016 was to drive rental growth through leasing, and our performance (as set out above) has been strong. As conditions in our rental markets have improved with the economic recovery, the rental values of our investment properties have grown ahead of the passing rents, and today this reversion stands at 33.1%. Moreover, we have the opportunity to capture 65.1% of this reversion over the next 24 months.

**Reversions: Forecast total reversion to capture**
% of total over next five years




For the forthcoming year, our focus will be to capture this reversion, by settling rent reviews at, or ahead of, the market rental value and in some cases creating vacancy to allow us to refurbish, improve and relet the space into these supportive market conditions.

# 33.1%

Reversionary potential

## Creating income, preserving future opportunity

In March 2015, we acquired two buildings on Alfred Place, W1 comprising 43,700 sq ft of vacant space. Alfred Place is located 450 metres north of the new Tottenham Court Road Tube and Crossrail station and will benefit from the related regeneration in the local area.

On purchase, our near-term priority was to carry out a light refurbishment and get the building income producing whilst preserving the site's longer-term development potential. In December 2015, we pre-let 27,400 sq ft at 31 Alfred Place for £57.50 psf, well ahead of the valuer's £40.00 psf ERV. We are now on-site at both buildings with a forecast completion of June 2016. In the meantime, the development team continues to work up plans for a more significant redevelopment for the next cycle.

# Financial management

Our balance sheet has never been stronger with our loan to value of 17.4% and £472 million of cash and committed undrawn liquidity providing a robust platform to fund further organic growth.

"The Group's strong financial position reflects the successful execution of our strategic priorities. Our capital recycling activity has further enhanced our balance sheet strength with our loan to property value now at a record low of 17.4%."

**Martin Leighton**
Head of Corporate Finance

## Operational measures

| | | | |
|---|---|---|---|
| EPRA earnings per share | **13.5p** 2015: 12.7p | Net gearing | **19.5%** 2015: 25.2% |
| Loan to value | **17.4%** 2015: 21.8% | Interest cover | **12.5x** 2015: 10.7x |
| Cash and undrawn facilities | **£472m** 2015: £442m | Weighted average interest rate | **3.7%** 2015: 3.7% |

## Our approach

While our primary objective is to deliver returns consistently ahead of our cost of capital, we also seek to minimise the cost of our capital through the appropriate mix of equity and debt finance, and to ensure that we have access to sufficient financial resources to implement our business plans. Optimising and flexing the allocation of capital across our portfolio, including between our investment and development activities, is key to our business and ensuring that we maximise returns on a risk adjusted basis through the property cycle. Accordingly, we operate with four key "givens":

- Conservative leverage – to enhance, not drive, returns;
- Sustainable ordinary dividends;
- Disciplined capital allocation; and
- Balance sheet efficiency – track record of accretively raising and returning capital.

Our preference for low financial leverage helps to provide downside protection when operating in the cyclical central London property market and to maintain the financial flexibility to allow us to act quickly on new investment opportunities as they arise.

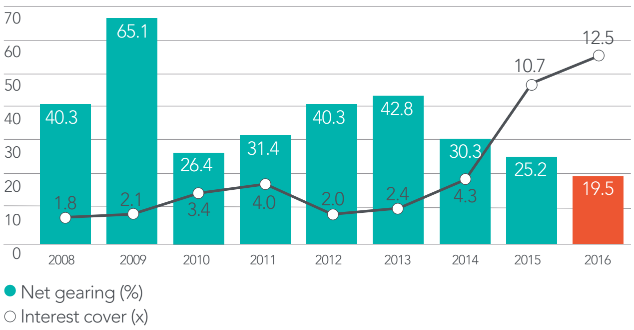
**See our approach to risk** on pages 64 to 74

## Extending maturities and locking in attractive rates

The Group's sources of debt funding are diverse, both secured and unsecured, and include the public, private and bank markets. Our financing activities this year focused on enhancing our debt maturity profile, taking advantage of issuer-friendly debt markets and maintaining our good diversity of funding sources. In October 2015, we obtained bank consent to extend the maturity date of our flexible, low cost £450 million revolving credit facility by 12 months to October 2020. In December 2015, we refinanced the Great Ropemaker Partnership with the issue of a new £90 million secured bank loan, reducing our all-in coupon from 4.52% to 2.67% and extending the maturity by more than two years. We also took the opportunity during the year to update and improve our Treasury Policy.

At 31 March 2016, we had £472 million of cash and undrawn committed debt facilities. Looking forward, although we will continue to monitor opportunities to further improve our financing position, we have no immediate additional debt funding requirements due to the existing strength of our balance sheet (including an earliest debt maturity date of June 2018) and the potential for further capital recycling in the near-term.

### Net gearing and interest cover




## Flexible and diverse sources of debt finance – predominantly unsecured

At 31 March 2016, 93% of our total drawn debt (and 56% of our total debt) was from non-bank sources with 66% (and 80% of total debt) borrowed on an unsecured basis. Our weighted average drawn debt maturity was 5.5 years (2015: 6.0 years) at 31 March 2016.

As detailed in Our financial results section later, our debt metrics remain strong and appropriate given our significant development programme. With our low weighted average interest rate only 3.7% (on drawn debt), and both capitalised interest and earnings increasing (with EPRA earnings per share rising 6.3% to 13.5 pence for the year), interest cover has improved to 12.5 times.

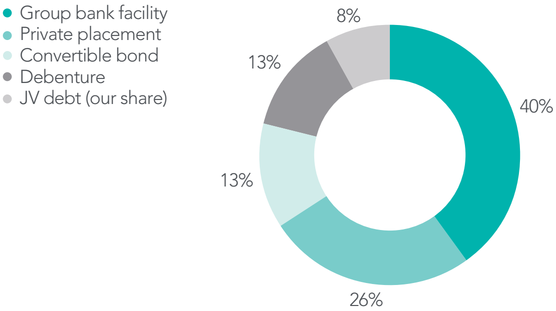
## Balance sheet discipline and efficiency to be maintained

When considering the appropriate level of financial leverage in the business, we apply the same capital discipline that we use when making asset level decisions. Typically, we aim for a loan to value ratio of between 10%–40% through the cycle and today we are at the lower end of the range given our portfolio activities and market cycle position. We have a track record of accretively raising and returning equity capital to shareholders at the appropriate time and in the appropriate circumstances. Our key considerations when making such capital decisions include:

- the market outlook;
- opportunities for growth (both capital expenditure and acquisitions);
- opportunities for profitable recycling activity; and
- current and prospective debt ratios (including LTV and interest cover).

At 31 March 2016, net gearing was 19.5% and our loan to value ratio was 17.4%. Pro forma for post year-end transactions and the total potential capital expenditure to come of around £428.4 million at our committed and near-term development schemes, our loan to value ratio would rise to only approximately 26.7% before considering development surpluses to come and potential receipts from recycling. Given these activities and the current market outlook, our balance sheet strength is appropriate and means that we are well positioned to take advantage of any additional opportunities that may arise.

### Sources of debt funding[1]




1. Based on committed facilities at 31 March 2016.

## Opportunistic refinancing

We completed an opportunistic early debt refinancing of The Great Ropemaker Partnership, our 50:50 joint venture with BP Pension Fund, to extend the maturity and lower the cost of debt.

The partnership purchased 200 Gray's Inn Road for £133 million in autumn 2011, partly financed with a £73 million seven-year secured bank loan at an all-in coupon of 4.52%. Since acquisition, our asset management activities have repositioned this 291,600 sq ft office building, enhancing the tenant mix and increasing the market rents on the refurbished space by 58% to £60.00 per sq ft, delivering 71% valuation uplift over the last five years.

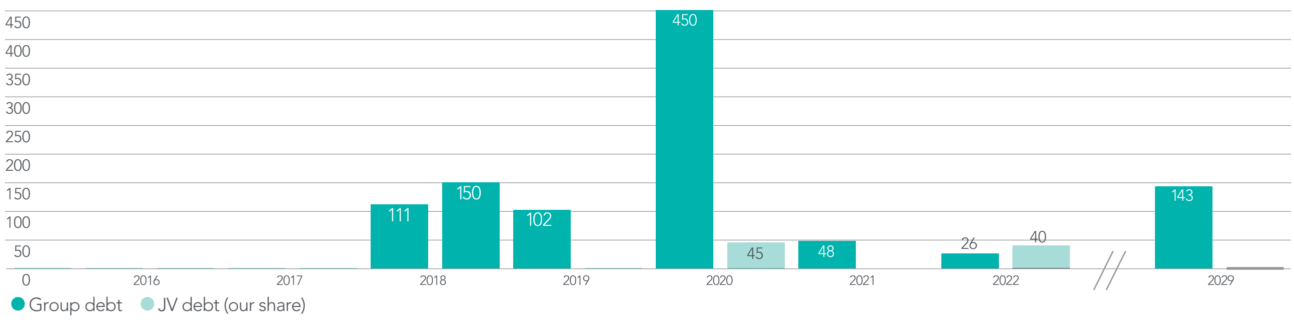
Taking advantage of supportive financing market conditions, in December 2015 we refinanced the partnership with a new £90 million secured bank loan provided by two key relationship banks, with a maturity of December 2020 and a significantly lower all-in coupon of 2.67%.

**See our case study** on pages 18 and 19

# 17.4%

Loan to value

### Debt maturity profile[1] £m




1. Based on committed facilities at 31 March 2016.

# Our financial results

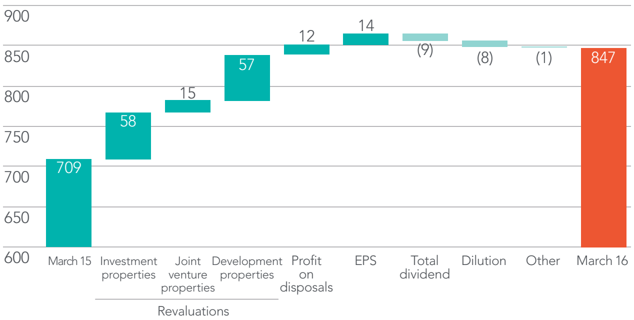
"Exploiting the attractive conditions in our market and with our financial position stronger than ever, we have delivered NAV growth of 19.5% driven by our profitable development, leasing and recycling activities."

**Nick Sanderson**
Finance Director

## Strong net asset value growth

EPRA net assets per share (NAV) at 31 March 2016 was 847 pence per share, an increase of 19.5% over the year, largely due to the rise in value of the property portfolio. At 31 March 2016, the Group's net assets were £2,912.2 million, up from £2,390.9 million at 31 March 2015.

**EPRA net assets per share** pence




The main drivers of the 138 pence per share increase in NAV from 31 March 2015 were:

- the rise of 130 pence per share arising from the revaluation of the property portfolio. Of this amount, development properties boosted NAV by 57 pence;
- profit on property disposals, in particular the sales of 33 Margaret Street, W1 and 95 Wigmore Street, W1, added 12 pence per share to NAV;
- EPRA earnings for the year of 14 pence per share enhanced NAV;
- dividends of 9 pence per share reduced NAV;
- the potential dilution arising from the convertible bond reduced NAV by 8 pence per share; and
- other movements decreased NAV by 1 pence per share.

847p

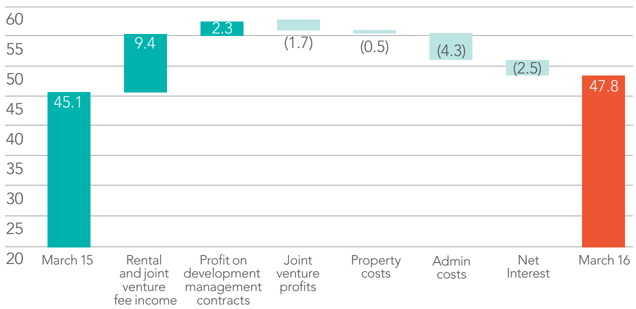
EPRA NAV per share

Triple net assets per share (NNNAV) was 831 pence at 31 March 2016 compared to 684 pence at 31 March 2015 (up 21.5%). At the year end, the difference between NAV and NNNAV was due to the negative mark to market of the Group's 2029 debenture and private placement notes combined with the potential tax due on the Group's sale of the residential element of Rathbone Square, W1 more than offsetting the positive valuation of the Group's derivatives.

## Stable earnings per share

EPRA profit before tax was £47.8 million, 6.0% higher than last year largely due to additional rental income as a result of property acquisitions.

**EPRA profit before tax** £m




Rental income from wholly-owned properties and joint venture fees for the year were £75.5 million and £4.1 million respectively, generating a combined income of £79.6 million, up £9.4 million or 13.4% on last year. This increase predominantly resulted from new rental income on property acquisitions, including City Place House and City Tower, EC1 more than outweighing income lost on property sales. Joint venture fees were down £0.1 million due to lower levels of activity in the joint ventures. Adjusting for acquisitions, disposals and transfers to and from the development programme, like-for-like rental income (including joint ventures) increased 3.6% on the prior year.

Profit on development management contracts of £4.0 million (2015: £1.7 million) related to the construction contract at 12/14 New Fetter Lane, EC4, which we forward sold during the prior year. The project finished in November 2015 and we have handed over the completed building to the purchaser.

EPRA profits from joint ventures were £3.8 million, down £1.7 million from £5.5 million last year, reflecting lower levels of joint venture activity after the sale of 95 Wigmore Street, W1 and the Group's purchase of GSP.

Property expenses were £0.5 million higher at £8.2 million reflecting additional marketing activities as a result of leasing our largest ever development programme and administration costs were £24.4 million, an increase of £4.3 million on last year, largely as a result of higher provisions for performance related pay including payments under share incentive plans.

Underlying net finance costs increased to £7.0 million (2015: £4.5 million). Gross interest paid on our debt facilities was marginally lower due to reduced Group net debt during the period. However, the combination of lower interest receivable on joint venture balances, as a result of property sales, and higher interest on obligations under finance leases due to the acquisition of the GSP assets, increased overall net finance costs over the year. During the year, we capitalised £13.3 million (2015: £11.4 million) of interest as we progressed our development schemes including Rathbone Square, W1, 30 Broadwick Street, W1, 73/89 Oxford Street, W1 and Tasman House, W1.

Revaluation gains and underlying profits enabled the Group to report an accounting profit after tax of £556.2 million (2015: £508.2 million). Basic EPS for the year was 162.6 pence, compared to 148.3 pence for 2015. Diluted EPS for the year was 161.9 pence compared to 147.4 pence for 2015. Diluted EPRA earnings per share was 13.5 pence (2015: 12.7 pence), an increase of 6.3%.

## Results of joint ventures

The Group's net investment in joint ventures was £543.4 million, a decrease from £636.7 million at 31 March 2015, largely due to the sale of 95 Wigmore Street, W1 and the Group's purchase of GSP more than offsetting valuation surpluses. Our share of joint venture net rental income was £17.0 million, a decrease of 31.5% on last year due to property sales. Our share of non-recourse net debt in the joint ventures was lower at £76.1 million at 31 March 2016 (2015: £97.6 million) predominantly due to the Group repayment of the GSP bank debt on purchase.

+ **See our joint ventures section** on page 46

## Strong financial resources

Group consolidated net debt was £568.0 million at 31 March 2016, down from £601.2 million at 31 March 2015 as proceeds from property disposals more than offset the Group's acquisitions and capital expenditure against a backdrop of broadly stable working capital. Group gearing fell to 19.5% at 31 March 2016 from 25.2% at 31 March 2015 reflecting both the reduced level of net debt and the increased portfolio value.

Including non-recourse debt in joint ventures, total net debt was £644.1 million (2015: £698.8 million) equivalent to a record low loan-to-property value of 17.4% (2015: 21.8%). The proportion of the Group's total net debt represented by our share of net debt in joint ventures was 11.8% at 31 March 2016, compared to 14.0% a year earlier.

At 31 March 2016, the Group, including its joint ventures, had cash and undrawn committed credit facilities of £472 million. The Group's weighted average cost of debt for the year, including fees and joint venture debt, was 3.9%, a decrease of 20 basis points compared to the prior year. The weighted average interest rate (excluding fees) at the year end was stable at 3.7% (2015: 3.7%).

### Debt analysis

| | **March 2016** | March 2015 |
|---|---|---|
| Net debt excluding JVs (£m) | **568.0** | 601.2 |
| Net gearing | **19.5%** | 25.2% |
| Total net debt including 50% JV non-recourse debt (£m) | **644.1** | 698.8 |
| Loan to property value | **17.4%** | 21.8% |
| Total net gearing | **22.1%** | 29.2% |
| Interest cover | **12.5x** | 10.7x |
| Weighted average interest rate | **3.7%** | 3.7% |
| Weighted average cost of debt | **3.9%** | 4.1% |
| % of debt fixed/hedged | **100%** | 96% |
| Cash and undrawn facilities (£m) | **472** | 442 |

At 31 March 2016, 100% of the Group's total debt (including non-recourse joint ventures) was at fixed or hedged rates (2015: 96%). Interest cover for the year was 12.5x (2015: 10.7x). The Group, including its joint ventures, is operating with substantial headroom over its debt covenants. The financial covenants on our unsecured private placement notes are identical to those on our £450 million unsecured revolving credit facility which matures in October 2020.

## Robust tenant base

None of our tenants went into administration around the March 2016 quarter day (March 2015: none). Tenant delinquencies in the year were low at 0.3% of total rent roll (2015: 0.7%) and rent deposits have predominantly mitigated their financial impact. We are vigilant and continue to monitor the financial position of our tenants on a regular basis.

19.5%

EPRA NAV per share growth

# Our financial results

## Taxation

The current tax credit in the income statement for the year is £0.6 million (2015: £nil) as a result of the tax-free nature of much of the Group's income and other allowances being available to set against non-REIT profits. The deferred tax credit in the income statement for the year is £0.5 million (2015: £0.8 million) and relates to non-REIT Group activities. The underlying effective tax rate was 0% (2015: 0%). The Group complied with all relevant REIT tests for the year to 31 March 2016.

All entities within the Group are UK tax resident; as our business is located wholly in the UK, we consider this to be appropriate. The Group maintains an open working relationship with HMRC and seeks pre-clearance in respect of complex transactions as part of its low-risk tax strategy.

As a REIT, we are exempt from UK corporation tax in respect of our property rental business, provided we meet a number of conditions including distributing at least 90% of the rental income profits of this business (known as Property Income Distributions (PIDs)) on an annual basis. These PIDs are then typically treated as taxable income in the hands of shareholders. The Group's REIT exemption does not extend to either profits arising from the sale of investment properties which have undergone a major redevelopment within the preceding three years or profits arising from trading properties (including the sale of the residential units at Rathbone Square, W1).

During the year, GWP sold 95 Wigmore Street, W1. As the disposal occurred within three years of the completion of the development of the property, the Group's share of the gain arising is taxable. The Group anticipates that the gain will be sheltered by losses and therefore has not accrued a tax charge in respect of this disposal. The REIT legislation enables the Group to reclaim the REIT conversion charge it paid in 2007 in respect of the property, giving rise to a prior year tax credit of £0.6 million.

Despite being a REIT, we are subject to a number of other taxes and certain sector specific charges in the same way as non-REIT companies. During the year, we incurred £11.9 million in respect of stamp duty, empty rates in respect of vacant space, s106 contributions and community infrastructure levies.

## Dividend

The Board has declared a final dividend of 5.6 pence per share (2015: 5.5 pence) which will be paid in July 2016. All of this final dividend will be a REIT PID in respect of the Group's tax exempt property rental business. Together with the interim dividend of 3.6 pence, the total dividend for the year is 9.2 pence per share (2015: 9.0 pence).

9.2p

Total dividend per share

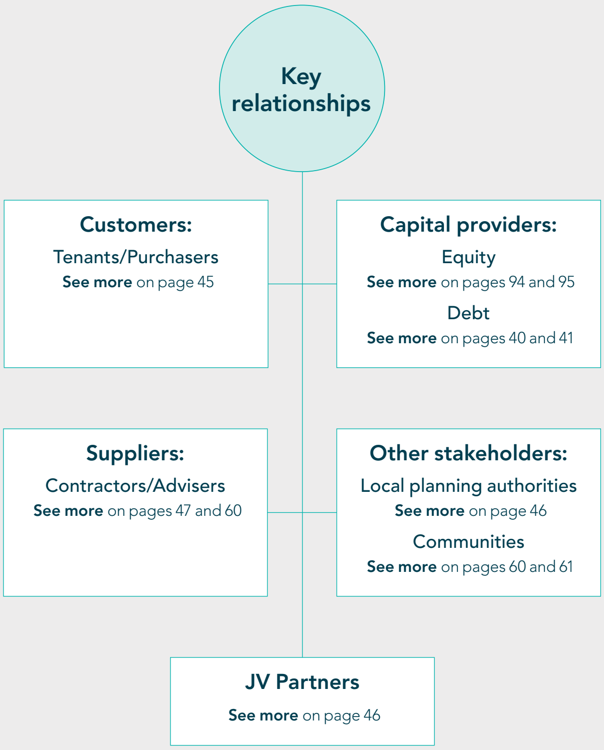
### EPRA performance measures

| Measure | Definition of Measure | March 2016 | March 2015 |
|---|---|---|---|
| EPRA earnings | Recurring earnings from core operational activities | **£47.8m** | £45.1m |
| EPRA earnings per share | EPRA earnings divided by the weighted average number of shares | **14.0p** | 13.2p |
| Diluted EPRA earnings per share | EPRA earnings divided by the diluted weighted average number of shares | **13.5p** | 12.7p |
| EPRA costs (by portfolio value) | EPRA costs (including direct vacancy costs) divided by market value of the portfolio | **0.8%** | 0.8% |
| EPRA net assets | Net assets adjusted to exclude the fair value of financial instruments | **£3,079.5m** | £2,431.0m |
| EPRA net assets per share | EPRA net assets divided by the number of shares at the balance sheet date on a diluted basis | **847p** | 709p |
| EPRA triple net assets | EPRA net assets amended to include the fair value of financial instruments and debt | **£3,022.6m** | £2,345.8m |
| EPRA triple net assets per share | EPRA triple net assets divided by the number of shares at the balance sheet date on a diluted basis | **831p** | 684p |
| EPRA NIY | Annualised rental income based on cash rents passing at the balance sheet date less non-recoverable property operating expenses, divided by the market value of the property increased by estimated purchasers' costs | **2.8%** | 2.6% |
| EPRA "topped up" NIY | EPRA NIY adjusted to include rental income in rent-free periods (or other unexpired lease incentives) | **3.1%** | 3.2% |
| EPRA vacancy | ERV of non-development vacant space as a percentage of ERV of the whole portfolio | **7.0%** | 5.1% |

# Our relationships

## Building and nurturing strong working relationships with our customers, suppliers, JV partners, capital providers and other stakeholders is critical to our success.

### Our key relationships



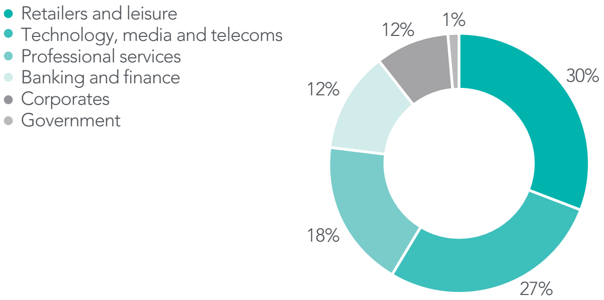

### Our approach

We aim to build lasting relationships with our stakeholders based on professionalism, fair dealing and integrity. Our active engagement with our stakeholders helps us build long-term relationships with the individuals and groups upon which the success of our business depends.

## Focused approach to meet customers' needs

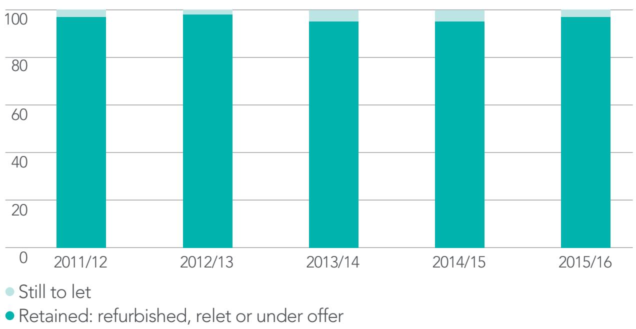
Across the portfolio we have over 425 tenants in 67 buildings across 42 sites. Our tenants operate across a wide spectrum of business sectors and range from Fortune Global 500 companies to local sole traders. We consider that a close relationship with our tenants is vital to our success. As a result, we manage all aspects of our property portfolio in-house enabling us to continually refine our understanding of what tenants want and how we can best meet their needs.

**GPE tenant mix %**




This understanding depends on successful communication. Therefore, each of our asset managers is required to formally meet with every tenant twice a year and a Board member will meet with our top 20 tenants at least annually. This process provides valuable insight into their business which allows us not only to ensure that our tenants are satisfied with their existing space but also to retain them when their leases expire and our tenant retention rate is high. We also aim to be our tenants' first port of call should they require further space and we have successfully helped a number of tenants grow their businesses by expanding within our portfolio, such as Double Negative (visual effects) and New Look (fast fashion retailer).

**Annual rent roll lost through tenant breaks and expiries %**




Our residential sales programme at Rathbone Square, W1 commenced in July 2014 and to date we have sold 139 out of the 142 private apartments in the scheme. Keeping the overseas purchasers of the units up to date on progress of their apartments has been an important part of the sales process. As a result, in May 2015 we held events in Hong Kong and Singapore to provide an overview of construction progress and allow the purchasers to make some final decisions on the fit out of their apartments.

# Our relationships

## Joint ventures remain an important part of our business

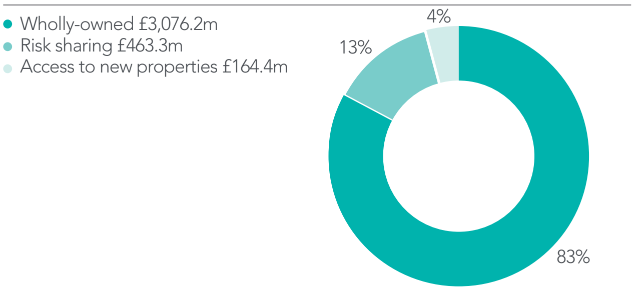
We categorise our joint ventures into two types:

– access to new properties (4.3% of GPE's net asset value). The relevant joint ventures are the Great Victoria Partnership (GVP) with Liverpool Victoria Friendly Society and the Great Wigmore Partnership (GWP) with Aberdeen Asset Management (formerly Scottish Widows); and

– risk sharing on development projects and/or large lot size properties (14.4% of GPE's net asset value). The relevant joint ventures are the GHS Limited Partnership (GHS) with the Hong Kong Monetary Authority (HKMA) and the Great Ropemaker Partnership (GRP) with BP Pension Fund.

Whilst our four active joint ventures represent an important proportion of the Group's business, as detailed in the Investment management section, during the year the size of the Group's business in joint ventures reduced as we purchased the other 50% of GSP from our partner, Starwood Capital, bringing the joint venture to a close, and GWP profitably sold its largest property, 95 Wigmore Street, W1. As a result, at 31 March 2016 they made up 16.9% of the portfolio valuation, 18.7% of net assets and 18.7% of rent roll (at 31 March 2015: 23.4%, 26.6% and 29.1% respectively).

### Wholly-owned and joint venture property values at 31 March 2016




## Navigating the planning process together with local authorities

Developing new buildings in central London is difficult, particularly in the West End. Large areas are protected by conservation areas, building heights are restricted, development needs to be considerate to local residents and the planning process is stringent. Navigating this process is a core driver of our success. As a result, our relationships with the local planning authorities are key to delivering on our business plans.

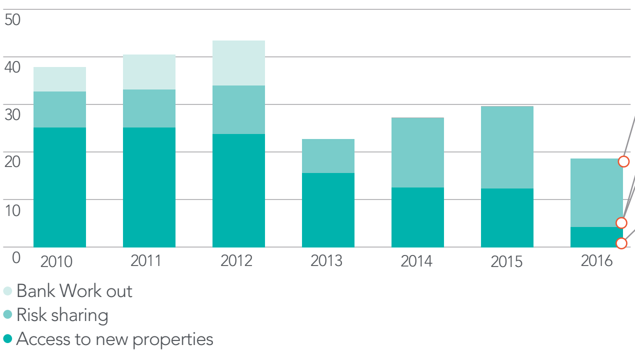
We are open, transparent and non-adversarial in our approach to securing planning consents. We engage pro-actively in pre-application consultations with key stakeholders and will adjust our proposals to take account of comments received. Where possible, we use planning performance agreements with the local planning authority to ensure that our planning applications are determined in a timely manner.

Recent planning successes include: 148 Old Street, EC1 where we received consent for our 161,900 sq ft development in the City fringe, amendments to our scheme at Hanover Square, W1 to improve the design and increase the size of the building, and in February 2016 we submitted a planning application for our 88,200 sq ft retail and office redevelopment of Oxford House, W1 at the eastern end of Oxford Street.

**18.7%**

Net assets in Joint Ventures

### GPE's net investment in joint ventures %




### Joint venture – partner

| | 31 March 2016 |
|---|---|
| GRP – BP Pension Fund | £282.8m |
| GHS – Hong Kong Monetary Authority | £135.7m |
| GVP – Liverpool Victoria | £106.9m |
| GWP – Aberdeen AM | £17.9m |
| GCP – Capital & Counties | £0.1m |
| **Total** | **£543.4m** |
| **As % of Group net assets** | **18.7%** |

## Working closely with our contractors

The successful and profitable delivery of our developments requires the effective management of a multitude of factors, including maintaining deep relationships and collegiate working with our main contractors. Whilst the construction of our developments is subject to a tender process to ensure we obtain value for money, where possible, we try to retain key team members on successive developments to secure the best people with an established track record.

This close collaboration combined with bi-monthly payment terms, a track record of successful project delivery and a deep pipeline of future work means that contractors want to work with us, enhancing our good access to quality suppliers.

⊕ **For more on how we work with our contractors** see page 60

## Willow Foundation charity bike ride

In September 2015, we hosted a cycle ride to raise money for The Willow Foundation covering 150 miles in two days from Ross on Wye back to our head office in Cavendish Square, W1. Since 1999, Willow has fulfilled more than 11,000 Special Days for young adults living with life-threatening conditions such as cancer, motor neurone disease, cystic fibrosis, muscular dystrophy and Huntington's disease.

The GPE team of eight keen cyclists was joined by a wide range of our stakeholders including contractors, suppliers, consultants and lawyers. We had 58 participants and together raised in excess of £84,000.

### Contractors employed on committed development schemes during the year

| | | | | | | |
|---|---|---|---|---|---|---|
| Project: **30 Broadwick Street, W1** | Project: **48/50 Broadwick Street, W1** | Project: **78/82, 84/86 and 90/92 Great Portland Street, W1** | Project: **148 Old Street, EC1** | Project: **73/89 Oxford Street, W1** | Project: **Rathbone Square, W1** | Project: **Tasman House, W1** |
| Contractor: bam | Contractor: Forcia | Contractor: knight harwood | Contractor: wates | Contractor: Brookfield Multiplex | Contractor: lendlease | Contractor: wates |
| Previous work with GPE: **n/a** | Previous work with GPE: **n/a** | Previous work with GPE: **22 Regent Street, W1, French Railways House, W1 and 23/24 Newman Street, W1** | Previous work with GPE: **95 Wigmore Street, W1 and 33 Margaret Street, W1** | Previous work with GPE: **100 Bishopsgate, EC2** | Previous work with GPE: **Wells & More, W1** | Previous work with GPE: **95 Wigmore Street, W1 and 33 Margaret Street, W1** |

# Our culture and people

"Our culture and people lie at the heart of our ability to achieve our strategic priorities, unlocking potential across our portfolio. Our culture is fundamental to our ability to attract, develop, motivate and retain our talented people."

**Toby Courtauld**
Chief Executive

## Operational measures

| | | | |
|---|---|---|---|
| Employee retention | **88%** 2015: 87% | Employees participating in Share Incentive Plan | **66%** 2015: 77% |
| Days training provided per employee[1] | **3.1** 2015: 3.6 | Lateral moves and promotions | **8** 2015: 3 |

1. On average

## Our approach

Our culture is entrepreneurial and pragmatic, with a high level of involvement from senior and executive management and an emphasis on cross-disciplinary teamwork. We recognise the benefits of such a positive culture and work hard to maintain it through:

- regular and effective communication with an 'open door' policy;
- regular meetings held weekly, monthly and quarterly across the various teams on different aspects of the business;
- encouraging our people to be innovative, whilst still maintaining a disciplined approach – providing clear policies and procedures and instilling a strong sense of responsibility for active risk management;
- a collegiate style, with recognition of a project's success being based upon the contribution and smooth interaction of every member of the team;
- providing well-constructed and fair reward systems designed to incentivise superior individual and team performance and align employees' and shareholders' interests;
- providing an attractive pipeline of high quality projects and assets to manage;
- recruiting high quality individuals with a constructive mindset and valuable experience;
- a formal and extensive induction process for new joiners;
- ensuring continual improvement of the skills and competency of our employees at all levels and across all disciplines through appropriate training courses and development; and
- fostering a friendly environment which engenders a strong camaraderie.

## Our integrated team

GPE combines the very best of a disciplined approach to work, high standards in everything we do, and also high expectations of our people, but with a collegiate approach to projects, friendly environment and strong camaraderie.

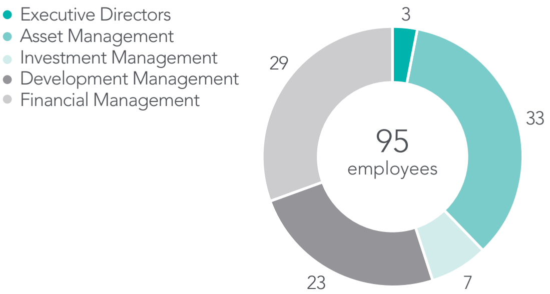
As a small organisation in people terms – just under 100, every single person's contribution counts. When we hire, we look for individuals who are comfortable taking responsibility and working constructively and flexibly with colleagues. We then invest time in giving new starters an extensive induction to the organisation so they can feel at home right away and able to give their best.

Our talented team brings together specialist skills which are used to manage our portfolio rigorously, on an asset-by-asset basis, and ensure the achievement of our strategic priorities. Each of our department heads, collectively our Senior Management Team, interact daily with the Executive Directors and report regularly to the Company's Executive Committee, the principal decision making body for management and operational matters.

In 2015, we promoted Marc Wilder and Andrew White to our Executive Committee as Leasing Director and Development Director respectively. Robin Matthews, formerly at Moorfield Group, will join us in the summer of 2016 to replace Ben Chambers as Investment Director. Steven Mew will also be joining GPE and the Executive Committee as Portfolio Director in the autumn of 2016 from listed property company McKay Securities plc. Together, these appointments deliver additional management capacity and excellent bench strength enabling us to successfully manage the increased scale and complexity of our business and take full advantage of the many further opportunities that we have within our portfolio.

Taking account of the growth in the business in recent years, during 2015 we secured additional office space at 33 Cavendish Square, where we have been based since 2005. The fit-out which we will complete in 2016 will enable our people, and the external teams we work with, to benefit from a high quality working environment and one that will continue to foster the collaborative culture which is so key to GPE.

### Number of employees 2016

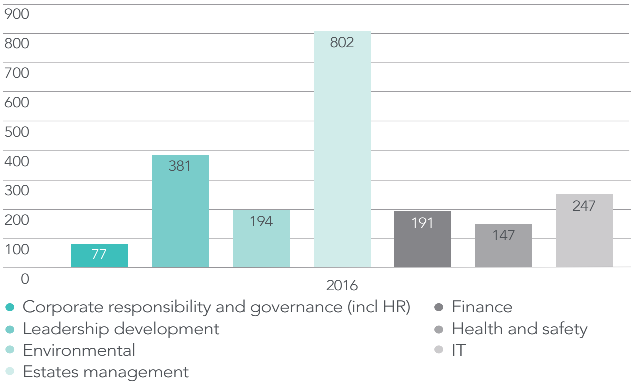


> "The Leadership Programme has enabled me to better empower, encourage and motivate my team, further enhancing GPE's positive culture."
>
> **Mike Gould**
> Regional Building Manager

## Unlocking our people potential

During the year ended 31 March 2016, £104,820 was invested in employee and Non-Executive Director training, providing 2,039 hours of training averaging 3.1 days per employee.

**Total number of training hours** by type




We have always encouraged our people to develop in their careers, providing professional development experience opportunities as well as funding and support for qualifications. In the year to 31 March 2016, we considered how we could further enhance individual personal development. As a result, we are creating a structured HR programme of activities that will enable us to grow the talent in our organisation to meet business needs as well as opening up further options for internal succession. Working with all our managers, we started by defining the particular type of leadership skills GPE needs moving forward.

In January 2016, we embarked on an in-depth, tailored Leadership Development programme for all of our 24 line managers including our Executive Committee. The programme consists of behavioural profiling, workshops and coaching and will be rolled out over a nine month period. Going forward, all new recruits to the organisation who have line management responsibilities will be given training in GPE's 'Unlocking People Potential' leadership programme.

In 2016, we will further extend development support to all our people. Our plans include:

– making behavioural profiling available to all our people as a tool to help them with their personal development and to optimise working relationships with colleagues both internally and externally;
– redeveloping our mid-year appraisals to become more personal and career development focused; and
– putting appropriate training resources in place to enhance skills development for now and the future.

## Rewarding performance

The Board is responsible for setting our strategic priorities and monitoring performance against them – see pages 10 and 11. Our senior managers are accountable for working with their team members to develop appropriate annual objectives based on the nature of their role and for ensuring that everyone understands how they contribute to overall business objectives.

All employees have mid-year and annual performance appraisals. In addition, all employees participate in the Company's annual employee bonus plan, with a portion of their reward driven by personal performance against objectives and the balance triggered by GPE's corporate performance against key financial targets.

For the year ended 31 March 2016, we changed the employee bonus plan corporate measures to be the same as those of the Executive Directors to ensure complete alignment with the Executive Team in driving relative asset capital values and net asset growth for shareholders. We also provided training for managers to help them with their role of giving constructive, developmental feedback to team members to enhance individual and team performance and changed our appraisal process to make it simpler and easier for people to focus on what was important in relation to their performance during the year.

As part of the year-end remuneration process, the Executive Committee and the Senior Management Team review salary benchmarking against market competitors, individual performance against personal objectives, proposed discretionary bonuses and planned Long-Term Incentive Plan awards. The outcome of this process is then provided to the Remuneration Committee which reviews remuneration levels proposed for all employees and decides upon recommendations made for senior manager and Executive Director salary levels, bonus awards for achievement of personal objectives and proposed Long-Term Incentive Plan awards.

The base salary increase for employees for the year ending 31 March 2017 is 2%. Increases of more than 2% were given to some employees due to market realignment and/or increases in responsibility and contribution, such that the average increase in base salary for the year ending 31 March 2017 will be 4.6%.

All employees have the opportunity to participate in the Company's 'two for one' Share Incentive Plan (SIP) which encourages people to become investors in GPE and to share in the Company's financial success.

# 66%

of employees participate in the SIP scheme

# Our culture and people

"Talented individuals and a great team environment make for GPE's success. This knowledge drives our careful selection of new recruits, our strong and growing investment in people development and our focus on working to develop the GPE culture".

**Sally Learoyd**
Head of Human Resources

## Promoting engagement

We believe that in order to deliver our strategy it is important that every one of our team is fully engaged. As our business grows, it is key that we retain what is unique and best about GPE whilst at the same time evolving so we can continue to deliver outstanding results in our larger, more complex organisational environment. In the summer of 2015, we asked those employees who interact regularly with our Executive Committee about the Group's areas of strength and those where improvements could be made. Results focus, management approachability, involvement in decision-making and communication all scored highly with areas for improvement identified as being people development, delegation and creating more opportunities for employees to be involved and recognised at a broader level. We have taken action on all these areas with the help of our Senior Management Team, resulting in our learning and development plans outlined above, the revisiting of our delegated authority levels and introducing recognition awards for individuals who have 'gone the extra mile'. In the autumn of 2015, we also had a late summer barbecue to thank all our teams for their hard work and contribution to outstanding results in the first half of the year.

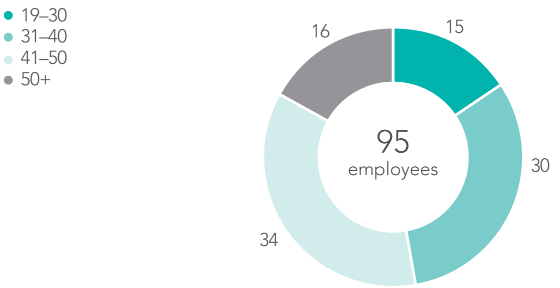
In addition, whilst we continue to ask all new joiners for their feedback, this year we have asked all employees to share their views on both changes made to the appraisal process during the year and proposed plans for the fit-out of our space at head office to help us improve the way we go about developing and implementing these initiatives. In order to build on our wider engagement, in 2016 we will also be undertaking our first externally co-ordinated engagement survey which will be designed by our employees through a number of workshops.

## Supporting diversity and inclusion

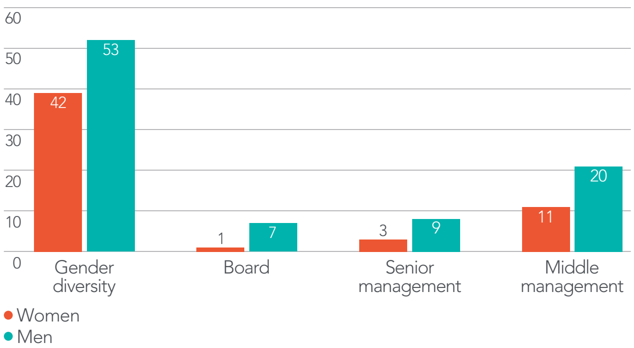
Our culture is grounded in mutual respect and non-discrimination irrespective of age, disability, gender, race, religion, sexual orientation or educational background. Our aim is to foster a culture of respect and fairness where individual success depends solely on ability, behaviour, work performance, demonstrated potential and perhaps the most key of all, the ability to work as part of a team.

Whilst our policy remains that selection should be based on the best person for the role, we recognise the benefits of gender diversity. From March 2015, we amended our policy so that when recruiting, where possible, at least 30% of potential candidates identified should be women.

**Employee profile age** number of people




**Employee profile gender diversity** number of people




## 'Going the extra mile' award

In September 2015, we presented James Pellatt (Head of Projects) with our inaugural 'going the extra mile' award for his considerable efforts in organising the GPE bike ride involving 50 of our contractors, consultants, lawyers and suppliers to raise money for the Willow Foundation. See page 47.

## The Finance Team 'Away Day'

Martin Leighton and Jonathan Nicholls at the Finance Team 'Away Day' in January 2016.

In January 2016, we held a Finance Team 'Away Day' involving 30 members of the Finance, IT, Company Secretarial and Human Resources teams spending some time together out of the office. The day started with Nick Sanderson, our Finance Director, emphasising how the various different teams within the wider Finance Team were fundamental in adding value to the Group across a range of activities. He highlighted that key to this success was the way in which individuals looked to continually improve both communication and processes and wherever possible to empower others. This was followed by the group making their own lunch, splitting into two teams for a cooking lesson which resulted in some team members demonstrating a previously unknown talent!

In the afternoon, the group moved to the marketing suite at Oxford House, W1 where Tim Leckie, a real estate equity analyst from JP Morgan Cazenove, interviewed by Stephen Burrows, our Head of Financial Reporting and Investor Relations, provided a candid insight into a day in the life of an analyst, what he thought of GPE and what he particularly valued from GPE's management presentations. Jonathan Nicholls, our Chairman of the Audit Committee, then gave an informal presentation on his previous experience as a Finance Director, his role as a GPE Non-Executive Director and Chairman of the Audit Committee, and finally the confidence gained by the GPE Board in regularly meeting with individuals below the Board. Andrew White, Development Director, and Piers Blewitt, Senior Development Manager, rounded up the presentations with an overview of the decision-making processes within a development using 12/14 New Fetter Lane, EC4, Rathbone Square, W1 and Oxford House, W1 as examples. They also highlighted the importance of the involvement of the Finance Team throughout the development process including production of the development appraisals, consideration of the tax implications and the timely payment of contractors. Lastly, there was a question and answer session led by Martin Leighton, our Head of Corporate Finance, where individuals had also been given the opportunity to submit questions anonymously in advance of the day with answers provided by Nick Sanderson. Moving from Oxford House, the team split into smaller groups for a tour of the Rathbone Square residential marketing suite and development site, with various members of the Project Team explaining some of the key features that had helped in securing the pre-let to Facebook. Heading into the evening, the day was completed with a Ping-Pong tournament accompanied by drinks and snacks at a venue in Holborn where Hayden Wheeler, GPE's Joint Venture Financial Controller, was the clear winner!

> "I found the whole day extremely interesting and enjoyed being with my wider colleagues in a different environment."
>
> **Kirsty Davie**
> Head of Investment Analysis and Management Information

# The Board

## Non-Executive Director

**Martin Scicluna**
Chairman
BCom

**Committee memberships:**
Chairman of the Nomination Committee

**Date appointed to the Board:**
October 2008

**Independent:** Yes, on appointment

**Skills and experience:**
Chairman of RSA. Formerly Non-Executive Director and Chairman of the Audit Committee of Lloyds Banking Group following 34 years at Deloitte, including Chairman from 1995 to 2007. Age 65.

**Current external commitments:**
Chairman of RSA plc, Non-Executive Director, Senior Independent Director and Chairman of the Audit Committee of WorldPay.

## Executive Directors

**Toby Courtauld**
Chief Executive
MA, MRICS

**Committee memberships:**
Chairman of the Executive Committee

Chairman of Environmental Policy Committee

**Date appointed to the Board:**
April 2002

**Independent:** No

**Skills and experience:**
Joined the Group in April 2002 as Chief Executive. Previously with the property company MEPC for 11 years, he gained broad experience ranging from portfolio management through to corporate transactions and general management as a member of the Group Executive Committee. Age 48.

