# Unlocking potential

**Great Portland Estates plc** Annual Report 2018

## Strategic Report – Overview



## Strategic Report – Annual review



## Governance



## Financial statements



## Other information



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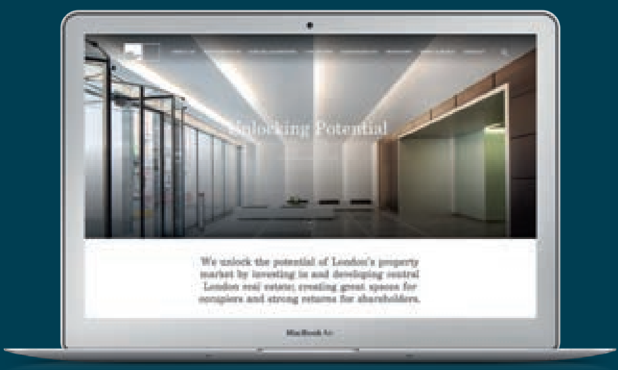



**Cover image:** The reception of 73/89 Oxford Street, W1.

# Who we are

## Great Portland Estates is a property investment and development company owning £2.8 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 delivered another strong operational performance and good financial results, driven by successful development completions and leasing, combined with profitable recycling and further returns of capital to shareholders. Our 2018 Strategic Report on pages 1 to 81 has been reviewed and approved by the Board."

On behalf of the Board
**Martin Scicluna** Chairman

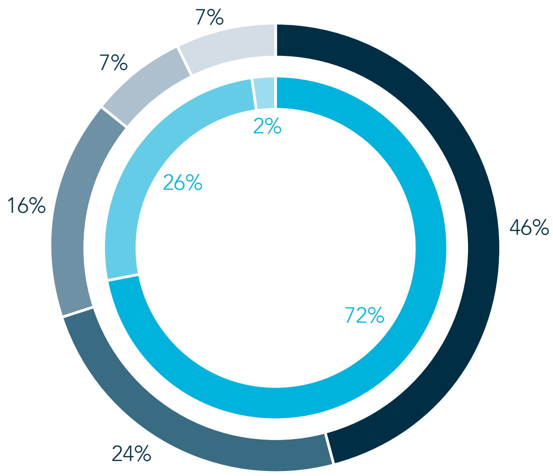
# What we do

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 occupiers' needs through repositioning properties in tune with London's property cycle.

## Our portfolio – 70% in West End

**Locations**
- North of Oxford Street £1,281.9m
- Rest of West End £669.3m
- City £433.9m
- Southwark £209.4m
- Midtown £195.5m

**Business mix**
- Office £1,995.9m
- Retail £727.3m
- Residential £66.8m




£2,790 million portfolio valuation

2.9 million sq ft

11% in committed development

37% in development pipeline

55 properties, 40 sites

346 occupiers

£54.60 average office rent per sq ft

£107.3 million rent roll

0.3% rental value uplift in year

12.1% reversionary potential

4.9% vacancy rate

88% <800 metres from a Crossrail station

## Our financial strength

| Net assets | Net debt (excluding JVs) | Net gearing | Pro forma loan to value | Pro forma cash and undrawn facilities |
|---|---|---|---|---|
| £2.37bn | £(5.2)m | 0% | 11.6% | £666m |

## Performance highlights

| Portfolio valuation | EPRA NAV per share | Total Property Return (TPR) | Total Accounting Return (TAR) | Total Shareholder Return (TSR) |
|---|---|---|---|---|
| £2.79bn | 845p | 5.5% | 7.1% | 4.0% |
| 2017: £3.15bn (up 2.9% LfL) | 2017: 799p (up 5.8%) | 2017: (3.0)% (up 8.5 pps) | 2017: (4.6)% (up 11.7 pps) | 2017: (9.3)% (up 13.3 pps) |

| Ordinary dividend per share | Special dividend per share | B share scheme return per share |
|---|---|---|
| 11.3p | 32.15p | 93.65p |
| 2017: 10.1p (up 11.9%) | Declared in April 2017 | Approved in March 2018 |

EPRA and adjusted metrics: we prepare our financial statements using IFRS, however we also use a number of adjusted measures in assessing and managing the performance of the business. These measures, including those defined by EPRA which are designed to enhance transparency and comparability across the European real estate sector, are included in note 9 of the financial statements. For a definition of pro forma debt metrics see page 45.

▶ **See our KPIs and operational measures** on pages 26 and 27 and glossary for definitions

## Our management team

▶ **See our Board and Management team** on pages 64 to 67

## Our integrated approach

### 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 acquire properties, often off-market, that are rich with opportunity for improvement. Our reading of the cycle has led us to be net sellers for the last five consecutive years.

Sales activity

£329.0m

▶ **See more** on pages 36 to 37

### Development management

Upgrading our portfolio through development using targeted capital expenditure creates sustainable spaces with improved occupier 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 and ensure that our properties are sensitive to the wider environment in which they are located.

Profit on cost on committed schemes

15.9%

▶ **See more** on pages 38 to 41

### Portfolio management

Keeping close to our 346 occupiers to understand their needs helps us ensure that we adapt and innovate in order to meet changing occupier requirements and ways of working. This helps improve satisfaction rates, which in turn drives sustainable rental growth and minimises vacancy through occupier retention.

Lettings and renewals in year

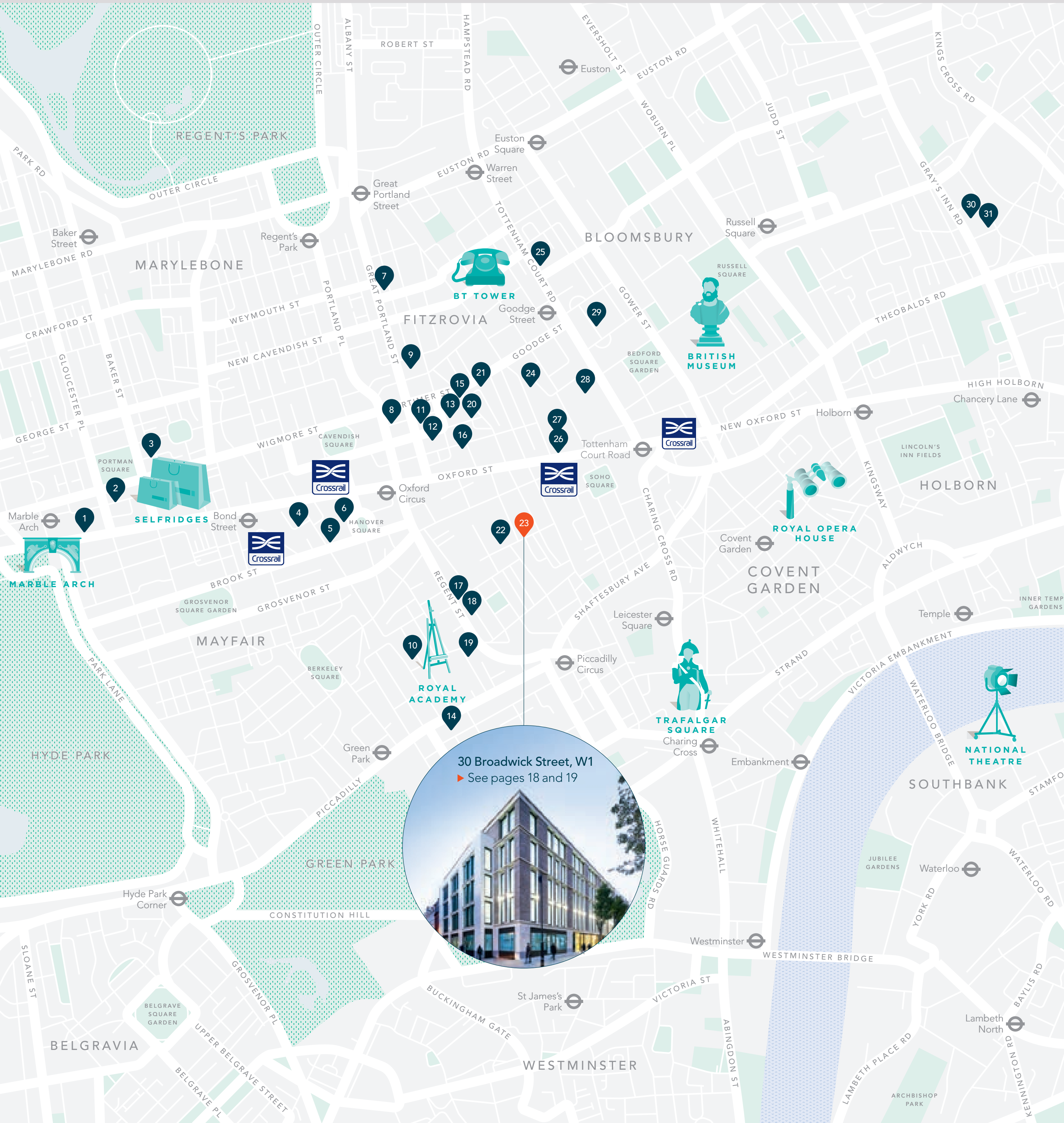
£31.1m

▶ **See more** on pages 42 to 43

# Where we do it

**North of Oxford Street**

1. Mount Royal
2. 35 Portman Square
3. Orchard Court
7. 160 Great Portland Street
8. Walmar House
9. 78/92 Great Portland Street
11. 32/36 Great Portland Street
12. 6/10 Market Place
13. Elsley House
15. Wells & More
16. Kent House
20. 55 Wells Street
21. 27/35 Mortimer Street
24. 23/24 Newman Street
25. 183/190 Tottenham Court Road
26. Oxford House
27. Rathbone Square
28. Percy House
29. 31/34 Alfred Place



**Rest of West End**

4. 95/96 New Bond Street
5. 6 Brook Street
6. Hanover Square Estate
10. Pollen House
14. The Piccadilly Buildings
17. Carrington House
18. Kingsland House
19. 103/113 Regent Street
22. 48/54 Broadwick Street
23. 30 Broadwick Street

**City, Midtown and Southwark**

30. 200 Gray's Inn Road
31. Elm Yard
32. 24/25 Britton Street
33. 240 Blackfriars Road
34. City Place House
35. City Tower
36. 160 Old Street
37. Minerva House
38. New City Court
39. 50 Finsbury Square
40. 46/58 Bermondsey Street
41. Cityside House and Challenger House

# Why London?

Toby Courtauld explains why Great Portland Estates is 100% focused on the central London property market.

"Despite the current macro-economic and political uncertainty, we remain confident that London will remain the powerhouse of the UK economy and retain its status as a truly global city."

**Toby Courtauld** Chief Executive

## So, why London?

Generating around 23% of UK GDP, London has the largest economy of any city in Europe and is one of the world's leading commercial, creative and financial centres. Despite the ongoing opaque macro-economic outlook following the EU referendum result, London is still forecast to grow. By 2030, London's population is expected to increase to around 10.0 million, up from 8.8 million today. Its combination of a strong legal system, time zone advantages, international connectivity and a welcoming attitude to businesses from around the world has resulted in London retaining its position as the world's top financial centre in the Z/Yen Global Financial Centres Index.

## How would you describe London's real estate market?

Central London has one of the world's largest commercial real estate markets, with more than 444 million sq ft of office and retail property attracting a deep and diverse mix of occupiers and property investors, many from overseas. Global businesses are attracted to London by its high calibre labour pool, with 1.7 million of London's workforce employed in highly-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 second most popular tourist destination in 2017.

Over the last year, London's commercial property markets have remained resilient as both investor and occupier demand has been robust for higher quality assets.

▶ **See our market section** on pages 31 to 35

## Why do you have a preference for the West End?

With more than 200 million visits a year, the West End provides a unique and diverse mix of commercial, retail, residential, cultural and tourist attractions, drawing people and businesses from around the world. It is also home to a broad range of occupiers, and, as a result, is not reliant on any one dominant sector.

Furthermore, the barriers to developing buildings in the West End are high. Around 70% of the core West End is in a conservation area and the planning environment is continuing to tighten. Successfully navigating these barriers to deliver efficient and sustainable properties that meet the needs of modern occupiers, remains critical to our ability to create value over the longer term.

▶ **See our portfolio** on page 54

## Do you consider other locations?

Although we would not look to invest outside London, we recognise that central London itself is growing and regeneration, often driven by improved public transport infrastructure, is creating occupier demand in new locations. A good example is our acquisition during the year of Cityside and Challenger House, E1, our first purchase in Whitechapel. This is an area set to benefit significantly from the opening of Crossrail later this year, which is already acting as a catalyst for investment and economic growth in the local area.

▶ **See our case study** on pages 20 to 21

## How are London offices changing?

Modern occupiers expect more from their real estate, they are demanding increasingly flexible workplaces offering a greater, more flexible mix of uses from traditional formal office space to more informal communal and social areas. Moreover, as the competition for talent has increased, staff wellbeing has moved further up occupiers' agendas as positive, healthy working environments are used to help attract and retain staff.

Whilst we have had another very successful leasing year, including £20.2 million of new annual rent secured on ten year or more lease terms, some occupiers are seeking greater flexibility in their leases. Although the serviced office sector has always been popular with smaller businesses, it is becoming more common for some larger corporate occupiers to have an element of flexible space as part of their overall space requirements.

To ensure that we continue to create spaces that meet these evolving needs, we have promoted James Pellatt to the new role of Director of Workplace and Innovation. With around half of the portfolio in our development pipeline, one of James' responsibilities will be to ensure that we remain at the forefront of these evolving requirements as we design and build the workplaces of tomorrow.

▶ **See our market** on pages 31 and 35

# 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 aim to 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
– Disciplined capital management; raise to acquire, distribute excess

## …underpinned by our unique combination of attributes…

### Our capital discipline

– 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.
– Supports progressive dividend policy.
– Tax efficient REIT structure.

▶ **See our capital discipline** on pages 47 and 48

### Our relationships

– Intense, customer-focused approach to understand occupiers' needs.
– High occupier retention, low vacancy rates and diverse occupier 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** on pages 49 to 53

### Our portfolio

– 100% central London focus.
– Positioned for future growth; 48% of portfolio in development programme and pipeline.
– Detailed business plan for every property reviewed quarterly.
– Meeting the changing demands of modern occupiers.
– Creating efficient, resilient, healthy and innovative space, sensitive to the environment in which it is located.
– Further improve sustainability metrics to enhance the long-term value of the business and reduce obsolescence.

▶ **See our portfolio** on pages 54 to 59

### Our culture and people

– Experienced management team supported by specialist in-house portfolio 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.
– Effective governance structure.
– Strong employee engagement.

▶ **See our culture and people** on pages 60 to 63

## …and our proactive management of our portfolio

### Acquire

– Tired properties with angles to exploit.
– Attractive central London locations supported by infrastructure/ local investment.
– Discount to replacement cost and typically off-market.
– Off low rents and low capital values per sq ft.
– Optionality/flexible business plans.

▶ **See investment management** on pages 36 to 37

### Reposition

– Through lease restructuring, refurbishment or redevelopment.
– Deliver new space into supportive market conditions that meet and exceed occupier needs.
– Manage risk through pre-letting, JVs and forward sales.
– Integrate ever improving sustainability standards into building design.
– Enhance the local environment and public realm.

1 2 3 4 5 6 7

▶ **See how we reposition properties** on pages 10 to 11

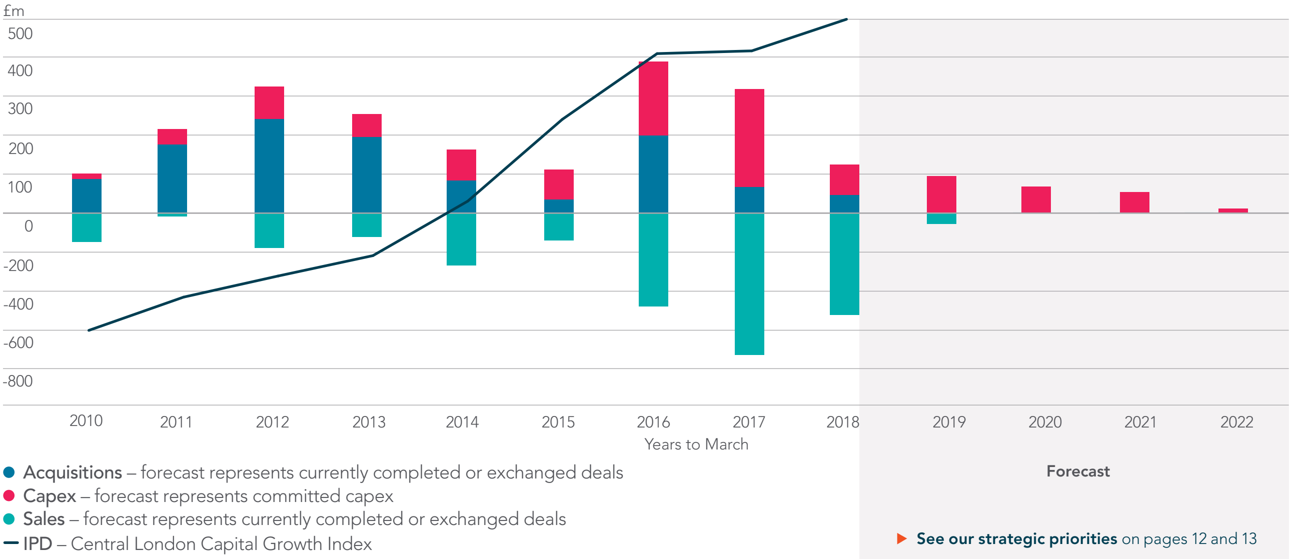
### Recycle

– Disciplined capital recycling through the sale of properties where we have executed our business plans or where we are able to monetise our expected future profits.
– Reinvest proceeds into higher return opportunities.
– Return excess equity capital to shareholders when reinvestment opportunities are limited.

▶ **See our case studies** on pages 16 to 19

## We flex our activities through the cycle…

We recognise that the central London property market is cyclical and we adapt our activities accordingly to maximise returns. With asset pricing near cyclical highs, we have been selling properties to monetise profits whilst moderating our development exposure given the more uncertain macro-economic backdrop. The successful reading of this cycle and the flexing of our operational risk are key to delivering long-term sustainable shareholder value.



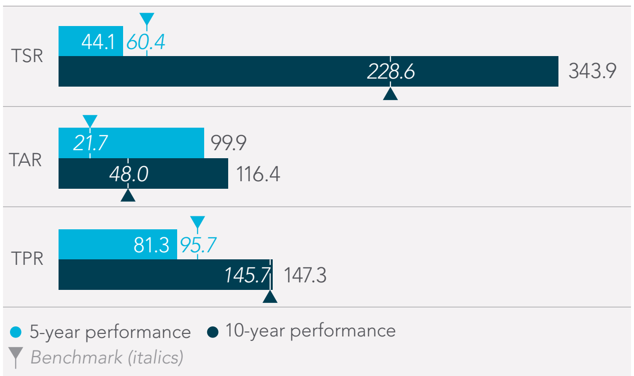

▶ **See our strategic priorities** on pages 12 and 13

## …delivering attractive returns over the long term…

Over the past ten years, our proactive approach has helped us outperform most of our benchmarks.

▶ **See our KPI benchmarks** on pages 26 and 27

**Long-term performance %**




## …as proven by our track record.

### Acquire

- We started to acquire in scale in 2009 when we saw deep value in the market to acquire raw material to reposition into a resurgent rental market.
- Since 2009, we have bought £1.5 billion (our share: £1.2 billion) of assets or 62% of today's portfolio.

▶ **See investment management** on pages 36 to 37

### Reposition

- We aim to be early cycle developers delivering new buildings into strong rental markets to drive organic growth.
- We have completed 20 developments (1.8 million sq ft, 30% profit on cost) this cycle. Today, we have three committed developments (11% of our portfolio) and our portfolio contains a wealth of future opportunity with 37% in our development pipeline.

▶ **See development management** on pages 38 to 41

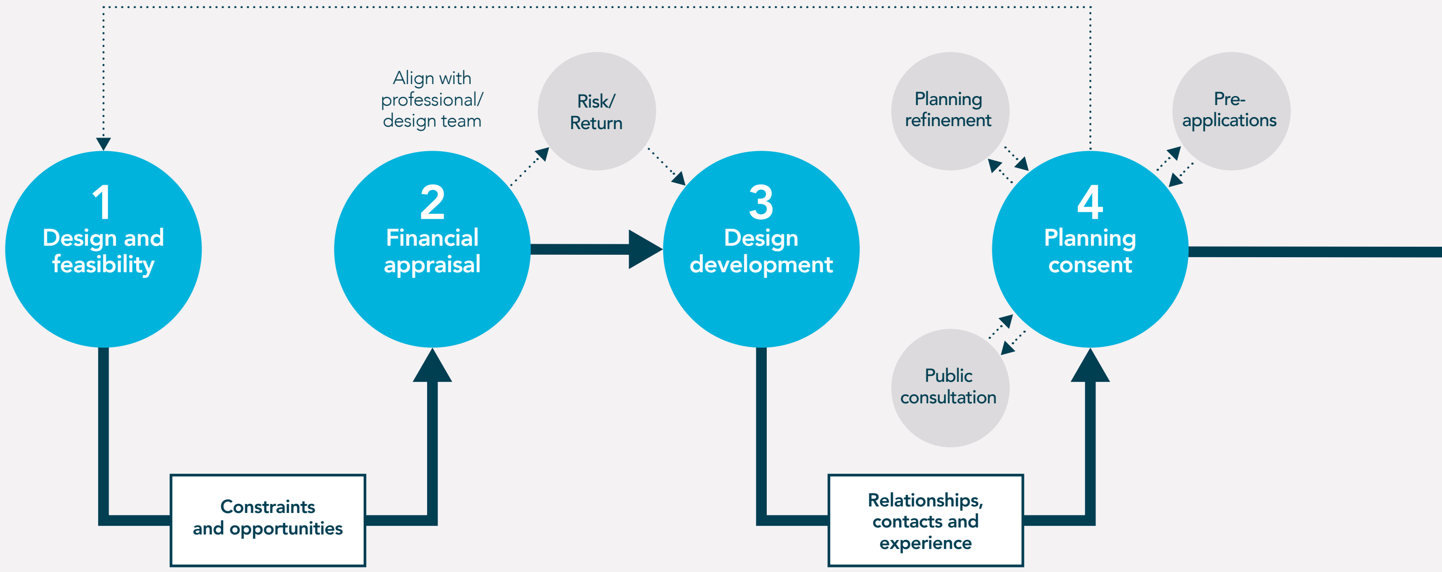
### Recycle

- We typically rotate 10%–20% of the portfolio every year to monetise surpluses created by our repositioning activities.
- Given strong pricing in the investment market, we have been a net seller in each of the last five financial years.
- Our recycling activity has enabled us to maintain leverage at record lows and return further capital to shareholders, whilst preserving financial strength and firepower.

▶ **See our case studies** on pages 16 to 19

# How we reposition properties

Improving real estate is highly complex, with each building requiring a bespoke business plan to deliver a successful outcome. The flow chart below illustrates the process we adopt to ensure those business plans maximise returns, delivering sustainable, market appropriate buildings.




## Design and feasibility

At the outset we conduct a feasibility study to understand what is possible for the existing building or site. This will assess:

- the local market to understand occupier demand;
- our ability to add new space to the site;
- neighbourly matters;
- local planning requirements and the relative merits of a refurbishment or full scale development;
- proposed sustainability rating; and
- the ability to deliver new space within the confines of the local planning environment.

## Financial appraisal

If the feasibility assessment supports the case for development, we will conduct a financial appraisal to ensure the forecast prospective returns are sufficient to proceed.

Our required returns will differ depending on the risk profile of the proposed project. We will be seeking a premium over our cost of capital, set to compensate for the risk involved, with speculative development having the highest required return.

## Design development

If a potential redevelopment is both feasible and financially viable, we will further develop the design to enable us to achieve planning consent.

Our specialist in-house development team works with an extensive network of selected partners, from over 50 disciplines. Together with our in-house Design Review Panel, they ensure the building design meets market specifications, maximises our returns and will attract our target occupiers.

▶ **See our Cityside House case study** on pages 20 and 21

## Planning consent

Most of our repositioning activities require planning consent. The effective navigation of the planning process by our in-house team is crucial to the success of any redevelopment.

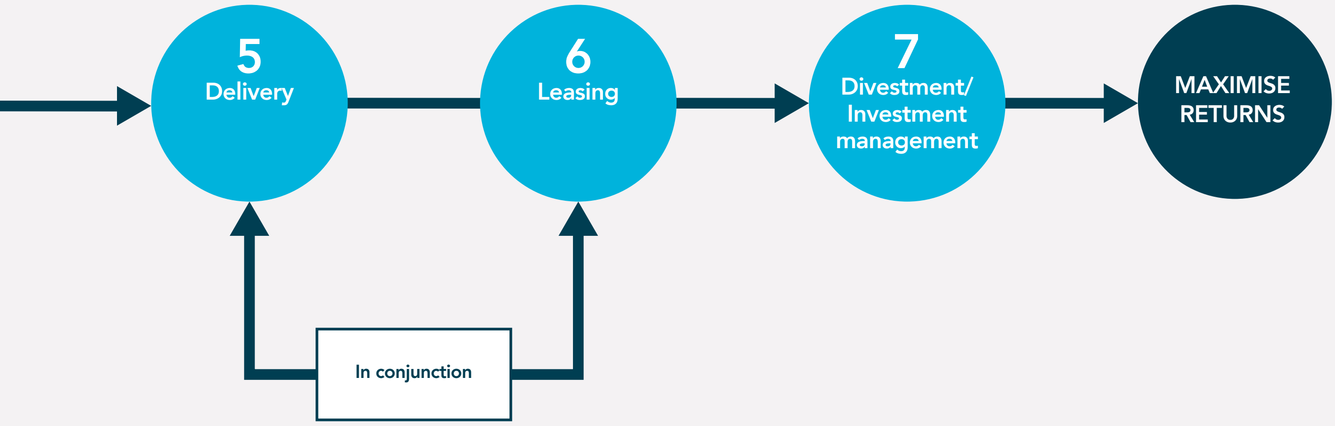
Our relationships with the local planning authorities are key to delivering on our business plans. We are open, transparent and non-adversarial in our approach. We engage pro-actively in pre-application consultations with key stakeholders and will adjust our proposals, as appropriate, to take account of comments received.

▶ **See Oxford House, W1** on page 39

## Risks

▶ **See more risk** on pages 68 to 81

| Design and feasibility | Financial appraisal | Design development | Planning consent |
|---|---|---|---|
| – Inappropriate location<br>– Failure to reach agreement with adjoining owners on acceptable terms | – Incorrect reading of property cycle<br>– Inappropriate level of development undertaken as a percentage of the portfolio | – Failure to react to evolving workplace needs | – Failure to gain viable planning consents on a timely basis |




## Delivery

Construction of any building in central London is highly complex. We outsource the construction to a network of highly regarded contractor companies but, given the risks involved, we closely manage the process using our in-house project managers.

Our team will utilise the appropriate procurement method for the scheme to optimise the balance between price certainty and risk.

Once on site, we liaise with the main contractor to manage the delivery of the building, to time and budget, and help commission the building once complete.

## Leasing

Often a development's leasing and delivery go hand in hand. Our leasing team will be involved at the design development stage to ensure the building is appropriate to our target occupiers to maximise its letting prospects.

We will seek to let the building early in the delivery process. Marketing materials, often incorporating an on-site marketing suite, will be prepared during delivery, with the formal pre-letting campaign typically commencing up to 24 months prior to completion.

▶ **See our 160 Old Street case study** on pages 22 and 23

## Divestment/Investment management

Once de-risked (through leasing and successful construction), we will assess the building's forecast performance.

We forecast each occupiers' future rental cash flows and, using our own assumptions for future movements in rents and yields, estimate the property's future growth. If its prospective returns do not meet our required investment hurdles, taking into account both our cost of capital and the risks, the completed project maybe sold to crystallise our returns.

▶ **See our 30 Broadwick Street case study** on pages 18 and 19

- Incorrect cost estimation
- Construction cost inflation
- Contractor availability and insolvency risk
- Quality and benchmarks of the completed buildings

- Building being inappropriate to occupier demand
- Ineffective marketing to prospective occupiers

- Incorrect reading of the property cycle

# Our clear strategic priorities

We have a clear strategic focus that enables us to deliver attractive long-term shareholder returns. With limited value to be found in the investment market, our primary focus remains on maximising value from our portfolio through capturing reversion, delivering developments and recycling capital.

▶ **See more** on pages 36 to 43

## Strategic priorities 2017/18

**Priority** | **Key initiatives** | **2017/18 progress**

### Selective investment activity

▶ **See more** on pages 36 and 37

**Key initiatives**

- Acquire properties should we see value in the market.
- Explore further sales opportunities to crystallise returns where forward prospective returns are insufficient.

**2017/18 progress**

- Acquisition of Cityside and Challenger House, E1 for £49.6 million.
- Total sales of £329.0 million at an average capital value of £1,412 per sq ft and 5.4% ahead of book value.
- Sales of 240 Blackfriars Road and 30 Broadwick Street, crystallising a combined whole life surplus of £145.0 million and net proceeds of £306 million returned to shareholders via a B share scheme.

Cityside House, E1

▶ **See our case study** on pages 20 and 21

### Complete the current committed development programme and prepare the pipeline

▶ **See more** on pages 38 to 41

**Key initiatives**

- Complete the three committed development schemes.
- Deliver Rathbone Square, W1 apartments to off-plan buyers.
- Prepare the schemes in the development pipeline for the next cycle.

**2017/18 progress**

- Three schemes completed since March 2017 with an average development profit on cost of 6.5%.
- 138 of 140 sold residential apartments at Rathbone Square, W1 handed over to buyers in year.
- Commenced three new development schemes, including Hanover Square, W1.
- Deep development pipeline: 13 projects.
- Total development programme: 48% of portfolio, 1.7 million sq ft.

Hanover Square, W1

▶ **See more** on pages 39 and 40

### Drive rental growth through capturing reversion

▶ **See more** on pages 42 and 43

**Key initiatives**

- Capture reversionary potential.
- Secure office lettings at 160 Old Street, EC1 and 55 Wells Street, W1.
- Reduce investment vacancy rate below 4%.
- Limit total portfolio ERV reduction to 7.5%.

**2017/18 progress**

- £5.7 million of reversion captured.
- 160 Old Street, EC1 71.2% pre-let at completion and 55 Wells Street, W1 now 84.8% let.
- Vacancy rate of 4.9% given development/refurbishment completions.
- Portfolio ERV broadly stable (+0.3%) in year.

160 Old Street, EC1

▶ **See our case study** on pages 22 and 23

## Strategic priorities 2018/19

| Impact on strategic KPIs | Priority | Target | Risk |
|---|---|---|---|
| – Sales ahead of book value lowers loan to value and supports TPR and TAR.<br>– Accretive recycling and reinvestment should enhance TPR and TSR.<br>▶ **See our KPIs and operational measures** on pages 26 and 27 | **Further recycling and selective investment activity**<br>▶ **See more** on pages 36 and 37 | – Explore further sales opportunities where prospective returns are insufficient.<br>– Acquire properties should we see attractive value in the market. | – Pricing of potential disposals weakens.<br>– Insufficient attractively priced opportunities.<br>▶ **See more** on pages 72 and 73 |
| – Development surpluses enhance TPR and TAR.<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 26 and 27 | **Progress the committed developments and prepare the pipeline**<br>▶ **See more** on pages 38 to 41 | – Maintain programme of three new committed development schemes.<br>– Secure further pre-lettings on committed schemes.<br>– Prepare the 13 schemes in the development pipeline for the next cycle.<br>– Submit planning applications at 50 Finsbury Square, EC1 City Place House, EC1 New City Court, SE1 and Whitechapel Courtyard sites, E1. | – Impact of market declines amplified by development exposure.<br>– Construction cost inflation reduces development profit.<br>– Contractor/supplier failure.<br>– Occupiers' needs not met by poorly conceived building design.<br>▶ **See more** on pages 76 and 77 |
| – Capture of rental reversion and occupier retention supports TPR.<br>– Higher ERVs support asset values and TPR and TAR.<br>▶ **See our KPIs and operational measures** on pages 26 and 27 | **Drive rent roll growth**<br>▶ **See more** on pages 42 and 43 | – Capture further reversionary potential.<br>– Lease remaining space at 160 Old Street, EC1 and 55 Wells Street, W1.<br>– Reduce investment vacancy rate below 4%.<br>– Seek further opportunities to roll out flex space offering.<br>– Deliver ERV growth of between -2.5% and +1%. | – Occupational market falters.<br>– Wrong rental levels sought for local market conditions.<br>– Poor marketing of our space.<br>– Weak occupier retention.<br>▶ **See more** on pages 74 and 75 |

# Creating London spaces

We unlock the potential of London's property market by investing in and developing central London real estate, creating great spaces for occupiers and strong returns for shareholders.

We showcase a number of our spaces over the following pages.

### 240 BLACKFRIARS ROAD, SE1 AND 30 BROADWICK STREET, W1

# Crystallising profits

Financial discipline is at the heart of how we manage our portfolio. We are deeply analytical and every building we own needs to earn its place in the portfolio. We review the forward look returns from each and every building quarterly and, where our hurdles are not met, they are often sold. In December 2017, after completing our business plans, we sold 240 Blackfriars Road, SE1 and 30 Broadwick Street, W1 in two separate transactions, taking advantage of the supportive investment market to crystallise a combined whole life surplus of £145 million.

Our developments at 240 Blackfriars Road, SE1 and 30 Broadwick Street, W1 are located in the attractive central London sub-markets of Southwark and Soho, both benefiting from significant investment in public transport infrastructure and local cultural amenity. In both cases, we created landmark buildings of 235,900 sq ft and 94,300 sq ft respectively, providing grade A office and retail space which was fully let at record rents to a diverse range of occupiers on long leases.

Having delivered our business plans and with continued strong investment demand for prime commercial London property, we sold the buildings in December 2017 to overseas purchasers.

240 Blackfriars Road, held in our GRP joint venture, was sold to a subsidiary of the Dubai based Al Gurg Family for a headline price of £266.5 million, reflecting a record net initial yield of 3.94% and a capital value of £1,176 per sq ft. 30 Broadwick Street was sold to an Asian client of Savills Investment Management for a headline price of £190.0 million, representing a net initial yield of 4.0% and capital value of £2,015 per sq ft.

Together the sales crystallised a whole life surplus of £145 million (our share) and net sales proceeds to GPE of £306.0 million.

▶ **See investment management** on pages 36 and 37

**Returning capital**

Together the sales of 30 Broadwick Street and 240 Blackfriars Road crystallised £306 million in net proceeds, all of which was returned to shareholders in April 2018.

+ = £306 million

return to shareholders

30 Broadwick Street, W1

240 Blackfriars Road, SE1

## 240 Blackfriars Road, SE1

Sold for £266.0 million, reflecting a record low net initial yield of 3.94% and a capital value of £1,176 per sq ft.

### What they say...

"240 Blackfriars Road is iconic in its design and an instantly recognisable feature of the London skyline. It perfectly fits within our strategy of owning best in class commercial buildings in prominent London locations."

**Abdulla Al Gurg**
Group General Manager of WAML

### What we say...

"The sale of 240 Blackfriars Road is the culmination of an exceptional development project and continues our strategy of recycling capital out of assets where we have created value."

**Hugh Morgan**
Director of Investment Management

RETURN OF CAPITAL

# Discipline in action

The financial discipline that we apply to the management of our property portfolio also applies to the wider Group finances. We have a track record of accretively raising and returning capital to shareholders at appropriate times in the cycle to ensure we maximise the efficiency of our balance sheet. In April 2018, we returned £306 million to shareholders, representing the proceeds from our recent sales of 240 Blackfriars Road, SE1 and 30 Broadwick Street, W1.

We like to operate with low levels of financial leverage and aim to maintain a loan to property value (LTV) ratio of between 10% and 40% depending on where we are in the cycle. Today, given the opaque macro-economic outlook, we are happy to operate at the lower end of this range.

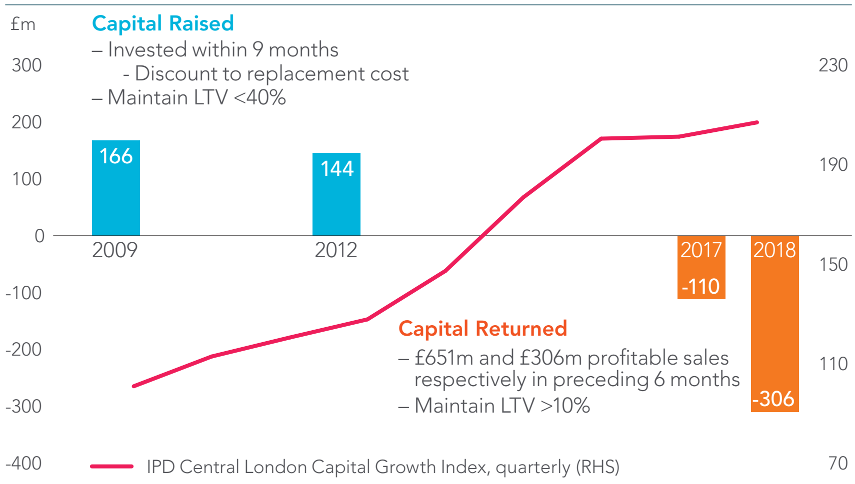
We understand the value of our shareholders' equity. We typically raise equity to buy assets when we see significant value in the property market but do not want to unduly increase our financial risk. Equally, we return equity when we consider that we have a surplus that we are unable to accretively deploy.

In December 2017, we exploited the continued strength in the investment market to sell 240 Blackfriars Road, SE1 and 30 Broadwick Street, W1 generating net proceeds of £306 million. The sales reduced LTV to around 7% and, with limited attractive opportunities to reinvest in the market, we returned the proceeds to shareholders via a B share scheme.

Together with the £110 million special dividend paid in May 2017, we have now returned £416 million to shareholders this cycle, in addition to ordinary dividends. At the same time, LTV remains low at 12% today giving us ample capacity for further investment both within our extensive 1.7 million sq ft development programme and in new opportunities as we unearth them.

▶ **See our capital discipline** on pages 47 and 48

**This cycle: £310 million raised and £416 million returned[1]**




1 Excludes ordinary dividends.

**Our track record**

Early in the cycle, we raised capital to buy properties at cyclically low values. More recently, with business plans complete and pricing at elevated levels, properties have been sold, crystallising substantial returns with surplus equity returned to shareholders.

## 30 Broadwick Street, W1

Sold for £185.9 million, representing a net initial yield of 4.0% and headline capital value of £2,015 per sq ft.

## What we say...

"We greatly appreciate the support from our shareholders who twice gave us capital early in the cycle, when we raised equity to buy. The development surpluses we generated on the acquisitions have been substantial and this year we returned £416 million to shareholders."

**Martin Leighton**
Director of Corporate Finance

## CITYSIDE HOUSE AND CHALLENGER HOUSE, E1

# Full of eastern promise

The central London investment market proved challenging for acquisitions during the year, with strong pricing limiting opportunities to find value. However, in June 2017, we purchased the freehold of Cityside House and Challenger House, E1 for £49.6 million, providing us with an exciting development opportunity in a location set to benefit from the opening of the Whitechapel Crossrail station in late 2018.

The 1.2 acre site overlooks a park and sits in close proximity to Aldgate East Zone 1 underground station. This popular area is set to benefit further when the new Whitechapel Crossrail station opens later this year, only 650 metres away.

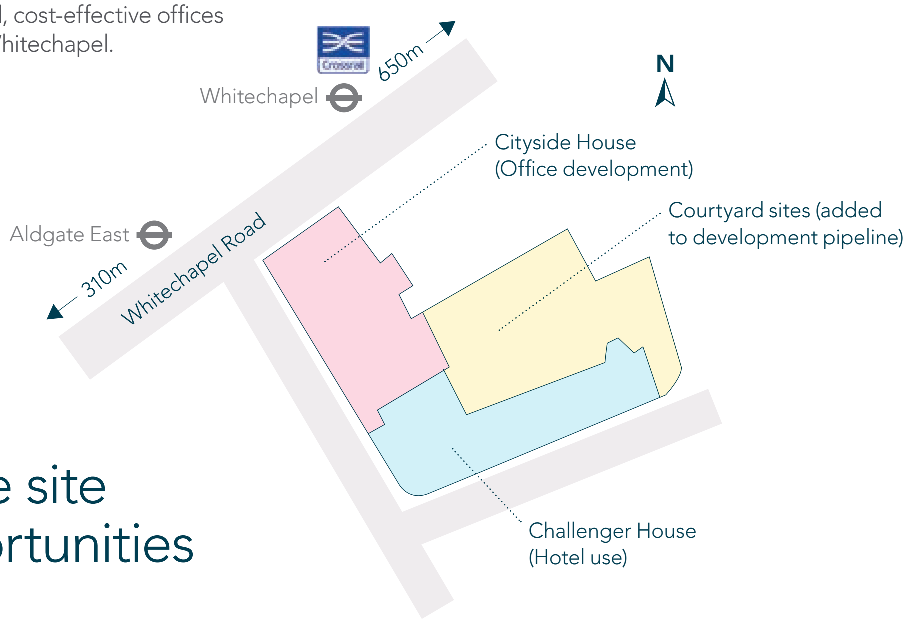
The site has three main components: Cityside House, an office building readied for redevelopment, Challenger House, a 171 bedroom hotel let to Qbic Hotels, and courtyard sites to the rear.

Cityside House was acquired with planning permission for redevelopment and off a low capital value of £250 per sq ft. However, we have improved the design by relocating the office entrance, rotating the core to improve the efficiency of the floorplates and upgrading the building's services. Together with our schemes at Hanover Square, W1 and Oxford House W1, we have now commenced the redevelopment and once complete the building will deliver 74,700 sq ft of well-designed, cost-effective offices in the heart of Whitechapel.

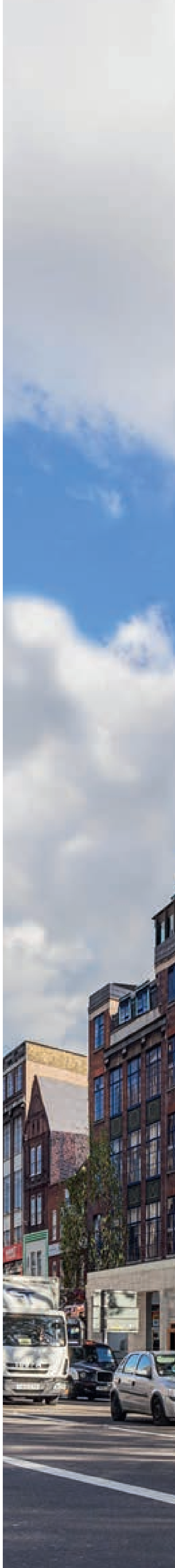
We are also currently exploring a number of innovative options for the building, including introducing areas for flexible working, providing an element of co-working space and creating a technologically smart building where, amongst other innovations, many of the building services can be accessed though a smartphone app. Together, we anticipate that these initiatives will increase the productivity of the space for its occupiers and in turn, its letting prospects.

We expect to complete the redevelopment of Cityside House in the autumn of 2019 with an anticipated profit on cost of c.16%.

▶ **See investment management** on pages 36 and 37




## 1.2 acre site
## 3 opportunities




## What we say…

"Cityside House is currently a tired asset in a location shortly to benefit significantly from the arrival of Crossrail. It's a classic GPE development opportunity where we can add substantial value."

**James Burrage**
Development Manager

## What they say…

"Cityside House is set to take full advantage of the rapidly improving Whitechapel district. We predict that the creative environment, vibrant entertainment scene and the opening of Crossrail will attract a diverse range of occupiers to the building."

**Tim Plumbe**
International Partner Cushman and Wakefield

## What they say...

"This is an exciting move for us putting us at the heart of a vibrant community from which we will continue to operate our growing media businesses."

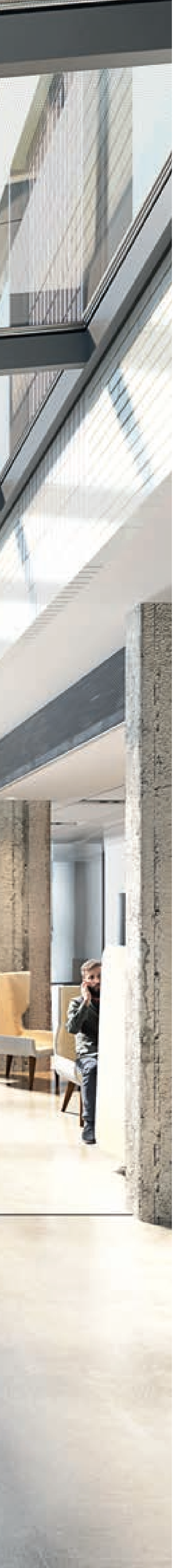
**Giorgio Stock**
President of Turner EMEA

## What we say...

"Securing such a high calibre occupier as Turner Broadcasting endorses both the quality of the development scheme and the outstanding work from the GPE leasing team."

**Simon Rowley**
Senior Leasing Manager

Computer generated image of the completed building.



**160 OLD STREET, EC1**

# Putting the new into the old

Our refurbishment of 160 Old Street, EC1 has brought a tired building back to life, creating 161,700 sq ft of high quality Grade A office and retail space in a highly desirable location. Prior to completion, we pre-let 116,500 sq ft to Turner Broadcasting which contributed to another successful leasing year in which we secured £31.1 million of new rent and continued to capture significant reversion.