**Current external commitments:**
Member of the British Property Federation Board and Policy Committee, Director of The New West End Company, Non-Executive Director of Liv-Ex Limited, Member of Imperial College London Council.

**Nick Sanderson**
Finance Director
BA (Hons), ACA

**Committee memberships:**
Member of the Executive Committee

**Date appointed to the Board:**
July 2011

**Independent:** No

**Skills and experience:**
Joined the Group in July 2011 as Finance Director. Formerly Partner, Head of Real Estate Corporate Finance Advisory at Deloitte, following ten years of real estate investment banking experience in Europe and Asia with Nomura, Lehman Brothers and UBS Investment Bank. Age 43.

**Current external commitments:**
Member of the Finance Committee of the British Property Federation, Member of the Reporting & Accounting Committee of EPRA.

**Neil Thompson**
Executive Director
BSc (Hons), MRICS

**Committee memberships:**
Member of the Executive Committee

Chairman of Health and Safety, Environmental and Corporate Responsibility Working Group

**Date appointed to the Board:**
August 2006

**Independent:** No

**Skills and experience:**
Joined the Group in December 2002 and was appointed to the Board as Development Director in August 2006, becoming Portfolio Director in September 2010. In March 2016, his title was changed to Executive Director. He has worked for more than 20 years in the central London commercial property market. Formerly with Derwent Valley and Legal & General Investment Management. Age 48.

**Current external commitments:**
Chairman of the Westminster Property Association.

Left to right:
Martin Scicluna, Toby Courtauld, Nick Sanderson, Neil Thompson, Jonathan Short, Jonathan Nicholls, Charles Philipps, Elizabeth Holden



## Non-Executive Directors

### Jonathan Short
BSc, ACIB, FRICS

**Committee memberships:**
Chairman of the Remuneration Committee

Member of the Audit Committee

Member of the Nomination Committee

**Date appointed to the Board:**
March 2007

**Independent:** Yes

**Skills and experience:**
Founding Partner of Internos Global Investors LLP, a pan-European real estate investment management business. Previously CEO of Pramerica's real estate private equity business following 16 years in investment banking at Lazard, Barings and SG Warburg. Formerly a Non-Executive Director of Big Yellow Group plc. Age 54.

**Current external commitments:**
Executive Chairman of Internos Global Investors LLP, Independent Director to the Grosvenor Shopping Centre Fund, Non-Executive Director and Chairman of the Audit, Risk and Compliance Committee of Gatehouse Bank.

### Jonathan Nicholls
BA (Hons), ACA, FCT

**Committee memberships:**
Senior Independent Director

Chairman of the Audit Committee

Member of the Remuneration Committee

Member of the Nomination Committee

**Date appointed to the Board:**
July 2009

**Independent:** Yes

**Skills and experience:**
Formerly Group Finance Director of Old Mutual plc and Hanson plc, and previously Non-Executive Director of Man Group Plc. Age 58.

**Current external commitments:**
Non-Executive Director and Chairman of the Audit Committee of SIG Plc, Non-Executive Director, Senior Independent Director and Chairman of the Audit Committee of DS Smith Plc, Non-Executive Director and Senior Independent Director of Ibstock plc.

### Charles Philipps
ACA

**Committee memberships:**
Member of the Audit Committee from 1 July 2014

Member of the Nomination Committee from 1 July 2014

**Date appointed to the Board:**
April 2014

**Independent:** Yes

**Skills and experience:**
Chief Executive Officer of Amlin plc and formerly a director of NatWest Markets. Age 57.

**Current external commitments:**
Chief Executive Officer of Amlin plc and Executive Officer of its parent company Mitsui Sumitomo Insurance, Trustee of the Outward Bound Trust.

### Elizabeth Holden
MA (Hons)

**Committee memberships:**
Member of the Audit Committee

Member of the Remuneration Committee

Member of the Nomination Committee

**Date appointed to the Board:**
September 2012

**Independent:** Yes

**Skills and experience:**
Formerly a corporate partner at Slaughter and May specialising in mergers and acquisitions, corporate advisory and governance matters. Age 48.

**Current external commitments:**
Non-Executive Director of Your Lifespace Ltd and HML Holdings plc.

# Senior Management Team

**Richard Moran**
Head of Information Technology

**Date joined the Group:**
Joined the Group in January 2000 as IT Manager and appointed Head of Information Technology in 2015.

**Experience and responsibilities:**
Formerly IT Manager for Dalau Ltd. Responsible for operational and strategic aspects of technology across the Group.

**Sally Learoyd**
Head of Human Resources
MBA, FCIPD

**Date joined the Group:**
Joined the Group in 2015 as Head of Human Resources.

**Experience and responsibilities:**
Formerly HR Director for King & Wood Mallesons and previously with Hammerson. Responsible for human resource management and development across the Group.

**Martin Leighton**
Head of Corporate Finance
LLB, ACA, CTA

**Date joined the Group:**
Joined the Group in January 2003 as Corporate Finance Manager and appointed Head of Corporate Finance in 2011.

**Experience and responsibilities:**
Formerly a Corporate Finance Assistant Director with Ernst & Young. Responsible for the day-to-day management of all tax affairs, transaction structuring, raising debt finance and interest rate risk management across the Group.

A member of the British Property Federation Tax Committee

**Janine Cole**
Head of Sustainability
MIOSH, AIEMA

**Date joined the Group:**
Joined the Group in November 1998 as Health and Safety Administrator. Promoted to Safety, Health and Environmental Manager in 2002 and appointed Head of Sustainability in 2011.

**Experience and responsibilities:**
Formerly a Professional Services Administrator with National Britannia. Responsible for environment and health and safety management across the Group.

A member of the British Property Federation Sustainability Committee.

**James Mitchell**
Head of Asset Management
MA, MRICS

**Date joined the Group:**
Joined the Group in November 2003 as Asset Manager and appointed Head of Asset Management in 2005.

**Experience and responsibilities:**
Formerly an Associate with Cushman & Wakefield, and previously with MEPC and Weatherall, Smith & Green. Responsible for the net income return of the portfolio across the Group.

A member of the British Property Federation Commercial Committee

Left to right:
Richard Moran, Sally Learoyd, Martin Leighton, Janine Cole, James Mitchell, Stephen Burrows, Desna Martin, Marc Wilder, Hugh Morgan, Andrew White, James Pellatt



**Stephen Burrows**
Head of Financial Reporting and IR
BA (Hons), MA, ACA

**Date joined the Group:**
Joined the Group in September 2003 as Financial Accountant and appointed Head of Financial Reporting and Investor Relations in 2011.

**Experience and responsibilities:**
Formerly an Audit Manager in Ernst & Young's Real Estate Group and previously with the National Audit Office. Responsible for financial reporting, forecasting and investor relations across the Group.

A member of the British Property Federation Technical Accounting Group and the EPRA IR Committee.

**Desna Martin**
Company Secretary
BCom, FCA (Aust), ACIS

**Date joined the Group:**
Joined the Group as Company Secretary in October 1998.

**Experience and responsibilities:**
Formerly an Audit Senior Manager with Ernst & Young. Responsible for corporate governance across the Group.

Company Secretary for all joint venture companies.

**Marc Wilder**
Leasing Director
BSc (Hons), MRICS

**Date joined the Group:**
Joined the Group in June 2005 as Leasing Manager and appointed Head of Leasing in 2009. Appointed to the Executive Committee in July 2015 as Leasing Director.

**Experience and responsibilities:**
Formerly Head of Leasing at Benchmark plc, and previously with Threadneedle Asset Management and Hemingway Properties Limited. Responsible for leasing across the Group's investment portfolio and development programme.

**Hugh Morgan**
Head of Investment Management
BSc (Hons), MRICS

**Date joined the Group:**
Joined the Group in September 2007 as Investment Manager and appointed Head of Investment Management in 2010.

**Experience and responsibilities:**
Formerly a Director with Savills and previously with Nelson Bakewell. Responsible for generating and executing asset strategies for existing assets within the Group's portfolio including hold/sell decisions.

A member of the GHS Limited Partnership Operational Committee.

**Andrew White**
Development Director
BSc (Hons), Dip IPF, MRICS

**Date joined the Group:**
Joined the Group in March 2013 as Head of Development. Appointed to the Executive Committee in July 2015 as Development Director.

**Experience and responsibilities:**
Formerly a Divisional Director at Kier Property and previously with BAA Lynton and Development Securities. Responsible for the total return of the development portfolio including the successful delivery of all development projects across the Group.

A member of the GHS Limited Partnership Operational Committee.

**James Pellatt**
Head of Projects
BSc (Hons), MRICS

**Date joined the Group:**
Joined the Group in March 2011 as Head of Projects.

**Experience and responsibilities:**
Formerly a Senior Director with Tishman Speyer and previously with More London Development and EC Harris. Responsible for setting procurement strategy and ensuring capital expenditure on all projects is completed in accordance with individual asset business plans across the Group.

# Sustainability

"Our approach to sustainability is an integral part of our business strategy, designed to address our material risks and enhance the long-term value of our business through responsible acquisition, development and management of our buildings to meet the needs of our key stakeholders."

**Janine Cole**
Head of Sustainability

## 2015/16 Strategic priority

### To deliver our development programme and drive rental growth through responsible development and management of our buildings

### Operational measures

| | | | |
|---|---|---|---|
| Change in total energy consumption across our managed buildings | **(13)%** | Number of F and G rated Energy Performance Certificates | **23** |
| BREEAM Excellent ratings achieved | **12/14 New Fetter Lane** | GRESB rating | **Green Star** |
| BREEAM Very Good ratings achieved | **Walmar House** | | |

## Our approach

We aim to meet current and future tenant needs by future-proofing our buildings, whilst having regard to the wider environment in which our buildings are located. Through responsible development and management of our buildings we can unlock the potential of our properties and enhance the long-term value of our business. Our sustainability strategy is reviewed annually by the Environmental Policy Committee and approved by the Board. A gap analysis is undertaken to ensure that:

- current regulatory requirements are met and where appropriate exceeded;
- we evolve to keep pace and prepare for changes in legislation;
- our sustainability strategy reflects the expectations of our stakeholders;
- our sustainability strategy reflects industry best practice; and
- our sustainability strategy is compatible with our overall business strategy.

During the year ending March 2017, we will be focusing on our 'Towards the 2020s' sustainability strategy and updating our Environmental Policy Committee terms of reference to reflect its broader sustainability remit, including responsible supply chain management, human rights, place making and wellbeing.

## Managing our key sustainability risks

### Improving resource management at our assets

In order to reduce energy consumption both in landlords' areas and the tenants' demise, we need to work closely with our tenants. We do this by:

- engaging with our tenants on resource consumption issues at tenant meetings and through Environmental Working Groups;
- providing energy and water consumption information on each building through our dedicated tenant website; and
- providing reports to tenants on progress made in implementing energy efficiencies recommended by our energy audits.

This year, energy consumption across our buildings has fallen 13% as a result of a combination of activities including a rebalancing and seasonal commissioning exercise at 240 Blackfriars Road, SE1, improved metering at 200 Gray's Inn Road, WC1, increased monitoring of consumption data across the portfolio and the sale of 95 Wigmore Street, W1.

We also take the opportunity to specifically target improving resource management at our properties as leases expire. It is essential that we do all we can to improve the efficiency of our existing properties. We operate a watch list of E, F and G rated buildings not only due to Minimum Energy Efficiency Standards coming into effect in April 2018 which prohibit the letting of spaces with EPC ratings of F and G but also to reduce energy costs for our tenants. Whilst some of our 23 F and G rated demises are exempt due to the buildings being listed, actions required to improve the remainder have been identified. For acquisitions, where EPC ratings are below an E rating, consideration is given to the level of further investment required to improve the EPC prior to purchase. Costs related to introducing energy efficiencies are included in all refurbishment plans and prior to commencement of a refurbishment, the EPC for a demise will be reviewed to ensure that the works target an improvement in EPC rating by at least one grade.

## Improving our buildings' EPC ratings

During the year ended 31 March 2016, we improved, or are in the process of undertaking works to improve, EPC ratings at our buildings as follows:

| Property | Original Rating | New Rating |
|---|---|---|
| Carrington House, W1 – third floor East | G | C |
| 31/32 Alfred Place, W1 – ground to sixth floor | F | C[1] |
| 33/34 Alfred Place, W1 – ground to sixth floor | F | C[1] |
| Kingsland House, W1 – second to fourth floor | F | C |
| Elm House, WC1 – ground to tenth floor | E | C[1] |
| 13/14 Great Castle Street, W1 | E | B |
| 54/56 Jermyn Street, SW1 – ground to eighth floor | E | D[1] |
| Foxglove House, the Piccadilly Buildings, W1 | D | C |
| 200 Gray's Inn Road, WC1 – fifth floor | D | C |
| 200 Gray's Inn Road, WC1 – seventh floor | D | C[1] |
| Pollen House, W1 – second to fourth floors | D | C |

1. Target EPC for works in progress as at 31 March 2016.

### Investing in assets we can reposition

We recognise the importance of including sustainability considerations within our investment decisions. Our investment team ensures that key sustainability information related to the management of the building is collected through a sustainability checklist which is provided to the asset management team prior to completion on the building. As part of our 'ready for sale' procedures, similar information is prepared for purchasers.

A key aspect of our business is to purchase unloved buildings in prime locations with a view to repositioning them through redevelopment or refurbishment. As a result, we often purchase properties with lower rated EPCs, which can be improved through our activities. Where EPC ratings are below an E rating, consideration is given to the level of further investment required to improve the EPC. Costs related to introducing energy efficiencies are included within our refurbishment plans.

Where the scope of a planned refurbishment following purchase is less extensive and BREEAM is not appropriate for the size and scope of the works, we use the SKA Ratings system to provide a framework for our contractors to ensure that sustainability requirements are included within the refurbishment.



## Breathing new life into 31/32 Alfred Place, W1

In March 2015, we purchased 31/32 Alfred Place, W1, an unloved building with a low EPC F rating. Whilst the scope of the refurbishment did not justify a full BREEAM assessment we have targeted a SKA silver rating and improving the EPC rating to a C. Pre-let to a publishing company, the property will benefit from new energy efficient, heat recovery air-conditioning systems controlled through a central building management system with local zonal controls. New LED lighting with presence detectors has been installed and the energy monitoring and metering system will meet current best practice to allow our tenants and building managers to review the energy performance of the property once our tenant moves in. Improvements to the thermal insulation of the building envelope including new roof coverings and double-glazed shop fronts have also been undertaken to reduce energy consumption. Water efficient fittings have been installed within bathrooms throughout the property.

Where possible, we have reused existing materials, such as the terrazzo staircase and ensured that other materials such as timber have been sourced sustainably. Seventy new cycle storage spaces with associated showers and lockers have also been provided to facilitate active commuting.

Additionally, our contractor has been targeted with achieving best practice sustainability requirements during the refurbishment works, including the diversion of 95% of their waste from landfill, responsible sourcing of raw materials and the implementation of our commissioning and soft landings requirements. Our contractor registered with the Considerate Constructors Scheme in line with our Sustainable Development Brief and was successful in achieving a score of 40 out of 50 and an Excellent rating in all categories: Appearance, Community, Environment, Safety and Workforce.

James Burrage, Development Manager and Chris Lawrence, 8Build outside 31/32 Alfred Place, W1

# Sustainability

### Creating sustainable buildings – meeting and exceeding regulatory requirements

Our Sustainable Development Brief, a guidance note on sustainability best practice, assists our teams in achieving the best practical environmental option when considering energy, water, waste and biodiversity strategies for our developments. The brief also provides guidance on applying measures to reduce the embodied carbon of our developments, wellbeing standards and the handover process to tenants at our new developments and major refurbishments.

As a matter of course we target BREEAM Excellent for all new build developments and Very Good or Excellent for refurbishments depending on the nature and scope of the project.

This year our emphasis has been on integrating our sustainability objectives into contract documentation for consultants and contractors to ensure that our buildings are delivered with excellent sustainability credentials.

During the year, we achieved a BREEAM Excellent rating at our 12/14 New Fetter Lane, EC4 development and a Very Good rating at our refurbishment of Walmar House. Our developments at 30 Broadwick Street, W1, 73/89 Oxford Street, W1 and Rathbone Square, W1 all achieved a BREEAM Excellent rating at design stage.

### Delivering buildings to meet tenant needs

It is essential that our developments meet tenants' high expectations. We are, therefore, actively implementing our 'Soft Landings Framework' across all our projects so that our design team and building management team work together at key points in the design process and then closely together as the project nears handover. The approach ensures that the transition of our buildings through the construction phase, commissioning, fit-out and into occupation is managed effectively. Our services consultant and our Building Services Manager provide essential information from the commissioning process to the building management team in the run-up to practical completion.

As 30 Broadwick Street, W1 nears completion, regular soft landings meetings are underway so that our building management and building services team are fully briefed on the mechanical and electrical services installed at the property by the design team. Our design team is also liaising with our building management team on operational issues such as the servicing strategy for the property and how tenant fit-out works will be managed to ensure that tenant services are well integrated with landlord services upon completion.

At Rathbone Square, W1 whilst we have some way to go until practical completion in 2017, our building management team attend monthly soft landing meetings. To date, these have included issues such as operation of the public realm, security strategy for the building and the installation of data services.

We recognise the need to learn lessons from our projects – post occupancy evaluations assist in closing the feedback loop, providing us with a valuable source of information about how the building is performing against design expectations. Equally valuable feedback from tenants is provided through questionnaires or interviews conducted by an independent consultant. During the year, we held a feedback session with our project managers and asset managers, regarding the programme of post occupancy evaluation studies we have undertaken to date to incorporate lessons learned into our current and future projects and refurbishments. Common issues identified were: an increased need for active commuter facilities; a desire from some tenants for more active engagement on their fit-out process, so that landlord knowledge of the property is shared earlier with the tenants; and the need to work with the tenants to ensure that all metering systems are commissioned early on in order to provide accurate data monitoring from day one. A number of these issues have already been included within our new developments, with increased cycle storage at 30 Broadwick Street, W1 and Rathbone Square, W1. At 240 Blackfriars Road, SE1, we employed a tenant fit-out co-ordinator and the Soft Landings Framework was rolled out to assist with commissioning.

"The post occupancy evaluation process at our completed developments is providing us with valuable feedback to enable us to further develop our soft landings process and improve the handover of our buildings to our tenants."

**Peter Nolan**
Building Services Manager

## 12/14 New Fetter Lane, EC4 – a building with excellent sustainability credentials

Pre-let to Bird & Bird prior to construction commitment, our 142,500 sq ft office development in the heart of Midtown was forward sold to TIAA-CREF in December 2014. Completed in November 2015, the property achieved a BREEAM Excellent rating with a score of 76.3% and an EPC Rating of B.

We delivered a 30% improvement over Building Regulations Part L 2010 energy efficiency requirements with a 40% improvement in water consumption over the BREEAM baseline. This equates to an estimated saving of 17 litres per person per day.

Biodiversity measures were incorporated into the design at the outset. This included the creation of a large bio-diverse roof and sedum green roof on terraces to provide a new habitat for invertebrates. Additionally, a House Sparrow terrace and bat and bird boxes were provided at roof level for local priority species. As part of the lease with Bird & Bird it was agreed that, in order to ensure the maintenance of biodiversity measures, a biodiversity champion would be appointed by the tenant. The property achieved full FSC Project Certification under the FSC Chain of Custody Scheme.

In addition to delivering impressive environmental performance, the team also engaged an employment and skills manager to work with the local unemployment support agencies within the surrounding boroughs. The manager worked closely with Jobcentre Plus, work brokerages, local colleges, voluntary and community groups and welfare to work providers. Eleven people secured work through this engagement, whilst a further 26 people gained careers and learning opportunities on a temporary basis on-site. The site was also awarded the Considerate Contractor Scheme's Gold Award by the City of London in two consecutive years.

Throughout the project our team liaised with Bird & Bird to ensure that they were involved at key milestones during the development process. Training videos were provided during the commissioning process to ensure that when the building was handed over the tenant's facilities management team were fully briefed on how building systems functioned.

# Sustainability

### Working collaboratively with our contractors

In order to deliver successful developments, it is essential that we build positive relationships with our contractors. We take a collaborative approach on health and safety. Our principal contractors provide monthly reports on health and safety at our construction sites and, where reportable incidents occur, these are reported to our project management team to ensure prompt investigation of the incident.

In addition to engaging with our contractors at site level, we also liaise with our contractors at senior management level to discuss health and safety trends across the industry. During the year, we engaged with a number of our smaller principal contractor companies to discuss the impact of health and safety legislation and sustainability on their business.

We take this same collaborative approach with our contractors on sustainability to ensure that:

- waste arising from the construction process is minimised with designing out waste workshops undertaken early in the process;
- waste generated is diverted from landfill where possible;
- carbon emissions from our construction sites are monitored;
- a soft landings approach is adopted by the contractors to ensure a successful building handover at practical completion;
- responsible sourcing standards are supported;
- responsible employment standards are supported;
- payment is made promptly to contractors with 14 day payment terms and twice monthly valuations; and
- community initiatives are instigated to maximise local employment opportunities and to support local schools and colleges.

Over the coming months, we will work with our suppliers across our development and asset management activities to make sure our suppliers understand and evolve, where appropriate, their own standards and practices in relation to their supply chains to meet our supplier stewardship expectations in relation to the environment, health and safety, treatment of people working on our buildings, the community and ethical working practices.

For more details on **our relationships with our contractors** see page 47

### Forging links with the community

Through our developments we work hard to forge links with the local community and we encourage and support our contractors and professional teams to identify and commit resources to local projects. At our 30 Broadwick Street development, we have worked with the University of Westminster to provide a number of presentations and property tours for their students to coincide with key elements of their Construction Management and Project Management courses.

At Rathbone Square, W1 students from Reading University toured the site and received presentations from the team involved with the development and letting of the property. As part of the project the scheme's architect and principal contractor have engaged with All Souls Community Centre to assist with works undertaken to the community centre and also serving Christmas lunch to the elderly.

## The art of 'Soho in 50 years'

An art competition, jointly organised with our principal contractor at 30 Broadwick Street, W1, was held with Westminster Kingsway College to design hoardings with the brief of 'Soho in 50 years'. The students came to our offices to present their artwork in front of key members of the project team. The artist designing the public art installation for the property also joined the judging panel. In addition, a donation was made on behalf of the project to the West End Community Trust which holds events for isolated members of the local community.

## Promoting London

We were pleased to be involved with Lumiere, London's largest ever light festival that took place between 14 and 17 January 2016 attracting an estimated one million people to central London to view the various installations, which included two artworks sponsored by GPE located at each end of Piccadilly Arcade, which forms part of our Piccadilly Buildings holdings.


In May 2015, we were the first developer to pledge £20,000 to support Building Lives, the construction industry's apprenticeships charity.

In addition to donations sponsoring various charitable projects, every year we give £20,000 to charities chosen by our people – which this year were Child Bereavement UK, Thames Reach and Land Aid. In addition, employees are also encouraged to fund-raise for charities which are important to them personally through our employee donation programme where the Company matches funds raised by an employee for two charities up to a value of £250 each; in the year ended 31 March 2016, GPE supported 31 employees and their preferred charities in this way.

In addition, we are members of a number of community organisations and business improvement districts including New West End Company, London First, the Bond Street Development Group, the Baker Street Quarter Partnership, the Heart of London Business Alliance, the Jermyn Street Association and Better Bankside.

+ For more details see **www.gpe.co.uk/responsibility/communities**

# Sustainability

### Maintaining high health and safety standards

We are committed to maintaining the highest standards of health and safety at our buildings in order to minimise the risk of accidents and incidents to our tenants, contractors and employees, and also to comply with legislation. We review the health and safety record of all contractors prior to instruction and ensure that our employees are provided with regular health and safety training updates. All significant health and safety incidents are fully investigated with details and follow-up actions taken are provided to the Executive Committee and Board, as appropriate. In November 2015, when a fire occurred at our 148 Old Street development, our demolition contractor responded promptly to the incident, with all personnel being safely evacuated from site with no injuries. The fire was quickly brought under control by the London Fire Brigade and an independent health and safety review was undertaken with recommendations actioned.

We work hard to ensure that any changes to legislation are communicated to all our relevant employees as soon as possible and that amendments to procedures as a result of the changes are communicated promptly. As a result of changes to the Construction (Design and Management) Regulations 2015, during the year ended 31 March 2016, we have worked collaboratively with our contractors and consultants to introduce changes to health and safety management across our projects. We also arranged for a guidance note to be provided for all our project managers and conducted refresher training for our development and property teams. Where appropriate, we have also introduced independent health and safety audits for our sites. Where contractors do not have an occupational health resource, we have requested that they employ an occupational health nurse to visit the site to monitor the health and wellbeing of their workers.

| Health and safety statistics | 2013 | 2014 | 2015[1] | **2016[1]** |
|---|---|---|---|---|
| Number of reportable injuries | 2 | 0 | 2 | **0** |
| First aid injuries | 6 | 10 | 10 | **12** |
| Three day injuries | 0 | 0 | 0 | **0** |
| Work related fatalities | 0 | 0 | 0 | **0** |
| Number of Enforcement Agency prosecutions or fines | 0 | 0 | 0 | **0** |
| Number of prohibition notices | 0 | 0 | 0 | **0** |
| Employee accidents and incidents | 2 | 2 | 2 | **3** |
| Number of employee days off work from injury | 0 | 0 | 0 | **0** |

1. Figures externally assured by Deloitte LLP.

+ For more on health and safety see
**www.gpe.co.uk/responsibility/health-and-safety**

### Communication with investors

During the year ended 31 March 2016, we approached our top 30 shareholders, collectively owning 68% of the Company to seek to understand their perception of our sustainability strategy. In the year ahead, we will look to engage with our investors regarding forward-looking strategy, 'Towards the 2020s'. In addition to this engagement, we participate in the following indices:

To enable investors to be able to easily analyse our performance, we participate in the Global Real Estate Sustainability Benchmark ('GRESB').

**GRESB** – for the year ended March 2016 we retained our Green Star rating.

**Carbon Disclosure Project** – achieving a disclosure score of 98 out of 100 and a performance score of C.

**EPRA** – we achieved a gold award for our compliance with EPRA Sustainability Best Practice Reporting requirements. For the second year running we have engaged Deloitte to assure all reported EPRA indicators.

We also respond to surveys from EIRIS and are members of the FTSE4Good Index.

+ See our performance against our sustainability targets at
**www.gpe.co.uk/responsibility/our-performance**

## Greenhouse Gas Emissions Statement

Our Greenhouse Gas Emissions Statement includes all emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 for the financial year to 31 March 2016 and includes comparison on a like-for-like basis.

| | **2016 (Tonnes of $CO_2e$)** | 2015 (Tonnes of $CO_2e$) |
|---|---|---|
| **Scope 1** | | |
| Combustion of fuel and operation of our facilities | **2,563** | 3,063 |
| Operation of facilities (refrigerants) | **127** | 165 |
| **Scope 2** | | |
| Electricity, heat, steam and cooling purchased | **6,647** | 7,853 |
| Head office usage | **90** | 92 |
| **Total footprint** | **9,427** | 11,173 |
| **Intensity Measure** | | |
| Emissions per $m^2$ gross internal area | **0.0386** | 0.0430 |
| **Like-for-like emissions** | | |
| Absolute emissions on a like-for-like basis | **9,017** | 10,157 |
| Emissions per $m^2$ on a like-for-like basis | **0.0368** | 0.0415 |

Like-for-like data compares emissions at properties held for the entirety of 2015 and 2016.

## Independent assurance

Independent assurance is provided by Deloitte LLP, in accordance with International Standard on Assurance Engagements (ISAE 3000).

+ For Deloitte's scope and assurance statement on our greenhouse gas emissions see our website at **www.gpe.co.uk/responsibility/our-performance/how-we-are-performing**

+ For Deloitte's scope and assurance statement on progress against targets see our website at **www.gpe.co.uk/responsibility/our-approach**

## Our methodology

For our Greenhouse Gas Emissions Statement, we have used the operational control consolidation method as this best reflects our property management arrangements and our influence over energy consumption. Included in our operational control data are emissions from our managed properties (including 100% of emissions from joint venture properties) and head office usage. Not included within this data are tenants' usage or emissions from our development sites as these are considered to fall out of our scope 1 and 2 emissions. Emissions in relation to our development sites are reported separately on our website, www.gpe.co.uk/responsibility. Emissions from vacant space have been excluded as the related carbon emissions are expected to be below a materiality threshold of 5%. There are no Company-owned vehicles to be reported.

We have used DEFRA Environmental Reporting Guidelines and the Greenhouse Gas Protocol to calculate our emissions.

+ A full data report in line with EPRA Best Practices Recommendations on Sustainability Reporting requirements can be viewed at **www.gpe.co.uk/responsibility/our-performance**

"By improving our lighting systems and quarterly monitoring of our energy consumption data, we reduced carbon emissions by 8% across our Piccadilly Estate during the year ended March 2016."

**Chris Cassar**
Building Manager

# Our approach to risk

**The successful management of risk is essential for the Group to deliver its strategic priorities. Whilst the ultimate responsibility for risk management rests with the Board, the effective day-to-day management of risk is in the way we do business and the culture of our team.**

Our flat organisational structure, with close involvement of senior management in all significant decisions combined with our prudent and analytical approach, is designed to align the Group's interests with those of shareholders.

## Setting and monitoring our 'risk appetite'

The Group's overarching risk appetite is set in the context that we focus on only one market that we know inside out – central London. However, because our market is cyclical, we apply a disciplined approach to managing our operational risk, in particular our development exposure, in tune with market conditions whilst always maintaining low financial risk through conservative financial leverage.

We use a suite of key operational parameters as an important tool to set and then measure the Group's risk profile. These parameters consider, amongst others, the Group's size, financial gearing, interest cover, level of speculative and total development exposure, and single asset concentration risk. These parameters are revisited annually as part of the Group's Strategy Review and reviewed at each Board meeting. Both the Group's actual and forecast position over the next five years against these parameters are monitored.

See our operational measures on pages 20 and 21

## How we manage our risks

We believe that effective management of risk is based on a 'top down' and 'bottom-up' approach outlined on page 65 which includes:

- our strategy setting process;
- the quality of our people and culture;
- established procedures and internal controls;
- policies for highlighting and controlling risks;
- regular oversight by the relevant Committees; and
- a clear reading of market conditions and the cycle.

## How the Board monitors the Group's principal risks

The Group's principal risks and the processes through which the Company aims to manage these risks are outlined on pages 66 to 73. Ongoing monitoring of our principal risks and controls by the Board is undertaken by:

- relatively low levels of authority for transactions requiring Board approval – see pages 76 and 77, with investment transactions and development approvals requiring, amongst others, consideration of impact on financial leverage, interest cover and portfolio risk/composition;
- the three Executive Directors' oversight of all day-to-day significant decisions with a copy of the weekly Executive Committee minutes provided to the Non-Executive Directors;
- the Chief Executive reporting on the market conditions dashboard, operational parameters and people at each of the scheduled Board meetings;
- the Executive Director providing a review on the development programme, occupational markets, key property matters and health and safety at each of the scheduled Board meetings;
- the Finance Director reporting on the Group forecasts including actual and prospective leverage metrics, the tenant watch list and delinquencies at each of the scheduled Board meetings;
- the Audit Committee meeting with the valuers twice a year to better understand market conditions and challenge the assumptions underlying the valuation.

## Risk Assessment

During the year ended 31 March 2016, as part of a robust assessment of the principal risks facing the Group, at the half year and year end, the Group's principal risks including those that would threaten its business model, future performance, solvency and liquidity, the controls in place to mitigate them and how key controls operated in the preceding six months were reviewed by the Executive Committee, the Audit Committee and the Board.
A description of the Group's principal risks, steps taken to mitigate those risks, together with an assessment of the impact and likelihood of each and how the risks have changed in the year is shown on pages 66 to 73. This year, as a result of the heightened political uncertainty arising from the upcoming referendum on the UK/EU relationship, this has been identified as a separate new risk.

See our viability statement on page 74

## Board oversight

Board meetings
Audit Committee
Remuneration Committee
Nomination Committee

## Operational Committees

### Executive Committee – weekly

| | | | | |
|---|---|---|---|---|
| Development management weekly | Investment management weekly | Strategy update quarterly | Corporate responsibility quarterly | Asset management review quarterly |
| Asset management weekly | Financial management weekly | | Development management review quarterly | Environmental policy quarterly |

## Policies for highlighting and controlling risk

| | | |
|---|---|---|
| Investment return benchmarks | Regular review of business plans, dashboard lead indicators and operational parameters | Development appraisal parameters |
| Debt leverage, covenant compliance and liquidity limits | Occupancy targets | Leasing objectives and tenant covenant testing |

## Procedures and internal controls

| | | |
|---|---|---|
| High level risk assessment framework | Extensive documentation to support decisions | Defined performance indicators with sensitivity analysis |
| Strict approval requirements | Formal policies and procedures consistently applied | External review of key controls |

## People and culture

| | | |
|---|---|---|
| Focused market expertise | Integrity in business conduct | Conservative attitude to capital deployment |
| Open communication | Interests aligned with shareholders | Analytical rigour |
| Transparent disclosure with stakeholders | Qualified and experienced personnel with specific roles | |

## Business risk

# Our approach to risk

## How we manage risk

### Market risk

| Risk | Impact | Link to strategic priorities | Mitigation |
|---|---|---|---|
| Central London real estate market underperforms other UK property sectors. | Reduced performance. | ■ ◆ ● | The execution of the Group's strategy covering the key areas of investment, development and asset management is adjusted and updated throughout the year, informed by regular research into the economy, the investment and occupational markets.<br>The Group's strategic priorities and transactions are considered in light of regular review of dashboard lead indicators and operational parameters.<br>The Group aims to maintain low financial leverage throughout the property cycle. |
| Economic recovery falters. | Worse than expected performance of the business. | ■ ◆ ● | Regular economic updates are received and scenario planning is undertaken for different economic cycles, including potential UK exit from the EU.<br>The Group aims to maintain low financial leverage throughout the property cycle. |
| Heightened political uncertainty including upcoming UK referendum on EU relationship. | Reluctance by investors and occupiers to make investment decisions whilst outcomes remain uncertain. | ■ ◆ ● | The Group's strategic priorities and transactions are considered in light of these uncertainties.<br>Lobbying property industry matters is undertaken by active participation of the Executive Directors through relevant industry bodies. |

### Investment management

| Risk | Impact | Link to strategic priorities | Mitigation |
|---|---|---|---|
| Incorrect reading of the property cycle through poor investment decisions and/or mis-timed recycling of capital. | Not sufficiently capitalising on market investment conditions. | ■ ◆ | The Group has dedicated resources whose remit is to constantly research each of the sub-markets within central London seeking the right balance of investment and development opportunities suitable for current and anticipated market conditions.<br>Regular review of property cycle by reference to dashboard of lead indicators.<br>Detailed due diligence is undertaken on all acquisitions prior to purchase to ensure appropriate returns.<br>Business plans are produced on an individual asset basis to ensure the appropriate rotation of those buildings with limited relative potential performance.<br>Regular review of the prospective performance of individual assets and their business plans with joint venture partners. |
| Inappropriate asset concentration, building mix, tenant covenant quality and exposure, and lot size. | Reduced liquidity and relative property performance. | ■ | Regular review of portfolio mix and asset concentration. Adjustment of the portfolio as appropriate through undertaking acquisitions and/or development projects in joint venture or forward funding.<br>The Group has a diverse tenant base with its ten largest tenants representing only 30.5% of rent roll.<br>Tenants' covenants are analysed and security sought as appropriate as part of the lease approval process. Regular contact with tenants is maintained to identify if tenants are suffering financial difficulties and their proposed actions. |

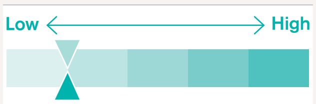
### Asset management

| Risk | Impact | Link to strategic priorities | Mitigation |
|---|---|---|---|
| Poor management of voids, rental mis-pricing, low tenant retention, sub-optimal rent reviews, tenant failures and inappropriate refurbishments. | Failure to maximise income from investment properties. | ● | The Group's in-house asset management and leasing teams proactively manage tenants to ensure changing needs are met with a focus on retaining income in light of vacant possession requirements for refurbishments and developments and liaise regularly with external advisers to ensure correct pricing of lease transactions.<br>Tenants' covenants are analysed and security sought as appropriate as part of the lease approval process. Regular contact with tenants is maintained to identify if tenants are suffering financial difficulties and their proposed actions. Although tenants all-in occupational costs are expected to increase in 2017 given an anticipated increase in business rates, our low average office rents of only £45.30 per sq ft are expected to provide some protection to our tenants. |

■ Crystallise profits through recycling ◆ Deliver development programme ● Drive rental growth

| Impact change from last year | Likelihood change from last year | Likelihood after mitigation | Commentary |
|---|---|---|---|
| → | ↗ |  | The central London real estate market continued to outperform the wider UK market during the year ended 31 March 2016, demonstrated by IPD's central London TPR exceeding IPD's universe by 5.4 percentage points on an absolute basis. Following an extended period of outperformance by central London real estate, the likelihood of this risk has marginally increased.<br>+ **Our market** on pages 25 to 29 |
| → | → |  | Over the past 12 months, the positive growth outlook for the London economy has been maintained. However, uncertainties around the economic outlook persist given continued stock market volatility, ongoing concerns on China and other emerging market economies' weakness and the outlook for global interest rates.<br>+ **Our market** on pages 25 to 29 |
| ↑ | ↑ |  | The upcoming UK referendum on EU membership appears to be weighing on broader business confidence and investment appetite. While it is too early to tell what the impact will be on the London property market, in the event of a UK vote to leave the EU, property valuations, capital markets and occupier demand could be impacted during the subsequent transition period while the terms of exit and future relationships are negotiated.<br>+ **Our market** on pages 25 to 29 |

| Impact change from last year | Likelihood change from last year | Likelihood after mitigation | Commentary |
|---|---|---|---|
| → | → |  | The Group has continued to invest and recycle capital against a backdrop of strong capital value growth in central London and a surfeit of buyers to sellers in the investment market.<br>Lack of available stock mitigated by depth of opportunity in current portfolio.<br>During the year, three acquisitions totalling £214.3 million were made together with four disposals of £469.7 million at premium to book value of 10.0%.<br>+ **Case studies** on pages 12 to 15<br>**Investment management operational measures** on page 20<br>**Our market** on pages 25 to 29<br>**Investment management** on pages 32 and 33 |
| → | → |  | The Group continues to monitor its portfolio mix and asset concentration risk. Our largest asset is only 14.0% of the total portfolio and 16.9% of the portfolio was held in joint ventures at 31 March 2016.<br>+ **Valuation** on pages 30 and 31 |

| Impact change from last year | Likelihood change from last year | Likelihood after mitigation | Commentary |
|---|---|---|---|
| → | → |  | The Group continues to monitor a low void rate which was 3.1% at 31 March 2016. Tenant delinquencies were 0.3% of the rent roll for the year to 31 March 2016.<br>The Group continues to actively manage the portfolio to maximise occupancy and drive rental growth.<br>During the year, we secured £31.8 million of new rental income including £23.7 million of development lettings.<br>+ **Case studies** on pages 16 to 19<br>**Asset management operational measures** on page 21<br>**Asset management** on pages 38 and 39<br>**Our approach to sustainability** on page 56 |

▼ 2016 ▲ 2015

# Our approach to risk

## How we manage risk

### Development management

| Risk | Impact | Link to strategic priorities | Mitigation |
|---|---|---|---|
| Poor execution of development programme through:<br>– incorrect reading of the property cycle;<br>– inappropriate location;<br>– failure to gain viable planning consents;<br>– failure to reach agreement with adjoining owners on acceptable terms;<br>– level of speculative development;<br>– incorrect cost estimation;<br>– construction cost inflation;<br>– contractor availability and insolvency risk;<br>– insufficient human resources;<br>– a building being inappropriate to tenant demand;<br>– weak demand for residential apartments;<br>– quality and benchmarks of the completed buildings;<br>– construction and procurement delays;<br>– ineffective marketing to prospective tenants; and<br>– poor development management. | Poor development returns. | ◆ | See Market risk on page 66.<br>Prior to committing to a development the Group conducts a detailed Financial and Operational appraisal process which evaluates the expected returns from a development in light of likely risks. During the course of a development, the actual costs and estimated returns are regularly monitored to signpost prompt decisions on project management, leasing and ownership.<br>Early engagement and strong relationships with planning authorities.<br>Early engagement with adjoining owners.<br>Benchmarking of costs with comparative schemes.<br>In-house Project Management team utilise appropriate procurement methods to optimise the balance of price certainty and risk with construction costs now fixed on over 98% of committed schemes' capital expenditure.<br>Internal and external resourcing requirements regularly reviewed by the Executive Committee, Development Director and Head of Projects. Third party resource expertise used to support in-house teams, where appropriate.<br>Due diligence is undertaken of the financial stability of demolition, main contractors and material sub-contractors prior to awarding of contracts.<br>Working with agents, potential occupiers' and purchasers' needs and aspirations are identified during the planning application and design stages.<br>In-house Leasing/Marketing team liaise with external advisers on a regular basis and marketing timetables designed in accordance with leasing/marketing objectives.<br>All our major developments are subject to BREEAM ratings with a target to achieve a rating of 'Very Good' on major refurbishments and 'Excellent' on new build properties.<br>Pro-active liaison with existing tenants before and during the development process.<br>Selection of contractors and suppliers based on track record of delivery and credit worthiness.<br>In-house Project Management team closely monitor construction and manage contractors to ensure adequate resourcing to meet programme.<br>Regular review of the prospective performance of individual assets and their business plans with joint venture partners.<br>Post-completion reviews undertaken on all developments to identify best practice and areas for improvement. |
| An inappropriate level of development undertaken as a percentage of the portfolio. | Underperformance against KPIs. | ◆ | Regular review of the level of development undertaken as a percentage of portfolio, including the impact on the Group's income profile and financial gearing, amongst other metrics.<br>Developments only committed to when pre-lets obtained and/or market supply considered to be sufficiently constrained. |

■ Crystallise profits through recycling ◆ Deliver development programme ● Drive rental growth

| Impact change from last year | Likelihood change from last year | Likelihood after mitigation | Commentary |
|---|---|---|---|
| → | → | Low ↔ High | The Group has increased its development commitments with eight schemes currently on-site with a gross development value (GDV) of £1,430.3 million (compared to six schemes with a GDV of £1,096.2 million a year ago). However, the Group has continued to de-risk its development programme and, as a result, the risk likelihood after mitigation is unchanged over the year.<br>Key initiatives during the year included:<br>– the pre-letting of the entire office space at Rathbone Square, W1 to Facebook on a 15 year lease for £17.8 million p.a.;<br>– the pre-letting of all the retail space at 73/89 Oxford Street, W1;<br>– the continued sales programme of the residential element of Rathbone Square, W1 with £39.0 million of sales during the year and today only three private units remain to be sold; and<br>– placing construction contracts on three further schemes since 31 March 2015, meaning that we now have cost certainty on over 98% of our committed capex.<br>+ **Case study** on pages 16 and 17<br>**Development management operational measures** on page 20<br>**Development management** on pages 34 to 37<br>**Our approach to sustainability** on pages 58 to 60 |
| → | → | Low ↔ High | With forecast supply of central London office space expected to remain low in the near to medium term, the Group has expanded its development exposure to capitalise on the expected resulting rental growth given improving tenant demand. Our increased development activity has increased the potential impact of this risk.<br>However, 61.1% of income or gross development value of the committed developments has already been secured and, given the level of current development commitments, the Group has further reduced its already conservative financial leverage. At 31 March 2016 LTV was 17.4%.<br>+ **Case study** on pages 16 and 17<br>**Development management** on pages 34 to 37 |

▽ 2016 ▲ 2015

# Our approach to risk

## How we manage risk

### Financial risks

| Risk | Impact | Link to strategic priorities | Mitigation |
|---|---|---|---|
| Limited availability of further capital. | Growth of business is constrained or unable to execute business plans. | ■ ◆ ● | Cash flow and funding needs are regularly monitored to ensure sufficient undrawn facilities are in place.<br>Funding maturities are managed across the short, medium and long-term.<br>The Group's funding measures are diversified across a range of bank and bond markets.<br>Strict counterparty limits are operated on deposits. |
| Increased interest rates and/or a fall in capital values. | Adverse market movements negatively impact on debt covenants. | ■ ◆ | Consistent policy of conservative financial leverage.<br>Regular review of current and forecast debt levels and financing ratios.<br>Our annual Business Plan which is regularly updated includes stress tests considering the impact of a significant deterioration in the markets in which we operate.<br>Formal policy to manage interest rate exposure by having a high proportion of debt with fixed or capped interest rates through derivatives.<br>Significant headroom over all financial covenants at 31 March 2016.<br>We estimate that, absent any mitigating management actions, values could fall by around 67% from their 31 March 2016 levels before Group debt covenants could be endangered. |
| Inappropriate capital structure. | Sub-optimal NAV per share growth. | ■ ◆ | Regular review of current and forecast capital requirements and gearing levels and financing ratios. |

### People

| Risk | Impact | Link to strategic priorities | Mitigation |
|---|---|---|---|
| Incorrect level and mix/retention of people to execute our business plan, combined with inability to attract, develop, motivate and retain talent. | Strategic priorities not achieved. | ■ ◆ ● | Regular review is undertaken of the Group's resource requirements and succession planning.<br>The Company has a remuneration system that is strongly linked to performance and a formal six-monthly appraisal system to provide regular assessment of individual performance and identification of training and development needs.<br>Benchmarking of remuneration packages of all employees is undertaken annually.<br>High profile, attractive development programme and high quality assets to manage. |

■ Crystallise profits through recycling ◆ Deliver development programme ● Drive rental growth

| Impact change from last year | Likelihood change from last year | Likelihood after mitigation | Commentary |
|---|---|---|---|
| → | → |  | The Group has continued to extend the maturity ladder of its debt financing and maintain diverse funding sources.<br>During the year, the Group extended the maturity of its £450 million revolving credit facility to October 2020 and refinanced the secured bank debt in the Great Ropemaker Partnership, taking the maturity to December 2020.<br>Cash and undrawn credit facilities were £472 million at 31 March 2016.<br>**Financial management** on pages 40 and 41<br>**Our financial results** on pages 42 to 44<br>**Notes 16 and 17 forming part of the Group financial statements** on pages 146 to 150 |
| → | ↗ |  | Following continued strong rental growth and further compression of already record low yields during the year, we expect the pace of rental growth to moderate and some modest expansion of yields over the coming year. Whilst broader economic and political uncertainties have kept global interest rates at very low levels, there remains an expectation of modest increase in UK interest rates in the medium-term. However, this risk likelihood after mitigation is unchanged given our significant headroom against debt covenants and 100% of the Group's debt being at fixed or hedged interest rates.<br>**Financial management operational measures** on page 21<br>**Financial management** on pages 40 and 41<br>**Our financial results** on pages 42 to 44<br>**Notes 16 and 17 forming part of the Group financial statements** on pages 146 to 150 |
| → | → |  | The Group's existing capital structure is well placed to take advantage of opportunities as they arise and to deliver our development programme.<br>**Financial management** on pages 40 and 41<br>**Our financial results** on pages 42 to 44 |

| Impact change from last year | Likelihood change from last year | Likelihood after mitigation | Commentary |
|---|---|---|---|
| → | → |  | With the Group in the execution phase of the cycle and increased levels of development activity, the motivation of our people remains fundamental to the delivery of our strategic priorities.<br>However, staff retention is high at 88% against a backdrop of an increasingly competitive employment market and the risk likelihood after mitigation has marginally reduced over the year given our recruitment activities with four net new hires, various internal promotions (including expansion of our Executive Committee) and other Human Resources initiatives.<br>**People operational measures** on page 21<br>**Our people** on pages 48 to 51<br>**Remuneration report** on pages 96 to 120 |

▼ 2016 ▲ 2015

# Our approach to risk

## How we manage risk

### Regulatory

| Risk | Impact | Link to strategic priorities | Mitigation |
|---|---|---|---|
| Adverse regulatory risk, particularly following the recent appointment of the new London Mayor, including tax, planning, environmental legislation and EU directives increases cost base. | Reduces flexibility and may influence potential investor and occupier interest in buildings. | ■ ◆ ● | Senior Group representatives spend considerable time, using experienced advisers as appropriate, to ensure compliance with current and potential future regulations.<br>Lobbying property industry matters is undertaken by active participation of the Executive Directors through relevant industry bodies.<br>Environmental Policy Committee meets at least quarterly to consider strategy in respect of environmental legislation. |
| Health and Safety incidents.<br>Loss of life or injury to employees, contractors, members of the public or tenants. | Resultant reputational damage. | ■ ◆ ● | The Group has dedicated Health and Safety personnel to oversee the Group's management systems which include regular risk assessments and annual audits to proactively address key Health and Safety areas including employee, contractor, members of the public and tenant safety.<br>On developments, the Group operates a pre-qualification process to ensure selection of competent consultants and contractors which includes a Health and Safety assessment.<br>Contractors' responses to accidents and near misses are actively monitored and followed-up by our Project Managers and Head of Sustainability, with reporting to the Executive Committee and Board as appropriate. |

### Business interruption risk

| Risk | Impact | Link to strategic priorities | Mitigation |
|---|---|---|---|
| An external event such as a power shortage, extreme weather, environmental incident, civil unrest or terrorist or cyber attack that significantly affects the Group's operations, particularly given our portfolio concentration in central London. | Significant damage, disruption and/or reputational damage to the Group's portfolio and operations. | ■ ◆ ● | The Group has a Business Continuity Plan with predetermined processes and escalation for the Crisis Management Team. Asset emergency plans exist for individual properties.<br>Physical security measures are in place at properties and security threats are regularly assessed through links with security agencies.<br>Regular testing of IT security is undertaken.<br>The Group's insurance policies include cover for catastrophic events including fire, storm, riots and terrorism. |

■ Crystallise profits through recycling ◆ Deliver development programme ● Drive rental growth

| Impact change from last year | Likelihood change from last year | Likelihood after mitigation | Commentary |
|---|---|---|---|
| ↗ | ↗ | Low ⟷ High  | The likelihood of this risk marginally increased during the year given increased uncertainty around our future relationship with the EU, increases to SDLT rates on property and the recent election of a new London mayor which may lead to policy changes, including investment in public transport infrastructure.<br>In 2015, Minimum Energy Efficiency Standards came into force which will impact the ability to let less energy efficient buildings from 2018. A watch list of all buildings' EPC ratings and proposed actions is, therefore, maintained.<br>Uncertainty remains as to the taxation and regulatory environment, with the real estate sector sometimes perceived by regulators to be part of the financial services sector rather than as an operating business. As a result, the industry could be adversely affected by regulation designed to stabilise financial markets, such as the proposed OECD BEPS project.<br>+ **Our market** on page 25<br>**Property industry representation** on pages 52, 54 and 55 and 61<br>**Sustainability** on pages 56 and 57 |
| → | ↗ | Low ⟷ High  | With heightened levels of development activity, the likelihood of this risk marginally increased over the year. The Group had no reportable accidents and no reportable incidents during the year.<br>+ Health and safety on page 62 |

| Impact change from last year | Likelihood change from last year | Likelihood after mitigation | Commentary |
|---|---|---|---|
| → | ↗ | Low ⟷ High  | The UK Government maintained the UK's external terrorism threat at severe during the year, and while the likelihood of a major incident remains low, the risk has marginally increased following recent incidents in other major European cities. |

▽ 2016 ▲ 2015

# Our approach to risk

## Viability Statement

### Assessment of the Group's prospects

In accordance with provision C.2.2 of the 2014 Revision of the UK Corporate Governance Code, the Board has assessed the prospects of the Group over a longer period than the 12 months that has been required by the 'Going Concern' provision. This longer-term assessment supports the Board's statements on both viability, as set out below, and going concern as set out on page 122.

The Group's future prospects are assessed primarily through its annual Strategy Review. This review is led by the Chief Executive drawing on expertise from across our integrated team. It includes an assessment of the macro-economic environment, forecasts of key property market metrics (including yields and rental value growth), annual valuation progressions for each of its assets and full forecast financial statements for a five year period, with a primary focus on the first three years. The three year period is considered an optimum balance between our need to plan for the long-term and the shorter-term nature of our active business model, which includes high levels of recycling of our property portfolio and a significant committed development programme which completes over the next 18 months.

The key outputs from this process are financial forecasts, summarised in a dashboard, which analyse profits, cash flows, funding requirements, key financial ratios and headroom in respect of the financial covenants contained in the Group's various loan arrangements. The Strategy Review is considered by the Board in late March and thereafter the financial forecasts are updated and presented for review by the Board six times a year.

The Group's financial forecasts contain a number of assumptions, including:

– Estimated year-on-year movements in rental values and yields for each of our key sub-markets;
– The refinancing of the Group's debt facilities as they fall due within the forecast period;
– The completion of the Group's committed development programme and the commencement of its near-term projects;
– The Group maintains its preference for low financial leverage; and
– Forecast interest rates.

### Assessment of viability

Further sensitivity analysis was undertaken to flex the financial forecasts under a variety of macro-economic scenarios, both positive and negative. The negative scenarios included stress testing the resilience of the Group, and its business model, to the potential impact of the Group's principal risks, or a combination of these risks. Specifically, the Board considered the impact of a significant economic downturn leading to asset value declines; similar to the market movements of 2008/9. In addition, a further reverse stress test was carried out to understand how far property yields would need to rise, or rental values fall, before the Group was at risk of breaching the financial covenants contained in its various loan arrangements.

The results of this sensitivity analysis showed that the Group would be able to withstand the impact of these scenarios over the period of the financial forecast.

### Viability statement

Whilst the directors have no reason to believe that the Group will not be viable over a longer period, based on this assessment of the prospects and viability of the Group the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period ending 31 March 2019.

# Governance

In this section we explain how we maintain a high standard of corporate governance, describe our remuneration policy and principles, and present the report of the directors.

**In this section:**



Lisa Day (West End Regional Building Manager) and James Punt (Building Manager) with Nicola Pearcey from Lionsgate, one of our tenants at Wells & More, W1.

# Overview

## Leadership

Explains the governance framework and the roles of the Board and its directors, including:

- The role of the Board and its Committees during the year
- Board activities during the year
- Setting the Company's standards

**See our approach to leadership** on pages 76 to 82

## Effectiveness

Sets out the key processes which ensure that the Board and its Committees can operate effectively, including:

- Nomination Committee report
- This year's Board evaluation
- Composition and independence
- Board induction and development
- Our conflicts of interest procedures

**See our approach to effectiveness** on pages 83 to 88

## Accountability

Explains the role of the Board and the Audit Committee in ensuring the integrity of the financial statements and maintaining effective systems of internal controls:

- Internal controls and ongoing risk management
- Fair, balanced and understandable
- Audit Committee report

**See our approach to accountability** on pages 89 to 93

## Relations with shareholders

Provides an overview of the activities undertaken to maintain an open dialogue with shareholders, including:

- Investor contact by method
- Investor contact by location
- Activity calendar

**See our approach to relations with shareholders** on pages 94 and 95

## Remuneration

Describes the Company's remuneration arrangements in respect of its directors, and how this has been implemented in 2016:

- Statement by the Remuneration Committee Chair
- Remuneration of directors at a glance
- Remuneration Committee Report
- Summary of Remuneration Policy

**See our approach to remuneration** on pages 96 to 120

### Statement by the directors on compliance with the provisions of the UK Corporate Governance code

A summary of the system of governance adopted by the Company is set out on pages 76 to 120. Throughout the year ended 31 March 2016, the Company fully complied with the principles set out in the UK Corporate Governance Code 2014, publicly available at **www.frc.org.uk**.

# Introduction from the Chairman

"Good governance is based on the appropriate level of oversight, good communication, a focus on risks, transparency in how we operate and a culture of continuous improvement."

**Martin Scicluna**
Chairman

## Dear fellow shareholder

I am pleased to introduce this Corporate Governance report in which, among other things, we describe the Company's compliance with the UK Corporate Governance Code, explain how the Board and its Committees have operated during the past year, and describe how effective stewardship is exercised over the Group's activities in the interests of shareholders and other stakeholders. As Chairman, I am responsible for ensuring that the Board operates effectively and efficiently and that it continues to uphold a high standard of corporate governance for the long-term success of the Company. I believe the achievement of good governance is based on the appropriate level of oversight, challenge, good communication, a focus on risks, a commitment to transparency and ensuring a culture of continuous improvement in standards and performance across the business. This year, the Board met eleven times with four unscheduled meetings to consider specific transactions and undertook two property tours. Between Board meetings, I meet regularly with Toby Courtauld (Chief Executive), I have monthly meetings with Neil Thompson (Executive Director), Nick Sanderson (Finance Director), and Desna Martin (Company Secretary) and, since the start of 2016, quarterly meetings with Marc Wilder (Leasing Director) and Andrew White (Development Director). The Board also receives regular presentations from Heads of Department and individuals performing key roles on transactions and developments. In addition, the Non-Executive Directors meet separately with individuals outside of the Board meetings. Each year, the Board formally revisits its level of oversight and the monitoring of risks over a variety of areas including strategy, acquisitions and disposals, capital expenditure on developments, finance, people and sustainability matters.

Our culture of continuous improvement, and high level of involvement by executive and senior management in all our activities, ensures that good governance extends beyond the Boardroom and is continually borne in mind in the successful delivery of the Group's strategic priorities over both the short and long-term.

## The Board's oversight of our strategic priorities during the year and monitoring of risks

The Group's business model and strategy are outlined on pages 1 to 11. In our Annual Report last year we identified that our strategic priorities for 2015/16 were to:

- crystallise profits through recycling;
- deliver our development programme; and
- drive rental growth through leasing.

See page 81 for significant transactions approved by the Board during the year.

Following our success in delivering against our priorities during the year, our attention for this year will again be focused on the execution phase of our business model together with crystallising the value we have generated to maximise shareholder returns and appropriately manage risk. With our clearly identified initiatives, we will continue to deliver our development programme, recycle capital and actively work our assets to drive rental growth.

⊕ **See our strategic priorities** on pages 10 and 11

## Succession planning undertaken this year

This year we have placed substantial emphasis on reviewing our succession planning and personal development requirements for key executives and senior managers, more of which is covered in our Nomination Committee Report on pages 83 to 86 and in our People section on pages 48 and 49. I am delighted that, as a result, we have broadened the bench strength of our Executive Committee team with the internal appointments of Marc Wilder and Andrew White, as Leasing Director and Development Director respectively, and the external appointment of Steven Mew, formerly a Board director of McKay Securities plc, who will join us in the autumn of 2016 as Portfolio Director. We have also appointed Robin Matthews, previously with Moorfield Group, as Investment Director who will join us in the summer of 2016 to replace Ben Chambers.

# Introduction from the Chairman

## Board changes

As announced today, Jonathan Nicholls will be retiring from the Board at the 2016 Annual General Meeting to become Chairman of Shaftesbury plc in autumn 2016. On behalf of the whole Board, I would like to thank Jonathan for his strong stewardship as Chairman of the Audit Committee and Senior Independent Director and significant contribution to the activities of the Board over the years. The recruitment process for his replacement will begin immediately and Charles Philipps will serve as acting Senior Independent Director and acting Chairman of the Audit Committee from the 2016 Annual General Meeting.

## Ongoing communication with shareholders and other stakeholders

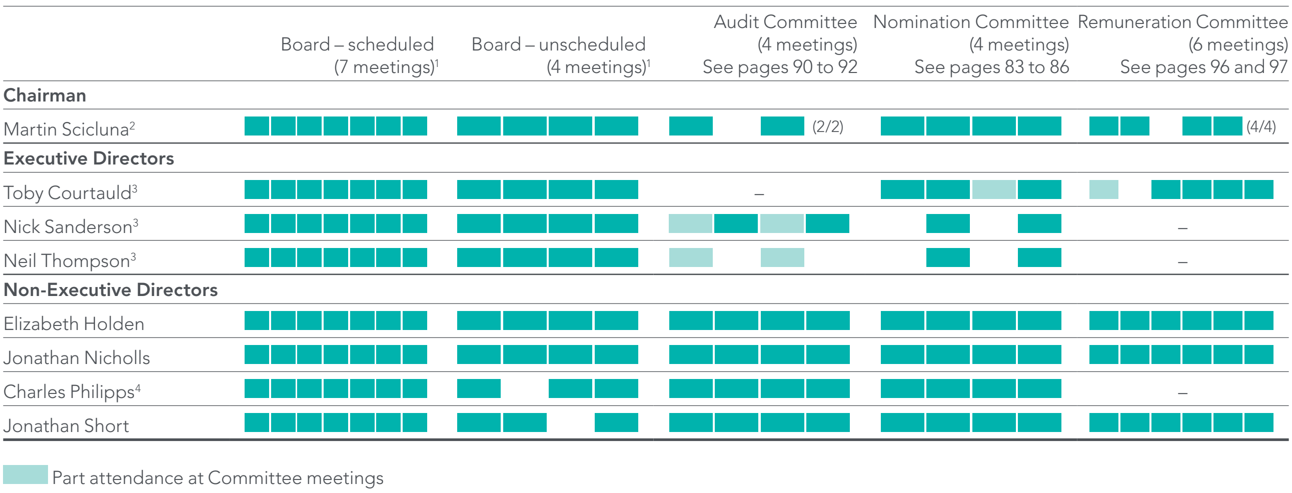
Communication with investors is given a high priority by the Board. During the year, 205 presentations were made to shareholders and potential shareholders by a combination of the Executive Director team and senior management below the Board. Independent feedback on presentations by the Executive Directors to all major shareholders is provided to the Non-Executive Directors on a regular basis at the scheduled Board meetings. I believe that it is important that our major shareholders feel that, in addition to being able to meet regularly with the Executive Directors, they are able to speak to me freely at any time on any matter, but in particular, are able to raise any points they may have in respect of Board governance. In late 2015, I offered to meet with major shareholders, between them owning 42% of the Company, and feedback from those meetings was shared with the rest of the Board at our January 2016 Board meeting. I am pleased to say that the feedback received was positive and constructive, with areas we discussed including: the Company's strategy, Executive Director, management and Non-Executive Director succession planning, auditor and valuer appointment processes, governance and remuneration aims and the quality of our Annual Report disclosure. In February 2016, we held our second half-day investor and analyst event for both shareholders and analysts at Oxford House, overlooking our holdings at the East End of Oxford Street, and more detail on this can be found on page 95.

I am pleased to be able to report that we received external recognition for our investor relations efforts by being runner up in 'Best Investor Relations by a senior management team' by IR Magazine and winning the PwC Building Public Trust Awards for 'Excellence in Reporting' for our Strategic Report. In addition to also being highly commended in the PwC Building Public Trust Awards in respect of our Annual Report, we were shortlisted in the ICSA awards for our Annual Report, Board and remuneration disclosure. We also received a gold award in relation to EPRA's 2015 Sustainability Best Practice Recommendations and a green star in relation to GRESB. Finally, I am proud to be able to report that we came seventh in Management Today's 'Britain's Top 10 Most Admired Companies' which I think is a testament to the abilities and efforts of each and every one of our team members.

**Martin Scicluna**
Chairman

### The Board's attendance in 2015/16

Attendance at Board and Committee meetings by directors and Committee members during the year was as follows:




1. There were four unscheduled Board meetings held at short notice during the year – see Board activities on page 81.
2. Although Martin Scicluna is not a member of either the Audit or Remuneration Committees, in his role as Chairman of the Board, he is invited, where appropriate, to attend key meetings of the Remuneration Committee in relation to the remuneration of the Executive Directors and the Audit Committee meetings in respect of the review of the half year and year-end results. The number in (parentheses) indicates the number of the Remuneration and Audit Committees the Chairman is expected to have attended in this respect.
3. The Executive Directors are not members of the Audit, Nomination or Remuneration Committees, however, they are invited to attend for parts of or all of certain Committee meetings where appropriate.
4. Charles Philipps is not a member of the Remuneration Committee.

# Leadership

## The role of the Board and its Committees during the year

The Board has a duty to promote the long-term success of the Company for its shareholders. Its role includes the establishment, review and monitoring of strategic objectives, overview of human resource levels and succession planning, approval of major acquisitions, disposals, capital expenditure and financing arrangements and of the Group's systems of internal control, governance and risk management.

### Board

- sets strategy
- approves major transactions
- provides risk oversight
- provides oversight of governance

### Board Committees

#### Audit Committee

- oversees financial reporting
- monitors risk management and internal controls
- evaluates the auditors

**See Audit Committee report** on pages 90 to 93

**See risk management reports** on pages 64 and 89

#### Remuneration Committee

- establishes remuneration policy
- sets executive remuneration schemes
- reviews Executive Committee member objectives and achievements
- approves senior management remuneration and LTIP awards
- approves executive bonus plan and LTIP targets

**See Directors' remuneration report** on pages 96 to 120

#### Nomination Committee

- recommends Board appointments
- approves senior management appointments
- oversees succession planning
- responsible for Board effectiveness evaluation

**See Nomination Committee report** on pages 83 to 86

### Management committees

#### Executive Committee

- implements the Group strategy
- oversees transactions
- monitors risks
- responsible for succession planning, resourcing and people development

**See Strategic report** on pages 1 to 74

#### Environmental Policy Committee

- monitors best practice
- sets the Group's sustainability policies

**See Sustainability on our website www.gpe.co.uk/responsibility**

#### Corporate Responsibility Committee

- reviews the Group's health and safety compliance and sustainability performance

**See Sustainability on our website www.gpe.co.uk/responsibility**

# Leadership

## Board activities

The Board meets for scheduled Board meetings six times a year. This year, due to the timings of Strategy Review meetings in April 2015 and March 2016, the Board had seven scheduled meetings in the year. Regular matters reserved for consideration by the Board at these meetings include:

| | July | September | November | January | March | May |
|---|---|---|---|---|---|---|
| **Strategy and its implementation** | | | | | | |
| Strategic review and setting of Business Plan | | | | ■ | ■ | |
| Chief Executive's Report including market conditions dashboard, operational parameters, investment market and propositions, asset strategies, team resourcing and development | | ■ | ■ | ■ | | ■ |
| Executive Director's Report including valuation, leasing activity, major developments summary, approved vs. actual development spend, longer-term pipeline and sales review, Health and Safety | | ■ | ■ | ■ | | ■ |
| Finance Director's Report including forecasts, finance initiatives and tenant watch list | | ■ | ■ | ■ | | ■ |
| Shareholder analysis | ■ | ■ | ■ | ■ | ■ | ■ |
| Board property tour | | ■ | | | ■ | |
| **Risks** | | | | | | |
| Formal review of risk management and internal controls | | | ■ | | | ■ |
| Ongoing monitoring of risks | ■ | ■ | ■ | ■ | ■ | ■ |
| **Governance** | | | | | | |
| Review of half year or annual results, going concern, dividend policy and analyst presentation | | | ■ | | | ■ |
| Feedback from shareholders and analysts | ■ | ■ | ■ | ■ | ■ | ■ |
| Reports from Board Committees | ■ | ■ | ■ | ■ | ■ | ■ |
| Corporate governance matters including Board evaluation, authority levels, Terms of Reference, UK Corporate Governance Code compliance | | | | | ■ | |
| Annual Health and Safety and Sustainability Reports including approval of the Company's Health and Safety and Environmental policies | | | | | ■ | |
| Annual Corporate Responsibility Report including approval of the Company's Ethics and Whistleblowing policies and sustainability objectives and targets | | | | | | ■ |
| **Evaluation** | | | | | | |
| Board evaluation | | | | ■ | | |
| Conflicts of interest | ■ | ■ | ■ | ■ | ■ | ■ |

Other ad hoc matters for consideration by the Board at both scheduled and unscheduled Board meetings in addition to the above include:

- major potential acquisitions and disposals;
- significant leasing arrangements;
- approval of major developments;
- significant financing arrangements;
- Board and senior management appointments; and
- appointment of principal advisers.

Major transactions approved by the Board in the year are shown on page 81.

Where directors are unable to attend meetings, their comments, as appropriate, are provided to the Board or Committee Chairman prior to the meeting.

At least annually the Board reviews the nature and scale of matters reserved for its decision. The Chairman and the other Non-Executives meet regularly without the Executive Directors, and at least once a year the Non-Executives meet without the Chairman. In addition, individual directors meet routinely outside the formal Board meetings as part of each director's contribution to the delivery of the Company's strategy and review of operations.

The Executive Directors meet weekly as the Executive Committee, chaired by the Chief Executive, to attend to the ongoing management of the Group. Copies of the minutes of these meetings are distributed to the Chairman and Non-Executive Directors. All directors have access to the advice and services of the Company Secretary, who is responsible to the Chairman on matters of corporate governance.

## What we did in 2015/16

In the year ended 31 March 2016, significant transactions and appointments approved by the Board included:

# 2015

### April 2015

- the sale of 95 Wigmore Street, W1 for £222.4 million

See pages 12, 13 and 32

### July 2015

- the extension of the maturity of £450 million revolving credit facility from 2019 to 2020

See page 40

- the pre-let of the offices at Rathbone Square, W1 to Facebook and its option to pre-let the offices at 73/89 Oxford Street, W1 and Oxford House, 76 Oxford Street, W1

See pages 16, 17 and 36

- the commitment to the development of Oxford House, should Facebook exercise its option

See page 36

- appointment of Andrew White and Marc Wilder as Development Director and Leasing Director to the Executive Committee

See pages 48 and 83

### September 2015

- the commitment to the development of 148 Old Street, EC1

See page 34

### November 2015

- the commitment to the development of Tasman House and 84/86 Great Portland Street, W1

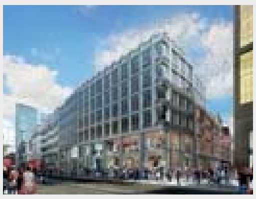
See page 35

- the sale of 60 Great Portland Street, 46 & 48/50 Mortimer Street and 1/3 Little Titchfield Street for £103.2 million

See page 32

- commitment to the early demolition of New Bond Street buildings, W1 (forming part of our Hanover Square scheme)

See page 36



- the pre-let of unit 1, 73/89 Oxford Street, W1 to Benetton

See pages 35 and 38

- approval of the £90 million GRP bank loan facility

See page 40

### December 2015

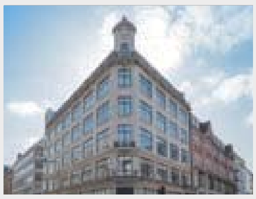
- the sale of 33 Margaret Street, W1 for £216.3 million and purchase of 50 Finsbury Square, EC2 for £119.0 million

See pages 14 and 15

### March 2016

- the sale of Mortimer House, 37/41 Mortimer Street, W1 for £27.0 million

See page 33



- appointment of Steven Mew as Portfolio Director to the Executive Committee

See pages 48 and 83

# 2016

# Leadership

## Viewing our West End development sites

To enable the Board to discharge its duties, all directors receive appropriate and timely information, including briefing papers distributed in advance of Board meetings and regular property tours conducted by the relevant GPE teams, which this year comprised tours of our new corporate marketing suite at Oxford House, W1 and our developments at 30 Broadwick Street, W1, 73/89 Oxford Street, W1 and Rathbone Square, W1.

### How we behave, human rights and supplier stewardship

We aspire to the highest standard of conduct based on honesty and transparency in everything we do. Our Executive Committee has a high level of oversight over the Group's day-to-day policies and procedures and carries out regular reviews of the appointment of contractors, consultants and suppliers. Whilst we do not have a separate human rights policy, we seek to avoid causing or contributing to adverse human rights impacts through our activities. In our business relationships we look to demonstrate a commitment to fundamental human rights through our own behaviours and look to engage suppliers whose values and business principles are consistent with our own. GPE team members regularly meet with suppliers to share information on best practice with regards to health and safety, employee pay rates and responsible sourcing.

Later this year we will be publishing a statement required under the Modern Slavery Act setting out the steps we have taken to ensure our suppliers and their supply chains adopt similar standards to our own to prevent slavery and human trafficking taking place within our supply chain. Our Code of Ethics and Whistleblowing policies, which are reviewed by the Audit Committee and Board annually, set out the Group's approach in its relations with tenants, the local community, investors, employees, suppliers and regulators and the clear standards we expect of all of our people to demonstrate and adhere to. Our Ethics and Whistleblowing policies can be found at www.gpe.co.uk/about-us/governance-overview

# Effectiveness

"This year our main focus has been evolving our succession planning and having oversight of the development of the GPE team."

**Martin Scicluna**
Chairman of the Nomination Committee

## Nomination Committee

### Nomination Committee members and attendance by others

| **Chairman** | | | | **4 meetings** |
|---|---|---|---|---|
| Martin Scicluna | ■ | ■ | ■ | ■ |
| **Members** | | | | |
| Elizabeth Holden | ■ | ■ | ■ | ■ |
| Jonathan Nicholls | ■ | ■ | ■ | ■ |
| Charles Philipps | ■ | ■ | ■ | ■ |
| Jonathan Short | ■ | ■ | ■ | ■ |
| **In attendance** | | | | |
| Toby Courtauld | ■ | ■ | □ | ■ |
| Nick Sanderson | | ■ | | ■ |
| Neil Thompson | | ■ | | ■ |

□ Part attendance

## Our approach

The Nomination Committee membership includes all of the Non-Executive Directors comprising of myself, Elizabeth Holden, Jonathan Nicholls, Charles Philipps and Jonathan Short. In making any recommendations for Board appointments, the Nomination Committee also consults with the Chief Executive and other members of the Board as appropriate. During the year, Toby Courtauld was also invited to attend all or part of the Nomination Committee meetings to provide the Committee with updates on human resourcing and succession planning, with all the Executive Directors and the Head of Resources attending the September 2015 and March 2016 meetings to discuss succession planning and the Group's plans and progress in relation to the Group's learning and development plans for the wider management team. At the March 2016 meeting, the Committee and Executive Directors also discussed the recommendations made in the Board Evaluation Report in more detail.

## Dear fellow shareholder

Welcome to the Report of the Nomination Committee. Each year the Nomination Committee undertakes a review of:

- the Group's succession plans and ensures that the membership and composition of the Board, including the balance of skills, continue to be appropriate; and
- the recommendations arising from the Board evaluation, which we consider to be an important means of monitoring our progress. Details of the progress on the 2014/15 Board evaluation and Action Plan arising from the 2015/16 Board evaluation can be found on page 87.

This year, our main focus has been on evolving our succession planning.

## Succession planning

Succession planning and personal development requirements for key Executives and Senior Managers across the team are kept under regular review by the Committee with the Chief Executive and were discussed as part of the September 2015 and March 2016 Committee meetings which all of the Executive Directors attended.

This year, the Committee received regular updates from Toby Courtauld on proposals to broaden the Executive Committee to help deliver the next phase of the Company's growth. This resulted in the internal promotions of Marc Wilder and Andrew White as Leasing Director and Development Director respectively in July 2015 and the announcement in March 2016 of the appointment of Steven Mew, formerly a Board director at McKay Securities plc, in a new Portfolio Director role on the Executive Committee starting in the autumn of 2016.

In the knowledge of Ben Chambers', our Investment Director, proposed departure in March 2016, we expanded the Investment team with two Investment Managers joining the team in December 2015 and January 2016. In May 2016, we appointed Robin Matthews, previously at Moorfield Group, as Investment Director who will join us in the summer of 2016.

The Nomination Committee has also been kept informed of other proposed senior management promotions during the year, which have been designed to help broaden and strengthen the teams.

An overview of the Group's key HR objectives including, in particular, the leadership development plans for the Executive Directors, Heads of Department and Line Managers was also provided by Sally Learoyd, our Head of Human Resources, who attended our September and March Committee Meetings.

# Effectiveness

## What we did in 2015/16

# 2015

### April 2015

**Board meeting**

The Board discuss:

– Potential internal promotions

– Individuals' development needs

– Internal and external communication of changes

**Nomination Committee**

Toby Courtauld and the Nomination Committee discuss succession planning including the creation of a new Portfolio Director role on the Executive Committee

### May 2015

**Nomination Committee meeting**

Toby Courtauld and the Nomination Committee discuss succession planning and internal promotions to the Executive Committee

### July 2015

**Board meeting**

The Board approve the promotion of Marc Wilder and Andrew White to Leasing Director and Development Director respectively, serving on the Executive Committee

### August 2015

**Executive Committee meeting**

The Committee approve the promotion of Richard Moran to Head of IT

The Committee discuss and approve resourcing and recruitment within our Asset and Development Management teams

### September 2015

**Board meeting**

The Board discuss recruitment plans for the replacement of Ben Chambers as Investment Director

**Remuneration Committee meeting**

The Committee approve the remuneration package for the Leasing Director and Development Director roles

**Nomination Committee meeting with Executive Directors in attendance**

Presentation from Sally Learoyd, Head of HR (see page 85)

Toby Courtauld and the Nomination Committee discuss succession planning and potential organisation structures

### November 2015

**Nomination Committee meeting**

Resourcing update and draft organisational structures presented by Toby Courtauld and debated by the Nomination Committee

### December 2015

**Executive Committee meeting**

The Committee approve the promotion of Helen Hare to Senior Project Manager and Piers Blewitt to Senior Development Manager

The Investment Team is broadened by the recruitment of an additional Investment Manager and internal promotion from the Asset Management team

### January 2016

**Executive Committee meeting**

The Committee debate resourcing requirements and approve recruitment of individuals for the Leasing, Asset Management, Development Manager, Human Resources, Company Secretary and Finance teams

**Nomination Committee**

Toby Courtauld and the Nomination Committee discuss succession planning and candidates being considered for the Investment Director and Portfolio Director roles

Martin Scicluna meets Steven Mew as the candidate proposed for the Portfolio Director role

**Remuneration Committee meeting**

The Committee approve the remuneration package for the Portfolio Director role

### March 2016

**Nomination Committee meeting with Executive Directors in attendance**

Presentation from Sally Learoyd, Head of HR (see page 85)

Toby Courtauld and the Nomination Committee discuss resourcing and ongoing succession plans

Steven Mews' appointment as Portfolio Director on the Executive Committee is announced

Neil Thompson's title is simplified to Executive Director

The recommendations from the 2015/16 Board evaluation are discussed

### April 2016

**Nomination Committee**

Martin Scicluna and Jonathan Short meet Robin Matthews as the candidate proposed for Investment Director

**Board meeting**

The Board approves the appointment of Robin Matthews as Investment Director and the Remuneration Committee approve his remuneration package

# 2016

## Nomination Committee oversight of development of the GPE Team

Sally Learoyd and Toby Courtauld go through the Group's learning and development plans in advance of the Nomination Committee meeting

The Nomination Committee appreciates that there are not necessarily obvious successors for every senior role in a relatively flat management structure and low headcount organisation. However, individuals' development within their roles is key.

To this end, our Head of Human Resources, Sally Learoyd, reported to the Committee at our September and March meetings on our leadership development plans for the Executive Directors, Heads of Department and Line Managers. These plans included workshops to get the best out of our people, develop our people and develop teams.

Specifically, Sally reported on the following areas:

**September 2015 meeting**

- Employee feedback
- Work undertaken by the Executive Committee on key HR objectives including developing people; Executive Committee effectiveness/delegation; employee engagement; and recognition of employee efforts
- HR management and leadership skills development plans

**March 2016 meeting**

- Management bandwidth and skills including the Leadership development programme workshops
- Resourcing
- Talent development and succession
- Engagement

During the year, in light of changes proposed to broaden the Executive Committee including the promotion of Andrew White and Marc Wilder on the Committee as Development Director and Leasing Director respectively, the introduction of a new Portfolio Director role, and other internal promotions, Toby Courtauld presented draft organisational structures and resourcing updates, which have been debated by the Nomination Committee. See page 84.

As a result of all of these initiatives, the Board believes that GPE has enhanced the bandwidth of the senior management team and line managers and strengthened its pipeline of talent.

# Effectiveness

## GPE's Board composition and independence

As at 31 March 2016, the Board comprises the Chairman, three Executive Directors and four Non-Executive Directors. The biographies of all members of the Board outlining the experience they bring to their roles are set out on pages 52 and 53. As Chairman, I am responsible for leading the Board and for its effectiveness, meeting with shareholders as appropriate. Toby Courtauld, as Chief Executive, is responsible for the day-to-day management of the Company. Jonathan Nicholls, the Senior Independent Director, is also available to shareholders as required and acts as a sounding board for the Chairman. Each year the terms of reference for the roles of Chairman, Chief Executive and Senior Independent Director are revisited by the whole Board.

Each of the Non-Executive Directors is considered to be independent of the Executive Management and free from any business or other relationship which could materially interfere with their exercising of independent judgement.

## Ensuring the directors' commitment and independence in their roles

In making recommendations to the Board on Non-Executive Director appointments, the Nomination Committee specifically considers the expected time commitment of the proposed Non-Executive and other commitments they already have. Agreement of the Board is also required before a director may accept any additional commitments to ensure possible conflicts of interest are identified and that they will continue to have sufficient time available to devote to the Company. Any other conflicts of interest are also considered at each Board meeting. In October 2015, Jonathan Nicholls became Non-Executive Director and Senior Independent Director of Ibstock plc, with the Board satisfied that he had sufficient time to devote to his role of Non-Executive Director and Chairman of the Audit Committee of the Company.

Non-Executive Directors are not appointed for specified terms, but following the UK Corporate Governance Code, are subject to annual re-election. All proposed re-elections to the Board are formally considered by the Nomination Committee taking account of each individual's continued effectiveness and commitment to the role, with those directors who will have served more than six years on the Board being subject to particular focus.

As part of the Board evaluation process, Jonathan Nicholls, as Senior Independent Director, led a review of all the directors with specific consideration of the fact that Jonathan Short and myself will have served on the Board for nine and seven years respectively by the time of the 2016 Annual General Meeting. Feedback was provided to the Board as a whole at the January 2016 Board Meeting and actions were discussed in more detail at the March 2016 Nomination Committee meeting. After the January Board meeting, Jonathan Nicholls also met with the other Board members to consider my performance. Feedback is provided to directors on their performance individually as appropriate.

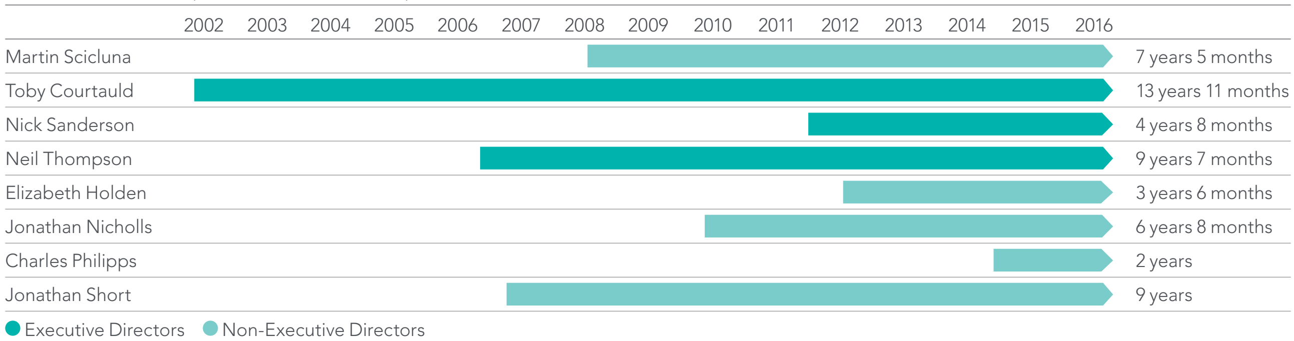
With Jonathan Short having served on the Board for nine years by the time of the 2016 Annual General Meeting, his performance was specifically considered by the Board at the March 2016 Nomination Committee and it was unanimously concluded that he remains an effective independent director and that the Board supported his reappointment for another year. Following Jonathan Nicholls' retirement at the 2016 Annual General Meeting to become Chairman of Shaftesbury plc, Charles Philipps will serve as acting Senior Independent Director and acting Chairman of the Audit Committee. Recruitment of Jonathan Nicholls' replacement using an external search consultancy will begin immediately.

## Our approach to diversity

The Board's policy is that the selection of new Board members should be based on the best person for the role. Whilst the Nomination Committee continues not to set specific representation targets for women at Board level, on recruitment, our policy is that we expect our search consultants to ensure, where possible, at least 30% of potential candidates are women. This policy is mirrored by our Executive Committee for all recruitment below Board level. The benefits of diversity, including gender diversity, will continue to be an active consideration whenever changes to the Board's composition are contemplated and will be a key component in our recruitment for Jonathan Nicholls' replacement in the forthcoming year.

**Martin Scicluna**
Chairman of the Nomination Committee
25 May 2016

**Directors' tenure (as at 31 March 2016)**



## Dear fellow shareholder,

In accordance with our policy to undertake the Board evaluation process in-house between external evaluations held every three years, the Chairman asked me as Senior Independent Director, to conduct the review into the Board effectiveness for the year ending 31 March 2016 supported by Desna Martin, our Company Secretary.

As well as looking to continually improve our Board processes, we use the Board evaluation process to reflect on areas that the Board would like to see more details on. The process involved completion of a questionnaire followed by one-to-one meetings between me and each director covering; the Board's role, composition and operation; Board, Committee and individual performance; and Group behaviours and protocols. The output was reviewed initially by the Chairman and then by the full Board at the January 2016 Board meeting.

In addition, the recommendations from the 2016 Report and the follow up of actions from the 2015 Report as outlined below were considered in more detail at the March 2016 Nomination Committee meeting which was attended by all of the directors.

Overall it was agreed that the Chairman and the Chief Executive have a good working relationship which delivers clear leadership and the Board and its Committees continued to work effectively. Substantial progress had also been made on action points raised from the 2014/15 evaluation review.

**Jonathan Nicholls**
Senior Independent Director
25 May 2016

## Board evaluation

| | 2014/15 Actions | Progress | 2015/16 Actions |
|---|---|---|---|
| **Organisational structure** | Continued focus on:<br>– Succession planning and resourcing | Standing agenda item for weekly discussions between Martin Scicluna and Toby Courtauld<br>Regular feedback provided by Toby Courtauld to the Nomination Committee<br>Executive Committee broadened with internal promotions of Leasing and Development Directors and external appointment of Portfolio Director | Continued updates to be provided by Toby Courtauld<br>Capacity, recruitment and integration updates to be provided at each Board meeting<br>Appointment of a Non-Executive Director to replace Jonathan Short |
| | – Training and development | All Executive Directors, Heads of Department and Line Managers have undertaken a workshop on 'how to get the best out of people'<br>Human Resources reports covering succession planning, resourcing and training and development considered at September 2015 and March 2016 Nomination Committee meetings attended by the Executive Directors | A Human Resources Report covering succession planning, resourcing and training and development to be considered at September 2016 and March 2017 Nomination Committee meetings attended by the Executive Directors covering:-<br>– Workshops on 'developing people' and 'developing teams' undertaken by all Executive Directors, Heads of Department and Line Managers<br>– development of personal development plans for key individuals |
| **Board effectiveness** | Review of Board papers to:<br>– Ensure appropriate Executive summaries<br>– Appropriate balance of time spent on matters<br>– Appropriate detail provided to the Board in feedback from Committee | Presentation of papers to the Board reordered to ensure focus on Executive summaries and matters of importance<br>Additional detail from Committee meetings provided on an ongoing basis | In addition to the formal half year review of risk management processes and ongoing review of risks within individual transactions, a formal agenda item of 'general risks' to be introduced at the September and January Board meetings |
| **Governance** | | | Greater oversight by the Board on health and safety with the Board to receive:<br>– a presentation on management of health and safety on refurbishments and developments<br>– copies of reports provided to the Executive Committee for all significant health and safety incidents |

# Effectiveness

## Our conflict of interest procedures

The Company's Articles of Association allow the Board to authorise potential conflicts of interest that may arise and to impose such limits or conditions as it thinks fit. The Company has established a procedure whereby actual and potential conflicts of interest of directors' current and proposed roles with other organisations are regularly reviewed in respect of both the nature of those roles and their time commitment and for proper authorisation to be sought. A director who has a conflict of interest is not counted in the quorum or entitled to vote when the Board considers the matter in which the director has an interest. The Board considers these procedures to be working effectively.

## Our approach to Board induction and development

On appointment, Non-Executive Directors, who are expected to provide a time commitment to the Company of at least 24 days a year, are provided with a detailed induction programme. This covers:

- meeting with each of the directors and the Company Secretary;
- meeting with Heads of Department and Senior Managers, either as part of tours of the portfolio or in separate meetings;
- tours of the Group's key buildings;
- meeting with auditors to gain an insight into Deloitte's relationship with the team and key accounting matters; and
- meeting with the valuers to understand CBRE's valuation process.

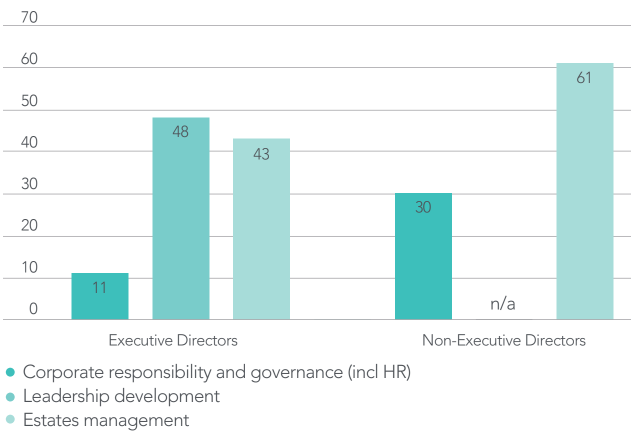
"In addition to regulatory updates provided internally, we provide the Board quarterly with a selective list of external seminars relevant to their roles to help keep them informed of evolving best practice."

**Desna Martin**
Company Secretary

The directors may, at the Company's expense, take independent professional advice and are encouraged to continually update their professional skills and knowledge of the business. Senior Managers and external advisers present to the Board during the year on a range of subjects and the directors also individually attend seminars or conferences associated with their expertise or responsibility and are provided each quarter with a list of relevant upcoming seminars by various firms. The level and nature of training by the directors is reviewed by the Chairman at least annually.

In the year to 31 March 2016, in addition to internal presentations, the Board undertook 193 hours of externally facilitated training.

**Total number of Board training hours during the year** by type



# Accountability

## Internal controls and ongoing risk management

The Board recognises that it is responsible for maintaining and monitoring the Group's system of internal control and for reviewing its effectiveness, at least annually.

Such a system can only provide reasonable, and not absolute, assurance against material mis-statement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

There are ongoing processes and procedures for identifying, evaluating and managing the principal risks faced by the Group. These processes and procedures were in place throughout the year under review and up to the date of the approval of the Annual Report, and accord with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Key features of the system of internal control include:

- a comprehensive system of financial reporting and business planning;
- a defined schedule of matters for decision by the Board;
- an organisational structure with clearly defined levels of authority and division of responsibilities;
- formal documentation procedures;
- the close involvement of the Executive Directors in all aspects of day-to-day operations, including regular meetings with Senior Management to review all operational aspects of the business and risk management systems;
- Board review of Group strategy and progress on developments at each scheduled Board meeting; and
- formal sign-off on the Group's Ethics and Whistleblowing policies by all employees annually.

Twice a year, the Audit Committee carries out a review of the framework of how the Group's risks are managed through operational management procedures/ authorisations, ongoing review by the Executive Committee, and ongoing Board review and oversight of key controls.

The Committee formally considers the scope and effectiveness of the Group's system of internal control and reports to the Board. This involves the identification of risks specific to the areas of property and financial markets which impact on the Group's objectives, together with the controls and reporting procedures designed to minimise those risks, which are reviewed, formalised and updated throughout the year, as appropriate. These include business risks, financial controls, social, ethical and environmental issues and policy, and the regulatory environment. A review is also carried out as to how the controls and reporting procedures have operated during the year. Key risks to the business, how these have changed during the year and the processes in place by which the Company aims to manage those risks are described in more detail on pages 64 to 74.