We have a proven track record of delivering high quality spaces that let well, often before the building is completed, with 160 Old Street, EC1 being our most recent example. The building was acquired by our Great Ropemaker Partnership in March 2013 for £30.0 million. Whilst the building is located in a desirable, up and coming area, it was tired, let off low average rents of only £22.20 per sq ft and the leases were coming to an end. We saw this as an opportunity to add value and as a result, we obtained planning permission in 2015 for a major refurbishment to transform and extend the old 97,800 sq ft building into 161,700 sq ft of high quality office and retail space.

Having first considered a new build option for this site, we quickly realised that the building had many original features that we wanted to retain and that a refurbishment option would provide a more sustainable, innovative product better suited to its locality.

Furthermore, through the reuse of its existing concrete frame, there were significant savings in terms of embodied carbon. As a result, we are on track to achieve a BREEAM Excellent rating and have achieved an EPC rating of A, an impressive achievement for a refurbishment.

During refurbishment, we designed an innovative on-site marketing suite to provide prospective occupiers with a virtual tour of the new building. Pre-letting interest in the building was strong and we have pre-let 116,500 sq ft of the building to Turner Broadcasting who will occupy the lower ground to fourth floor on fifteen year leases (no breaks). We also pre-let two of the four retail units and there is positive interest in the remaining office and retail space.

We completed the development in late April 2018, delivering a profit on cost of 19.6%. At completion, 71.2% of the building was let a testament to the quality of the building and a strong endorsement of the successful leasing campaign.

▶ **See more** at our website http://160oldstreet.com

Average office rent (per sq ft)

**Pre development**

£22.20

**Post development**

£53.70

## What they say...

"Having worked with GPE to create 240 Blackfriars Road, we are delighted to be partnering with GPE once more to create the next phase of some of London's most exciting developments."

**Simon Allford**
Allford Hall Monaghan Morris Architects

## What we say...

"Our portfolio is stacked full of development opportunity with 48% either a committed development or in our medium-term pipeline."

**Andrew White**
Development Director

DEVELOPMENT PROGRAMME

# Opportunity knocks

Repositioning properties to create value is core to our business model. Given the time required to prepare sites for redevelopment, a pipeline of future opportunities is required many years in advance. Today our programme is substantial, comprising 48% of today's portfolio.

In addition to our three recently commenced development schemes, we have a pipeline of 13 schemes which have the potential to deliver a further 1.3 million sq ft of space. Today, the pipeline is largely income producing, has flexible start dates stretching into the 2020s and is well located around major public transport interchanges in the heart of London.

Our development team is working to finalise our development plans at schemes that could commence over the next 24 months. These include City Place House, EC2, located 200m from the new Moorgate Crossrail station, where we are looking to improve the building by relocating the office entrance onto Aldermanbury Square and adding new retail and restaurant space on the ground floor.

Close by at 50 Finsbury Square, EC2, we are exploring opportunities to increase the size of the building, either through incorporating additional floors or increasing efficiencies within the existing frame, in advance of vacant possession in 2020.

In total, our development programme, including those schemes already on site, represents around 48% of the portfolio, providing us with the bedrock of our development activities for the next cycle.

▸ **See our total development pipeline** on page 41

## The pipeline

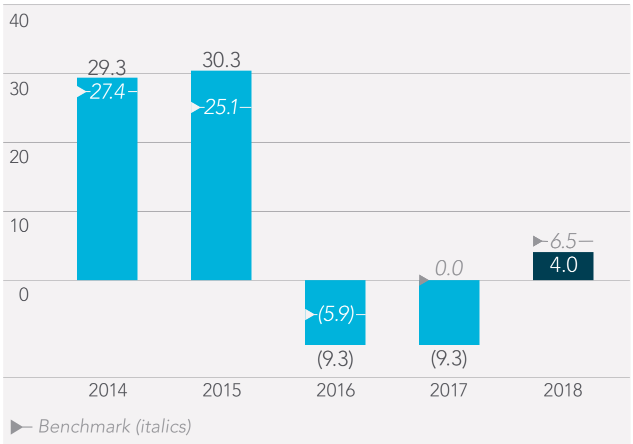
1. Mount Royal, W1
2. 35 Portman Square, W1
3. 95/96 New Bond Street, W1
4. Jermyn Street Estate, SW1
5. French Railways House, SW1
6. Kingsland/Carrington House, W1
7. 52/54 Broadwick St, W1
8. 31/34 Alfred Place, WC1
9. City Place House, EC2
10. Minerva House, SE1
11. New City Court, SE1
12. 50 Finsbury Square, EC2
13. Courtyard sites, Whitechapel, E1

# Our KPI benchmarks

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

## KPIs

### Total Shareholder Return % (TSR)




#### Rationale

TSR is a standard measure of shareholder value creation over time. It measures the movement in a company's share price plus dividends expressed as an annual percentage movement.

#### Commentary

TSR of the Group is benchmarked against the TSR of the FTSE 350 Real Estate index (excluding agencies).

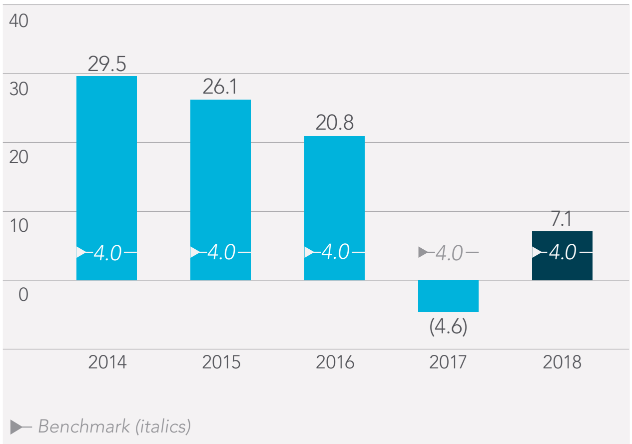
The TSR of the Group was 4.0% for the year compared to 6.5% for the benchmark following a continued under-performance of the share prices of London-focused office property companies relative to the benchmark index. This was due, in part, to adverse market sentiment resulting from the EU referendum.

#### Alignment with remuneration

Performance criteria for Executive Directors' and certain senior managers' long-term incentives.

▶ **See more** on page 113

### Total Accounting Return % (TAR)




#### Rationale

TAR is measured as absolute EPRA NAV per share growth (the industry standard measure of a real estate company's success at creating value) plus any ordinary dividends paid, expressed as a percentage of the period's opening EPRA NAV. It is a new KPI for 2018 reflecting its inclusion as a performance criteria for a number of the Group's remuneration schemes during the year. It replaces EPRA NAV growth.

#### Commentary

We compare our TAR to a target year on year growth of 4%–10% used in our remuneration arrangements (see below). For the benchmark, we have used the minimum hurdle. TAR was 7.1% for the year as our property values increased. This resulted in a 3.1 percentage point relative out-performance for the year.

#### Alignment with remuneration

TAR is a performance criteria for Executive Directors' and certain senior managers' long-term incentives, and for Executive Directors' and employees' annual bonus.

▶ **See more** on page 113 and note 9 to the accounts.

## Operational measures

In addition to our KPIs, there are several key operational metrics that we actively monitor to assess the performance of the business and 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 2018 is shown on the right.

▶ **See approach to risk section** on pages 68 to 81

### Investment management

| | |
|---|---|
| Purchases | **£49.6m** |
| Purchases – capital value per sq ft | **£320** |
| Purchases – net initial yield | **2.6%** |
| Sales | **£329.0m** |
| Sales – premium to book value | **5.4%** |
| Total investment transactions | **£378.6m** |
| Net investment | **£(279.4)m** |

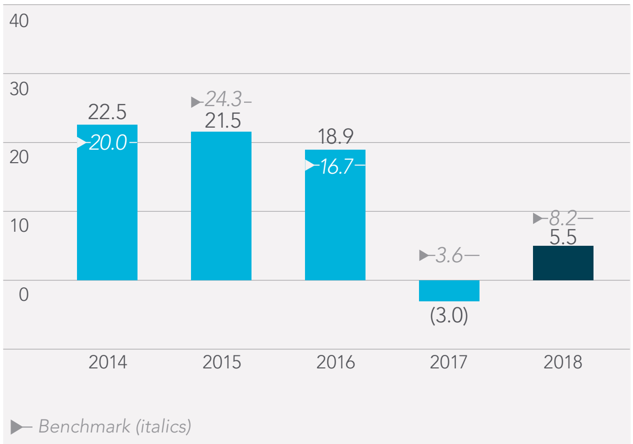
▶ **See more** on pages 36 and 37

### Development management

| | |
|---|---|
| Profit on cost | **15.9%** |
| Ungeared IRR | **10.0%** |
| Yield on cost | **4.7%** |
| Income already secured | **11.2%** |
| BREEAM Excellent (targeted) | **100%** |
| Committed capital expenditure | **£239.6m** |

▶ **See more** on pages 38 to 41

## Total Property Return % (TPR)




### Rationale

TPR measures a company's performance at driving value from its property portfolio. It 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 as calculated by IPD.

### Commentary

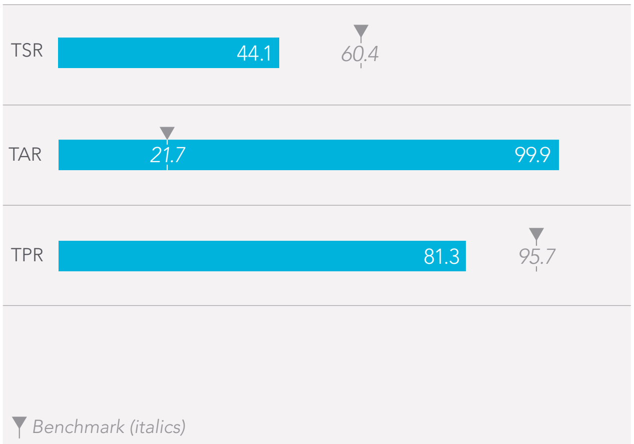
TPR is compared to a universe of £53.7 billion of similar assets included in the IPD central London benchmark. The Group generated a portfolio TPR of 5.5% in the year whereas the benchmark produced a total return of 8.2%. This relative under-performance resulted from our higher than benchmark exposure to investment properties with shorter lease lengths, where valuations were less resilient given the potential leasing risk. These properties form our development pipeline and active portfolio management opportunities where income is necessarily shorter to enable us to unlock the future longer-term value upside.

### 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.

▶ **See more** on page 113

## Five year performance %




### Commentary

Over the last five years, our proactive approach has delivered attractive growth in our KPIs, including a cumulative TAR of 99.9% and TPR of 81.3%. Our positive TSR of 44.1% is behind our benchmark, largely driven by relative under-performance since the EU referendum in 2016.

## Portfolio management

| | |
|---|---|
| New lettings and renewals | £31.1m |
| Premium to ERV (market lettings) | 2.6% |
| Vacancy rate | 4.9% |
| ERV growth | 0.3% |
| Reversionary potential | 12.1% |
| Rent collected within 7 days | 99.9% |
| Occupier retention rate | 40% |

▶ **See more** on pages 42 and 43

## Our capital discipline

| | |
|---|---|
| Net gearing | 0% |
| Loan to value[1] | 11.6% |
| Weighted average interest rate[1] | 2.3% |
| EPRA earnings per share | 20.4p |

1. Pro forma. See page 43.

▶ **See more** on pages 47 and 48

## Our portfolio

| | |
|---|---|
| Movement in property valuation | +2.9% |
| Percentage of portfolio in development programme | 48% |

1. On a like-for-like basis.

▶ **See more** on pages 54 to 57

## Our relationships

| | |
|---|---|
| Occupiers satisfaction rating | 88% |
| Worker engagement audits | 6 |

▶ **See more** on pages 49 to 53

## Our culture and people

| | |
|---|---|
| Employee retention | 87% |
| Training provided per employee | 4.8 days |
| Employees participating in optional Share Incentive Plan | 70% |

▶ **See more** on pages 61 to 63

# Strategic Report – Annual Review

In this section:



## What they say...

"GPE share our principles of people focused design and collaboration. GPE's attention to detail, close involvement in the concept and design development and commitment to the landscaping helped engender the positive work ethos shared across all the teams involved. All this has resulted in the culmination of a masterplan to benefit generations to come."

**Ken Shuttleworth**
Partner, Make Architects and designer of Rathbone Square, W1

## What we say...

"Our ambition was to create a high quality mixed use design that would stitch into the local area, feel like it had always been part of the local vernacular and stand the test of time while delivering great value for our shareholders. The result is a new public space for the local community with future proofed buildings wrapping around the edge of a beautiful place to visit, live and work."

**Helen Hare**
Head of Project Management

Helen Hare and Ken Shuttleworth at the entrance of Rathbone Square, W1.

# Statement from the Chief Executive

"We have had another very active year, successfully delivering developments and leasing well, whilst maintaining our capital discipline with profitable recycling and further returns of capital to shareholders. We are well-positioned with a portfolio full of opportunity and an extensive development pipeline, along with exceptional financial capacity and a talented team ready to capitalise on opportunities as we unearth them."

**Toby Courtauld** Chief Executive



We are pleased to report that another excellent operational performance, including multiple leasing successes and profitable capital recycling, has delivered good financial results. EPRA NAV per share rose by 5.8% in the year, whilst EPRA EPS grew by 17.9% and ordinary dividends per share increased 11.9% to 11.3 pence. We had net assets of £2,367 million at 31 March 2018 and delivered diluted IFRS EPS of 18.2 pence. With the investment market remaining strong for prime properties, we have continued to crystallise development surpluses and returned further capital to shareholders, whilst still maintaining our financial strength.

## Market conditions have been broadly stable

Central London's property markets have lacked clear direction over the year and have tracked broadly sideways with the weight of international capital, healthy occupier demand and tight supply of new high quality office space supporting the prime investment and occupational markets. Across our portfolio, we delivered 2.9% like-for-like property valuation growth, including a strong performance from our developments which were up 7.0%.

Looking ahead, given the ongoing political and macro-economic uncertainty, we expect London's commercial markets in the near term to remain generally supportive for our activities, although we expect a softening in market rents and secondary yields. Moreover, we continue to be positive on the long-term outlook for London; as one of only a handful of truly global cities, it has an enduring appeal for both businesses and investors. Plus, the opening of Crossrail later this year will add to its attractiveness, providing a further significant boost to London's public transport infrastructure.

▶ **See our market** on pages 31 to 35

## Strong leasing performance ahead of ERV and capturing reversion

We have had another outstanding leasing year securing £31.1 million of annual rent, 2.6% above our valuer's ERV. Our 68 new lettings came from a diverse range of occupiers which included two major pre-lettings (both on 15 year terms), together capturing £11.4 million of rent. We have successfully trialled our new flex space offering generating a 35% premium to net effective ERVs on an initial 12,000 sq ft, and we are appraising a further circa 100,000 sq ft across the portfolio.

Our team also crystallised significant rental reversion across the investment portfolio, with 34 rent reviews settled securing £18.3 million at an average increase of 29.6% above the previous rent and beating ERV by 3.2%.

With our low average office rent of £54.60 per sq ft, reversionary potential of 12.1% and £24.1 million of rent available at our committed development schemes, we can look forward to further rental growth.

▶ **See portfolio management** on pages 42 and 43

## Successful development completions and three new commitments, combined with an extensive pipeline of opportunity

We successfully delivered three schemes totalling 350,800 sq ft since April 2017, which were 89.5% pre-let or pre-sold on completion, including 160 Old Street, EC1. More recently, we have commenced three new developments, all near to Crossrail stations, which will provide 412,000 sq ft of Grade A predominantly office and retail space, including 221,300 sq ft at our Hanover Square scheme which is already 26% pre-let. We have made good progress in preparing our substantial pipeline of future development opportunities, which extends to 1.3 million sq ft across 13 schemes.

▶ **See development management** on pages 38 to 41

## Crystallising development surpluses and disciplined capital allocation

We were a net seller for the fifth year running with sales of £329 million at a 5.4% premium to March 2017 book values, including two prime, long-let completed development schemes at 240 Blackfriars Road, SE1 and 30 Broadwick Street, W1 which together crystallised a whole life surplus of £145 million, or 81% on capital employed. With our disciplined capital allocation and limited availability of attractively priced acquisition opportunities, we made only one purchase in the year for £49.6 million and recently returned a further £306 million to shareholders via a B share scheme, following the £110 million special dividend paid earlier in the year. If current investment market conditions persist, we expect to likely remain a net seller in the year ahead.

▶ **See investment management** on pages 36 and 37

**Selected awards and recognition in the year**

2018 Property Awards Finalist | Britain's Most Admired Companies 2017/18 Winner MT | OAS Development Awards | BEST WEST END NEW BUILD

£416 million

Capital returned to shareholders

# Statement from the Chief Executive (continued)

## Exceptional financial strength and talented team

Our financial position remains as strong as ever with our pro forma loan to value ratio only 11.6% and cash and committed undrawn liquidity of £666 million, whilst our recent refinancing successes reduced our weighted average interest rate to a record low level of 2.3%. Moreover, with strength in depth, our talented team is in great shape and we were pleased to make twelve internal promotions during the year. We were also delighted that GPE was again ranked first in the property sector, and fifth overall, in Management Today's 'Britain's Most Admired Companies', recognising the dedication and efforts of all our people.

▶ **See our culture and people** on pages 60 to 67

## Outlook

We are pleased to report good results for the year, driven by the successful execution of our clear strategy: we have let more space across our high quality investment portfolio than ever before and delivered significant pre-lettings at our developments, beating rental value estimates; we have taken advantage of heightened demand for prime assets, crystallising profits through selective selling, often at new benchmark prices; we have maintained balance sheet discipline, returning surplus equity totalling £416 million to shareholders, whilst preserving gearing at only 12%; we have committed to three new development schemes, all near Crossrail and already 11% pre-let; and we have delivered healthy earnings per share and NAV per share growth of 17.9% and 5.8% respectively. As a result, we have raised the final dividend by 14.1%.

Whilst we expect, and are planning for, continued economic uncertainty, we look to our future with confidence: although we can expect a softening in market rents and some secondary asset yields, occupier demand remains healthy across our retail and office portfolio. With London's investment markets remaining competitive, we have no need to buy, preferring the relative returns on offer from investing in our portfolio. It is full of opportunity, including 1.7 million sq ft of development potential, 0.4 million sq ft of which is now on site. In addition, our low average rents provide us with plenty of reversion to capture and our talented team is ready to capitalise on our many opportunities for organic growth as we continue to broaden our offering to meet evolving occupier needs. Either way, after five years of net sales, we have the financial strength to exploit any market weakness where we unearth it.

## 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.

Our **committed developments** now represent 11% of the portfolio (from 12% a year ago) and consist of three newly committed schemes.

▶ **See more** on pages 38 and 41

The investment portfolio comprises:

– **long-dated** investment properties which we developed with average lease lengths of 11.2 years where we expect to crystallise surpluses over time through recycling;

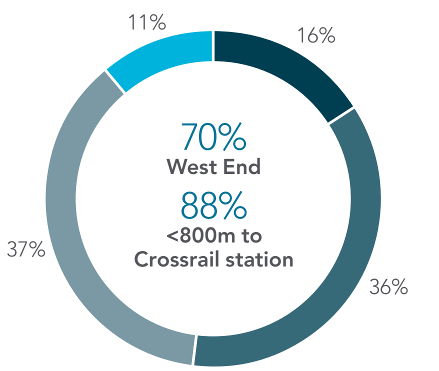
– classic **active portfolio management** investments on shorter leases with significant repositioning upside and reversionary potential to capture; and

– our future **development pipeline** where the reversionary potential is already significant even before redevelopment, giving us real long-term value potential.

1. As at May 2018

**Committed developments**
£301m
11.2% pre-let
**Near-term value upside**

**Long-dated**
£455m
3.2% net initial yield
**Crystallise surpluses**




**Development pipeline**
£1,038m
14% reversionary
**Long-term value upside**

**Active portfolio management**
£996m
10% reversionary
**Repositioning upside**

# Our market

London's commercial real estate markets have lacked clear direction and tracked broadly sideways during the year as a result of the ongoing political and macro-economic uncertainty following the EU referendum. Looking forward, we expect the outlook to remain opaque until the political situation stabilises and further clarity is provided on the UK's future trading relationships with the rest of the world. However, whatever the outcome, we expect London to remain a truly global city, continuing to attract businesses, capital and talent from around the world.

## Low growth outlook

Against a backdrop of improving global economic growth, the UK's GDP grew by a modest 1.8% in 2017. Despite record levels of employment, the depreciation of the pound lifted inflation which has squeezed household real incomes and negatively impacted retail sales. Whilst the consumer is under pressure, business activity has remained more resilient with most Purchasing Manager Indices at 50 or above, indicating the expectation of future growth. Given this modest economic performance, our lead indicators are broadly unchanged year on year, with both prime property yields and headline rents broadly stable.

Looking forward, economic forecasters expect this slow growth to continue as uncertainty about the shape of the UK's future outside of the EU weighs on consumer confidence and business investment. Oxford Economics forecast annual GDP growth to be 1.7% per annum over the next three years, whilst GDP growth in the first quarter of 2018 of 0.1%, the weakest performance since 2012, reflects this lower long-term trend. The most recent Deloitte survey of UK CFOs also reported that both business optimism and risk appetite remain below the long-term average.

To date, the impact of the UK's decision to leave the EU has been less severe than originally anticipated, with property values remaining at near cyclical highs. However, the terms of the UK's exit from the EU remain unsettled and we have yet to embark on agreeing our future trading arrangements with the rest of the world. Moreover, these uncertainties may also contribute to potential changes in the UK political landscape which could adversely impact the prospects for businesses across London. As a result, barring a major shock or change to both the macro-economic and geo-political backdrop, our expectation is that London's commercial property markets will trend broadly flat in the near term, with the benefits of London's continued safe-haven status and investors' appetite for yield being offset by some softening in market rents, rising interest rates and the appreciation of Sterling against the dollar over the last year.

However, looking further ahead, we are confident that London, with its track record of successfully adapting to changing market conditions, will remain attractive to a diverse range of businesses and investors as Europe's business capital.

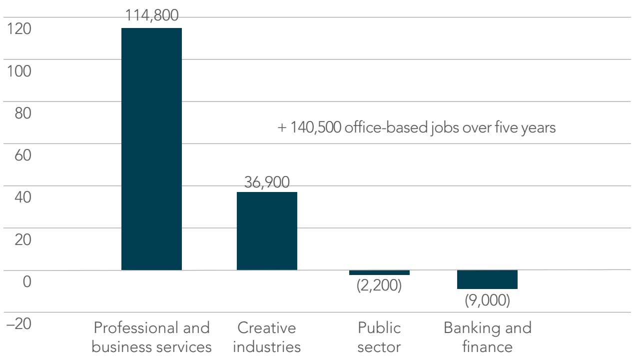
## London has supportive long-term demographics

With the largest economy of any city in Europe and generating around 23% of UK GDP, London has one of the deepest concentrations of trading activities, global businesses, capital, talent and institutions and remains number one in JLL's Order of Established World Cities 2018. Against a backdrop of lower UK economic growth, London is expected to continue to outperform with Oxford Economics forecasting annual GDP growth of 2.3% over the next five years.

London's population reached a record high of 8.8 million in 2016 and is forecast to continue to grow to more than ten million by 2030. CBRE/Oxford Economics predict that as London continues to grow this will increase inner London office-based employment by 140,500 new jobs (up from 129,000 a year ago) over the next five years, driven by the professional services and creative industries. London's deep pool of talented labour and collection of world-class universities and business schools continue to attract businesses from around the world. Three quarters of Fortune 500 companies have their European head offices in London.

London is also set to benefit from further infrastructure improvement with the opening of Crossrail in December 2018. This will expand London's rail capacity by 10%, bringing an additional 1.5 million people within 45 minutes of central London and further increasing its potential workforce.

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




Source: CBRE/Oxford Economics

Despite London's positive longer-term prospects, the uncertainty surrounding the outcome of our exit from the EU is likely to have a negative near-term impact on the London economy and its property market. Furthermore, macro-economic and political risks persist, including the unwinding of quantitative easing and the resultant outlook for global interest rates and a variety of other geo-political risks, such as the rise of protectionism. As a result, we continue to monitor closely prevailing market conditions and the fortunes of our diverse occupier base.

23%

London's share of UK GDP

Strategic Report – Annual Review

# Our market (continued)

"Resilient take-up across central London demonstrates that demand for high quality, well located space remains healthy and our strong leasing successes during the year are testament to this."

Marc Wilder
Leasing Director

## Healthy occupational demand

Occupiers have increasingly been looking beyond near-term uncertainties to ensure they can secure the best space for their businesses and people. As a result, our occupational markets have remained healthy. For the year ended 31 March 2018, central London take-up was 13.6 million sq ft, 15.0% ahead of the preceding 12 months and 10.0% ahead of the ten year annual average of 12.4 million sq ft. During 2017, there were 17 lettings in excess of 100,000 sq ft, the highest annual total since 2001, as large global businesses continued to commit to London. Take-up was once again from a diverse range of industries with professional and business services (31%), creative industries (22%) and banking and finance (19%) the dominant sectors.

As with many other cities across the world, central London has witnessed significant growth in the provision of flexible office space in recent years. Serviced office providers now account for around 20% of annual take-up, often providing much needed space to small and medium sized occupiers and contributing to London's growth, although their total share of the office London market still remains low at around 3%. Whilst our own leasing track record demonstrates that for many businesses, securing high quality, well-located space for longer-term occupation is vital, we recognise occupiers are increasingly seeking an element of flexibility for some parts of their business. As a result, we are reviewing opportunities across our portfolio to implement a new flexible offering, providing fitted out flex space with simplified lease documentation and terms from one month. Early interest is encouraging and we have achieved our first letting of such space at Elm Yard, WC1.

Overall, good buildings in great locations let well and the demand for new high quality space has been maintained. However, as occupiers have upgraded to higher quality buildings, they have released second hand space back to the market. As a result, the availability of second hand space at 31 March 2018 was 9.8 million sq ft, the highest level since 2009, putting upward pressure on the central London office vacancy rate which remained at 4.7% over the year.

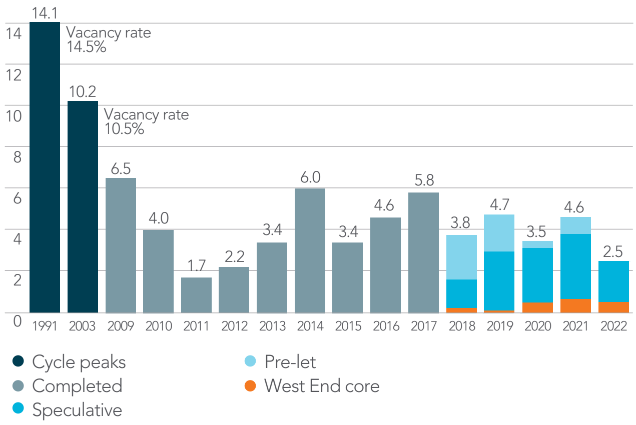
## 13.6 million sq ft

Central London office take-up

## Grade A supply remains tight

Development completions across central London remain limited, with completions for the year to 31 March 2018 of 5.1 million sq ft, down from 5.8 million sq ft in the preceding 12 months. However, in the core of the West End, the focus of our own development activities, development completions totalled only 1.0 million sq ft over the year.

**Central London office completions** million sq ft




Source: CBRE/GPE

Looking ahead, as shown in the chart, 19.1 million sq ft of new office space is expected to be delivered in central London over the five years to December 2022, of which 2.0 million sq ft is in the West End core, equating to only 0.7% per annum of existing stock. The low level of speculative development has continued as a more challenging planning regime, including the proposed London Plan, combined with continued macro-economic uncertainty have weighed on developers enthusiasm to push ahead with more marginal schemes.

This lack of supply has motivated occupiers to secure new space in advance of buildings completing. As a result, pre-lets represented 26% of all take up in the year to 31 March 2018 and 35% of future development completions are already pre-leased. This has helped support headline rental values across our key markets, although tenant incentives (including rent-frees) have increased marginally over the year.

## West End occupational markets

Over the year to 31 March 2018, West End office take-up was 4.8 million sq ft, 26.3% higher than the preceding year. Given this increase in activity, availability reduced to 4.1 million sq ft (down from 4.6 million sq ft in the prior year) and vacancy rates also remain low with Grade A space vacancy estimated by CBRE to be only 2.6%. CBRE has reported that prime office rental values in the West End softened marginally to £105 per sq ft, down from £110 per sq ft this time last year, given the continued uncertain backdrop. In addition, rent free periods on average increased marginally by one to two months over the last year to around 22-24 months on a ten year term. Looking ahead, CBRE expects rents to fall in the run up to the Brexit deadline with West End prime office rents forecast to reduce by around 3.8% over the next two years.

The West End prime retail market (35.6% of our West End portfolio by value) has continued to outperform offices. Despite some signs of distress in the wider UK retail market, demand for space on London's core retail streets has continued, supported by their wide appeal and record numbers of tourists visiting London. Notwithstanding the rise of online retailing, physical stores can complement an online presence and during the year a number of previously online only brands opened their first bricks and mortar stores in London. As a result, vacancy is limited and prime rental values are largely unchanged year on year.

## City, Midtown and Southwark occupational markets

Over the year to 31 March 2018, City office take-up was 5.9 million sq ft, up 25.7% on the preceding year, with availability rising to 6.2 million sq ft (up 4.3%) but in line with the ten year average. Although higher than in the West End, vacancy rates remain low with Grade A vacancy estimated by CBRE to be only 4.1%. CBRE has also reported that prime City rental values reduced by 2.1% to £68.50 per sq ft.

Midtown and Southwark office take-up was 2.5 million sq ft, up 1.3% on the preceding year, while availability at 31 March 2018 was 2.1 million sq ft, slightly lower than the ten year average. CBRE reported prime office rents in Southwark increased by 4% to £65.00 per sq ft with Midtown office rents increasing to £80.00 per sq ft from £76.50 per sq ft a year earlier.

## GPE occupational market positioning

Whilst occupational demand is healthy and supply remains limited, the outlook remains challenging as occupiers navigate the continued uncertain outlook in a lower growth environment. Moreover, while headline market rents were broadly stable over the year, the increase in typical rent free periods implies a marginal decline in net effective rents. Against this backdrop, we are well positioned: our leasing record remains strong, our committed development programme is focused on high quality, well-located schemes that are in high demand, our average rents are low with further reversionary potential across the Group of 12.1% and 88% of our portfolio is within walking distance of a Crossrail station. However, we estimate that for the next twelve months rental value growth across our portfolio will be between -2.5% and +1.0%.

"Of the many repositioning opportunities that we are analysing to buy, we are concluding that in the majority of cases that we are not being adequately compensated for the associated risk. With our capital discipline, we have made only one purchase in the year."

**Alexa Baden-Powell**
Investment Manager

## Investment markets strong for prime assets

Following a volatile 2016, the volume of central London office transactions returned to strength in 2017, totalling £16.4 billion, the fourth highest annual total on record. Strong demand for prime, well-let and well-located assets continued with some notable high value tower sales in the City. Unusually, activity reduced towards the end of 2017, with the final quarter the slowest since 2011, and this slow down has carried into 2018 with only £2.5 billion of transactions in the first quarter of the year.

Overseas investors continue to dominate, accounting for 83% of transactions over the 12 months to 31 December 2017, with Asian investors particularly active at 44% of the total. Prime London real estate continues to demonstrate relative value to other global cities, offering higher headline office yields than are available in, amongst others, Paris, Hong Kong and Tokyo, with London maintaining its reputation as a safe investment haven for international investors. Given continued high levels of demand, prime yields have remained stable in both the West End and the City at 3.75% and 4.00% respectively.

To date, the gap between prime and secondary yields has remained at near record lows, with lower quality, short-let buildings, often in need of redevelopment, not being adequately discounted by prospective vendors for the additional level of associated risk. Transaction volumes for these secondary assets have remained limited, as vendors' often aspirational prices have not been met and, as a result, properties have been withdrawn from sale. We are monitoring this market activity very closely, given these are the type of assets we typically like to buy. However, to date, we are only seeing limited evidence of re-pricing.

**£16.4 billion**

Central London office property investment transactions in 2017

# Our market (continued)

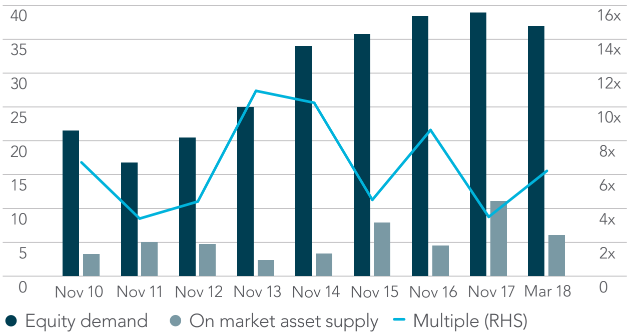
Retail investment volumes reduced in 2017 to £1.5 billion, down from £2.2 billion in 2016, driven by a reduced number of large transactions. Unlike the office market, domestic buyers were more active accounting for 47% of all activity in the year. Notwithstanding reduced levels of activity, prime yields remained stable during the year at 2.25% on Bond Street and 2.50% on Oxford Street.

The central London residential market continues to be under pressure as increased stamp duty rates and concerns regarding affordability continue to weigh on demand. Today, our residential exposure is greatly reduced, totalling only 2% of the portfolio by value as we have completed the sales of our pre-sold units at Rathbone Square, W1. Since completion of the scheme in November 2017, we have completed on 139 units (138 during the financial year) out of total sales to date of 140 units collecting £198.7 million in outstanding proceeds.

## Weight of money continues to support yields

As the chart below shows, the excess of equity capital to invest over commercial property available for sale across central London has remained high (estimated at £37.0 billion versus £6.0 billion respectively). Interestingly, we have recently seen some shift in the Asian buyer mix with a small decline in demand from China and Hong Kong offset by increased institutional appetite from Korea and Singapore, along with signs of growing Japanese interest.

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




Source: CBRE/GPE

London real estate continues to offer relative value in a global environment where yield is scarce. Therefore, in the near term, we expect prime yields to remain stable. However, we expect to witness some modest expansion in the medium term, given the uncertain macro-economic backdrop and the challenging rental outlook. For some secondary properties, we expect to see additional further upward pressure on yields as buyers look to discount prices to reflect the greater risks these assets possess.

## GPE investment market positioning

We have been a net seller for the past five years, taking advantage of strong investment markets to crystallise surpluses where our business plans were complete. Looking forward, given this investment market strength, we are unlikely to be a net buyer until vendors become more realistic on pricing, particularly for secondary properties with a higher risk profile.

As the chart below shows, we are constantly reviewing acquisition opportunities, and over the past three months we have reviewed £1.2 billion of potential acquisitions.

**Value of deals under review by GPE** £bn


Source: Company data

Whilst the number of assets available to buy remains high, very few represent good value, with none of the assets under review within 10% of our view of fair value. We will remain disciplined. As a result, in the near term, acquisitions are likely to be limited and we expect to be a net seller in the year ahead.

▶ **See investment management** on pages 36 and 37

£37.0 billion

Equity demand for central London properties

## Our lead indicators are unchanged

Given the cyclical nature of our markets, we actively monitor numerous lead indicators to help identify key trends in our marketplace. Over the last 12 months, we have seen our property capital value indicators remain stable. Investment activity in the central London commercial property market is robust and the real yield spread over gilt yields remains supportive resulting in stable prime investment yields. In the medium term, we expect modest increases in yields and we expect this trend to be greater for secondary properties. On the occupational side, business confidence remains low, forecast rates of economic growth are modest and the uncertainty surrounding the UK exit from the EU has yet to clear. As a result, we expect headline rental values across our portfolio to be broadly stable over the next 12 months.

## Selected lead indicators

| **Drivers of rents** | 2017 Outlook | **2018 Outlook** |
|---|---|---|
| GDP/GVA growth | 🟠 | 🟠 |
| Business investment | 🟠 | 🟠 |
| Confidence | 🔴 | 🔴 |
| Employment growth | 🟠 | 🟠 |
| Active demand/take-up | 🟠 | 🟠 |
| Vacancy rates | 🟠 | 🟠 |
| Development completions | 🟠 | 🟠 |

| **Drivers of yields** | | |
|---|---|---|
| Rental growth | 🔴 | 🔴 |
| Weight of money | 🟠 | 🟠 |
| Gilts | 🟠 | 🟠 |
| BBB Bonds | 🟠 | 🟠 |
| Exchange rates | 🟠 | 🟠 |
| Political risk | 🔴 | 🔴 |

# Investment management

Investor demand for long-let, well-located, prime assets remained strong during the year. We continued to capitalise on this strength to sell assets and crystallise further significant surpluses. As a result, we were again a net seller with sales of £329.0 million and acquisitions of £49.6 million during the year.

"Investment markets have been active and valuations remain robust. As a result, we have continued to take advantage of the market strength to sell mature, prime assets and we remained a net seller during the year."

Robin Matthews
Investment Director

## 2018/2019 Strategic Priority:

### Selective investment and recycling

#### Operational measures

| | 2018 | 2017 |
|---|---|---|
| **Purchases** | **£49.6m** | £71.0m |
| Purchases – capital value per sq ft | **£320** | £3,385 |
| Purchases – net initial yield | **2.6%** | 2.7% |
| **Sales** | **£329.0m** | £727.0m |
| Sales – premium/(discount) to book value[1] | **5.4%** | (3.1)% |
| Sales – capital value per sq ft | **£1,412** | £1,559 |
| Total investment transactions[2] | **£378.6m** | £798.0m |
| **Net investment[3]** | **£(279.4)m** | £(656.0)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:

- tired properties needing repositioning;
- attractive locations supported by infrastructure;
- discount to replacement cost;
- low average rents and low capital value per sq ft;
- risk adjusted accretive IRRs; and
- flexible business plans with optionality.

Once we have acquired a property, the investment team works closely with our portfolio management and development teams to deliver the business plan and maximise the property's potential. Every asset's business plan is updated quarterly, providing 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 or returned to shareholders.

## Net seller for the fifth year running with £329.0 million of sales

In last year's annual report, we outlined our expectation that our sale and acquisition activity would be more balanced for the current year as vendors became more realistic on pricing. However, with the investment market remaining robust during the year, we took the opportunity to sell further assets securing strong pricing. In total, sales generated £329.0 million in gross proceeds at a 5.4% premium to the 31 March 2017 book values.

#### Sales for the year ended 31 March 2018

| | Price[1] £m | Premium to book value | Price per sq ft £ |
|---|---|---|---|
| 30 Broadwick Street, W1 | 185.9 | 3.2% | 1,971 |
| 240 Blackfriars Road, SE1 | 133.0 | 8.3% | 1,176 |
| 48 Broadwick Street, W1 | 4.3 | 3.6% | 1,478 |
| 42/44 Mortimer Street, W1 | 4.8 | 6.7% | 1,500 |
| Wigmore Street buildings, W1 | 1.0 | 19.4% | 1,500 |
| **Total** | **329.0** | **5.4%** | **1,412** |

1. Joint ventures at share and after deductions for tenant incentives.

In December 2017, our joint venture with BP (GRP) sold 240 Blackfriars Road, SE1 to clients of Wolfe Asset Management Limited, a wholly-owned subsidiary of the Al Gurg Family. 240 Blackfriars Road is a fully let, 20 storey landmark building constructed in 2014 and provides a total of 235,900 sq ft of Grade A offices, retail and residential accommodation. The headline price of £266.5 million, equating to £266.0 million (our share: £133.0 million) after deductions for tenant incentives, was 8.3% ahead of the 31 March 2017 book value, reflecting a headline net initial yield of 3.94% and a capital value of £1,176 per sq ft.

▶ **See more** on 240 Blackfriars Road, SE1 in our case study on pages 16 and 17

Also in December 2017, we sold 30 Broadwick Street, W1 to an Asian client of Savills Investment Management. 30 Broadwick Street is an eight-storey building, completed in late 2016, and provides a total of 94,300 sq ft of Grade A office, retail and restaurant accommodation. The building is fully let, on office rents ranging from £86.50 to £110 per sq ft. The headline price of £190.0 million, equating to £185.9 million after deductions for tenant incentives, was 3.2% ahead of the 31 March 2017 book value, reflecting a headline net initial yield of 4.0% and a capital value of £1,971 per sq ft.

▶ **See more** on 30 Broadwick Street, W1 in our case study on pages 18 and 19

During the year, we also continued to take advantage of supportive market conditions with a number of smaller asset sales. In June 2017, we sold 48 Broadwick Street, W1, a small residential building in Soho for £4.3 million, equating to £1,478 per sq ft and, in September 2017, we sold 42/44 Mortimer Street, W1 for £4.8 million, reflecting a net initial yield to the buyer of 3.85%.

## Rathbone Square, W1 residential

In November 2017, we achieved practical completion of the 142 private residential units at Rathbone Square, W1. We forward sold 140 of the apartments during construction, and in December, shortly after completion of the scheme, we started handing over the units to the buyers.

Our customer care team supported the buyers with all aspects of the handover of the apartments from pre-completion visits, moving in and training on the equipment and appliances. All bar one apartment, the handover process is now complete, and we have both collected the remaining 75% of the sales proceeds and successfully concluded our largest ever development project.



We also disposed of the final residual buildings in the Great Wigmore Partnership, our joint venture with Aberdeen Asset Management, for a combined price of £2.0 million (our share: £1.0 million), bringing a successful conclusion to the Partnership's activities.

In April 2018, we sold the freehold of the recently redeveloped 78/92 Great Portland Street and 15/19 Riding House Street, W1 to M&G Real Estate. The headline price of £49.6 million, equating to £48.3 million after deductions for tenant incentives, reflected a net initial yield of 3.9% on a topped up basis and a capital value of £1,362 per sq ft.

### One acquisition in the year, adding to our development opportunity

Given the strength in the investment market, attractive market opportunities to buy were limited, with only one purchase during the year. In June 2017, we acquired the freehold of land and buildings including Cityside House and Challenger House, 40/42 Adler Street and 2/8 Whitechapel Road, E1 from Hermes Investment Management for £49.6 million, or £320 per sq ft on the consented space. The 1.1 acre site sits between Aldgate East underground station to the west and Whitechapel station to the east and consists of:

– Challenger House – a freehold interest in a five-storey hotel, leased to Qbic Hotels for a further 21 years at a rent of £1.4 million p.a., with CPI linked five yearly reviews, capped and collared at 2% – 4% p.a. The hotel trades from 171 bedrooms with a public restaurant;
– Cityside House – a freehold interest in a five-storey, 54,300 sq ft office building. The property was unoccupied at purchase with planning consent for an additional three floors; and
– Development sites – freehold land to the rear of Cityside House, part of which has a planning consent for 19,000 sq ft of development, comprising hotel and residential uses.

Since purchase, the redevelopment of Cityside House, E1 has commenced to deliver a well-designed, cost effective and prominent office building in the heart of Whitechapel, supported by a long-term income stream from Qbic Hotels, and further development sites. In addition, Whitechapel is set to benefit from significant further regeneration, including its new Crossrail station opening in late 2018.

▶ **See more** on our Whitechapel purchase in our case study on pages 20 and 21

**Purchases for the year ended 31 March 2018**

| | Price paid £m | NIY | Area sq ft | Cost per sq ft £ |
|---|---|---|---|---|
| Cityside House and Challenger House, E1 | 49.6 | 2.6% | 113,300 | 320 |
| **Total** | **49.6** | **2.6%** | **113,300** | **320** |

In the period, we also enhanced our ownership at City Tower, 40 Basinghall Street, EC2 by extending our leasehold interest to 125 years.

Together with sales of £329.0 million, the total investment transactions were £378.6 million with a net divestment of £279.4 million during the year.

### Outlook for sales and acquisitions

Looking forward, with 16% of our portfolio represented by long-dated properties for which investor demand is currently strong, we expect further sales over the next year. Moreover, when considering acquisition opportunities, our usual discipline remains intact. We have the financial firepower to exploit any market weakness should it arise, although we have no need to buy. Any new purchase needs to outperform the buildings we already own and, given 48% of the portfolio is in our development programme, the hurdle is high. As a result, barring any major change in market conditions, we will likely be a net seller over the next 12 months.

5.4%

Sales premium to book value

# Development management

Since 31 March 2017, we have successfully completed three developments which are now 89.5% let or sold. We have recently commenced three new schemes and have also been busy progressing the next wave of exciting developments which together now cover 48% of the existing portfolio.

"We are excited to have recently committed to three new development schemes. Together, they will deliver more than 400,000 sq ft of new space, all in close proximity to Crossrail, and the recent pre-letting success at Hanover Square, W1 is testament to their appeal."

Andrew White
Development Director

## 2018/2019 Strategic Priority:

### Progress the committed developments and prepare the pipeline

#### Operational measures

| | 2018 | 2017 |
|---|---|---|
| Profit on cost[1] | **15.9%** | 2.0% |
| Ungeared IRR[1] | **10.0%** | 6.7% |
| Yield on cost[1] | **4.7%** | 5.8% |
| Income already secured[1] | **11.2%** | 65.2% |
| BREEAM Excellent (targeted)[1] | **100%** | 100% |
| Committed capital expenditure | **£239.6m** | £44.5m |

1. Committed developments at date of report.

### Our approach

Upgrading our portfolio through development, using targeted capital expenditure, creates sustainable spaces with improved occupier appeal and longevity which enhances both rental values and capital returns. The cyclical nature of central London property markets means it is critical for us to match this development activity to the appropriate point 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 portfolio management, we aim to be opportunistic and flexible when planning the start and completion dates for our schemes.