## Fair, balanced and understandable – a matter for the whole Board

The Directors' statement on 'fair, balanced and understandable' is made on page 125. When considering whether the 2016 Annual Report and financial statements are fair, balanced and understandable, and provide information necessary for shareholders to assess the Company's position, performance, business model and strategy, the Board takes into account the following:

- the Chairman and Chief Executive provide input to and agree on the overall messages and tone of the Annual Report at an early stage;
- individual sections of the Annual Report and financial statements are drafted by appropriate Senior Management, with regular review meetings to ensure consistency of the whole document;
- detailed reviews of appropriate draft sections of the Annual Report and financial statements are undertaken by the Executive Directors;
- a final draft is reviewed by the Audit Committee and the auditors on a timely basis to allow sufficient consideration and is discussed with the Finance Director and Senior Management prior to consideration by the Board; and
- the Finance Director, in his May Board paper, includes a checklist of areas that the Board should take into consideration when reviewing the fairness, consistency and balance of the final draft of the Annual Report and financial statements, including whether the Board considers that there are any omissions in information.

# Accountability

"The Audit Committee reviews and reports to the Board on the Group's financial reporting, internal control and risk management systems and the independence and effectiveness of the auditors."

**Jonathan Nicholls**
Chairman of the Audit Committee

## Audit Committee

### Audit Committee and advisers

| **Chairman** | | | | **4 meetings** |
|---|---|---|---|---|
| Jonathan Nicholls | ■ | ■ | ■ | ■ |
| **Members** | | | | |
| Elizabeth Holden | ■ | ■ | ■ | ■ |
| Charles Philipps | ■ | ■ | ■ | ■ |
| Jonathan Short | ■ | ■ | ■ | ■ |
| **In attendance** | | | | |
| Martin Scicluna | ■ | | ■ | |
| Nick Sanderson | □ | ■ | □ | ■ |
| Neil Thompson | □ | | □ | |

□ Part attendance

## Our approach

During the year, the Audit Committee comprised Elizabeth Holden, Charles Philipps, Jonathan Short and myself. The Audit Committee provides a forum for reporting and discussion with the Group's external auditors in respect of the Group's half year and year-end results and meetings are also attended by the valuers, certain Executive Directors and senior managers, by invitation. Martin Scicluna, as Chairman, also attends the Committee meetings in connection with the half year and year-end results. By invitation, Nick Sanderson as Finance Director attends the half year and year-end planning meetings. Neil Thompson and Nick Sanderson also attend the half year and year-end Audit Committee meetings with the valuers and auditors to provide their views on the evaluation and year-end results respectively.

The Committee meets regularly during the year, in alignment with the financial reporting timetable.

## Dear fellow shareholder

Welcome to the Report of the Audit Committee.

The Audit Committee reviews and reports to the Board on the Group's financial reporting, internal control and risk management systems and the independence and effectiveness of the auditors.

## Accounting and key areas of judgement

A key factor in the integrity of financial statements is ensuring that suitable accounting policies are adopted and applied consistently on a year on year basis.

The Audit Committee uses the Audit Planning meetings in September and March each year to consider proposed accounting treatments for major transactions, significant reporting judgements and key assumptions related to those judgements in advance of the half year and year-end results.

Management confirmed to the Audit Committee that they were not aware of any misstatements, either material or immaterial, made to achieve a particular presentation.

After reviewing the reports from management and consulting where necessary with the auditors and valuers, the Audit Committee is satisfied that the financial statements appropriately address the critical judgements and key estimates, both in respect of the amounts reported and the disclosures. The Committee is also satisfied that the processes used for determining the value of the assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

## Fair, balanced and understandable

Whether the 2016 Annual Report and financial statements are fair, balanced and understandable is considered to be a matter for the whole Board and the Audit Committee's role is covered on page 89.

## Internal controls and risk management

The Audit Committee's role in supporting the Board's oversight and review of principal risks, internal controls and risk management processes is covered on pages 64 and 65.

## Internal audit

Due to its size and structure, the Group does not have an internal audit function, a matter which is kept under review by the Committee. Although there is no formal internal audit function, a rolling programme of review of key controls is conducted through a combination of the external audit process or through reviews by members of the finance team and/or external advisers as appropriate.

## Accounting and key areas of judgement

| Significant matter | Action taken |
|---|---|
| Valuation of the Group's portfolio | As the valuation of the Group's portfolio is fundamental to the Group's balance sheet, the Audit Committee, together with Martin Scicluna, meets with the valuers along with the auditors to discuss the valuation included within the half year and year-end financial statements. This includes the valuation process undertaken, changes in market conditions and recent transactions in the market and how these have impacted upon GPE's valuation, valuation movements on individual buildings and the valuers' expectations in relation to future rental growth and yield movement. The external auditors, Deloitte, independently meet with the valuers using real estate specialists and provide the Audit Committee with a summary of their review as part of their report on the half year and year-end results.<br>During the year, changes were made to improve the controls relating to the supply of development cost information to the valuers. These controls were reviewed by Deloitte who concluded that these were operating effectively.<br>For details of the Group's properties and related accounting policies see notes 1, 10 and 11. |
| Acquisitions, disposals and revenue recognition | Acquisitions, disposals and revenue recognition from significant lease transactions or development management agreements are considered to the extent that there are any unusual terms and conditions or judgements made in relation to timing.<br>In the year ended 31 March 2016, the Committee in conjunction with Deloitte reviewed and challenged management's accounting proposals in relation to the sale of 33 Margaret Street for £216 million in exchange for cash of £97 million and 50 Finsbury Square for £119 million.<br>The Audit Committee concurred with the accounting treatment of this matter. |
| REIT status | The Audit Committee reviews current year and forecast compliance with the REIT tests every six months. |
| Viability statement and going concern | Although the viability statement and going concern are a matter for the whole Board, see pages 74 and 122 respectively, a review is made by the Audit Committee of the Group's headroom under its covenants and undrawn facilities in relation to the Group's financial forecasts and sensitivity analyses. |
| Rathbone Square overage | On the purchase of Rathbone Square from the Royal Mail Group (RMG) in September 2011, the Company entered into an overage agreement which enables RMG to participate in the development profits should certain performance metrics be met. As the potential amount payable is a matter of judgement, the Audit Committee, in conjunction with Deloitte, have reviewed the amount proposed by management as at 31 March 2016. The Audit Committee concurred with the accounting treatment of this matter. |

## The external audit, review of its effectiveness, non-audit services and auditor reappointment

The Audit Committee advises the Board on the appointment of the external auditors, their remuneration for audit and non-audit work agreed by the Audit Committee, and their effectiveness, independence and objectivity, and discusses the nature, scope and results of the audit with the external auditors. As part of the review of the effectiveness of the external audit process, a formal evaluation process incorporating views from the Audit Committee and relevant members of management is considered by the Audit Committee and feedback is provided to the auditors. Areas covered by this review include:

- the calibre of the external audit firm – including reputation, coverage and industry presence;
- quality controls – including review processes, partner oversight, reports from the Audit Quality Review Team and regulators, and use of specialists;
- the audit team – covering quality of individuals, knowledge, resources, partner involvement, team rotation, the audit scope including planning and execution, scope adequacy and specialist areas;
- audit fee – reasonableness and scope changes;
- audit communications and effectiveness – planning, new developments/regulations, approach to critical accounting policies, issues and risks, quality of processes, timely resolution of issues, freedom of communication with the Audit Committee and feedback on management performance;
- governance and independence – internal governance arrangements, lines of communication with the Audit Committee, integrity of the audit team, Audit Committee confidence in the audit team and transparency;
- ethical standards – including conflicts of interest, non-audit work and partner rotation; and
- potential impairment of independence by non-audit fee income.

The Committee also considers the effectiveness of management in the external audit process in respect of the timely identification and resolution of areas of accounting judgement with input from the auditors and the Audit Committee as appropriate; and the timely provision of the draft half year results announcement and Annual Report and Accounts for review by the auditors and the Committee.

In addition to the review of the formal management letter from the auditors which outlines how points raised by the auditors have been addressed by management, feedback is sought from the auditors on the conduct of members of the finance team during the audit process.

In addition, I meet with the lead audit partner outside the formal Committee process during the year on a regular basis.

The auditors are responsible for the annual statutory audit and other services which the Audit Committee believe they are best placed to undertake due to their position as auditors under the Group's policy in respect of non-audit services permitted to be provided by the external auditor.

# Accountability

The purpose of this policy (available from the Company's website at www.gpe.co.uk/investors/governance) is to ensure auditor independence and objectivity is maintained. Under the policy, prior approval is required by the Audit Committee for any non-statutory assignments over £50,000, or where such an assignment would take the cumulative total of non-audit fees paid to the external auditors over 50% of that year's audit fees. Deloitte Real Estate on occasions provides the Group and the Group's joint ventures with advice on rights of light, party walls and other items involving adjoining owners or third parties ('neighbourly matters'). Fees paid to Deloitte Real Estate by both the Group and the joint ventures are, therefore, also monitored by the Audit Committee. The appointment of Deloitte to undertake any non-audit services also requires the prior approval of the Finance Director.

During the year, activities undertaken by the auditors for the Group outside of the main audit included:

- reporting on the income cover in connection with the debenture trust deed compliance certificate;
- advice on the tax legislation on property transactions;
- advice on the tax treatment of the £150 million Convertible Bond;
- assurance on achievement against 2015/16 sustainability objectives and targets and energy consumption data; and
- ad hoc accounting advice.

Payments made by the Group for audit and non-audit fees for the year are disclosed on page 136. In addition, audit and non-audit fees paid to Deloitte LLP in respect of joint ventures totalled £27,500 (GPE share) (2015: £38,500) and £nil (2015: £nil) respectively. The three-year average of non-audit fees as a percentage of audit fees to the year ended 31 March 2016 as set out below is 29.6%.

| | **2016 £000s** | 2015 £000s | 2014 £000s |
|---|---|---|---|
| Audit fees including related audit assurance services including fees for joint ventures managed by GPE (GPE share) | **299** | 282 | 281 |
| Non-audit fees including fees for joint ventures managed by GPE (GPE share) | **11** | 127 | 117 |
| Ratio of non-audit fees to audit fees | **4%** | 45% | 42% |

In addition to ensuring compliance with the Group's policy in respect of non-audit services provided by the external auditor, the Audit Committee also receives confirmation from Deloitte LLP that it remains independent and has maintained internal safeguards to ensure its objectivity.

Following a tender process, Deloitte LLP has been the Group's auditor since 2003. It is a requirement that the audit partner responsible for the Group and subsidiary audits is rotated every five years and a new lead audit partner took responsibility for the audit in June 2013. Under the Company's interpretation of the transitional arrangements for mandatory audit rotation, the Company will be required to rotate the audit for the financial year ended 2024 and plans to complete a competitive tender process by this time. Notwithstanding these requirements and current plans, in the best interests of shareholders, the Committee will continue to consider the tender of the audit:

- annually depending on the auditor's performance; and
- in light of the need for audit partner rotation for the year ending 2019.

Having undertaken its review for this year, in the opinion of the Audit Committee, the relationship with the auditors works well and the Committee remains satisfied with their independence and effectiveness. The Committee has, therefore, recommended to the Board that Deloitte LLP be reappointed as auditor at the 2016 Annual General Meeting. There are no contractual obligations restricting the Company's choice of external auditor.

The Company has complied during the year ended 31 March 2016, and up to the date of this report, with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

**Jonathan Nicholls**
Chairman of the Audit Committee
25 May 2016

## What we did in 2015/16

# 2015

### September 2015

**Annual planning meeting**

– Meeting with the auditors

Review of:

– effectiveness and independence of the auditors – see pages 91 and 92
– significant accounting, reporting and judgement matters – see page 91
– Deloitte's 2016 Audit Plan
– controls introduced into the development valuation process

### November 2015

**Review of half year results**

– Meeting with the valuers
– Meeting with the auditors

Review of:

– September 2015 valuation
– significant accounting, reporting and judgement matters, including going concern – see page 91
– principal risks, monitoring of internal controls and risk management processes
– half year results announcement
– 2015 sustainability management letter

### March 2016

**Year-end planning update**

– Meeting with the auditors

Review of:

– significant accounting, reporting and judgement matters – see page 91
– developments in corporate governance and reporting requirements including the Modern Slavery Act and proposed disclosure in the 2016 Annual Report in relation to the UK Corporate Governance Code
– Audit Plan update
– Ethics policy and Whistleblowing policy – see page 82
– Agreement of 2016 audit fee

### May 2016

**Review of year-end results**

– Meeting with the valuers
– Meeting with the auditors

Review of:

– March 2016 valuation – see pages 30 and 31
– significant accounting, reporting and judgement matters including going concern – see page 91
– Group tax matters with the Head of Corporate Finance
– principal risks, monitoring of internal controls and risk management processes – see pages 64 to 74
– the potential need for internal audit
– Annual Report/results announcement
– the Committee's effectiveness
– relationship between the auditors and GPE management
– audit retendering and reappointment of the auditors

# 2016

# Relations with shareholders

"This year's investor event provided a deeper dive into our recent activities to around 100 attendees and the feedback has been very positive."

**Stephen Burrows**
Head of Financial Reporting and Investor Relations

Communication with our investors is given a high priority. As a result we maintain a regular dialogue with shareholders, potential shareholders, debt providers and analysts through a comprehensive investor relations programme. The programme is executed across a number of geographies, reflecting the international nature of our share register, and through a variety of routes including roadshow meetings, meetings at industry conferences, investor and analyst events, property tours and presentations to analysts and investment banks' equity sales teams.

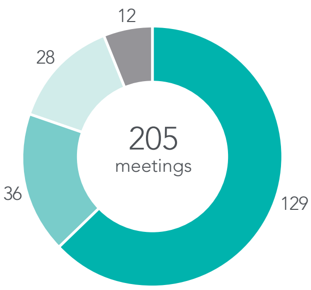
We are also committed to providing investors with regular announcements of significant events affecting the Group, including its business activity and financial performance. These announcements are available on the Group's website at **www.gpe.co.uk** along with results webcasts, analyst presentations, property videos, press releases and interviews with the Chief Executive and Finance Director.

The Executive Directors and the Head of Financial Reporting & Investor Relations are the Company's principal representatives with investors, analysts, fund managers, press and other interested parties, and independent feedback on presentations by the Executive Directors to shareholders and analysts is provided to the Non-Executive Directors on a regular basis. Martin Scicluna, as Chairman, also offered to meet major shareholders owning 42% of the Company and during the year he met or spoke with seven institutional investors.

In total, the directors and senior management had 205 formal meetings with shareholders and potential shareholders from 140 institutions during the year as detailed below.

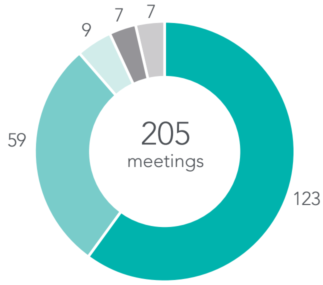
### Investor contact by location

- United Kingdom
- United States and Canada
- Rest of Europe
- Rest of World




### Investor contact by method

- Meeting
- Conference
- Tour
- Meeting and tour
- Call




For more information on our direct and indirect engagement with investors on sustainability, see page 62.

The Executive Directors and corporate finance team also have regular dialogue with our debt providers, including relationship banks, private placement investors, debenture holders and convertible bond holders.

The Chairman and Senior Independent Director, Martin Scicluna and Jonathan Nicholls respectively are each available, as appropriate, as a contact for shareholders. The Annual General Meeting provides the Board with an opportunity to communicate with, and answer questions from, private and institutional shareholders and the whole Board is available before the meeting, in particular, for shareholders to meet new directors.

The Chairman of each of the Audit, Nomination and Remuneration Committees is available at the Annual General Meeting to answer questions. Details of the resolutions to be proposed at the Annual General Meeting on 7 July 2016 can be found in the Notice of Meeting on pages 171 and 172. After the Annual General Meeting, the Company's Registrars will count and verify the poll votes. The results will be announced to the London Stock Exchange and will be published on our website at **www.gpe.co.uk/investors/shareholder-information/agm**

## Investor and analyst event

David Kenningham from Kenningham Retail

In February 2016, we held an analyst and investor event at Oxford House, W1 to provide a deeper insight into our recent activities and the long-term opportunity we have created to add further value. We had eight presentations from members of our team, along with Rob Cookson of Facebook who provided colour on why they chose Rathbone Square, W1 for their new European headquarters, and leading West End retail agent David Kenningham. We also took the opportunity to tour the adjacent Rathbone Square site which is under construction.

We had around 100 attendees at the event and the feedback received was very positive.

### Our investor relations awards

*Building Public Trust Awards 2015*
Winner of Strategic Reporting in the FTSE 250

*Building Public Trust Awards 2015*
Highly commended Excellence in Reporting in the FTSE 250

IR magazine
Runner-up Europe 2015

## What we did in 2015/16

## 2015

**May 2015**
– Investor roadshow: London
– Equity sales force meetings x2

**June 2015**
– Investor roadshows: Amsterdam/US/Switzerland
– Conferences: Kempen (Amsterdam), Morgan Stanley (London)
– Equity sales force meetings x3

**July 2015**
– Annual General Meeting

**September 2015**
Conferences: Goldman Sachs (London), EPRA (Berlin), Société Générale (London)

**November 2015**
– Investor roadshows: London/Frankfurt/Edinburgh
– Conference: JP Morgan Cazenove (London)
– Equity sales force meetings x4

**December 2015**
– Investor roadshow: US
– Conference: UBS (London)
– Equity sales force meeting x1

**January 2016**
– Conference: JP Morgan Cazenove (London)
– Investor roadshow: Amsterdam
– Equity sales force meetings x3

**February 2016**
– Investor roadshows: Asia/Amsterdam
– Investor and analyst event (London)
– Equity sales force meetings x1

**March 2016**
– Conferences: Citi (US), BAML (London)
– Equity sales force meetings x3

## 2016

# Directors' remuneration report

"Executive reward is closely linked to the Group's key performance indicators to ensure effective alignment between the Executive Directors and our shareholders."

**Jonathan Short**
Chairman of the Remuneration Committee

## Remuneration Committee and advisers

### Remuneration Committee members and attendance by others

| Chairman | 6 meetings | | | | | |
|---|---|---|---|---|---|---|
| Jonathan Short | ■ | ■ | ■ | ■ | ■ | ■ |
| **Members** | | | | | | |
| Elizabeth Holden | ■ | ■ | ■ | ■ | ■ | ■ |
| Jonathan Nicholls | ■ | ■ | ■ | ■ | ■ | ■ |
| **In attendance** | | | | | | |
| Martin Scicluna | ■ | ■ | | ■ | ■ | |
| Toby Courtauld | □ | | ■ | ■ | ■ | ■ |

□ Part attendance

## Our approach

During the year, the Remuneration Committee comprised three independent Non-Executive Directors, Elizabeth Holden, Jonathan Nicholls and myself.

The Committee was advised during the year by FIT Remuneration Consultants ('FIT Rem') as independent remuneration consultants who were appointed by the Committee in August 2014. FIT Rem attends Committee meetings and provides advice on remuneration for the Executive Directors, analysis on all elements of the remuneration policy and regular market and best practice updates. FIT Rem reports directly to the Committee.

Toby Courtauld, the Chief Executive, provided input with regard to the achievement of personal objectives for the other Executive Directors and attends discussions on remuneration including on appointments and promotions as considered appropriate by the Committee.

No director or employee is involved in discussions on their own pay.

## Dear fellow shareholder

Welcome to the Report of the Remuneration Committee.

The key objectives for the Committee are to ensure the Executive Directors are appropriately incentivised and remuneration arrangements are fully aligned with the Company's strategy to generate superior portfolio and shareholder returns.

As outlined on pages 20 and 21, we measure our absolute and relative performance using a small number of key performance indicators:

- Relative Total Property Return (TPR);
- Relative Total Shareholder Return (TSR); and
- Absolute net asset per share growth (NAV growth).

Over the medium-term, we aim to outperform our benchmarks.

## Executive reward linked to the Group's performance for shareholders under the 2010 Long-Term Incentive Plan (the 2010 Plan)

The 2010 Plan uses all of our key performance indicators to measure the Group's performance being TPR, TSR and NAV growth. Under the Group's 2010 Plan, the level of reward to the Executive Directors and senior management depends on the performance of the Group over a three-year period. I am pleased to report that 100% of the TSR and NAV elements of the Group's main 2012 LTIP and SMP awards vested, reflecting the underlying strong financial performance of the Company as demonstrated through the trend of the Company's annual KPIs of TSR and NAV growth. TSR for the three year period to 6 June 2015 was 132%. The NAV uplift for the three years to 31 March 2015 was 76%. We also exceeded the Total Property Return (TPR) benchmark for the three year period to 31 March 2015 by 0.2 percentage points resulting in a vesting level of 42% for the main LTIP and SMP awards. This represents a lower level than for the three year period to 31 March 2014 (82%) as a result of our lower relative income return due to the scale of our development activities and greater rate of capital growth in 2015 for secondary properties compared to our more prime portfolio.

As at the date of this report, based on the latest information available as at 31 March 2016, for the June 2013 LTIP and SMP awards, with continued strong NAV growth resulting in an uplift for the three years to 31 March 2016 of 90%, we expect 100% of the NAV hurdle to be met. We also exceeded the TPR benchmark for the three year period to 31 March 2016 by 0.2 percentage points, in line with our outperformance over the prior three year period (see above), resulting in a vesting level of 37% due to our associated percentile ranking. However, following a de-rating of the share prices of GPE and other London focused property companies relative to the broader FTSE 350 Real Estate sector over the last year in part due to adverse market sentiment ahead of the upcoming EU referendum, we expect only 38.4% of the TSR hurdle to be met.

## Annual Bonus Plan measures and performance in 2015/16

The Group's annual bonus plan for the Executive Directors and employees uses financial targets based on NAV growth and the capital growth element of TPR.

The achievement of our strategic priorities as outlined on pages 10 and 11, has resulted in another year of strong performance with NAV per share growth of 19.5% and the capital growth element of TPR of 16.3%.

The resulting payout under both our Annual Bonus Plan and three year LTIP and SMP awards are summarised on page 98.

## Our overarching remuneration policy principles

The Executive Directors' total pay is analysed by looking across each of the different elements of remuneration including salary, pension, the annual bonus plan and long-term incentives to provide the Remuneration Committee with a view of total remuneration rather than just the competitiveness of the individual elements. It is important that the Group's remuneration policy reinforces the Company's goals, providing effective incentives for exceptional Group and individual performance. As well as providing motivation to perform, remuneration plays an important retention role and needs to be competitive with alternative employment opportunities, in particular at a time in the central London property cycle where demands on the Executive Directors and employees are high and there is a scarcity value on proven performers particularly with strong development or leasing capabilities.

## How we structure our remuneration to meet our principles

To achieve the aims of the Company's remuneration policy, the Committee seeks to position fixed remuneration, including benefits and pension, around mid-market and total executive remuneration around mid-market for on-target performance taking into account the size and complexity of the business as compared to other peer companies in the sector, and, using a significant proportion of variable reward, to increase total potential remuneration for superior performance through the annual bonus plan and long-term incentives.

Our Remuneration Policy was approved at our 2014 AGM – The Policy has been reproduced for reference on pages 110 to 120. Further details on the votes received on our 2014 Remuneration Policy and the 2015 Directors' remuneration report are provided on page 109.

## 2016/17 implementation of our policy

No changes to the overall remuneration structure are proposed for the coming year.

The base salary increase for employees will be 2% for the year ending 31 March 2017. Base salary increases of more than 2% were given to some employees due to market alignment and/or a number of increases in individual responsibilities, such that the average increase will be 4.6% for the year to 31 March 2017. The Committee propose to increase the Executive Directors' salaries by 2% in line with employees.

A more detailed summary of the implementation of the remuneration policy for the year ending 31 March 2016, which is subject to an advisory shareholder vote at the 2016 AGM, is provided on pages 99 to 109.

## 2016/17 policy review

Our current policy needs to be renewed at the 2017 AGM after reaching the end of its three year approval. Overall, we consider that the current policy has operated effectively and provided appropriate alignment between the Executive Directors and our shareholders. However, we recognise that both the Company has grown over the life of the policy (with net assets growing by over 89%) and that there have been some developments in market practice and shareholders' attitudes to pay design.

We shall be commencing a review of the policy in June 2016 which will consider all of these issues and what, if any, changes to the current policy may be appropriate. As part of that review, we shall consult with our largest shareholders and their representative bodies and present any changes to the 2017 AGM.

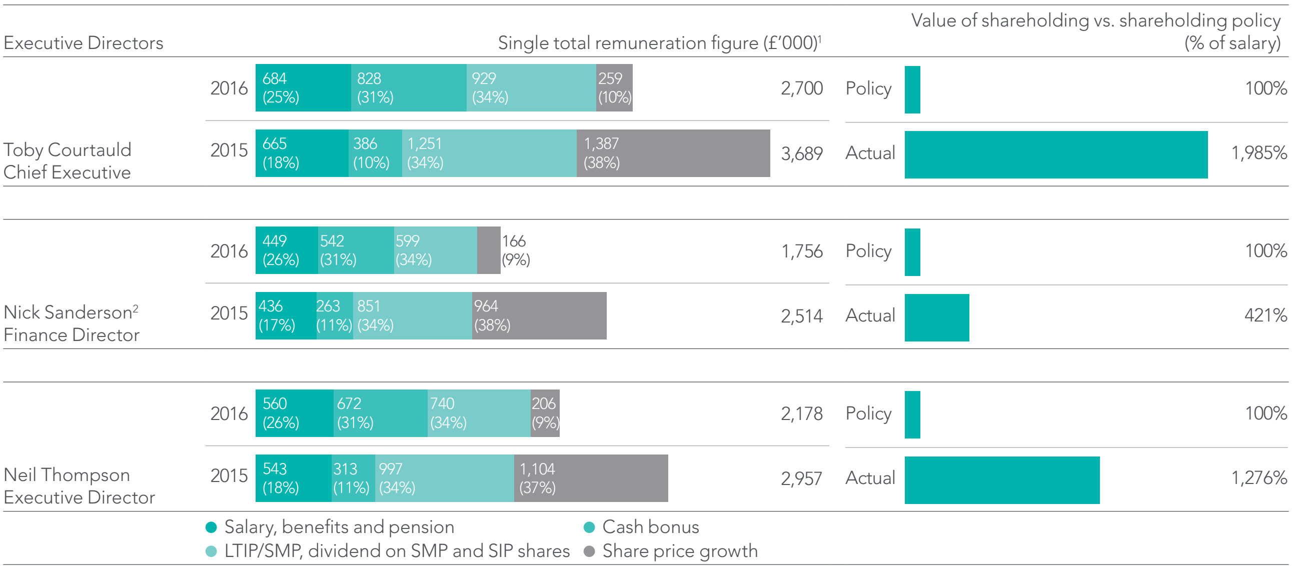
I do hope that you will support the annual vote of the Remuneration Report at this AGM.

**Jonathan Short**
Chairman of the Remuneration Committee
25 May 2016

# Directors' remuneration report

## 2015/16 Executive Directors' remuneration – at a glance

Please find below a summary of our remuneration and performance outcomes for the year ended 31 March 2016.




1. These figures contain estimates, see pages 101 and 102.
2. For Nick Sanderson's 2011 SMP award which vested in January 2015, it was considered that the TSR element performance period was not sufficiently complete to be reliably estimated in the year ended 31 March 2014. This TSR element, was, therefore, included in 2015. See page 103.

## Total remuneration

| Executive Directors | Salary £000 | Benefits £000 | Annual bonus £000 | LTIP/SMP[1] £000 | Pension £000 | SIP £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| Toby Courtauld | 552 | 22 | 828 | 1,185 | 110 | 3 | 2,700 |
| Nick Sanderson | 361 | 16 | 542 | 762 | 72 | 3 | 1,756 |
| Neil Thompson | 448 | 22 | 672 | 943 | 90 | 3 | 2,178 |
| **Total** | **1,361** | **60** | **2,042** | **2,890** | **272** | **9** | **6,634** |

1. These figures contain estimates. See pages 101 and 102.

For more details see pages 101 to 103 of the Annual report on remuneration.

## Annual Bonus Plan

| Bonus Plan Performance measures | **Maximum % of salary** | **Threshold Target** | **Actual** | **% of maximum achieved** |
|---|---|---|---|---|
| IPD Capital Growth Index outperformance | 75% | CGI+0% | CGI+3.0% | 100% |
| NAV growth | 45% | 86.4p | 138p | 100% |
| Operational excellence | 30% | See page 105 | See page 106 | Toby Courtauld – 100%<br>Nick Sanderson – 100%<br>Neil Thompson – 100% |

For more details see pages 105 and 106 of the Annual report on remuneration.

## 2013 LTIP and SMP Awards – vesting in June 2016 (included in the year ended 31 March 2016 single figure)

| LTIP/SMP measure | Target | Actual | % of maximum achieved |
|---|---|---|---|
| TSR to vesting in June 2016 | Median to upper quartile | Estimated as at 31 March 2016 | 38% |
| NAV – three years to 31 March 2016 | RPI plus 3%–9% p.a. | RPI plus 23% | 100% |
| TPR – three years to 31 March 2016 | Median to upper quartile | 55th percentile | 37% |

For more details see page 102 of the Annual report on remuneration.

## Annual Report on remuneration

## Statement of implementation of remuneration policy for the year ending to 31 March 2017

## Executive Directors

The remuneration policy and its implementation for the forthcoming financial year is summarised below:

### Salary

On 1 April 2016, the Executive Directors received increases in salaries, the same as the base increase provided to employees across the Group as follows:

| | Year ended 31 March 2016 £000 | Year ending 31 March 2017 £000 | % increase |
|---|---|---|---|
| Toby Courtauld | 552 | 563 | 2 |
| Nick Sanderson | 361 | 369 | 2 |
| Neil Thompson | 448 | 457 | 2 |

In reviewing the salaries of the Executive Directors, the Committee has also taken account of both the individuals' and Company's performance and the employment conditions and salary increases awarded to employees throughout the Company.

The base salary increase for employees was 2% for the year ending 31 March 2017. Base salary increases of more than 2% were given to some employees due to market alignment and/or a number of increases in responsibilities, such that the average increase in base salaries for employees for the year to 31 March 2017 is 4.6%.

### Benefits and pension

No change:

| | Pension contribution (% of salary) Year ended 31 March 2016 | Pension contribution (% of salary) Year ending 31 March 2017 | Benefits |
|---|---|---|---|
| Toby Courtauld | 20% | 20% | Policy Level |
| Nick Sanderson | 20% | 20% | Policy Level |
| Neil Thompson | 20% | 20% | Policy Level |

None of the directors participate in the Group's defined benefit final salary pension plan which was closed to new entrants in 2002.

### Bonus for the year ending 2017

The target and maximum bonus potentials will remain unchanged at 75% and 150% of salary respectively for the Executive Directors. In exceptional circumstances the maximum bonus potential could be increased from 150% to 200%. The table below sets out the performance measures and their respective weightings for the year ending 31 March 2017:

| Performance measures | Weighting | Description |
|---|---|---|
| Capital Growth | 50% | Growth of the Company's property portfolio against IPD's relevant Capital Growth Index for the year to 31 March 2017 |
| NAV[1] | 30% | Achievement of NAV targets (for the year to 31 March 2017) – positive NAV growth underpin |
| Personal objectives[1] | 20% | Vary from individual to individual and include metrics around corporate performance, development management, asset management, financial management and people |

1. The Committee is of the opinion that given the commercial sensitivity around GPE's business, disclosing precise Capital Growth, NAV and individual targets for the Annual Bonus Plan in advance would not be in the best interests of shareholders or the Company. Actual targets, performance achieved and awards made will be published at the end of the performance periods so shareholders can fully assess the basis for any pay-outs.

Governance

# Directors' remuneration report

## LTIP/SMP performance measures for the year ending 2017

The maximum potential for the 2016 LTIP and SMP awards is 200% and 100% of salary respectively.

The following performance measures apply to awards to be granted in 2016 as well as all outstanding awards under the 2010 Plan i.e. those granted in 2013, 2014 and 2015.

## LTIP/SMP awards

| **Performance measure over three years** | % of award | Vesting level | | Start of measurement period |
|---|---|---|---|---|
| | | 20% | 100% | |
| | | Straight-line vesting between these points | | |
| NAV growth for the period in excess of RPI | 33% | 3% p.a. | 9% p.a. | 1 April prior to grant |
| TSR against constituents of FTSE 350 Real Estate Sector (excluding agencies) | 33% | Median | Upper quartile | Grant date |
| Total Property Return against constituents of IPD Total Property Return – central London index | 33% | Median | Upper quartile | 1 April prior to grant |

## Non-Executive Directors

The following table sets out the fee rates for the Non-Executive Directors which apply from 1 April 2016:

## Non-Executive Directors' annual fees for the year ending 31 March 2017

| | Base fee £ | Senior Independent Director £ | Audit Committee £ | Remuneration Committee £ | Nomination Committee £ | Total fees £ | 2016 comparative Total fees £ |
|---|---|---|---|---|---|---|---|
| Martin Scicluna | 235,000 | – | – | – | – | 235,000 | 222,500 |
| Elizabeth Holden | 50,000 | – | 5,000 | 5,000 | 3,350 | 63,350 | 61,750 |
| Jonathan Nicholls | 50,000 | 5,000 | 10,000 | 5,000 | 3,350 | 73,350 | 71,750 |
| Charles Philipps | 50,000 | – | 5,000 | – | 3,350 | 58,350 | 56,750 |
| Jonathan Short | 50,000 | – | 5,000 | 10,000 | 3,350 | 68,350 | 66,750 |

Fee levels for the Non-Executive Directors are assessed having regard to individual responsibility and the wider FTSE 250.

## Annual report on remuneration

This section of the remuneration report contains details of how the Company's remuneration policy for directors was implemented during the financial year ending on 31 March 2016.

## Audited

| | Salary/fees | | Benefits | | Annual bonus | | LTIP/SMP | | Pension allowance/ Contribution[4] | | Share Incentive Plan[5] | | Total[6,7] | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2016 £000** | 2015 £000 | **2016 £000** | 2015 £000 | **2016 £000** | 2015 £000 | **2016[1] £000** | 2015[2,3] £000 | **2016 £000** | 2015 £000 | **2016 £000** | 2015 £000 | **2016 £000** | 2015 £000 |
| **Executive** | | | | | | | | | | | | | | |
| Toby Courtauld | **552** | 536 | **22** | 22 | **828** | 386 | **1,185** | 2,635 | **110** | 107 | **3** | 3 | **2,700** | 3,689 |
| Nick Sanderson | **361** | 351 | **16** | 15 | **542** | 263 | **762** | 1,812 | **72** | 70 | **3** | 3 | **1,756** | 2,514 |
| Neil Thompson | **448** | 435 | **22** | 21 | **672** | 313 | **943** | 2,098 | **90** | 87 | **3** | 3 | **2,178** | 2,957 |
| **Non-Executive** | | | | | | | | | | | | | | |
| Martin Scicluna | **223** | 218 | **2** | 3 | **–** | – | **–** | – | **–** | – | **–** | – | **225** | 221 |
| Elizabeth Holden | **62** | 60 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **62** | 60 |
| Charles Irby[8] | **–** | 18 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | 18 |
| Charles Philipps | **57** | 53 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **57** | 53 |
| Jonathan Short | **67** | 64 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **67** | 64 |
| Jonathan Nicholls | **72** | 69 | **3** | 3 | **–** | – | **–** | – | **–** | – | **–** | – | **75** | 72 |
| **Total** | **1,842** | 1,804 | **65** | 64 | **2,042** | 962 | **2,890** | 6,545 | **272** | 264 | **9** | 9 | **7,120** | 9,648 |

1. This column shows the estimated value of the 2013 LTIP and SMP awards expected to vest in June 2016, based on the latest information available as at 31 March 2016 and calculated at the average share price of £7.34 per share for the three months to 31 March 2016, together with the value of the dividend to be paid in respect of the expected vesting of the Matching shares held over the three year period.
2. This column includes the value of 2012 LTIP and SMP awards that vested in the year ended 31 March 2016, calculated at the mid-market share price on the date of vesting on 11 June 2015, together with the value of dividend equivalents paid in cash in respect of the vested SMP shares held over the three year period. For Nick Sanderson's 2011 SMP award vesting on 25 January 2015, it was considered that the TSR element performance period was not sufficiently complete to be reliably estimated in 2014. This TSR element of £251,528 was, therefore, included in 2015.
3. The numbers disclosed in the 2015 Annual Report were based on an estimated level of TSR performance. For Toby Courtauld, Nick Sanderson and Neil Thompson the estimated TSR vesting level of their 2012 LTIP and SMP awards was 100% and the actual vesting was 100%. The estimated share price for their 2012 LTIP and SMP awards was £7.88 per share and the actual share price was £8.40 per share.
4. A contribution of 20% of basic salary is made to each Executive Director for his personal pension arrangements (or pension allowance) or direct to his personal pension plan. Toby Courtauld and Nick Sanderson receive a pension allowance. Neil Thompson's contribution is split between a pension allowance and a contribution direct to his personal pension plan.
5. This column shows the value of the matching shares awarded under the Employee Share Incentive Plan and calculated on the share price when the shares were purchased.
6. This column sets out a single figure for the total remuneration due to the directors for the year ended 31 March.
7. The aggregate emoluments (being salary/fees, bonus, benefits and cash allowances in lieu of pension) of all directors for the year ended 31 March 2016 was £4,230,000.
8. Charles Irby resigned from the Board on 3 July 2014.

## Executive Director remuneration from other roles

Executive Directors are able to accept external Board appointments with consent of the Board. Any fees received by an Executive Directors for such an external appointments can be retained by an individual. Toby Courtauld is a Non-Executive Director of Liv-ex Limited, for which he received no remuneration during the year. He also received no remuneration for serving as a director of the New West End Company.

## Taxable benefits

Benefits principally comprise life insurance, health insurance, private healthcare subscriptions, travel expenses and membership subscriptions. No individual benefit provided has a value which is significant enough to warrant separate disclosure. Unlike many property companies, Executive Directors are not provided with a company car or a company car allowance.

# Directors' remuneration report

## Anticipated vesting of 2013 LTIP/SMP awards

The tables below set out the alignment of LTIP/SMP awards with Company strategy and the anticipated vesting for those awards due to vest in June 2016, together with indicative pay-outs for the Executive Directors. The anticipated value of these awards at vesting reflects the disclosure in the single figure table on page 101:

### Long-Term Incentive Plans

Anticipated vesting of LTIP and SMP awards granted in the year ended 31 March 2014 – vesting in the year ending 31 March 2017 included in the 2016 single figure.

| Key elements of strategy | Variable component | Maximum percentage of salary | Measured by | Threshold performance target (20%) | Maximum performance target (100%) | Estimated performance | Estimated vesting level as at 31 March 2016 as a percentage of maximum by vesting date[1] |
|---|---|---|---|---|---|---|---|
| Shareholder value | LTIP | 66.66% | Total shareholder return (based on a three year performance period) | Median | Upper quartile | 56th percentile | June 2016 38% |
| | SMP | 33.33% | | | | | |
| Absolute performance | LTIP | 66.66% | Growth in the Group's net assets per share (based on a three year performance period) | RPI plus 3% p.a. | The Group's growth in net assets to exceed RPI plus 9% p.a. | 23% | June 2016 100% |
| | SMP | 33.33% | | | | | |
| Market competitiveness | LTIP | 66.66% | Total property return (based on a three year performance period) | Median | Upper quartile | 55th percentile | June 2016 37% |
| | SMP | 33.33% | | | | | |

1 The 2013 LTIP and SMP awards are due to vest on 10 June 2016. For the NAV and TPR targets the performance period for the 2013 awards is the three year period to 31 March 2016. For the TSR element, the vesting period is the three years from the award date.

## Values of LTIP and SMP awards included in the 2016 single figure

| Variable component | Maximum percentage of salary | Category | Toby Courtauld | | | Nick Sanderson | | | Neil Thompson | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Awards granted | Actual/ Estimated awards vesting | Estimated value of vested awards £000[1] | Awards granted | Actual/ Estimated awards vesting | Actual/ Estimated value of vested awards £000[2] | Awards granted | Actual/ Estimated awards vesting | Actual/ Estimated value of vested awards £000[1] |
| LTIP 2013 | 66.66% | Shareholder value | 60,645 | 23,287 | 171 | 38,969 | 14,964 | 110 | 48,275 | 18,538 | 136 |
| SMP 2013 | 33.33% | | 30,322 | 11,644 | 89 | 19,484 | 7,482 | 57 | 24,137 | 9,269 | 70 |
| LTIP 2013 | 66.66% | Absolute performance | 60,645 | 60,645 | 445 | 38,969 | 38,969 | 286 | 48,275 | 48,275 | 354 |
| SMP 2013 | 33.33% | | 30,322 | 30,322 | 231 | 19,484 | 19,484 | 148 | 24,137 | 24,137 | 184 |
| LTIP 2013 | 66.66% | Market competitiveness | 60,644 | 22,414 | 164 | 38,968 | 14,403 | 106 | 48,276 | 17,843 | 131 |
| SMP 2013 | 33.33% | | 30,322 | 11,207 | 85 | 19,484 | 7,201 | 55 | 24,137 | 8,921 | 68 |
| Total LTIP 2013 | 200% | | 181,934 | 106,346 | 780 | 116,906 | 68,336 | 502 | 144,826 | 84,656 | 621 |
| Total SMP 2013 | 100% | | 90,966 | 53,173 | 405 | 58,452 | 34,167 | 260 | 72,411 | 42,327 | 322 |
| **Total LTIP/ SMP 2013** | **300%** | | **272,900** | **159,519** | **1,185** | **175,358** | **102,503** | **762** | **217,237** | **126,983** | **943** |

1. Toby Courtauld, Nick Sanderson and Neil Thompson's 2013 LTIP and SMP awards expected to vest in June 2016. For the NAV and TPR targets, the performance period for the 2013 awards is the three year period to 31 March 2016. For the TSR element, the vesting period is the three years from the award date. The estimated value of the 2013 LTIP SMP share awards are based on the latest information available on TSR, NAV and TPR as at 31 March 2016 and calculated at the average share price of £7.34 per share for the three months to 31 March 2016, together with the value of the dividend to be paid in respect of the expected vesting of the SMP shares held over the three year period.

## Actual vesting of Nick Sanderson's SMP award granted in year ended 31 March 2012 – vesting in the year ended 31 March 2015 included in the 2015 single figure

| Key elements of strategy | Variable component | Maximum percentage of salary | Measured by | Threshold performance target (20%) | Maximum performance target (100%) | Actual performance[1] | Actual vesting |
|---|---|---|---|---|---|---|---|
| Shareholder value | SMP | 33.33% | Total shareholder return (based on a three year performance period) | Median | 75th percentile | 89th percentile | 100% |

1. For Nick Sanderson, the vesting date for his 2011 SMP award was 25 January 2015. In reporting the 2014 single figure, it was considered that the TSR element performance period was not sufficiently complete to be reliably estimated for the 2014 Annual Report and, therefore, the actual vesting was included in the 2015 single figure.

## Actual vesting of LTIP and SMP awards granted in year ended 31 March 2013 – vested in the year ended 31 March 2016 included in the 2015 single figure[1]

| Key elements of strategy | Variable component | Maximum percentage of salary | Measured by | Threshold performance target (20%) | Maximum performance target (100%) | Actual performance | Actual vesting level as at 31 March 2015 as a percentage of maximum by vesting date[1] |
|---|---|---|---|---|---|---|---|
| Shareholder value | LTIP | 66.66% | Total shareholder return (based on a three year performance period) | Median | 75th percentile | June 2015 97th percentile | June 2015 100% |
| | SMP | 33.33% | | | | | |
| Absolute performance | LTIP | 66.66% | Growth in the Group's net assets per share (based on a three year performance period) | RPI plus 3% p.a. | The Group's growth in net assets to exceed RPI plus 9% p.a. | RPI plus 19% p.a. | March 2015 100% |
| | SMP | 33.33% | | | | | |
| Market competitiveness | LTIP | 66.66% | Total property return (based on a three year performance period) | Median | 75th percentile | 57th percentile | March 2015 41.8% |
| | SMP | 33.33% | | | | | |

1. The numbers disclosed in the 2015 Annual Report were based on an estimated level of TSR performance. For Toby Courtauld, Nick Sanderson and Neil Thompson the estimated TSR vesting level of their LTIP and SMP awards vesting in June 2015 was 100% and the actual vesting was 100%. The estimated share price for their LTIP and SMP awards was £7.88 per share and the actual share price was £8.40 per share.

The value of actual LTIP and SMP awards vesting versus estimated numbers included in the 2015 Annual Report are as follows:

| | 2015 Actual £'000s | 2015 Estimated £'000s |
|---|---|---|
| Toby Courtauld | 2,635 | 2,473 |
| Nick Sanderson[1] | 1,812 | 1,716 |
| Neil Thompson | 2,098 | 1,969 |

1. For Nick Sanderson, the vesting date for his 2011 SMP award was 25 January 2015. In reporting the 2014 single figure, it was considered that the TSR element performance period was not sufficiently complete to be reliably estimated for the 2014 Annual Report and, therefore, the actual vesting was included in the 2015 single figure.

The aggregate gain to all directors from share awards that vested during the year to 31 March 2016 was £6,293,120.