We have a good track record of matching our activities to the ebb and flow of London's cyclical market and today we have three new committed schemes and a substantial pipeline of opportunities. As a result, the successful delivery and preparation of the development pipeline forms a key strategic priority.

## Well placed development portfolio

Our ability to deliver strong development returns requires a deep pipeline of opportunities, which, when conditions allow, will become the development schemes of tomorrow. Today, the portfolio is exceptionally well placed with 48% of the portfolio in the development programme.

Currently we have three committed schemes on site, set to deliver 412,000 sq ft of high-quality space, all near Crossrail stations, which are expected to generate a profit on cost of 15.9%. Capital expenditure to come at these schemes totals £239.6 million and, at 31 March 2018, the committed development properties were valued at £371.9 million (our share). Beyond this, the team is busy preparing the further 13 schemes with prospective deliveries into the early 2020s and beyond.

## Three schemes completed since 31 March 2017

In November, we completed 55 Wells Street, W1, our 37,300 sq ft development in Fitzrovia, and letting interest in the building has been strong. Following the 4,500 sq ft pre-let of the restaurant unit to Ottolenghi, we have let a further 23,700 sq ft of offices in two transactions to Williams Lea Limited (third to sixth floors) and Synova Capital (first floor). Together, they will pay a total rent of £2.1 million, at an average of 8.0% ahead of the 31 March 2017 ERV. Four of the five floors were let on ten year leases (no breaks), the remainder was on a ten year lease with a break at year five. This leaves just 5,100 sq ft of offices remaining on the second floor. The building delivered a profit on cost of 18.8% and is now 84.8% let with good interest in the one remaining floor.

▶ **See portfolio management** for more details on pages 42 and 43

Also in November, we achieved practical completion of the 142 private residential units at Rathbone Square, W1 and have now handed over all but one of the 140 pre-sold apartments to the buyers and collected the remaining proceeds of £198.7 million. There are currently two remaining apartments available for sale for a value of approximately £12.5 million.

At 160 Old Street, EC1, owned in our Great Ropemaker Partnership, we completed the 161,700 sq ft of office, retail and restaurant space in late April 2018. Letting activity in this high-quality building has been strong. In December 2017, we pre-let 98,100 sq ft of the office space to Turner Broadcasting System Europe Limited ('Turner'). Turner will occupy the lower ground to third floor of the building on four separate fifteen year leases (no breaks). Turner will pay an annual rent in line with the 30 September 2017 ERV and a market consistent incentive package. In addition, Turner has recently exercised its option to lease the whole of the fourth floor (18,400 sq ft). Together with the letting of two retail units, we have secured £6.1 million of rent with the building now 71.2% let and we have positive leasing interest in the remaining office space and the two remaining retail units.

Together, these three completed schemes are 89.5% let or sold and generated a profit on cost of 6.5%.

48%
Of portfolio in the development programme

## Three new commitments; all near Crossrail

Since the acquisition of Cityside House, E1 in June 2017, we have further improved the design of the building to enhance the quality of the space we can deliver. This included relocating the office entrance, moving and rotating the building's core and improving the building services. To date, we have stripped out the building and commenced demolition. In March 2018, we committed to the development which will transform the existing building into 74,700 sq ft of Grade A office and retail space. We are targeting average office rents across the building of around £51.40 per sq ft, with delivery expected in Q4 2019 following the opening of the nearby Whitechapel Crossrail station.

▶ **See more** on Whitechapel purchase in our case study on pages 20 and 21

At Oxford House, 76 Oxford Street, W1, after receiving resolution to grant planning permission for a new build scheme and finalising the remaining neighbourly matters, we committed to the redevelopment of the building in March 2018. The new build scheme will deliver around 116,000 sq ft of new office and retail space, a 30% increase (27,000 sq ft) on the refurbished building. We are targeting a BREEAM Excellent rating with generous wellbeing features designed in from the outset. With vacant possession now achieved demolition of the existing building is expected to commence imminently with construction of the new building expected to start in March 2019 and completion is targeted for Q3 2021.

At Hanover Square, W1, we have planning permission for a 221,300 sq ft mixed-use development comprising 167,200 sq ft of offices, 41,900 sq ft of retail and restaurant space and 12,200 sq ft of residential apartments. The site sits on top of the western entrance of the Bond Street Crossrail station and we have been taking back control of elements of the site as Crossrail have completed their works. Today, this process is nearly complete with only the element above the station outstanding where we expect to repurchase the land from Crossrail over the summer under the terms of existing agreements.

## Oxford House, W1; enhanced planning consent

We originally secured planning consent to refurbish Oxford House to allow us to provide Facebook with additional option space at the adjacent Rathbone Square, W1 which they had pre let. Facebook ultimately did not exercise their option which has provided an opportunity for us to revisit our plans.

Situated at the eastern end of one of the world's most popular retail streets, high-quality retail units are in strong demand ahead of the opening of Crossrail later this year. As a result, new modern retail units command premium rents.

In April 2018, we received planning permission for a new build scheme. The new consent improves upon both the scale and quality of the building that could be delivered under our previous consent for a refurbishment. It will provide around 116,000 sq ft of new Grade A space comprising 78,100 sq ft of offices and 37,900 sq ft of retail, an increase of around 30% on the refurbishment scheme. Moreover, the improved quality should deliver higher rents, with the overall ERV of the scheme up nearly 40%, and the modern retail units targeted to meet the strong occupier demand.

## Our committed schemes – 412,000 sq ft

**Oxford House, 76 Oxford Street, W1**

| | |
|---|---|
| Size | **116,000 sq ft** |
| Construction cost | **£102.4m** |
| Completion date | **August 2021** |
| BREEAM Excellent (targeted) | **100%** |
| Crossrail station | **30 metres[1]** |

**Hanover Square, W1**

| | |
|---|---|
| Size | **221,300 sq ft** |
| Construction cost | **£108.0m[2]** |
| Completion date | **August 2020** |
| BREEAM Excellent (targeted) | **100%** |
| Crossrail station | **0 metres[1]** |

**Cityside House, E1**

| | |
|---|---|
| Size | **74,700 sq ft** |
| Construction cost | **£29.2m** |
| Completion date | **October 2019** |
| BREEAM Excellent (targeted) | **100%** |
| Crossrail station | **650 metres[1]** |

1. Distance to nearest Crossrail station. 2. At GPE share.

# Development management (continued)

Given the limited supply of well located Grade A offices in this prime location, early leasing interest has been strong. In March 2018, we pre-let the top four office floors of the over station building to KKR, a leading global investment firm. KKR will occupy the fifth to eighth floors (57,200 sq ft) paying £6.6 million in annual rent on a 15-year lease (no breaks) with an option to hand back half of the fifth floor (8,300 sq ft) expiring on 1 March 2019. We will launch the marketing campaign for the remaining offices and retail space this year with early interest already good.

Given this leasing momentum, we have recently committed to the development and have started on site. Subject to the repurchase of the land from Crossrail, we have an expected completion of Q3 2020. The development is owned in the GHS Partnership, our 50:50 joint venture with the Hong Kong Monetary Authority.

Our three committed development properties require £239.6 million of capital expenditure to complete. In total the three schemes are 11.2% pre-let and are expected to deliver a profit on cost of 15.9%, a yield on cost of 4.7% and an ungeared IRR of 10.0%.

"Technology is evolving at a faster rate than real estate. As a result, our Design Review Panel aims to help future proof our buildings at the design stage, adapting our buildings today for the occupiers of tomorrow."

James Pellatt
Director of Workplace & Innovation

## Exceptional development pipeline; development programme now 48% of portfolio

Beyond our three committed schemes, we have a substantial and flexible medium-term pipeline of 13 uncommitted schemes (1.3 million sq ft). These schemes include a number of exciting projects, including New City Court, SE1, in the London Bridge Quarter, where we hope to materially increase the size of the existing 97,700 sq ft building, and Mount Royal, W1, located at the western end of Oxford Street, where we have appointed Make Architects to draw up early plans to redevelop this two-acre site into a retail-led development scheme.

The value of good design cannot be underestimated. Sustainability requirements are becoming increasingly complex and there is a growing recognition that a green building is a healthier building. Our occupiers are becoming ever more demanding, looking for innovative buildings, incorporating the latest technological advances with generous health and wellbeing features. Our Design Review Panel, chaired by our Director of Workplace and Innovation, challenges our professional teams to ensure that we provide high quality, flexible space, incorporating appropriate technology whilst meeting the highest standards of sustainable design. This will help ensure that we address ever evolving workplace needs and future proof our developments.

In total, our potential development programme totals 1.4 million sq ft today, with the potential to increase this to more than 1.7 million sq ft post development. These schemes cover 48% of GPE's existing portfolio and will provide the bedrock of our development activities into the 2020s.

▶ **See case study** on pages 24 and 25

## Developing over and around Crossrail

We believe that the opening of Crossrail (to be known as the Elizabeth line) in December this year will be a game-changer for London's transport infrastructure and we have positioned our recent and future 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.

All of our committed schemes sit within Crossrail's influence. Hanover Square, W1 sits directly on top of the Bond Street Crossrail entrance and will become one of the main gateways into the West End. Oxford House, W1 sits at the eastern end of Oxford Street, opposite the Tottenham Court Road Crossrail entrance, where the retail experience is being transformed ahead of its opening. Crossrail is also opening new locations to potential occupiers and our redevelopment at Cityside House in Whitechapel is set to benefit from this. Today, 88% of our total portfolio is within walking distance of a Crossrail station and, as a result, we are exceptionally well placed.

**88%**
Of portfolio near Crossrail stations

# Our total development pipeline[1]

**City Place House, EC2***

| | |
|---|---|
| Proposed size | 176,600 sq ft |
| Earliest start | 2019 |
| Opportunity area | Crossrail |

**50 Finsbury Square, EC2**

| | |
|---|---|
| Proposed size | 126,400 sq ft |
| Earliest start | 2020 |
| Opportunity area | Crossrail |

**New City Court, SE1***

| | |
|---|---|
| Proposed size | 373,900 sq ft |
| Earliest start | 2021-2022 |
| Opportunity area | London Bridge |

**35 Portman Square, W1**

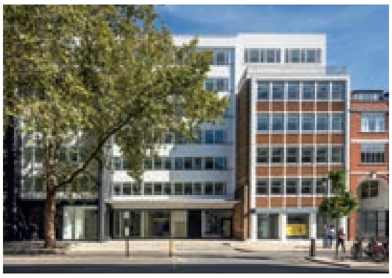
| | |
|---|---|
| Proposed size | 73,000 sq ft |
| Earliest start | 2021-2022 |
| Opportunity area | Core West End |

**52/54 Broadwick Street, W1**

| | |
|---|---|
| Proposed size | 47,000 sq ft |
| Earliest start | 2022-23 |
| Opportunity area | Crossrail |


**Jermyn Street Estate, SW1**

| | |
|---|---|
| Proposed size | 133,100 sq ft |
| Earliest start | 2021-2022 |
| Opportunity area | Core West End |



**31/34 Alfred Place, WC1**

| | |
|---|---|
| Proposed size | 37,200 sq ft |
| Earliest start | 2023-2025 |
| Opportunity area | Crossrail |

**French Railways House and 50 Jermyn Street, SW1**

| | |
|---|---|
| Proposed size | 75,000 sq ft |
| Earliest start | 2021-2022 |
| Opportunity area | Core West End |

**Mount Royal, W1**

| | |
|---|---|
| Proposed size | 92,100 sq ft |
| Earliest start | 2022-2023 |
| Opportunity area | Prime retail |

**Kingsland/Carrington House, W1**

| | |
|---|---|
| Proposed size | 51,400 sq ft |
| Earliest start | 2022-2023 |
| Opportunity area | Prime retail |

**Minerva House, SE1**

| | |
|---|---|
| Proposed size | 120,000 sq ft |
| Earliest start | 2021-2022 |
| Opportunity area | London Bridge |

**95/96 New Bond Street, W1**

| | |
|---|---|
| Proposed size | 9,600 sq ft |
| Earliest start | 2023-2024 |
| Opportunity area | Prime retail |

1. One further scheme: Courtyard sites at Whitechapel, E1. Proposed areas are existing areas where insufficient design information exists.
* Computer Generated Image of proposed building.

# Portfolio management

In another active year, we agreed 68 new lettings, securing £31.1 million of rent, outperforming 31 March 2017 ERVs by 2.6%. With a further £5.7 million of reversion captured through rent reviews, these combined to drive rental growth and produce another successful leasing year.

"We delivered another strong operational performance over the 12 months, with our leasing successes demonstrating healthy demand for our high quality, well located buildings in a resilient London market."

Steven Mew
Portfolio Director

## 2018/2019 Strategic Priority:

### Drive rent roll growth

#### Operational measures

| | 2018 | 2017 |
|---|---|---|
| New lettings and renewals | **£31.1m** | £20.5m |
| Premium to ERV[1] (market lettings) | **2.6%** | 0.6% |
| Vacancy rate | **4.9%** | 6.8% |
| ERV growth/(decline) | **0.3%** | (1.3)% |
| Reversionary potential | **12.1%** | 21.2% |
| Rent collected within seven days[2] | **99.9%** | 99.4% |
| Occupier retention rate | **40%** | 71% |

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

## Our approach

We consider that a close relationship with our occupiers 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 occupiers want and how we can meet their needs. Our portfolio 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 occupiers to other buildings within our portfolio.

Our portfolio managers, supported by our occupier services team, administer a portfolio of approximately 346 occupiers in 55 buildings across 40 sites from a diverse range of industries. This diversity limits our exposure to any one occupier or sector, with our 20 largest occupiers at 31 March 2018 accounting for 40.8% (2017: 39.6%) of our rent roll.

## Leasing momentum has continued delivering another strong year of performance

Given the uncertain macro-economic backdrop, our rental values were broadly stable (+0.3%) during the year and occupier demand for good quality space remained healthy. As a result, we maintained our high level of leasing activity, including successful leasing in our development portfolio. We also continued to capture significant reversion across the portfolio and, coupled with the leasing activity, this has helped drive like-for-like Group rent roll up by 7.0%.

The key highlights of a busy year included:

– 68 new leases and renewals completed during the year (2017: 52 leases) generating annual rent of £31.1 million (our share: £22.6 million; 2017: £19.1 million), market lettings 2.6% ahead of ERV. Pre-lets and lettings at our newly completed developments accounted for 58% of total lettings during the year;

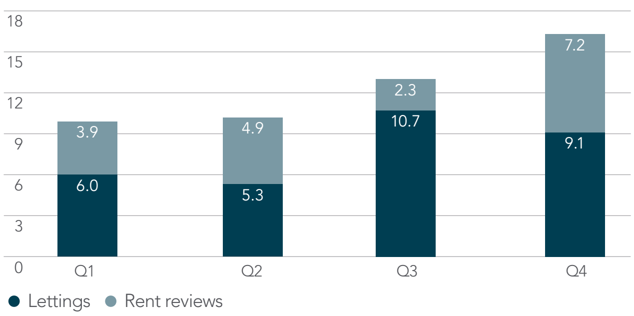
▶ **See the development management section** on pages 38 to 41

– 34 rent reviews securing £18.3 million of rent (our share: £17.2 million; 2017: £8.6 million) were settled at an increase of 29.6% over the previous rent and capturing significant reversion;
– £5.7 million of reversion captured in the year to 31 March 2018 (2017: £5.5 million);
– total space covered by new lettings, reviews and renewals was 768,300 sq ft (2017: 480,000 sq ft); and
– an increase of 7.0% in rent roll on a like-for-like basis, although absolute rent roll was marginally down 2.1% to £107.3 million over the year as property sales more than outweighed reversion capture.

Our average office rent remains low at £54.60 per sq ft and our investment portfolio vacancy rate reduced to 4.9% at 31 March 2018 (2017: 6.8%) due to the successful letting of recent development and refurbishment completions.

Since 31 March 2018, we have completed eight further lettings delivering new rent of £2.1 million (our share: £1.3 million). We also have an additional 16 lettings currently under offer accounting for £3.0 million p.a. of rent (our share: £2.7 million), together 2.6% ahead of 31 March 2018 ERV. The transactions include the successful trial of our new flex space offering, generating a 35% premium to net effective ERVs on an initial 12,000 sq ft at Elm Yard, WC1, and we are appraising a further circa 100,000 sq ft across the portfolio for this offering.

**Lettings and rent reviews by quarter 2017/18** £m



## Capturing reversion through rent review

One of our strategic priorities for the year was to capture the significant reversionary potential (the difference between the passing rent and market rental value) within our investment portfolio. Of the reversion that could be captured this financial year, a large proportion was available through rent review. As a result, it was essential that we settled these reviews at, or ahead of, the market rental value. As the table below demonstrates, we had another busy year, settling 34 rent reviews, a record for this cycle, 29.6% ahead of the previous passing rent and at a 3.2% premium to ERV.

**Rent reviews in 2017/18**

| | |
|---|---|
| No. | 34 |
| Area (sq ft) | 297,900 |
| £m (at share) | £17.2m |
| Rent per sq ft | £61.30 |
| Reversion captured £m (at share) | £4.0m |
| % above previous passing rent | 29.6% |
| % above ERV | 3.2% |

Significant transactions included:

- at 24/25 Britton Street, EC1, we settled a rent review with Kurt Geiger, capturing significant reversion, increasing the annual rent by £1.0 million to £2.5 million, an increase of 64% on the previous rent and 2.4% above ERV;
- at New City Court, SE1, we settled a rent review with Sinclair Knight Merz (Europe) Limited on the 3rd and 4th floors, increasing the combined annual rent by £0.5 million to £1.6 million, an increase of 59% on the previous passing rent and 8.6% above ERV at the review date; and
- at 160 Great Portland Street, W1, we completed a rent review with Double Negative capturing reversion of £0.6 million, an increase of 12.2% on the previous rent, in-line with ERV.

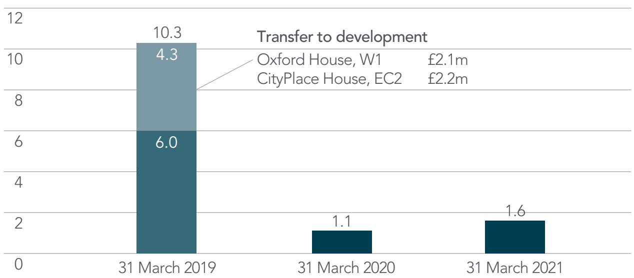
## High levels of occupier satisfaction

During the year, we commissioned our first independent occupier satisfaction survey to better understand how our occupiers view the services we provide. Encouragingly, 88% of respondents described their level of satisfaction with our service as good or excellent. Looking forward, we anticipate that occupiers will demand greater levels of service provision. As a result, over the coming year, we will be further strengthening our Occupier Services team with a particular focus on the provision of building amenities, wellbeing and the use of technology to improve the occupier experience.

## Reversion reduced; remainder near dated

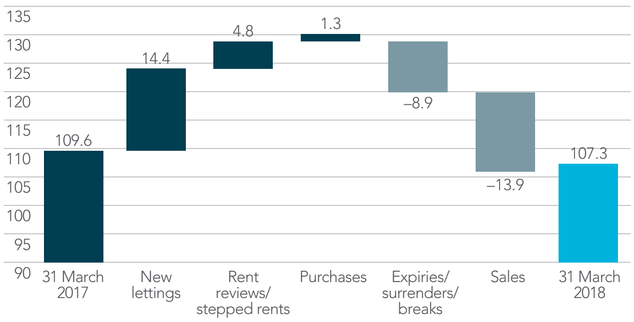
Our successful reversion capture over the past 12 months has reduced the available portfolio reversion from 21.2% to 12.1% (£13.0 million) at 31 March 2018. Looking ahead, £10.3 million of this reversion is available over the next 12 months, of which £4.3 million is at buildings where we are taking vacant possession ahead of development. Capturing the remaining near-term reversion of £6.0 million remains a strategic priority.

**Reversions: forecast total reversion to capture** £m




Together, the combination of settling rent reviews and letting new space increased our rent roll (including share of joint ventures) by 7.0% on a like-for-like basis to £107.3 million.

**Rent roll walk** £m




## Rent collection

Our quarterly cash collection performance throughout the year remained very strong. We secured 99.9% of rent within seven working days following the March 2018 quarter date (March 2017: 99.4%). The average collection rate across the four quarters of the year was 99.9% (2017: 99.6%), including a record 100.0% collection rate for the September 2017 quarter. Occupiers on monthly payment terms represent around 4% of our rent roll (2017: 3%).

## Letting success at 55 Wells Street, W1

In November 2017, we successfully completed our 37,300 sq ft development in the heart of Fitzrovia at 55 Wells Street, W1, delivering a profit on cost of 18.8%.

With the 4,500 sq ft retail space already pre-let to Ottolenghi in June 2017, 15% ahead of the March 2017 ERV, we embarked on a leasing campaign of the Grade A office space.

Since completion of the works, we have let five of the six office floors at a combined annual rent of £2.1 million, 8% ahead of the March 2017 ERV with a weighted average lease length of 8.8 years across the building. The completed development is now 84.8% let, six months after completion, with positive interest in the one remaining floor.

# Our financial results

> "Our good financial performance during the year was demonstrated by growth in EPRA NAV, EPRA earnings and ordinary dividends, along with the reduction in the Group's financial leverage to historical low levels which acted as a catalyst to return £416 million to our shareholders."

**Nick Sanderson** Finance Director

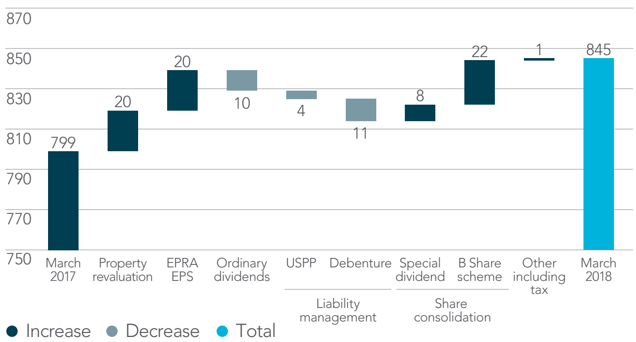
We calculate adjusted net assets and earnings per share in accordance with the Best Practice Recommendations issued by the European Public Real Estate Association (EPRA). The recommendations are designed to make the financial statements of public real estate companies clearer and more comparable across Europe enhancing the transparency and coherence of the sector. We consider these standard metrics to be the most appropriate method of reporting the value and performance of the business and a reconciliation to the IFRS numbers is included in note 9 to the accounts.

▶ **See performance measures EPRA metrics** on pages 153 to 155

## EPRA NAV growth driven by valuation growth and returns to shareholders

At 31 March 2018, the Group's net assets were £2,366.9 million, down from £2,738.4 million at 31 March 2017 predominantly due to the £416.0 million returned to shareholders. EPRA net assets per share (NAV) at 31 March 2018 was 845 pence per share, an increase of 5.8% over the year, largely due to the increase in value of the property portfolio, attractive earnings growth and the returns to shareholders which were accompanied by share consolidations.

**EPRA NAV** pence per share




The main drivers of the 46 pence per share increase in EPRA NAV from 31 March 2017 were:

- the increase of 20 pence per share arising from the revaluation of the property portfolio;
- EPRA earnings for the year of 20 pence per share enhanced NAV;
- ordinary dividends paid of 10 pence per share reduced NAV;
- the £13.5 million premium paid on the prepayment of US private placement notes reduced NAV by 4 pence per share;
- the £38.1 million premium paid on the prepayment of our debenture stock reduced NAV by 11 pence per share;
- the special dividend and associated share consolidation increased NAV by 8 pence per share;
- the capital return via a B Share scheme and associated share consolidation increased NAV by 22 pence per share; and
- other movements (including tax) increased NAV by 1 pence per share.

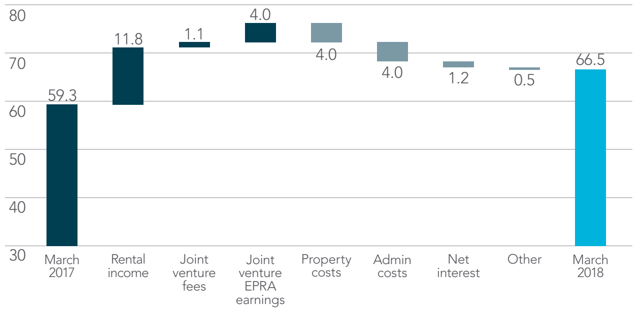
EPRA NNNAV was 842 pence at 31 March 2018 compared to 782 pence at 31 March 2017 (up 7.7%). The difference between NAV and NNNAV has greatly reduced during the year given our refinancing activities, including redemption of the majority of our high coupon debenture and cancellation of the foreign currency derivatives associated with private placement notes redeemed in the year.

▶ **See our capital discipline** on pages 47 and 48

## Attractive EPRA earnings per share growth

EPRA earnings were £66.5million, 12.1% higher than last year predominantly due to strong rental income growth as a result of our leasing activities, which was partially offset by increased administration and property costs.

**EPRA earnings** £m




Rental income from wholly-owned properties and joint venture fees for the year were £92.0 million and £5.2 million respectively, generating a combined income of £97.2 million, up £12.9 million or 15.3% on last year. This increase predominantly resulted from £7.1 million of like-for-like growth through capturing reversion on lease renewals and rent reviews and £3.6 million of development lettings. Adjusting for acquisitions, disposals and transfers to and from the development programme, like-for-like rental income (including joint ventures) increased 7.5% on the prior year.

5.8%

EPRA NAV growth

EPRA earnings from joint ventures were £6.5 million, up £4.0 million from £2.5 million last year, largely due to significant business rate refunds received at our joint venture development properties.

Property expenses increased by £4.0 million to £11.3 million predominantly due to higher service charge costs, greater transactional activity in our joint ventures and expenses associated with our development and leasing activities. Administration costs were £24.1 million, an increase of £4.0 million on last year, primarily as a result of costs associated with our returns of capital to shareholders, lower capitalised employee costs, an increase in headcount and higher provisions for performance related pay including payments under share incentive plans.

Gross interest paid on our debt facilities was £10.4 million lower than the prior year. The reduction in interest paid was predominantly due to our refinancing activities, with the redemption of £287.4 million of US private placement notes (both in the current and prior year) and £121.0 million of debenture stock more than offsetting the interest on our new issue in May 2017 of £175.0 million seven-year US private placement notes with a fixed rate coupon of only 2.15%. Capitalised interest reduced to £5.9 million, a reduction of £12.4 million as our on-site development exposure during the year was significantly lower than in the previous year given the completions of Rathbone Square, 73/89 Oxford Street and 55 Wells Street, along with 30 Broadwick Street in 2016, all W1. As a result, the Group had an underlying net finance expense (including interest receivable) of £1.4 million (2017: £0.2 million).

Due to the delivery of 73/89 Oxford Street, W1 later than planned, the Group incurred additional costs on completing the scheme. As a result, development management losses were £0.4 million (2017: £nil).

The revaluation gain of the Group's investment properties, along with a small accounting loss on disposals, led to the Group's reported IFRS profit after tax of £70.3 million (2017: loss of £139.4 million). Basic IFRS EPS for the year was 21.5 pence, compared to a loss of 40.8 pence for 2017. Diluted IFRS EPS for the year was a profit of 18.2 pence compared to a loss of 40.8 pence for 2017. Diluted EPRA EPS was 20.4 pence (2017: 17.3 pence), an increase of 17.9% and cash EPS was 17.0 pence (2017: 10.1 pence).

## Results of joint ventures

The Group's net investment in joint ventures was £423.7 million, a decrease from £480.8 million at 31 March 2017, largely due to property disposals more than offsetting the increase in value of the property portfolio and higher partner loan contributions to fund development expenditure. Our share of joint venture net rental income was £17.4 million, consistent with last year, as income lost from the sale of 240 Blackfriars Road, SE1, which was fully let, was offset by portfolio management transactions. Our share of non-recourse net debt in the joint ventures was marginally lower at £72.7 million at 31 March 2018 (2017: £74.0 million) predominantly due to higher cash balances.

▶ **See our joint ventures** on page 51

11.6%

Loan to value (pro forma)

## Strong financial position

The Group had a net cash position of £5.2 million at 31 March 2018, compared to net debt of £502.8 million at 31 March 2017 as proceeds from property disposals, including the residential sales receipts from Rathbone Square, W1, more than offset the Group's acquisitions and capital expenditure against a backdrop of broadly stable working capital. As a result, Group gearing fell to 0% at 31 March 2018 from 18.4% at 31 March 2017.

Including non-recourse debt in joint ventures, total net debt was £67.5 million (2017: £576.8 million), equivalent to a low loan-to-property value of 2.4% (2017: 18.3%). At 31 March 2018, all of our net debt was in joint ventures, compared to 12.8% a year earlier. At 31 March 2018, the Group, including its joint ventures, had cash and undrawn committed credit facilities of £814 million.

Pro forma for major transactions since 1 April 2018 including property sales and the payment of the capital return of £306 million, the Group's loan-to-property value would be 11.6% and gearing would be 11.8%.

The Group's weighted average cost of debt for the year, including fees and joint venture debt, was 3.2%, a decrease of 80 basis points compared to the prior year. The weighted average interest rate (excluding fees) at the year end decreased to a record low 2.1% given our recent refinancing successes (2017: 3.0%).

▶ **See our capital discipline** on pages 47 and 48

### Debt analysis

| | Pro forma[1] | March 2018 | March 2017 |
|---|---|---|---|
| Net debt excluding JVs (£m) | 243.0 | (5.2) | 502.8 |
| Net gearing | 11.8% | 0% | 18.4% |
| Total net debt including 50% JV non-recourse debt (£m) | 315.7 | 67.5 | 576.8 |
| Loan to property value | 11.6% | 2.4% | 18.3% |
| Total net gearing | 15.4% | 2.9% | 21.1% |
| Interest cover | n/a | n/a | n/a |
| Weighted average interest rate | 2.3% | 2.1% | 3.0% |
| Weighted average cost of debt | n/a | 3.2% | 4.0% |
| % of debt fixed/hedged | 100% | 100% | 82% |
| Cash and undrawn facilities (£m) | 666 | 814 | 378 |

1. Pro forma for £306 million capital return, sales completed since 31 March 2018 and draw` down of £100 million USPP notes.

At 31 March 2018, 100% of the Group's total debt (including non-recourse joint venture debt) was at fixed or hedged rates (2017: 82%). The Group, including its joint ventures, is operating with substantial headroom over its debt covenants.

## Robust occupier base

None of our occupiers went into administration around the March 2018 quarter day (March 2017: none) and we had only two occupier delinquencies in the year (2017: none) representing 0.1% of rent roll. However, we are vigilant and continue to monitor the financial position of our occupiers on a regular basis, particularly in light of the more challenging retail and leisure market backdrop. To help mitigate occupier delinquency risk, we held rent deposits and bank guarantees totalling £32.0 million at 31 March 2018.

# Our financial results (continued)

## Taxation

The tax charge in the income statement for the year is £6.4 million (2017: £0.8 million credit) and the effective tax rate on EPRA earnings is 0% (2017: 0%). The majority of the Group's income is tax free as a result of its REIT status. The tax charge for the year results from property sales which fall outside our REIT ring-fence. The Group complied with all relevant REIT tests for the year to 31 March 2018.

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. HMRC regards the Group as 'low risk' and maintaining this status is a key objective of the Group.

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 in respect of which a major redevelopment has completed within the preceding three years (including the sale of 30 Broadwick Street, W1) or profits arising from trading properties (including the sale of the residential units at Rathbone Square, W1).

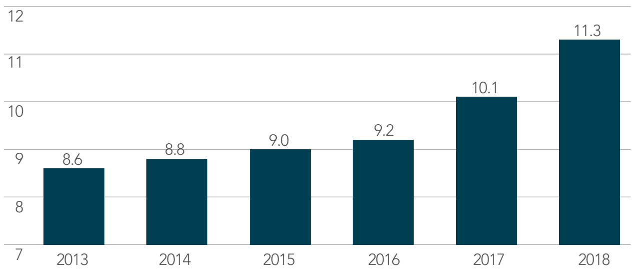
Despite being a REIT, we are subject to a number of other taxes and certain sector specific charges in the same way as non-REIT companies. During the year, we incurred £5.8 million in respect of stamp taxes, section 106 contributions, community infrastructure levies, empty rates in respect of vacant space, head office rates, employer's national insurance and irrecoverable VAT.

▶ **See more on our tax strategy** at www.gpe.co.uk/about-us/governance

## Dividend growth

The Group operates a low and progressive ordinary dividend policy. The Board has declared a final dividend of 7.3 pence per share (2017: 6.4 pence) which will be paid in July 2018. 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 4.0 pence, the total dividend for the year is 11.3 pence per share (2017: 10.1 pence), a 11.9% increase in the 12 months.

**Ordinary dividends per share** pence




In addition to our £110 million special dividend paid to shareholders in May 2017, following the two significant property sales of 30 Broadwick Street, W1 and 240 Blackfriars Road, SE1, we announced in March 2018 a £306 million, or 93.65 pence per share, return to shareholders, representing the combined net receipts from the two sales. The return was implemented through the issue of a new class of B shares accompanied by a share consolidation of the Company's ordinary share capital to maintain the Group's share price and per share financial metrics.

11.3p

Total ordinary dividends per share

**EPRA performance measures**

| Measure | Definition of Measure | **March 2018** | March 2017 |
|---|---|---|---|
| EPRA earnings* | Recurring earnings from core operational activities | **£66.5m** | £59.3m |
| EPRA EPS* | EPRA earnings divided by the weighted average number of shares | **20.4p** | 17.3p |
| Diluted EPRA EPS* | EPRA earnings divided by the diluted weighted average number of shares | **20.4p** | 17.3p |
| EPRA costs (by portfolio value)* | EPRA costs (including direct vacancy costs) divided by market value of the portfolio | **1.1%** | 0.9% |
| EPRA net assets* | Net assets adjusted to include the valuation surplus from trading properties and exclude the fair value of financial instruments and deferred tax | **£2,371.2m** | £2,735.9m |
| EPRA NAV* | EPRA net assets divided by the number of shares at the balance sheet date on a diluted basis | **845p** | 799p |
| EPRA triple net assets* | EPRA net assets amended to include the fair value of financial instruments, debt, deferred tax and tax on sale of trading properties | **£2,363.8m** | £2,679.3m |
| EPRA NNNAV* | EPRA triple net assets divided by the number of shares at the balance sheet date on a diluted basis | **842p** | 782p |
| 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 | **3.6%** | 3.0% |
| EPRA "topped up" NIY | EPRA NIY adjusted to include rental income in rent-free periods (or other unexpired lease incentives) | **3.8%** | 3.3% |
| EPRA vacancy rate | ERV of non-development vacant space as a percentage of ERV of the whole portfolio | **8.6%** | 8.0% |

* Audited; reconciliation to IFRS numbers included in note 9 to the financial statements.

# Our capital discipline

Our balance sheet is in extremely good shape. With a pro forma loan to value ratio of just 11.6% and £666 million of cash and committed undrawn bank facilities, we are well positioned to fund our committed capex programme, upcoming debt maturities and potential new opportunities.

"Our financial position remains as strong as ever and our refinancing successes have reduced our weighted average interest rate to a record low 2.3%."

Martin Leighton
Director of Corporate Finance

## Operational measures

| | 2018 | 2017 |
|---|---|---|
| Net gearing | **0%** | 18.4% |
| Loan to value[1] | **11.6%** | 18.3% |
| Interest cover | **n/a** | n/a |
| Cash and undrawn facilities[1] | **£666m** | £378m |
| Weighted average interest rate[1] | **2.3%** | 3.0% |
| EPRA earnings per share | **20.4p** | 17.3p |

1. Pro forma for £306 million capital return, sales completed since 31 March 2018 and draw down of £100 million USPP notes.

## 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 68 to 81

## Reducing Group interest rates and increasing flexibility

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 reducing our cost of debt and enhancing flexibility. In February 2018, following a successful tender offer, we prepaid £121.0 million of our legacy £142.9 million 5.63% secured debenture due to mature in January 2029, for a cash cost of £159.9 million (including transaction costs). This prepayment was initially funded by proceeds from sales during the year and will be supplemented in June 2018 when we draw down £100 million of new unsecured US private placement notes with 10, 12 and 15 year maturities (weighted average of 12.1 years) and a weighted average fixed rate coupon of 2.80%, a transaction which was agreed in March 2018.

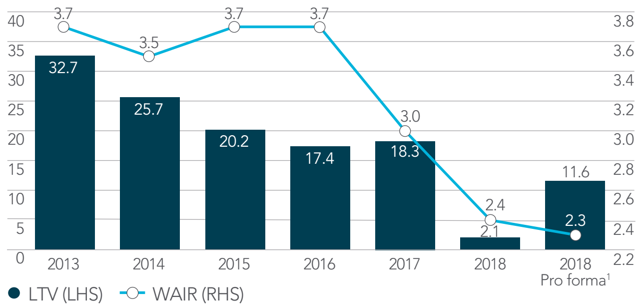
This debt restructuring gives rise to an interest saving of £3.3 million p.a. and significantly lowers our weighted average interest rate. Our debt book is also now significantly more flexible as the pro forma percentage of total debt provided on an unsecured basis has increased to 89% (March 2017: 76%).

At 31 March 2018, our loan to value ratio was 2.4%, weighted average interest rate was 2.1% and weighted average drawn debt maturity was 3.9 years. Pro forma for the USPP draw down, £306 million capital return paid in April 2018 and the receipt of further sales proceeds since 1 April 2018, these metrics are 11.6%, 2.3% and 5.9 years respectively.

## Significant liquidity and diverse debt book

At 31 March 2018, we had £814 million of cash and undrawn committed debt facilities (£666 million on a pro forma basis), giving us very significant financial flexibility going forward. We have no near-term additional debt funding requirements and expect to redeem our £150 million convertible bond, which matures in September 2018, from existing financial resources.

**LTV and cost of debt %**




1. Pro forma for £306 million capital return, sales completed since 31 March 2018 and draw down of £100 million USPP notes.

2.3%

Weighted average interest rate (pro forma)

# Our capital discipline (continued)

At 31 March 2018, 90% of our total drawn debt and 44% of our total debt was from non-bank sources (March 2017: 75% and 48% respectively), with 100% of our debt book being fixed rate or hedged (March 2017: 82%).

Due in part to the treatment of capitalised interest under our Group covenants and our very low levels of debt, our interest cover ratio for the year was not measurable. However, given our low weighted average interest rate and increased earnings (with EPRA earnings per share rising 17.9% to 20.4 pence for the year), even without the benefit of capitalised interest, interest cover would be extremely healthy at 14.8 times.

## Balance sheet discipline and £416 million returned to shareholders

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. Additionally, 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).

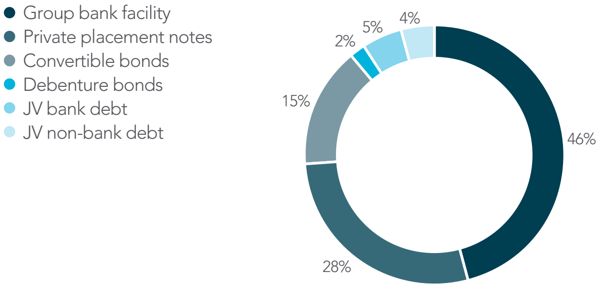
The most recent examples of this discipline in action were our £306 million capital return via a B share scheme and £110 million special dividend, paid to shareholders in April 2018 and May 2017 respectively.

▶ **See our financial results** on page 44

£416 million

Returned to shareholders

### Sources of debt funding[1]




1. Based on pro forma committed facilities.

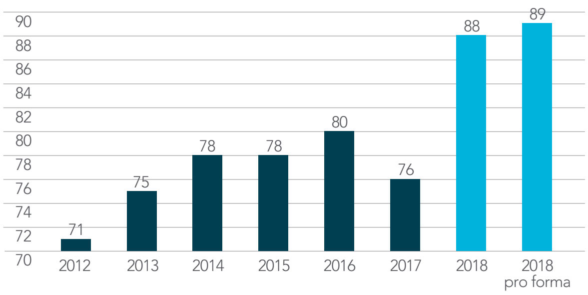
## Halving the interest rate on our longer term debt to only 2.8%

In March 2018, we agreed to issue £100 million of new unsecured US private placement notes with the funds to be received in June 2018. The notes were placed with seven US institutional investors and mature in 10, 12 and 15 years, with a weighted average fixed rate coupon of 2.8%. This coupon equates to a low weighted average spread of 106bp over the relevant Gilt yields, which was achievable due to the very large order book of almost £400 million despite the issue being marketed to only existing GPE lenders and the transaction being the Group's second private placement in the last twelve months.

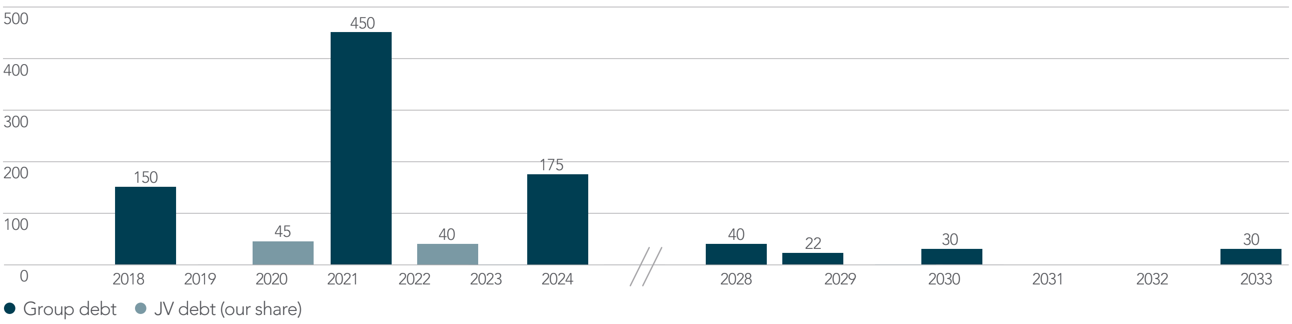
The notes will partially replace £121.0 million (out of a total £142.9 million) of a 5.63% legacy secured debenture with a maturity date of January 2029, which was prepaid in February 2018 at a cost of £159.5 million.

This highly successful restructuring effectively replaced secured debt with more flexible unsecured debt, whilst halving the interest rate and achieving a small debt maturity profile improvement. This gave rise to a £3.3 million p.a. interest saving and reduced our weighted average interest rate (2.3% today compared with 3.0% at March 2017).

### Unsecured debt (as % of committed debt)




### Debt maturity profile[1] £m




1. Based on pro forma committed facilities.

# 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

**Customers**
Occupiers/Purchasers
▶ **See more** on page 49

**Capital providers**
Equity
▶ **See more** on pages 106 to 107
Debt
▶ **See more** on pages 47 and 48

**Suppliers**
Contractors/Advisers
▶ **See more** on page 52

**Other stakeholders**
Local planning authorities
▶ **See more** on page 51

**Communities**
▶ **See more** on page 50

**JV Partners**
▶ **See more** on page 51

### Operational measures

| | |
|---|---|
| Occupiers satisfaction rating: % good or excellent | 88% |
| Worker engagement audits on construction sites | 6 |

### 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 346 occupiers in 55 buildings across 40 sites. Our occupiers 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 occupiers 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 occupiers want and how we can best meet their needs.

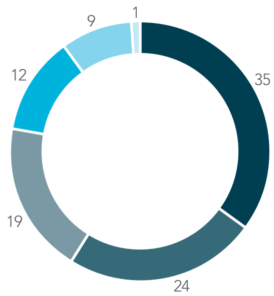
This understanding depends on successful communication. Therefore, each of our portfolio managers is required to formally meet with every occupier twice a year and at least one Executive Committee member will meet with our top 20 occupiers annually. This process provides valuable insight into their business which allows us not only to ensure that our occupiers are satisfied with their existing space but also to retain them when their leases expire.

"Our ability to attract and retain occupiers is driven by the quality of our relationships with them. Therefore, we are encouraged that 88% of respondents in our recent customer satisfaction survey rated our services as good or excellent."

Lisa Day
Regional Building Manager

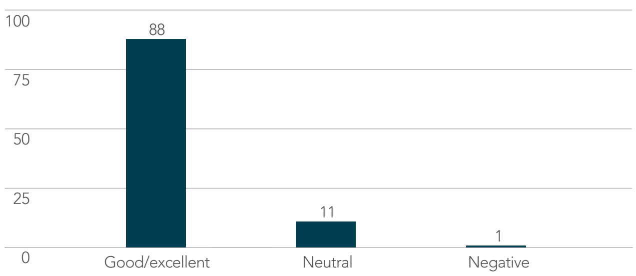
### GPE occupier mix %

- Retailers and leisure
- Technology, media and telecoms
- Professional services
- Banking and finance
- Corporates
- Government




During the year, we commissioned our first independent customer satisfaction survey to better understand how our occupiers view the services that we provide. Encouragingly, 88% of respondents described their level of satisfaction with our services as good or excellent. Looking forward, we anticipate that occupiers will demand ever increasing levels of customer service. We have therefore further strengthened our occupiers services team with the recent recruitment of a Head of Occupier Services into a newly created role. Furthermore, we have appointed a Director of Workplace and Innovation to focus attention on factors such as digital mobility, agile working, changes to IT infrastructure and the integration of new technology. Through this greater focus on innovation, we will create more adaptable spaces, allowing occupiers the flexibility to occupy their workplace in diverse and productive ways and further improve the occupier experience.

### High occupier satisfaction %




Occupier survey: Percentage overall levels of satisfaction

In November 2017, we completed the residential element of Rathbone Square, W1, our largest ever residential scheme, and the process to hand over the 140 pre-sold units to the buyers commenced. The complex process to co-ordinate the new owners taking occupation of their apartments was successfully administered in-house by our customer services manager. All but one of the units have been handed over, completing the collection of the remaining sales proceeds and concluding a very successful development with only two penthouses remaining available for sale.

# Our relationships (continued)

## Enhancing our communities

We aim for our activities to have a positive social impact, with our buildings bringing improvements to their surrounding local communities. We consider our communities to be London as a whole, the boroughs in which we work and the streets in which our buildings are located. We also aim to create communities within our buildings, developing environments in which the occupiers and users of our buildings wish to linger and socialise as well as work. Whilst we have always contributed to local causes and donated to charitable organisations, in May 2018 we launched a new community strategy 'Creating Sustainable Relationships' setting out how we aim to manage our social impact and create long lasting, sustainable community engagement. This strategy is based around four key themes:

- breaking the cycle of youth homelessness;
- improving air quality and urban greening;
- addressing the skills gap through engagement with education; and
- mitigating the risk of modern slavery in our portfolio.

▶ **See 'Creating sustainable relationships' on our website at** www.gpe.co.uk/our-relationships/local-communities/

As a London business, our new community strategy is designed to ensure that we focus our activities on the key issues that are affecting London. We recognise the growing problem in London of homelessness and the cost to both the London and UK economy of supporting young people not in employment, education or training. As a result, we wanted to support an organisation that helps address some of these issues and have selected Centrepoint as our inaugural charity partner for the next three years.


## Centrepoint: our corporate charity partner

Centrepoint plays a crucial role helping young homeless people, helping around 125,000 individuals since 1969, many of these within London. Through the Centrepoint helpline, it provides much needed advice to young people who are homeless or who are worried that they might be about to become homeless. Centrepoint also provide accommodation across London for young homeless people aged 16-25, along with mental and physical health support and assistance in gaining the qualifications, skills and confidence they need to get a job. Centrepoint's activities tackling homelessness across London, combined with their efforts to get young people back into work, made them the obvious organisation for us to work with as our first charity partner.

Through our partnership with Centrepoint, in addition to providing an annual financial contribution we will also be looking to offer opportunities for our employees to engage with Centrepoint through fundraising, pro bono support and an annual community day. We also hope to provide some of the much needed work placements to some of their young people.

In order to ensure that we can continue to build the workplaces and homes of the future, it is essential that we support local skills and opportunities more broadly across the industry to help support the skilled workforce of tomorrow. Since 2013, we have had an active programme working with and supporting Westminster University in delivering their building-related degrees programme. During the forthcoming year, we will be looking to build on this programme. We will continue to support our contractors in appointing apprentices to work on our development sites and will also be looking to increase the reach of this programme, extending it to our consultant teams and our own building management team.

Health and wellbeing, particularly air quality, is becoming an increasing issue in London and, as a result, it is having an increasing impact on our building design. Our community strategy aims to take this one step further and aims to help improve the air quality surrounding our buildings. We fully support the drive to increase urban greening throughout London, given the extensive benefits of green spaces including, improved air quality, biodiversity and the reduction in the urban heat island effect. In April 2018, we joined "Wild West End", a group of property owners looking to improve green infrastructure throughout the West End. Furthermore, we have separately committed to funding a three-year air quality research project backed by Groundwork London to measure the impact of some of these initiatives on local air quality across the capital. We are also committed to including green walls, roofs, terraces and spaces in our new developments and considering how we retro-fit urban greening to our existing buildings.

Reducing congestion in London is key to making lasting improvements in air quality. We are therefore reviewing how we can support local consolidation centres and support co-ordinated distribution to reduce deliveries to our buildings, both during construction and whilst occupied.

We believe that this strategy, coupled with new social value guidelines to measure the social impact of our development projects and our commitment to undertaking social value studies for all developments over the value of £10 million, will start to deliver lasting impact in the communities in which we are located.

**125,000**

Young homeless people helped by Centrepoint

## Our joint venture partnerships

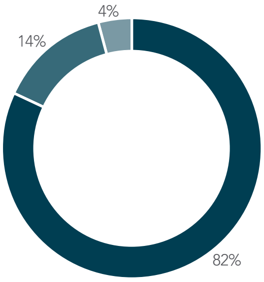
Joint ventures remain an important part of our business and we categorise our joint ventures into two types:

– access to new properties (3.2% of GPE's net asset value). The relevant joint venture is the Great Victoria Partnership (GVP) with Liverpool Victoria Friendly Society; and
– risk sharing on development projects and/or large lot size properties (14.7% 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.

Our three active joint ventures continue to represent an important proportion of the Group's business. At 31 March 2018, they made up 18.1% of the portfolio valuation, 17.9% of net assets and 13.6% of rent roll (at 31 March 2017: 18.0%, 17.5% and 16.8% respectively).

**Wholly-owned and joint venture property values** at 31 March 2018

- Wholly-owned £2,285.2m
- Risk sharing £389.0m
- Access to new properties £115.8m




**Joint venture partners**

| | Net assets at 31 March 2018 |
|---|---|
| GRP – BP Pension fund | £206.8m |
| GHS – Hong Kong Monetary Authority | £140.7m |
| GVP – Liverpool Victoria | £76.1m |
| Other | £0.1m |
| **Total** | **£423.7m** |
| **As % of Group net assets** | **17.9%** |

17.9%

Net assets in joint venture

"We work collaboratively with the GLA, local councils and stakeholders to achieve planning consents that meet our commercial objectives and the needs of the wider community."

Piers Blewitt
Senior Development Manager

## 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 planning consent for our 116,000 sq ft retail and office new-build scheme at Oxford House, W1 at the eastern end of Oxford Street.

Following the recent local elections, which have not resulted in a change of control in our key boroughs, there will be a number of newly appointed cabinet positions. We are closely monitoring whether this signals a change of planning tone and/or policy going forward.

# Our relationships (continued)

"In order to successfully deliver our often highly complex projects, a team ethos is essential. We aim to create long lasting relationships with market leading suppliers through our collaborative approach."

**Helen Hare**
Head of Project Management

## 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 often subject to a tender process to ensure we obtain value for money, we try to secure the best people with an established track record and, where possible, retain key team members on successive developments.

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.

We work with a broad and diverse range of suppliers, from small independent companies to large multinationals. Whilst we require all our suppliers to comply with standards and codes that may be specific to their industry, our Supplier Code of Conduct sets out the standards that we require of our suppliers.

## Working with our supply chain to eradicate modern slavery

In May 2017, we launched "Creating Sustainable Spaces", our long term vision for sustainability. As part of this vision, we committed to working with our contractors to eradicate modern slavery from our supply chain. As a result, we have rolled out Worker Engagement Audits across our development sites, undertaking six audits during the last twelve months. A number of common themes were identified, ranging from the quality of canteen facilities to the percentage of self-employed operatives working on our sites and the dissemination of policy information on modern slavery and human rights. The results of the audits have been shared with our principal contractors to assist them in engaging with their supply chain on ethical labour sourcing.

We have also committed to:

– launching a poster campaign within site welfare facilities to raise awareness on modern slavery;
– working with our contractors to ensure the payment of the London Living Wage across all our construction sites at all levels; and
– updating our Sustainable Development Brief to include more on modern slavery and ethical sourcing.

Alongside our modern slavery statement and Sustainable Development Brief, our Supplier Code of Conduct includes requirements in connection with:

– ethical working practices;
– human rights;
– child labour;
– forced labour;
– working hours;
– wage and benefits; and
– apprenticeships.

Compliance clauses are included in all portfolio management contracts with our suppliers, making the payment of the London Living Wage a condition of employment. Suppliers are audited to ensure compliance and in the event of non-compliance they are required to immediately address the situation and compensate the relevant individuals.

## Contractors employed on committed development schemes during the year

| Project: | Contractor: | Previous work with GPE: |
|---|---|---|
| **160 Old Street, EC1** | wates | **95 Wigmore Street, W1 and 33 Margaret Street, W1** |
| **Rathbone Square, W1** | lendlease | **Wells & More, W1** |
| **55 Wells Street, W1** | wates | **95 Wigmore Street, W1 and 33 Margaret Street, W1** |
| **Cityside House, Whitechapel, E1** | ELLMER | **n/a** |
| **Hanover Square, W1** | mace | **240 Blackfriars Road, SE1 and 12/14 New Fetter Lane, EC4** |

We are continually developing and improving our processes on modern slavery and are determined to improve awareness on modern slavery and ethical labour practices throughout our supply chain.

## 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 occupiers, contractors and employees.

As works undertaken at our buildings are outsourced to contractors, the maintenance of high health and safety standards in connection with the selection and management of our contractors, in addition to good communication, is key to managing our health and safety risks. We review the health and safety record of all our contractors prior to instruction, as we believe that a good health and safety record is also an indication of a well run project. We also provide our employees with regular health and safety training updates to ensure that changes to legislation and policy updates are communicated as soon as possible.

During the year, we instigated a programme of site visits, undertaken by our senior management team to review operational health and safety issues. Visits have already been carried out by our Board of Directors and Executive Committee members. The visits are solely to discuss health and safety matters with our construction teams and have already proved invaluable in promoting a positive health and safety culture and improving communication with our contractors on safety issues.

Following the tragic events at Grenfell Tower, we carried out a review of fire safety arrangements across our business, both our development portfolio and our occupied properties. Although we do not have any high-rise residential buildings with aluminium composite materials within cladding systems, the review highlighted a need to improve communication with our residential occupiers on fire safety. As a result, new guidance and updated building procedures were provided to all residential occupiers.

We are in the process of integrating fire safety into our soft landings process to ensure that design issues and operational concerns in connection with fire safety are dealt with early in the design process. This will also ensure that for our new buildings our operational teams are fully briefed on the fire systems installed as well as building fire strategy well in advance of occupation of the building.

**Health and Safety Incidents by year**

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Enforcement notices or fines received | **0** | 0 | 0 |
| **Employees** | | | |
| Work related fatalities | **0** | 0 | 0 |
| Reportable injuries/incidents | **0** | 0 | 0 |
| First aid injuries | **3** | 4 | 3 |
| Number of days off due to accidents and incidents | **0** | 0 | 0 |
| **At our occupied buildings** | | | |
| Work related fatalities | **0** | 0 | 0 |
| Reportable injuries/incidents | **2** | 0 | 1 |
| First aid injuries | **15** | 8 | 9 |
| **At our developments** | | | |
| Work related fatalities | **0** | 0 | 0 |
| Reportable accidents/incidents | **3** | 0 | 2 |

During the year, we had one potentially serious health and safety incident related to refurbishment works being undertaken at an occupied building. Fortunately no-one was injured and we have subsequently reviewed all construction related health and safety protocols across our portfolio.

6

Worker Engagement Audits

# Our portfolio

We have a unique, focused property portfolio with a mix of characteristics that provides deep opportunities for future growth and sustainable income to support our operational activities.

"Driving value from real estate requires far more expertise than merely collecting the rent. Each of our assets has a detailed business plan setting out our strategy to extract the maximum return from our activities. If those returns are not sufficient, the asset is sold."

Steven Mew
Portfolio Director

## Operational measures

| | | | |
|---|---|---|---|
| Movement in property valuation (on a like-for-like basis) | +2.9% | Percentage of portfolio in development programme | 48% |
| Reduction in like-for-like landlord purchased energy | 3.3% | % of portfolio with EPC rating >F | 97% |

## Our approach

We aim to position our portfolio to maximise the opportunity for future growth. As a result, every property has a detailed business plan which forecasts each and every occupiers' future cash flows and, using our own assumptions for future movements in rents and yields, forecasts the forward look returns for the portfolio. If a property's prospective returns do not meet our required investment hurdles, taking into account both our cost of capital and the risks, typically it is sold.

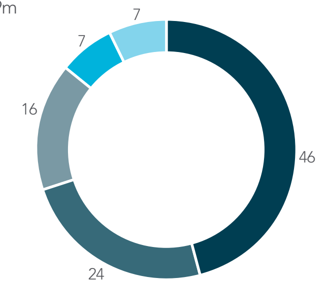
Ensuring that our properties meet the requirements of modern occupiers is fundamental to the delivery of our business plans. We aim to deliver buildings that let well in their local markets, are future-proofed in a rapidly changing world and have regard to the wider environment in which they are located. Through the responsible management and development of our portfolio, we aim to deliver sustainable returns that enhance the long-term value of our business.

## Well located central London portfolio

Our focused business model is all about repositioning properties to unlock their full potential. This repositioning relies on having a deep understanding of the markets in which we operate, both to enable us to unearth new opportunities as we find them and to deliver buildings that meet the demands of modern occupiers. As a result, we focus on a single market, central London.

**Our portfolio – 100% central London %**

- North of Oxford Street £1,281.9m
- Rest of West End £669.3m
- City £433.9m
- Southwark £209.4m
- Midtown £195.5m




The locations of our assets reflect our preference for the West End, which comprises 70% of the portfolio. However, we remain opportunistic and will invest across central London where we see both value and opportunities for growth as demonstrated by our most recent acquisition of Cityside and Challenger House in Whitechapel, E1 which we expect to benefit significantly from Crossrail opening later this year.

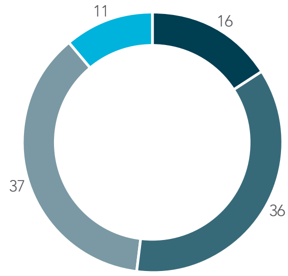
▶ **See why London** on pages 6 and 7

## Positioned for organic growth

In 2009 and 2012, we raised capital to take advantage of the value that we saw in the investment market. As a result, we were net buyers in the four financial years to 31 March 2013. These acquisitions have helped stock our future development programme which totals 48% of the Group's portfolio.

**Our central London portfolio %**

- Long-dated
- Active asset management
- Development pipeline
- Committed developments




Of the remainder of the portfolio, 36% are buildings where we will add future value through active portfolio management. Typically, these buildings have shorter leases, are reversionary and have significant repositioning opportunities.

The long-dated assets, representing 16% of the portfolio, are properties that we recently redeveloped and are long let. Given the long lease terms we have achieved on these buildings, there is typically limited opportunity for us to add further value. As a result, over time, we expect to crystallise the profits we have made through sales.

Looking forward, the portfolio is exceptionally well placed to deliver future growth. With 48% of today's portfolio within our development programme, we do not need to source new acquisitions for growth as we already own the development schemes of the future.

## Creating Sustainable Spaces; 55 Wells Street, W1

In November 2017, we completed our 37,300 sq ft development in the heart of Fitzrovia. Our goal was to incorporate elements from our long-term vision for sustainability "Creating Sustainable Spaces" into the building from the outset.

We undertook a climate change adaptation strategy as part of the design process to appraise the structural and fabric resilience of the building to minimise the effects of climate change. Designed to minimise its carbon footprint with the installation of photovoltaic panels, energy efficient lighting and air conditioning systems, the building improves on current Building Regulations requirements for energy efficiency by 20%. All the timber used on the scheme complied with FSC requirements, achieving FSC Chain of Custody Project Certification and 99% of all the construction waste was diverted from landfill.

In order to meet the ever increasing wellbeing needs of today's occupiers, we provided 38 bike spaces with lockers and showers, allowing occupiers to take advantage of opportunities for active commuting and daily exercise. With high ceilings and light-filled floors, artwork in the entrance lobby and terraces on the first and sixth floors, as well as a communal rooftop terrace, the building offers generous wellbeing amenities.

During construction, £148,000 of economic, environmental and social value was generated by the project through training and employment opportunities, educational initiatives, volunteering and funds invested into local charities and community causes. As part of Westminster University's Construction Studies degree programme, our project team worked with a number of undergraduate students to create procurement plans which were presented to key members of our management team, including our Head of Projects. Building visits were also facilitated to provide in-depth exposure to a real-life construction site.

To ensure that our buildings have a sense of place, it is essential that they continue to contribute to the local community once completed. We commissioned Lee Simmons, one of Britain's most sought after creators of public art, to design an art piece to complement the office entrance. Drawing inspiration from the nearby Grade I listed All Saints Church on Margaret Street, the piece, named 'Arcus', incorporates blocks of Portland stone, prepared and shaped to celebrate the ancient skills of hand stone carving.

We are also pleased to welcome the Cartoon Museum to the building. The Cartoon Museum is a charitable organisation that collects and exhibits original artwork from British cartoons and comics, past and present. The collection ranges from early 20th Century political and social cartooning to original comic artwork. The Museum fits well with the creative and individual nature of Fitzrovia and is planning to be in occupation later this year. We have given the Museum a secure, rent-free home for the next 25 years which provides a lasting way in which the local community and visitors can interact with the building.

We utilised our soft landings process throughout the design, construction and operational phases, resulting in our building management team being involved early in the process. This ensured that the operational performance of the building was considered as part of the building's design, allowing for the smooth transition from construction to operation and ensuring the building's systems operate efficiently. The next stage will be to undertake post occupancy evaluation to review how the building performs in use and to understand the effectiveness of the wellbeing measures installed.

# Our portfolio (continued)

"With a relatively benign market backdrop, valuation growth in our portfolio came from those assets where we were able to beat the valuers' assumptions, typically through leasing ahead of ERV and pre-letting space in our developments."

**Hugh Morgan**
Director of Investment Management

## Portfolio value up 2.9% in year

Given supportive occupational and investment markets during the period, central London property values demonstrated small valuation gains. The valuation of our portfolio, including our share of joint ventures, increased by £71.8 million, or 2.9%, on a like-for-like basis, to £2,790.0 million at 31 March 2018.

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

– development gains – the valuation of our committed development properties increased by 7.0% on a like-for-like basis to £350.9 million during the year. The largest valuation movements in the year were driven by our pre-letting activities at 160 Old Street, EC1 and Hanover Square, W1 which helped to de-risk the developments and improve development returns;

▶ **See development management** on pages 38 to 41

– intensive asset management – during another strong year, 102 new leases, rent reviews and renewals were completed, with new lettings 2.6% ahead of ERV, securing £39.8 million (our share) of annual income, supporting the valuation over the year;

▶ **See portfolio management** on pages 42 and 43

– stable rental values – in the past 12 months, rental values had a limited impact on asset values, rising marginally (+0.3%) on a like-for-like basis; and

▶ **See our market** on pages 31 to 35

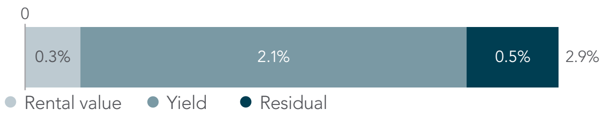
– lower investment yields – our portfolio equivalent yield reduced by 10 basis points (2017: 15 basis point increase) during the year, driven by our development completions and pre-lettings. At 31 March 2018, the portfolio equivalent yield was 4.5%.

▶ **See our market** on pages 31 to 35

Including rent from pre-lets and leases currently in rent-free periods, the adjusted initial yield of the investment portfolio at 31 March 2018 was 4.0%, 50 basis points higher than at the start of the financial year.

7.0%
Development properties valuation uplift

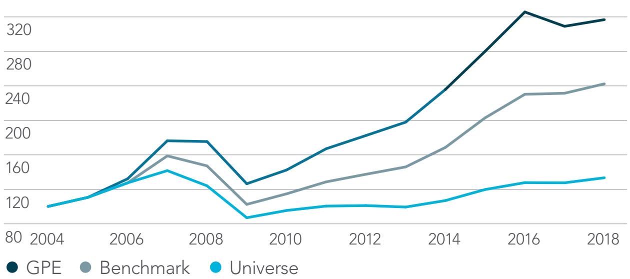
**Drivers of valuation growth**




Our North of Oxford Street portfolio produced the strongest performance over the year, increasing in value by 3.5% on a like-for-like basis, in part driven by retail capital value growth of 4.8%. Our Rest of West End assets saw a 2.4% increase in values and the City, Midtown and Southwark properties increased by 0.4%. Our joint venture properties increased in value by 5.4% over the year, driven by the greater proportion of development returns, while the wholly-owned portfolio rose by 2.4% on a like-for-like basis.

The Group delivered a total property return (TPR) for the year of 5.5%, compared to the central London IPD benchmark of 8.2% and a capital return of 2.5% versus 4.7% for IPD. This relative under-performance resulted from our higher than benchmark exposure to investment properties with shorter lease lengths, where valuations were less resilient given the potential leasing risk. These properties form our development pipeline and active portfolio management opportunities where income is necessarily shorter to enable us to unlock the future long-term value upside.

**Long-term outperformance**
**Relative returns vs IPD**
Relative capital growth % pa[1]




1. 2004 – first pure comparability to IPD central London.

## Portfolio performance

| | | Wholly-owned £m | Joint ventures[1] £m | Total £m | Proportion of portfolio % | Valuation movement % |
|---|---|---|---|---|---|---|
| North of Oxford Street | Office | 805.1 | – | 805.1 | 28.9 | 4.0 |
| | Retail | 168.4 | 115.7 | 284.1 | 10.2 | 2.7 |
| | Residential | 51.1 | – | 51.1 | 1.8 | 0.7 |
| Rest of West End | Office | 250.8 | – | 250.8 | 9.0 | – |
| | Retail | 237.6 | 37.4 | 275.0 | 9.8 | 4.8 |
| | Residential | 5.5 | – | 5.5 | 0.2 | (0.7) |
| Total West End | | 1,518.5 | 153.1 | 1,671.6 | 59.9 | 3.2 |
| City, Midtown and Southwark | Office | 543.3 | 142.3 | 685.6 | 24.6 | 0.1 |
| | Retail | 29.1 | – | 29.1 | 1.0 | 2.7 |
| | Residential | 2.9 | – | 2.9 | 0.1 | 136.6 |
| Total City, Midtown and Southwark | | 575.3 | 142.3 | 717.6 | 25.7 | 0.4 |
| **Investment property portfolio** | | **2,093.8** | **295.4** | **2,389.2** | **85.6** | **2.3** |
| Development property | | 141.5 | 209.4 | 350.9 | 12.6 | 7.0 |
| **Total properties held throughout the year** | | **2,235.3** | **504.8** | **2,740.1** | **98.2** | **2.9** |
| Acquisitions | | 49.9 | – | 49.9 | 1.8 | (10.1) |
| **Total property portfolio** | | **2,285.2** | **504.8** | **2,790.0** | **100.0** | **2.6** |

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 | | 1,140.4 | 141.5 | 1,281.9 | 861.7 | 369.1 | 51.1 | 1,281.9 | 977 |
| Rest of West End | | 531.3 | 138.0 | 669.3 | 331.3 | 326.0 | 12.0 | 669.3 | 574 |
| **Total West End** | | **1,671.7** | **279.5** | **1,951.2** | **1,193.0** | **695.1** | **63.1** | **1,951.2** | **1,551** |
| City, Midtown and Southwark | | 746.4 | 92.4 | 838.8 | 802.9 | 32.2 | 3.7 | 838.8 | 1,335 |
| **Total** | | **2,418.1** | **371.9** | **2,790.0** | **1,995.9** | **727.3** | **66.8** | **2,790.0** | **2,886** |
| By use: | Office | 1,770.4 | 225.5 | 1,995,9 | | | | | |
| | Retail | 588.3 | 139.0 | 727.3 | | | | | |
| | Residential | 59.4 | 7.4 | 66.8 | | | | | |
| **Total** | | **2,418.1** | **371.9** | **2,790.0** | | | | | |
| Net internal area sq ft 000's | | 2,474 | 412 | 2,886 | | | | | |

# £2.8 billion

Portfolio valuation

# Our portfolio (continued)

## Creating a sustainable portfolio

The integration of sustainability and wellbeing in the design and operation of our properties is key to ensuring that our buildings continue to meet the requirements of occupiers and therefore successfully deliver our business plans. Our long-term vision for sustainability "Creating Sustainable Spaces" sets out how we plan to manage resource use and minimise our carbon footprint, address air quality and health and wellbeing, whilst providing flexible, smart spaces for our occupiers with increasingly diverse requirements.

▶ **See our long term vision:**
www.gpe.co.uk/media/2604/gpe_sustainability_2030_report.pdf

We recognise our obligation to minimise our carbon footprint, adapt building design to withstand the impact of climate change and play our part in international efforts to limit global temperature rise. Last year, we set long-term energy and carbon targets for our portfolio, aiming to achieve a minimum 2.5% energy reduction across landlord controlled areas on a like-for like basis year on year, with a view to continuing this target annually until 2020. Similarly, we committed to a target of achieving an annual carbon intensity emissions reduction of 6.3% based on carbon emissions per sq ft. The below table sets out our progress against these targets.

| Financial year | Reduction in like-for-like landlord purchased energy | Reduction in absolute gross $CO_2$ emissions intensity |
|---|---|---|
| 2016 | 5.6% | 12.8% |
| 2017 | 2.3% | 15.2% |
| 2018 | 3.3% | 16.0% |

All our electricity is purchased on 100% renewable contracts and we are reviewing extending this to gas supplies as contracts expire to further reduce our carbon footprint.

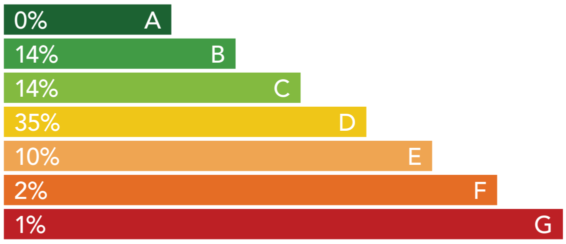
In April 2018, it became illegal to grant new leases on spaces with Energy Performance Certificate (EPC) ratings of F and G. Our core business is to buy unloved assets and to reposition them through refurbishment and development. It is therefore inevitable that we will always have lower rated properties in our portfolio. However, prior to purchase of an asset, we always review the level of investment required to improve the EPC rating. In addition, where we are refurbishing spaces, work is targeted to improve the existing EPC by at least one grade, with costs related to introducing energy efficiencies included in all refurbishment plans.

The diagram opposite sets out our EPC ratings by floor area in connection with Minimum Energy Efficiency Standards.

"During the year, we updated our sustainable development brief taking into account the long-term aims of the London Environmental Strategy, proposed London Plan and the 2018 updates to BREEAM New Construction Scheme."

Janine Cole
Head of Sustainability

### Our buildings' energy performance ratings




All F and G rated demises are being actively managed. Where vacant they are being refurbished; where they are currently let, refurbishment plans are in place to improve the energy rating as and when the space becomes vacant.

We are now turning our attention to E rated buildings, with energy action plans in place for all buildings to continually review where energy efficiencies can be made to ensure that as requirements on minimum energy efficiency standards are raised, we are not at risk of having buildings in the portfolio that cannot be let.

We recognise that EPC ratings are a measure of the potential energy efficiency of a building rather than a reflection of actual energy consumption. There is growing recognition within the property industry that buildings with higher EPC ratings (e.g. A+, A and B ratings) are often using more energy once in use than their designers originally anticipated. In light of this, in addition to modelling operational energy use at design stage, we also compare actual operational usage as part of our post occupancy evaluation process to ensure that our buildings are being operated as designed.

Our post occupancy evaluation process is invaluable for understanding customer satisfaction with their new workplace. During the year ended March 2018, we carried out our first customer satisfaction survey and within the survey we looked at how our occupiers rated us for sustainability and wellbeing. 79% of respondents said that sustainability was important or very important to them, with some occupiers feeling that recycling and waste storage facilities could be improved. As part of our long-term vision "Creating Sustainable Spaces", we are reviewing how we can consolidate waste from our buildings to provide an improved waste management service for more occupiers and also reduce vehicle movements related to waste collections in and around our buildings.

▶ **See our relationships** on page 49 to 53

A number of occupiers are also looking to improve the health and wellbeing provision for their employees. We are actively looking at how we retro-fit increased wellbeing initiatives into our existing buildings, with new cycle centres and shower facilities installed during recent refurbishments of Elsley House, W1, 200 Gray's Inn Road, WC1 and 35 Portman Square, W1.

## Adapting to climate change

Attention on climate risk is gradually increasing, with the recent publication of the final report from the Task Force on Climate-related Financial Disclosures and increased levels of interest on climate risk from the investment community more generally.

Governance on climate-related risks and opportunities is led by the Head of Sustainability. Our Sustainability Committee (chaired by the Chief Executive) meets quarterly and is attended by three other members of our Executive Committee. It provides oversight on climate risk and achievement against our Long Term Vision, which includes energy and carbon performance targets.

Annually, a report is provided to the Board on our performance against targets, our future sustainability strategy and our Environmental, Social and Governance risk. Sustainability data is publicly reported in our Annual Report, with a more detailed report provided on our website aligned with EPRA Best Practice Recommendations for Sustainability Reporting, with assurance provided by Deloitte LLP and oversight provided by the Audit Committee.

We recognise that as a developer we have an obligation to design low carbon buildings and to reduce our contribution to climate change through the efficient use of resources. We also need to ensure that our buildings are capable of withstanding the effects of climate change and potential extreme weather events. During the year, we updated our Sustainable Development Brief, taking into account the long-term aims of the London Environmental Strategy, the proposed changes to the London Plan and the 2018 update to the BREEAM New Construction standard.

Through the use of building ratings tools such as BREEAM and SKA, and the continued integration of our Sustainable Development Brief throughout the design and construction process, we ensure a consistent approach to sustainability and specifically to managing the risks of climate change across our development process. This includes:

- a site specific systematic climate change adaptation risk assessment for all projects, covering the effects of climate change on overheating, cooling, plant sizing, building structure and durability;
- a flood risk review including urban drainage systems and surface water run-off;
- greening measures, such as green walls, green roofs and terraces, to help reduce the impact of the heat island effect;
- the impact of embodied carbon through the construction process; and
- modelling of projected operational energy consumption at design stage.

Our Long Term Vision "Creating Sustainable Spaces" sets out how we plan to reduce our carbon footprint and adapt to climate change towards the 2030s. During the forthcoming year, we will also be carrying out a complete review of the implications of the final report from the Task Force on Climate-related Financial Disclosures and considering the resilience of our climate change strategy taking into consideration different climate-related scenarios.

## 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 2018 and includes further comparison on a like-for-like basis.

For more information on our carbon emissions, including emissions adjusted for market based factors and our report against EPRA Sustainability Best Practice Recommendations, see our performance report at www.gpe.co.uk/sustainability/our-performance.

| | **2018 (Tonnes of $CO_2e$)** | 2017 (Tonnes of $CO_2e$) |
|---|---|---|
| **Scope 1** | | |
| Combustion of fuel and operation of our facilities | 2,275 | 2,469 |
| Operation of facilities (refrigerants) | 160 | 402 |
| **Scope 2** | | |
| Electricity, heat, steam and cooling purchased | 13,726 | 16,953 |
| Head office usage | 77 | 79 |
| **Total footprint** | 16,239 | 19,904 |
| **Intensity Measure** | | |
| Emissions per $m^2$ gross internal area | 0.0650 | 0.0770 |
| **Like-for-like emissions** | | |
| Absolute emissions on a like-for-like basis | 14,121 | 16,804 |
| Emissions per $m^2$ on a like-for-like basis | 0.0735 | 0.0875 |

Like-for-like data compares emissions at properties held for the entirety of 2017 and 2018.

### Independent assurance

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

### 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. For the first time this year we have normalised our scope 1 emissions to take account of degree days. We have restated our 2016 figures in line with this approach. Included in our operational control data are emissions from our managed properties (including 100% of emissions from joint venture properties) and head office usage. We have not included within this data occupiers' 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 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.

3.1%

Reduction in like-for-like landlord purchased energy

# Our culture and people

This year our focus has been on growing the depth and breadth of our talent within the business, providing bespoke development support and restructuring our teams to reinforce our approach to driving occupier satisfaction and unlocking the potential of our assets.

"In 2018, we were delighted to win Management Today's 'Britain's Most Admired Company' in the property sector for the second year running. This is testament to the efforts of each and every one of our talented team who strive to deliver great results day-in-day-out."

Toby Courtauld
Chief Executive

## Operational measures

| | | | |
|---|---|---|---|
| Employee retention | 87%<br>2017: 89% | Employees participating in Share Incentive Plan | 70%<br>2017: 75% |
| Days training provided per employee[1] | 4.8<br>2017: 3.6 | Lateral moves and promotions | 17<br>2017: 4 |

1. On average.

## Our culture

Our entrepreneurial and pragmatic culture is fundamental to our ability to attract, develop, motivate and retain our talented people, with a high level of involvement from senior and executive management and an emphasis on cross-disciplinary teamwork. Our culture and people lie at the heart of our ability to achieve our strategic priorities, unlocking potential across our portfolio.

## Our process

We recognise the benefits of our positive culture and work hard to maintain it through:

- regular and effective engagement through two way communication, an 'open door' policy and communal working space specially designed for informal meetings and discussions;
- 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 timely interaction of every member of the team;
- encouraging employee engagement and continual innovation in how we work through multi-disciplined working groups including individuals at all levels;
- 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 and personal development opportunities including new responsibilities, undertaking different projects, mentoring and coaching; and
- fostering a friendly environment which engenders a strong camaraderie.

▶ **For more on our people and culture see www.gpe.co.uk/life-at-gpe**

## 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, a friendly environment and strong camaraderie.

As a small organisation in people terms – just over 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.

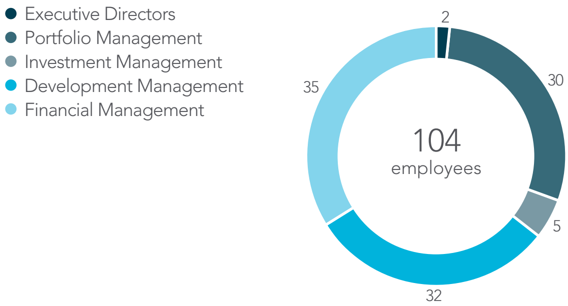
As our business has grown in size and complexity, we keep our organisational structure under review to ensure it evolves to meet the changing environment. Following an in-depth review, we undertook a number of structural changes in the autumn of 2017 to enhance our speed and quality of decision making, resulting in promotions and the expansion of our Senior Management Team. We also made changes to the way we manage buildings in our portfolio, combining activities previously split across investment management and asset management roles and teams to create a single team of Portfolio Managers. This is providing an even greater focus on delivery on opportunities to drive value and the maximisation of each property's total return.

To strengthen our focus on service delivery to our occupiers and enhance levels of satisfaction and retention, we also created a new 'Head of Occupier Services' role during the year to lead our Building and Facilities management teams. To ensure that we remain at the forefront of creating spaces which meet evolving workplace requirements, we also created a new role of 'Director of Workplace and Innovation', which we filled internally, to take account of how people use offices may change over time together with the impact of changing technologies and climate change.

All of these changes have resulted in expanded roles contributing to the development of individuals, twelve internal promotions and recruitment of new talent into the business.

▶ **See more** on pages 66 and 67

**Number of employees 2018** at 31 March 2018




## Supporting equality, diversity and inclusion

Our culture is grounded in mutual respect and non-discrimination in respect 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 most importantly, the ability to work as part of a team.

Our policy remains that selection should be based on the best person for the role, although we also recognise the benefits to the business of having a gender diverse workforce. When recruiting, our aim is that at least 30% of potential candidates should be women. As at 31 March 2018, we now have more women than men in our business as a whole with women representing 33% at senior management level, up from 23% a year ago.

As part of our commitment to improving equality, diversity and inclusion more broadly, we have committed to undertaking the National Equality Standard assessment in 2018 and the results of this assessment report will help shape our diversity strategy going forward.

To help improve diversity in the real estate sector at a grass roots level, we have also committed to sponsor Pathways to Property which encourages Year 12 students from a wide range of backgrounds to consider careers in real estate which is expected to involve us in providing work placements at GPE.

"Our GPE bike ride represents what GPE is all about, individuals being able to take the initiative, and the involvement of the wider team working together to do something special."

**James Shipton**
Development Manager

## Working together for a good cause

Organised by members of the GPE development team, in September 2017, a group of 60 riders comprising 16 GPE employees across all of GPE property and finance teams together with 44 of our consultants including architects, lawyers, engineers and contractors cycled 150 miles from Bournemouth to London in two days through the New Forest National Park and the challenging terrain of the Chiltern Hills.

In support of the riders taking to the roads, organised by our Head of Sustainability, another 42 GPE employees back at 33 Cavendish Square also powered their way through nearly 200 miles on exercise bikes in the office whilst tracking live progress of the road riders on screen.

The result of this team effort involving nearly 60% of all employees working together with our suppliers was to raise over £85,000 for The Willow Foundation and The Evelina London Children's Hospital at Guys and St Thomas Hospital NHS Trust.

60 riders from across the industry were delighted to raise over £85,000 for two good causes.

# 89%

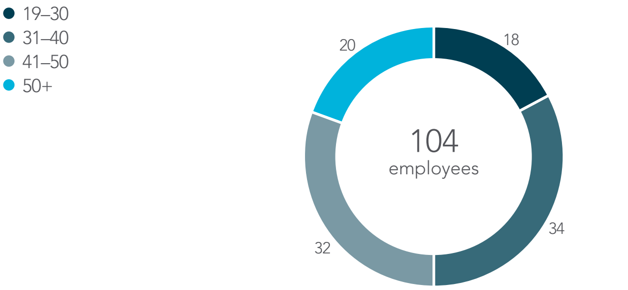
of employees would recommend GPE as a great place to work

# Our culture and people (continued)

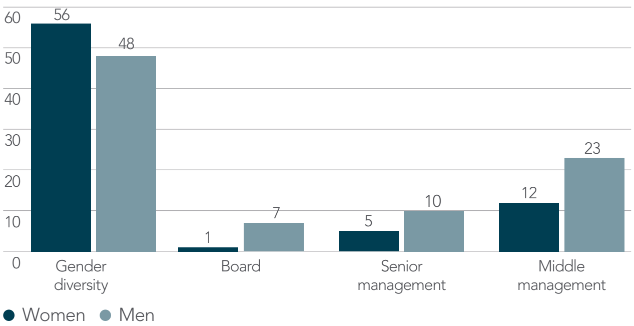
"In November 2017, I was delighted to take on an expanded role as Head of Investment Analysis and Management Information working closely with the development accounting team looking at our projects."

Kirsty Davie
Head of Investment Analysis and Management Information

**Employee profile age** number of people




**Employee profile gender diversity** number of people




## Promoting engagement

We believe that in order to deliver our strategy it is important that every member of our team is fully engaged. In 2017, we undertook our second employee engagement survey which was completed by 93% of our employees and was designed to identify both the areas that mattered to our employees most and to gain feedback on actions we had instigated following our inaugural survey the previous year.

In 2016, one area identified for improvement across the Company was our policy towards flexible working, including helping people improve their work-life balance. Following the survey results, we set up a working group to look at this in more detail with representatives from across all teams and levels. The group identified that people were mainly looking for informal flexible working options. Building on this input, a Company-wide approach was developed including flexible start/finish times and the ability to work from home on an ad hoc basis. In addition, we upgraded our IT systems to enable more flexible and effective working processes both within the office, working from home or when travelling.

We were pleased that these efforts were positively reflected in our 2017 employee engagement survey relating to whether our working practices has improved, as outlined below.

**Flexible working**

| Employee engagement survey | 2017 | 2016 |
|---|---|---|
| Percentage of employees who believe that our technology helped them in getting their work done | **84%** | 63% |
| Percentage of employees who feel they were able to work flexibly | **74%** | 51% |

Following our most recent engagement survey, we are focusing on how we can improve our formal and informal two-way dialogue between employees and management, and improving efficiency. This will include small group informal lunches hosted by Executive Committee members which all employees are invited to attend. It also includes a 'Bright ideas' programme where everyone is able to make anonymous suggestions for improvement which are then considered by a panel of employees from across the Group with the best of these brought forward to the Executive Committee for review. To improve our efficiency, we have formed working groups from volunteers across the business to look at how we can improve some of our internal processes.

"Having joined in February, GPE's induction process and strong team ethos has allowed me to quickly understand what is both important and unique to the way GPE operates and has enabled me to be more effective in my role."

Kate Mensforth
Commercial Marketing Manager

## Unlocking our people potential

During the year ended 31 March 2018, £267,699 was invested in employee and Non-Executive Director training, providing 3,799 hours of training averaging 4.8 days per employee.

We encourage opportunities for people to develop in their careers, providing both opportunities for development of professional experience as well as funding and support for qualifications. Every individual at GPE has a Personal Development Plan (PDP) which is developed from their annual personal development review. From the PDPs we design our training and development programme including bespoke courses to meet specific training needs. In the year ended 31 March 2018, 62% of people attended a GPE personal development course.

83%

of our employees feel their work gives them a feeling of personal accomplishment

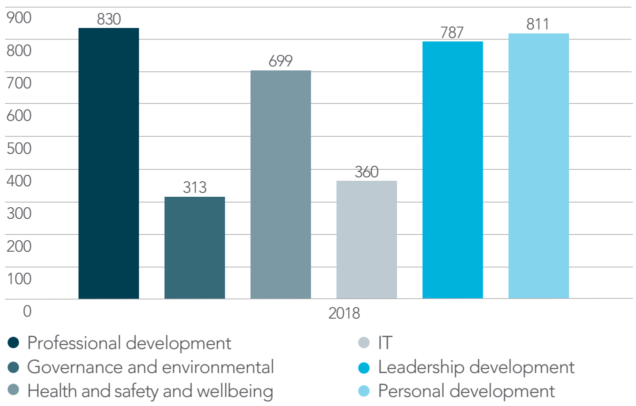
Line managers and their team members also identify ways in which individuals could grow personally through expanding or changing their responsibilities, taking on different projects, identifying areas where they could benefit from coaching or undertaking some training tailored specifically to their needs.

Following the launch of a new Leadership Development programme in 2016, this year we held two refresher sessions for our 27 line managers. Recognising that leadership skills are not just relevant to the success of our teams internally, we also ran team leadership courses this year for 33 of our employees who have responsibility for leading external teams.

In line with our focus on developing talent, we also introduced a mentoring programme where senior managers provide selected individuals with a broader insight and understanding of the business.

As part of our commitment to improving employee wellbeing and supporting mental heath at work this year, we ran resilience workshops attended by 89 of our employees. Following positive feedback from attendees, follow up training and a wellbeing programme is planned for the forthcoming year.

**Total number of training hours** by type




"Unlocking potential from our talented people continues to be a key focus and over the last 12 months our actions have included twelve internal promotions, targeted and bespoke personal development initiatives and revisiting the way we work both internally and with our external stakeholders."

Sally Learoyd
Head of Human Resources

## Rewarding performance

The Board is responsible for setting our strategic priorities and monitoring performance against them – see pages 12 and 13. Our senior managers are accountable for working with their team members to develop appropriate annual personal 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 reviews. In addition, all employees participate in the Company's annual employee bonus plan, with a portion of their reward driven by performance against personal objectives and the balance triggered by GPE's corporate performance against key financial targets.

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 the recommendations for senior manager and Executive Director salaries, bonus awards for achievement of personal objectives and proposed Long-Term Incentive Plan awards. In response to feedback from our 2017 employee engagement survey, to increase understanding company wide of our approach to employee remuneration including the detailed and robust performance review process, an overview of our approach and process will be provided to employees this summer and included on our intranet.

The base salary increase for employees for the year ending 31 March 2019 is 2.5%. Increases of more than 2.5% 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 2019 will be 5.7%.

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. 70% of employees participate in the SIP scheme.

4.8 days
training per employee

# The Board









**Left from top:** Martin Scicluna, Toby Courtauld, Nick Sanderson, Charles Philipps. **Right from top:** Wendy Becker, Nick Hampton, Richard Mully, Jonathan Short, Alison Rose.

Non-Executive Director

## Martin Scicluna BCom
Chairman

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

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

**Independent:** Yes, on appointment

**Experience:** Chairman of RSA. Former Senior Independent Director and Chairman of the Audit Committee of WorldPay. 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 67.

**Relevant skills:** Finance, Insurance

**Current external commitments:** Chairman of RSA plc.

Executive Directors

## Toby Courtauld MA, MRICS
Chief Executive

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

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

**Independent:** No

**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. Past President of British Property Federation. Age 50.

**Relevant skills:** Real Estate

**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 the Council of Imperial College.

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

**Committee memberships:** Member of the Executive Committee; Chairman of the Health and Safety Committee

**Appointed to the Board:** July 2011

**Independent:** No

**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 45.

**Relevant skills:** Real Estate, Banking, Finance

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

Non-Executive Director

## Charles Philipps ACA
Senior Independent Director

**Committee memberships:** Member of the Audit, Remuneration and Nomination Committee

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

**Independent:** Yes

**Experience:** Formerly Chief Executive Officer of MS Amlin plc and a director of NatWest Markets. Age 59.

**Relevant skills:** Banking, Insurance, Finance

**Current external commitments:** Trustee of the Outward Bound Trust.

Non-Executive Directors

## Wendy Becker BASc, MBA

**Committee memberships:** Chairman of the Remuneration Committee, Member of the Audit and Nomination Committees

**Date appointed to the Board:** February 2017

**Independent:** Yes

**Experience:** Non-Executive Director of NHS England and Deputy Chair of Cancer Research UK. Former Non-Executive Director of Whitbread PLC, Chief Executive of Jack Wills Ltd and a partner of McKinsey & Company Inc. Age 52.