# Directors' remuneration report

## Other outstanding share awards

The following tables provide details of other outstanding share awards under the 2010 Plan. Performance measures applying to these awards are outlined on page 100.

| Executive Director | 2010 Plan | Date of grant | Basis of award | Face value of award made £000[1] | Number of awards | Percentage of award receivable for threshold performance | End of performance period | Performance measures |
|---|---|---|---|---|---|---|---|---|
| Toby Courtauld | LTIP | 9 June 2014 | 200% of salary | 1,072 | 166,901 | 20% | 9 June 2017 | Total Shareholder Return – 33.33% |
| | SMP | 9 June 2014 | 100% of salary | 536 | 83,448 | 20% | 9 June 2017 | |
| | LTIP | 15 June 2015 | 200% of salary | 1,104 | 133,550 | 20% | 15 June 2018 | |
| | SMP | 15 June 2015 | 100% of salary | 552 | 66,774 | 20% | 15 June 2018 | |
| Nick Sanderson | LTIP | 9 June 2014 | 200% of salary | 702 | 109,330 | 20% | 9 June 2017 | Total Property Return – 33.33% |
| | SMP | 31 July 2014 | 100% of salary | 351 | 54,663 | 20% | 31 July 2017 | |
| | LTIP | 15 June 2015 | 200% of salary | 723 | 87,483 | 20% | 15 June 2018 | |
| | SMP | 15 June 2015 | 100% of salary | 361 | 43,740 | 20% | 15 June 2018 | |
| Neil Thompson | LTIP | 9 June 2014 | 200% of salary | 870 | 135,440 | 20% | 9 June 2017 | Net Asset growth per share – 33.33% |
| | SMP | 9 June 2014 | 100% of salary | 435 | 67,719 | 20% | 9 June 2017 | |
| | LTIP | 15 June 2015 | 200% of salary | 896 | 108,376 | 20% | 15 June 2018 | |
| | SMP | 15 June 2015 | 100% of salary | 448 | 54,186 | 20% | 15 June 2018 | |

1. The face value is calculated on the five day average share price prior to the date of main Group's SMP invitation. For 2014, this was the five days up to and including 28 May 2014, being £6.42. For 2015, this was the five days up to and including 4 June 2015, being £8.26.

## Payments to past directors

No payments to past directors were made during the year.

## Payments for loss of office

No payments for loss of office were made during the year.

## 2016 Bonus outcome

The financial targets for the bonus for the year ended 31 March 2016 and the extent to which they were achieved are as set out in the table below:

| Maximum percentage of salary | Key elements of strategy | Measured by | Threshold performance target (0% payout) | Maximum performance target (100% payout) | Actual performance achieved | Actual performance level as a percentage of maximum | Bonus receivable (£'000) Toby Courtauld | Nick Sanderson | Neil Thompson |
|---|---|---|---|---|---|---|---|---|---|
| 75% | Market Competitiveness | Growth of the Company's property portfolio against IPD's relevant Capital Growth Index (for the year to 31 March 2016) – on a stepped basis[1] | Annual percentage rate of portfolio capital growth to meet annual percentage rate of capital growth of the central London IPD index | Annual percentage rate of portfolio capital growth to exceed annual percentage rate of capital growth of the central London IPD index by 2.5% | Index + 3.0% | 100% | 414 | 271 | 336 |
| 45% | Absolute Performance | Achievement of NAV targets (for the year to 31 March 2016) – on a straight-line basis – positive NAV growth underpin | 90% of target NAV growth of 96p (86.4p) | Positive NAV growth greater than 130% of target of 96p (124.8p) | 138p | 100% | 248 | 163 | 202 |
| 30% | Operational Excellence | Achievement against personal objectives (for the year to 31 March 2016) | Partial achievement of personal objectives | Exceeding personal objectives | See page 106 | Toby Courtauld 100%<br>Nick Sanderson 100%<br>Neil Thompson 100% | 166 | 108 | 134 |
| | | | | | | **Total** | **828** | **542** | **672** |

1. **IPD Capital Growth Index** / **% payable**

| IPD Capital Growth Index | % payable |
|---|---|
| CGI + 0% to 0.49% | 16.67% |
| CGI + 0.5% to 0.99% | 33.34% |
| CGI + 1% to 1.49% | 50% |
| CGI + 1.5% to 1.99% | 66.67% |
| CGI + 2% to 2.49% | 83.34% |
| CGI + 2.5% & above | 100% |

# Directors' remuneration report

The Executive Directors' personal objectives are designed to focus on the delivery of the strategic priorities and the successful management of risk for both 2015/16 and the longer term. Following consideration of achievement against the Executive Director's personal objectives set at the beginning of the year as listed below, the Committee has awarded Toby Courtauld, Nick Sanderson and Neil Thompson 100% of the full potential bonus for Operational Excellence.

Significant personal objectives for each of the Executive Directors included:

| | |
|---|---|
| Toby Courtauld | Direction of strategy setting process with Executive team and senior managers.<br>Implementation and regular testing of strategy, monitoring market conditions and ensuring sustainability issues regularly considered.<br>Delivery of Business Plan targets in light of property cycle.<br>Progress de-risking of Rathbone Square and Hanover Square.<br>Ensuring focus on development near-term and pipeline projects.<br>Proactive engagement with shareholders and potential investors.<br>Ensuring the appropriate human resource level to deliver the Business Plans and the development of individuals.<br>Develop senior management team.<br>Ensuring effective internal communication.<br>Increase communication with the Non-Executive Directors outside of Board meetings. |
| Nick Sanderson | Maintaining low cost, flexible and conservative debt, including refinancing GRP debt.<br>Managing the debt maturity profile and interest rate exposure.<br>Ensuring a good diversification of funding sources and liquidity.<br>Ensuring a strong control environment, an efficient audit process and high quality internal and external reporting.<br>Ensuring regular meetings and strong relationships with key tenants.<br>Oversight of the investor relations programme including investor meetings, roadshows and relationships with equity research teams.<br>Evolution, support and development of team including IT resourcing and Finance Team Away Day.<br>Ensuring effective internal communication.<br>Maintaining regular contact with Board. |
| Neil Thompson | Progression of the short- and long-term development programme including:<br>– progress of Hanover Square Business Plan including procurement;<br>– pre-let campaign for the office and retail at Rathbone Square, W1;<br>– pre-let campaign for the offices at 30 Broadwick Street, W1; and<br>– monitoring of construction and letting of offices and remaining retail at 73/89 Oxford Street, W1.<br>Conclude sale of 95 Wigmore Street, W1.<br>Regular review and challenge of individual Asset Business Plans and underlying asset management activities to enhance total returns whilst managing voids in line with redevelopment plans.<br>Identification of potential sales and optimising timing.<br>Support of the asset team.<br>Support and development of Heads of Department.<br>Ensuring effective internal communication.<br>Take on Chairman role of the Westminster Property Association. |

The Committee did not exercise their discretion in respect of any of the performance measures.

## Statement of Executive Directors' shareholding and share interests

Directors' share interests and where applicable, achievement of shareholding requirements, is set out below:

| | Shareholding | | | | Conditional shares | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | 2010 Plan awards subject to Performance Conditions | | Interests not subject to Performance Conditions | **Total interests held at 31 March 2016** |
| Director | Shares required to be held (% salary) | Number of shares required to hold[1] | Number of beneficially owned shares[2,3] | Shareholding requirement met[4] | LTIP | SMP | SIP Matching shares[3] | |
| Toby Courtauld | 100% | 75,801 | 1,504,649 | 1,985% | 482,385 | 241,188 | 1,392 | **2,229,614** |
| Nick Sanderson | 100% | 49,654 | 208,938 | 421% | 313,719 | 156,855 | 1,392 | **680,904** |
| Neil Thompson | 100% | 61,512 | 785,194 | 1,276% | 388,642 | 194,316 | 1,392 | **1,369,544** |

1. Calculated based on share price at 31 March 2016 of £7.28.
2. Beneficial interests include shares held directly or indirectly by connected persons.
3. In April 2016, the Executive Directors each acquired 20 Partnership shares and 40 conditional Matching shares under the SIP. In addition, under the SIP, 46 Matching shares vested to Toby Courtauld and Neil Thompson and 46 Matching shares vested to Nick Sanderson.
4. Executive Directors are expected to retain the after-tax shares received on the vesting of awards and the exercise of share options, until they have acquired the necessary shares to meet their shareholding requirement.

## Non-Executive Directors' shareholding

| | 31 March 2016 |
|---|---|
| Martin Scicluna | **8,636** |
| Elizabeth Holden | **4,740** |
| Jonathan Nicholls | **10,000** |
| Charles Philipps | **5,000** |
| Jonathan Short | **13,455** |

## Non-Executive Directors' annual fees for the year ended 31 March 2016

| | Base fee £ | Senior Independent Director £ | Audit Committee £ | Remuneration Committee £ | Nomination Committee £ | Total fees £ |
|---|---|---|---|---|---|---|
| Martin Scicluna | 222,500 | – | – | – | – | 222,500 |
| Elizabeth Holden | 48,400 | – | 5,000 | 5,000 | 3,350 | 61,750 |
| Jonathan Short | 48,400 | – | 5,000 | 10,000 | 3,350 | 66,750 |
| Charles Philipps | 48,400 | – | 5,000 | – | 3,350 | 56,750 |
| Jonathan Nicholls | 48,400 | 5,000 | 10,000 | 5,000 | 3,350 | 71,750 |

## Unaudited

## Seven year Chief Executive remuneration package

The table below shows the Chief Executive's remuneration package over the past seven years, together with incentive pay-out/vesting as compared to the maximum opportunity.

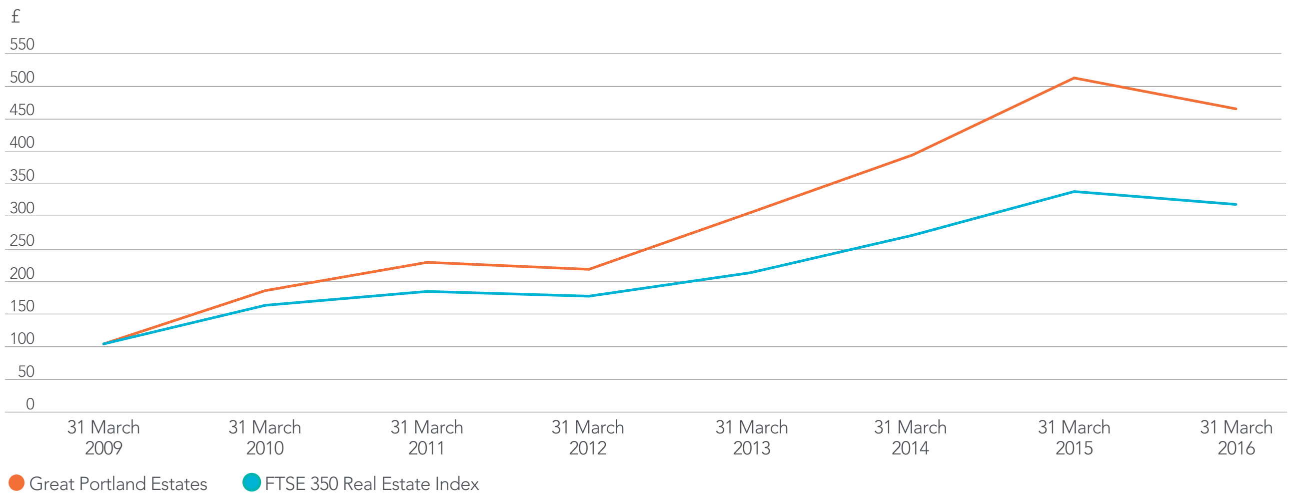
| | 2010 | 2011 | 2012 | 2013[1] | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Single figure of total remuneration (£'000) | 1,326 | 2,087 | 2,910 | 4,924 | 3,409 | 3,689 | 2,700 |
| Bonus pay-out as % of maximum opportunity | 75% | 100% | 70% | 92% | 100% | 48% | 100% |
| Long-term incentive vesting rates (as % of maximum opportunity) | 88% | 50% | 100% | 95% | 86% | 81% | 58% |

1. Includes a one-off SMP award made in 2010 of 100% of salary.

## Performance graph

The following graph shows the total shareholder returns for the Company for each of the last seven financial years compared to the FTSE 350 Real Estate index (excluding agencies). The Company is a constituent of the FTSE 350 Real Estate index and the Committee considers this benchmark to be the most appropriate for illustrating the Company's performance.

**Total shareholder return over seven years**



# Directors' remuneration report

## Employee Share Trust

Upon vesting, shares to satisfy awards under the 2010 Plan are transferred out of the Great Portland Estates plc LTIP Employee Share Trust (the 'Trust'), a discretionary trust established to facilitate the operation of the Company's share plans. The shares to satisfy vested awards have been purchased by the Trustees of the Trust in the open market. The number of shares held by the Trust as at 31 March 2016 was 2,569,477.

## Dilution

The Company currently purchases all of the shares required to satisfy awards under the Company's share incentive plans and no shares have been issued for any grants made in the last ten years. However, if the Company decided to issue new shares to meet these awards, the Company would operate all of its share arrangements within The Investment Association (IA) Guidelines on dilution. The following table sets out the level of dilution in respect of the outstanding awards should the Company issue shares rather than purchase them against the IA limits for all share plans and discretionary plans:

| Maximum | As at 31 March 2016[1] |
|---|---|
| 10% dilution in ten years (All Plans) | 1.11% |
| 5% dilution in ten years (Discretionary Plans) | 1.07% |

1. This represents the dilution in respect of outstanding awards as at 31 March 2016 were these to be satisfied by the issue of new shares. This does not include awards vested that have been satisfied by the market purchase of shares.

## Percentage change in Chief Executive's remuneration

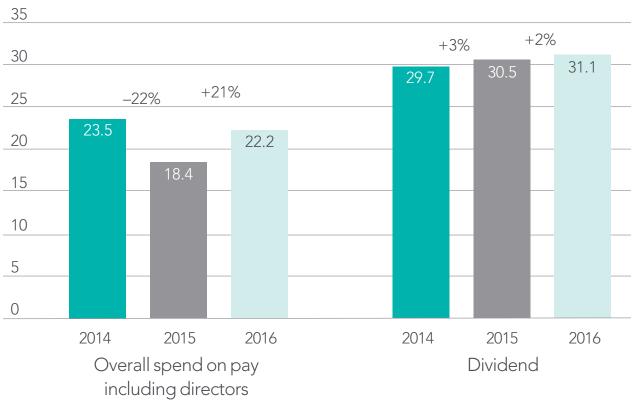
The table below compares the percentage increase in the Chief Executive's pay (including salary, taxable benefits and annual bonus) with the wider employee population. The Company considers all employees to be an appropriate comparator group.

| | Chief Executive (£'000) | | | Total employee pay (£'000) | | | Average number of employees | | | Average employee pay (£'000) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | % change | **2016** | 2015 | % change | **2016** | 2015 | % change | **2016** | 2015 | % change |
| Base salary | **552** | 536 | 3 | **8,259** | 7,739 | 7 | **91** | 91 | 0 | **91** | 85 | 7 |
| Taxable benefits | **22** | 22 | 0 | **437** | 435 | 0 | **91** | 91 | 0 | **5** | 5 | 0 |
| Bonus | **828** | 386 | 114 | **5,636** | 2,539 | 122 | **91** | 91 | 0 | **62** | 28 | 122 |
| Total | **1,402** | 944 | 49 | **14,332** | 10,713 | 34 | **91** | 91 | 0 | **157** | 118 | 33 |

## Relative importance of spend on pay

The table below sets out the relative importance of spend on pay in 2014, 2015 and 2016:

**Relative importance of spend on pay** £m



## Consideration by the directors of matters relating to director's remuneration

### Remuneration Committee Advisers

The Committee is satisfied that the advice received from FIT Rem is independent and objective as FIT Rem complies with the Code of Conduct for Remuneration Consultants (which can be found at **www.remunerationconsultantsgroup.com**) and provides no other advice to the Group. FIT Rem's fees for the year to 31 March 2016 were £19,574 which is charged on its normal terms.

Independent and objective performance certificates are provided to the Remuneration Committee by:

- Deloitte on measurement of NAV performance targets for the LTIP and SMP awards. Fees paid to Deloitte in respect of this were £1,100. Deloitte are appointed by the Company as its auditor. Total fees paid to Deloitte are shown on page 136;
- Aon Hewitt on measurement of TSR performance targets for the LTIP and SMP awards together with IFRS 2 calculations. Fees paid to Aon Hewitt in respect of this were £16,450. Aon Hewitt also provides benchmarking services to the Group, fees paid in relation to this total £3,300; and
- Investment Property Databank (IPD) on measurement against its property benchmark, for the Executive and Employee Annual Bonus Plan and measurement of TPR performance targets for the LTIP and SMP awards. Fees paid in respect of this were £6,000. The Company is a member of the IPD Property Databank and fees paid in relation to this total £53,322.

## Statement of voting at the Annual General Meeting

The following table shows the results of:

- the binding vote on the Directors' remuneration policy commencing from the 3 July 2014 Annual General Meeting; and
- the advisory vote on the 2015 Remuneration report at the 8 July 2015 Annual General Meeting.

As noted in the Policy report, it is the Remunerations Committee's policy to consult with major shareholders prior to any major changes to its Executive remuneration.

| | For | Against | Abstentions |
|---|---|---|---|
| Directors' remuneration policy | 277,609,793 (95.71%) | 9,565,700 (3.30%) | 2,867,982 (0.99%) |
| 2015 Remuneration report | 274,727,286 (96.37%) | 3,788,646 (1.33%) | 6,560,138 (2.30%) |

The Committee believes that this strong level of support demonstrates that there are no shareholder concerns in respect of the Company's current remuneration policy and its operation.

This report will be submitted to shareholders for approval at the Annual General Meeting to be held on 7 July 2016.

Approved by the Board on 25 May 2016 and signed on its behalf by

**Jonathan Short**
Chairman of the Remuneration Committee

# Directors' remuneration report

## Directors' remuneration policy

This section of the Remuneration report contains details of the Directors' remuneration policy that will govern the Company's future remuneration payments.

The policy below sets out the remuneration policy approved by shareholders at the 2014 Annual General Meeting (subject only to minor updating to assist understanding). The policy part of the remuneration report is displayed on the Company's website, at **www.gpe.co.uk/investors/governance/remuneration-committee**

### Executive Director remuneration

| Purpose and link to strategy | Operation and process |
|---|---|
| **Fixed remuneration** | |
| **Base salary**<br>To provide a market competitive salary which takes into account individual responsibilities and attracts and retains talent in the labour market in which the Executive is employed. | Reviewed by the Committee at least annually and assessed having regard to Company performance, individual responsibilities, inflation, as well as salary levels in comparable organisations (particularly within the listed property sector) and taking account of salary policy within the rest of the Group. |
| **Benefits**<br>To provide benefits that are valued by the recipient and are appropriately competitive. | Benefits principally comprise life insurance, health insurance, private healthcare subscriptions, travel expenses and membership subscriptions. Executive Directors may be provided with a company car or company car allowance. It is not the Company's current practice to provide Executive Directors with a company car or a company car allowance. Other benefits may be introduced from time to time to ensure the benefits package is appropriately competitive and reflects individual circumstances. Benefits are reviewed annually and their value is not pensionable. |
| **Pension**<br>To provide a framework to save for retirement that is appropriately competitive. | All Executive Directors receive a contribution to their personal pension plan or receive a cash equivalent. This cash equivalent is not treated as salary for the purposes of determining bonus or incentive awards. |

The Company's policy is to provide remuneration packages that fairly reward the Executive Directors for the contribution they have made to the business and to ensure that the packages are appropriately competitive to attract, retain and motivate Executive Directors and Senior Managers of the right calibre. The policy is to align the directors' interests with those of shareholders and to incentivise the directors to meet the Company's financial and strategic priorities by making a significant proportion of remuneration performance related. The Company's strategic objectives are set out in the Strategic Report on pages 1 to 74.

The Committee is satisfied that the remuneration policy outlined in the table below is in the best interests of shareholders and does not promote excessive risk-taking:

| Maximum opportunity | Performance metrics |
|---|---|
| Base salary increases will be applied in line with the outcome of the review.<br>In the normal course of events, increases in the base salaries will not exceed the average increase for employees. Increases may be made above this level to take account of market alignment to around mid-market levels of comparable organisations (particularly within the listed property sector) and individual circumstances such as:<br>– increase in scope and responsibility; and<br>– to reflect the individual's development and performance in the role (e.g. for a new appointment where base salary may be increased over time rather than set directly at the level of the previous incumbent or market level).<br>The Committee is, however, mindful of the need to treat comparisons with caution to avoid an upward ratchet of remuneration levels.<br>The 2016/17 annual salaries for the Executive Directors are set out in the Annual report on remuneration on page 99. | Individual and Company performances are considerations in setting base salary. |
| Set at a level which the Committee considers:<br>– appropriately positioned against comparable roles in companies of a similar size and complexity (particularly within the listed property sector); and<br>– provides a sufficient level of benefit based on the role or an individual's circumstances such as relocation.<br>Benefit values vary year on year depending on premiums and, therefore, the maximum value is the cost of the provision of these benefits. However, the aggregate value of contractual and non-contractual benefits received by each Executive Director (based on the value included in the individual's annual P11D tax calculation) shall not exceed £100,000 p.a. (with this maximum increasing annually at the rate of RPI). | Not applicable. |
| The contribution is a maximum of 25%.<br>The current Executive Directors as at 1 April 2016 receive a contribution or cash equivalent equal to 20% of base salary. | Not applicable. |

# Directors' remuneration report

| Purpose and link to strategy | Operation and process |
|---|---|
| **Variable remuneration** | |
| **Annual Bonus Plan**<br>Links reward to the annual performance targets, which are set at the beginning of the financial year in line with the Company's strategy.<br>Ensures an alignment between the operation of the Company's remuneration policy and financial measures whilst also ensuring additional operational measures are targeted to encourage a holistic approach to performance. | The Annual Bonus Plan is reviewed annually at the start of the financial year to ensure bonus opportunity; performance measures and weightings are appropriate and continue to support the Company's strategy.<br>The bonus is paid in cash following the end of the financial year. |
| **Ongoing Performance shares (LTIP) and Matching shares (SMP) under the Long-Term Incentive Plan** | |
| Rewards and retains Executives aligning them with shareholder interests over a longer time frame.<br>Ensures an alignment between the operation of the Company's remuneration policy and the Company's KPIs of achieving sustained NAV growth, above benchmark total property returns and superior shareholder returns. | The 2010 Plan was approved by shareholders in July 2010. The 2010 Plan has two elements:<br>– LTIP; and<br>– SMP.<br>**LTIP**<br>Participants are eligible to receive a conditional annual allocation of shares or nil price options (Performance shares).<br>**SMP**<br>Participants may annually purchase or pledge shares already owned in the Company (Investment shares) up to a value of one-third of basic salary in return for which they receive a conditional allocation of shares as a matching award (Matching share award).<br>**General terms**<br>Investment shares will remain registered in the name of the holder with full voting and dividend rights.<br>The SMP award consists of a conditional allocation of shares worth up to three times the equivalent of the amount so invested or pledged.<br>Awards may be adjusted to reflect the impact of any variation of share capital.<br>An award may, at the discretion of the Committee, include the right to receive cash or shares on vesting equal in value to the dividends payable on such number of shares subject to the award which vest, for the period between grant and vesting.<br>If Investment shares are disposed of, then the corresponding conditional Matching share awards will lapse.<br>**Quantum**<br>The Committee reviews the quantum of awards annually. |

| Maximum opportunity | Performance metrics |
|---|---|
| The maximum bonus is 200% of base salary. The Company's current practice is to award bonuses of no more than 150% of base salary, and to make awards in excess of this amount only in exceptional circumstances. The Committee has only made one bonus payment above the normal level of award for achievement against personal objectives in the past ten years. Subject to clawback and malus provisions in situations of personal misconduct and/or where accounts or information relevant to performance are shown to be materially wrong and the bonus paid was higher than should have been the case.<br>The target bonus is 75% of base salary.<br>Threshold bonus is 0% of base salary. | At least 75% of the bonus will be linked to key financial measures, with the balance linked to personal objectives.<br>The performance metrics are set by the Committee each year. The performance period for the Annual Bonus Plan targets is linked to the Company's financial year.<br>The Committee retains the ability to adjust the targets and/or set different measures if events occur which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy.<br>Further details on the measures for the financial year 2016/17 are set out in the Annual report on remuneration on page 99. |
| **LTIP**<br>Up to 200% of salary.<br>**SMP**<br>Up to 100% of salary (Investment shares of up to one-third gross salary matched on a 3:1 basis).<br>For future awards, subject to clawback and malus provisions, for all employees in situations of personal misconduct and/or where accounts or information relevant to performance are shown to be materially wrong and vesting was higher than should have been the case.<br>The threshold vesting is 20% of awards with straight-line vesting to 100% for maximum performance. | Performance is assessed over not less than a three year performance period against the following metrics: TSR, NAV growth and TPR.<br>These measures apply to the LTIP and the SMP award.<br>The performance metrics are set by the Remuneration Committee each year.<br>The Committee retains the ability to adjust the targets and/or set different measures if events occur which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy.<br>Further details on the measures for 2016/17 are set out in the Annual report on remuneration on page 100. |

# Directors' remuneration report

| Purpose and link to strategy | Operation and process |
|---|---|
| **All-employee share plans** | |
| Encourages Executive Directors and employees to acquire shares in order to increase the alignment of interests with shareholders over the longer term. | The Company operates a Share Incentive Plan ('SIP') under which all employees, including Executive Directors, may be awarded free shares and may purchase shares which can be matched on a two for one basis. The Company's current practice is to operate partnership and matching shares only. If the shares are held in a trust for at least three years and the employee does not leave the Company during that period, then the matched shares may be retained by the individual subject to some relief against income tax and national insurance charges.<br>Dividends are also paid directly to participants on all plan shares.<br>In 2010, shareholders approved a Save As You Earn Scheme ('SAYE') for all employees which is not currently operated but which might be utilised in the future. Under the SAYE, participants (which may include Executive Directors) may make monthly contributions over a savings period linked to the grant of an option with an exercise price which may be at a discount of up to 20% of the market value of the underlying shares at grant.<br>Awards under the SIP and SAYE may be adjusted to reflect the impact of any variation of share capital. |
| **Shareholding policy** | |
| To ensure that Executive Directors' interests are aligned with those of shareholders over a longer time horizon. | Executive Directors are expected to accumulate and maintain a holding in ordinary shares in the Company equivalent in value to no less than 100% of base salary. |

**Notes to the Future Policy Table**

**1. Performance measures and targets**
Short- and long-term performance measures have been selected by the Committee for 2016/17 in order to provide a direct connection to the Company's strategy by being linked to the key fundamental performance indicators as set out below:
- the Company's TPR/Capital growth performance is measured against the performance of a relevant IPD index to reflect the Company's operations;
- NAV targets are set by reference to internal forecasts to ensure focus on sustained asset growth; and
- the Company's TSR performance is measured against the performance of an appropriate comparative Index selected by the Committee to ensure superior shareholder returns.

The Committee regularly reviews the TSR and TPR/Capital growth comparators to ensure that they remain appropriate (the TPR comparator group was adjusted last year) and the NAV targets are set following a robust budget setting process.
The targets for the annual bonus and the LTIP/SMP for 2016/17 are set out in the Annual report on remuneration on pages 99 and 100.
The Committee is of the opinion that given the commercial sensitivity around GPE's business, disclosing capital growth, NAV and individual targets for the Annual Bonus Plan in advance would not be in the best interests of shareholders or the Company. Actual targets, performance achieved and awards made will be published at the end of performance periods so shareholders can fully assess the basis for any pay-outs.

**2. Differences in remuneration policy for all employees**
All employees of GPE are entitled to base salary and benefits on the same basis, with quantum of awards being set at levels commensurate with their role.
All employees participate in an employee annual bonus plan, with quantum of awards being set at levels commensurate with their role and with performance measures, similar to the executive scheme, based on growth of the Company's property portfolio against IPD's relevant Total Property Return Index and performance against personal objectives.
Senior managers receive LTIP and SMP awards under the 2010 Plan with quantum of awards being set at levels commensurate with their role. All employees are eligible to participate in the Company SIP and the SAYE on the same terms as the Executive Directors.
Employees who joined the Company before April 2002 are members of the Company's defined benefit pension plan, and all other employees are eligible to join the Company's defined contribution pension plan and receive a contribution of up to 10% of salary.

**3. Changes to remuneration policy from previous policy**
There have been no changes to the operation of the policy, maximums or performance measures in relation to the salary, annual bonus, LTIP/SMP, pension or other benefits.

**4. Discretion**
The Committee will operate the annual bonus LTIP and SMP awards under the Long-Term Incentive Plan according to their respective rules and ancillary documents and in accordance with the Listing Rules where relevant. The Committee retains discretion consistent with market practice, in a number of regards to the operation and administration of these plans as noted in the policy table and in the recruitment remuneration and payments for loss of office sections as relevant. Any use of these discretions would, where relevant, be explained in the Annual report on remuneration and may, as appropriate, be the subject of consultations with the Company's major shareholders.

In addition, the Committee has the discretion to amend policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or wait for shareholder approval.

Details of share awards granted to existing Executive Directors are set out on pages 102 and 104 of the Annual report on remuneration. These remain eligible to vest based on their original award terms, in line with the policy set out in the policy table.

| Maximum opportunity | Performance metrics |
|---|---|
| Under the SIP, maximum participation will be in line with the prevailing maximum limits set by HMRC under the relevant legislation.<br>Under the SAYE, maximum participation will be in line with the prevailing maximum limits set by HMRC under the relevant legislation. | As is typical under HMRC-approved all-employee plans, there are no performance conditions attached to awards. |
| Not applicable. | |

## Non-Executive Director remuneration

| Element | Purpose and link to strategy | Operation and process | Maximum opportunity | Performance metrics |
|---|---|---|---|---|
| **Fees** | Provide an appropriate reward to attract individuals with appropriate knowledge and experience to review and support the implementation of the Company's strategy. | The Chairman and the Executive Directors are responsible for setting the remuneration of the Non-Executive Directors, other than the Chairman whose remuneration is determined by the Remuneration Committee.<br>Non-Executive Directors are paid a base fee and additional fees for chairmanship of Committees and role of Senior Independent Director.<br>Fees are usually reviewed annually with changes effective from 1 April.<br>Non-Executive Directors do not participate in any of the Company's incentive arrangements. Other benefits include travel, accommodation and membership subscriptions related to the Company's business. | Fees will be in line with market rates for Non-Executive Directors at FTSE 250 companies.<br>The Articles of Association contain a limit on fees, currently £600,000 p.a.<br>The 2016/17 fee levels are set out in the Annual report on remuneration on page 100. | Not applicable. |

# Directors' remuneration report

## Approach to recruitment remuneration

The Committee's approach to recruitment remuneration is to pay no more than is necessary to attract appropriate candidates to the role, and our principle is that the pay of any new recruit would be assessed following the same principles as for the directors and the policy previously summarised.

### Executive Director recruitment

| Component | Policy |
|---|---|
| **Base salary and benefits** | The salary level will be set taking into account relevant market data, the experience and skills of the individual, responsibilities of the individual and the salaries paid to similar roles in comparable companies in line with the current process undertaken by the Committee when setting the salary levels for its existing directors.<br>Executive Directors shall be eligible to receive benefits in line with the Company's benefits policy as set out in the remuneration policy table. |
| **Pension** | Executive Directors will be able to receive a pension contribution or receive a supplement in lieu of pension contributions in line with the Company's pension policy as set out in the remuneration policy table. |
| | Executive Directors will be eligible to participate in the Annual Bonus Plan as set out in the remuneration policy table. For Executive Directors joining part way through a year, awards would be pro-rated. Different performance measures may be set initially for the annual bonus, taking into account the responsibilities of the individual, and the point in the financial year that they joined. |
| **Annual bonus** | The annual maximum potential opportunity under this plan is 200% of salary. |
| **Long-term incentives** | Executive Directors will be eligible to participate in the Long-Term Incentive Plan set out in the remuneration policy table. Awards may be granted up to the maximum opportunity allowable under plan rules at the Committee's discretion of 200% of salary under the LTIP element of the plan and 100% of salary under the SMP element of the plan when the Executive invests a third of salary. |
| **Share buyouts/ replacement awards** | Awards may be granted to replace those forfeited by the Executive Director on taking up the appointment where considered by the Committee to be appropriate.<br>The Committee will seek to structure any replacement awards such that overall they are no more generous in terms of quantum or vesting period than the awards due to be forfeited. Where the Company compensates new directors in this way, it will seek to do so under the terms of the Company's existing variable remuneration arrangements, but may compensate on terms that are more bespoke than the existing arrangements, including awards granted under Listing Rule 9.4.2, where the Committee considers appropriate. In such instances, the Company will disclose a full explanation of the detail and rationale for such recruitment related compensation. In making such awards, the Committee will seek to take into account the nature (including whether awards are cash or share-based), vesting period and performance measures and/or conditions for any remuneration forfeited by the individual in leaving a previous employer. Where such awards had outstanding performance or service conditions (which are not significantly completed), the Company will generally impose equivalent conditions. In exceptional cases, the Committee may relax those requirements where it considers this to be in the interest of the shareholders, for example through a significant discount to the face value of the replacement awards. |
| **Relocation policies** | In instances where the new Executive Director is non-UK domiciled or needs to be relocated, the Company may provide one-off or ongoing compensation as part of the Executive Director's relocation benefits to reflect the cost of relocation for the Executive in cases where they are expected to spend significant time away from their country of domicile.<br>The level of the relocation package will be assessed on a case-by-case basis and may take into consideration any cost of living differences, housing allowance and/or schooling. |
| **Legacy arrangements** | Where an Executive Director is appointed from within the organisation, the normal policy of the Company is that any legacy arrangements would be honoured in line with the original terms and conditions on a pro rata basis. Similarly, if an Executive Director is appointed following the Company's acquisition or merger with another company, legacy terms and conditions on a pro rata basis would be honoured. |

### Non-Executive Director recruitment

| Component | Policy |
|---|---|
| **Fees** | Newly appointed Non-Executive Directors will be paid fees consistent with existing Non-Executive Directors. |

## Service agreements and payments for loss of office

The policy of the Company is to have service contracts for Executive Directors with notice periods of one year. It is sometimes necessary when recruiting a new Executive Director to give a service contract with an initial term of up to 18 months in which case a 12 month notice period may be given no earlier than six months from the start date of the contract.

Non-Executive Directors who have letters of appointment, are subject to the provisions of the Articles of Association dealing with appointment and rotation every three years, however, in accordance with the UK Corporate Governance Code they are subject to annual re-election and have a notice period of three months by either party. They are not eligible for payment in lieu of notice or any other payment on termination.

The following table sets out the dates of each of the Executive Directors' service agreements and their unexpired term, the dates of the Non-Executive Directors' letters of appointment and the date on which the Non-Executive Director is next subject to reappointment or re-election.

| Executive | Date of service agreement | Unexpired term (months) |
|---|---|---|
| Toby Courtauld | 18 March 2002 | 12 |
| Nick Sanderson | 7 June 2011 | 12 |
| Neil Thompson | 1 August 2006 | 12 |

| Non-Executive | Date of appointment letter | Date when next subject to appointment or re-election |
|---|---|---|
| Martin Scicluna | 1 October 2008 | 7 July 2016 |
| Elizabeth Holden | 3 September 2012 | 7 July 2016 |
| Jonathan Nicholls | 10 July 2009 | Retiring from the Board on 7 July 2016 |
| Charles Philipps | 10 January 2014 | 7 July 2016 |
| Jonathan Short | 22 March 2007 | 7 July 2016 |

Executive Directors may, with the consent of the Committee, retain fees paid to them for acting as a Non-Executive Director of a company outside the Group, except where the directorship is a representative of the Group.

The Company's policy on termination payments for Executive Directors is to consider the circumstances on a case-by-case basis, taking into account the relevant contractual terms, the circumstances of the termination and any applicable duty to mitigate. It is the Committee's policy not to reward poor performance. The Committee will always seek to minimise the cost to the Company whilst seeking to reflect the circumstances in place at the time. The Committee will honour Executive Directors' contractual entitlements. Service contracts do not contain liquidated damages clauses. If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case. There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement. There is no agreement between the Company and its directors or employees, providing for compensation for loss of office or employment that occurs because of a takeover bid. The Company reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising on connection with the termination of an Executive Director's office or employment.

## Base salary, benefits and pension

Toby Courtauld's compensation in lieu of notice payable at the Company's discretion is 12 months' basic salary. Compensation in lieu of notice to Nick Sanderson and Neil Thompson, payable at the Company's discretion, is 12 months' basic salary, pension allowance and the value of benefits in kind provided in the previous year, or the actual provision of those benefits.

# Directors' remuneration report

## Other remuneration payments on termination of employment and change of control

In addition to the payment of base salary, benefits and pension as set out above, the Group's annual bonus, long-term incentives, SIP and SAYE contain provisions for the termination of employment. The Company's approach to these payments is set out below:

| Component | Good Leaver* | Bad Leaver** | Change of control |
|---|---|---|---|
| **Annual Bonus Plan** | Where an Executive Director's employment is terminated after the end of a performance year but before the payment is made, the Executive will be eligible for an annual bonus award for that performance year subject to an assessment based on performance achieved over the period.<br>Where an Executive Director's employment is terminated during a performance year, a pro rata annual bonus for the period worked in that performance year may be payable in relation to personal objectives set. | Outstanding award is forfeited. | An Executive Director may receive a bonus, the amount of which will be determined by the Committee, taking into account such factors as it considers relevant, including the proportion of the elapsed performance period at the date of change of control. |
| **2010 Plan (LTIP/SMP)** | Awards may vest at the date of cessation of employment or the normal vesting date at the discretion of the Committee.<br>Awards will vest based on the performance achieved up to the date of cessation/normal vesting date at the discretion of the Committee and be pro-rated to reflect the amount of time elapsed since the award date. The Committee retains the discretion to disregard time when determining the level of vesting. This would only be considered in exceptional circumstances and where considered, the Committee would take into account the circumstances of the cessation of employment.<br>Upon death, all long-term incentive awards vest immediately in full. | Outstanding awards lapse. | In accordance with the Rules of the 2010 Plan, on a change of control, vesting will occur immediately. Performance against targets will be assessed by the Committee on change of control. The number of Plan shares vesting will normally be reduced pro rata to reflect the amount of time elapsed from the Award Date until the change of control as a proportion of the original vesting period. The Committee retains the discretion to disregard time when determining the level of vesting. This would only be considered in exceptional circumstances and where considered, the Committee would take into account the overall context of the deal and the actual value delivered to shareholders. |

| Component | Good Leaver* | Bad Leaver** | Change of control |
|---|---|---|---|
| **Share Incentive Plan (SIP)** | All Plan shares can be sold or transferred out of the Plan. Free, matching and partnership shares may be removed tax free. If dividend shares are taken out of the SIP within three years of being awarded, the dividend used to buy them is subject to income tax at the dividend rate.<br>On resignation, matched shares held for less than three years will be forfeited. | Free shares and matched shares held for less than three years will be forfeited. Partnership and Matched shares held for more than three years but less than five years will be liable to tax depending on time held in the Plan. If dividend shares are taken out of the SIP within three years of being awarded, the dividend used to buy them is subject to income tax at the dividend rate. | All Plan shares can be sold or transferred out of the Plan. Free, matching and partnership shares may be removed tax free. If dividend shares are taken out of the SIP within three years of being awarded, the dividend used to buy them is subject to income tax at the dividend rate. |
| **Save As You Earn Scheme (SAYE)** | Options may be exercised during a period of six months following cessation of employment (or 12 months following cessation in the event of death). | Options held for less than three years will lapse on cessation. Options held for more than three years may be exercised during a period of three months following cessation, except where the reason for cessation is misconduct. | Options may be exercised in the event of a change of control of the Company. |

* Good leavers under each of the Annual Bonus Plan, 2010 Plan, SIP and SAYE are those leaving under specified conditions as set out below.

Annual Bonus Plan and 2010 Plan:
- death;
- ill-health, injury or disability (evidenced to the satisfaction of the Remuneration Committee);
- redundancy;
- retirement;
- the award holder's employing company or business being transferred out of the Group; or any other circumstances at the discretion of the Remuneration Committee, including where appropriate (and exceptionally), resignation. The Committee will only use its general discretion where it considers this to be appropriate, taking into account the circumstances of the termination and the performance in the context of each plan and will provide a full explanation to shareholders of the basis of its determination. The exercise of the Committee's discretion under one plan will not predetermine the exercise of its discretion under another.

Good leavers under the SIP and SAYE are those participants leaving in certain circumstances as under applicable legislation including death, injury, disability, retirement and redundancy.

** Bad leavers are those leavers who are not good leavers.

# Directors' remuneration report

## Consideration of remuneration of other employees

Our approach to salary reviews is consistent across the Company, with consideration given to the level of responsibility, experience, individual performance, salary levels in comparable companies and the Company's ability to pay. Remuneration surveys and meetings with sector specialists are used, where appropriate, to establish market rates.

When determining remuneration of the Executive Directors, the Committee takes into account pay and conditions across the Group, especially when determining the annual salary increase. Prior to the annual pay review, the Committee receives a report setting out changes to all employees' remuneration levels and proposed discretionary bonus awards.

The Company did not consult with employees on the policy or use any remuneration comparison metrics during the year reported.

## Consideration of shareholder views

When determining remuneration, the Committee takes into account the guidelines of investor bodies and shareholder views. The remuneration policy has not changed since shareholders were consulted on the implementation of the 2010 Plan. The Committee is always open to feedback from shareholders on remuneration policy and arrangements, and commits to undertaking shareholder consultation in advance of any significant changes to remuneration policy.

# Report of the directors

## Strategic Report

The Group's Strategic Report on pages 1 to 74 includes the Company's business model and strategy, principal risks and uncertainties facing the Group and how these are managed and mitigated, an indication of future likely developments in the Company and details of important events since the year ended 31 March 2016.

The purpose of the Annual Report is to provide information to the members of the Company, as a body. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. The Annual Report contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report. Nothing in this Annual Report should be construed as a profit forecast.

## Results and dividends for the year

The Group results for the year are set out on pages 128 to 154. An interim dividend of 3.6 pence per share (2015: 3.5 pence) was paid on 4 January 2016, and the directors propose to pay a final dividend of 5.6 pence per share on 11 July 2016 to shareholders on the register of members as at the close of business on 3 June 2016. This makes a total of 9.2 pence per share (2015: 9.0 pence) for the year ended 31 March 2016.

## Directors

Biographical details of the current directors of the Company are shown on pages 52 and 53.

The Company's Articles of Association require that a director shall retire from office if he or she has been appointed since the previous Annual General Meeting or if it is the third Annual General Meeting following that at which he was elected or last re-elected. However, in accordance with the UK Corporate Governance Code the directors will all retire and will offer themselves for re-election at the forthcoming Annual General Meeting with the exception of Jonathan Nicholls who is retiring from the Board at the Annual General Meeting and, therefore, will not stand for re-election. The Chairman has confirmed that following the Board effectiveness evaluation process, all of the directors continue to demonstrate their commitment and independence in their roles.

## Directors' shareholdings

| | **At 31 March 2016 Number of shares[1]** | At 31 March 2015 Number of shares[1] |
|---|---|---|
| Martin Scicluna | **8,636** | 8,636 |
| Toby Courtauld | **1,504,649** | 1,339,248 |
| Nick Sanderson | **208,938** | 185,443 |
| Neil Thompson | **785,194** | 653,346 |
| Elizabeth Holden | **4,740** | 4,740 |
| Charles Philipps | **5,000** | 5,000 |
| Jonathan Nicholls | **10,000** | 10,000 |
| Jonathan Short | **13,455** | 13,455 |

1. Includes shares held by the Executive Directors in the Group's 2010 Share Incentive Plan.

All directors' shareholdings are in ordinary shares and are beneficial, unless otherwise stated. There have been no changes in the shareholdings of any director between 1 April 2016 and 25 May 2016 apart from shares bought or received by the Executive Directors participating in the Company's Share Incentive Plan. No director had any interest in or contract with the Company or any subsidiary undertaking (other than service contracts) during the year.

## Directors' indemnities and insurance

On 14 September 2007, an indemnity was given by the Company to the directors in terms which comply with Company law and remains in force at the date of this Report.

The Company maintains directors' and officers' liability insurance and pension trustee liability insurance, both of which are reviewed annually.

## Corporate governance statement

The information fulfilling the requirements of the Corporate governance statement can be found in this Report of the directors and on pages 76 to 109, all of which are incorporated into this Report of the directors by reference.

## Financial instruments and disclosures under Listing Rule 9.8.4

Details of the financial instruments used by the Group are set out in notes 1 and 17 forming part of the Group financial statements on page 134 and pages 147 to 150, which are incorporated into this Report of the directors by reference. Notes 1 and 7 on pages 134 and 137 also include details of interest capitalised by the Group. The Group's financial risk management objectives and policies are included in the Risk management overview on pages 64 and 65, in Financial management on pages 40 and 41 and in Our financial results on pages 42 to 44.

# Report of the directors

## Greenhouse Gas Emissions Statement

The Group's Greenhouse Gas Emissions Statement is included in the Sustainability section within the Strategic Report on page 63.

## Significant shareholdings

As at 16 May 2016, the Company had been notified of the following beneficial or discretionary interests amounting to 3% or more of the voting rights of the issued share capital:

| | Number of shares | % |
|---|---|---|
| Norges Bank Investment Management | 33,092,552 | 9.62 |
| BlackRock Inc | 28,794,646 | 8.37 |
| Legal & General Investment Management Limited | 15,130,390 | 4.40 |
| Morgan Stanley Investment Management | 13,352,330 | 3.88 |
| Aberdeen Asset Managers Limited | 11,615,647 | 3.38 |
| State Street Global Advisors Limited | 10,719,772 | 3.12 |

## Share capital and control

On 31 March 2016, there were 343,926,149 ordinary shares of 12.5 pence in issue. There are no restrictions on transfer or limitations on the holding of the ordinary shares. None of the shares carries any special rights with regard to the control of the Company. There are no known arrangements under which financial rights are held by a person other than the holder of the shares and no known agreements on restrictions on share transfers and voting rights. The Great Portland Estates plc LTIP Employee Share Trust (the 'Trust') is an employees' share scheme which holds ordinary shares in the Company on trust for the benefit of employees within the Group. The Trustee of the Trust has the power to exercise all the rights and powers (including rights with regard to control of the Company) incidental to, and to generally act in relation to, the ordinary shares subject to the Trust in such manner as the Trustee in its absolute discretion thinks fit as if it were absolutely entitled to those ordinary shares.