**Relevant skills:** Retail, Strategy consultancy, Technology

**Current external commitments:** Non-Executive Director of NHS England, Deputy Chair of Cancer Research UK and Non-Executive Director of Logitech International S.A.

## Nick Hampton MA (Hons)

**Committee memberships:** Chairman of the Audit Committee; Member of the Nomination Committee

**Date appointed to the Board:** October 2016

**Independent:** Yes

**Experience:** Chief Executive Officer (previously Chief Financial Officer) of Tate & Lyle, 20 years with PespiCo in a number of financial, commercial and operational roles. Age 51.

**Relevant skills:** Global Corporate, Finance

**Current external commitments:** Chief Executive Officer of Tate & Lyle.

## Richard Mully BSc (Hons), MBA

**Committee memberships:** Member of the Audit, Remuneration and Nomination Committees

**Date appointed to the Board:** December 2016

**Independent:** Yes

**Experience:** Non-Executive Director and Chairman of the Remuneration Committee of Standard Life Aberdeen and Vice Chairman and member of the Supervisory Board of Alstria Office REIT-AG. Formerly founder and Managing Partner of Soros Real Estate Partners LLC; Senior Independent Director at ISG, Hansteen Holdings and St Modwen Properties. Age 56.

**Relevant skills:** Real Estate, Banking, Private Equity

**Current external commitments:** Non-Executive Director at Standard Life Aberdeen, Chairman of Arlington Business Parks Partnership Ltd and Vice Chairman of the Supervisory Board of Alstria Office REIT-AG.

## Jonathan Short BSc, ACIB, FRICS

**Committee memberships:** Member of the Audit, Remuneration and Nomination Committees

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

**Independent:** Yes

**Experience:** Chairman of Principal Real Estate Europe, 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 56.

**Relevant skills:** Real Estate, Banking, Private Equity

**Current external commitments:** Chairman of Principal Real Estate Europe and Deputy Chairman of Annington Limited Group.

## Alison Rose BA (Hons)

**Committee memberships:** Member of the Audit, Remuneration and Nomination Committee from 1 September 2018

**Date appointed to the Board:** April 2018

**Independent:** Yes

**Experience:** Chief Executive of Royal Bank of Scotland Commercial and Private Banking has also held a number of other banking and finance roles within Royal Bank of Scotland and NatWest Markets. Age 48.

**Relevant skills:** Finance, Banking

**Current external commitments:** Chief Executive of Royal Bank of Scotland Commercial and Private Banking.

# Senior Management Team

**Left to right:** Steven Mew, Janine Cole, James Pellatt, Andrew White, Sally Learoyd, Helen Hare.

## Steven Mew BSc (Hons), Dip PropInv, MRICS
Portfolio Director

**Date joined the Group:** Joined the Group in October 2016 as Portfolio Director and a member of the Executive Committee.

**Experience and responsibilities:** Formerly Director at McKay Securities. Previously with Gooch Webster. Responsible for driving the performance of the Group's investment portfolio.

A member of the Group's Executive Committee and a Director of the Great Ropemaker Partnership.

## Janine Cole CMIOSH, PIEMA
Head of Sustainability

**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 sustainability and health and safety management across the Group.

A member of the British Property Federation and EPRA Sustainability Committees.

## James Pellatt BSc (Hons), MRICS
Director of Workplace and Innovation

**Date joined the Group:** Joined the Group in March 2011 as Head of Projects. Promoted to Director of Workplace and Innovation in 2017.

**Experience and responsibilities:** Formerly a Senior Director with Tishman Speyer and previously with More London Development and EC Harris. Responsible for overseeing the Group's design forums and workplace innovation.

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

**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 Group's Executive Committee, the GHS Limited Partnership Operational Committee and a Director of the Great Victoria Partnership.

## Sally Learoyd MBA, FCIPD
Head of Human Resources

**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.

## Helen Hare BSc (Hons) , MRICS
Head of Project Management

**Date joined the Group:** Joined the Group in August 2007 as Project Manager. Appointed as Head of Project Management in 2017.

**Experience and responsibilities:** Formerly a Director of Brixton Estates and Commercial Manager at Bucknall Austin. Responsible for setting procurement strategy and ensuring capital expenditure on all projects is completed in accordance with individual asset business plans across the Group.

**Left to right:** Robin Matthews, Kirsty Davie, Martin Leighton, Hugh Morgan, Desna Martin, Marc Wilder, Stephen Burrows.

## Robin Matthews MA (Hons), MSc, MRICS
Investment Director

**Date joined the Group:** Joined the Group in September 2016 as Investment Director and a member of the Executive Committee.

**Experience and responsibilities:** Formerly Property Director at Moorfield Group and previously with London & Capital Group and Colliers International. Responsible for overseeing the Group's new investment activities.

A member of the Group's Executive Committee.

## Kirsty Davie MMath, ACA
Head of Investment Analysis and Management

**Date joined the Group:** Joined the Group in February 2013 as Head of Investment Analysis and Management Information.

**Experience and responsibilities:** Formerly Head of Corporate Development at Lonrho Plc. Previously with Deloitte Corporate Finance. Responsible for Group forecasting, management information and financial appraisal of investments and developments.

## Martin Leighton LLB, ACA, CTA
Director of Corporate Finance

**Date joined the Group:** Joined the Group in January 2003 as Corporate Finance Manager and appointed Head of Corporate Finance in 2011. Promoted to Director in 2017.

**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.

## Hugh Morgan BSc (Hons), MRICS
Director of Investment Management

**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 and a Director of the Great Wigmore Partnership.

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

**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 BSc (Hons)
Leasing Director

**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.

A member of the Group's Executive Committee.

## Stephen Burrows BA (Hons), MA, ACA
Director of Financial Reporting and IR

**Date joined the Group:** Joined the Group in September 2003 as Financial Accountant and appointed Head of Financial Reporting and Investor Relations in 2011. Promoted to Director in 2017.

**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.

# Our approach to risk

The successful management of risk is critical 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 integral in the way we do business and the culture of our team, where the attitude to risk is that of collective responsibility.

Our 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. We also operate out of a single head office within close proximity to all of our properties. 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 26 and 27

## Our risk culture and how we manage our risks

We believe that effective management of risk is based on a 'top-down' and 'bottom-up' approach with inherent lines of defence outlined on page 69 which include:

- 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 the Board; and
- a clear reading of market conditions and the cycle.

Risk management is an integral part of all our activities. Risks and opportunities are considered as part of every business decision we make and how they would impact on the achievement of our strategic priorities and the performance of our business.

## 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 72 to 81. 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 90 and 91, with investment transactions and development approvals requiring, amongst others, consideration of the impact on financial leverage, interest cover and portfolio risk/composition;
- the Executive Committee's oversight of all day-to-day significant decisions;
- the Chief Executive reporting on the market conditions dashboard, operational parameters and people as appropriate at each of the scheduled Board meetings;
- members of the Executive Committee providing a review on the development programme, occupational markets and key property matters at each of the scheduled Board meetings;
- the Finance Director reporting on the Group forecasts including actual and prospective leverage metrics, the occupier watch list and delinquencies, and health and safety at each of the scheduled Board meetings;
- the Executive Directors communicate with the Board on any significant market and operational matters between Board meetings;
- Senior Managers attending the Board and Audit Committees as appropriate to discuss specific risks either across the business, such as health and safety and cyber, or relating to transactions; and
- the Audit Committee meeting with the valuers twice a year to better understand market conditions and challenge the assumptions underlying the valuation.

## Risk Assessment

As part of a robust assessment of the principal risks facing the Group and its joint ventures, 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 72 to 81.

## Board oversight of risk

**Board**

| Nomination Committee | Audit Committee | Remuneration Committee |
|---|---|---|

## Operational Committee oversight

Executive Committee

| Weekly | Quarterly |
|---|---|
| Development management<br>Portfolio management<br>Investment management<br>Financial management | Strategy update<br>Health and Safety<br>Development management review<br>Portfolio management review<br>Sustainability |

## Policies for highlighting and controlling risk

**Third line of defence**

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

## Procedures and internal controls

**Second line of defence**

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

## People and culture

**First line of defence**

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

**Business risk**

# Our approach to risk (continued)

## Our focus during the year

With the continued challenging market conditions as a result of the uncertain economic and political environment following the EU referendum, the focus on our strategy and business model with a clear linkage back to overarching strategic priorities and operational parameters have again been revisited at all our scheduled Board Meetings. Areas of significant focus have included:

– the continued strong and pragmatic leasing activity across our development portfolio with significant pre-lets achieved at 160 Old Street, EC1 and Hanover Square, W1, together with the capturing of £5.7 million of reversionary rents;

▶ **See more** on pages 42 and 43

– continuing to crystallise profits through sales of 240 Blackfriars Road, SE1, 30 Broadwick Street, W1 and 78/92 Great Portland Street, W1;

▶ **See more** on pages 16 to 19 and 36 and 37

– maintaining our low leverage whilst still returning £416 million to shareholders; and

▶ **See more** on pages 45, 47 and 48

– revisiting our health and safety procedures. In the aftermath of the Grenfell Tower fire, we carried out a review of fire safety arrangements across our business and portfolio, and provided new guidance and updated building procedures to all our residential occupiers. We also revisited and enhanced our health and safety procedures across our refurbishments and developments.

▶ **See more** on page 53

This year we have also separately identified two additional principal risks being:

– considering how we should further adapt to changing occupier needs and technologies. As part of this, we have created a new role of Director of Workplace and Innovation and also have been:
  – reviewing how we can provide more flexible lease arrangements to occupiers;
  – trialling a flex space offering to enable occupiers to be able to move into our buildings quicker;
  – enhancing our focus on market developments in technology and its incorporation into our developments; and

▶ **See more** on pages 74 and 75

– increasing our business resilience in the event of a cyber-attack. As part of this, our IT team has increased the testing of our IT systems, and together with the Portfolio management team, is revisiting our business continuity plans for key systems across the portfolio.

▶ **See more** on pages 80 and 81

# Viability statement

## Assessment of the Group's prospects

In accordance with provision C.2.2 of the 2016 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 132.

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 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 early April and thereafter the financial forecasts are updated and presented for regular review by the Board.

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 selected pipeline projects;
- the Group maintains its preference for low financial leverage; and
- forecast interest rates.

## Assessment of viability

A three-year viability 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 committed development programme which will be delivered over the next three years.

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 market risks, or a combination of these risks. Specifically, the Board considered the impact of differing levels of economic disruption resulting from our exit from the EU and separately 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, given the Group's financial strength, it 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 2021.

# Our approach to risk (continued)

## How we manage risk

### Market risk

| Risk | Impact | Link to strategic priorities | How we monitor and manage risk |
|---|---|---|---|
| Central London real estate market under-performs other UK property sectors. | Reduced relative performance. | □ ◇ ○ | The execution of the Group's strategy covering the key areas of investment, development and portfolio management is adjusted and updated throughout the year, informed by regular research into the economy, 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. |
| Weakening macro-economic environment for property investment. | Property valuations may decline, with increased property yields and reduced occupier demand for space. | □ ◇ ○ | Regular economic updates are received and scenario planning is undertaken for different economic cycles, including various potential UK exit arrangements from the EU.<br>The Group aims to maintain low financial leverage throughout the property cycle. |
| Heightened political uncertainty and potential negative economic impact of ongoing negotiations to exit from the EU. | Reluctance by investors and occupiers to make investment decisions whilst outcomes remain uncertain and/or reduced attractiveness of London as a global commercial centre. | □ ◇ ○ | The Group's strategic priorities and transactions are considered in light of these uncertainties.<br>The Group's financial forecasts and business plans continue to be prepared under a variety of market scenarios, including to reflect different potential exit arrangements from the EU, with the frequency of updates increased following the referendum result.<br>Lobbying of property industry matters is undertaken by active participation of the Executive Committee members through relevant industry bodies.<br>The Group aims to maintain low financial leverage throughout the property cycle.<br>The Group has a diverse occupier base with around 12% in the financial services sector, including only c.1% in the investment banking, securities trading and insurance sectors (which are perceived to be most at risk in London to any adverse impact of the UK's exit from the EU). |

### Investment management

| Risk | Impact | Link to strategic priorities | How we monitor and manage risk |
|---|---|---|---|
| Incorrect reading of the property market 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 including with joint venture partners where relevant. |
| Inappropriate asset concentration, building mix, occupiers covenant quality and exposure, lot size and joint venture exposure. | 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 occupier base with its ten largest occupiers representing only 28.1% of rent roll.<br>Occupiers covenants are analysed and security sought as appropriate as part of the lease approval process. Regular contact with occupiers is maintained to identify if occupiers are suffering financial difficulties and their proposed actions. |

□ Crystallise profits through recycling ◇ Deliver development programme ○ Drive rental growth

| Likelihood change from last year | Impact change from last year | Likelihood after mitigation | Commentary |
|---|---|---|---|
| → | → | Low – High | The central London real estate market underperformed the wider UK market for the second consecutive year, demonstrated by IPD's universe TPR exceeding IPD's central London by 110 basis points on an absolute basis during the year ended 31 March 2018. This relative under-performance over the last 12 months was driven in part by stronger growth in office rents outside central London and particularly strong growth in both capital values and rents for UK industrial and logistics properties (which are very rare in central London). The relatively muted outlook for central London office and retail rents, combined with seven years of central London property out-performance from 2008 to 2015, means the likelihood of this risk after mitigation has been maintained.<br>▶ **Our market** on pages 31 to 35 |
| → | → | Low – High | The UK macro-economic growth and interest rate outlook has remained mixed over the last 12 months, in part driven by ongoing geo-political uncertainty following the EU referendum result and progress to date in exit negotiations. When combined with limited UK stock market growth, despite increased price volatility, the likelihood of this risk has been maintained.<br>▶ **Our market** on pages 31 to 35 |
| ↗ | → | Low – High | Although investor and occupier demand for London commercial property has remained broadly resilient over the last year, the negotiations to leave the EU may result in arrangements that are damaging to the UK economy and/or central London. The negotiations together with the transition is expected to take several years, creating uncertainty which may impact investment, capital, financial and occupier markets. In the long term, exit from the EU could reduce levels of investor and occupier demand as a result of reduced trade and relocation of corporations and financial institutions away from the UK. These risks would likely be further increased by any additional impediments for London's businesses to access talented employees from the EU and beyond.<br>In addition, the uncertainty may also contribute to a potential change in the political landscape at both a local and UK level, which could adversely impact the prospects of both private sector business and the property sector. As a result, the likelihood of this risk has marginally increased. However, the likelihood after mitigation has been maintained given our continued net sales activity and financial strength, with a current pro forma loan to value of only 11.6%, taking into account our most recent £306 million return of capital to shareholders.<br>▶ **Our market** on pages 31 to 35 |

| Likelihood change from last year | Impact change from last year | Likelihood after mitigation | Commentary |
|---|---|---|---|
| → | → | Low – High | The Group has continued to profitably recycle capital and take advantage of strong investor demand for long-let, well-located properties with sales totalling £329.0 million in the year. With limited availability of attractively priced acquisitions opportunities and the depth of opportunity in our existing portfolio, we made only one acquisition in the year for £49.6 million. With our strategic focus and capital discipline, there has been no change to the likelihood of this risk after mitigation.<br>▶ **Case studies** on pages 16 and 17, and 18 and 19<br>**Investment management operational measures** on page 36<br>**Our market** on pages 31 to 35<br>**Investment management** on pages 36 and 37 |
| → | → | Low – High | The Group continues to monitor its portfolio mix and asset concentration risk. Following our sale of Rathbone Square, W1 in the year ended 31 March 2017, our largest asset is now only 10.2% of the total portfolio and 18.1% of the portfolio was held in joint ventures at 31 March 2018. As a result, there has been no change to the likelihood of this risk after mitigation.<br>▶ **Valuation** on pages 56 and 57 |

▼ 2018 ▲ 2017

# Our approach to risk (continued)

## How we manage risk

## Portfolio management

| Risk | Impact | Link to strategic priorities | How we monitor and manage risk |
|---|---|---|---|
| Poor management of voids, rental mis-pricing, low occupier retention, sub-optimal rent reviews, occupier failures and dissatisfaction, and inappropriate refurbishments. | Failure to maximise income from investment properties. | ○ | The Group's in-house portfolio management and leasing teams proactively manage occupiers 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>Occupiers covenants are analysed and security sought as appropriate as part of the lease approval process. Regular contact with occupiers is maintained to identify if occupiers are suffering financial difficulties and their proposed actions.<br>Independent occupier satisfaction survey undertaken and new Head of Occupier Services role created to strengthen our service delivery. |
| Failure to react to evolving workplace needs including occupiers seeking increased flexibility and enhanced building design, combined with impact of technological advances on ways of working. | Buildings and lease structures cease to appeal to occupiers and investors, reducing income and valuations. | □ ◇ ○ | Creation of Director of Workplace and Innovation role who is responsible for keeping the Board up to date on market developments and incorporating innovation in the GPE portfolio.<br>Reviews undertaken of further opportunities for flex space offering across the portfolio. |

□ Crystallise profits through recycling ◇ Deliver development programme ○ Drive rental growth

| Likelihood change from last year | Impact change from last year | Likelihood after mitigation | Commentary |
|---|---|---|---|
| → | → | Low High | The Group continues to actively manage the portfolio to maximise occupancy and drive rental growth. With a healthy occupier retention rate of 40% over the year, the Group maintained a relatively low void rate which was 4.9% at 31 March 2018, down from 6.8% at 31 March 2017 despite our recent development and refurbishment completions.<br>During the year, we secured £31.1 million of new rental income, with 58% of total lettings represented by pre-lets or lettings at recently completed developments. The rent reviews competed over the year were settled at average increase of 29.6% above the previous passing rent.<br>Occupier delinquencies during the year represented only 0.1% of total rent roll and at 31 March 2018 we held rent deposits and bank guarantees totalling £31.7 million (including for some of our larger retail occupiers).<br>88% of our occupiers who participated in our inaugural occupier satisfaction survey described our service as good or excellent.<br>As a result of these performances and our current initiatives, there has been no change to the likelihood of this risk after mitigation.<br>▶ **Case study** on pages 22 and 23<br>**Portfolio management operational measures** on page 42<br>**Portfolio management** on pages 42 and 43<br>**Our portfolio** on pages 54 to 59 |
| ↗ | ↗ | Low High | We identified this is an emerging risk last year and a new risk for this year given the pace of evolution in workplace needs and technology.<br>▶ **Our market** on pages 31 to 35 |

2018 2017

# Our approach to risk (continued)

## How we manage risk

## Development management

| Risk | Impact | Link to strategic priorities | How we monitor and manage risk |
|---|---|---|---|
| An inappropriate level of development undertaken as a percentage of the portfolio. | Under performance 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 demand and supply considered to be sufficiently supportive. |
| 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 and programme estimation;<br>– construction cost inflation;<br>– contractor availability and insolvency risk;<br>– insufficient human resources;<br>– a building being inappropriate to occupier demand;<br>– quality and benchmarks of the completed buildings;<br>– construction and procurement delays;<br>– ineffective marketing to prospective occupiers; and<br>– poor development management. | Poor development returns. | ◇ | See Market risk on page above.<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.<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' to identify their needs and aspirations including technological advances during the planning application and design stages.<br>Design Review Panel reviews building design and specification to ensure it is appropriate for likely occupier needs.<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>Proactive liaison with existing occupiers before and during the development process.<br>Selection of contractors and suppliers based on track record of delivery and creditworthiness.<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. |

☐ Crystallise profits through recycling ◇ Deliver development programme ○ Drive rental growth

| Likelihood change from last year | Impact change from last year | Likelihood after mitigation | Commentary |
|---|---|---|---|
| → | ↗ | Low — High | The Group's committed development exposure has not materially changed over the year, falling from 12% of the total portfolio 12 months ago to 11% today. However, 88.8% of this committed exposure is on a speculative basis, up from 34.8% a year ago. As a result, the impact of this risk has marginally increased, although the likelihood after mitigation is unchanged given the quality of the space that we are delivering, all in close proximity to Crossrail stations and with a significant proportion being retail units in prime central London shopping locations.<br>▶ **Case studies** on pages 24 and 25<br>**Development management** on pages 38 to 41 |
| → | ↗ | Low — High | Although the Group successfully completed three developments since 31 March 2017, the Group's committed development exposure has not materially changed over the year given the recent commitment to three new schemes. These schemes have a combined GDV £756.8 million of which 11.2% is already de-risked through pre-lettings with capex to come of £239.6 million, up from £44.5 million a year ago. As a result, the impact of this risk has marginally increased, although with occupier demand remaining healthy for prime, new build space in central London and the supply of such space remaining tight, the likelihood after mitigation is unchanged.<br>▶ **Case studies** on pages 20 to 25 and 55<br>**Development management operational measures** on page 38<br>**Development management** on pages 38 to 41<br>**Our portfolio** on pages 58 and 59 |

▼ 2018 ▲ 2017

# Our approach to risk (continued)

## How we manage risk

### Financial risks

| Risk | Impact | Link to strategic priorities | How we monitor and manage risk |
|---|---|---|---|
| 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 under various market scenarios.<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 2018. |
| Inappropriate capital structure. | Sub-optimal NAV per share growth. | □ ◇ | Regular review of current and forecast capital requirements, gearing levels and other financing ratios. Maintain balance sheet discipline, with surplus equity capital returned to shareholders in appropriate circumstances. |

### People

| Risk | Impact | Link to strategic priorities | How we monitor and manage risk |
|---|---|---|---|
| Incorrect level and mix/retention of people, to execute our business plan and maintain our collegiate inclusive culture, 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 Group has a remuneration system that is strongly linked to performance and a formal six-monthly appraisal system to provide regular assessment of individual performance.<br>Benchmarking of remuneration packages of all employees is undertaken annually.<br>Annual personal development planning and ongoing training support for all employees together with focused initiatives to nurture potential successors, including introduction of mentoring programme.<br>Health and wellbeing programme being developed following roll out of mental health training programme.<br>Focus on people engagement with regular two-way communication and responsive employee-focused activities' e.g. flexible working.<br>High profile, attractive development pipeline and high quality assets to manage. |

□ Crystallise profits through recycling ◇ Deliver development programme ○ Drive rental growth

| Likelihood change from last year | Impact change from last year | Likelihood after mitigation | Commentary |
|---|---|---|---|
| → | → | Low High | The Group has continued to be active in managing it debt facilities, ensuring an attractive maturity ladder and maintaining diverse funding sources, predominantly borrowing on an unsecured basis. During the year, the Group redeemed £121.0 million of high coupon, secured debenture bonds and raised £100 million of new unsecured private placement notes. When combined with the Group's £450 million committed revolving credit facility which is currently undrawn, the Group's weighted average debt maturity has increased to 5.7 years (pro forma for draw down in June 2018 of the new private placement notes). Cash and undrawn credit facilities increased from £378 million at 31 March 2017 to £666 million today (31 March 2018 position pro forma for subsequent transactions). With our liquidity and debt position remaining exceptionally strong, the likelihood of this risk has not changed.<br>**Our capital discipline** on pages 47 and 48<br>**Our financial results** on pages 44 to 46<br>**Notes 16 and 17 forming part of the Group financial statements** on pages 161 to 165 |
| → | → | Low High | Whilst broader economic and political uncertainties have kept global interest rates at relatively low levels, the Bank of England base rate increased for the first time in ten years in November 2017, although the increase was to a modest 0.5% and some way behind increases implemented in the US. Moreover, there remains an expectation of further modest increases in UK interest rates. However, 100% of the Group's debt is currently at fixed or hedged interest rates, and the Group's weighted average interest rate fell over the year to 2.3% given our refinancing activities. As a result, the risk likelihood after mitigation is unchanged, particularly given that we estimate property values could fall be around 78% from their 31 March 2018 pro forma levels before Group debt covenants could be endangered, even before factoring in mitigating management actions.<br>**Our capital discipline operational measures** on page 47<br>**Our capital discipline** on pages 47 and 48<br>**Our financial results** on pages 44 to 46<br>**Notes 16 and 17 forming part of the Group financial statements** on pages 161 to 165 |
| → | → | Low High | The Group's existing capital structure remains well placed to take advantage of opportunities as they arise and to deliver our current development commitments. As a result, the risk likelihood after mitigation is unchanged.<br>**Our capital discipline** on pages 47 and 48<br>**Our financial results** on pages 44 to 46 |

| Likelihood change from last year | Impact change from last year | Likelihood after mitigation | Commentary |
|---|---|---|---|
| → | → | Low High | The motivation of our people and maintaining our strong collaborative culture remains fundamental to the delivery of our strategic priorities.<br>Staff retention remains high at 87% and 89% of our employees would recommend GPE as a great place to work. Moreover, our continued focus on growing the breadth and depth of our talent, providing focused development support where needed combined with the restructuring of some of our teams and twelve internal promotions during the year, means the risk likelihood after mitigation is unchanged over the year.<br>**Our culture and people operational measures** on page 60<br>**Our culture and people** on pages 60 to 63<br>**Remuneration report** on pages 108 to 134 |

2018 2017

# Our approach to risk (continued)

## How we manage risk

### Regulatory

| Risk | Impact | Link to strategic priorities | How we monitor and manage risk |
|---|---|---|---|
| Increased costs of compliance and/or risk of non-compliance with growing regulatory obligations including tax, planning, environmental, fire safety and other legislation. | Increased cost base and potential negative impact on property values given reduced investor and occupier interest in buildings and/or reputational damage. | □ ◇ ○ | Senior Group representatives spend considerable time, using experienced advisers as appropriate, to ensure compliance with current and potential future regulations.<br>Through meetings with local politicians, planning officers and experienced advisors we monitor any changing planning policy/sentiment that may impact our portfolio.<br>Lobbying of property industry matters is undertaken by active participation of the Executive Directors and other Executive Committee members through relevant industry bodies.<br>Sustainability Committee meets at least quarterly to consider strategy in respect of environmental legislation and address key areas of carbon, energy, waste and biodiversity.<br>Environmental management system in place.<br>Energy reduction plan for every key property.<br>We maintain a low-risk tax status and have regular meetings with HMRC. |
| Health and Safety incidents.<br>Loss of life or injury to members of the public, occupiers, contractors or employees. | 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 fire, health and safety areas including employee, contractor, members of the public and occupier safety.<br>On all construction projects, 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.<br>Regular site and health and safety checks undertaken by our Development and Project Management teams, Executive Committee members and external third parties. |

### Business interruption risk

| Risk | Impact | Link to strategic priorities | How we monitor and manage risk |
|---|---|---|---|
| An external event such as a power shortage, extreme weather, environmental incident, civil unrest or terrorist 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>The Group's insurance policies include cover for catastrophic events including fire, storm, riots and terrorism. |
| Cyber threat or attack. | Business disruption to Group's portfolio and operations and/or reputational damage from data loss. | □ ◇ ○ | The Group's Business Continuity Plan is regularly reviewed and recovery of data at off-site recovery centre was tested during the year.<br>Regular testing of IT security is undertaken including penetration testing of key systems.<br>The Group's data is regularly backed up and replicated.<br>Staff awareness training on cyber risk is undertaken regularly.<br>Cyber risk insurance secured during the year. |

□ Crystallise profits through recycling ◇ Deliver development programme ○ Drive rental growth

| Likelihood change from last year | Impact change from last year | Likelihood after mitigation | Commentary |
|---|---|---|---|
| ↗ | ↗ | Low ◁—▷ High | In addition to the significant regulatory and tax uncertainty associated with the UK's exit from the EU, the introduction of capital gains tax for overseas investors on UK commercial property from 2019 may impact the weight of investment appetite.<br>Following the recent local elections, we are closely monitoring whether changes in the political landscape, particularly within Westminster City Council, impacts any existing planning policy and/or procedures.<br>Only 3% of portfolio (by area) is EPC F or G rated. Where units are vacant they are being refurbished to improve the rating or where they are currently let plans are in place to improve the rating when they become vacant.<br>We are monitoring the consultation process for the London Plan and have included a number of its themes in our sustainability strategy. It is likely that the inquiry into the Grenfell Tower fire will result in changes to the regulatory regime. We are monitoring the process closely.<br>Taken together, the risk likelihood after mitigation has marginally increased over the year.<br>▶ **Our market** on pages 31 to 35<br>**Property industry representation** on pages 64 to 67<br>**Our relationships** on page 51<br>**Our portfolio** on pages 58 and 59 |
| ↗ | ↗ | Low ◁—▷ High | With increased levels of both development and refurbishment activity, including in our occupied buildings, the likelihood of this risk after mitigation has marginally increased. The Group had five reportable accidents during the year.<br>▶ **Health and safety** on page 53 |

| Likelihood change from last year | Impact change from last year | Likelihood after mitigation | Commentary |
|---|---|---|---|
| → | → | Low ◁—▷ High | The likelihood of this risk is unchanged given the Home Office/MI5 continue to assess the UK threat from international terrorism as severe. |
| ↗ | ↗ | Low ◁—▷ High | We have identified this as a new risk this year given the increased incidence of attempted cyber attacks on UK businesses. |

▼ 2018 ▲ 2017

# Governance

In this section:



## What they say...

"GPE set a high standard for the team to work to on this refurbishment project which was designed to provide revitalised space that ties into, and celebrates, the historical elements of the building. The result is three open and bright floors with a stunning new reception for all occupiers to enjoy."

**George Martin**
Project Manager, Blackburn & Co

## What we say...

"Paramount to us on this project was that the newly refurbished spaces would have maximum appeal and that every effort was made to keep the level of disruption to our existing occupiers to a minimum. We were very pleased with the collaborative efforts of the team in helping us achieve this."

**Claire Mora**
Building Manager

George Martin and Claire Mora in our newly refurbished reception at 35 Portman Square, 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 84 to 91

## 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 92 to 97

## 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 98 to 105

## 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 106 to 107

## Remuneration

Describes the Company's remuneration arrangements in respect of its directors, and how these have been implemented in 2017/2018:

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

▶ **See our approach to remuneration** on pages 108 to 134



**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 84 to 134. Throughout the year ended 31 March 2018, the Company fully complied with the provisions set out in the UK Corporate Governance Code 2016, publicly available at **www.frc.org.uk**.

# Introduction from the Chairman

"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."

**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 GPE's culture is about treating people fairly, being professional, open and transparent, and that part of our role as the Board is to lead by example.

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

This year, the Board met twelve times including six unscheduled meetings to consider specific transactions and also undertook two property tours. Our 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 Group's business model and strategy are outlined on pages 1 to 13. In our Annual Report last year we identified that our strategic priorities for 2017/18 were to:

- undertake selective investment activity;
- complete the current committed development programme and prepare the pipeline; and
- drive rental growth through capturing reversion.

See pages 90 and 91 for significant transactions approved by the Board during the year to deliver against these priorities.

With the continued uncertainty in relation to the UK's exit from the European Union and other geopolitical factors, the focus on our strategy and business model, and the clear linkage back to our overarching strategic priorities and operational parameters, have been a consistent and prevailing feature of our Board meetings. As a result, we made only one acquisition in the year of Cityside House and Challenger House, Whitechapel, E1. Given the significant level of existing development opportunities within our portfolio, we are in the enviable position of not needing to buy assets unless we feel they will be accretive.

Moreover, with our continued operational and financial discipline, during the year we secured £31.1 million of new lettings and we sold 240 Blackfriars Road, SE1 and 30 Broadwick Street, W1 where our business plans were complete and our future value adding opportunities were limited, monetising our development surpluses. Our net proceeds from these sales of £306 million were returned to shareholders, in addition to the £110 million returned earlier in the year following our sale of Rathbone Square late last year and continued growth in the ordinary dividend. These returns ensure that we maintain an efficient balance sheet, conservative leverage and significant acquisition capacity.

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.

With our culture of continuous improvement, looking back on what went well and what we could do better on each of our developments is key. In 2018, we reviewed the final appraisal on our completed development at 30 Broadwick Street, W1 focusing on a number of aspects including the timing in the cycle, design, procurement and how we met occupiers' expectations in the handover process, as well as the scheme's financial performance.

Recognising our responsibility for oversight on health and safety, in addition to standing Board reports, between Board meetings Nick Sanderson as the Executive Director responsible for health and safety and Janine Cole, our Head of Sustainability, keep us informed of management of health and safety across our portfolio.

Following our success in delivering against our priorities during the year, our attention for this year will again be focused on delivering attractive long-term shareholder returns, behaving responsibly to our stakeholders including employees, occupiers, suppliers and the community, and appropriately managing risk. With our clearly identified initiatives, we will progress our current committed developments and prepare the pipeline, drive rental growth through capturing reversion and pursue further recycling and selective acquisition activity.

▶ **See our strategic priorities** on pages 12 and 13

## Succession planning and Board changes

During 2017, we made six Senior Management Team promotions. Hugh Morgan, Martin Leighton and Stephen Burrows were promoted to Director of Investment Management, Corporate Finance and Financial Reporting and Investor Relations respectively, taking on a broadened remit within each of their roles supporting the Executive Committee.

We also promoted James Pellatt to a new position of Director of Workplace and Innovation to help ensure that our business remains forward looking and continues to adapt to technological advances. With their proven track records, Helen Hare and Kirsty Davie were promoted to lead wider teams as Head of Project Management and Head of Financial Analysis and Management Information respectively. We also restructured our Investment Management and Asset Management teams to create a Portfolio Management team to provide better focus both on total returns from our assets and meeting occupier needs, which involved the external recruitment of David O'Sullivan to the new senior management role of Head of Occupier Services.

With Elizabeth Holden retiring from the Board at the 2017 AGM and in the knowledge of Jonathan Short's proposed retirement from the Board at the 2018 AGM, we are delighted to have appointed Alison Rose, Chief Executive at RBS Commercial and Private Banking, as a Non-Executive Director in April 2018. With her considerable financial and commercial experience, Alison will also serve on the Audit, Nomination and Remuneration Committees from 1 September 2018.

Jonathan Short will be retiring from the Board at the 2018 AGM and on behalf of the Board, I would like to thank Jonathan for his committed enthusiasm for GPE, strong stewardship and significant Board contribution over the years.

Wendy Becker took over from Jonathan Short as Chairman of the Remuneration Committee from the 2017 AGM.

Looking to the future, and in view of my having served almost ten years on the Board, I have proposed to the Board that I will retire at or before the 2019 AGM, once the Board has found my successor and there has been a suitable handover process. Charles Philipps, as Senior Independent Director, in close consultation with the Nomination Committee, will lead the process to find my successor.

## Ongoing communication with shareholders and consideration of other stakeholders

Communication with investors is given a high priority by the Board. During the year, 188 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.

Following consultation in the year ended 31 March 2017 with our top shareholders, together owning more than 40%, on both our proposals in relation to our new three-year Remuneration Policy, outlined in more detail on pages 124 to 134, and retaining Jonathan Short on the Board for a further year with a view to his retiring at the 2018 AGM, I am pleased to report that 97% and 95% of shareholders voted in favour of our Remuneration Policy and the reappointment of Jonathan Short respectively.

Following feedback from some of our retail shareholders on the payment of the £110 million special dividend in May 2017 that they would prefer to receive any further non-ordinary dividend monies as a capital rather than income return, in March 2018 we structured the return of £306 million to shareholders by way of a B Share scheme to enable the return to be treated as capital for most shareholders.

Key to our good governance and to ensuring our continuous improvement is our receiving of feedback from not only our shareholders but other stakeholders including our people, occupiers and suppliers. In September 2017, we considered the feedback from our second employee engagement questionnaire which reflected that our efforts to improve our flexible working offering had been well received. Whilst comfortable that we undertake gender pay checks as part of our annual remuneration process, we have also considered what actions we should be taking to reduce our gender pay gap, and are wholly supportive of the Executive Directors' recommendation to sign up to the National Equality Standard to identify what we can do internally to improve our approach to encouraging wider diversity. To help to improve diversity in our industry as whole, we have also committed to Pathways to Properties to offer work experience to individuals who may not otherwise have access to property as a career. More about both of these initiatives can be found in our people section on pages 61.

GPE has traditionally held twice yearly meetings with occupiers at our buildings with members of senior management also meeting with our top twenty occupiers. This year the Board also received feedback from our inaugural external occupier survey and were pleased that 88% of occupiers were satisfied with their experience. However, areas where we can improve were also identified and the Board will receive an update on the actions taken in connection with these during 2018/19.

This year, as part of our 2017 Modern Slavery Statement, we committed to worker engagement audits on all of our developments over £5 million and random audits on wages paid to cleaners working at our buildings to ensure individuals working at our buildings are paid the London Living Wage.

I am pleased to be able to report that we received external recognition for our investor relations efforts with GPE being ranked number 1 out of 108 companies in the European real estate sector for our investor relations programme in the Institutional Investor survey with our Chief Executive, Director of Financial Reporting and Investor Relations and Finance Director ranked number 1,2 and 3 respectively. We also received gold awards in relation to EPRA's 2017 Best Practice Recommendations and Sustainability Best Practice Recommendations and a green five star rating in relation to GRESB. Finally, I am very proud to be able to report that, for the second year running, we were ranked first in the property sector in Management Today's 'Britain's Most Admired Companies'. We were also ranked fifth in the overall awards, the Company's highest ever position and the only property company in the top ten, which I think is a testament to the abilities and efforts of each and every one of our team.

Martin Scicluna
Chairman
23 May 2018

# Introduction from the Chairman (continued)

## The Board's attendance in 2017/18

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

| | Board – scheduled (6 meetings)[1] | Board – unscheduled (6 meetings)[1] | Audit Committee (4 meetings) See pages 98 to 105 | Nomination Committee (3 meetings) See pages 92 to 97 | Remuneration Committee (5 meetings) See pages 108 to 110 |
|---|---|---|---|---|---|
| **Chairman** | | | | | |
| Martin Scicluna[2] | ●●●●●● | ●●●●●● | ● ● (2/2) | ●●● | ● ●● (3/3) |
| **Executive Directors** | | | | | |
| Toby Courtauld[3] | ●●●●●● | ●●●●●● | ○ | ●●● | ●● ●● |
| Nick Sanderson[3] | ●●●●●● | ●●●●●● | ○●○● | ●●● | – |
| **Non-Executive Directors** | | | | | |
| Wendy Becker[4] | ●●●●●● | ●● ●●● | ●●●● | ●●● | ●●●●● |
| Nick Hampton[4] | ●●●●●● | ●● ●●● | ●●●● | ●●● | ●●●●● |
| Elizabeth Holden[5] | ●● (2/3) | ●● (2/2) | ● (1/1) | (0/0) | ●●● (3/3) |
| Richard Mully[4] | ●●●●●● | ●●●●●● | ● ● | ●● | ●●● ● |
| Charles Philipps[6] | ●●●●●● | ●●●●●● | ●●●● | ●●● | – |
| Jonathan Short[4] | ●●●●●● | ●● ●●● | ●●●● | ●●● | ●●●●● |

● Meetings attended ○ Part attendance at meetings

1. There were six scheduled Board meetings in 2018. There were six unscheduled Board meetings held at short notice during the year – see Board activities on pages 88 and 89.
2. Although Martin Scicluna is not a member of either the Remuneration or Audit 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. Wendy Becker, Nick Hampton and Jonathan Short were unable to attend one of the unscheduled Board Meetings due to prior commitments, however, provided their thoughts to the Chairman and Toby Courtauld in advance of the meeting. Whilst Richard Mully attended all scheduled and unscheduled Board meetings, he was unable to attend a number of Committee meetings due to prior commitments, however, he provided his thoughts to the respective Chairs in advance of these meetings.
5. Elizabeth Holden retired from the Board at the 2017 AGM and, therefore, the number of meetings in (parentheses) is the number of meetings she could have attended in the year.
6. Charles Philipps was not a member of the Remuneration Committee in the year ended 31 March 2018.

# 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 auditor

**See Audit Committee report** on pages 99 to 105

**See risk management reports** on pages 68 to 81

#### 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 108 to 134

#### Nomination Committee

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

**See Nomination Committee report** on pages 92 to 97

### 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 81

#### Sustainability Committee

- monitors best practice
- provides oversight on climate change risk and resilience
- sets the Group's sustainability policies

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

#### Health and Safety Committee

- reviews the Group's health and safety compliance
- provides oversight on management of health and safety risk

**See Sustainability on our website www.gpe.co.uk/sustainability/working-safely**

# Leadership (continued)

## Board activities

The Board typically meets for scheduled Board meetings six times a year.

| | July | September | November | January | March/April | 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 | | ● | ● | ● | | ● |
| Board Reports on valuation, leasing activity, major developments summary, approved vs. actual development spend, longer-term pipeline and sales review | | ● | ● | ● | | ● |
| Finance Director's Report including forecasts, finance initiatives, Health and Safety, IT 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, viability statement, dividend policy and analyst presentation | | | ● | | | ● |
| Feedback from shareholders and analysts | ● | ● | ● | ● | ● | ● |
| Reports from Board Committees | ● | ● | ● | ● | ● | ● |
| Corporate governance matters including 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 | | | | | | ● |
| **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.

Significant matters discussed and major transactions approved specific to 2017/18 by the Board in the year are shown on pages 90 and 91.

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 with senior management as the Executive Committee, chaired by the Chief Executive, to attend to the ongoing management of the Group. Significant operational and market matters are communicated to the the Non-Executive Directors on a timely basis outside of the Board meetings. All directors have access to the advice and services of the Company Secretary, who is responsible to the Chairman on matters of corporate governance.

"Each year we challenge ourselves as to how we are meeting the spirit of the principles of the UK Corporate Governance Code and how we can do better."

Desna Martin
Company Secretary

## How we behave, human rights, supplier stewardship and anti-corruption and anti-bribery matters

We aspire to the highest standards 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 about health and safety, employee pay rates and responsible sourcing. In September 2017, we published our Modern Slavery Act Statement, which can be found at **www.gpe.co.uk**, setting out the steps we have taken over the past year and intend to take over the next twelve months 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.

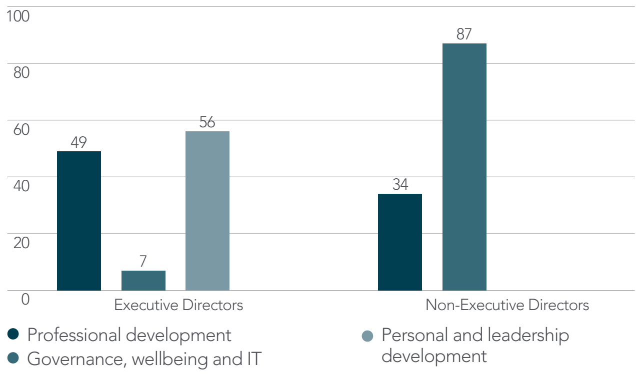
Formal policies in place for the year in relation to anti-corruption and anti-bribery matters include our Ethics policy, Whistleblowing policy, Gifts and Hospitality policy, Use of GPE suppliers policy, Conflicts of interest policy and our Insider Information and Share Dealings policy. These policies are covered by the Company Secretary with all new employees as part of their induction process. A formal compliance statement relating to these policies is required to be signed off by employees annually which is reported on to the Audit Committee. There were no matters to report to the Audit Committee in relation to these policies in the year ended 31 March 2018. The Audit Committee also review our Whistleblowing policy and Ethics Policy annually. Our Ethics and Whistleblowing policies can be found at **www.gpe.co.uk/about-us/governance/**. Whilst we consider our industry to be relatively low risk, in June 2018, we will introduce a formal Anti-Money Laundering policy which will be explained to employees through a series of lunchtime presentations.

## Our approach to Board development

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. 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 Nomination Committee at least annually.

In the year to 31 March 2018, in addition to internal presentations, in total Board members undertook 233 hours of externally facilitated training.