As far as the Company is aware, there are no persons with significant direct or indirect holdings in the Company other than those noted above.

The powers of the directors are contained in the Company's Articles. These include powers, subject to relevant legislation, to authorise the issue and buy-back of the Company's shares by the Company, subject to authority being given to the directors by the shareholders in a general meeting.

The rules about the appointment and replacement of directors are contained in the Company's Articles of Association. Changes to the Articles of Association must be approved by the shareholders in accordance with legislation in force from time to time.

## Change of control

The Company has a number of unsecured borrowing facilities provided by various lenders. These facilities generally include provisions that may require any outstanding borrowings to be repaid or the alteration or termination of the facilities upon the occurrence of a change of control of the Company.

The Company's 2010 LTIP and Executive Annual Bonus Plan contain provisions relating to the vesting of awards in the event of a change of control.

## Going concern

The Group's business activities, together with the factors affecting its performance, position and future development are set out in the Strategic Report on pages 1 to 74. Details of the finances of the Group, including its strong liquidity position, attractively priced borrowing facilities and favourable debt maturity profile are set out in our financial results on pages 42 to 44 and in notes 16 and 17 of the accounts on pages 146 to 150.

The directors have reviewed the current and projected financial position of the Group, making reasonable assumptions about future trading performance. As part of the review, the directors have considered the Group's cash balances, its capital commitments, its debt maturity profile, including undrawn facilities, and the long-term nature of tenant leases. On the basis of this review, and after making due enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

## Viability statement

The Company's Viability statement is on page 74.

## Basis of accounting

As described on page 161, the Company's basis of accounting is FRS 101. Under FRS 101, paragraph 5(a) requires the Company to give its shareholders notice of the continued application of FRS 101, and to proceed with this provided that a shareholder or shareholders holding in aggregate 5% or more of the Company's issued shares do not object to the proposal, which they may do in writing to the Company at its Registered Office.

## Statement as to disclosure of information to the auditor

So far as the directors who held office at the date of approval of this Report are aware, there is no relevant audit information of which the auditor is unaware and each director has taken all steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

## Auditor

A resolution to reappoint Deloitte LLP as auditor of the Company will be proposed at the Annual General Meeting.

## Annual General Meeting

The Notice of Meeting on pages 171 and 172 sets out the resolutions to be proposed at the Annual General Meeting and gives details of the voting record date and proxy appointment deadline for that meeting. Resolutions 1 to 12 comprise ordinary business and resolutions 13 to 17 special business.

## Remuneration report

Resolution 3 will seek approval of the directors' remuneration report for the year ended 31 March 2016 as set out on pages 96 to 109. This vote is advisory, and the directors' entitlement to remuneration is not conditional on it.

No changes are proposed to the directors' remuneration policy approved at the Annual General Meeting held on 3 July 2014.

## Authority to allot shares and grant rights

At the Annual General Meeting held on 8 July 2015, shareholders authorised the directors, under section 551 of the Companies Act 2006 to allot ordinary shares without the prior consent of shareholders for a period expiring at the conclusion of the Annual General Meeting to be held in 2016 or, if earlier, on 1 October 2016. Resolution 13 will seek to renew this authority and to authorise the directors under section 551 of the Companies Act 2006 to allot ordinary shares or grant rights to subscribe for or convert any securities into shares for a period expiring no later than 1 October 2017.

Paragraph (a)(i) of Resolution 13 will allow the directors to allot ordinary shares up to a maximum nominal amount of £14,330,256 representing approximately one-third (33.3%) of the Company's existing issued share capital and calculated as at 24 May 2016 (being the latest practicable date prior to publication of this Report). In accordance with institutional guidelines issued by The Investment Association, paragraph (a)(ii) of Resolution 13 will allow directors to allot, including the ordinary shares referred to in paragraph (a)(i) of Resolution 13, further of the Company's ordinary shares in connection with a pre-emptive offer by way of a Rights Issue to ordinary shareholders up to a maximum nominal amount of £28,660,512, representing approximately two-thirds (66.6%) of the Company's existing issued share capital and calculated as at 24 May 2016 (being the latest practicable date prior to publication of this Report). The directors have no present intention of exercising this authority. However, if they do exercise the authority, the directors intend to follow best practice as regards its use as recommended by The Investment Association.

Resolution 13 will be proposed as an ordinary resolution to renew this authority until the conclusion of the next AGM or, if earlier, the close of business on 1 October 2017.

## General authority to disapply pre-emption rights

At last year's meeting, a special resolution was passed, under sections 570 and 573 of the Companies Act 2006, empowering the directors to allot equity securities for cash without first being required to offer such shares to existing shareholders. Resolution 14 will seek to renew this authority, which is set out to expire at the Annual General Meeting, in line with the latest institutional guidelines.

If approved, the resolution will authorise the directors, in accordance with the Articles of Association, to issue shares in connection with a Rights Issue or other pre-emptive offer and otherwise to issue shares for cash (including the sale for cash on a non pre-emptive basis of any shares held in treasury) up to a maximum nominal amount of £2,149,538, which represents approximately 5% of the issued share capital of the Company as at 24 May 2016 (being the latest practicable date prior to publication of this Report).

The directors do not intend to issue, under a general authority to dis-apply pre-emption rights, more than 7.5% of the issued share capital of the Company for cash on a non pre-emptive basis in any rolling three-year period without prior consultation with shareholders.

Resolution 14 will be proposed as a special resolution to renew this authority until the conclusion of the next AGM or, if earlier, the close of business on 1 October 2017.

## Additional authority to disapply pre-emption rights

Resolution 15 requests further shareholder approval, by way of a separate special resolution in line with the best practice guidance issued by the Pre-Emption Group, for the directors to allot equity securities or sell treasury shares for cash without first being required to offer such securities to existing shareholders. The proposed resolution reflects the Pre-emption Group 2015 Statement of Principles for the disapplication of pre-emption rights and will expire on 1 October 2017 or at the conclusion of the AGM in 2017, whichever is the earlier.

The authority granted by this resolution, if passed:

(a) will be limited to the allotment of equity securities and sale of treasury shares for cash up to an aggregate nominal value of £2,149,538, which represents approximately 5% of the issued share capital of the Company as at 24 May 2016 (being the latest practicable date prior to publication of this Report); and

(b) will only be used in connection with an acquisition or other capital investment, including development and/or refurbishment expenditure, which is announced contemporaneously with the allotment, or has taken place in the preceding six-month period and is disclosed in the announcement of the allotment.

# Report of the directors

The authority granted by this resolution would be in addition to the general authority to disapply pre-emption rights under Resolution 14. The maximum nominal value of equity securities which could be allotted if both authorities were used would be £4,299,076, which represents approximately 10% of the issued share capital of the Company as at 24 May 2016 (being the latest practicable date prior to publication of this Report).

## Authority to purchase own shares

A special resolution was also passed at last year's meeting enabling the Company to purchase its own shares in the market. Resolution 16 will seek to renew this authority. The maximum number of shares to which the authority relates is 51,554,530. This represents 14.99% of the share capital of the Company in issue as at 24 May 2016. The directors intend only to exercise this authority if to do so would, in their opinion, enhance shareholder value. If Resolution 16 is passed at the Annual General Meeting, the Company will have the option of holding as treasury shares any of its own shares that it purchases pursuant to the authority conferred by this resolution. This would give the Company the ability to sell treasury shares or use them to satisfy share awards under employee share schemes, providing the Company with additional flexibility in the management of its capital base. No dividends will be paid on shares whilst held in treasury and no voting rights will attach to the treasury shares. Any shares purchased by the Company under this authority would be cancelled unless the shares are being purchased by the Company to hold as treasury shares.

The price paid for ordinary shares will not be less than the nominal value of 12.5 pence per share and not more than the higher of 5% above the average of the middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days preceding the day on which the ordinary shares are purchased and an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System. In relation to the maximum price, the directors note that the Listing Rules will be amended when Article 5 of the Market Abuse Regulation (EU) No.596/2014 comes into force on 3 July 2016. Any share buy-backs on or after the date of the AGM would comply with the terms of Resolution 16 and with the Listing Rules in force at the relevant time.

At 24 May 2016, there were £150 million 1% convertible bonds due 2018 in issue which, if fully converted, would result in the issue of a maximum of 20,993,701 ordinary shares based on the conversion price of 714.5 pence per share.

Under the terms and conditions of the convertible bonds, the conversion price is subject to adjustment upon the occurrence of certain corporate events and in such circumstances the maximum number of ordinary shares to be issued upon full conversion of the bonds may be higher than the amount specified above. Any of the bonds can be converted, at the Company's election, into a cash alternative amount.

If the outstanding bonds were fully converted, they would represent 5.8% of the issued share capital as at 24 May 2016. If the authorities to purchase shares (existing and being sought) were exercised in full, that percentage would be 8.2% of the share capital.

There were no purchases of shares by the Company during the year. At 31 March 2016, the number of shares which may be purchased under the shareholders' authority given at the 2015 Annual General Meeting was 51,554,530.

At 24 May 2016, the Company held no shares in treasury.

Resolution 16 will be proposed as a special resolution to renew this authority until the conclusion of the next AGM or, if earlier, the close of business on 1 October 2017.

## Notice of general meetings

The notice period required by the Companies Act 2006 for general meetings of the Company is 21 days, unless shareholders approve a shorter notice period, which cannot however be less than 14 clear days (Annual General Meetings must always be held on at least 21 clear days' notice).

At last year's Annual General Meeting, shareholders authorised the calling of general meetings other than an Annual General Meeting on not less than 14 clear days' notice and Resolution 17 seeks to renew this authority. The authority granted by this resolution, if passed, will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed.

Note that in order to be able to call a general meeting on less than 21 clear days' notice, the Company must make a means of electronic voting available to all shareholders for that meeting.

The flexibility offered by this resolution will be used where, taking into account the circumstances and noting the recommendations of the UK Corporate Governance Code 2014, the directors consider this appropriate in relation to the business to be considered at the meeting and in the interests of the Company and shareholders as a whole.

## Recommendation

The directors consider that all the resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole. Your Board will be voting in favour of them and unanimously recommends that you do so as well.

By order of the Board

**Desna Martin**
Company Secretary
Great Portland Estates plc
Company number: 596137
25 May 2016

# Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under Company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility statement

We confirm that to the best of our knowledge:

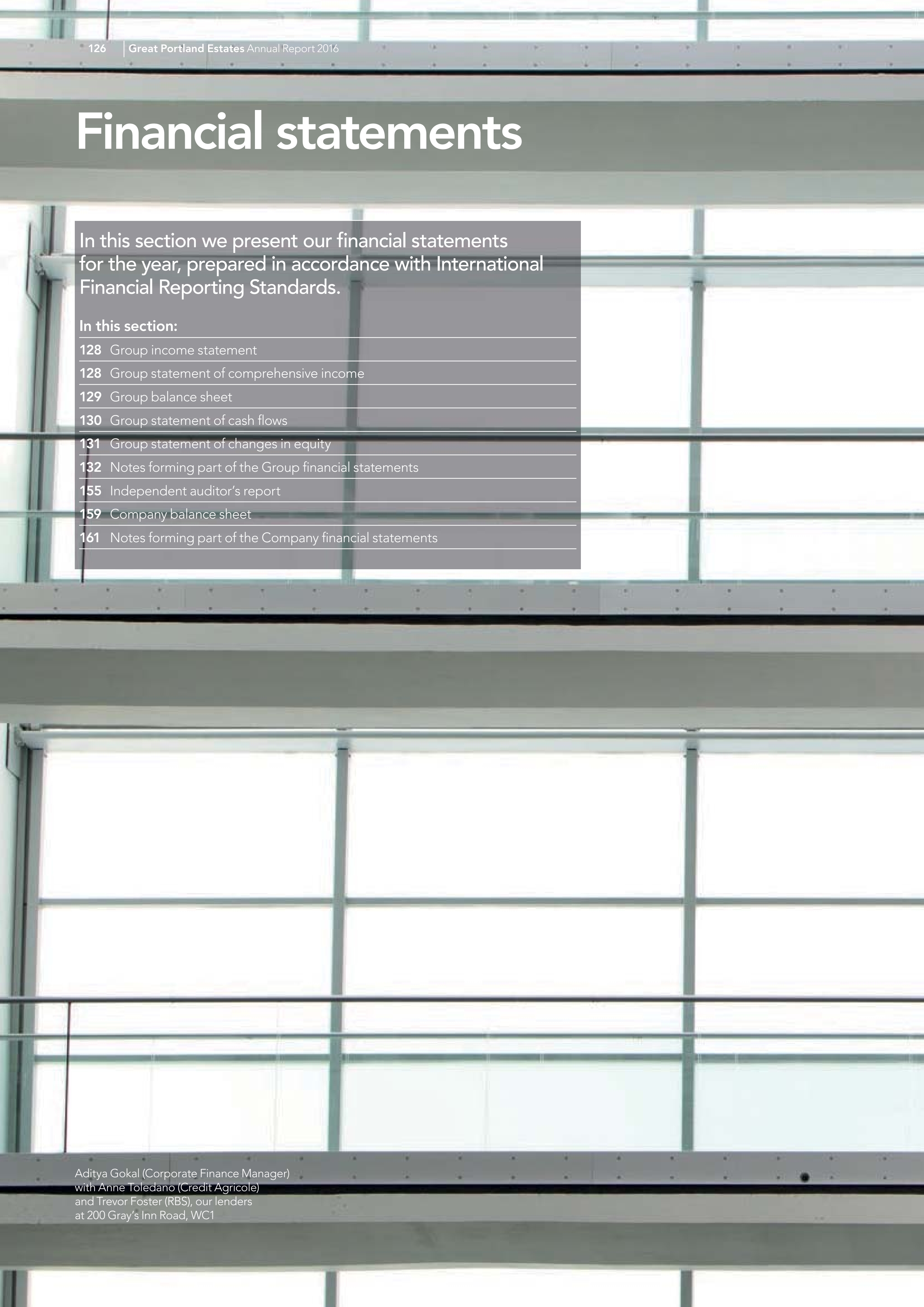
- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

This responsibility statement was approved by the Board of Directors and is signed on its behalf by:

**Toby Courtauld**
Chief Executive
25 May 2016

**Nick Sanderson**
Finance Director
25 May 2016

# Financial statements



In this section we present our financial statements for the year, prepared in accordance with International Financial Reporting Standards.

**In this section:**



Aditya Gokal (Corporate Finance Manager) with Anne Toledano (Credit Agricole) and Trevor Foster (RBS), our lenders at 200 Gray's Inn Road, WC1

# Group income statement

For the year ended 31 March 2016

| | Notes | **2016 £m** | 2015 £m |
|---|---|---|---|
| **Total revenue** | 2 | **128.8** | 88.8 |
| | | | |
| Net rental income | 3 | **75.5** | 66.0 |
| Joint venture fee income | 12 | **4.1** | 4.2 |
| Rental and joint venture fee income | | **79.6** | 70.2 |
| Property expenses | 4 | **(8.2)** | (7.7) |
| **Net rental and related income** | | **71.4** | 62.5 |
| Administration expenses | 5 | **(24.4)** | (20.1) |
| Development management revenue | | **37.6** | 10.6 |
| Development management costs | | **(33.6)** | (8.9) |
| | | **4.0** | 1.7 |
| Trading property – cost of sales | | **(0.6)** | (4.8) |
| **Operating profit before surplus on property and results of joint ventures** | | **50.4** | 39.3 |
| Surplus from investment property | 10 | **422.2** | 380.6 |
| Share of results of joint ventures | 12 | **66.8** | 84.7 |
| **Operating profit** | | **539.4** | 504.6 |
| Finance income | 6 | **7.8** | 11.8 |
| Finance costs | 7 | **(14.8)** | (17.7) |
| Fair value movement on convertible bond | | **13.5** | (21.7) |
| Fair value movement on derivatives | | **9.2** | 30.4 |
| **Profit before tax** | | **555.1** | 507.4 |
| Tax | 8 | **1.1** | 0.8 |
| **Profit for the year** | | **556.2** | 508.2 |
| | | | |
| **Basic earnings per share** | 9 | **162.6p** | 148.3p |
| **Diluted earnings per share** | 9 | **161.9p** | 147.4p |
| **Diluted EPRA earnings per share** | 9 | **13.5p** | 12.7p |

All results are derived from continuing operations in the United Kingdom.

# Group statement of comprehensive income

For the year ended 31 March 2016

| | Notes | **2016 £m** | 2015 £m |
|---|---|---|---|
| Profit for the year | | **556.2** | 508.2 |
| **Items that will not be reclassified subsequently to profit and loss** | | | |
| Actuarial gain/(deficit) on defined benefit scheme | 25 | **0.1** | (3.1) |
| **Total comprehensive income and expense for the year** | | **556.3** | 505.1 |

# Group balance sheet

At 31 March 2016

| | Notes | 2016 £m | 2015 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment property | 10 | **2,932.1** | 2,348.2 |
| Investment in joint ventures | 12 | **543.4** | 636.7 |
| Plant and equipment | 13 | **1.1** | 0.2 |
| | | **3,476.6** | 2,985.1 |
| **Current assets** | | | |
| Trading property | 11 | **172.4** | 115.9 |
| Trade and other receivables | 14 | **37.0** | 28.1 |
| Corporation tax | 8 | **0.6** | – |
| Deferred tax | 8 | **1.3** | 0.8 |
| Cash and cash equivalents | | **12.7** | 4.3 |
| | | **224.0** | 149.1 |
| **Total assets** | | **3,700.6** | 3,134.2 |
| **Current liabilities** | | | |
| Trade and other payables | 15 | **(135.0)** | (73.1) |
| | | **(135.0)** | (73.1) |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 16 | **(600.2)** | (638.5) |
| Obligations under finance leases | 18 | **(50.5)** | (28.5) |
| Pension liability | 25 | **(2.7)** | (3.2) |
| | | **(653.4)** | (670.2) |
| **Total liabilities** | | **(788.4)** | (743.3) |
| **Net assets** | | **2,912.2** | 2,390.9 |
| | | | |
| **Equity** | | | |
| Share capital | 19 | **43.0** | 43.0 |
| Share premium account | | **352.0** | 352.0 |
| Capital redemption reserve | | **16.4** | 16.4 |
| Retained earnings | | **2,509.9** | 1,991.2 |
| Investment in own shares | 20 | **(9.1)** | (11.7) |
| **Total equity** | | **2,912.2** | 2,390.9 |
| | | | |
| **Net assets per share** | 9 | **847p** | 695p |
| **EPRA net assets per share** | 9 | **847p** | 709p |

Approved by the Board on 25 May 2016 and signed on its behalf by

Toby Courtauld
Chief Executive

Nick Sanderson
Finance Director

# Group statement of cash flows

For the year ended 31 March 2016

| | Notes | 2016 £m | 2015 £m |
|---|---|---|---|
| **Operating activities** | | | |
| Operating profit | | **539.4** | 504.6 |
| Adjustments for non-cash items | 21 | **(491.8)** | (471.2) |
| Deposits received on forward sale of residential units | | **34.9** | 22.3 |
| Development of trading property | | **(45.2)** | (18.1) |
| Decrease/(increase) in receivables | | **6.8** | (2.9) |
| (Decrease)/increase in payables | | **(1.5)** | 1.8 |
| Cash generated from operations | | **42.6** | 36.5 |
| Interest paid | | **(27.4)** | (28.4) |
| **Cash flows from operating activities** | | **15.2** | 8.1 |
| **Investing activities** | | | |
| Distributions from joint ventures | | **110.3** | 8.2 |
| Purchase and development of property | | **(365.8)** | (93.9) |
| Purchase of fixed assets | | **(1.1)** | (0.2) |
| Sale of properties | | **321.0** | 102.7 |
| Investment in joint ventures | | **(4.4)** | (1.0) |
| Exercise of put option on 100 Bishopsgate Partnership | | **–** | 15.8 |
| Sale of joint ventures | | **–** | 15.8 |
| **Cash flows from investing activities** | | **60.0** | 47.4 |
| **Financing activities** | | | |
| Borrowings (repaid)/drawn | | **(28.0)** | 15.0 |
| Purchase of derivatives | | **–** | (2.2) |
| Funds to joint ventures | | **(0.1)** | (22.6) |
| Purchase of own shares | | **(8.1)** | (19.1) |
| Equity dividends paid | | **(30.6)** | (30.1) |
| **Cash flows from financing activities** | | **(66.8)** | (59.0) |
| Net increase/(decrease) in cash and cash equivalents | | **8.4** | (3.5) |
| Cash and cash equivalents at 1 April | | **4.3** | 7.8 |
| **Cash and cash equivalents at balance sheet date** | | **12.7** | 4.3 |

# Group statement of changes in equity

For the year ended 31 March 2016

| | Notes | Share capital £m | Share premium £m | Capital redemption reserve £m | Retained earnings £m | Investment in own shares £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| Total equity at 1 April 2015 | | **43.0** | **352.0** | **16.4** | **1,991.2** | **(11.7)** | **2,390.9** |
| Profit for the year | | – | – | – | **556.2** | – | **556.2** |
| Actuarial gain on defined benefit scheme | 25 | – | – | – | **0.1** | – | **0.1** |
| Employee Long-Term Incentive Plan and Share Matching Plan charge | 20 | – | – | – | – | **4.2** | **4.2** |
| Purchase of own shares | 20 | – | – | – | – | **(8.1)** | **(8.1)** |
| Dividends to shareholders | 22 | – | – | – | **(31.1)** | – | **(31.1)** |
| Transfer to retained earnings | | – | – | – | **(6.5)** | **6.5** | – |
| **Total equity at 31 March 2016** | | **43.0** | **352.0** | **16.4** | **2,509.9** | **(9.1)** | **2,912.2** |

# Group statement of changes in equity

For the year ended 31 March 2015

| | Notes | Share capital £m | Share premium £m | Capital redemption reserve £m | Retained earnings £m | Investment in own shares £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| Total equity at 1 April 2014 | | 43.0 | 352.0 | 16.4 | 1,519.5 | 1.0 | 1,931.9 |
| Profit for the year | | – | – | – | 508.2 | – | 508.2 |
| Actuarial deficit on defined benefit scheme | 25 | – | – | – | (3.1) | – | (3.1) |
| Employee Long-Term Incentive Plan and Share Matching Plan charge | 20 | – | – | – | – | 3.5 | 3.5 |
| Purchase of own shares | 20 | – | – | – | – | (19.1) | (19.1) |
| Dividends to shareholders | 22 | – | – | – | (30.5) | – | (30.5) |
| Transfer to retained earnings | | – | – | – | (2.9) | 2.9 | – |
| **Total equity at 31 March 2015** | | 43.0 | 352.0 | 16.4 | 1,991.2 | (11.7) | 2,390.9 |

# Notes forming part of the Group financial statements

## 1 Accounting policies

### Basis of preparation

Great Portland Estates plc is a public limited company incorporated and domiciled in the United Kingdom. The address of the registered office is given on page 175. The financial statements have been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of properties, financial instruments and pension liability. The financial statements are prepared on the going concern basis as explained in the Report of the Directors on page 122.

### Key accounting judgements

In the process of applying the Group's accounting policies, the directors are required to make judgements, estimates and assumptions that may affect the financial statements. The directors believe that the judgements made in the preparation of the financial statements are reasonable. However, actual outcomes may differ from those anticipated. Critical accounting judgements include the adoption of the external portfolio valuation without adjustment, the recognition of purchases and disposal of assets and the adoption of a single reporting segment. The accounting policies for these areas of judgement are set out in the accounting policies below.

### New accounting standards

During the year ended 31 March 2016, the following accounting standards and guidance were adopted by the Group:

– Amendments to IAS19 Employee Benefits – Contributions from employees or third parties that are linked to service

– Amendments to IFRS (Annual Improvements cycle 2010-2012)

– Amendments to IFRS (Annual Improvements cycle 2011-2013)

The adoption of the Standards and Interpretations has not significantly impacted these financial statements.

At the date of approval of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

– Amendments to IFRS (Annual Improvements cycle 2012-2014)

– Amendments to IFRS 10 Consolidated Financial Statements

– Amendments to IFRS 11 Joint Arrangements

– Amendments to IAS 1 and IAS 7 Disclosure Initiatives

– Amendments to IAS 27 Separate Financial Statements

– Amendments to IAS 28 Investments in Associates and Joint Ventures

– Amendments to IAS 12 Income Taxes

– IFRS 9 Financial Instruments

– IFRS 15 Revenue from Contracts with Customers

– IFRS 16 Leases

The directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group.

### Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all its subsidiary undertakings for the year ended 31 March 2016. Subsidiary undertakings are those entities controlled by the Group. Control is assumed when the Group directs the financial and operating policies of an entity to benefit from its activities.

## 1 Accounting policies (continued)

### Rental income

This comprises rental income and premiums on lease surrenders on investment properties for the year, exclusive of service charges receivable.

### Tenant leases

The directors have considered the potential transfer of risks and rewards of ownership in accordance with IAS 17 – Leases for all properties leased to tenants and in their judgement have determined that all such leases are operating leases.

### Lease incentives

Lease incentives, including rent-free periods and payments to tenants, are allocated to the income statement on a straight-line basis over the lease term or on another systematic basis, if applicable. The value of resulting accrued rental income is included within the respective property.

### Other property expenses

Irrecoverable running costs directly attributable to specific properties within the Group's portfolio are charged to the income statement as other property expenses. Costs incurred in the improvement of the portfolio which, in the opinion of the directors, are not of a capital nature are written-off to the income statement as incurred.

### Administration expenses

Costs not directly attributable to individual properties are treated as administration expenses.

### Share-based payment

The cost of granting share-based payments to employees and directors is recognised within administration expenses in the income statement. The Group has used the Stochastic model to value the grants, which is dependent upon factors including the share price, expected volatility and vesting period, and the resulting fair value is amortised through the income statement over the vesting period. The charge is reversed if it is likely that any non-market-based criteria will not be met.

### Investment property

Investment properties and investment properties under development are professionally valued on a fair value basis by qualified external valuers and the directors must ensure that they are satisfied that the valuation of the Group's properties is appropriate for inclusion in the accounts without adjustment.

The valuations of investment properties and investment properties under development have been prepared in accordance with the Global RICS Valuation – Professional Standards (January 2014).

For investment property, this approach involves applying market-derived capitalisation yields to current and market-derived future income streams with appropriate adjustments for income voids arising from vacancies or rent-free periods. These capitalisation yields and future income streams are derived from comparable property and leasing transactions and are considered to be the key inputs in the valuation. Other factors that are taken into account in the valuations include the tenure of the property, tenancy details, planning, building and environmental factors that might affect the property.

In the case of investment property under development, the approach applied is the 'residual method' of valuation, which is the investment method of valuation as described above with a deduction for the costs necessary to complete the development, together with an allowance for the remaining risk.

Sales and purchases of investment properties are recognised when the risks and rewards of ownership transfer.

### Trading property

Trading property is being developed for sale or being held for sale after development is complete, and is carried at the lower of cost and net realisable value. Cost includes direct expenditure and capitalised interest. Cost of sales, including costs associated with off-plan residential sales, are expensed to the income statement as incurred.

# Notes forming part of the Group financial statements

## 1 Accounting policies (continued)

### Depreciation

No depreciation is provided in respect of freehold investment properties and leasehold investment properties. Depreciation is provided on plant and equipment, at rates calculated to write off the cost, less estimated residual value, based on prices prevailing at the balance sheet date of each asset evenly over its expected useful life, as follows:

Fixtures and fittings – over three to five years.

Leasehold improvements – over the term of the lease.

### Joint ventures

Joint ventures are accounted for under the equity method where, in the directors' judgement, the Group has joint control of the entity. The Group's level of control in its joint ventures is driven both by the individual agreements which set out how control is shared by the partners and how that control is exercised in practice. The Group balance sheet contains the Group's share of the net assets of its joint ventures. Balances with partners owed to or from the Group by joint ventures are included within investments. The Group's share of joint venture profits and losses are included in the Group income statement in a single line. All of the Group's joint ventures adopt the accounting policies of the Group for inclusion in the Group financial statements.

### Income tax

Current tax is the amount payable on the taxable income for the year and any adjustment in respect of previous years. Deferred tax is provided in full on temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the asset is realised or the liability is settled. Deferred tax assets are recognised when it is probable that taxable profits will be available against which the deferred tax assets can be utilised. No provision is made for temporary differences arising on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Tax is included in the income statement except when it relates to items recognised directly in other comprehensive income or equity, in which case the related tax is also recognised directly in other comprehensive income or equity.

### Pension benefits

The Group contributes to a defined benefit pension plan which is funded with assets held separately from those of the Group. The full value of the net assets or liabilities of the pension fund is brought on to the balance sheet at each balance sheet date. Actuarial gains and losses are taken to reserves; all other movements are taken to the income statement.

### Capitalisation of interest

Interest associated with direct expenditure on investment and trading properties under development is capitalised. Direct expenditure includes the purchase cost of a site if it has been purchased with the specific intention to redevelop, but does not include the original book cost of a site where no intention existed. Interest is capitalised from the start of the development work until the date of practical completion. The rate used is the Group's weighted average cost of borrowings or, if appropriate, the rate on specific associated borrowings.

### Financial instruments

**i Derivatives** The Group uses derivative financial instruments to hedge its exposure to foreign currency fluctuations and interest rate risks. The Group's derivatives are measured at fair value in the balance sheet. To the extent that a derivative is a designated hedge and provides an effective cash flow hedge against the Group's underlying exposure, the movements in the fair value of the hedge are taken to equity. To the extent that the derivative is not a designated hedge or does not effectively hedge the underlying exposure, the movement in the fair value of the hedge is taken to the income statement.

**ii Borrowings** The Group's borrowings in the form of its debentures, private placement notes and bank loans are recognised initially at fair value, after taking account of any discount or premium on issue and attributable transaction costs. Subsequently, borrowings are held at amortised cost, with any discounts, premiums and attributable costs charged to the income statement using the effective interest rate method.

**iii Convertible bond** The Group's convertible bond can be settled in shares, cash or a combination of both at the Group's discretion. The bonds have been designated at fair value through profit and loss upon initial recognition, with any gains or losses arising subsequently due to re-measurement being recognised in the income statement.

## 1 Accounting policies (continued)

**iv Cash and cash equivalents** Cash and cash equivalents comprise cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible into a known amount of cash and are subject to insignificant risk of changes in value.

**v Trade receivables and payables** Trade receivables and payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

### Head leases

The present value of future ground rents is added to the carrying value of a leasehold investment property and to long-term liabilities. On payment of a ground rent, virtually all of the cost is charged to the income statement, principally as interest payable, and the balance reduces the liability; an equal reduction to the asset's valuation is charged to the income statement.

### Segmental analysis

All of the Group's revenue is generated from investment properties located in central London. The properties are managed as a single portfolio by an asset management team whose responsibilities are not segregated by location or type, but are managed on an asset-by-asset basis. The majority of the Group's assets are mixed-use, therefore the office, retail and any residential space is managed together. Within the property portfolio, the Group has a number of properties under development. The directors view the Group's development activities as an integral part of the life cycle of each of its assets rather than a separate business or division. The nature of developing property means that whilst a property is under development it generates no revenue and has no operating results. Once a development has completed, it returns to the investment property portfolio, or if it is a trading property, it is sold. The directors have considered the nature of the business, how the business is managed and how they review performance and, in their judgement, the Group has only one reportable segment. The components of the valuation, as provided by CBRE, are set out in note 10.

### Development management agreements

The Group sold a development property prior to its completion and has a development management agreement with the buyer to construct the remainder of the building on their behalf. Where the outcome of this development management agreement can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract at the balance sheet date. This is normally measured as the proportion that contract costs incurred for work performed bear to the estimated total contract costs. Variations in work, claims and incentive payments are included to the extent that they have been agreed with the counterparty.

Where the outcome of the development management agreement cannot be estimated reliably, contract revenue is recognised to the extent of costs incurred where it is probable they will be recoverable. Costs are recognised as expenses in the period in which they are incurred. When it is probable that total costs will exceed total revenue, the expected loss is recognised as an expense immediately.

## 2 Total revenue

| | **2016 £m** | 2015 £m |
|---|---|---|
| Gross rental income | **72.8** | 58.6 |
| Spreading of tenant lease incentives | **3.0** | 7.6 |
| Service charge income | **11.3** | 7.8 |
| Joint venture fee income | **4.1** | 4.2 |
| Development management revenue | **37.6** | 10.6 |
| | **128.8** | 88.8 |

## 3 Net rental income

| | **2016 £m** | 2015 £m |
|---|---|---|
| Gross rental income | **72.8** | 58.6 |
| Spreading of tenant lease incentives | **3.0** | 7.6 |
| Ground rents | **(0.3)** | (0.2) |
| | **75.5** | 66.0 |

# Notes forming part of the Group financial statements

## 4 Property expenses

| | **2016 £m** | 2015 £m |
|---|---|---|
| Service charge income | **(11.3)** | (7.8) |
| Service charge expenses | **12.3** | 9.7 |
| Other property expenses | **7.2** | 5.8 |
| | **8.2** | 7.7 |

## 5 Administration expenses

| | **2016 £m** | 2015 £m |
|---|---|---|
| Employee costs | **20.1** | 16.5 |
| Other head office costs | **4.3** | 3.6 |
| | **24.4** | 20.1 |

Included within employee costs is an accounting charge for the LTIP and SMP schemes of £4.2 million (2015: £3.5 million).

Employee costs, including those of directors, comprise the following:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Wages and salaries | **19.2** | 15.1 |
| Social security costs | **2.5** | 2.9 |
| Other pension costs | **1.5** | 1.4 |
| | **23.2** | 19.4 |
| Less: recovered through service charges | **(1.0)** | (1.0) |
| Less: capitalised into development projects | **(2.1)** | (1.9) |
| | **20.1** | 16.5 |

The emoluments and pension benefits of the directors are set out in detail within the Directors' remuneration report on pages 96 to 120. The Executive Directors are considered to be key management for the purposes of IAS 24 'Related Party Transactions'. The Group's key management, its pension plan and joint ventures are the Group's only related parties.

### Employee information

The average number of employees of the Group, including directors, was:

| | **2016 Number** | 2015 Number |
|---|---|---|
| Head office and property management | **96** | 96 |

### Auditor's remuneration

| | **2016 £000's** | 2015 £000's |
|---|---|---|
| Audit of the Company's annual accounts | **114** | 99 |
| Audit of subsidiaries | **96** | 83 |
| | **210** | 182 |
| Audit-related assurance services, including the interim review | **61** | 61 |
| Total audit and audit-related services | **271** | 243 |
| Services related to taxation (advisory) | **11** | 9 |
| Other non-audit services | **–** | 118 |
| | **282** | 370 |

## 6 Finance income

| | **2016 £m** | 2015 £m |
|---|---|---|
| Interest on balances with joint venture partners | **7.8** | 11.8 |

## 7 Finance costs

| | 2016 £m | 2015 £m |
|---|---|---|
| Interest on revolving credit facilities | **3.4** | 4.3 |
| Interest on private placement notes | **12.9** | 12.5 |
| Interest on debenture stock | **8.0** | 8.0 |
| Interest on convertible bond | **1.5** | 1.5 |
| Interest on obligations under finance leases | **2.3** | 1.4 |
| Break costs on refinanced revolving credit facilities | **–** | 1.4 |
| Gross finance costs | **28.1** | 29.1 |
| Less: capitalised interest at an average rate of 3.9% (2015: 4.1%) | **(13.3)** | (11.4) |
| | **14.8** | 17.7 |

## 8 Tax

| | 2016 £m | 2015 £m |
|---|---|---|
| **Current tax** | | |
| UK corporation tax | **–** | – |
| Tax over provided in previous years | **(0.6)** | – |
| Total current tax | **(0.6)** | – |
| **Deferred tax** | **(0.5)** | (0.8) |
| Tax credit for the year | **(1.1)** | (0.8) |

The difference between the standard rate of tax and the effective rate of tax arises from the items set out below:

| | 2016 £m | 2015 £m |
|---|---|---|
| Profit before tax | **555.1** | 507.4 |
| Tax charge on profit at standard rate of 20% (2015: 21%) | **111.0** | 106.6 |
| REIT tax-exempt rental profits and gains | **(18.4)** | (13.1) |
| Non-taxable revaluation surplus | **(89.3)** | (93.7) |
| Prior periods' corporation tax | **(0.6)** | – |
| Other | **(3.8)** | (0.6) |
| Tax credit for the year | **(1.1)** | (0.8) |

During the year, £nil (2015: £nil) of deferred tax was credited directly to equity. The Group's net deferred tax at 31 March 2016 was £1.3 million (2015: £0.8 million), based on a 20% tax rate. This consists of a deferred tax liability of £nil (2015: £8.5 million) and a deferred tax asset of £1.3 million (2015: £9.3 million).

### Movement in deferred tax

| | At 1 April 2015 £m | Recognised in the income statement £m | At 31 March 2016 £m |
|---|---|---|---|
| Revaluation surpluses | (8.5) | **8.5** | **–** |
| Revenue losses recognised in respect of revaluation surpluses | 8.5 | **(8.5)** | **–** |
| Revenue losses recognised in respect of trading property – cost of sales | 0.8 | **0.5** | **1.3** |
| Net deferred tax asset | 0.8 | **0.5** | **1.3** |

In accordance with IAS 12 – Income Taxes, deferred tax liabilities have been recognised in respect of revaluation surpluses relating to properties which do not benefit from the Group's REIT status.

# Notes forming part of the Group financial statements

## 8 Tax (continued)

A deferred tax asset of £3.8 million (2015: £5.5 million), mainly relating to contingent share awards, the pension liability and the convertible bond was not recognised because it is uncertain whether future taxable profits will arise against which this asset can be utilised.

As a REIT, the Group is largely exempt from corporation tax in respect of its rental profits and chargeable gains relating to its property rental business. The Group is otherwise subject to corporation tax. In particular, the Group's REIT exemption does not extend to either profits arising from the sale of investment properties which have undergone a major redevelopment within the preceding three years or profits arising from trading properties (including the sale of the residential units at Rathbone Square, W1).

In order to ensure that the Group is able to both retain its status as a REIT and to avoid financial charges being imposed, a number of tests (including a minimum distribution test) must be met by both Great Portland Estates plc and by the Group as a whole on an ongoing basis. These conditions are detailed in the Corporation Tax Act 2010.

## 9 Performance measures and EPRA metrics

Adjusted earnings and net assets per share are calculated in accordance with the Best Practice Recommendations issued by the European Public Real Estate Association (EPRA).

### Weighted average number of ordinary shares

| | **2016 Number of shares** | 2015 Number of shares |
|---|---|---|
| Issued ordinary share capital at 1 April | **343,926,149** | 343,926,149 |
| Investment in own shares | **(1,811,076)** | (1,178,160) |
| Weighted average number of ordinary shares – Basic | **342,115,073** | 342,747,989 |

### Basic and diluted earnings per share

| | **Profit after tax 2016 £m** | **Number of shares 2016 million** | **Earnings per share 2016 pence** | Profit after tax 2015 £m | Number of shares 2015 million | Earnings per share 2015 pence |
|---|---|---|---|---|---|---|
| Basic | **556.2** | **342.1** | **162.6** | 508.2 | 342.7 | 148.3 |
| Dilutive effect of LTIP shares | **–** | **1.4** | **(0.7)** | – | 2.0 | (0.9) |
| Diluted | **556.2** | **343.5** | **161.9** | 508.2 | 344.7 | 147.4 |

### Basic and diluted EPRA earnings per share

| | **Profit after tax 2016 £m** | **Number of shares 2016 million** | **Earnings per share 2016 pence** | Profit after tax 2015 £m | Number of shares 2015 million | Earnings per share 2015 pence |
|---|---|---|---|---|---|---|
| Basic | **556.2** | **342.1** | **162.6** | 508.2 | 342.7 | 148.3 |
| Surplus from investment property (note 10) | **(422.2)** | **–** | **(123.4)** | (380.6) | – | (111.0) |
| Surplus from joint venture investment property (note 12) | **(64.6)** | **–** | **(18.9)** | (80.1) | – | (23.4) |
| Movement in fair value of derivatives | **(9.2)** | **–** | **(2.7)** | (30.4) | – | (8.9) |
| Movement in fair value of convertible bond | **(13.5)** | **–** | **(4.0)** | 21.7 | – | 6.3 |
| Movement in fair value of derivatives in joint ventures (note 12) | **1.0** | **–** | **0.3** | 0.9 | – | 0.3 |
| Trading property – cost of sales | **0.6** | **–** | **0.2** | 4.8 | – | 1.4 |
| Break costs on refinanced revolving credit facilities (note 7) | **–** | **–** | **–** | 1.4 | – | 0.4 |
| Deferred tax (note 8) | **(0.5)** | **–** | **(0.1)** | (0.8) | – | (0.2) |
| Basic EPRA earnings | **47.8** | **342.1** | **14.0** | 45.1 | 342.7 | 13.2 |
| Dilutive effect of LTIP shares | **–** | **1.4** | **(0.1)** | – | 2.0 | (0.1) |
| Dilutive effect of convertible bond | **1.5** | **21.0** | **(0.4)** | 1.5 | 21.0 | (0.4) |
| Diluted EPRA earnings | **49.3** | **364.5** | **13.5** | 46.6 | 365.7 | 12.7 |

## 9 Performance measures and EPRA metrics (continued)

### EPRA net assets per share

| | Net assets 2016 £m | Number of shares 2016 million | Net assets per share 2016 pence | Net assets 2015 £m | Number of shares 2015 million | Net assets per share 2015 pence |
|---|---|---|---|---|---|---|
| Basic net assets | **2,912.2** | **343.9** | **847** | 2,390.9 | 343.9 | 695 |
| Investment in own shares | **–** | **(2.6)** | **6** | – | (2.9) | 6 |
| Dilutive effect of convertible bond | **150.0** | **21.0** | **(8)** | – | – | – |
| Dilutive effect of LTIP shares | **–** | **1.4** | **(3)** | – | 2.0 | (4) |
| Diluted net assets | **3,062.2** | **363.7** | **842** | 2,390.9 | 343.0 | 697 |
| Surplus on revaluation of trading property (note 11) | **22.2** | **–** | **6** | 21.5 | – | 6 |
| Fair value of convertible bond (note 17) | **19.5** | **–** | **6** | 33.0 | – | 10 |
| Fair value of derivatives (note 17) | **(24.3)** | **–** | **(7)** | (15.1) | – | (4) |
| Fair value of derivatives in joint ventures (note 12) | **1.2** | **–** | **–** | 1.5 | – | – |
| Deferred tax (note 8) | **(1.3)** | **–** | **–** | (0.8) | – | – |
| EPRA net assets (NAV) | **3,079.5** | **363.7** | **847** | 2,431.0 | 343.0 | 709 |
| Fair value of financial liabilities (note 17) | **(75.5)** | **–** | **(21)** | (62.0) | – | (18) |
| Fair value of financial liabilities in joint ventures (note 12) | **(1.6)** | **–** | **–** | (0.5) | – | – |
| Fair value of convertible bond (note 17) | **–** | **–** | **–** | (33.0) | – | (10) |
| Fair value of derivatives (note 17) | **24.3** | **–** | **6** | 15.1 | – | 4 |
| Fair value of derivatives in joint ventures (note 12) | **(1.2)** | **–** | **–** | (1.5) | – | – |
| Tax arising on sale of trading properties | **(4.2)** | **–** | **(1)** | (4.1) | – | (1) |
| Deferred tax (note 8) | **1.3** | **–** | **–** | 0.8 | – | – |
| EPRA triple net assets (NNNAV) | **3,022.6** | **363.7** | **831** | 2,345.8 | 343.0 | 684 |

The Group has £150.0 million of convertible bonds in issue with an initial conversion price of £7.15 per share. The dilutive effect of the contingently issuable shares within the convertible bond is required to be recognised in accordance with IAS 33 – Earnings per Share. For the current and prior year the convertible bond had no dilutive impact. In accordance with the EPRA Best Practice Recommendations, we have presented EPRA earnings per share on a basic and diluted basis.

### EPRA cost ratio (including share of joint ventures)

| | 2016 £m | 2015 £m |
|---|---|---|
| Administration expenses | **24.4** | 20.1 |
| Property expenses | **8.2** | 7.7 |
| Joint venture management fees | **(4.1)** | (4.2) |
| Joint venture property and administration costs | **2.2** | 2.5 |
| EPRA costs (including direct vacancy costs) (A) | **30.7** | 26.1 |
| Direct vacancy costs | **(2.3)** | (3.2) |
| Joint venture direct vacancy costs | **(1.1)** | (0.8) |
| EPRA costs (excluding direct vacancy costs) (B) | **27.3** | 22.1 |
| | | |
| Net rental income | **75.5** | 66.0 |
| Joint venture net rental income | **17.0** | 24.8 |
| Gross rental income (C) | **92.5** | 90.8 |
| | | |
| Portfolio at fair value including joint ventures (D) | **3,703.9** | 3,206.2 |
| | | |
| Cost ratio (including direct vacancy costs) (A/C) | **33.2%** | 28.7% |
| Cost ratio (excluding direct vacancy costs) (B/C) | **29.5%** | 24.3% |
| Cost ratio (by portfolio value) (A/D) | **0.8%** | 0.8% |

# Notes forming part of the Group financial statements

## 10 Investment property

### Investment property

| | Freehold £m | Leasehold £m | Total £m |
|---|---|---|---|
| Book value at 1 April 2014 | 950.1 | 767.4 | 1,717.5 |
| Acquisitions | – | 25.4 | 25.4 |
| Costs capitalised | 5.7 | 8.3 | 14.0 |
| Disposals | (8.0) | – | (8.0) |
| Transfer to investment property under development | (74.9) | (84.4) | (159.3) |
| Transfer from investment property under development | – | 92.4 | 92.4 |
| Net valuation surplus on investment property | 154.4 | 99.6 | 254.0 |
| Book value at 31 March 2015 | 1,027.3 | 908.7 | 1,936.0 |
| Acquisitions | **124.9** | **213.7** | **338.6** |
| Costs capitalised | **4.0** | **22.4** | **26.4** |
| Disposals | **(102.8)** | **(192.1)** | **(294.9)** |
| Transfer to investment property under development | **(30.4)** | **–** | **(30.4)** |
| Transfer from investment property under development | **7.5** | **–** | **7.5** |
| Net valuation surplus on investment property | **103.0** | **94.2** | **197.2** |
| Book value at 31 March 2016 | **1,133.5** | **1,046.9** | **2,180.4** |

### Investment property under development

| | Freehold £m | Leasehold £m | Total £m |
|---|---|---|---|
| Book value at 1 April 2014 | 114.2 | 141.0 | 255.2 |
| Costs capitalised | 28.4 | 22.7 | 51.1 |
| Interest capitalised | 5.4 | 2.3 | 7.7 |
| Disposals | – | (80.6) | (80.6) |
| Transfer from investment property | 74.9 | 84.4 | 159.3 |
| Transfer to investment property | – | (92.4) | (92.4) |
| Net revaluation surplus on investment property under development | 53.6 | 58.3 | 111.9 |
| Book value at 31 March 2015 | 276.5 | 135.7 | 412.2 |
| Costs capitalised | **96.2** | **12.9** | **101.9** |
| Interest capitalised | **7.9** | **0.8** | **8.7** |
| Transfer from investment property | **30.4** | **–** | **30.4** |
| Transfer to investment property | **(7.5)** | **–** | **(7.5)** |
| Net revaluation surplus on investment property under development | **133.1** | **65.7** | **198.8** |
| Book value at 31 March 2016 | **536.6** | **215.1** | **751.7** |
| **Total investment property** | **1,670.1** | **1,262.0** | **2,932.1** |

The book value of investment property includes £50.5 million (2015: £28.5 million) in respect of the present value of future ground rents, the market value of the portfolio (excluding these amounts) is £2,881.6 million. The market value of the Group's total property portfolio, including trading properties, was £3,076.2 million (2015: £2,457.1 million).

At 31 March 2016, property with a carrying value of £403.4 million (2015: £356.6 million) was secured under the first mortgage debenture stock (see note 16) and £25.8 million of property was held for sale.

The cumulative interest capitalised in investment property was £26.1 million (2015: £17.4 million).

### Surplus from investment property

| | 2016 £m | 2015 £m |
|---|---|---|
| Net valuation surplus on investment property | **396.0** | 365.9 |
| Profit on sale of investment properties | **26.2** | 14.7 |
| | **422.2** | 380.6 |

## 10 Investment property (continued)

The Group's investment properties, including those held in joint venture (note 12), were valued on the basis of Fair Value by CBRE Limited (CBRE), external valuers, as at 31 March 2016 in accordance with the Global RICS Valuation – Professional Standards January 2014 and the RICS UK valuation standards and guidance notes December 2014 (the Red Book) and have been primarily derived using comparable recent market transactions on arm's length terms.

The total fees, including the fee for this assignment, earned by CBRE (or other companies forming part of the same group of companies within the UK) from the Group are less than 5.0% of total UK revenues.

The principal signatories of the CBRE valuation reports have continuously been the signatories of valuations for the same addressee and valuation purpose as this report since 2012. CBRE has continuously been carrying out valuation instructions for the Group for in excess of 20 years. CBRE has carried out valuation, agency and professional services on behalf of the Group for in excess of 20 years.

Real estate valuations are complex and derived using comparable market transactions which are not publicly available and involve an element of judgement. Therefore, in line with EPRA guidance, we have classified the valuation of the property portfolio as Level 3 as defined by IFRS 13. There were no transfers between levels during the year. Inputs to the valuation, including capitalisation yields (typically the true equivalent yield) and rental values, are defined as 'unobservable' as defined by IFRS 13.

## Key inputs to the valuation

| | | ERV | | True equivalent yield | |
|---|---|---|---|---|---|
| | | Average £ per sq ft | Range £ per sq ft | Average % | Range % |
| North of Oxford Street | Office | **71** | **44 – 82** | **4.3** | **3.9 – 5.9** |
| | Retail | **64** | **34 – 181** | **3.8** | **3.6 – 5.5** |
| Rest of West End | Office | **83** | **64 – 96** | **4.5** | **3.6 – 5.6** |
| | Retail | **114** | **15 – 257** | **4.2** | **3.4 – 4.3** |
| City, Midtown & Southwark | Office | **55** | **42 – 62** | **5.0** | **4.7 – 5.6** |
| | Retail | **71** | **32 – 116** | **5.1** | **4.7 – 5.1** |
| | | Capital value | | | |
| | | Average £ per sq ft | Range £ per sq ft | | |
| Residential | | **1,886** | **685 - 2,914** | **n/a** | **n/a** |

Everything else being equal, there is a positive relationship between rental values and the property valuation, such that an increase in rental values will increase the valuation of a property and vice versa. However, the relationship between capitalisation yields and the property valuation is negative; therefore an increase in capitalisation yields will reduce the valuation of a property and vice versa. There are interrelationships between these inputs as they are determined by market conditions, and the valuation movement in any one period depends on the balance between them. If these inputs move in opposite directions (i.e. rental values increase and yields decrease) valuation movements can be amplified, whereas if they move in the same direction they may offset, reducing the overall net valuation movement.

At 31 March 2016, the Group had capital commitments of £241.5 million (2015: £324.6 million).

## EPRA capital expenditure

| | 2016 £m | 2015 £m |
|---|---|---|
| **Group** | | |
| Acquisitions | **338.6** | 25.4 |
| Developments (including trading properties) | **161.0** | 70.0 |
| Investment property | **26.4** | 14.0 |
| Interest capitalised (including trading properties) | **13.3** | 11.4 |
| **Joint ventures (at share)** | | |
| Acquisitions (excluding those from the GPE Group) | **–** | 13.9 |
| Developments | **5.0** | – |
| Investment property | **13.3** | 10.0 |
| Interest capitalised | **0.7** | – |
| | **558.3** | 144.7 |

# Notes forming part of the Group financial statements

## 11 Trading property

| | Total £m |
|---|---|
| At 1 April 2015 | 115.9 |
| Costs capitalised | **51.9** |
| Interest capitalised | **4.6** |
| At 31 March 2016 | **172.4** |

The Group is developing a large mixed-use scheme at Rathbone Square, W1. Part of the approved scheme consists of residential units which the Group holds for sale. As a result, the residential element of the scheme is classified as trading property. The fair value of the trading property was £194.6 million (2015: £137.4 million), representing a cumulative valuation uplift of £22.2 million (2015: £21.5 million).

## 12 Investment in joint ventures

The Group has the following investments in joint ventures:

| | Equity £m | Balances with partners £m | 2016 Total £m | 2015 Total £m |
|---|---|---|---|---|
| At 1 April | 428.3 | 208.4 | 636.7 | 524.8 |
| Movement on joint venture balances | – | **44.6** | **44.6** | 34.4 |
| Additions | **4.4** | – | **4.4** | 1.0 |
| Share of profit of joint ventures | **2.8** | – | **2.8** | 4.6 |
| Share of revaluation surplus of joint ventures | **50.0** | – | **50.0** | 80.2 |
| Share of profit on disposal of joint venture properties | **14.0** | – | **14.0** | (0.1) |
| Share of results of joint ventures | **66.8** | – | **66.8** | 84.7 |
| Transfer to subsidiaries – Great Star Partnership | **(33.4)** | **(65.4)** | **(98.8)** | – |
| Distributions | **(110.3)** | – | **(110.3)** | (8.2) |
| At 31 March | **355.8** | **187.6** | **543.4** | 636.7 |

The investments in joint ventures comprise the following:

| | Country of incorporation | 2016 ownership | 2015 ownership |
|---|---|---|---|
| The GHS Limited Partnership | Jersey | **50%** | 50% |
| The Great Capital Partnership | United Kingdom | **50%** | 50% |
| The Great Ropemaker Partnership | United Kingdom | **50%** | 50% |
| The Great Star Partnership | United Kingdom | – | 50% |
| The Great Victoria Partnerships | United Kingdom | **50%** | 50% |
| The Great Wigmore Partnership | United Kingdom | **50%** | 50% |

All of the Group's joint ventures operate solely in the United Kingdom.

## 12 Investment in joint ventures (continued)

The Group's share in the assets and liabilities, revenues and expenses for the joint ventures is set out below:

| | The GHS Limited Partnership £m | The Great Capital Partnership £m | The Great Ropemaker Partnership £m | The Great Star Partnership £m | The Great Victoria Partnerships £m | The Great Wigmore Partnership £m | 2016 Total £m | 2016 At share £m | 2015 At share £m |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheets** | | | | | | | | | |
| Investment property | 268.6 | – | 668.3 | – | 293.9 | 35.0 | 1,265.8 | 632.9 | 765.3 |
| Current assets | – | – | 0.9 | – | 0.3 | 0.1 | 1.3 | 0.7 | 0.8 |
| Cash | 3.1 | 0.1 | 8.4 | – | 4.3 | 0.9 | 16.8 | 8.4 | 15.1 |
| Balances (from)/to Partners | (75.9) | – | (310.2) | – | 10.9 | – | (375.2) | (187.6) | (208.4) |
| Bank loans | – | – | (89.4) | – | (79.5) | – | (168.9) | (84.5) | (112.7) |
| Derivatives | – | – | (2.4) | – | – | – | (2.4) | (1.2) | (1.5) |
| Current liabilities | (0.3) | – | (9.9) | – | (5.2) | (0.1) | (15.5) | (7.7) | (14.1) |
| Finance leases | – | – | (10.3) | – | – | – | (10.3) | (5.2) | (16.2) |
| Net assets | 195.5 | 0.1 | 255.4 | – | 224.7 | 35.9 | 711.6 | 355.8 | 428.3 |
| **Income statements** | | | | | | | | | |
| Net rental income | 0.6 | – | 19.9 | 0.9 | 11.4 | 1.2 | 34.0 | 17.0 | 24.8 |
| Property and administration costs | (0.8) | – | (2.9) | – | (0.4) | (0.3) | (4.4) | (2.2) | (2.5) |
| Net finance costs | (3.7) | – | (14.4) | (0.6) | (3.1) | (0.1) | (21.9) | (11.0) | (16.8) |
| Movement in fair value of derivatives | – | – | (2.0) | – | – | – | (2.0) | (1.0) | (0.9) |
| Share of profit from joint ventures | (3.9) | – | 0.6 | 0.3 | 7.9 | 0.8 | 5.7 | 2.8 | 4.6 |
| Revaluation of investment property | 27.3 | – | 44.6 | 3.9 | 23.5 | 1.7 | 101.0 | 50.0 | 80.2 |
| Profit on sale of investment property | – | – | – | – | – | 28.0 | 28.0 | 14.0 | (0.1) |
| Share of results of joint ventures | 23.4 | – | 45.2 | 4.2 | 31.4 | 30.5 | 134.7 | 66.8 | 84.7 |

In April 2015, the Group acquired Starwood Capital Group's 50% interest in The Great Star Partnership, together with some intermediate holding companies, for £61.4 million.

Therefore, on GPE obtaining control, all subsequent results have been consolidated into the Group's results. The amounts recognised on acquisition in respect of the identifiable assets and liabilities are set out below:

| | 2016 £m |
|---|---|
| **Balance Sheet** | |
| Investment property | 97.7 |
| Cash | 2.8 |
| Balances from Partners | (65.4) |
| Net current liabilities | (1.7) |
| Net assets | 33.4 |

# Notes forming part of the Group financial statements

## 12 Investment in joint ventures (continued)

The non-recourse debt facilities of the joint ventures at 31 March 2016 are set out below:

| Joint venture debt facilities | Nominal value (100%) £m | Maturity | Fixed/floating | Interest rate |
|---|---|---|---|---|
| The Great Ropemaker Partnership | 90.0 | December 2020 | Floating | LIBOR +1.25% |
| The Great Victoria Partnership | 80.0 | July 2022 | Fixed | 3.74% |
| Total | 170.0 | | | |

In December 2015, The Great Ropemaker Partnership arranged a new £90 million, five year non-recourse bank loan to refinance an existing £73 million bank loan. It also entered into two interest rate swaps with a fixed rate of 1.42%, which expire coterminously with the bank loan in 2020, with a notional principal amount of £90.0 million. The new loan has an all-in hedged coupon of 2.67% for the duration of the loan. At 31 March 2016, the Great Victoria Partnership loan had a fair value of £83.2 million (2015: £80.9 million). All interest-bearing loans are in sterling. At 31 March 2016, the joint ventures had £nil undrawn facilities (2015: £nil).

Transactions during the year between the Group and its joint ventures, which are related parties, are disclosed below:

| | 2016 £m | 2015 £m |
|---|---|---|
| Movement on joint venture balances during the year | **(20.8)** | 34.4 |
| Balances receivable at the year end from joint ventures | **(187.6)** | (208.4) |
| Distributions | **110.3** | 8.2 |
| Fee income | **4.1** | 4.2 |
| Property sales from the Group to joint ventures | **–** | – |

The joint venture balances bear interest as follows: the GHS Limited Partnership at 5.3% on balances at inception and 4.0% on any subsequent balances, the Great Ropemaker Partnership at 4.0%, and the Great Wigmore Partnership at 4.0%.

The investment properties include £5.2 million (2015: £16.2 million) in respect of the present value of future ground rents, net of these amounts the market value of our share of the total joint venture properties is £627.7 million. The Group earns fee income from its joint ventures for the provision of management services. All of the above transactions are made on terms equivalent to those that prevail in arm's length transactions.

In April 2015, The Great Wigmore Partnership, the 50:50 joint venture between the Group and Aberdeen Asset Management, sold its largest asset, 95 Wigmore Street, W1 and 35 St James Street, W1 for a price of £222.4 million (our share £111.2 million). At 31 March 2016, the Group had £nil contingent liabilities arising in its joint ventures (2015: £nil). At 31 March 2016, the Group had capital commitments in respect of its joint ventures of £117.9 million (2015: £43.7 million).

## 13 Plant and equipment

| | Leasehold improvements £m | Fixtures and fittings £m | Total £m |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 1 April 2014 | 2.0 | 1.5 | 3.5 |
| Costs capitalised | 0.1 | 0.1 | 0.2 |
| At 31 March 2015 | 2.1 | 1.6 | 3.7 |
| Costs capitalised | **1.0** | **0.1** | **1.1** |
| Disposals | **(2.0)** | **–** | **(2.0)** |
| At 31 March 2016 | **1.1** | **1.7** | **2.8** |
| **Depreciation** | | | |
| At 1 April 2015 | 1.9 | 1.6 | 3.5 |
| Charge for the year | **0.2** | **–** | **0.2** |
| Disposals | **(2.0)** | **–** | **(2.0)** |
| At 31 March 2016 | **0.1** | **1.6** | **1.7** |
| Carrying amount at 31 March 2015 | 0.2 | – | 0.2 |
| Carrying amount at 31 March 2016 | **1.0** | **0.1** | **1.1** |

## 14 Trade and other receivables

| | 2016 £m | 2015 £m |
|---|---|---|
| Trade receivables | **3.9** | 2.4 |
| Allowance for doubtful debts | **(0.2)** | (0.1) |
| | **3.7** | 2.3 |
| Prepayments and accrued income | **1.2** | 0.8 |
| Work in progress on development management contracts | **2.4** | 6.0 |
| Other trade receivables | **5.4** | 3.9 |
| Derivatives | **24.3** | 15.1 |
| | **37.0** | 28.1 |

Work in progress on development management contracts is an amount due to the Group in relation to a development property sold prior to its completion where the Group has a contract with the buyer to construct the remainder of the building on their behalf. During the year, the Group received payments on account of £41.2 million (2015: £4.6 million). At 31 March 2016, the aggregate cumulative cost incurred was £42.5 million (2015: £8.9 million) and the cumulative profits less losses recognised were £5.7 million (2015: £1.7 million). There are no material project retentions.

At 31 March 2016, the derivatives were due in excess of one year (see note 17). Trade receivables consist of rent and service charge monies, which are due on the quarter day with no credit period. Interest is charged on trade receivables in accordance with the terms of the tenant's lease. Trade receivables are provided for based on estimated irrecoverable amounts determined by past default experience and knowledge of the individual tenant's circumstance. Debtors past due but not impaired were £3.0 million (2015: £0.9 million) of which £1.8 million is over 30 days.

| | 2016 £m | 2015 £m |
|---|---|---|
| **Movements in allowance of doubtful debts** | | |
| Balance at the beginning of the year | **(0.1)** | (0.3) |
| Amounts provided for during the year | **(0.1)** | – |
| Amounts written-off as uncollectable | **–** | 0.2 |
| | **(0.2)** | (0.1) |

# Notes forming part of the Group financial statements

## 15 Trade and other payables

| | 2016 £m | 2015 £m |
|---|---|---|
| Rents received in advance | **21.1** | 16.7 |
| Deposits received on forward sale of residential units (see note 11) | **57.2** | 22.3 |
| Non-trade payables and accrued expenses | **56.7** | 34.1 |
| | **135.0** | 73.1 |

Non-trade payables and accrued expenses includes capital accruals such as amounts in respect of overage arrangements.

## 16 Interest-bearing loans and borrowings

| | 2016 £m | 2015 £m |
|---|---|---|
| **Non-current liabilities at amortised cost** | | |
| **Secured** | | |
| £142.9 million 5⅝% debenture stock 2029 | **144.0** | 144.0 |
| **Unsecured** | | |
| Revolving credit facilities – bank loans | **–** | 25.0 |
| £30.0 million 5.09% private placement notes 2018 | **29.9** | 29.9 |
| \$130.0 million 4.81% private placement notes 2018 | **80.9** | 80.9 |
| \$78.0 million 5.37% private placement notes 2021 | **48.5** | 48.5 |
| \$160.0 million 4.20% private placement notes 2019 | **101.9** | 101.8 |
| \$40.0 million 4.82% private placement notes 2022 | **25.5** | 25.4 |
| **Non-current liabilities at fair value** | | |
| **Unsecured** | | |
| £150.0 million 1.00% convertible bonds 2018 | **169.5** | 183.0 |
| | **600.2** | 638.5 |

The Group's £450.0 million revolving credit facility is unsecured, attracts a floating rate based on a ratchet of between 105–165 basis points above LIBOR, based on gearing, and expires in 2020 which may be extended by a further year on our request, and on each bank's approval for its participation. At 31 March 2016, the Group had £451.0 million (2015: £423.0 million) of undrawn committed credit facilities.

## 17 Financial instruments

| Categories of financial instrument | Carrying amount 2016 £m | Income/ (expense) 2016 £m | Gain/(loss) to equity 2016 £m | Carrying amount 2015 £m | Income/ (expense) 2015 £m | Gain/(loss) to equity 2015 £m |
|---|---|---|---|---|---|---|
| Convertible bond | **(169.5)** | **12.0** | **–** | (183.0) | (1.5) | – |
| Non-current liabilities at fair value | **(169.5)** | **12.0** | **–** | (183.0) | (1.5) | – |
| Interest rate floor | **2.0** | **0.9** | **–** | 3.3 | 3.3 | – |
| Cross currency swaps | **22.3** | **10.1** | **–** | 11.8 | 29.6 | – |
| Non-current assets held at fair value | **24.3** | **11.0** | **–** | 15.1 | 32.9 | – |
| Trade receivables | **12.1** | **(0.1)** | **–** | 12.2 | – | – |
| Cash and cash equivalents | **12.7** | **–** | **–** | 4.3 | – | – |
| Loans and receivables | **24.8** | **(0.1)** | **–** | 16.5 | – | – |
| Trade and other payables | **(62.9)** | **–** | **–** | (42.9) | – | – |
| Interest-bearing loans and borrowings | **(430.7)** | **(12.8)** | **–** | (455.5) | (39.0) | – |
| Finance leases | **(50.5)** | **(2.3)** | **–** | (28.5) | (1.4) | – |
| Liabilities at amortised cost | **(544.1)** | **(15.1)** | **–** | (526.9) | (40.4) | – |
| Total financial instruments | **(664.5)** | **7.8** | **–** | (678.3) | (9.0) | – |

## Financial risk management objectives

### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group has a policy of only dealing with creditworthy tenants and obtaining sufficient rental cash deposits or third party guarantees as a means of mitigating financial loss from defaults.

The concentration of credit risk is limited due to the large and diverse tenant base. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking account of the value of rent deposits obtained. Details of the Group's receivables are summarised in note 15 of the financial statements.

The Group's cash deposits are placed with a diversified range of banks and strict counterparty limits ensure the Group's exposure to bank failure is minimised.

### Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns and as such it aims to maintain an appropriate mix of debt and equity financing. The current capital structure of the Group consists of a mix of equity and debt. Equity comprises issued share capital, reserves and retained earnings as disclosed in the Group statement of changes in equity. Debt comprises long-term debenture stock, private placement notes, convertible bonds and drawings against committed revolving credit facilities from banks.

The Group operates solely in the United Kingdom, and its operating profits and net assets are sterling denominated. As a result, the Group's policy is to have no unhedged assets or liabilities denominated in foreign currencies. The currency risk on overseas transactions is fully hedged through foreign currency derivatives to create a synthetic sterling exposure.

# Notes forming part of the Group financial statements

## 17 Financial instruments (continued)

### Liquidity risk

The Group operates a framework for the management of the Group's short-, medium- and long-term funding requirements. Cash flow and funding needs are regularly monitored to ensure sufficient undrawn facilities are in place. The Group's funding sources are diversified across a range of bank and bond markets and strict counterparty limits are operated on deposits.

The Group meets its day-to-day working capital requirements through the utilisation of its revolving credit facilities. The availability of these facilities depends on the Group complying with a number of key financial covenants; these covenants and the Group's compliance with them are set out in the table below:

| Key covenants | Covenant | March 2016 actuals |
|---|---|---|
| **Group** | | |
| Net debt/net equity | **<1.25x** | **0.19x** |
| Inner borrowing (unencumbered asset value/unsecured borrowings) | **>1.66x** | **5.07x** |
| Interest cover | **>1.35x** | **12.47x** |

The Group has undrawn credit facilities of £451.0 million and has substantial headroom above all of its key covenants. As a result, the directors consider the Group to have adequate liquidity to be able to fund the ongoing operations of the business.

The following tables detail the Group's remaining contractual maturity on its financial instruments and have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is required to pay and conditions existing at the balance sheet date:

| At 31 March 2016 | Carrying amount £m | Contractual cash flows £m | Less than one year £m | One to two years £m | Two to five years £m | More than five years £m |
|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | |
| £142.9 million 5⅝% debenture stock 2029 | **144.0** | **245.9** | **8.0** | **8.0** | **24.1** | **205.8** |
| Revolving credit facilities – bank loans | **–** | **–** | **–** | **–** | **–** | **–** |
| Private placement notes | **286.7** | **332.8** | **13.0** | **13.1** | **230.5** | **76.2** |
| £150.0 million 1.00% convertible bonds 2018 | **169.5** | **153.6** | **1.5** | **1.5** | **150.6** | **–** |
| **Derivative financial instruments** | | | | | | |
| Cross currency swaps (note 14) | **(22.3)** | **1.7** | **0.5** | **0.5** | **0.6** | **0.1** |
| Interest rate floor (note 14) | **(2.0)** | **(2.1)** | **(1.3)** | **(0.8)** | **–** | **–** |
| | **575.9** | **731.9** | **21.7** | **22.3** | **405.8** | **282.1** |

| At 31 March 2015 | Carrying amount £m | Contractual cash flows £m | Less than one year £m | One to two years £m | Two to five years £m | More than five years £m |
|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | |
| £142.9 million 5⅝% debenture stock 2029 | 144.0 | 254.0 | 8.0 | 8.0 | 24.1 | 213.9 |
| Revolving credit facilities – bank loans | 25.0 | 29.7 | 0.5 | 0.5 | 28.7 | – |
| Private placement notes | 286.5 | 345.9 | 13.0 | 13.1 | 239.9 | 79.9 |
| £150.0 million 1.00% convertible bonds 2018 | 183.0 | 155.1 | 1.5 | 1.5 | 152.1 | – |
| **Derivative financial instruments** | | | | | | |
| Cross currency swaps (note 14) | (11.8) | 2.1 | 0.5 | 0.5 | 0.9 | 0.2 |
| Interest rate floor (note 14) | (3.3) | (4.0) | (1.3) | (1.8) | (0.9) | – |
| | 623.4 | 782.8 | 22.2 | 21.8 | 444.8 | 294.0 |

## 17 Financial instruments (continued)

### Market risk

Interest rate risk arises from the Group's use of interest-bearing financial instruments. It is the risk that future cash flows arising from a financial instrument will fluctuate due to changes in interest rates. It is the Group's policy to reduce interest rate risk in respect of the cash flows arising from its debt finance either through the use of fixed rate debt or through the use of interest rate derivatives such as swaps, caps and floors. It is the Group's usual policy to maintain the proportion of floating interest rate exposure to between 20%–40% of forecast total debt. However, this target is flexible, and may not be adhered to at all times depending on, for example, the Group's view of future interest rate movements.

### Interest rate swaps

Interest rate swaps enable the Group to exchange its floating rate interest payments on its bank debt for fixed rate payments on a notional value. Such contracts allow the Group to mitigate the risk of changing interest rates on the cash flow exposures on its variable rate bank loans by locking in a fixed rate on a proportion of its debt.

### Interest rate floors

Under the terms of an interest rate floor, one party (the 'seller') makes a payment to the other party (the 'buyer') if an underlying interest rate is below a specified rate. The Group has bought an interest rate floor, which, when combined with its fixed rate private placement notes raised in 2011, gives rise to the same economic effect as purchasing an interest rate cap in respect of floating rate debt.

### Cross currency swaps

Cross currency swaps enable the Group to exchange receipts or payments denominated in currencies other than sterling for receipts or payments denominated in sterling. Such contracts allow the Group to eliminate foreign exchange risk arising from fluctuating exchange rates between sterling and other currencies.

The following table details the notional principal amounts and remaining terms of interest rate derivatives outstanding at 31 March:

| | Average contracted fixed interest rate | | Notional principal amount | | Fair value (asset)/liability | |
|---|---|---|---|---|---|---|
| | **2016 %** | 2015 % | **2016 £m** | 2015 £m | **2016 £m** | 2015 £m |
| **Cash flow hedges** | | | | | | |
| **Interest rate floor** | | | | | | |
| Between one and two years | **1.80** | – | **159.7** | – | **(2.0)** | – |
| Between two and five years | **–** | 1.80 | **–** | 159.7 | **–** | (3.3) |
| | **1.80** | 1.80 | **159.7** | 159.7 | **(2.0)** | (3.3) |

The following table details the notional principal amounts and remaining terms of exchange rate derivatives outstanding at 31 March:

| | Average exchange rate | | Foreign currency | | Notional principal amount | | Fair value (asset)/liability | |
|---|---|---|---|---|---|---|---|---|
| | **2016 rate** | 2015 rate | **2016 US$m** | 2015 US$m | **2016 £m** | 2015 £m | **2016 £m** | 2015 £m |
| **Cash flow hedges** | | | | | | | | |
| **Cross currency swaps** | | | | | | | | |
| Between two and five years | **1.583** | 1.583 | **290.0** | 290.0 | **183.2** | 183.2 | **(16.4)** | (9.4) |
| In excess of five years | **1.591** | 1.591 | **118.0** | 118.0 | **74.2** | 74.2 | **(5.9)** | (2.4) |
| | **1.585** | 1.585 | **408.0** | 408.0 | **257.4** | 257.4 | **(22.3)** | (11.8) |

As at 31 March 2016, the aggregate amount of unrealised losses in respect of cash flow hedges was £nil (2015: £nil).

# Notes forming part of the Group financial statements

## 17 Financial instruments (continued)

### Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for both non-derivative and derivative financial instruments at the balance sheet date and represents management's assessment of possible changes in interest rates. For the floating rate liabilities the analysis is prepared assuming the amount of the liability at 31 March 2016 was outstanding for the whole year:

| | Impact on profit | | Impact on equity | |
|---|---|---|---|---|
| | **2016 £m** | 2015 £m | **2016 £m** | 2015 £m |
| Increase of 100 basis points | **10.0** | 7.5 | **10.0** | 7.5 |
| Increase of 50 basis points | **5.0** | 3.8 | **5.0** | 3.8 |
| Decrease of 25 basis points | **(2.5)** | (2.0) | **(2.5)** | (2.0) |
| Decrease of 50 basis points | **(5.0)** | (4.0) | **(5.0)** | (4.0) |

### Foreign exchange sensitivity

The sensitivity analysis below has been determined based on the exposure to foreign exchange rates for derivative financial instruments at the balance sheet date and represents management's assessment of changes to the fair value of the Group's cross currency swaps as a result of possible changes in foreign exchange rates:

| | Impact on profit | | Impact on equity | |
|---|---|---|---|---|
| | **2016 £m** | 2015 £m | **2016 £m** | 2015 £m |
| Increase of 20% in the exchange spot rate | **(53.6)** | (52.8) | **(53.6)** | (52.8) |
| Increase of 10% in the exchange spot rate | **(29.2)** | (28.8) | **(29.2)** | (28.8) |
| Decrease of 10% in the exchange spot rate | **35.7** | 35.2 | **35.7** | 35.2 |
| Decrease of 20% in the exchange spot rate | **80.4** | 79.3 | **80.4** | 79.3 |

### Fair value of interest-bearing loans and borrowings

| | **Book value 2016 £m** | **Fair value 2016 £m** | Book value 2015 £m | Fair value 2015 £m |
|---|---|---|---|---|
| **Level 1** | | | | |
| £150.0 million 1.00% convertible bonds 2018 | **169.5** | **169.5** | 183.0 | 183.0 |
| **Level 2** | | | | |
| Cross currency swaps | **(22.3)** | **(22.3)** | (11.8) | (11.8) |
| Interest rate floor | **(2.0)** | **(2.0)** | (3.3) | (3.3) |
| **Other items not carried at fair value** | | | | |
| £142.9 million 5⅝% debenture stock 2029 | **144.0** | **172.3** | 144.0 | 179.1 |
| Private placement notes | **286.7** | **333.9** | 286.5 | 313.4 |
| Revolving credit facilities – bank loans | **–** | **–** | 25.0 | 25.0 |
| | **575.9** | **651.4** | 623.4 | 685.4 |

The fair value of the Group's listed convertible bonds has been estimated on the basis of quoted market prices, representing Level 1 fair value measurements as defined by IFRS 13 Fair Value Measurement. The fair value of the Group's outstanding interest rate floor has been estimated by calculating the present value of future cash flows, using appropriate market discount rates, representing Level 2 fair value measurements as defined by IFRS 13. The fair value of the Group's cross currency swaps has been estimated on the basis of the prevailing rates at the year end, representing Level 2 fair value measurements as defined by IFRS 13. None of the Group's financial derivatives are designated as financial hedges.

The fair values of the Group's cash and cash equivalents and trade payables and receivables are not materially different from those at which they are carried in the financial statements.

## 18 Finance leases

Finance lease obligations in respect of the Group's leasehold properties are payable as follows:

| | **Minimum lease payments 2016 £m** | **Interest 2016 £m** | **Principal 2016 £m** | Minimum lease payments 2015 £m | Interest 2015 £m | Principal 2015 £m |
|---|---|---|---|---|---|---|
| Less than one year | **2.4** | **(2.4)** | **–** | 1.4 | (1.4) | – |
| Between two and five years | **9.6** | **(9.5)** | **0.1** | 5.8 | (5.8) | – |
| More than five years | **329.1** | **(278.7)** | **50.4** | 238.5 | (210.0) | 28.5 |
| | **341.1** | **(290.6)** | **50.5** | 245.7 | (217.2) | 28.5 |

The Group's finance lease obligations increased to £50.5 million at 31 March 2016 on the purchase of the two assets previously held by the Great Star Partnership both of which were leasehold properties.

## 19 Share capital

| | **2016 Number** | **2016 £m** | 2015 Number | 2015 £m |
|---|---|---|---|---|
| **Allotted, called up and fully paid ordinary shares of 12.5 pence** | | | | |
| At 1 April and 31 March | **343,926,149** | **43.0** | 343,926,149 | 43.0 |

At 31 March 2016, the Company's authorised share capital was 600,000,000 shares.

## 20 Investment in own shares

| | **2016 £m** | 2015 £m |
|---|---|---|
| At 1 April | **11.7** | (1.0) |
| Employee Long-Term Incentive Plan and Share Matching Plan charge | **(4.2)** | (3.5) |
| Purchase of shares | **8.1** | 19.1 |
| Transfer to retained earnings | **(6.5)** | (2.9) |
| At 31 March | **9.1** | 11.7 |

The investment in the Company's own shares is held at cost and comprises 2,569,477 shares (2015: 2,854,551 shares) held by the Great Portland Estates plc LTIP Employee Share Trust which will vest for certain senior employees of the Group if performance conditions are met. During the year, 1,435,074 shares (2015: 1,385,643 shares) were awarded to directors and senior employees in respect of the 2011 LTIP and SMP award and a further 1,150,000 shares (2015: 2,576,964 shares) were acquired by the Trust at an average cost of £7.03 per share (2015: £7.43 per share). The fair value of shares awarded and outstanding at 31 March 2016 was £13.2 million (2015: £5.2 million).

## 21 Adjustment for non-cash movements in the cash flow statement

| | **2016 £m** | 2015 £m |
|---|---|---|
| Surplus from investment property | **(422.2)** | (380.6) |
| Employee Long-Term Incentive Plan and Share Matching Plan charge | **4.2** | 3.5 |
| Spreading of tenant lease incentives | **(3.0)** | (7.6) |
| Profit on development management contracts | **(4.0)** | (1.7) |
| Share of results of joint ventures | **(66.8)** | (84.7) |
| Other non-cash items | **–** | (0.1) |
| Adjustments for non-cash items | **(491.8)** | (471.2) |

# Notes forming part of the Group financial statements

## 22 Dividends

| | 2016 £m | 2015 £m |
|---|---|---|
| **Ordinary dividends paid** | | |
| Interim dividend for the year ended 31 March 2016 of 3.6 pence per share | **12.3** | – |
| Final dividend for the year ended 31 March 2015 of 5.5 pence per share | **18.8** | – |
| Interim dividend for the year ended 31 March 2015 of 3.5 pence per share | **–** | 12.0 |
| Final dividend for the year ended 31 March 2014 of 5.4 pence per share | **–** | 18.5 |
| | **31.1** | 30.5 |

A final dividend of 5.6 pence per share was approved by the Board on 25 May 2016 and will be paid on 11 July 2016 to shareholders on the register on 3 June 2016. The dividend is not recognised as a liability at 31 March 2016. The 2015 final dividend and the 2016 interim dividend were paid in the year and are included within the Group statement of changes in equity.

## 23 Operating leases

Future aggregate minimum rentals receivable under non-cancellable operating leases are:

| | 2016 £m | 2015 £m |
|---|---|---|
| **The Group as a lessor** | | |
| Less than one year | **70.2** | 61.7 |
| Between two and five years | **189.8** | 175.9 |
| More than five years | **149.9** | 240.7 |
| | **409.9** | 478.3 |

The Group leases its investment properties under operating leases. The weighted average length of lease at 31 March 2016 was 5.0 years (2015: 6.9 years). All investment properties, except those under development, generated rental income and no contingent rents were recognised in the year (2015: £nil).

## 24 Reserves

The following describes the nature and purpose of each reserve within equity:

**Share capital**
The nominal value of the Company's issued share capital, comprising 12.5 pence ordinary shares.

**Share premium**
Amount subscribed for share capital in excess of nominal value less directly attributable issue costs.

**Capital redemption reserve**
Amount equivalent to the nominal value of the Company's own shares acquired as a result of share buy-back programmes.

**Retained earnings**
Cumulative net gains and losses recognised in the Group income statement together with other items such as dividends.

**Investment in own shares**
Amount paid to acquire the Company's own shares for its Employee Long-Term Incentive Plan and Share Matching Plan less accounting charges.

## 25 Employee benefits

The Group contributes to a defined benefit final salary pension plan ('the Plan'), the assets of which are held by trustees separately from the assets of the Group. The Plan has been closed to new entrants since April 2002. The most recent actuarial valuation of the Plan was conducted at 1 April 2015 by a qualified independent actuary using the projected unit method.
The Plan was valued using the following main assumptions:

| | **2016 %** | 2015 % |
|---|---|---|
| Discount rate | **3.60** | 3.40 |
| Expected rate of salary increases | **4.00** | 4.00 |
| RPI inflation | **3.00** | 3.00 |
| Future pension increases | **5.00** | 5.00 |

The amount recognised in the balance sheet in respect of the Plan is as follows:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Present value of unfunded obligations | **(31.3)** | (31.7) |
| Fair value of the Plan assets | **28.6** | 28.5 |
| Pension liability | **(2.7)** | (3.2) |

Amounts recognised as administration expenses in the income statement are as follows:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Current service cost | **(0.4)** | (0.3) |
| Net interest cost | **(0.1)** | – |
| | **(0.5)** | (0.3) |
| | | |
| Actuarial gain/(deficit) recognised immediately in the Group statement of changes in equity | **0.1** | (3.1) |
| Cumulative actuarial deficit recognised in the Group statement of changes in equity | **(2.3)** | (2.4) |

Changes in the present value of the pension obligation are as follows:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Defined benefit obligation at 1 April | **31.7** | 24.4 |
| Service cost | **0.4** | 0.3 |
| Interest cost | **1.1** | 1.1 |
| Effect of changes in financial assumptions | **(1.3)** | 6.2 |
| Effect of experience adjustments | **–** | 0.3 |
| Benefits paid | **(0.6)** | (0.6) |
| Present value of defined benefit obligation at 31 March | **31.3** | 31.7 |

Changes to the fair value of the Plan assets are as follows:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Fair value of the Plan assets at 1 April | **28.5** | 23.7 |
| Interest income | **1.0** | 1.1 |
| Actuarial (loss)/gain | **(1.2)** | 3.4 |
| Contributions | **0.9** | 0.9 |
| Benefits paid | **(0.6)** | (0.6) |
| Fair value of the Plan assets at 31 March | **28.6** | 28.5 |
| Net liability | **(2.7)** | (3.2) |

# Notes forming part of the Group financial statements

## 25 Employee benefits (continued)

The fair value of the Plan assets at the balance sheet date is analysed as follows:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Equities | **11.2** | 11.4 |
| Bonds | **17.4** | 17.1 |
| | **28.6** | 28.5 |

Life expectancy assumptions at age 65:

| | **2016 Years** | 2015 Years |
|---|---|---|
| Retiring today age 65 | **24** | 24 |
| Retiring in 25 years (age 40 today) | **27** | 26 |

The Group expects to contribute £0.9 million to the Plan in the year ended 31 March 2017.

# Independent auditor's report

## Independent auditor's report to the members of Great Portland Estates plc

## Opinion on financial statements of Great Portland Estates plc

In our opinion:

– the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2016 and of the Group's profit for the year then ended;

– the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;

– the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework'; and

– the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group Statement of Cash Flows, the Group Statements of Changes in Equity and the related notes 1 to 25. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

## Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1 to the financial statements and the directors' statement on the longer-term viability of the Group contained on page 74.

We have nothing material to add or draw attention to in relation to:

– the directors' confirmation on page 64 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;

– the disclosures on pages 66 to 73 that describe those risks and explain how they are being managed or mitigated;

– the directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;

– the director's explanation on page 122 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

## Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

# Independent auditor's report

## Our assessment of risks of material misstatement

The assessed risks of material misstatement described below, which are the same risks as identified in the prior year, are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

The Audit Committee has requested that, while not required under International Standards on Auditing (UK and Ireland), we include in our report any significant key observations in respect of these assessed risks of material misstatement.

| Risk description | How the scope of our audit responded to the risk | Key observations |
|---|---|---|
| **Valuation of property portfolio** | | |
| The Group owns a portfolio of property assets in central London. The portfolio is valued at £3,703.9 million, including share of joint venture properties, as at 31 March 2016.<br><br>The valuation of the portfolio is a significant judgement area and includes a number of assumptions including yields and future lease income.<br><br>The level of development activity has also increased in recent years and is an area of specific focus for our audit due to the judgements required in assessing the value of development properties, such as forecast costs to complete, the level of developer's profit, and financing costs.<br><br>Please see accounting policy at page 133 and notes 10 and 12 to the financial statements. | We assessed and discussed management's process for reviewing and challenging the work of the external valuer. We also assessed the competence, independence and integrity of the external valuer.<br><br>We obtained the external valuation reports and met with the external valuer to discuss the results of their work on a sample of properties. With the assistance of a specialist member of the audit team, who is a chartered surveyor, we discussed and challenged the valuation process, performance of the portfolio and significant judgments and assumptions applied in their valuation model, including yields, occupancy rates, lease incentives and break clauses. We benchmarked and challenged the key assumptions to external industry data and comparable property transactions, in particular the yield.<br><br>We tested the integrity of a sample of the data provided to the external valuer. This included verifying a sample of information provided to the external valuer to underlying lease agreements.<br><br>We assessed the Group's development appraisal process through meeting with project managers, testing management's process to forecast costs to complete and inspecting commitments of key developments. | We conclude that the assumptions used in the valuations were supportable in light of available and comparable market evidence. |
| **Acquisitions and disposals** | | |
| The Group has undertaken a number of acquisitions and disposals during the year including: (i) the exchange of 33 Margaret Street for £216.3 million for 50 Finsbury Square for £119.0 million; (ii) the sale of 60 Great Portland Street for £103.2 million; and (iii) the sale of 95 Wigmore Street for £222.4 million. These are significant due to the individual nature, size, cash flows involved and the related specific disclosure requirements. There is also the potential for complex contractual terms that introduce judgement into how they are accounted for.<br><br>Please see accounting policy at page 133 and notes 10, 11 and 12 to the financial statements. | For each transaction, we understood the nature of the transaction and assessed the proposed accounting treatment in relation to the Group's accounting policies and relevant IFRSs.<br><br>We confirmed key transaction terms to sale and purchase agreements for all significant acquisitions and disposals in the year, assessing whether they were appropriately recognised in the period (based upon the risks and rewards of ownership) and properly disclosed in the financial statements.<br><br>We also assessed whether key terms and pricing were appropriately reflected in any calculation of costs of the acquisition or profit or loss on disposal by inspecting sale and purchase agreements. | We found that the acquisitions and disposals during the year were properly accounted for and disclosed. We found no material issues as a result of our procedures. |

| Risk description | How the scope of our audit responded to the risk | Key observations |
|---|---|---|
| **Revenue recognition** | | |
| Revenue for the Group consists primarily of rental income. Rental income is based on tenancy agreements where there is a standard process in place for recording revenue. There are however, certain transactions within revenue that have an increased inherent risk of error due to them being impacted by the specific terms and conditions of the relevant tenancy agreements. These include: (i) accounting for surrender premia, (ii) rent free periods, and (iii) capital incentives.<br>Please see accounting policy at page 133 and note 2 to the financial statements. | We have reviewed and understood the key terms and conditions of a sample of leases identifying the quantum of surrender premia, rent free periods and capital incentives. We recalculated the required adjustment to the annual rent in relation to these items to determine whether the correct amount of revenue had been recognised in the year. | We did not identify any material surrender premia in the period. Revenue was recognised in line with the lease terms and we found the Group's revenue recognition to be in line with the accounting standards and the Group's accounting policy. |

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 91.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £27 million (2015: £25 million), which is below 1% of EPRA NAV (2015: below 2% of equity). We consider net assets to be a critical financial performance measure for the Group on the basis that it is a key metric used by management, investors, analysts and lenders. In addition to EPRA NAV, we consider EPRA Profit Before Tax to be a critical financial performance measure for the Group and we applied a lower threshold of £2.2 million (2015: £2.2 million) based on 5% (2015: 5%) of that measure for testing of all balances impacting this financial performance measure.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.55 million (2015: £0.50 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. The Group is audited by one audit team, led by the Senior Statutory Auditor. The audit is performed centrally, as the books and records for each entity within the Group are maintained at head office.

We also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

We audit all of the Group's subsidiaries and joint ventures which are subject to audit at statutory materiality level, which is lower than Group materiality.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

– the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;

– the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

– the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

# Independent auditor's report

## Matters on which we are required to report by exception

### *Adequacy of explanations received and accounting records*

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

### *Directors' remuneration*

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

### *Corporate Governance Statement*

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

### *Our duty to read other information in the Annual Report*

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Richard Muschamp, FCA (Senior statutory auditor)**
**for and on behalf of Deloitte LLP**
Chartered Accountants and Statutory Auditor
London, UK
25 May 2016

# Company balance sheet

At 31 March 2016

| | Notes | 2016 £m | 2015 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed asset investments | iii | **1,048.1** | 1,048.1 |
| | | **1,048.1** | 1,048.1 |
| **Current assets** | | | |
| Debtors | iv | **1,148.9** | 1,003.3 |
| Cash at bank and short-term deposits | | **29.6** | 2.4 |
| | | **1,178.5** | 1,005.7 |
| **Total assets** | | **2,226.6** | 2,053.8 |
| **Current liabilities** | v | **(896.8)** | (1,005.4) |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | vi | **(430.7)** | (455.5) |
| Option element of convertible bond | vii | **(26.2)** | (42.9) |
| | | **(456.9)** | (498.4) |
| **Total liabilities** | | **(1,353.7)** | (1,503.8) |
| **Net assets** | | **872.9** | 550.0 |
| | | | |
| **Capital and reserves** | | | |
| Share capital | 19 | **43.0** | 43.0 |
| Share premium account | | **352.0** | 352.0 |
| Capital redemption reserve | | **16.4** | 16.4 |
| Retained earnings | | **470.6** | 150.3 |
| Investment in own shares | 20 | **(9.1)** | (11.7) |
| **Shareholders' funds** | | **872.9** | 550.0 |

Notes: The profit within the Company financial statements was £357.9 million (2015: loss of £6.9 million). References in roman numerals refer to the notes to the Company financial statements, references in numbers refer to the notes to the Group financial statements.