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




## 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.

# Leadership (continued)

## What we did in 2017/18

Significant discussions, transactions and appointments approved by the Board since 31 March 2017 over and above the scheduled matters outlined on page 88 included:

# 2017

## April

### Risk and market

- an update was provided to the Board by the development and asset management teams involved in the Non-Executive Directors' induction tour
- market updates received on the economic outlook, London's real estate outlook and occupier trends provided by Deloitte and CBRE in advance of the annual Board Strategy Review
- approval of the £110 million Special Dividend, share consolidation and Circular for the General Meeting

▶ See page 48

### Governance

- noting of Elizabeth Holden's intention to retire from the Board at the 2017 AGM and appointment of Charles Phillips as Senior Independent Director
- a review of GPE's approach to IR from Stephen Burrows, Head of Financial Reporting and Investor Relations

▶ See pages 106 and 107

- approval of the revised Non-Audit Services and Gifts and Hospitality policies

## May

### Risk and market

- approval of the acquisition of Cityside House and Challenger House, Whitechapel, E1 for £49.6 million

▶ See pages 20 and 21

### Governance

- approval of GPE's tax strategy

▶ See page 101

- approval of the Group's 'Towards the 2030s' sustainability strategy

▶ See page 58

- consideration of Jonathan Short's appointment as Deputy Chairman of Annington

## June

### Risk and market

- approval of the rent review with Kurt Geiger at 24 Britton Street, EC1

## July

### Risk and market

- an update from Janine Cole, Head of Sustainability, on actions being taken by GPE following the Grenfell Tower fire

▶ See page 53

### Governance

- noting of the PwC Internal Audit Charter and the proposed 2017/18 review of GPE's financial controls and procurement for developments
- review of succession planning for individuals below the Board
- consideration of Wendy Becker's appointment as Non-Executive Director of Logitech

## August

### Risk and market

- approval of the Royal Mail Group overage settlement for Rathbone Square, W1

## September

### Risk and market

- approval of the 98,100 sq.ft. pre-let to Turner Broadcasting at 160 Old Street, EC1

▶ See page 38

- an update was provided on expected delays in the practical completions at 73/89 Oxford Street, 160 Old Street and the residential apartments at Rathbone Square
- an update on health and safety was provided by Janine Cole, Head of Sustainability
- an update on GPE's cybersecurity was provided by Richard Moran, Head of IT

### Governance

- approval of the Group's Modern Slavery Act Statement for inclusion on the Group's website

▶ See page 52

- consideration of Richard Mully's appointment as advisor to TPG and appointment to the Board of Arlington Business Parks

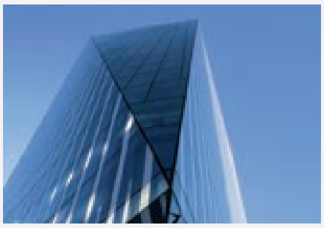
## 2018

### November

**Risk and market**

- approval to progress the works for a 2018 start of the New Bond Street and OSD elements of the Hanover Square development in light of KKR pre-let discussions, subject to final approval of the pre-let

▶ See pages 39 and 40



- approval of the sale of 240 Blackfriars Road, SE1 to Wolfe Asset Management for £266.0 million

▶ See pages 16 to 19

- an update on work on the Group's liability management opportunities from Martin Leighton, Head of Corporate Finance and Aditya Gokal, Corporate Finance Manager

### December

**Risk and market**

- approval of the sale of 30 Broadwick Street, W1 to a client of Savills IM for £185.9 million

▶ See page 16 to 19

- an update on return of capital and liability management opportunities was provided by Nick Sanderson

### January

**Risk and market**

- discussion of key themes to be addressed as part of the 2018 Strategy Review
- approval of the return of capital of £306 million to shareholders through a B Share scheme, share consolidation and Circular for the General Meeting

▶ See page 48

- approval of the tender to repurchase the £142.9 million 5.63% 2029 Debenture

▶ See page 47

- approval of the settlement of the rent review with Double Negative at 160 Great Portland Street, W1
- an update was received from Nick Sanderson on health and safety

### February

**Risk and market**

- approval to issue £100 million 10, 12 and 15 year USPP notes with a blended coupon of 2.8%

▶ See page 47

- an update was received from Nick Sanderson on health and safety

### March

**Risk and market**

- approval of the sale of 78/92 Great Portland Street and 15/23 Riding House Street, W1 to M&G Property for £50 million

▶ See page 37

- approval of the pre-let to KKR at Hanover Square, W1
- approval of the start on site at Hanover Square of the New Bond Street building and early orders for the OSD

- approval of the Oxford House, W1 Definitive Appraisal
- approval of the Cityside House, Whitechapel, E1 Definitive Appraisal

▶ See page 39

- review of GPE's retail occupier exposure
- an update was received from Nick Sanderson on health and safety

**Governance**

- an update from Nick Sanderson on a proposed change to the share consolidation ratio

### April/May

**Risk and market**

**April**

- consideration of flexible office options

**Governance**

**April**

- approval of the Group's inaugural community strategy and budget
- an update was received from Desna Martin on GDPR

**May**

- reappointment of the valuers
- review of 30 Broadwick Street Final Appraisal

# Effectiveness

## Nomination Committee

### Nomination Committee members and attendance by others

| Chairman | 3 meetings |
|---|---|
| Martin Scicluna | ●●● |
| **Members** | |
| Wendy Becker | ●●● |
| Nick Hampton | ●●● |
| Elizabeth Holden[1] | (0/0) |
| Richard Mully[2] | ●● |
| Charles Philipps | ●●● |
| Jonathan Short | ●●● |
| **In attendance** | |
| Toby Courtauld | ●●● |
| Nick Sanderson | ●●● |

● Meetings attended

1. Retired at the 2017 AGM.
2. Whilst unable to attend one meeting due to prior commitments, Richard Mully provided his thoughts to the Chair in advance of the meeting.

## Our approach

The key objectives of the Committee are to regularly review the skills and experience of the Board to ensure that it is the right size, structure and composition taking into account the skills, experience, independence, knowledge and diversity, to consider any related succession planning including of Senior Executives below Board level, and to lead on the process for Board appointments.

As part of these objectives, the Committee reviews and ensures that actions identified by the Board Evaluation process are appropriately followed up, recommends to the Board both the composition of the Audit, Nomination and Remuneration Committees taking into consideration individuals' experience, ongoing training and development and time commitments, and the re-election of directors by shareholders at the Annual General Meeting.

## Our process

The Nomination Committee Terms of Reference are available on the Company website at **www.gpe.co.uk/about-us/governance**

The Nomination Committee membership generally includes all of the Non-Executive Directors. At the beginning of the year, the Nomination Committee comprised of the Chairman of the Board, Martin Scicluna and six independent Non-Executive Directors, Elizabeth Holden (until she retired at the 2017 AGM), Wendy Becker, Nick Hampton, Richard Mully, Charles Philipps and Jonathan Short. Alison Rose will become a member of the Committee on 1 September 2018.

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 and Nick Sanderson were invited to attend the Nomination Committee meetings to provide the Committee with updates on human resourcing and succession planning and to provide their input to the succession planning for the Non-Executive Directors.

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 Director 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 the directors will continue to have sufficient time available to devote to the Company. Any other conflicts of interest are also considered at each Board meeting.

Non-Executive Directors are not appointed for specific terms, but following the UK Corporate Governance Code, are subject to annual re-election and all proposed re-elections to the Board are formally considered by the Nomination Committee taking account of each individual's effectiveness and commitment to the role. In addition, annually at its March meeting, the Nomination Committee formally reviews the recommendations of the Board Evaluation process and progress against the recommendations from the previous year.

"This year our main focus has been oversight of employee talent development and retention initiatives, the restructuring and resourcing of some of our property teams and the recruitment of an additional Non-Executive Director."

**Martin Scicluna**
Chairman of the Nomination Committee

## Dear fellow shareholder

On behalf of the Nomination Committee, welcome to the Report of the Nomination Committee for the year ended 31 March 2018. This year our main focus has been having oversight of the restructuring and resourcing of the some of our property teams, talent development and retention initiatives and the recruitment of a new Non-Executive Director.

## 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, our policy on recruitment 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 age, gender, core skills, experience and educational and professional background continue to be an active consideration whenever changes to the Board's composition are contemplated. Alison Rose joined the Board in April 2018. Alison's appointment has enchanced both the Board's gender diversity and its financial and commercial experience.

## Talent development and resourcing

We are keenly focused on the development of our employees and, in addition to discussing the personal development plans of the Executive Committee, Sally Learoyd, our Head of HR, and the Executive Directors attended our September 2017 and January 2018 Committee meetings to provide us with updates on talent development and retention plans, including the introduction of a mentoring programme by the Executive Committee and Senior Management to help broaden our individuals below the Board.

With our culture of continuous improvement, we also received regular updates through the year on the restructuring and resourcing of our property teams.

## GPE's Board composition and independence

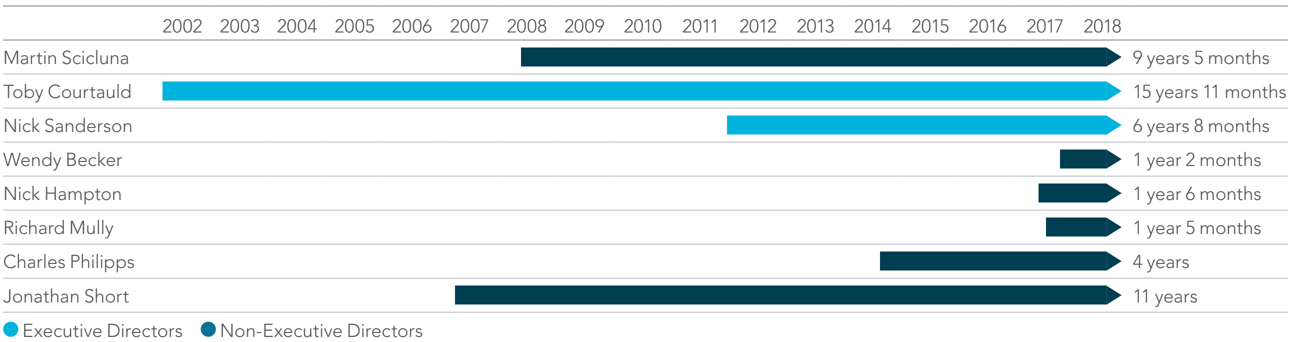
As at 31 March 2018, the Board comprised the Chairman, two Executive Directors and five Non-Executive Directors. Alison Rose joined the Board on 4 April 2018. The biographies of all members of the Board outlining the experience they bring to their roles are set out on pages 64 and 65. As Chairman, I am responsible for leading the Board and for its effectiveness, meeting with shareholders as appropriate. A key element of my role is ensuring a culture of openness, transparency and debate and helping Toby Courtauld 'to set the tone from the top'. Toby Courtauld, as Chief Executive, is responsible for setting the Group's strategic direction and implementing the agreed strategy, the day-to-day management of the Company and leading the Executive Committee. Charles Philipps, the Senior Independent Director, acts as a sounding board for the Chairman, leads the other independent Non-Executive Directors in the performance evaluation of the Chairman and is also available to shareholders as required. 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 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

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.

**Directors' tenure** (as at 31 March 2018)



# Effectiveness (continued)

## A Non-Executive Director's view 18 months in

Richard Mully joined GPE in December 2016 as a Non-Executive Director serving on the Audit, Nomination and Remuneration Committees. He gives his view of his experience so far.

### What attracted you to join GPE?

Management's track record, the quality of the portfolio, the potential of the development pipeline and the thought that, with my property experience, I would hope to be able to add to the Board through appropriate challenge and debate.

### What was the most informative element of your induction?

Meetings with the teams below the Board; either through the one-to-ones with the Senior Management Team, the property tours where we met with individuals who talked through the asset plans or developments, or individuals' presentations to the Board.

### How do you think your induction process could be improved on for Alison Rose?

Six months after I joined we started a regular breakfast meeting programme of three of the Non-Executive Directors meeting with two members of the Executive Committee. These sessions provide an opportunity to talk with the Executive Committee team and fellow Non-Executive Directors in an informal setting with no fixed agenda and provide a useful forum to be able to be updated on what is happening in the day-to-day operations and the associated challenges which may not be significant enough individually to warrant formal reporting to the Board.

So back to the question, I think Alison's involvement in these breakfast meetings will be one of the most useful parts of her induction and will enable her to relatively quickly both to 'get under the skin' of GPE and immerse her in day-to-day property terminology.

### What is the level of involvement of the Non-Executive Directors outside of the formal scheduled Board meetings?

Quite a lot, which Martin Scicluna made a point of covering as part of the interview process to ensure that I was aware of exactly the time commitment involved. Firstly, there are a number of unscheduled board meetings during the year which are held to obtain approval for either property or financing transactions such as our commitment to the development at Hanover Square and the return of capital to shareholders. Then, in addition to the Board property tours and the breakfast meetings with the members of the Executive Committee, the Non-Executive Directors meet without the Executive Directors before the Board dinners held in January, September and November. Once a year, the Non-Executive and Executive Directors also meet without Martin Scicluna present to assess his performance as Chairman.

The Executive Directors also encourage us to meet with Senior Managers outside the Board meetings which I regularly do, recently meeting with Robin Matthews on the investment market and Andrew White on our development pipeline, and I know the other Non-Executive Directors do the same with other individuals. In between Board meetings, Toby and Nick also provide regular email updates on matters such as deal progression, investor and analyst feedback or health and safety matters which provide a good level of continuity. Lastly, as part of the Board evaluation process, I had a feedback session with Martin Scicluna on a one-to-one basis.

### How would you evaluate the culture at Board?

I have found the Board culture to be collaborative, cohesive and constructive with the right balance of an effective mix of strong oversight, transparency and openness to challenge. I think a key part of this is that Martin Scicluna ensures everyone participates in the Board discussions. Having all the Non-Executive Directors on both the Audit and Nomination Committees also makes the Board meetings more efficient and means that all of the Non-Executive Directors have a good understanding of the key accounting and governance areas and work being done on people development.

"I have found the Board culture to be collaborative, cohesive and constructive with the right balance of an effective mix of strong oversight, transparency and openness to challenge."

Richard Mully
Non-Executive Director

### What do you think are some of the biggest challenges facing GPE?

Disruption in the property sector and making sure that we are sufficiently planning ahead for what both our current and future occupiers will want. This is an area being actively addressed in part by James Pellatt in his role as Director of Workplace and Innovation and also by the Design Review Panel which looks at each of the developments both well ahead of the planning process and during the course of construction to make sure things are evolved for changing requirements. In addition, with GPE's people crucial to delivering our strategy and future development pipeline, I think it's equally important that we keep under review employee development and motivation, and as part of this, the structure of employee remuneration.

### What has surprised you the most since joining GPE?

The strength and depth of the team across all levels and the systematic level of intellectual rigour in the approach to all areas. I attended the year end results presentation to the analysts and what struck me most was the candour and professionalism of the team in the way they answered the wide variety of questions in as clear and transparent way as possible.

With Jonathan Short having served on the Board for ten years by the time of the 2017 Annual General Meeting, his performance was specifically considered by the Board at the January and March 2017 Nomination and Board meetings and it was unanimously concluded that he remained an effective independent director and that the Board supported his continuing in office for another year with a view to his retiring at the 2018 AGM. As part of this consideration, in 2017 we consulted with our top shareholders, together owning more than 40% of our shares, on retaining Jonathan Short on the Board for a further year. As planned, Jonathan Short will retire from the Board at the 2018 AGM.

## Board changes and succession planning

In August 2017, we appointed Zygos, who had successfully worked with us in our appointments of Nick Hampton and Richard Mully in the previous 12 months and had no other connection with the Company, to look for an additional Non-Executive Director. It was agreed with the Nomination Committee that Jonathan Short and I should meet with the shortlist of candidates, after which the preferred candidates should meet with Charles Philipps and Wendy Becker first before then meeting with Toby Courtauld and Nick Sanderson prior to recommendations being made to the Board.

After initial interviews of seven candidates, we were delighted that, following meetings with the Non-Executive and Executive Directors as outlined above, Alison Rose, Chief Executive Officer at Royal Bank of Scotland Commercial and Private Banking, who has significant financial and commercial experience from her current role and previous roles at NatWest Markets, accepted the role and joined the Board in April 2018.

In considering succession planning for my role as Chairman, after the April 2017 Board meeting, Charles Philipps, having first sought feedback from the Executive Directors, met with the other Non-Executive Directors without my being present to consider my performance and recommended that I be asked to remain Chairman until 2019, subject to review at the beginning of 2018 as part of the annual re-election of directors. Since then, and in view of my having served almost ten years on the Board, I have decided that I will retire at or before the 2019 AGM, provided a suitable successor is found. The Board has decided that Charles Philipps will lead the process to find my successor, in close consultation with the Nomination Committee, and that Russell Reynolds will assist us in our search.

Martin Scicluna
Chairman of the Nomination Committee
23 May 2018

# Effectiveness (continued)

## Our 2018 Board evaluation

"The Board evaluation process gives me the opportunity to hear independently the views from the Chairman, the Executive and Non-Executive Directors on how well the Board is run and where we could improve."

Charles Philipps
Senior Independent Director

### 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 2018, 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;
- what Board members would like to focus on more;
- Board behaviours and protocols;
- the Board and Committees performance;
- recommendations arising from comparison with other Boards; and
- feedback on individuals' performance.

The output was reviewed initially by the Chairman and then by the full Board at the January 2018 Board meeting.

In addition, the recommendations from the 2018 evaluation and the follow up of actions from the 2017 evaluation as outlined below were considered in more detail at the March 2018 Nomination Committee meeting which was attended by all of the directors.

The directors were unanimous in their view that the Board and the Committees were operating effectively and that the Board had the appropriate range of skills and experience. The quality of the Board discussions was good with a high level of trust and transparency. The Executive Directors were seen as being open and engaged, while the non-Executive Directors brought a range of skills and experience, and ensured constructive debate.

Charles Philipps
Senior Independent Director
23 May 2018

| 2017/18 actions | Progress | 2018/19 actions |
|---|---|---|
| Creation of a skill matrix for the Non-Executive Directors. | The Board's skills are summarised on page 65. | Succession planning for the Chairman. |
| Continued focus on Board diversity. | Alison Rose appointed, providing greater gender diversity at the Board level and current strong operational skills and experience. | Group wide articulation of GPE values. |
| One-to-ones between the Chairman and the Non-Executive Directors to help guide them on how their contribution could be more effective. | One-to-ones held by the Chairman with the Non-Executive Directors following the Board evaluation process to provide specific feedback. Formal half-year meetings arranged around the November Board meeting. | More Board debate on:<br>– the changing way buildings are being used; and<br>– possible different remuneration structures. |
| Timely reviews provided to the Board of lessons learned. | The Final Appraisal was considered on 30 Broadwick Street, W1.<br>Regular health and safety updates provided.<br>Results considered of both employee engagement and occupier satisfaction surveys. | Board papers to be simplified and duplication to be removed between Executive Committee member reports. |
| Development of an overall Code of conduct for employees. | To be completed in 2018/19 incorporating GPE values. | Continued provision of updates between Board meetings from the Executive Directors. |

## What we did in 2017/18

# 2017

### April

**Board meeting**

The Board and Committee memberships are approved

Elizabeth Holden announces her intention to step down from the Board at the 2017 AGM

Charles Philipps' permanent appointment as Senior Independent Director is approved

### September

**Nomination Committee**

The Committee receive an update from Sally Learoyd, Head of HR on senior management capacity and skills, property team restructuring, resourcing, talent development and a summary of the results of the 2017 Employee Engagement Survey

The Committee agree the experience and expertise sought of the new Non-Executive Director and agree the shortlist

### November

**Board meeting**

Martin Scicluna provides the Board with an update on progress of the interviews for the new Non-Executive Director

### December

**Board meeting**

The Board approve the revised shortlist of candidates for the new Non-Executive Director

# 2018

### January

**Nomination Committee**

Martin Scicluna provides the Committee with an update on progress of the interviews for the new Non-Executive Director

The Committee receive an update from Sally Learoyd, Head of HR, on the property team restructuring, Senior Management promotions and talent development initiatives

The Committee consider the personal development plans of the Non-Board members of the Executive Committee and the Company Secretary

**Board meeting**

The Board considers the 2017/18 Board evaluation

### March

**Nomination Committee**

The Committee discuss the Board evaluation recommendations from 2017/18 and follow up on recommendations from 2016/17

The Committee review the Committee memberships and training undertaken by the Board during the year and propose that Charles Philipps lead the Committee in considering any succession planning for the Chairman role

The Committee agree that Alison Rose be recommended to the Board for appointment and to serve on all three Board Committees

### April

**Board meeting**

Board approval is received for the appointment of Alison Rose

The Board and Committee memberships are approved

### May

**Nomination Committee**

The Committee consider the personal development plans of the Executive Directors

# Accountability

Together, the Audit Committee and the Board are responsible for ensuring the Group has an effective internal control and risk management system and that the Annual Report provides a fair reflection of the Group's activities during the year.

## 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, at least annually, reviewing its effectiveness.

Such a system can only provide reasonable, and not absolute, assurance against material misstatement 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 our system of internal control include:

– a comprehensive system of financial reporting and business planning;
– a defined schedule of matters for decision by the Board, revisited by the Board at least annually;
– 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 including forecasts of the Group's future performance and progress on the Group's development projects at each scheduled Board meeting;
– formal sign-off on the Group's Ethics and Whistleblowing policies by all employees annually; and
– review by the Audit Committee of Internal Audit's reports

Twice a year, the Audit Committee carries out a review of the framework of the Group's risks and how they are managed through operational management procedures/authorisations, ongoing review by the Executive Committee, and ongoing Board review and oversight of key controls. The Group's system of internal controls involves the identification of property and financial market risks which may impact on the Group's objectives, together with the controls and reporting procedures designed to minimise those risks.

The risks and associated controls including business risks, financial controls, social, ethical and environmental issues and policy, and changes in the regulatory environment are reviewed, formalised and, if appropriate, updated throughout the year. As part of its review, the Audit Committee formally considers the scope and effectiveness of the Group's system of internal control. A review is also carried out as to how the controls and reporting procedures have operated during the year. Once complete, the Audit Committee's review of the Group's risks and internal controls is considered by the full Board. Key risks to the business, how they have changed during the year and the processes in place to manage those risks are described in more detail on pages 72 to 81.

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

The Directors' statement on 'fair, balanced and understandable' is made on page 140. When considering whether the 2018 Annual Report and financial statements are fair, balanced and understandable, and provide information necessary for shareholders to assess the Group'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 document as a whole;
– 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 external auditor 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 (including successes and challenges over the year and looking ahead) 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.

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 auditor.

## Audit Committee and advisors

### Audit Committee members and attendance by others

| Chairman | 4 meetings | |
|---|---|---|
| Nick Hampton | ● ● ● ● | |
| **Members** | | |
| Wendy Becker | ● ● ● ● | |
| Elizabeth Holden[1] | ● | (1/1) |
| Richard Mully[2] | ●   ● | |
| Charles Philipps | ● ● ● ● | |
| Jonathan Short | ● ● ● ● | |
| **In attendance** | | |
| Martin Scicluna | ●   ● | (2/2) |
| Toby Courtauld | ○ | |
| Nick Sanderson | ○ ● ○ ● | |

● Meetings attended ○ Part attendance at meetings

1. Retired at the 2017 AGM.
2. Whilst unable to attend two meetings due to prior commitments, Richard Mully provided his thoughts to the Chair in advance of the meeting.

## Our approach

The key objectives for the Audit Committee are to review and report to the Board and shareholders on the Group's financial reporting, internal control and risk management systems, and the independence and effectiveness of the auditor.

## Our process

The Audit Committee Terms of Reference are available on the Company website at: **www.gpe.co.uk/about-us/governance**

The Board believes that it is useful to have all of the independent Non-Executive Directors serve on the Audit Committee as it provides a forum to discuss and challenge the Group's portfolio valuation with the external auditor which is a fundamental aspect of the business.

At the beginning of the year, the Committee comprised of independent directors Nick Hampton as Chairman, Wendy Becker, Richard Mully, Charles Philipps, Jonathan Short and Elizabeth Holden. Elizabeth Holden retired from the Board at the July 2017 AGM and Alison Rose will become a member of the Committee on 1 September 2018. The biographies of the Non-Executive Directors are on pages 64 and 65 with Charles Philipps and Nick Hampton, in particular, having recent and relevant financial experience, which, combined with Richard Mully and Jonathan Short's extensive property experience, ensures the Committee, as a whole, has competence relevant to the real estate sector.

The Audit Committee provides a forum for review of the Group's financial external reporting, including its accounting policies. In respect of the Group's half-year and year-end results, this will include discussions with the Group's external valuers, CBRE, on the valuation process and conditions in London's real estate markets and auditor, Deloitte LLP (Deloitte) on any accounting or audit matters. The Audit Committee also reviews the adequacy and effectiveness of the Group's internal financial controls, internal control and risk management systems and internal audit function, and is responsible for the selection and review of the effectiveness of the internal and external auditors. Audit Committee meetings are also attended by certain Executive Directors and senior managers, by invitation. Martin Scicluna, as Chairman, also attends the Committee meetings reviewing the half-year and year-end results. By invitation, in addition to the meetings to consider the half-year and year-end results, Nick Sanderson as Finance Director attends the half-year and year-end planning meetings.

In May 2017, Toby Courtauld together with Nick Sanderson also attended the year-end Audit Committee meeting with the valuers and external auditor to provide his view on the valuation and financial results.

The Committee meets four times a year, with the meetings aligned with our financial reporting timetable.

The effectiveness of the performance of the Committee is considered as part of the Board evaluation process.

# Accountability (continued)

"This year, in addition to our oversight of the financial reporting process, we appointed an internal audit function to aid us in the monitoring of the effectiveness of internal controls and risk management."

Nick Hampton
Chairman of the Audit Committee

## Dear fellow shareholder

On behalf of the Audit Committee, I am pleased to present my report as Chairman of the Committee for the year ended 31 March 2018.

As outlined on page 99, the Committee meets four times a year to:

- plan the external audit;
- agree the internal audit plan;
- identify key accounting and areas of judgement as early as possible;
- review reports from the external and internal auditors and valuers;
- consider how risks and internal controls have been managed in the preceding six months in respect of the half-year and year-end results;
- monitor the integrity of the Group's financial reporting and consider any significant judgements by management; and
- review the independence and effectiveness of the external and internal auditors.

## Valuation of the portfolio, accounting considerations and key areas of judgement

The most significant financial judgement was again GPE's property valuation as it is central to the Group's performance and net asset value, and is inherently subjective. A key responsibility of the Committee is to satisfy ourselves that the valuation process in relation to the Group's property portfolio has been carried out appropriately. Following the comprehensive process as outlined in more detail on page 102, as a Committee we are satisfied that the valuation process is sufficiently robust.

During the year, the Audit Committee also considered a number of items that could have an impact on the Group's financial statements, including:

- a review of IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers to understand how these new accounting standards will affect the Group's 31 March 2019 financial statements. The Audit Committee concluded the impact of the new statements would be immaterial and reviewed the disclosure required for the 31 March 2018 accounts;
- a review of the accounting for the Group's liability management activities, including the early redemption of the Group's debenture and private placement notes;
- a review of the accounting for the Group's special dividend and capital return via a B share scheme, including the associated share consolidations;
- current year and forecast compliance with the REIT tests; and
- the Financial Reporting Council (FRC)'s letter on its review of the 2017 financial statements and the results of its Audit Quality Review Team (AQRT) review.

## Accounting and key areas of judgement

| Significant matter | Action taken |
|---|---|
| **Valuation of the Group's portfolio**<br>The valuation of the Group's property portfolio is a key determinant of the Group's net asset value as well as indirectly impacting executive and employee remuneration. The valuation is conducted externally by independent valuers, however, the nature of the valuation estimates is inherently subjective due to the assumptions made on market comparable yields, estimated rental values, void periods and costs to complete. | The Audit Committee, together with Martin Scicluna, meet with the valuers along with the external auditor in November and May to discuss the valuation included within the half-year and year-end financial statements. This review includes the valuation process undertaken, changes in market conditions, 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 Committee asks the valuers to highlight significant judgements or disagreements with management during the valuation process. There were none. With the continued uncertainty in relation to the UK's exit from the European Union, the Committee also considered the extent to which this was impacting the property investment and occupational market in relation to both liquidity and activity.<br>The external auditor, Deloitte, using its real estate experts separately meet the valuers and provide the Audit Committee with a summary of their work as part of their report on the half-year and year-end results.<br>As a result of these reviews, the Committee concluded that the valuation had been carried out appropriately and independently and was suitable for inclusion in the Group's accounts. |

## Financial Reporting Council (FRC) review

During the year, the Group received a letter from the Financial Reporting Council concerning its review of the Group's Annual Report and Accounts for the year ended 31 March 2017. As a result of the review, the cash flow statement for the year ended 31 March 2017 has been re-presented to classify funds to joint ventures of £33.6 million as investing rather than financing activities. There is no impact on the income statement or net assets as a result of this re-presentation. In addition, we have provided additional disclosure with regard to the early redemption of the Group's 2019 and 2022 private placement notes, see note 16.

The FRC review was based on the Annual Report and Accounts and did not benefit from detailed knowledge of the business or an understanding of the underlying transactions entered into. It was, however, conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework.

## Fair, balanced and understandable

Whether the 2018 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 98.

## Viability statement

The Committee reviewed management's work on assessing the potential risks to the business and the appropriateness of the Company's choice of a three-year assessment period. Following this review, the Committee was satisfied that management has conducted a robust assessment and recommended to the Board that it could approve and make the viability statement on page 71.

## Internal controls and risk management

The Audit Committee's role in supporting the Board's oversight and review of the Group's principal risks, internal controls and risk management processes is covered on pages 68, 69 and 98.

## Tax Strategy

In May 2017, the Committee also reviewed the Group's tax strategy for disclosure on the website at **www.gpe.co.uk/about-us/governance/** which was then approved by the Board.

## Our anti-bribery and corruption and Whistleblowing policies

Each year as part of the year-end planning meeting, the Committee considers the Group's Ethics and Whistleblowing policies, both of which address the Company's policies on bribery. The Board has a zero tolerance for bribery and corruption of any sort.

Annually, all employees are required to confirm their compliance with the Group's anti-bribery and corruption policies as outlined on page 89 and any non-compliance is escalated to the Committee as appropriate. No matters were escalated to the Committee in the year.

Any matters reported under the whistleblowing policy are investigated by the Company Secretary or Senior Independent Director. During the year, there were no whistleblowing incidents reported.

In November 2017, our Director of Corporate Finance also reported to the Committee on the Group's approach to the Criminal Finances Act 2017.

## Internal audit

I reported last year that we had appointed Jill Emney, PwC's Risk Assurance partner, as Head of Internal Audit. An Internal Audit Charter governs its remit and provides the framework of the conduct of the Internal Audit function. In order to determine our inaugural internal audit programme for 2017/18, PwC reviewed GPE's risk management framework and concluded that, in its first year, the Internal Audit team should review the Group's financial controls, GPE's procurement processes and general IT controls, including follow up of actions identified in Deloitte's 2017 IT management letter. Internal Audit's overall report findings on these three areas, presented to the Committee at the February 2018 meeting, were rated 'low risk'. Feedback from those GPE employees involved in the Internal Audit process was that the process worked well. The Committee believes that the process for determining the internal audit programme is appropriate and effective with scope for the Committee to react to events, new information and situations which come to light during the year and include them as necessary.

# Accountability (continued)

## AQRT review

During the year, an FRC Audit Quality Review Team (AQRT) reviewed Deloitte's audit of GPE's financial statements for the year ended 31 March 2017. On completion of the review, I received a copy of the AQRT's report and a summary of the findings, together with the letter from the FRC, were discussed at the February 2018 planning meeting.

## Auditor reappointment

Following a tender process, Deloitte 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 Richard Muschamp took responsibility as lead audit partner for the audit in June 2013. In light of the need for audit partner rotation for the financial year ending 31 March 2019, during 2017 we approved the appointment of Judith Tacon as the new audit partner, who has significant experience in public company real estate. As part of Judith's induction, she attended the planning, half-year and year-end results Audit Committee meetings.

Based on the Committee's recommendation, the Board is proposing that Deloitte be reappointed at this year's AGM.

## Committee effectiveness

I believe that the quality of discussion and level of challenge by the Committee with management, the internal and external audit teams and the valuer, together with the timeliness and quality of papers received by the Committee, ensures the Committee is able to perform its role effectively. However, the formal review of the Committee's effectiveness is covered under the Board evaluation process and I am pleased that the review confirmed that the Committee is working well.

Nick Hampton
Chairman of the Audit Committee
23 May 2018

## The external audit and review of its effectiveness

The Audit Committee advises the Board on the appointment of the external auditor, their remuneration for audit and non-audit work, and their effectiveness, independence and objectivity and discusses the nature, scope and results of the audit with the external auditor. As part of the review of the effectiveness of the external audit, a formal evaluation incorporating views from the Audit Committee and relevant members of management is considered by the Committee. Feedback from the review undertaken in September 2017 was provided to Deloitte as part of the annual planning meeting.

Areas covered by the review included:

- the calibre of the external audit firm, Deloitte – including reputation, coverage and industry presence;
- quality controls – including review processes, partner oversight, reports on Deloitte generally from the Audit Quality Review Team (AQRT) 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.

Overall, the Committee agreed that the audit process had been effective and efficient.

The Committee also considered the effectiveness of the Group's management during the external audit process in respect of the timely identification and resolution of areas of accounting judgement, with input from the auditor and the Audit Committee as appropriate, as well as the timely provision of the draft results to Deloitte and the Committee for review. In addition, feedback was sought from the auditor on the conduct of members of the finance team during the audit process which confirmed that there had been a good level of communication and interaction between the teams.

As part of the consideration of audit quality for the audit for the year ended 31 March 2018, the importance of staff continuity within the Deloitte GPE audit team and, looking forwards, an effective hand over process to the new Audit Partner for the 2019 audit was highlighted by both management and the Committee.

Under the Company's interpretation of the transitional arrangements for mandatory audit rotation, the Company will be required to change auditor for the financial year ended 31 March 2024 and plans to complete a competitive tender process by this time. Notwithstanding these requirements and current plans, the Committee considers the need to tender the audit annually depending on the auditor's performance, taking into account the best interests of shareholders.

Having undertaken its review for this year, in the opinion of the Audit Committee, the relationship with the external auditor is effective and the Committee remains satisfied with their independence and effectiveness. The Committee has, therefore, recommended to the Board that Deloitte be reappointed as auditor at the 2018 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 2018, 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.

# Accountability (continued)

## Non-audit services

The auditor is 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 auditor under the Group's policy for provision of non-audit services by the external auditor (available from the Company's website at **www.gpe.co.uk/investors/governance**).

As the purpose of this policy 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 auditor over 50% of that year's audit fees. The appointment of Deloitte to undertake any non-audit services also requires the prior approval of the Finance Director and, importantly, he is required to consider whether Deloitte are the most suitable supplier.

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

- reporting on the income cover in connection with the debenture trust deed compliance certificate; and
- assurance on achievement against 2017/18 sustainability objectives and targets and energy consumption data.

Payments made by the Group for audit and non-audit fees for the year are disclosed on page 151. The Group's audit fees are presented to, discussed and approved by the Audit Committee at the March planning meeting. In addition, audit and non-audit fees paid to Deloitte in respect of joint ventures totalled £28,000 (GPE share) (2017: £28,000) and £nil (2017: £nil) respectively. The non-audit fees for the year ended 31 March 2018 as a percentage of the three-year average audit fee as set out below is 32.1%.

## Auditor and non-audit fees

| | **2018 £000s** | 2017 £000s | 2016 £000s |
|---|---|---|---|
| Audit fees | **222** | 204 | 210 |
| Non-audit fees including the interim review | **68** | 83 | 72 |
| Ratio of non-audit fees to audit fees | **32%** | 41% | 34% |
| Audit fees of joint ventures (our share) | **28** | 28 | 28 |

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

## Internal audit

An Internal Audit Charter approved by the Board governs the Internal Audit remit and provides the framework for the conduct of the Internal Audit function. During the year, Internal audit undertook reviews of the Group's financial controls, GPE's procurement controls and general IT controls including follow up of actions identified in Deloitte's 2017 IT management letter.

The Committee reviews and approves the internal audit plan annually for a rolling three-year period which is closely aligned to the management and the Committee's review of the Group's risk management framework. The Committee Chairman also meets with the Head of Internal Audit separately to the Committee to discuss planned activities and the results of its reviews.

As PwC is engaged by the Group to provide tax compliance advice and other advisory services, before PwC is appointed to any advisory role, consideration is given as to any potential conflict with Internal Audit. The Audit Committee also specifically considers their independence in reviewing and approving the Internal Audit plan annually to ensure that there are no conflicts in PwC undertaking the internal audit work proposed.

# What we did in relation to the financial year end 31 March 2018

## 2017

### September

**Internal audit**

– Met with Jill Emney, Head of Internal Audit to review PwC's internal audit report on GPE's financial controls

**Annual planning meeting**

Met with the external auditor (Deloitte) to review:
– Deloitte's 2017 sustainability management letter
– the effectiveness and independence of the auditor – see pages 103 and 104
– significant accounting and key areas of judgement – see page 100
– Deloitte's 2018 Audit Plan

### November

Review of Deloitte's 2017 IT management letter

**Review of half-year results**

Met with CBRE to consider the September 2017 valuation

Met with Deloitte to review:
– their review of the September 2017 valuation and the half-year results announcement
– significant accounting and key areas of judgement including going concern – see page 100
– Group tax matters with the Head of Corporate Finance
– the principal risks, monitoring of internal controls and risk management processes
– the half-year results announcement

## 2018

### March

**Internal audit**

Met with Jill Emney, Head of Internal Audit to review PwC's internal audit report on GPE's:
– procurement process;
– IT general controls including progress against agreed management actions from Deloitte's IT management letter; and
– the 2018/19 internal audit plan was agreed

**Year-end planning update**

Met with Deloitte, to consider/approve:
– significant accounting and key areas of judgement – see page 100
– the accounting for the Group's early redemption of the debenture
– the accounting for the capital return via B share scheme and associated share consolidation
– the results of the AQRT review of Deloitte's audit of GPE's 2017 financial statements
– the letter from the FRC
– the 2017/18 Audit Plan update
– the 2018 audit fee – see page 104
– new accounting standards coming into force over the next few years including IFRS 9 and IFRS 15

**Other matters**

Received a corporate governance update from Deloitte

Review of GPE's Ethics policy and Whistleblowing policy – see page 101

Review of actions undertaken in relation to GDPR

### May

**Review of year-end results**

Met with CBRE to consider the March 2018 valuation – see pages 56 and 57

Met with Deloitte to review:
– Deloitte's review of the March 2018 valuation – see pages 56 and 57
– significant accounting and key areas of judgement including going concern – see page 100
– the FRC's review of our 2017 financial statements
– Group tax matters with the Head of Corporate Finance
– the principal risks, monitoring of internal controls and risk management processes – see pages 70 to 81
– the Annual Report/results announcement
– the Committee's effectiveness
– relationship between the auditor and GPE management with feedback provided by Deloitte without management present
– audit retendering and reappointment of the auditor – see pages 102 and 103

# Relations with shareholders

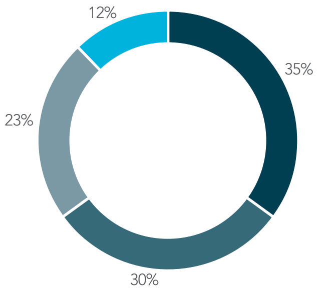
"Our active engagement with shareholders continued during the year and the feedback we have received has been very positive, including winning 'Best Investor Relations Programme' by a European property company."

**Stephen Burrows**
Director 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.

**Institutional shareholders by geography** at 31 March 2018

- North America and Canada
- United Kingdom
- Rest of Europe
- Rest of World




▶ **For our top shareholders** see page 136

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.

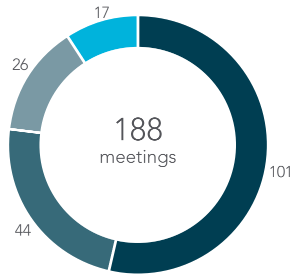
The Executive Directors and the Director of Financial Reporting & Investor Relations are the Company's principal representatives with investors, analysts, fund managers, press and other interested parties, and independent feedback on presentations by the Executive Directors to shareholders and analysts is provided to the Non-Executive Directors on a regular basis. During the year, we consulted with our top shareholders on our proposals in relation to our new three-year remuneration policy and retaining Jonathan Short on the Board for a further year with a view to his retiring at the 2018 AGM.

In total, the directors and senior management had 188 formal meetings with shareholders and potential shareholders from more than 200 institutions during the year. This included participating in nine industry conferences, which provide the management team the ability to meet a large number of investors on a formal and informal basis, and seven roadshows to meet with investors in London, the US, the Netherlands and Asia.

We were pleased to be recognised in Institutional Investor's 'All Europe Executive Team 2018', being voted #1 Investor Relations Programme in the European property sector, and receiving top three individual rankings for our Chief Executive, Finance Director and Director of Financial Reporting and Investor Relations. We have also been shortlisted for IR Magazine's Award for 'Best Overall Investors Relations' (mid-cap).

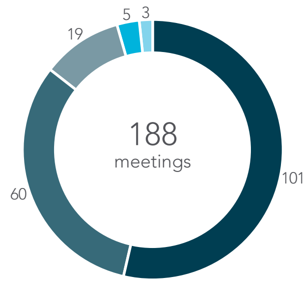
**Investor contact by location**

- United Kingdom
- United States and North America
- Rest of Europe
- Rest of World




**Investor contact by method**

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




During the year ended 31 March 2018, our Head of Sustainability and Director of Financial Reporting and Investor Relations offered to meet with a number of our largest investors to understand their perception of our sustainability strategy. This process will continue into the forthcoming year, as we seek feedback on our new strategy 'Creating Sustainable Spaces'. In addition to this engagement, we believe that it is essential that we provide transparent reporting and, therefore, participate in a number of sustainability indices including:

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 Charles Phillips 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 5 July 2018 can be found in the Notice of Meeting on pages 188 and 189. 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/agmgm**

## Investor and analyst event

In March 2018, we hosted an investor and analyst event at Oxford House, W1 and the newly completed 55 Wells Street, W1. We had eleven presentations from the GPE team to provide a deeper dive into their respective areas of the business. We were also joined by Toby Ogden from Cushman & Wakefield, who provided some insight into occupiers' decision making processes when selecting new offices, and Simon Allford from Allford Hall Monaghan Morris, who gave an update on changing building design.

Around 80 attendees braved the 'Beast from the East' and feedback from the event has been very positive.

James Burrage, Development Manager presenting at the investor and analyst event.

## What we did in 2017/18

### 2017

**May**
- Investor roadshow: London
- Equity sales force meetings × 1

**June**
- Investor roadshows: Amsterdam/US
- EPRA Event: EPRA Event Dublin
- Conferences: Kempen (Amsterdam), Morgan Stanley (London)

**July**
- Annual General Meeting

**September**
- Conferences: BAML (New York), EPRA (London)
- Soc Gen (London)

**November**
- Investor roadshow: London
- Equity sales force meetings × 4

**December**
- Investor roadshow: US
- Conferences: UBS (London), HSBC (Cape Town)
- Equity sales force meetings × 1

### 2018

**January**
- Conference: JP Morgan Cazenove (London)
- Investor roadshow: Amsterdam
- Equity sales force meetings × 1

**February**
- Investor roadshow: Tokyo/Hong Kong

**March**
- Conferences: Citi (US), BAML (London)
- Equity sales force meetings × 1
- Analyst & Investor Event

Governance

# Directors' remuneration report

## Remuneration Committee

### Remuneration Committee members and attendance by others

| | 5 meetings | | | | | |
|---|---|---|---|---|---|---|
| **Chairman** | | | | | | |
| Wendy Becker[1] | | | | ● | ● | |
| Jonathan Short[1] | ● | ● | ● | | | |
| **Members** | | | | | | |
| Wendy Becker[1] | ● | ● | ● | | | |
| Nick Hampton | ● | ● | ● | ● | ● | |
| Elizabeth Holden[2] | ● | | | | | (1/1) |
| Richard Mully[3] | ● | ● | ● | | ● | |
| Jonathan Short[1] | | | | ● | ● | |
| **In attendance** | | | | | | |
| Martin Scicluna | ● | | | ● | ● | |
| Toby Courtauld | ● | ● | | ● | ● | |

● Meetings attended

1. Jonathan Short served as Chair until the 2017 AGM when Wendy Becker succeeded him.
2. Retired at the 2017 AGM.
3. Whilst unable to attend one meeting due to prior commitments, Richard Mully provided his thoughts to the Chair in advance of the meeting.

## Our approach

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 26 and 27, we currently measure our absolute and relative performance using a small number of key performance indicators:

– Relative Total Property Return (TPR) demonstrating our portfolio's performance;

– Relative Total Shareholder Return (TSR) reflecting relative shareholder value; and

– Total Accounting Return (TAR) showing our absolute performance.

Over the medium term, we aim to outperform our benchmarks.

The Group's annual bonus plan for the Executive Directors and employees uses financial targets based on TAR and the capital growth element of TPR, together with a review of the attainment of personal objectives to achieve operational excellence. The 2010 Long-Term Incentive Plan (the '2010 Plan') uses all of our key performance indicators equally to measure the Group's performance being TPR (one-third), TSR (one-third) and TAR (one-third). For the 2015 and 2016 LTIP Awards, EPRA NAV growth measure was used rather than TAR (which was introduced last year). Under the 2010 Plan, the level of reward to Executive Directors and senior management depends on the performance of the Group over a three-year period.

## 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 appropriately competitive without being excessive.

To achieve the aims of the Company's remuneration policy, the Committee generally seeks to position fixed remuneration, including benefits and pension, around mid-market. 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.

## Remuneration of employees

As well as being responsible for determining the remuneration of the Executive Directors, the Committee is also responsible for the oversight of the remuneration of the members of the Executive Committee and Company Secretary and reviews the broad operation of remuneration policy for all employees.

## Our process

The Remuneration Committee's Terms of Reference are available from the Company website at: **www.gpe.co.uk/about-us/governance**

At the beginning of the year, the Remuneration Committee comprised five independent Non-Executive Directors, Wendy Becker, Nick Hampton, Elizabeth Holden (until she retired at the 2017 AGM), Richard Mully and Jonathan Short. In light of Jonathan Short's intended retirement at the 2018 AGM, Wendy Becker became Chairman of the Remuneration Committee at the 2017 AGM. Nick Hampton stepped down from the Committee on 1 May 2018. Charles Philipps became a member of the Committee on 1 May 2018. Alison Rose will become a member of the Committee on 1 September 2018.

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.

At the request of the Remuneration Committee, Toby Courtauld, the Chief Executive, attended the Committee meetings and provided input with regard to the achievement of personal objectives for the Finance Director and other Senior Executives. He also attends discussions on remuneration including on new appointments and promotions as considered appropriate by the Committee.

No director or employee is involved in discussions on their own pay.

"Our remuneration policy aligns management incentives with our strategy and focused business model."

**Wendy Becker**
Chairman of the Remuneration Committee

## Dear fellow shareholder

On behalf of the Remuneration Committee, I am pleased to present the Directors' remuneration report for the year ended 31 March 2018, my first since becoming Chair of the Remuneration Committee. As reported last year, following a comprehensive review of executive remuneration, we consulted on our proposed changes to our remuneration policy with institutional shareholders holding in excess of 40% of the Company's share capital, along with investment advisory bodies in both the UK and US. I am pleased to report that at the 2017 AGM our Remuneration Policy was approved with over 97% of votes in favour.

## Remuneration in respect of the year ended 31 March 2018

In the year ended March 2018, we have continued to deliver on our long-term strategy and focused business model of repositioning buildings to unlock their potential and effective reading of the property cycle. This has resulted in another year of strong operational performance with good leasing momentum and significant pre-lets achieved at 160 Old Street and Hanover Square. In addition, we continued to profitably recycle capital through selling properties including 240 Blackfriars Road and 30 Broadwick Street.

As a result of the significant value created in the year, and the maintenance of a disciplined approach to capital allocation, we also returned £416 million of capital to shareholders whilst also growing the ordinary dividends. With a low loan to value and significant liquidity, our balance sheet provides us with robust financial strength.

In relation to our development pipeline, with continued good occupier demand for high quality space in the London market, we have also committed to three new developments. Internally we have also been active in further enhancing the strength of our team and with our strong culture and reputation, we are well positioned to take advantage of market investment opportunities across the portfolio and in the market to continue to deliver shareholder value.

With the negative effect on London business confidence following the EU Referendum and the continued geopolitical and market uncertainty, we delivered EPRA NAV per share growth over the three years to 31 March 2018 of 19.2% and, therefore, we expect 29% of the NAV measure to be met for the Group's three-year 2015 LTIP award, due to vest in June 2018. In part due to adverse market sentiment following the EU referendum and the de-rating of the share prices of GPE and other London-focused office property companies relative to the broader FTSE 350 Real Estate sector, based on the latest information available as at 31 March 2018, we do not expect the TSR measure to be met. We also underperformed the TPR benchmark for the three-year period to 31 March 2018, resulting in a nil vesting.

For our 2017/18 Annual Bonus Plan, with EPRA NAV per share growth of 5.8% over the last 12 months and increased ordinary dividends per share, against a broadly flat market backdrop, we are pleased that we have achieved 62% of our TAR target. The Group's portfolio capital growth performance was, however, below that of the relevant IPD central London capital growth index, resulting in zero pay-out for this measure.

In determining the overall Annual Bonus plan, the Committee has also taken into account individual Executive Director performance against their personal objectives set at the beginning of the year. As you will see on pages 116 and 117, the Executive Directors have each performed strongly in the year in delivering against these objectives and this is reflected in the outturn for the personal objective element.

## 2018/19 implementation of our policy

The structure of our remuneration arrangements for 2018/19 will remain unchanged from that applied in 2017/18. As part of our Remuneration Policy approved at the 2017 AGM, under the Annual Bonus Plan we also pre-committed to a TAR range of 4% to 10% for each of the three years.

For the year ending 31 March 2019, the standard base salary increase for employees will be 2.5%. Base salary increases of more than 2.5% were given to some employees due to market alignment and/or a number of increases in individual responsibilities such that the average like-for-like increase will be 5.7% for the year ended 31 March 2019. The Committee propose to increase Toby Courtauld's salary by 2.5% in line with the core award for most employees. For Nick Sanderson, the Committee recognises that his remit has broadened significantly following the departure of Neil Thompson in December 2016, with him taking on a number of wider operational responsibilities including greater day-to-day oversight of human resources, sustainability and health and safety. Therefore, the Committee increased his salary by 6.4% which is broadly consistent with the actual average like-for-like increase for employees.

# Directors’ remuneration report (continued)

## Special Dividend and Return of Capital via a B-share scheme

As reported last year, the effect of the 19 for 20 share consolidation following the Special Dividend in May 2017 undertaken to maintain the Group’s share price and per share financial metrics was broadly to preserve the value of the awards under the LTIP. Therefore, the Remuneration Committee determined that employees who held unvested awards under the LTIP should not receive the Special Dividend. Accordingly, awards held by those employees were not adjusted for the share consolidation. Given the share consolidation, the Remuneration Committee also did not amend the performance conditions for the existing awards.

Similarly, as the effect of the 25 for 29 share consolidation following the return of capital via a B-share scheme in March 2018 was again to broadly preserve the value of the awards under the LTIP, following a review by the Remuneration Committee, the awards held by employees under the LTIP were not adjusted for the share consolidation. Given the share consolidation, the Remuneration Committee also did not amend the performance conditions for the existing awards.

As participants in the SIP are the beneficial owners of a number of existing ordinary shares held on their behalf by the plan trustee, they were entitled to participate in both the Special Dividend and return of capital via a B-share scheme in respect of those shares. Employees’ shareholdings through the SIP were treated in the same manner as those of shareholders on share consolidation and were adjusted to reflect a consolidated holding.

## The year ahead

Despite this not being a year to formally renew our Remuneration Policy, the Remuneration Committee considered whether any changes should be made to reflect changes in best practice since our Remuneration Policy was approved at the 2017 AGM. After due consideration we concluded that no changes were required to our remuneration structure this year.

Our recently concluded annual strategy and portfolio review confirmed the significant potential in our business with a deep pipeline of future opportunities which we are focused on realising. During the year ending 31 March 2019, to ensure that we are able to attract and retain the highest quality team who are incentivised to deliver our strategic aims, together with an appropriate balance between reward, performance and stakeholder interests, we will continue to keep under review changes in market conditions and remuneration regulations, together with the appropriateness of our performance measures.

We note that a revised UK Corporate Governance Code has been proposed and that new legislation may be introduced setting out additional reporting requirements including the disclosure of the ratio of CEO to all employee pay. The Committee monitors such levels and will include appropriate disclosures in subsequent reports once the new requirements are clear and a statutory methodology has been confirmed.

I hope you find this report clear and informative and I look forward to receiving your support for the resolution approving this report at the 2018 AGM.

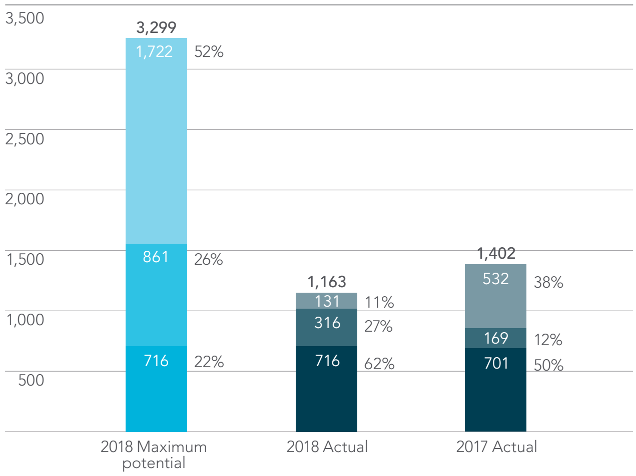
**Wendy Becker**
Chairman of the Remuneration Committee
23 May 2018

## 2017/18 Executive Directors' remuneration – at a glance

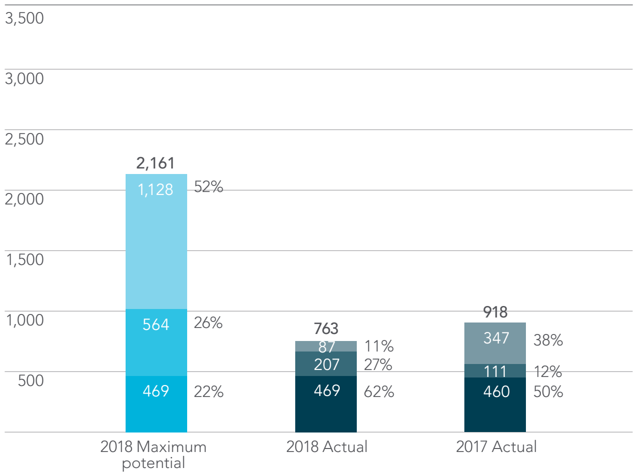
Please find below a summary of our remuneration and performance outcomes for the year ended 31 March 2018.

**Single total remuneration figure** £'000[1]

Toby Courtauld – Chief Executive




Nick Sanderson – Finance Director

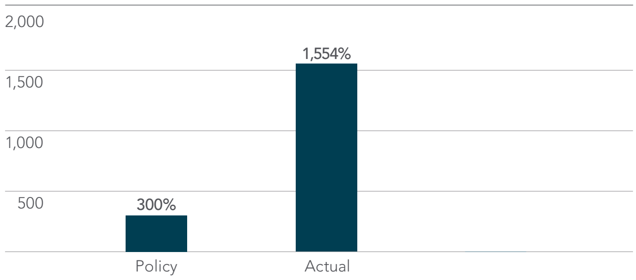



Salary, benefits and pension · Cash bonus
LTIP/SMP, ignoring share price movements and the impact of dividends · LTIP/SMP, dividend on SMP and SIP shares

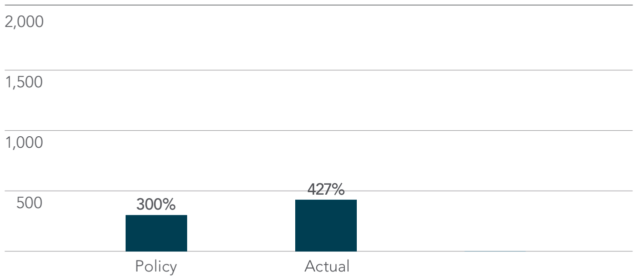
1. These figures contain estimates, see pages 114 and 118.

**Value of shareholding vs. shareholding policy** (% of salary)[1]

Toby Courtauld – Chief Executive




Nick Sanderson – Finance Director




1. Value of shareholding as at 31 March 2018.

## Total remuneration

| Executive Directors | Salary £000 | Benefits £000 | Annual bonus £000 | LTIP/SMP[1] £000 | Pension £000 | SIP £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| Toby Courtauld | 574 | 27 | 316 | 127 | 115 | 4 | 1,163 |
| Nick Sanderson | 376 | 18 | 207 | 83 | 75 | 4 | 763 |
| **Total** | **950** | **45** | **523** | **210** | **190** | **8** | **1,926** |

1. These figures contain estimates. See pages 114 and 118.

▶ **For more details** see pages 114 to 118 of the Annual Report on remuneration

## Annual Bonus Plan

| Bonus Plan Performance measures | Maximum % of salary | Threshold Target | Actual | % of maximum achieved | % of salary achieved |
|---|---|---|---|---|---|
| IPD Capital Growth Index outperformance | 75% | CGI+0% | CGI–2.2% | 0% | 0% |
| TAR | 45% | TAR + 4% | TAR + 7.1% | 62% | 28% |
| Operational excellence | 30% | See page 111 | See pages 112 and 113 | Toby Courtauld – 90%<br>Nick Sanderson – 90% | 27%<br>27% |

▶ **For more details** see pages 115 to 117 of the Annual Report on remuneration

## 2015 LTIP and SMP Awards – vesting in June 2018 (included in the year ended 31 March 2018 single figure)

| LTIP/SMP measure | Target | Actual | % of maximum achieved |
|---|---|---|---|
| TSR to vesting in June 2018 | Median to upper quartile | Estimated as at 31 March 2018 | 0% |
| NAV – three years to 31 March 2018 | RPI plus 3%–9% p.a. | RPI plus 10% p.a. | 29% |
| TPR – three years to 31 March 2018 | Median to upper quartile | 18th percentile | 0% |

▶ **For more details** see page 118 of the Annual Report on remuneration

Governance

# Directors' remuneration report (continued)

## Annual Report on remuneration

## Statement of implementation of remuneration policy for the year ending to 31 March 2019

### Executive Directors

The remuneration policy and its implementation for the forthcoming financial year is summarised below:

### Salary

| | Year ending 31 March 2019 £000 | Year ended 31 March 2018 £000 | % increase |
|---|---|---|---|
| Toby Courtauld | 588 | 574 | 2.5 |
| Nick Sanderson | 400 | 376 | 6.4 |

On 1 April 2018, Toby Courtauld received an increase in salary in line with the base increase provided to employees across the Group. 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 increase for Nick Sanderson reflects that his remit has broadened significantly with him taking on a number of wider operational responsibilities including greater day-to-day oversight of human resources, sustainability and health and safety.

### Benefits and pension

There has been no change in the benefits and pension provison for the Executive Directors:

| | Pension contribution (% of salary) Year ending 31 March 2019 | Pension contribution (% of salary) Year ended 31 March 2018 | Benefits |
|---|---|---|---|
| Toby Courtauld | 20% | 20% | Policy Level |
| Nick Sanderson | 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 2019

The target and maximum bonus potentials will remain unchanged at 75% and 150% of salary respectively for the Executive Directors. The table below sets out the performance measures and their respective weightings for the year ending 31 March 2019:

| 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 2019 with 16.67% of this element payable at Index and 100% at Index + 2.5%. |
| Total Accounting Return[1] | 30% | Growth of EPRA NAV plus dividends paid against target range of 4% (at which point 20% of this element is payable) – 10% (for the year to 31 March 2019). |
| Personal objectives[2] | 20% | The approach to assessing the personal element of the bonus has been modified for 2018/19 to create more thematic objectives which permit a richer discussion of the level of achievement. These focus around a one-third weighting on the Executive Directors' contribution to each of the following categories: strategy, portfolio positioning and team, culture and behaviour. The Committee will assess each element against targets set at the start of the year and the Executive Director's contribution to meeting additional priorities set by the Board during the year. The assessed out-turn and details of their delivery against these objectives will be disclosed in the following report. |

1. Any dividends will be deducted from the base figure from the point of distribution (as it is not realistic to deliver growth after capital has been repaid to shareholders), except where reflected in some other way, such as through a share consolidation.
2. The Committee is of the opinion that, given the commercial sensitivity around GPE's business, disclosing precise individual targets for the Annual Bonus Plan in advance would not be in the best interests of shareholders or the Company. Objectives, performance achieved and awards made will be published at the end of the performance periods so shareholders can fully assess the basis for any payouts.

## LTIP performance measures for the year ending 2019

The maximum potential for the 2018 LTIP is 300%.

The following performance measures apply to awards to be granted in 2018.

### LTIP awards

| Performance measure over three years | % of award | Vesting level | | | Start of measurement period |
|---|---|---|---|---|---|
| | | 20% | Straight-line vesting between these points | 100% | |
| Total Accounting Return | 33% | 4% p.a. | | 10% 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 IPD Total Property Return – central London index | 33% | Index | | Index + 1.5% p.a. | 1 April prior to grant |

Following the vesting of the awards after the three-year performance period, the 2018 Awards will be is subject to a two-year holding period awards, whereby participants will not be permitted to sell any vested shares until the fifth anniversary of grant (save to meet any tax liabilities). The holding period will generally continue to operate post cessation of employment.

## Non-Executive Directors

The following table sets out the fee rates for the Non-Executive Directors, which apply from 1 April 2018. The Chairman's fee and base fees for the Non-Executive Directors have been increased by approximately 2.5% in line with the base increase for employees.

### Non-Executive Directors' annual fees for the year ending 31 March 2019

| | Base fee £ | Senior Independent Director £ | Audit Committee £ | Remuneration Committee £ | Nomination Committee £ | Total fees £ |
|---|---|---|---|---|---|---|
| Martin Scicluna | 246,000 | – | – | – | – | 246,000 |
| Wendy Becker | 52,500 | – | 5,000 | 10,000 | 3,350 | 70,850 |
| Nick Hampton[1] | 52,500 | – | 10,000 | 430 | 3,350 | 66,280 |
| Richard Mully | 52,500 | – | 5,000 | 5,000 | 3,350 | 65,850 |
| Charles Philipps[2] | 52,500 | 5,000 | 5,000 | 4,583 | 3,350 | 70,433 |
| Alison Rose[3] | 52,008 | – | 2,917 | 2,917 | 1,954 | 59,796 |
| Jonathan Short[4] | 13,844 | – | 1,319 | 1,319 | 883 | 17,365 |

1. Nick Hampton will step down from the Remuneration Committee on 1 May 2018.
2. Charles Philipps will join the Remuneration Committee on 1 May 2018.
3. Alison Rose will join the Audit, Remuneration and Nomination Committees on 1 September 2018.
4. Jonathan Short will retire at the 2018 AGM.

Fee levels for the Non-Executive Directors are assessed having regard to individual responsibility and fees paid to Non-Executive Directors in the wider FTSE 250.

# Directors' remuneration report (continued)

## 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 2018.

## Audited

| | Salary/fees | | Benefits | | Annual bonus | | LTIP/SMP | | Pension allowance/ Contribution[4] | | Share Incentive Plan[5] | | Total[6,7] | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2018 £000** | 2017 £000 | **2018 £000** | 2017 £000 | **2018 £000** | 2017 £000 | **2018[1] £000** | 2017[2,3] £000 | **2018 £000** | 2017 £000 | **2018 £000** | 2017 £000 | **2018 £000** | 2017 £000 |
| **Executive** | | | | | | | | | | | | | | |
| Toby Courtauld | **574** | 563 | **27** | 25 | **316** | 169 | **127** | 528 | **115** | 113 | **4** | 4 | **1,163** | 1,402 |
| Nick Sanderson | **376** | 369 | **18** | 17 | **207** | 111 | **83** | 343 | **75** | 74 | **4** | 4 | **763** | 918 |
| **Non-Executive** | | | | | | | | | | | | | | |
| Martin Scicluna | **240** | 235 | **3** | 3 | – | – | – | – | – | – | – | – | **243** | 238 |
| Elizabeth Holden[8] | **17** | 63 | – | – | – | – | – | – | – | – | – | – | **17** | 63 |
| Charles Philipps | **64** | 64 | – | – | – | – | – | – | – | – | – | – | **64** | 64 |
| Jonathan Short | **66** | 68 | – | – | – | – | – | – | – | – | – | – | **66** | 68 |
| Nick Hampton[8] | **69** | 31 | **2** | – | – | – | – | – | – | – | – | – | **71** | 31 |
| Richard Mully[8] | **64** | 21 | **1** | – | – | – | – | – | – | – | – | – | **65** | 21 |
| Wendy Becker[8] | **68** | 10 | – | – | – | – | – | – | – | – | – | – | **68** | 10 |
| **Total** | **1,538** | 1,424 | **51** | 45 | **523** | 280 | **210** | 871 | **190** | 187 | **8** | 8 | **2,520** | 2,815 |

1. This column shows the estimated value of the 2015 LTIP and SMP awards expected to vest in June 2018, based on the latest information available as at 31 March 2018 and calculated at the average share price of £6.53 per share for the three months to 31 March 2018, 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 2014 LTIP and SMP awards that vested in the year ended 31 March 2018, calculated at the mid-market share price on the date of vesting on 15 June 2017, together with the value of dividend equivalents paid in cash in respect of the vested SMP shares held over the three-year period.
3. The numbers disclosed in the 2017 Annual Report were based on an estimated level of TSR performance. For Toby Courtauld and Nick Sanderson the estimated TSR vesting level of their LTIP and SMP awards vesting in June 2017 was 0% and the actual vesting was 0%. The estimated share price for their LTIP award and Toby Courtauld's SMP award vesting in June 2017 was £6.41 per share and the actual share price was £6.24 per share. The estimated share price for Nick Sanderson's SMP award vesting in July 2017 was £6.41 and the actual share price was £6.09.
4. Toby Courtauld and Nick Sanderson receive a pension allowance of 20% of their basic salary.
5. This column shows the value of the matching shares awarded under the Employee Share Incentive Plan and calculated using the share price on the date 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 2018 was £2,302,000 (2017: £2,493,000 inclusive of emoluments paid to Neil Thompson and Jonathan Nicholls).
8. Elizabeth Holden stepped down from the Board on 7 July 2017. Nick Hampton, Richard Mully and Wendy Becker were appointed to the Board on 17 October 2016, 1 December 2016 and 1 February 2017 respectively.

## 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.

## 2018 Bonus outcome

The financial targets for the bonus for the year ended 31 March 2018 and the extent to which they were achieved are as set out in the table below. The Committee did not exercise their discretion in respect of any of the performance measures.

| Maximum percentage of salary | Key elements of strategy | Measured by | Threshold performance target | Maximum performance target (100% payout) | Actual performance achieved | Actual performance level as a percentage of maximum | Bonus receivable (£'000) Toby Courtauld | Bonus receivable (£'000) Nick Sanderson |
|---|---|---|---|---|---|---|---|---|
| 75% | Market competitiveness | Growth of the Company's property portfolio against IPD's relevant Capital Growth Index (for the year to 31 March 2018) – 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[1] | 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 –2.2% | 0% | – | – |
| 45% | Absolute performance | Achievement of TAR targets (for the year to 31 March 2018) – on a straight-line basis | TAR + 4% (at which point 20% is payable) | TAR + 10% | TAR + 7.1% | 62% | 161 | 105 |
| 30% | Operational excellence | Achievement against personal objectives (for the year to 31 March 2018) | Partial achievement of personal objectives | Exceeding personal objectives | See pages 116 and 117 | Toby Courtauld 90%<br>Nick Sanderson 90% | 155 | 102 |
| | | | | | | **Total** | **316** | **207** |

| 1. IPD Capital Growth Index | % payable |
|---|---|
| CGI < 0% | 0% |
| 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 (continued)

The Executive Directors' personal objectives, approved by the Remuneration Committee, are designed to focus on the delivery of the strategic priorities and the successful management of risk for both 2017/18 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 and Nick Sanderson 90% of the full potential bonus for Operational Excellence.

Significant personal objectives for each of the Executive Directors, which have been set out consistent with the new approach for setting objectives, included:

### Toby Courtauld

| | Weighting | Percentage award | Objective | Achievement |
|---|---|---|---|---|
| **Strategy** | **33.3%** | **33.3%** | Creation and implementation of corporate strategy. Consider the balance of income versus capital return in the context of London's Property cycle.<br>Exemplary communication of strategy to all stakeholders and lead GPE's IR programme. | With continuing market uncertainty led debate on a variety of options for GPE's business model from which it was concluded that the Company should remain focused on delivering total return to shareholders through positioning the Group's portfolio, financial structure and human resources to take advantage of the property cycle.<br>Principle strategic objectives implemented particularly in relation to development preparation and asset sales.<br>£416 million returned to shareholders demonstrating continued balance sheet discipline.<br>Voted no. 1 IR programme across European real estate in Institutional Investor awards.<br>Voted no. 1 European CEO for second year running at same awards.<br>Voted no 1 Property company in Britain's Most Admired Companies for second year running and fifth across all sectors. |
| **Portfolio Positioning** | **33.3%** | **33.3%** | Creation and implementation of property strategy and business plan. | Portfolio positioned to take advantage of multiple market outcomes.<br>Successful sales campaign ahead of expectations of 240 Blackfriars Road, SE1, 30 Broadwick Street, W1 and 78/92 Great Portland Street, W1.<br>Multiple leasing successes including pre-lets at 160 Old Street and Hanover Square.<br>Entered new market with acquisition of Whitechapel properties.<br>Planning permission achieved at Oxford House, and pipeline preparation progressed, in particular, Hanover Square.<br>Successful delivery of 30 Broadwick St, 160 Old St and all 142 apartments at Rathbone Place.<br>Strengthened our service delivery to occupiers with the recruitment of a Head of Occupier Services. |
| | | | Lead and progress disruption project. | Working groups created and initiated programme of debate. New role of Director of Workplace and Innovation created, with new workplace options being trialled. |
| **Team, culture and behaviour** | **33.4%** | **23.4%** | Ensure and foster a positive, creative culture built around a strong team ethic. | Supported staff engagement programme. 89% of staff would recommend GPE as a great place to work in our most recent staff survey. Supported extensive talent development programme and mentoring programme created. |

## Nick Sanderson

| | Weighting | Percentage award | Objective | Achievement |
|---|---|---|---|---|
| **Strategy** | **33.3%** | **33.3%** | Assist in setting and delivery of corporate strategy. | Led Board debate on the payment and amount of £416 million capital returns to shareholders. |
| | | | Maintain low cost, flexible and conservative debt structure. | Debt restructuring including early redemption of 5.63% debenture and issue of £100 million 2.8% private placement notes.<br>Execution of £110 million special dividend in May 2017 and £306 million capital return via B share scheme in April 2018. |
| | | | Transparent and proactive communication of strategy to shareholders and other stakeholders. | Voted no.1 IR programme and no.3 CFO in European real estate in Institutional Investor awards.<br>Continued success in sustainability and ESG reporting with GPE no.1 ranked listed UK property company in GRESB. |
| | | | Maintain focus on efficient operations and risk management to support strategy. | Maintained robust tenant credit underwriting to ensure minimal delinquencies with rent collection rates at record levels (>99.0% within 7 working days).<br>Introduction of outsourced internal audit function.<br>Implementation of enhanced cyber risk protection measures, including employee training. |
| **Portfolio Positioning** | **33.3%** | **33.3%** | Driving sustainability initiatives. | Creation of long-term sustainability strategy ("Towards the 2030's").<br>Rollout of worker engagement audits on our constructions sites to assist reduction in Modern Slavery risks. |
| | | | Joint ventures management. | Management of several joint venture relationships and oversight of delivery of business plans, including major pre-lettings and sales in GRP. |
| **Team, culture and behaviour** | **33.4%** | **23.4%** | Continue to develop and motivate finance and other central function teams. | Creation of Financial Analysis & Management Information team.<br>Build out of HR, sustainability and Health & Safety teams, and transition of IT team to new leadership. |
| | | | Wider development of GPE Team. | Taken on responsibility for HR team.<br>Continued focus on talent development, including introduction of mentoring programme.<br>Resilience and wellbeing training provided to all employees, with Employee Assistance Programme relaunched. |

# Directors' remuneration report (continued)

## Anticipated vesting of 2015 LTIP/SMP awards

The tables below set out the alignment of LTIP/SMP awards with Company strategy and the anticipated vesting for those awards in June 2018, together with indicative payouts for the Executive Directors. The anticipated value of these awards at vesting reflects the disclosure in the single figure table on page 114.

## Long-Term Incentive Plans

Anticipated vesting of LTIP and SMP awards granted in the year ended 31 March 2016 – vesting in the year ending 31 March 2019 included in the 2018 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 2018 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 | 22nd percentile | June 2018 0% |
| | SMP | 33.33% | | | | 22nd percentile | June 2018 0% |
| 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 10% | June 2018 29% |
| | SMP | 33.33% | | | | | |
| Portfolio performance | LTIP | 66.66% | Total property return (based on a three-year performance period) | Median | Upper quartile | 18th percentile | June 2018 0% |
| | SMP | 33.33% | | | | | |

1. Toby Courtauld and Nick Sanderson's 2015 LTIP and SMP awards are due to vest on 15 June 2018. For the NAV and TPR targets, the performance period for the 2015 awards is the three-year period to 31 March 2018. For the TSR element, the vesting period is the three years from the award date.

## Values of LTIP and SMP awards included in the 2018 single figure

| Variable component | Maximum percentage of salary | Category | Toby Courtauld | | | Nick Sanderson | | |
|---|---|---|---|---|---|---|---|---|
| | | | 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[1] |
| LTIP 2015 | 66.66% | Shareholder value | 44,517 | – | – | 29,161 | – | – |
| SMP 2015 | 33.33% | | 22,258 | – | – | 14,580 | – | – |
| LTIP 2015 | 66.66% | Absolute performance | 44,517 | 12,754 | 83 | 29,161 | 8,355 | 55 |
| SMP 2015 | 33.33% | | 22,258 | 6,377 | 44 | 14,580 | 4,177 | 28 |
| LTIP 2015 | 66.66% | Market competitiveness | 44,516 | – | – | 29,161 | – | – |
| SMP 2015 | 33.33% | | 22,258 | – | – | 14,580 | – | – |
| Total LTIP 2015 | 200% | | 133,550 | 12,754 | 83 | 87,483 | 8,355 | 55 |
| Total SMP 2015 | 100% | | 66,774 | 6,377 | 44 | 43,740 | 4,177 | 28 |
| **Total LTIP/SMP 2015** | **300%** | | **200,324** | **19,131** | **127** | **131,223** | **12,532** | **83** |

1. Toby Courtauld and Nick Sanderson's 2015 LTIP and SMP awards expected to vest in June 2018. For the NAV and TPR targets, the performance period for the 2015 awards is the three-year period to 31 March 2018. For the TSR element, the vesting period is the three years from the award date. The estimated value of the 2015 LTIP and SMP share awards are based on the latest information available on TSR, NAV and TPR as at 31 March 2018 and calculated at the average share price of £6.53 per share for the three months to 31 March 2018, 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 LTIP and SMP awards granted in year ended 31 March 2015 – vested in the year ended 31 March 2018 included in the 2017 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 2017 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 2017 32nd percentile | June 2017 0% |
| | SMP | 33.33% | | | | | |
| | SMP | 33.33% | | | | July 2017 25th percentile | July 2017 0% |
| 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 10% p.a. | June 2017 100% |
| | SMP | 33.33% | | | | | |
| Portfolio performance | LTIP | 66.66% | Total property return (based on a three-year performance period) | Median | 75th percentile | June 2017 24th percentile | 0% |
| | SMP | 33.33% | | | | | |

1. The numbers disclosed in the 2017 Annual Report were based on an estimated level of TSR performance. For Toby Courtauld and Nick Sanderson the estimated TSR vesting level of their LTIP and SMP awards vesting in June 2017 was 0% and the actual vesting was 0%. The estimated share price for their LTIP and Toby Courtauld's SMP awards vesting in June 2017 was £6.41 per share and the actual share price was £6.24 per share. The estimated share price for Nick Sanderson's SMP vesting in July 2017 was £6.41 and the actual share price was £6.09.

The value of actual LTIP and SMP awards vesting versus estimated numbers included in the 2017 Annual Report are as follows:

| | 2017 Actual £000s | 2017 Estimated £000s |
|---|---|---|
| Toby Courtauld | 528 | 542 |
| Nick Sanderson | 343 | 355 |

The aggregate gain to all directors from share awards that vested during the year to 31 March 2018 was £871,812.

## Other unvested 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 115.

| 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 | 15 June 2016 | 200% of salary | 1,126 | 151,248 | 20% | 20 June 2019 | Total Shareholder Return – 33.33% |
| | SMP | 15 June 2016 | 100% of salary | 563 | 75,624 | 20% | 20 June 2019 | |
| | LTIP | 7 July 2017 | 300% of salary | 1,722 | 295,079 | 20% | 7 July 2020 | Total Property Return – 33.33% |
| Nick Sanderson | LTIP | 15 June 2016 | 200% of salary | 737 | 99,075 | 20% | 20 June 2019 | |
| | SMP | 15 June 2016 | 100% of salary | 369 | 49,536 | 20% | 20 June 2019 | |
| | LTIP | 7 July 2017 | 300% of salary | 1,128 | 193,293 | 20% | 7 July 2020 | NAV growth per share – 33.33% (2016) TAR Target – 33.33% (2017) |

1. For the 2016 LTIP and SMP awards the face value is calculated on the five-day average share price prior to the date of main Group's SMP invitation. For 2016, this was the five days up to and including 9 June 2016, being £7.44. For the 2017 LTIP award the face value is calculated on the five-day average share price prior to the date of the LTIP award. For the 2017 LTIP, this was up to and including 6 July 2017, being £5.84.

## Payments to past directors

No payments to past directors were made during the year.

In June 2017, Neil Thompson's prorated LTIP and SMP awards granted in the year ended 31 March 2015 vested. The value of this award was included in the 2017 single figure table. All subsequent awards lapsed on his cessation of employment.

# Directors' remuneration report (continued)

## 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 2018** |
| 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 | 300% | 258,616 | 1,339,944 | Yes 1,554% | 579,877 | 142,398 | 1,265 | **2,063,484** |
| Nick Sanderson | 300% | 169,407 | 241,226 | Yes 427% | 379,851 | 93,276 | 1,265 | **715,618** |

1. For Toby Courtauld and Nick Sanderson, the holdings are calculated based on share price at 31 March 2018 of £6.66.
2. Beneficial interests include shares held directly or indirectly by connected persons.
3. In April 2018, the Executive Directors each acquired 22 Partnership shares and 44 conditional Matching shares under the SIP. In addition, under the SIP, 26 Matching shares vested to Toby Courtauld and 26 Matching shares vested to Nick Sanderson.
4. Executive Directors are expected to retain the after-tax shares received on the vesting of awards, until they have acquired the necessary shares to meet their shareholding requirement.

## Non-Executive Directors' shareholding

| | **31 March 2018[1]** |
|---|---|
| Martin Scicluna | **7,072** |
| Wendy Becker | **8,278** |
| Elizabeth Holden | **4,503** |
| Nick Hampton | **1,293** |
| Richard Mully | **16,379** |
| Charles Philipps | **4,095** |
| Jonathan Short | **11,019** |

1. 31 March 2018 or as at the date of leaving.

## Non-Executive Directors' annual fees for the year ended 31 March 2018

| | Base fee £ | Senior Independent Director £ | Audit Committee £ | Remuneration Committee £ | Nomination Committee £ | Total fees £ |
|---|---|---|---|---|---|---|
| Martin Scicluna | 240,000 | – | – | – | – | 240,000 |
| Elizabeth Holden[1] | 13,588 | – | 1,332 | 1,332 | 893 | 17,145 |
| Jonathan Short[2] | 51,000 | – | 5,000 | 6,331 | 3,350 | 65,681 |
| Charles Philipps | 51,000 | 5,000 | 5,000 | – | 3,350 | 64,350 |
| Nick Hampton | 51,000 | – | 10,000 | 5,000 | 3,350 | 69,350 |
| Richard Mully | 51,000 | – | 5,000 | 5,000 | 3,350 | 64,350 |
| Wendy Becker[3] | 51,000 | – | 5,000 | 8,669 | 3,350 | 68,019 |

1. Elizabeth Holden stepped down from the Board on 6 July 2017.
2. Jonathan Short stepped down as Chairman for the Remuneration Committee from 6 July 2017 but remained a member of the Remuneration Committee.
3. Wendy Becker became Chairman of the Remuneration Committee from 6 July 2017.

# Unaudited

## Nine-year Chief Executive remuneration package

The table below shows the Chief Executive's remuneration package over the past nine years, together with incentive pay-out/vesting as compared to the maximum opportunity.

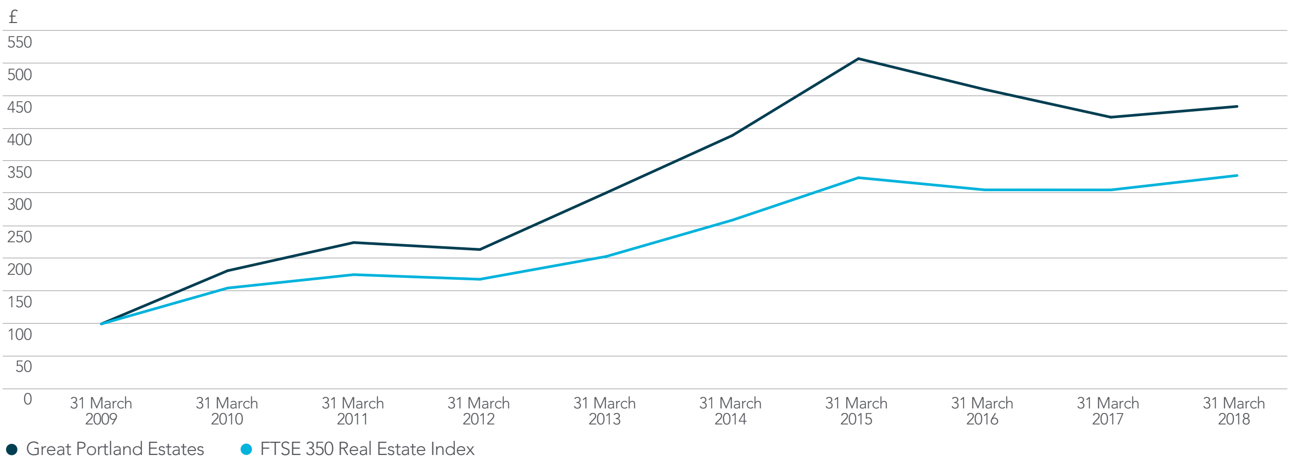
| | 2010 | 2011 | 2012 | 2013[1] | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|
| Single figure of total remuneration (£000) | 1,326 | 2,087 | 2,910 | 4,924 | 3,409 | 3,689 | 2,650 | 1,402 | 1,163 |
| Bonus pay-out as % of maximum opportunity | 75% | 100% | 70% | 92% | 100% | 48% | 100% | 20% | 37% |
| Long-term incentive vesting rates (as % of maximum opportunity) | 88% | 50% | 100% | 95% | 86% | 81% | 58% | 33% | 10% |

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 nine 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 nine years**




## 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 2018 was 1,178,137.

## Dilution

The Company currently funds the Trustee to purchase all of the shares required to satisfy awards under the Company's share incentive plans and no shares have been issued to satisfy 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 incentive arrangements within The Investment Association (IA) Guidelines on dilution. The following table sets out the level of dilution against the IA limits for all share plans and discretionary plans in respect of the outstanding awards should the Company issue shares rather than use purchased shares held in Trust.

| Maximum | As at 31 March 2018[1] |
|---|---|
| 10% dilution in ten years (All Plans) | 1.10% |
| 5% dilution in ten years (Discretionary Plans) | 1.07% |

1. This figure shows the number of shares required to satisfy all outstanding awards as at 31 March 2018 as a percentage of the Company's issued share capital were these are to be satisfied by the issue of new shares. This does not include vested awards that have been satisfied using market purchased shares.

# Directors' remuneration report (continued)

## 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 increase for the wider employee population. The Company considers all employees to be an appropriate comparator group.

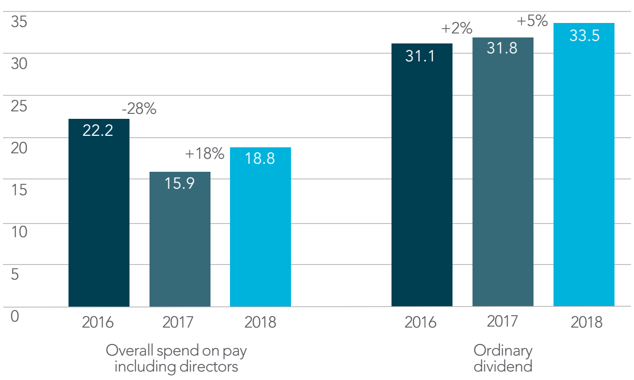
| | Chief Executive (£000) | | | Total employee pay (£000) | | | Average number of employees | | | Average employee pay (£000) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | % change[1] | **2018** | 2017 | % change[1] | **2018** | 2017 | % change | **2018** | 2017 | % change |
| Base salary | **574** | 563 | 2 | **9,119** | 8,940 | 2 | **105** | 99 | 6 | **87** | 90 | |
| Taxable benefits | **27** | 25 | 8 | **536** | 493 | 9 | **105** | 99 | 6 | **5** | 5 | |
| Bonus | **316** | 169 | 87 | **3,007** | 2,062 | 44 | **105** | 99 | 6 | **29** | 21 | |
| Total | **917** | 757 | 21 | **12,662** | 11,495 | 10 | **105** | 99 | 6 | **121** | 116 | |

1. The difference in % change in the Chief Executive's bonus compared to employees is due to employees below the Executive Committee having a smaller proportion of their bonus based on corporate performance measures. The Chief Executive's bonus being negatively impacted by 17 percentage points relative to employees in 2016/2017. The bonus split for the Chief Executive, Finance Director and Executive Committee members is 50/30/20 TPR/TAR/personal objectives. The employee bonus split (excluding the Executive Directors and Executive Committee members) is either 21/12.3/66.7 or 31.25/18.75/50 TPR/TAR/personal objectives respectively.

## Relative importance of spend on pay

The table below sets out the relative importance of spend on pay in 2016, 2017 and 2018:

**Relative importance of spend on page** £m




## Consideration by the directors of matters relating to directors' 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 2018 were £41,146 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 £1,200. Deloitte are appointed by the Company as its auditor. Total fees paid to Deloitte are shown on page 151;

– 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 £13,750. Aon Hewitt also provides benchmarking services to the Group, fees paid in relation to this total £5,750; 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 as part of its IPD membership. Fees paid in relation to this membership total £53,858.

## 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 6 July 2017 Annual General Meeting; and
– the advisory vote on the Remuneration report at the 6 July 2017 Annual General Meeting.

As noted in the Policy report, it is the Remuneration Committee's policy to consult with major shareholders prior to any major changes to its Executive remuneration.

| | For | Against | Abstentions |
|---|---|---|---|
| Directors' remuneration policy | 259,839,425 (96.48%) | 7,669,753 (2.85%) | 1,808,378 (0.67%) |
| 2017 Remuneration report | 250,118,063 (92.90%) | 11,230,137 (4.17%) | 7,899,356 (2.93%) |

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 5 July 2018. Approved by the Board on 23 May 2018 and signed on its behalf by:

**Wendy Becker**
Chairman of the Remuneration Committee
23 May 2018

# Directors' remuneration report (continued)

## 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 2017 Annual General Meeting except that the scenario charts on page 134 and dates have been updated throughout the policy for ease of reference. The policy part of the remuneration report is displayed on the Company's website, at **www.gpe.co.uk/about-us/governance**

### 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 cost-effective 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. A company car or company car allowance may be provided although it is not the Company's current practice to provide either to current Executive Directors. 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 and/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 promote the long-term success of the Company. 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 89.

The Committee is satisfied that the remuneration policy outlined in the table below is in the best interests of shareholders, does not raise any environmental, social or governance issues and does not promote excessive risk-taking:

| Maximum opportunity | Performance metrics |
| --- | --- |
| Base salary increases will be in 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 salary maximum will be £650,000 (as increased by RPI from adoption of this policy). | 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 per annum (with this maximum increasing annually at the rate of RPI from 1 April 2014). | Not applicable. |
| The contribution is a maximum of 20%.<br>The current Executive Directors as at 1 April 2018 receive a contribution or cash equivalent equal to 20% of base salary. | Not applicable. |

# Directors' remuneration report (continued)

| 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.<br>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 not more than 30% of base salary with 0% payable if the threshold is not met. |
| Performance shares under the Long-Term Incentive Plan (LTIP) | Rewards and retains Executives aligning them with shareholder interests over a longer timeframe.<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 and changes were approved by shareholders at the 2017 AGM to permit the LTIP to operate as a sole long-term incentive arrangement going forward in line with developments in best practice.<br>**LTIP**<br>Participants are eligible to receive a conditional annual allocation of shares or nil price options (Performance shares).<br>**General terms**<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>A two-year post-vesting holding period will apply to the net of tax number of awards for future awards. Awards will typically be structured as nil cost options exercisable from the end of any applicable holding period.<br>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, for malus only, where there are sufficiently exceptional circumstances which impact the reputation of the Company.<br>The threshold vesting is 20% of awards with straight line vesting to 100% for maximum performance.<br>Awards under the LTIP may be adjusted to reflect the impact of any variation of share capital.<br>**Quantum**<br>The Committee reviews the quantum of awards annually. |

| Maximum opportunity | Performance metrics |
|---|---|
| The maximum bonus is 150% of base salary. | At least 75% of the bonus will be linked to key financial measures, with the balance linked to personal or strategic 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 2018/19 are set out in the Annual report on remuneration on page 111. |
| LTIP<br>Up to 300% of salary. | Performance is assessed over not less than a three-year performance period against relevant shareholder value, financial and property related metrics (e.g. TSR, NAV or TAR growth and TPR).<br>The performance metrics are set by the Remuneration Committee each year based on the strategic priorities of the business at that time, but no less than 50% will be assessed against a relative measure.<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 2018/19 are set out in the Annual report on remuneration on page 111. |

# Directors' remuneration report (continued)

| 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 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 300% of base salary. In addition, any Executive Directors will be required to invest one-third of their after tax bonus in ordinary shares in the Company until they meet the guideline. Executive Directors will be expected to retain all awards vesting (after the sale of sufficient number to meet any tax liability) until the guideline has been met. |

**Notes to the Future Policy Table**

**1. Performance measures and targets**

Short- and long-term performance measures will be selected by the Committee in order to provide a direct connection to the Company's strategy by being linked to the key fundamental performance indicators at the time. In normal circumstances, they would be expected to include metrics such as TPR/capital growth, NAV or TAR targets and relative TSR performance. Relative measures will be assessed against a relevant IPD index and/or an appropriate group of other UK listed real estate companies with similar operations.

Absolute measures are set following a robust budget setting process which takes into account internal financial indicators as well as a broader view of the market environment.

The targets for the annual bonus and the LTIP for 2018/19 are set out in the Annual report on remuneration on pages 112 and 113. Other than in exceptional circumstances, the TAR range is set at 4% to 10% per annum for each year of this policy. The awards are also subject to an underpin under which the level of vesting may be reduced in certain circumstances.

The Committee is of the opinion that given the commercial sensitivity around GPE's business, disclosing individual's 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 Group performance and against personal objectives. Senior managers receive LTIP 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**

The changes to previous policy have been noted in the table above. The inclusion of caps does not represent any aspiration.