The financial statements of Great Portland Estates plc (registered number: 596137) were approved by the Board on 25 May 2016 and signed on its behalf by:

**Toby Courtauld**
Chief Executive

**Nick Sanderson**
Finance Director

# Statement of changes in equity

For the year ended 31 March 2016

| | Notes | Share capital £m | Share premium £m | Capital redemption reserve £m | Retained earnings £m | Investment in own shares £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| Total equity at 1 April 2015 | | 43.0 | 352.0 | 16.4 | 150.3 | (11.7) | 550.0 |
| Profit for the year | | – | – | – | 357.9 | – | 357.9 |
| Employee Long-Term Incentive Plan and Share Matching Plan charge | 20 | – | – | – | – | 4.2 | 4.2 |
| Purchase of own shares | 20 | – | – | – | – | (8.1) | (8.1) |
| Dividends to shareholders | 22 | – | – | – | (31.1) | – | (31.1) |
| Transfer to retained earnings | | – | – | – | (6.5) | 6.5 | – |
| **Total equity at 31 March 2016** | | 43.0 | 352.0 | 16.4 | 470.6 | (9.1) | 872.9 |

# Statement of changes in equity

For the year ended 31 March 2015

| | Notes | Share capital £m | Share premium £m | Capital redemption reserves £m | Retained earnings £m | Investment in own shares £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| Total equity at 1 April 2014 | | 43.0 | 352.0 | 16.4 | 190.6 | 1.0 | 603.0 |
| Profit for the year | | – | – | – | (6.9) | – | (6.9) |
| Employee Long-Term Incentive Plan and Share Matching Plan charge | 20 | – | – | – | – | 3.5 | 3.5 |
| Purchase of own shares | 20 | – | – | – | – | (19.1) | (19.1) |
| Dividends to shareholders | 22 | – | – | – | (30.5) | – | (30.5) |
| Transfer to retained earnings | | – | – | – | (2.9) | 2.9 | – |
| **Total equity at 31 March 2015** | | 43.0 | 352.0 | 16.4 | 150.3 | (11.7) | 550.0 |

# Notes forming part of the Company financial statements

## i Accounting policies

### Accounting convention

The Company changed its basis of accounting with effect from 1 April 2015, from UK GAAP (which the Financial Reporting Committee (FRC) announced should change for all relevant companies from that date) to FRS 101. The reason for choosing FRS 101 is that it is based on International Financial Reporting Standards (IFRS), as endorsed by the European Union, and currently used for the Group financial statements. It was therefore proposed that the Company's basis of accounting be changed from UK GAAP to FRS 101 with effect from 1 April 2015. The prior year financial statements were prepared in accordance with UK GAAP and have been re-stated for material adjustments on adoption of FRS 101 in the current year. The last financial statements under a previous GAAP (UK GAAP) were for the year ended 31 March 2015 and the date of transition to FRS 101 was therefore 1 April 2014.

The movement in total equity due to the change in accounting framework from UK GAAP to FRS 101 is wholly attributable to carrying the investments in subsidiaries at cost less impairment under FRS 101 rather than at directors' valuation under UK GAAP (see note viii). Movements in equity are detailed within the statement of changes in equity on page 160. Previously under UK GAAP the Company's derivatives were held at fair value, consequently there has been no effect on the balance sheet as a result of the other changes in the accounting framework.

The financial statements are prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

### Disclosure exemptions adopted

In preparing these financial statements Great Portland Estates plc has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

- certain comparative information as otherwise required by EU endorsed IFRS;
- certain disclosures regarding the Company's capital;
- a statement of cash flows;
- certain disclosures in respect of financial instruments;
- the effect of future accounting standards not yet adopted; and
- disclosure of related party transactions with wholly-owned members of the Group.

The above disclosure exemptions have been adopted because equivalent disclosures are included in the consolidated Group accounts into which Great Portland Estates plc is consolidated.

### Subsidiary undertakings and joint ventures

Shares in subsidiary undertakings and joint ventures are carried at amounts equal to their original cost less any provision to impairment.

### Other

Accounting policies for share-based payments, other investment, deferred tax and financial instruments are the same as those of the Group and are set out on pages 132 to 135.

The Company, together with another Group company, contributes to a defined benefit pension scheme for its employees. The Company's share in the underlying assets and liabilities of the scheme cannot be readily determined on a consistent and measurable basis. As a result, the directors consider it appropriate to account for the contributions to the scheme as if it were a defined contribution scheme. Accordingly, the directors have taken the multi-employer exemption allowable under the accounting standards. Details of the Group's pension plan can be found on pages 153 and 154.

## ii Profit attributable to members of the parent undertaking

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. The profit dealt within the financial statements of the Company was £357.9 million (2015: loss of £6.9 million). The employees of the Company are the directors and the Company Secretary. Full disclosure of the directors' remuneration can be found on pages 96 to 120.

# Notes forming part of the Company financial statements

## iii Fixed asset investments

| | Investment in joint ventures £m | Shares in subsidiary undertakings £m | Total £m |
|---|---|---|---|
| At 1 April 2015 and 31 March 2016 | 0.2 | 1,047.9 | 1,048.1 |

Shares in subsidiary undertakings and joint ventures are carried at cost less any provision for impairment. The historical cost of the shares in subsidiary undertakings and joint ventures at 31 March 2016 was £1,048.1 million (2015: £1,048.1 million).

The subsidiary operating companies which affect the results of the Company, at 31 March 2016, were:

### Direct subsidiaries

The Company has a 100% interest in the ordinary share capital of the following entities.

| | Principal activity | | Principal activity |
|---|---|---|---|
| B&HS Management Limited | Property management | G.P.E. (St Thomas Street) Limited | Property investment |
| Collin Estates Limited | Property investment | J.L.P. Investment Company Limited | Property investment |
| Courtana Investments Limited | Property investment | Knighton Estates Limited | Property investment |
| G.P.E. (Bermondsey Street) Limited | Property investment | Foley Street Limited | Property investment |
| Great Portland Estates Capital (Jersey) Limited* | Finance company | Pontsarn Investments Limited | Property investment |
| GPE (Brook Street) Limited | Property investment | Portman Square Properties Holdings Limited | Property investment |
| GPE (GHS) Limited | Property investment | GPE Pension Trustee Limited | Property investment |
| G.P.E. (Blackfriars) Limited | Property investment | Uplands Trading Estates Limited | Property investment |
| Ilex Limited | Property investment | G.P.E. (Marcol House) Limited | Property investment |
| G.P.E. (Bishopsgate) Limited | Property investment | G.P.E. (80 Bishopsgate) Limited | Property investment |
| G.P.E. (88/104 Bishopsgate) Limited | Property investment | G.P.E. (61 St Mary Axe) Limited | Property investment |
| G.P.E. (88/104 Bishopsgate) (No. 2) Limited | Property investment | The Great Star Partnership Limited | Property investment |
| G.P.E. Construction Limited | Construction | G.P.E. (Rathbone Place 1) Limited | Property investment |
| 18/19 Hanover Square (No. 1) Limited | Property investment | G.P.E. (Rathbone Place 2) Limited | Property investment |
| 18/19 Hanover Square (No. 2) Limited | Property investment | G.P.E. (Rathbone Place 2) Limited | Property investment |
| The Rathbone Place Partnership (G.P. 1) Limited | Property investment | | |

### Indirect subsidiaries

| | Principal activity | | Principal activity |
|---|---|---|---|
| The Rathbone Place Partnership (G.P. 2) Limited | Holding company | Portman Square Properties Limited | Property investment |
| VIII City Place House Holdings Sarl* | Property investment | The City Place House Partnership (G.P.) Limited | Property investment |
| VIII City Tower Holdings Sarl* | Property investment | The City Tower Partnership (G.P.) Limited | Property investment |
| The City Place House Limited Partnership | Property investment | Basinghall City Tower, L.P. | Property investment |
| The Newman Street Unit Trust | Property investment | Marcol House Jersey Limited | Property investment |
| G.P.E. (Newman Street) Limited | Property investment | G.P.E. (New Bond Street) LLP | Property investment |
| Rathbone Square Limited | Property investment | The Rathbone Place Limited Partnership | Property investment |

## iii Fixed asset investments (continued)

### Directly held joint venture entities

| | Principal activity | | Principal activity |
|---|---|---|---|
| The Great Victoria Partnership (G.P.) Limited | Property investment | The Great Victoria Partnership (G.P.) (No. 2) Limited | Property investment |
| The Great Wigmore Partnership (G.P.) Limited | Property investment | Great Capital Partnership (G.P.) Limited | Property investment |
| Great Ropemaker Partnership (G.P.) Limited | Property investment | | |

### Indirectly held joint venture entities

| | Principal activity | | Principal activity |
|---|---|---|---|
| Great Victoria Property Limited | Property investment | The Great Victoria Partnership | Property investment |
| The Great Victoria Partnership (No. 2) | Property investment | Great Victoria Property (No. 2) Limited | Property investment |
| Great Wigmore Property Limited | Property investment | The Great Wigmore Partnership | Property investment |
| The Great Capital Partnership | Property investment | The Great Capital Partnership | Property investment |
| Great Ropemaker Property Limited | Property investment | The Great Ropemaker Partnership | Property investment |
| Great Ropemaker Property (Nominee 1) Limited | Property investment | Great Ropemaker Property (Nominee 2) Limited | Property investment |
| The Great Ropemaker Partnership (Blackfriars Road) Limited | Property investment | GPE (Hanover Square) Limited | Property investment |
| GHS (GP) Limited* | Property investment | GHS (Nominee) Limited* | Property investment |
| The GHS Limited Partnership* | Property investment | GWP Grays Yard Limited | Property investment |
| GWP Duke Street Limited | Property investment | | |

*All of the above companies are registered and operate in England and Wales except for Great Portland Estates Capital (Jersey) Limited, Marcol House Jersey Limited, GHS (GP) Limited, GHS (Nominee) Limited and The GHS Limited Partnership which are registered in Jersey; VIII City Place House Holdings Sarl and VIII City Tower Holdings Sarl which are registered in Luxembourg; Great Portland Estates plc is the ultimate parent undertaking of the Great Portland Estates Group.

## iv Debtors

| | **2016 £m** | 2015 £m |
|---|---|---|
| Amounts owed by subsidiary undertakings | **928.4** | 773.1 |
| Amounts owed by joint ventures | **193.0** | 213.9 |
| Other debtors | **0.7** | 1.2 |
| Derivatives | **24.3** | 15.1 |
| Bank loans | **2.5** | – |
| | **1,148.9** | 1,003.3 |

## v Current liabilities

| | **2016 £m** | 2015 £m |
|---|---|---|
| Amounts owed to subsidiary undertakings | **880.4** | 990.7 |
| Amounts owed to joint ventures | **5.5** | 5.5 |
| Other taxes and social security costs | **0.1** | – |
| Other creditors | **2.0** | 1.1 |
| Accruals | **8.8** | 8.1 |
| | **896.8** | 1,005.4 |

# Notes forming part of the Company financial statements

## vi Interest-bearing loans and borrowings

| | **2016 £m** | 2015 £m |
|---|---|---|
| Bank loans | **–** | 25.0 |
| Debentures | **144.0** | 144.0 |
| Private placement notes | **286.7** | 286.5 |
| | **430.7** | 455.5 |

Further details of the Company's loans and borrowings can be found on notes 16 and 17 of the Group accounts.

## vii Option element of convertible bond

The Group has £150 million of senior, unsecured Convertible Bonds due 2018 in issue. The Bonds have a fixed coupon of 1.0% p.a. and an initial conversion price of £7.15 per share, representing a premium of 35% above the volume weighted average price of the Company's shares from launch to pricing. The option element of the convertible bond relates to the fair value of the bondholder's underlying conversion option. The fair value has been estimated on the basis of quoted market prices.

## viii Transition to FRS 101 from UK GAAP

| | Notes | 2015 £m | FRS 101 adjustment £m | **Re-stated 2015 £m** | 2014 £m | FRS 101 adjustment £m | **Re-stated 2014 £m** |
|---|---|---|---|---|---|---|---|
| **Non-current assets** | | | | | | | |
| Fixed asset investments | A, B | 3,122.0 | (2,073.9) | **1,048.1** | 2,646.8 | (1,598.7) | **1,048.1** |
| Other investment | | – | – | **–** | 12.2 | – | **12.2** |
| | | 3,122.0 | (2,073.9) | **1,048.1** | 2,659.0 | (1,598.7) | **1,060.3** |
| **Current assets** | | | | | | | |
| Debtors | B | 676.2 | 327.1 | **1,003.3** | 592.5 | 327.0 | **919.5** |
| Cash at bank and short-term deposits | | 2.4 | – | **2.4** | 5.8 | – | **5.8** |
| | | 678.6 | 327.1 | **1,005.7** | 598.3 | 327.0 | **925.3** |
| **Total assets** | | 3,800.6 | (1,746.8) | **2,053.8** | 3,257.3 | (1,271.7) | **1,985.6** |
| **Current liabilities** | B | (867.5) | (137.9) | **(1,005.4)** | (762.2) | (134.0) | **(896.2)** |
| **Non-current liabilities** | | | | | | | |
| Interest-bearing loans and borrowings | | (455.5) | – | **(455.5)** | (462.2) | – | **(462.2)** |
| Amounts owed to subsidiary undertakings | B | (137.9) | 137.9 | **–** | (134.0) | 134.0 | **–** |
| Option element of convertible bond | | (42.9) | – | **(42.9)** | (24.2) | – | **(24.2)** |
| | | (636.3) | 137.9 | **(498.4)** | (620.4) | 134.0 | **(486.4)** |
| **Total liabilities** | | (1,503.8) | – | **(1,503.8)** | (1,382.6) | – | **(1,382.6)** |
| **Net assets** | | 2,296.8 | (1,746.8) | **550.0** | 1,874.7 | (1,271.7) | **603.0** |
| | | | | | | | |
| **Capital and reserves** | | | | | | | |
| Share capital | | 43.0 | – | **43.0** | 43.0 | – | **43.0** |
| Share premium account | | 352.0 | – | **352.0** | 352.0 | – | **352.0** |
| Retained earnings | B | 141.7 | 8.6 | **150.3** | 182.0 | 8.6 | **190.6** |
| Revaluation reserve | A | 1,746.8 | (1,746.8) | **–** | 1,271.7 | (1,271.7) | **–** |
| Acquisition reserve | B | 8.6 | (8.6) | **–** | 8.6 | (8.6) | **–** |
| Capital redemption reserve | | 16.4 | – | **16.4** | 16.4 | – | **16.4** |
| Investment in own shares | | (11.7) | – | **(11.7)** | 1.0 | – | **1.0** |
| **Shareholders' funds** | | 2,296.8 | (1,746.8) | **550.0** | 1,874.7 | (1,271.7) | **603.0** |

Notes

A) Revaluation of the fixed asset investments

The Company has chosen to adopt FRS 101, a reduced disclosure framework of EU-adopted IFRS. As allowed by the transitional provisions of IFRS 1 ('First-time Adoption of International Financial Reporting Standards'), the carrying value of investments at the transition date has been recorded at historical cost, with all previous fair value movements reversed through the revaluation reserve. Accordingly, the Company has recorded a decrease at the transition date in the carrying value of its investment in subsidiaries of £1,746.8 million as at 31 March 2015 and £1,271.7 million as at 31 March 2014, which have been credited to the revaluation reserve.

B) Presentational adjustments

Non-current and current assets and liabilities: IFRS required all assets and liabilities to be presented on a non-current and current basis. Balances reported under UK GAAP such as the following have been reclassified accordingly to reflect that the amounts owed to Group undertakings are repayable on demand:

- Within fixed asset investments, loans to subsidiary undertakings have been moved to debtors within current assets.
- Within long-term liabilities, amounts owed to subsidiary undertakings have been moved to creditors due before one year.

Capital and reserves

- Within capital and reserves, the acquisition reserve has been moved to retained earnings.

# Other information

In this section we give further useful information for our shareholders.

**In this section:**

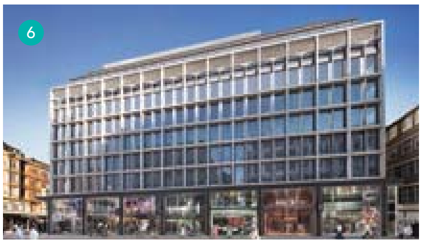


Simon Rowley (Leasing Manager) with Tim Plumbe (DTZ), our letting agent at 240 Blackfriars Road, SE1

# Our properties and tenants





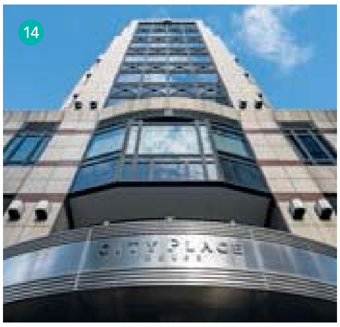

In value order (GPE share)

| Ownership | Property name | | Location | Tenure | Rent roll (GPE share) £ | Net internal area sq ft |
|---|---|---|---|---|---|---|
| **£200 million plus** | | | | | | |
| 100% | Rathbone Square | 1 | Noho | FH | – | 418,700 |
| 100% | The Piccadilly Buildings | 2 | Rest of West End | LH | 10,339,000 | 187,100 |
| 100% | 73/89 Oxford Street | 3 | Rest of West End | LH | – | 90,700 |
| **£100 million – £200 million** | | | | | | |
| 100% | Wells & More, 45 Mortimer Street | 4 | Noho | FH | 6,198,900 | 123,200 |
| 100% | 30 Broadwick Street | 5 | Rest of West End | FH | 150,300 | 91,800 |
| 100% | Oxford House, 76 Oxford Street | 6 | Noho | FH | 3,742,900 | 79,400 |
| 100% | 160 Great Portland Street | 7 | Noho | FH | 4,901,500 | 92,900 |
| 50% | Hanover Square Estate | 8 | Rest of West End | FH | – | 58,500 |
| 50% | 240 Blackfriars Road | 9 | Southwark | FH | 5,376,200 | 236,000 |
| 100% | 50 Finsbury Square | 10 | City | FH | 6,631,200 | 126,500 |
| 50% | Mount Royal, 508/540 Oxford Street | 11 | Noho | LH | 5,442,250 | 92,100 |
| 50% | 200 & 2014 Gray's Inn Road | 12 | Midtown | LH | 4,227,000 | 291,600 |
| 100% | City Tower, 40 Basinghall Street | 13 | City | LH | 4,789,300 | 139,400 |
| 100% | City Place House, 55 Basinghall Street | 14 | City | LH | 6,672,600 | 176,500 |
| 100% | Walmar House, 288/300 Regent Street | 15 | Noho | LH | 4,270,000 | 56,500 |
| 100% | Kent House, 14/17 Market Place | | Noho | LH | 3,550,500 | 59,300 |
| **£75 million – £100 million** | | | | | | |
| 100% | Elsley House, 20/30 Great Titchfield Street | | Noho | FH | 2,611,200 | 66,900 |
| 100% | Minerva House | | Southwark | FH | 3,408,000 | 103,700 |
| 100% | 35 Portman Square | | Noho | LH | 4,283,700 | 73,000 |
| 100% | New City Court, 14/20 St Thomas Street | | Southwark | FH | 2,698,500 | 97,800 |

## Our properties and tenants

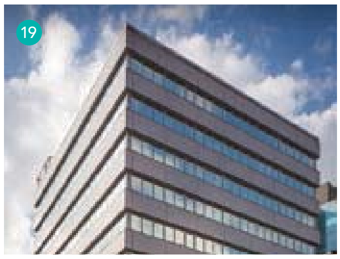

In value order (GPE share)

| Ownership | Property name | Location | Tenure | Rent roll (GPE share) £ | Net internal area sq ft |
|---|---|---|---|---|---|
| **£50 million – £75 million** | | | | | |
| 100% | Carrington House, 126/130 Regent Street | Rest of West End | LH | 2,025,400 | 31,100 |
| 100% | 27/41 Mortimer Street | Noho | FH | 1,359,100 | 54,300 |
| 100% | Orchard Court | Noho | LH | 2,171,100 | 47,800 |
| 100% | 24/25 Britton Street | Midtown | FH/LH | 818,500 | 51,400 |
| **£40 million – £50 million** | | | | | |
| 100% | 46/58 Bermondsey Street | Southwark | FH | 1,697,900 | 46,800 |
| 100% | 48/54 Broadwick Street | Rest of West End | FH | 1,045,200 | 32,300 |
| **£30 million – £40 million** | | | | | |
| 100% | 78/92 Great Portland Street | Noho | FH | 300 | 50,800 |
| 50% | 103/113 Regent Street | Rest of West End | LH | 2,125,000 | 52,800 |
| 100% | 10/12 Cork Street | Rest of West End | LH | 1,549,700 | 21,300 |
| 50% | 148 Old Street 16 | City | FH | – | 161,900 |
| **£20 million – £30 million** | | | | | |
| 100% | 6/10 Market Place | Noho | FH | 1,169,200 | 18,400 |
| 100% | 31/34 Alfred Place 17 | Noho | LH | – | 43,700 |
| 50% | 40/48 Broadway & 1/15 Carteret Street | Rest of West End | LH | 669,600 | 73,200 |
| 100% | Tasman House, 59/63 Wells Street 18 | Noho | FH | – | 37,300 |
| 100% | Percy House, 33/34 Gresse Street | Noho | FH | 730,800 | 17,300 |






In value order (GPE share)

| Ownership | Property name | | Location | Tenure | Rent roll (GPE share) £ | Net internal area sq ft |
|---|---|---|---|---|---|---|
| **£10 million – £20 million** | | | | | | |
| 100% | Kingsland House, 122/124 Regent Street | | Rest of West End | LH | 559,400 | 8,700 |
| 50% | Wigmore Street Island Site | | Noho | FH | 242,975 | 38,860 |
| 100% | 32/36 Great Portland Street | | Noho | FH | 427,500 | 12,900 |
| 50% | Elm House | 19 | Midtown | FH | – | 48,800 |
| **Below £10 million** | | | | | | |
| 100% | 6 Brook Street | | Rest of West End | LH | 199,700 | 3,600 |
| 100% | 183/190 Tottenham Court Road | | Noho | LH | 369,600 | 12,000 |
| 100% | 23/24 Newman Street | | Noho | FH | 192,900 | 25,100 |
| 100% | 42/44 Mortimer Street | | Noho | FH | 195,500 | 5,600 |

FH = Freehold or Virtual Freehold.
LH = Leasehold.

## Top ten tenants

| | Tenant | Rent roll (our share) £m | % of rent roll (our share) |
|---|---|---|---|
| 1 | Bloomberg L.P. | 5.7 | 5.9 |
| 2 | Double Negative Limited | 4.8 | 5.0 |
| 3 | New Look | 3.8 | 3.9 |
| 4 | Cleary Gottlieb Steen & Hamilton LLP | 2.8 | 2.8 |
| 5 | Richemont UK Limited | 2.6 | 2.7 |
| 6 | UBM Plc | 2.5 | 2.5 |
| 7 | C-Retail Ltd | 2.1 | 2.2 |
| 8 | Winckworth Sherwood LLP | 1.9 | 2.0 |
| 9 | Guy's and St Thomas's NHS Foundation Trust | 1.8 | 1.8 |
| 10 | Fallon London Limited | 1.6 | 1.7 |
| | **Total** | **29.6** | **30.5** |

# Portfolio statistics at 31 March 2016

## Rental income

| | | | Wholly-owned | | | Share of joint ventures | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Rent roll £m | Reversionary potential £m | Rental values £m | Rent roll £m | Reversionary potential £m | Rental values £m | Total rental values £m |
| London | North of Oxford Street | Office | 27.5 | 8.8 | 36.3 | – | – | – | 36.3 |
| | | Retail | 8.7 | 2.5 | 11.2 | 5.7 | 1.0 | 6.7 | 17.9 |
| | Rest of West End | Office | 9.0 | 2.9 | 11.9 | 0.7 | 1.1 | 1.8 | 13.7 |
| | | Retail | 6.8 | 2.4 | 9.2 | 2.1 | 0.1 | 2.2 | 11.4 |
| | **Total West End** | | **52.0** | **16.6** | **68.6** | **8.5** | **2.2** | **10.7** | **79.3** |
| | City, Midtown and Southwark | Office | 25.4 | 10.6 | 36.0 | 9.5 | 2.4 | 11.9 | 47.9 |
| | | Retail | 1.3 | 0.3 | 1.6 | 0.1 | 0.1 | 0.2 | 1.8 |
| | **Total City, Midtown and Southwark** | | **26.7** | **10.9** | **37.6** | **9.6** | **2.5** | **12.1** | **49.7** |
| **Total let portfolio** | | | **78.7** | **27.5** | **106.2** | **18.1** | **4.7** | **22.8** | **129.0** |
| Voids | | | | | 5.1 | | | 0.6 | 5.7 |
| Premises under refurbishment | | | | | 48.4 | | | 6.8 | 55.2 |
| **Total let portfolio** | | | | | **159.7** | | | **30.2** | **189.9** |

## Rent roll security, lease lengths and voids

| | | | Wholly-owned | | | Joint ventures | | |
|---|---|---|---|---|---|---|---|---|
| | | | Rent roll secure for five years % | Weighted average lease length Years | Voids % | Rent roll secure for five years % | Weighted average lease length Years | Voids % |
| London | North of Oxford Street | Office | 37.6 | 6.2 | 0.9 | – | – | – |
| | | Retail | 52.5 | 5.3 | 3.3 | 70.7 | 6.0 | 0.4 |
| | Rest of West End | Office | 23.7 | 3.1 | 4.0 | 38.6 | 3.8 | 0.5 |
| | | Retail | 71.0 | 5.5 | 1.7 | 100.0 | 11.0 | – |
| | **Total West End** | | **41.9** | **5.4** | **2.1** | **75.6** | **7.1** | **0.6** |
| | City, Midtown and Southwark | Office | 23.7 | 3.9 | 6.5 | 83.0 | 8.2 | 3.0 |
| | | Retail | 41.2 | 8.9 | – | 100.0 | 12.2 | 30.8 |
| | **Total City, Midtown and Southwark** | | **24.5** | **4.2** | **6.5** | **83.1** | **8.3** | **3.1** |
| **Total let portfolio** | | | **36.0** | **5.0** | **3.2** | **79.6** | **7.7** | **2.1** |

## Rental values and yields

| | | | Wholly-owned | | Joint ventures | | Wholly-owned | | Joint ventures | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Average rent £psf | Average ERV £psf | Average rent £psf | Average ERV £psf | Initial yield % | True equivalent yield % | Initial yield % | True equivalent yield % |
| London | North of Oxford Street | Office | 54 | 71 | – | – | 3.0 | 4.3 | – | – |
| | | Retail | 55 | 64 | 113 | 132 | 2.8 | 3.8 | 4.4 | 3.9 |
| | Rest of West End | Office | 59 | 83 | 19 | 41 | 2.8 | 4.5 | 0.5 | 3.7 |
| | | Retail | 78 | 115 | 74 | 73 | 3.0 | 4.2 | 1.9 | 3.6 |
| | **Total West End** | | **57** | **67** | **74** | **76** | **2.9** | **4.2** | **2.3** | **3.7** |
| | City, Midtown and Southwark | Office | 39 | 55 | 39 | 51 | 3.7 | 5.0 | 1.7 | 4.7 |
| | | Retail | 62 | 71 | 43 | 43 | 4.5 | 4.7 | 3.1 | 4.6 |
| | **Total City, Midtown and Southwark** | | **40** | **55** | **39** | **50** | **3.7** | **5.0** | **1.7** | **4.7** |
| **Total let portfolio** | | | **50** | **64** | **50** | **58** | **3.2** | **4.4** | **2.0** | **4.2** |

# Notice of meeting

Notice is hereby given that the 59th Annual General Meeting of Great Portland Estates plc will be held at Chandos House, 2 Queen Anne Street, London W1, on Thursday, 7 July 2016 at 11.30am, for the purposes set out below, with the Board available from 11am to meet shareholders and answer questions.

## Ordinary resolutions

1. To receive and adopt the audited financial statements together with the directors' and auditor's reports for the year ended 31 March 2016.
2. To authorise the payment of a final dividend for the year ended 31 March 2016.
3. To approve the Directors' remuneration report as set out on pages 96 to 120, other than the part containing the Directors' remuneration policy that appears on pages 110 to 120, for the year ended 31 March 2016.
4. To re-elect Toby Courtauld as a director of the Company.
5. To re-elect Nick Sanderson as a director of the Company.
6. To re-elect Neil Thompson as a director of the Company.
7. To re-elect Martin Scicluna as a director of the Company.
8. To re-elect Elizabeth Holden as a director of the Company.
9. To re-elect Charles Philipps as a director of the Company.
10. To re-elect Jonathan Short as a director of the Company.
11. To reappoint Deloitte LLP as auditor.
12. To authorise the Audit Committee to agree the remuneration of the auditors.

As special business, to consider and, if thought fit, to pass the following Resolution 13 as an ordinary resolution, and those numbered 14 to 17 inclusive as special resolutions. The items of special business are explained in more detail in the Report of the directors on pages 123 and 124.

13. That:

(a) the directors be authorised to allot shares in the Company or grant rights to subscribe for, or convert any security into, shares in the Company:

(i) in accordance with Article 9 of the Company's Articles of Association (the Articles), up to a maximum nominal amount of £14,330,256 (such amount to be reduced by the nominal amount of any equity securities (as defined in Article 10 of the Articles) allotted under paragraph (ii) below in excess of £14,330,256); and

(ii) comprising equity securities (as defined in Article 10 of the Articles), up to a maximum nominal amount of £28,660,512 (such amount to be reduced by any shares allotted or rights granted under paragraph (i) above) in connection with an offer by way of a rights issue (as defined in Article 10 of the Articles);

(b) this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, or, if earlier, at the close of business on 1 October 2017; and

(c) all previous unutilised authorities under section 551 of the Companies Act 2006 shall cease to have effect (save to the extent that the same are exercisable pursuant to section 551(7) of the Companies Act 2006 by reason of any offer or agreement made prior to the date of this resolution which would or might require shares to be allotted or rights to be granted on or after that date).

## Special resolutions

14. That:

(a) in accordance with Article 10 of the Company's Articles of Association (the Articles), the directors be given power to allot equity securities for cash;

(b) the power under paragraph (a) above (other than in connection with a rights issue, as defined in article 10 of the Articles) shall be limited to the allotment of equity securities having a nominal amount not exceeding in aggregate £2,149,538;

(c) this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or, if earlier, at the close of business on 1 October 2017.

15. That:

(a) in addition to any authority granted under resolution 14, the directors be given power:

(i) subject to the passing of resolution 13, to allot equity securities (as defined in section 560 of the Companies Act 2006 (the Act)) for cash pursuant to the authority conferred on them by that resolution under section 551 of the Act; and

(ii) to allot equity securities as defined in section 560(3) of the Act (sale of treasury shares) for cash,

in either case as if section 561 of the Act did not apply to the allotment or sale, but this power shall be:

(A) limited to the allotment of equity securities up to a maximum nominal amount of £2,149,538; and

(B) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Board of the Company determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice, and including development and/or refurbishment expenditure;

(b) this power shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or, if earlier, at the close of business on 1 October 2017; and

(c) the Company may, before this power expires, make an offer or enter into an agreement, which would or might require equity securities to be allotted after it expires and the directors may allot equity securities in pursuance of such offer or agreement as if this power had not expired.

16. That, in accordance with the Companies Act 2006, the Company be and it is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 693 of the Companies Act 2006) of its shares on such terms and in such manner as the directors may determine, provided that:

(a) the maximum number of shares which may be purchased is 51,554,530;

# Notice of meeting

(b) the maximum price at which shares may be purchased shall not be more than the higher of an amount equal to 5% above the average of the middle market quotations for the shares as taken from the London Stock Exchange Daily Official List for the five business days preceding the date of purchase and an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System, and the minimum price shall be 12.5 pence, being the nominal value of the shares, in each case exclusive of expenses;

(c) the authority conferred by this resolution shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or at the close of business on 1 October 2017, whichever is the earlier, save that the Company may before such expiry enter into a contract or contracts for purchase under which such purchase may be completed or executed wholly or partly after the expiration of this authority and may make a purchase of shares in pursuance of any such contract; and

(d) all existing authorities for the Company to make market purchases of its shares are revoked, except in relation to the purchase of shares under a contract or contracts concluded before the date of this resolution and which has or have not yet been executed.

17. That, in accordance with the Company's Articles of Association, a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

Registered office:
33 Cavendish Square
London W1G 0PW

By order of the Board
Registered Number: 596137

Desna Martin
Company Secretary
25 May 2016

## Notes to notice of meeting

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. In order to be valid an appointment of proxy must be returned by one of the following methods:
   – in hard copy form by post, by courier or by hand to the Company's Registrar at the address shown on the form of proxy; or
   – online by following the instructions for the electronic appointment of a proxy at www.capitashareportal.com; or
   – in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below,
   and in each case must be received by the Company's Registrar not less than 48 hours before the time of the meeting.
2. The return of a completed proxy form, online proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 8 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so. A shareholder must inform the Company's Registrar in writing of any termination of the authority of a proxy.
3. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a Nominated Person) may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
4. The statement of rights of shareholders in relation to the appointment of proxies in paragraph 1 above does not apply to Nominated Persons. The rights described in this paragraph can only be exercised by shareholders of the Company.
5. Nominated persons are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investments in the Company.
6. As at 24 May 2016 (being the latest practicable date prior to the publication of this Notice), the Company's issued share capital consists of 343,926,149 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 24 May 2016 are 343,926,149.
7. Copies of all directors' contracts and the Company's Articles of Association are available for inspection at 33 Cavendish Square, London W1G 0PW during normal business hours on any weekday (English public holidays excepted) and will be available at the place of the Annual General Meeting for at least 15 minutes prior to and during the Annual General Meeting.
8. (a) CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual on the Euroclear website (www.euroclear.com). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
   (b) In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited specifications and must contain the information required for such instructions, as described in the CREST Manual. The message regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID: RA10) by the latest time(s) for receipt of proxy appointments specified in the Notice of Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
   (c) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
   (d) CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that their CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
9. The Company specifies that only those shareholders registered in the Register of Members of the Company as at 6pm on 5 July 2016 (or in the event of any adjournment, at 6pm on the date which is two days before the date of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time and changes to the Register after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
10. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
11. Under section 527 of the Companies Act 2006, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the Auditors' Report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the members requesting such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006, and it must forward the statement to the Company's auditors not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on its website.
12. A member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
13. A copy of this notice, and other information required by section 311A of the Companies Act 2006 can be found at www.gpe.co.uk/investors/agm/
14. You may not use any electronic address provided either in this Notice of Meeting or any related documents (including the form of proxy) to communicate with the Company for any other purposes other than those expressly stated.
15. Voting on all resolutions will be conducted by way of a poll rather than on a show of hands. This will result in a more accurate reflection of the views of shareholders by ensuring that every vote is recognised, including all votes of shareholders who are unable to attend the meeting but who appoint a proxy for the meeting. On a poll, each shareholder has one vote for every share held.

# Five year record

## Based on the Group financial statements for the years ended 31 March

### Balance sheet

| | 2012 £m | 2013 £m | 2014 £m | 2015 £m | **2016 £m** |
|---|---|---|---|---|---|
| Property portfolio | 1,366.0 | 1,899.5 | 1,972.7 | 2,348.2 | **2,932.1** |
| Joint ventures | 538.2 | 348.3 | 524.8 | 636.7 | **543.4** |
| Trading property | – | – | 93.3 | 115.9 | **172.4** |
| Loans and borrowings | (507.4) | (666.0) | (623.5) | (638.5) | **(600.2)** |
| Other liabilities | (158.5) | (44.1) | (35.4) | (71.4) | **(135.5)** |
| **Net assets** | **1,238.3** | **1,537.7** | **1,931.9** | **2,390.9** | **2,912.2** |

### Financed by

| | £m | £m | £m | £m | **£m** |
|---|---|---|---|---|---|
| Issued share capital | 39.1 | 43.0 | 43.0 | 43.0 | **43.0** |
| Reserves | 1,199.2 | 1,494.7 | 1,888.9 | 2,347.9 | **2,869.2** |
| **Total equity** | **1,238.3** | **1,537.7** | **1,931.9** | **2,390.9** | **2,912.2** |

| | | | | | |
|---|---|---|---|---|---|
| **Net assets per share** | **402p** | **451p** | **564p** | **701p** | **847p** |
| **Net assets per share – EPRA** | **403p** | **446p** | **569p** | **709p** | **847p** |

### Income statement

| | £m | £m | £m | £m | **£m** |
|---|---|---|---|---|---|
| Net rental income | 46.4 | 57.1 | 69.7 | 66.0 | **75.5** |
| Joint venture fee income | 5.6 | 6.1 | 6.9 | 4.2 | **4.1** |
| Rental and joint venture fee income | 52.0 | 63.2 | 76.6 | 70.2 | **79.6** |
| Property and administration expenses | (26.2) | (29.3) | (32.3) | (27.8) | **(32.6)** |
| Trading property – cost of sales | – | – | (1.6) | (4.8) | **(0.6)** |
| Development management profits | – | – | – | 1.7 | **4.0** |
| | 25.8 | 33.9 | 42.7 | 39.3 | **50.4** |
| Surplus on investment property | 97.2 | 99.0 | 325.6 | 380.6 | **422.2** |
| Share of results of joint ventures | 50.0 | 61.2 | 105.6 | 84.7 | **66.8** |
| Loss on disposal of joint ventures | – | (0.5) | – | – | **–** |
| **Operating profit** | **173.0** | **193.6** | **473.9** | **504.6** | **539.4** |
| Finance income | 5.1 | 8.4 | 9.9 | 11.8 | **7.8** |
| Finance costs | (19.2) | (27.3) | (26.5) | (17.7) | **(14.8)** |
| Fair value movement on convertible bond | – | – | (11.3) | (21.7) | **13.5** |
| Fair value movement on derivatives | (2.2) | 5.9 | (23.8) | 30.4 | **9.2** |
| Non-recurring items | (1.5) | – | – | – | **–** |
| **Profit before tax** | **155.2** | **180.6** | **422.2** | **507.4** | **555.1** |
| Tax | – | – | – | 0.8 | **1.1** |
| **Profit for the year** | **155.2** | **180.6** | **422.2** | **508.2** | **556.2** |

| | | | | | |
|---|---|---|---|---|---|
| **Earnings per share – basic** | **50.2p** | **56.3p** | **123.4p** | **148.3p** | **162.6p** |
| **Earnings per share – diluted** | **50.2p** | **56.3p** | **122.5p** | **147.4p** | **161.9p** |
| **Earnings per share – EPRA diluted** | **5.6p** | **6.9p** | **11.0p** | **12.7p** | **13.5p** |
| **Dividend per share** | **8.4p** | **8.6p** | **8.8p** | **9.0p** | **9.2p** |

# Glossary

**Building Research Establishment Environmental Assessment Methodology (BREEAM)**
Building Research Establishment method of assessing, rating and certifying the sustainability of buildings.

**Core West End**
Areas of London with W1 and SW1 postcodes.

**Earnings Per Share (EPS)**
Profit after tax divided by the weighted average number of ordinary shares in issue.

**EPRA adjustments**
Standard calculation methods for adjusted EPS and NAV as set out by the European Public Real Estate Association (EPRA) in their Best Practice and Policy Recommendations.

**Estimated Rental Value (ERV)**
The market rental value of lettable space as estimated by the Company's valuers at each balance sheet date.

**Fair value – Investment property**
The amount as estimated by the Company's valuers for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. In line with market practice, values are stated net of purchasers' costs.

**IPD**
The Investment Property Databank Limited (IPD) is a company that produces an independent benchmark of property returns.

**IPD central London**
An index, compiled by IPD, of the central and inner London properties in their March annual valued universes.

**Like-for-like portfolio**
Properties that have been held for the whole of the period of account.

**Loan To Value (LTV)**
Total bank loans, private placement notes, convertible bonds at nominal value and debenture stock, net of cash (including our share of joint ventures balances), expressed as a percentage of the market value of the property portfolio (including our share of joint ventures).

**Net assets per share or Net Asset Value (NAV)**
Equity shareholders' funds divided by the number of ordinary shares at the balance sheet date.

**Net gearing**
Total Group borrowings (including the convertible bonds at nominal value) less short-term deposits and cash as a percentage of equity shareholders' funds, calculated in accordance with our bank covenants.

**Net initial yield**
Annual net rents on investment properties as a percentage of the investment property valuation having added notional purchaser's costs.

**Non-PIDs**
Dividends from profits of the Group's taxable residual business.

**PMI**
Purchasing Managers Index.

**Portfolio Internal Rate of Return (IRR)**
The rate of return that if used as a discount rate and applied to the projected cash flows from the portfolio would result in a net present value of zero.

**Property Income Distributions (PIDs)**
Dividends from profits of the Group's tax-exempt property rental business.

**REIT**
UK Real Estate Investment Trust.

**Rent roll**
The annual contracted rental income.

**Reversionary or under-rented**
The percentage by which ERV exceeds rents passing, together with the estimated rental value of vacant space.

**Reversionary yield**
The anticipated yield, which the initial yield will rise to once the rent reaches the ERV.

**Total Property Return (TPR)**
Capital growth in the portfolio plus net rental income derived from holding these properties plus profit on sale of disposals expressed as a percentage return on the period's opening value.

**Total Shareholder Return (TSR)**
The growth in the ordinary share price as quoted on the London Stock Exchange plus dividends per share received for the period expressed as a percentage of the share price at the beginning of the period.

**Triple net asset value (NNNAV)**
NAV adjusted to include the fair value of the Group's financial liabilities on a diluted basis.

**True equivalent yield**
The constant capitalisation rate which, if applied to all cash flows from an investment property, including current rent, reversions to current market rent and such items as voids and expenditures, equates to the market value having taken into account notional purchaser's costs. Assumes rent is received quarterly in advance.

**Vacancy rate**
The element of a property which is unoccupied but available for letting, expressed as the ERV of the vacant space divided by the ERV of the total portfolio.

**Weighted Average Unexpired Lease Term (WAULT)**
The Weighted Average Unexpired Lease Term expressed in years.

# Shareholders' information

### Shareholder enquiries

All enquiries relating to holdings of shares, bonds or debentures in Great Portland Estates, including notification of change of address, queries regarding dividend/interest payments or the loss of a certificate, should be addressed to the Company's registrars:

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU
Tel: 0871 664 0300
E-mail: ssd@capitaregistrars.com

(Calls cost 12 pence per minute plus network extras; lines are open 9.00am–5.30pm Monday to Friday.)

If you are calling from overseas please dial +44 371 664 0300

### Unsolicited telephone calls – Boiler room scams

Over the last year, some of our shareholders have received unsolicited telephone calls or correspondence concerning investment matters from organisations or persons claiming or implying that they have some connection with the Company.

These are typically from overseas based 'brokers' who target UK shareholders offering to sell them shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These operations are commonly known as 'boiler rooms'. Shareholders are advised to be very wary of any offers of unsolicited advice, discounted shares, premium prices for shares they own or free reports into the Company. If you receive any unsolicited investment advice:

– ensure you get the correct name of the person and firm;
– check that the firm is on the Financial Conduct Authority (FCA) Register to ensure they are authorised at **www.fsa.gov.uk/register/home.do**
– use the details on the FCA Register to contact the firm;
– call the FCA Consumer Helpline (0800 111 6768) if there are no contact details in the Register or you are told they are out of date; and
– if the calls persist, hang up.

If you use an unauthorised firm to buy or sell shares, you will not have access to the Financial Ombudsman Service or the Financial Services Compensation Scheme.

### Payment of dividends

If you would like your dividends/interest paid directly into your bank or building society account, you should write to Capita Registrars, including details of your nominated account. Although this will enable your dividend/interest to be paid directly into your account, your tax voucher will still be sent to your registered address.

### Tax consequences of REIT status

As a REIT, dividend payments must be split between PIDs and non-PIDs. Information in respect of the tax consequences for shareholders of receiving dividends can be found on the Company's website at **www.gpe.co.uk/investors/shareholder-information/reits**

### Share dealing service

An online and telephone dealing service is available for UK shareholders through Capita Deal. For further information on this service, or to buy and sell shares, please contact:

Online dealing – www.capitadeal.com

Telephone dealing – 0371 664 0445

(Calls are charged at the standard geographical rate and will vary by provider; lines are open 8.00am–4.30pm Monday to Friday.)

### Website

The Company has a corporate website, which holds, amongst other information, a copy of our latest Annual Report and Accounts, a list of properties held by the Group and copies of all press announcements released over the last 12 months. The site can be found at **www.gpe.co.uk**

### Company Secretary

Desna Martin, BCom FCA(Aust) ACIS
Registered office
33 Cavendish Square
London W1G 0PW
Tel: 020 7647 3000
Fax: 020 7016 5500
Registered number: 596137

# Financial calendar

## 2016

### 2 June
Ex-dividend date for 2015/16 final dividend

### 3 June
Registration qualifying date for 2015/16 final dividend

### 7 July
Annual General Meeting

### 11 July
2015/16 final dividend payable

### 17 Nov
Announcement of 2016/17 interim results

### 24 Nov
Ex-dividend date for 2016/17 interim dividend (provisional)[1]

### 25 Nov
Registration qualifying date for 2016/17 interim dividend (provisional)[1]

## 2017

### 3 Jan
2016/17 interim dividend payable (provisional)[1]

### 24 May
Announcement of 2016/17 full year results (provisional)[1, 2]

1. Provisional dates will be confirmed in the Half Year results announcement 2016.
2. The timetable for the potential final dividend will be confirmed in the 2017 Annual Report.

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Great Portland Estates plc
33 Cavendish Square
London W1G 0PW

Tel: 020 7647 3000
Fax: 020 7016 5500

www.gpe.co.uk