**4. Discretion**

The Committee will operate the annual bonus, LTIP and SMP awards 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 118 and 119 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 or under the authority of the previously approved remuneration policy (as will other legacy arrangements, including those awarded prior to promotion to the Board).

| 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. Reasonable business related expenses will be reimbursed (including any tax due thereon). | Fees will be in line with market rates for Non-Executive Directors at FTSE 250 companies.<br>The aggregate maximum will be the limit stated in the Articles of Association currently £750,000.<br>The 2018/19 fee levels are set out in the Annual report on remuneration on page 113. | Not applicable. |

# Directors' remuneration report (continued)

## 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. Whilst it is not envisaged that it will be required, as provided for in the relevant regulations, the Committee reserves the right to exceed the fixed pay limits set out in the policy table, in exceptional circumstances, to secure the appointment of a high calibre individual.<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. |
| **Annual bonus** | 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.<br>The annual maximum potential opportunity under this plan is 150% 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 300% of salary under the LTIP. An award may be made on or shortly following an appointment assuming the Company is not in a prohibitive period. |
| **Share buyouts/ replacement awards** | Awards may be granted to replace those forfeited by the Executive Director from a previous employer on taking up the appointment where considered necessary by the Committee.<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 this to be 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 applying 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 or 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 (amended 2017) | 12 |
| Nick Sanderson | 7 June 2011 (amended 2017) | 12 |

| Non-Executive | Date of appointment letter | Date when next subject to appointment or re-election |
| --- | --- | --- |
| Martin Scicluna | 1 October 2008 | 5 July 2018 |
| Wendy Becker | 12 January 2017 | 5 July 2018 |
| Nick Hampton | 28 September 2016 | 5 July 2018 |
| Richard Mully | 12 October 2016 | 5 July 2018 |
| Charles Philipps | 10 January 2014 | 5 July 2018 |
| Alison Rose | 4 April 2018 | 5 July 2018 |
| Jonathan Short | 22 March 2007 | 5 July 2018 |

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 as 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. The Company may also deem it appropriate to pay on behalf of a departing executive modest legal, outplacement or other fees.

Contracts have been amended to introduce a right for the Company to achieve mitigation through payment on a monthly phased basis with payments reducing/ceasing if an alternative role is found during the balance of any notice period.

## 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, 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 (continued)

## Approach to 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.

| 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 that year's bonus (in the case of injury, ill health, disability, death or retirement) or in relation to personal objectives set only (in other Good Leaver cases). | 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 and performance to that point. |
| **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 prorated 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.

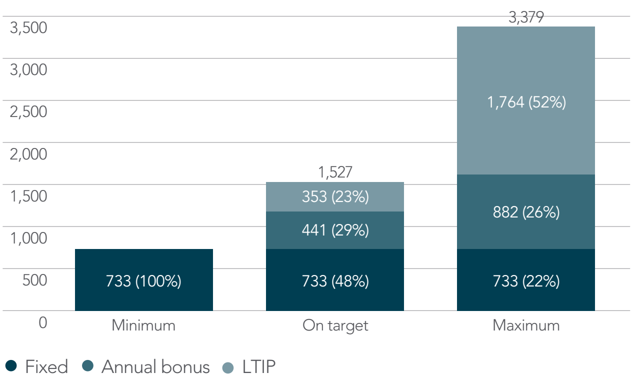
** Bad leavers are those leavers who are not good leavers.

# Directors' remuneration report (continued)

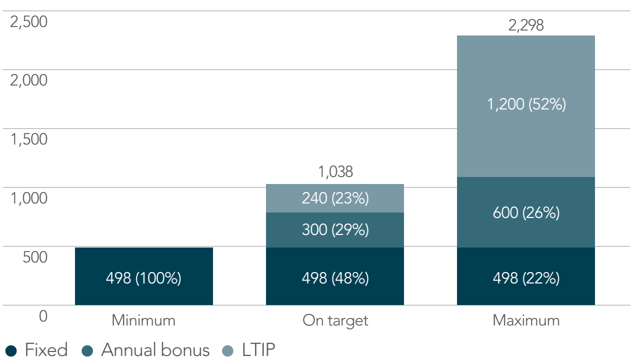
## Executive Director remuneration scenarios based on performance

The charts below set out the potential remuneration receivable by Executive Directors for minimum, where performance is below threshold for variable awards, on-target and maximum performance. Potential reward opportunities are based on the policy and applied to salaries as at 1 April 2018. It should be noted the projected values exclude the impact of any share price movements or dividend accrual.

**Chief Executive** £'000




**Finance Director** £'000




1. Fixed element: Base salary as at 1 April 2018 and related pension contribution together with benefits received during 2017/18.
2. Annual bonus element: The on-target award level for the bonus plan is assumed to be 75% of salary (i.e. 50% of the maximum) with a maximum award of 150% of salary. There is nil payout for minimum performance.
3. LTIP element: Estimated value at target and maximum vesting based on performance measures for 2018/19 awards. Consistent with practice elsewhere, the threshold level of 20% of the maximum has been assumed for target performance. Again a nil payout has been assumed for minimum performance.

## 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 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 81 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 likely future developments in the Company and details of important events since the year ended 31 March 2018.

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 142 to 169. An interim dividend of 4.0 pence per share (2017: 3.7 pence) was paid on 2 January 2018, and the directors propose to pay a final dividend of 7.3 pence per share on 9 July 2018 to shareholders on the register of members as at the close of business on 1 June 2018. This makes a total of 11.3 pence per share (2017: 10.1 pence) for the year ended 31 March 2018.

## Directors

Biographical details of the current directors of the Company are shown on pages 64 and 65. Elizabeth Holden also served as a director during the year until her retirement from the Board on 6 July 2017.

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 election or re-election at the forthcoming Annual General Meeting with the exception of Jonathan Short who is retiring from the Board at the Annual General Meeting. Alison Rose has been appointed to the Board since the last Annual General Meeting and is standing for election by shareholders for the first time. The Board believes that it will benefit from Alison Rose's skills and experience as described in her biography on page 64 and, therefore, recommends her election as a Non-Executive Director. The Chairman has confirmed, following the Board effectiveness evaluation process, that all of the directors standing for re-election continue to be effective and to demonstrate their commitment and independence in their roles.

## Directors' shareholdings

| | **At 31 March 2018 Number of shares[1]** | At 31 March 2017 Number of shares[1] |
|---|---|---|
| Martin Scicluna | **7,072** | 8,636 |
| Toby Courtauld | **1,339,944** | 1,588,892 |
| Nick Sanderson | **241,226** | 263,357 |
| Wendy Becker | **8,278** | 10,000 |
| Nick Hampton | **1,293** | – |
| Richard Mully | **16,379** | 20,000 |
| Charles Philipps | **4,095** | 5,000 |
| Jonathan Short | **11,019** | 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. No director sold shares during the year, although the share consolidations associated with the special dividend and B-share scheme reduced the number of shares held by each director. There have been no changes in the shareholdings of any director in office as at 31 March 2018 between 1 April 2018 and 22 May 2018 apart from shares bought or received by the Executive Directors participating in the Company's Share Incentive Plan as detailed in the Directors' remuneration report on page 120. 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 82 to 134, all of which are incorporated into this Report of the directors by reference.

# Report of the directors (continued)

## 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 149 and pages 162 to 165, which are incorporated into this Report of the directors by reference. Notes 1 and 7 on pages 149 and 152 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 68 to 81, in Our capital discipline on pages 47 and 48 and in Our financial results on pages 44 to 46.

Information on the waiver of dividends is included below in Share capital and control.

## Greenhouse Gas Emissions Statement

The Group's Greenhouse Gas Emissions Statement is included in the Sustainability section within the Strategic Report on page 59.

## Significant shareholdings

As at 31 March 2018, the Company had been notified, in accordance with the Disclosure Guidance and Transparency Rules, of the following interests in its ordinary share capital:

| | Number of shares[1] | %[1] | Nature of holding[1] |
|---|---|---|---|
| BlackRock Inc | 32,146,464 | 9.83 | Indirect |
| Norges Bank Investment Management | 31,188,350 | 9.07 | Direct |
| Brookfield Investment Management Inc | 17,153,100 | 5.25 | Indirect |
| APG Asset Management | 10,509,357 | 3.22 | Direct |

1. As at date of notification.

In the period from 31 March 2018 to 22 May 2018, no further notifications were received. Information provided to the Company under the Disclosure Guidance and Transparency Rules is publicly available via the regulatory information service and on the Company's website.

## Share capital and control

Following the 25 for 29 share consolidation of the Company's ordinary share capital approved by shareholders on 26 March 2018 (accompanying the return of capital and intended to maintain the comparability of the Group's share price and per share metrics) on 31 March 2018, there were 281,663,675 ordinary shares of $15^{5}/_{19}$ 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. The Trustee has waived the right to receive dividends on the shares held in the Company.

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 of Association. 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 81. 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 44 to 46 and in notes 16 and 17 of the accounts on pages 161 to 165.

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 a period of at least 12 months from the date of approval of the financial statements. 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 71.

## 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 188 and 189 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 13 comprise ordinary business and resolutions 14 to 18 special business. Resolutions 15 to 18 will be proposed as special resolutions.

## Remuneration report

Resolution 3 will seek approval of the directors' remuneration report (excluding the remuneration policy) for the year ended 31 March 2018 as set out on pages 108 to 123. 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 on 6 July 2017.

## Authority to allot shares and grant rights

At the General Meeting held on 26 March 2018 to approve the share consolidation, 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 2018 or, if earlier, on 1 October 2018. Resolution 14 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 2019.

Paragraph (a)(i) of Resolution 14 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 22 May 2018 (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 14 will allow directors to allot, including the ordinary shares referred to in paragraph (a)(i) of Resolution 14, 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 22 May 2018 (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 14 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 2019.

# Report of the directors (continued)

## General authority to disapply pre-emption rights

At the General Meeting held on 26 March 2018, 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 15 will seek to renew this authority, which is set 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 22 May 2018 (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 15 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 2019.

## Additional authority to disapply pre-emption rights

Resolution 16 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 will expire at the conclusion of the next AGM or, if earlier, the close of business on 1 October 2019.

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 22 May 2018 (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.

The authority granted by this resolution would be in addition to the general authority to disapply pre-emption rights under Resolution 15. 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 22 May 2018 (being the latest practicable date prior to publication of this Report).

## Authority to purchase own shares

A special resolution was also passed at the General Meeting held on 26 March 2018 enabling the Company to purchase its own shares in the market. Resolution 17 will seek to renew this authority. The maximum number of ordinary shares to which the authority relates is 42,221,384. This represents 14.99% of the share capital of the Company in issue as at 22 May 2018. The directors intend only to exercise this authority if to do so would, in their opinion, enhance shareholder value. If Resolution 17 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 $15^{5}/_{19}$ 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 on the trading venue where the purchase is carried out.

At 22 May 2018, there were £150 million 1% convertible bonds due 2018 in issue which, if fully converted, would result in the issue of a maximum of 20,809,633 ordinary shares based on the conversion price of 720.82 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 7.4% of the issued share capital as at 22 May 2018. If the authorities to purchase shares (existing and being sought) were exercised in full, that percentage would be 10.5% of the share capital.

As at 22 May 2018, employee share awards were outstanding for over 3,018,800 ordinary shares which, if vested in full using newly issued shares, would represent 1.1% of the issued share capital of the Company as at that date. If the authority for the Company to purchase its own shares (existing and being sought) were used in full, that percentage would increase to 1.5%. As at close of business on 22 May 2018, there were no outstanding warrants to subscribe for equity shares in the Company.

There were no purchases of shares by the Company during the year. The number of shares which may be purchased under the shareholders' authority given at the 26 March 2018 General Meeting was 41,243,625.

At 22 May 2018, the Company held no shares in treasury.

Resolution 17 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 2019.

## Notice of general meetings

The notice period required by the Companies Act 2006 for general meetings of the Company is 21 clear 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 18 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, 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
23 May 2018

# 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
23 May 2018

**Nick Sanderson**
Finance Director
23 May 2018

# Financial statements

In this section:



## What they say...

"Our long, collaborative working relationship with GPE has ensured a joined-up approach to dense development around major new transport infrastructure with a focus on place-making. With the GPE team, we have worked hard to ensure that our designs interface as seamlessly as possible and by co-ordinating our construction activities, we aim to minimise the disruption to the public."

**Ian Lindsay**
Land and Property Director, Crossrail

## What we say...

"Over the last three years, we have liaised closely with Crossrail to enable their works to the Bond Street station and our development above and adjacent to progress in the most efficient manner. The close co-ordination of our two projects will deliver a world class commercial development benefiting from a major public transport hub, transforming and reinvigorating Hanover Square and providing high quality retail space to New Bond Street."

**Martin Quinn**
Senior Project Manager

Martin Quinn and Ian Lindsay at Hanover Square, W1.

# Group income statement

For the year ended 31 March 2018

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| **Total revenue** | 2 | **386.5** | 121.9 |
| | | | |
| Net rental income | 3 | **92.0** | 80.2 |
| Joint venture management fee income | 12 | **5.2** | 4.1 |
| Rental and joint venture fee income | | **97.2** | 84.3 |
| Property expenses | 4 | **(11.3)** | (7.3) |
| **Net rental and related income** | | **85.9** | 77.0 |
| Administration expenses | 5 | **(24.1)** | (20.1) |
| Development management revenue | 14 | **14.2** | 25.2 |
| Development management costs | 14 | **(14.6)** | (25.2) |
| Development management losses | | **(0.4)** | – |
| Trading property revenue | 11 | **262.3** | – |
| Trading property cost of sales | 11 | **(250.7)** | (0.3) |
| Profit/(loss) on sale of trading property | | **11.6** | (0.3) |
| **Operating profit before surplus on property and results of joint ventures** | | **73.0** | 56.6 |
| Surplus/(deficit) from investment property | 10 | **35.5** | (136.9) |
| Share of results of joint ventures | 12 | **41.2** | (57.2) |
| **Operating profit/(loss)** | | **149.7** | (137.5) |
| Finance income | 6 | **9.8** | 9.0 |
| Finance costs | 7 | **(11.2)** | (9.2) |
| Premium paid on cancellation of private placement notes | 16 | **(36.6)** | (51.5) |
| Premium paid on cancellation of debenture stock | 16 | **(38.1)** | – |
| Fair value movement on convertible bond | | **8.5** | 10.1 |
| Fair value movement on derivatives | | **(5.4)** | 38.9 |
| **Profit/(loss) before tax** | | **76.7** | (140.2) |
| Tax | 8 | **(6.4)** | 0.8 |
| **Profit/(loss) for the year** | | **70.3** | (139.4) |
| | | | |
| **Basic earnings/(loss) per share** | 9 | **21.5p** | (40.8)p |
| **Diluted earnings/(loss) per share** | 9 | **18.2p** | (40.8)p |
| **Basic EPRA earnings per share** | 9 | **20.4p** | 17.3p |
| **Diluted EPRA earnings per share** | 9 | **20.4p** | 17.3p |

All results are derived from continuing operations in the United Kingdom and are attributable to ordinary equity holders.

# Group statement of comprehensive income

For the year ended 31 March 2018

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| Profit/(loss) for the year | | **70.3** | (139.4) |
| **Items that will not be reclassified subsequently to profit and loss** | | | |
| Actuarial gain/(deficit) on defined benefit scheme | 24 | **6.1** | (3.6) |
| Deferred tax on actuarial gain on defined benefit scheme | | **(0.1)** | – |
| **Total comprehensive income and expense for the year** | | **76.3** | (143.0) |

# Group balance sheet

At 31 March 2018

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment property | 10 | **2,305.2** | 2,351.9 |
| Investment in joint ventures | 12 | **423.7** | 480.8 |
| Plant and equipment | 13 | **4.6** | 5.1 |
| Pension asset | 24 | **0.5** | – |
| Deferred tax | 8 | **–** | 2.0 |
| | | **2,734.0** | 2,839.8 |
| **Current assets** | | | |
| Trading property | 11 | **19.5** | 246.7 |
| Trade and other receivables | 14 | **15.1** | 351.8 |
| Corporation tax | 8 | **–** | 1.0 |
| Cash and cash equivalents | | **351.4** | 25.5 |
| | | **386.0** | 625.0 |
| **Total assets** | | **3,120.0** | 3,464.8 |
| **Current liabilities** | | | |
| Trade and other payables | 15 | **(363.3)** | (147.0) |
| Interest-bearing loans and borrowings | 16 | **(150.9)** | – |
| Corporation tax | 8 | **(0.1)** | – |
| | | **(514.3)** | (147.0) |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 16 | **(196.2)** | (537.7) |
| Obligations under finance leases | 18 | **(40.8)** | (35.9) |
| Deferred tax | 8 | **(1.8)** | – |
| Pension liability | 24 | **–** | (5.8) |
| | | **(238.8)** | (579.4) |
| **Total liabilities** | | **(753.1)** | (726.4) |
| **Net assets** | | **2,366.9** | 2,738.4 |
| | | | |
| **Equity** | | | |
| Share capital | 19 | **43.0** | 43.0 |
| Share premium account | 19 | **46.0** | 352.0 |
| Capital redemption reserve | 19 | **322.4** | 16.4 |
| Retained earnings | | **1,957.9** | 2,330.8 |
| Investment in own shares | 20 | **(2.4)** | (3.8) |
| **Total equity** | | **2,366.9** | 2,738.4 |
| | | | |
| **Net assets per share** | 9 | **840p** | 796p |
| **EPRA NAV** | 9 | **845p** | 799p |

Approved by the Board on 23 May 2018 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 2018

| | Notes | 2018 £m | (Restated) 2017 £m |
|---|---|---|---|
| **Operating activities** | | | |
| Operating profit/(loss) | | **149.7** | (137.5) |
| Adjustments for non-cash items | 21 | **(78.9)** | 192.4 |
| Deposits received on forward sale of residential units | | **–** | 8.8 |
| Decrease/(increase) in trading property | | **232.2** | (75.0) |
| Increase/(decrease) in receivables | | **11.5** | (12.7) |
| Decrease in payables | | **(54.9)** | (5.4) |
| Cash generated/(absorbed) from operations | | **259.6** | (29.4) |
| Interest paid | | **(18.4)** | (29.0) |
| Tax (paid)/received | | **(1.6)** | 0.1 |
| **Cash flows from operating activities** | | **239.6** | (58.3) |
| **Investing activities** | | | |
| Distributions from joint ventures | | **21.1** | 56.2 |
| Funds to joint ventures | | **(30.7)** | (33.6) |
| Funds from joint ventures | | **130.3** | – |
| Purchase and development of property | | **(128.7)** | (187.3) |
| Purchase of plant and equipment | | **(0.4)** | (4.9) |
| Sale of properties | | **487.1** | 346.5 |
| Investment in joint ventures | | **(12.9)** | (6.7) |
| **Cash flows from investing activities** | | **465.8** | 170.2 |
| **Financing activities** | | | |
| Revolving credit facility (repaid)/drawn | 16 | **(109.0)** | 109.0 |
| Redemption of private placement notes | 16 | **(127.7)** | (159.7) |
| Premium paid on redemption of private placement notes | 16 | **(36.3)** | (51.5) |
| Issue of private placement notes | 16 | **174.1** | – |
| Termination of cross currency swaps | 16 | **23.1** | 34.7 |
| Redemption of debenture loan stock | 16 | **(121.1)** | – |
| Premium paid on redemption of debenture stock | 16 | **(38.9)** | – |
| Equity dividends paid | 22 | **(143.7)** | (31.6) |
| **Cash flows from financing activities** | | **(379.5)** | (99.1) |
| Net increase in cash and cash equivalents | | **325.9** | 12.8 |
| Cash and cash equivalents at 1 April | | **25.5** | 12.7 |
| **Cash and cash equivalents at 31 March** | | **351.4** | 25.5 |

Comparative re-presented: for further information see note 26.

# Group statement of changes in equity

For the year ended 31 March 2018

| | Notes | Share capital £m | Share premium account £m | Capital redemption reserve £m | Retained earnings £m | Investment in own shares £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| Total equity at 1 April 2017 | | **43.0** | **352.0** | **16.4** | **2,330.8** | **(3.8)** | **2,738.4** |
| Profit for the year | | **–** | **–** | **–** | **70.3** | **–** | **70.3** |
| Actuarial gain on defined benefit scheme | | **–** | **–** | **–** | **6.1** | **–** | **6.1** |
| Deferred tax on actuarial gain on defined benefit scheme | | **–** | **–** | **–** | **(0.1)** | **–** | **(0.1)** |
| Total comprehensive income for the year | | **–** | **–** | **–** | **76.3** | **–** | **76.3** |
| Employee Long-Term Incentive Plan and Share Matching Plan charge | 20 | **–** | **–** | **–** | **–** | **2.0** | **2.0** |
| Dividends to shareholders | 22 | **–** | **–** | **–** | **(143.8)** | **–** | **(143.8)** |
| Issue of B shares | 19 | **–** | **(306.0)** | **–** | **–** | **–** | **(306.0)** |
| Redemption of B shares | 19 | **–** | **–** | **306.0** | **(306.0)** | **–** | **–** |
| Transfer to retained earnings | 20 | **–** | **–** | **–** | **0.6** | **(0.6)** | **–** |
| **Total equity at 31 March 2018** | | **43.0** | **46.0** | **322.4** | **1,957.9** | **(2.4)** | **2,366.9** |

# Group statement of changes in equity

For the year ended 31 March 2017

| | Notes | Share capital £m | Share premium account £m | Capital redemption reserve £m | Retained earnings £m | Investment in own shares £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| Total equity at 1 April 2016 | | 43.0 | 352.0 | 16.4 | 2,509.9 | (9.1) | 2,912.2 |
| Loss for the year | | – | – | – | (139.4) | – | (139.4) |
| Actuarial deficit on defined benefit scheme | | – | – | – | (3.6) | – | (3.6) |
| Total comprehensive expense for the year | | – | – | – | (143.0) | – | (143.0) |
| Employee Long-Term Incentive Plan and Share Matching Plan charge | 20 | – | – | – | – | 1.0 | 1.0 |
| Dividends to shareholders | 22 | – | – | – | (31.8) | – | (31.8) |
| Transfer to retained earnings | 20 | – | – | – | (4.3) | 4.3 | – |
| **Total equity at 31 March 2017** | | 43.0 | 352.0 | 16.4 | 2,330.8 | (3.8) | 2,738.4 |

# Notes forming part of the Group financial statements

## 1 Accounting policies

### Basis of preparation

Great Portland Estates plc is a public company limited by shares incorporated and domiciled in the United Kingdom (England & Wales). The address of the registered office is given on page 189. 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 and certain financial instruments which are held at fair value. The financial statements are prepared on the going concern basis as explained in the Report of the Directors on page 136.

### Significant judgements and sources of estimation uncertainty

In the process of preparing the financial statements, the directors are required to make certain judgements, assumptions and estimates. Not all of the Group's accounting policies require the directors to make difficult, subjective or complex judgements or estimates. Any estimates and judgements made are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on the directors' best knowledge of the amount, event or actions, actual results may differ from those estimates.

The following is intended to provide an understanding of the policies that management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on the financial statements.

#### Significant judgements: recognition of sales and purchases of property

The Group recognises sales and purchases of property when the risks and rewards of ownership transfer to the new owner usually on the date of completion. Whilst in most instances this assessment is straightforward, arrangements such as forward sales, significant levels of deferred consideration or transactions with other complex arrangements require the directors to exercise judgement in recognising the transaction. In the current year, no transactions required significant judgement.

#### Key source of estimation uncertainty: property portfolio valuation

The valuation to assess the fair value of the Group's investment properties is prepared by its external valuer. The valuation is based upon a number of assumptions including future rental income, anticipated maintenance costs, future development costs and an appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties. For the current year and prior year the directors adopted the valuation without adjustment, further information is provided in the accounting policy for investment property and note 10.

### New accounting standards

During the year ended 31 March 2018, the following accounting standards and guidance were adopted by the Group:

- Amendments to IFRS (Annual improvements 2014–2016 cycle)
- Amendments to IAS 7
- Amendments to IAS 12

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 were in issue but not yet effective (and in some cases had not yet been adopted by the EU) and have not been applied in these financial statements:

- IFRS 9 Financial instruments
- IFRS 15 Revenue from contracts with customers
- IFRS 16 Leases
- IFRIC 22 Foreign currency transactions and advance consideration
- Amendments to IAS 40 Investment property; relating to transfers of investment property
- Annual improvements (2015–2017 cycle)
- Amendments to IFRS 1 and IFRS 28 (annual improvements 2014-2016 cycle)
- Amendments to IFRS 2
- Amendments to IAS 19
- Amendments to References to the Conceptual Framework in IFRS Standards

## 1 Accounting policies (continued)

None of these are expected to have a significant effect on the financial statements of the Group. Certain Standards which may have an impact are discussed below.

– IFRS 9 Financial instruments

IFRS 9 replaces the classification and measurement models for financial instruments in IAS 39 (Financial Instruments: recognition and measurement) with three classification categories: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The Group has completed its impact assessment of the standard and concluded that it would have an immaterial impact on earnings and net asset value. The introduction of the new expected credit losses model, that replaces the incurred loss impairment model, will not have a material impact on the provisioning for the Group's trade receivables. The standard introduces expanded disclosure requirements and changes to presentation, these will change the nature and extent of the disclosures made by the Group.

– IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a single, principles-based revenue recognition model to be applied to all contracts with customers. Revenue is recognised when a customer obtains control of a good or service. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. Expanded disclosure requirements are also introduced. The standard is applicable to service charge income, development management revenue, trading property revenue and joint venture fee income, but excludes all lease income. The Group has completed its impact assessment of the standard for all current revenue streams from which there are no changes to existing accounting treatments. The disclosure requirements will change the extent of the Group's revenue disclosures and the Group will continue to assess new transactions as they arise.

– IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and requires all operating leases in excess of one year, where the Group is the lessee, to be included on the Group's balance sheet, and recognise a right-of-use asset and a related lease liability representing the obligation to make lease payments. The right-of-use asset will be assessed for impairment annually (incorporating any onerous lease assessments) and amortised on a straight-line basis, with the lease liability being amortised using the effective interest method. The accounting for lessors will not significantly change. The Group has completed its impact assessment of the standard and concluded that as the Group is primarily a lessor, holds a limited number of operating leases and the standard does not impact the recognition of rental income, the impact on the financial statements will be immaterial.

### 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 2018. Subsidiary undertakings are those entities controlled by the Group. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee.

### 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 occupiers and in their judgement have determined that all such leases are operating leases.

### Lease incentives

Lease incentives, including rent-free periods and payments to occupiers, 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.

# Notes forming part of the Group financial statements (continued)

## 1 Accounting policies (continued)

### 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 recognised over the vesting period and reversed if it is likely that any non-market-based performance or service criteria will not be met.

### Segmental analysis

The directors are required to present the Group's financial information by business segment or geographical area. This requires a review of the Group's organisational structure and internal reporting system to identify reportable segments and an assessment of where the Group's assets or customers are located.

All of the Group's revenue is generated from investment properties located in central London. The properties are managed as a single portfolio by a portfolio 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 the external valuer, are set out in note 10.

### Investment property

Both leasehold and freehold 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 have been prepared in accordance with the RICS Valuation – Professional Standards Global January 2014 including the International Valuation Standards and the RICS Valuation – Professional Standards UK January 2014 (revised April 2015) ("the Red Book") and have been primarily derived using comparable recent market transactions on arm's length terms.

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.

The Group recognises sales and purchases of property when the risks and rewards of ownership transfer, usually on the date of completion of a contract for sale. Gains or losses on the sale of properties are calculated by reference to the carrying value at the end of the previous year, adjusted for subsequent capital expenditure.

### 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. Revenue is recognised on completion of disposal. 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.

### Depreciation

No depreciation is provided in respect of freehold investment properties and leasehold investment properties. Plant and equipment is held at cost less accumulated depreciation. Depreciation is provided on plant and equipment, at rates calculated to write off the cost, less residual value 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.

## 1 Accounting policies (continued)

### 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. There have been no new joint ventures during the year and no changes to any of the agreements in place.

### 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 other comprehensive income; 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. Derivatives are initially recognised at fair value at the date a derivative contract is entered into.

**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.

**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.

# Notes forming part of the Group financial statements (continued)

## 1 Accounting policies (continued)

### Obligations under finance 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.

### Development management agreements

Should the Group sell a development property prior to completion, it will often have 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

| | 2018 £m | 2017 £m |
|---|---|---|
| Gross rental income | **87.7** | 77.7 |
| Spreading of tenant lease incentives | **5.1** | 3.1 |
| Service charge income | **12.0** | 11.8 |
| Joint venture fee income | **5.2** | 4.1 |
| Trading property revenue | **262.3** | – |
| Development management revenue | **14.2** | 25.2 |
| | **386.5** | 121.9 |

## 3 Net rental income

| | 2018 £m | 2017 £m |
|---|---|---|
| Gross rental income | **87.7** | 77.7 |
| Spreading of tenant lease incentives | **5.1** | 3.1 |
| Ground rents | **(0.8)** | (0.6) |
| | **92.0** | 80.2 |

## 4 Property expenses

| | 2018 £m | 2017 £m |
|---|---|---|
| Service charge income | **(12.0)** | (11.8) |
| Service charge expenses | **15.0** | 13.9 |
| Other property expenses | **8.3** | 5.2 |
| | **11.3** | 7.3 |

## 5 Administration expenses

| | 2018 £m | 2017 £m |
|---|---|---|
| Employee costs | **17.8** | 13.9 |
| Operating leases | **1.0** | 1.0 |
| Depreciation | **0.9** | 0.9 |
| Other head office costs | **4.4** | 4.3 |
| | **24.1** | 20.1 |

## 5 Administration expenses (continued)

Included within employee costs is an accounting charge for the LTIP and SMP schemes of £2.0 million (2017: £1.0 million). Employee costs, including those of directors, comprise the following:

| | 2018 £m | 2017 £m |
|---|---|---|
| Wages and salaries | **15.9** | 13.8 |
| Social security costs | **2.0** | 1.5 |
| Other pension costs | **1.9** | 1.6 |
| | **19.8** | 16.9 |
| Less: recovered through service charges | **(1.0)** | (1.0) |
| Less: capitalised into development projects | **(1.0)** | (2.0) |
| | **17.8** | 13.9 |

### Key management compensation

The emoluments and pension benefits of the directors are set out in detail within the Directors' remuneration report on pages 108 to 134. The Directors and the Executive Committee are considered to be key management for the purposes of IAS 24 'Related Party Transactions' with their aggregate compensation set out below:

| | 2018 £m | 2017 £m |
|---|---|---|
| Wages and salaries | **3.6** | 3.7 |
| Share-based payments | **1.1** | 0.5 |
| Social security costs | **0.6** | 0.3 |
| Other pension costs | **0.3** | 0.3 |
| | **5.6** | 4.8 |

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:

| | 2018 Number | 2017 Number |
|---|---|---|
| Head office and property management | **111** | 102 |

### Auditor's remuneration

| | 2018 £000's | 2017 £000's |
|---|---|---|
| Audit of the Company's annual accounts | **121** | 106 |
| Audit of subsidiaries | **101** | 98 |
| | **222** | 204 |
| Audit-related assurance services, including the interim review | **68** | 62 |
| Total audit and audit-related services | **290** | 266 |
| Services related to taxation (advisory) | **–** | 21 |
| | **290** | 287 |

## 6 Finance income

| | 2018 £m | 2017 £m |
|---|---|---|
| Interest on balances with joint ventures | **9.6** | 9.0 |
| Interest on cash deposits | **0.2** | – |
| | **9.8** | 9.0 |

# Notes forming part of the Group financial statements (continued)

## 7 Finance costs

| | 2018 £m | 2017 £m |
|---|---|---|
| Interest on revolving credit facilities | **2.8** | 3.3 |
| Interest on private placement notes | **3.9** | 12.9 |
| Interest on debenture stock | **7.1** | 8.0 |
| Interest on convertible bond | **1.5** | 1.5 |
| Interest on obligations under finance leases | **1.8** | 1.8 |
| Gross finance costs | **17.1** | 27.5 |
| Less: capitalised interest at an average rate of 3.2% (2017: 4.1%) | **(5.9)** | (18.3) |
| | **11.2** | 9.2 |

## 8 Tax

| | 2018 £m | 2017 £m |
|---|---|---|
| **Current tax** | | |
| UK corporation tax | **2.7** | – |
| Tax over provided in previous years | **–** | (0.1) |
| Total current tax | **2.7** | (0.1) |
| **Deferred tax** | **3.7** | (0.7) |
| Tax charge/(credit) for the year | **6.4** | (0.8) |

The difference between the standard rate of tax and the effective rate of tax arises from the items set out below:

| | 2018 £m | 2017 £m |
|---|---|---|
| Profit/(loss) before tax | **76.7** | (140.2) |
| Tax charge/(credit) on profit/(loss) at standard rate of 19% (2017: 20%) | **14.6** | (28.0) |
| REIT tax-exempt rental profits and gains | **(12.5)** | (4.0) |
| Changes in fair value of properties not subject to tax | **(12.9)** | 32.8 |
| Changes in fair value of financial instruments not subject to tax | **3.8** | (2.9) |
| Prior periods' corporation tax | **–** | (0.1) |
| Gains on sales of investment properties subject to tax | **13.0** | – |
| Other | **0.4** | 1.4 |
| Tax charge/(credit) for the year | **6.4** | (0.8) |

On 1 April 2017, the corporation tax rate reduced from 20% to 19%. During the year, £0.1 million (2017: £nil) of deferred tax was debited directly to equity. The Group's net deferred tax liability at 31 March 2018 was £1.8 million (2017: £2.0 million asset). This consists of a deferred tax liability of £2.8 million (2017: £2.8 million) and a deferred tax asset of £1.0 million (2017: £4.8 million).

### Movement in deferred tax

| | At 1 April 2017 £m | Recognised in the income statement £m | Recognised in equity £m | At 31 March 2018 £m |
|---|---|---|---|---|
| Deferred tax liability in respect of £150 million 1.00% convertible bonds 2018 | (2.8) | **–** | **–** | **(2.8)** |
| Deferred tax asset in respect of revenue losses | 4.0 | **(3.8)** | **–** | **0.2** |
| Deferred tax asset in respect of other temporary differences | 0.8 | **0.1** | **(0.1)** | **0.8** |
| Net deferred tax asset/(liability) | 2.0 | **(3.7)** | **(0.1)** | **(1.8)** |

A deferred tax asset of £1.5 million (2017: £3.4 million), mainly relating to revenue losses and contingent share awards 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 in respect of which a major development has completed within the preceding three years (including the sale of 30 Broadwick Street, W1) or profits arising from trading properties (including the sale of the residential units at Rathbone Square, W1).

## 8 Tax (continued)

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). The recommendations are designed to make the financial statements of public real estate companies clearer and more comparable across Europe, enhancing the transparency and coherence of the sector. The directors consider these standard metrics to be the most appropriate method of reporting the value and performance of the business.

### Weighted average number of ordinary shares

| | **2018 Number of shares** | 2017 Number of shares |
|---|---|---|
| Issued ordinary share capital at 1 April | **343,926,149** | 343,926,149 |
| Share consolidations | **(16,371,005)** | – |
| Investment in own shares | **(1,446,557)** | (1,933,616) |
| Weighted average number of ordinary shares – Basic | **326,108,587** | 341,992,533 |

### Basic and diluted earnings/(loss) per share

| | **Profit after tax 2018 £m** | **Number of shares 2018 million** | **Profit per share 2018 pence** | Loss after tax 2017 £m | Number of shares 2017 million | Loss per share 2017 pence |
|---|---|---|---|---|---|---|
| Basic | **70.3** | **326.1** | **21.5** | (139.4) | 342.0 | (40.8) |
| Dilutive effect of convertible bond | **(7.0)** | **20.6** | **(3.3)** | – | – | – |
| Dilutive effect of LTIP shares | **–** | **0.1** | **–** | – | – | – |
| Diluted | **63.3** | **346.8** | **18.2** | (139.4) | 342.0 | (40.8) |

### Basic and diluted EPRA earnings/(loss) per share

| | **Profit after tax 2018 £m** | **Number of shares 2018 million** | **Earnings per share 2018 pence** | (Loss)/profit after tax 2017 £m | Number of shares 2017 million | (Loss)/ earnings per share 2017 pence |
|---|---|---|---|---|---|---|
| Basic | **70.3** | **326.1** | **21.5** | (139.4) | 342.0 | (40.8) |
| (Surplus)/deficit from investment property net of tax (note 10) | **(25.9)** | **–** | **(7.9)** | 136.9 | – | 40.1 |
| (Surplus)/deficit from joint venture investment property (note 12) | **(33.7)** | **–** | **(10.3)** | 59.6 | – | 17.4 |
| Movement in fair value of derivatives | **5.4** | **–** | **1.7** | (38.9) | – | (11.4) |
| Movement in fair value of convertible bond | **(8.5)** | **–** | **(2.6)** | (10.1) | – | (3.0) |
| Movement in fair value of derivatives in joint ventures (note 12) | **(1.0)** | **–** | **(0.3)** | 0.1 | – | – |
| (Profit)/loss on sale of trading property net of tax | **(10.4)** | **–** | **(3.2)** | 0.3 | – | 0.1 |
| Premium paid on cancellation of private placement notes net of tax (note 16) | **34.5** | **–** | **10.6** | 51.5 | – | 15.1 |
| Premium paid on cancellation of debenture stock net of tax (note 16) | **32.1** | **–** | **9.8** | – | – | – |
| Deferred tax (note 8) | **3.7** | **–** | **1.1** | (0.7) | – | (0.2) |
| Basic EPRA earnings | **66.5** | **326.1** | **20.4** | 59.3 | 342.0 | 17.3 |
| Dilutive effect of LTIP shares | **–** | **0.1** | **–** | – | 0.3 | – |
| Dilutive effect of convertible bond | **–** | **–** | **–** | – | – | – |
| Diluted EPRA earnings | **66.5** | **326.2** | **20.4** | 59.3 | 342.3 | 17.3 |

# Notes forming part of the Group financial statements (continued)

## 9 Performance measures and EPRA metrics (continued)

### EPRA net assets per share

| | Net assets 2018 £m | Number of shares 2018 million | Net assets per share 2018 pence | Net assets 2017 £m | Number of shares 2017 million | Net assets per share 2017 pence |
|---|---|---|---|---|---|---|
| Basic net assets | **2,366.9** | **281.7** | **840** | 2,738.4 | 343.9 | 796 |
| Investment in own shares | **–** | **(1.2)** | **4** | – | (1.8) | 4 |
| Dilutive effect of convertible bond | **–** | **–** | **–** | – | – | – |
| Dilutive effect of LTIP shares | **–** | **0.2** | **–** | – | 0.3 | (1) |
| Diluted net assets | **2,366.9** | **280.7** | **844** | 2,738.4 | 342.4 | 799 |
| Surplus on revaluation of trading property (note 11) | **1.3** | **–** | **–** | 17.3 | – | 5 |
| Fair value of convertible bond (note 17) | **0.9** | **–** | **–** | 9.4 | – | 3 |
| Fair value of derivatives (note 17) | **–** | **–** | **–** | (28.5) | – | (8) |
| Fair value of derivatives in joint ventures (note 12) | **0.3** | **–** | **–** | 1.3 | – | – |
| Deferred tax (note 8) | **1.8** | **–** | **1** | (2.0) | – | – |
| EPRA NAV | **2,371.2** | **280.7** | **845** | 2,735.9 | 342.4 | 799 |
| Fair value of financial liabilities (note 17) | **(2.8)** | **–** | **(1)** | (71.0) | – | (21) |
| Fair value of financial liabilities in joint ventures (note 12) | **(1.3)** | **–** | **(1)** | (2.1) | – | – |
| Fair value of convertible bond (note 17) | **(0.9)** | **–** | **–** | (9.4) | – | (3) |
| Fair value of derivatives (note 17) | **–** | **–** | **–** | 28.5 | – | 8 |
| Fair value of derivatives in joint ventures (note 12) | **(0.3)** | **–** | **–** | (1.3) | – | – |
| Tax arising on sale of trading properties | **(0.3)** | **–** | **–** | (3.3) | – | (1) |
| Deferred tax (note 8) | **(1.8)** | **–** | **(1)** | 2.0 | – | – |
| EPRA NNNAV | **2,363.8** | **280.7** | **842** | 2,679.3 | 342.4 | 782 |

The Group has £150.0 million of convertible bonds in issue with a conversion price of £7.21 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 prior year, the convertible bond had no dilutive impact on IFRS EPS. 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)

| | 2018 £m | 2017 £m |
|---|---|---|
| Administration expenses | **24.1** | 20.1 |
| Property expenses | **11.3** | 7.3 |
| Joint venture management fee income | **(5.2)** | (4.1) |
| Joint venture property and administration costs | **0.1** | 4.1 |
| EPRA costs (including direct vacancy costs) (A) | **30.3** | 27.4 |
| Direct vacancy costs | **(3.7)** | (3.2) |
| Joint venture direct vacancy cost recovery/(costs) | **1.0** | (1.8) |
| EPRA costs (excluding direct vacancy costs) (B) | **27.6** | 22.4 |
| | | |
| Net rental income | **92.0** | 80.2 |
| Joint venture net rental income | **17.4** | 17.4 |
| Gross rental income (C) | **109.4** | 97.6 |
| | | |
| Portfolio at fair value including joint ventures (D) | **2,790.0** | 3,145.5 |
| | | |
| Cost ratio (including direct vacancy costs) (A/C) | **27.7%** | 28.1% |
| Cost ratio (excluding direct vacancy costs) (B/C) | **25.2%** | 23.0% |
| Cost ratio (by portfolio value) (A/D) | **1.1%** | 0.9% |

EPRA capital expenditure is included in note 10.

## 9 Performance measures and EPRA metrics (continued)

### Net debt and loan-to-property value

| | 2018 £m | 2017 £m |
|---|---|---|
| £142.9 million 5⅝% debenture stock 2029 | **22.0** | 143.9 |
| £450.0 million revolving credit facility | **–** | 107.0 |
| Private placement notes | **174.2** | 127.4 |
| £150.0 million 1.00% convertible bonds 2018 (at nominal value) | **150.0** | 150.0 |
| Less: cash balances | **(351.4)** | (25.5) |
| Net (cash)/debt excluding joint ventures | **(5.2)** | 502.8 |
| Joint venture bank loans (at share) | **84.7** | 84.6 |
| Less: joint venture cash balances (at share) | **(12.0)** | (10.6) |
| Net debt including joint ventures (A) | **67.5** | 576.8 |
| | | |
| Group properties at market value | **2,285.2** | 2,580.0 |
| Joint venture properties at market value | **504.8** | 565.5 |
| Net debt including joint ventures (B) | **2,790.0** | 3,145.5 |
| | | |
| Loan-to-property value (A/B) | **2.4%** | 18.3% |

### Total accounting return

| | 2018 Pence per share | 2017 Pence per share |
|---|---|---|
| Opening EPRA NAV (A) | **799.0** | 847.0 |
| Closing EPRA NAV | **845.0** | 799.0 |
| Increase/(decrease) in EPRA NAV | **46.0** | (48.0) |
| Ordinary dividend paid in the year | **10.4** | 9.3 |
| Total return (B) | **56.4** | (38.7) |
| | | |
| Total accounting return (B/A) | **7.1%** | (4.6)% |

### Cash earnings per share

| | Profit after tax 2018 £m | Number of shares 2018 million | Earnings per share 2018 pence | Profit after tax 2017 £m | Number of shares 2017 million | Earnings per share 2017 pence |
|---|---|---|---|---|---|---|
| Diluted EPRA earnings | **66.5** | **326.2** | **20.4** | 59.3 | 342.3 | 17.3 |
| Capitalised interest | **(5.9)** | **–** | **(1.8)** | (18.3) | – | (5.3) |
| Capitalised interest in joint ventures | **(1.8)** | **–** | **(0.6)** | (1.2) | – | (0.4) |
| Spreading of tenant lease incentives | **(5.1)** | **–** | **(1.6)** | (3.1) | – | (0.9) |
| Spreading of tenant lease incentives in joint ventures | **(0.1)** | **–** | **–** | (3.0) | – | (0.9) |
| Employee Long-Term Incentive Plan and Share Matching Plan charge | **2.0** | **–** | **0.6** | 1.0 | – | 0.3 |
| Cash earnings per share | **55.6** | **326.2** | **17.0** | 34.7 | 342.3 | 10.1 |

# Notes forming part of the Group financial statements (continued)

## 10 Investment property

### Investment property

| | Freehold £m | Leasehold £m | Total £m |
|---|---|---|---|
| Book value at 1 April 2016 | 1,133.5 | 1,046.9 | 2,180.4 |
| Acquisitions | – | 32.5 | 32.5 |
| Costs capitalised | 6.0 | 14.9 | 20.9 |
| Disposals | (31.1) | – | (31.1) |
| Transfer from investment property under development | 176.1 | – | 176.1 |
| Net valuation deficit on investment property | (61.6) | (53.2) | (114.8) |
| Book value at 31 March 2017 | 1,222.9 | 1,041.1 | 2,264.0 |
| Acquisitions | **29.9** | **–** | **29.9** |
| Costs capitalised | **16.3** | **19.1** | **35.4** |
| Disposals | **(195.5)** | **–** | **(195.5)** |
| Transfer from investment property under development | **102.9** | **–** | **102.9** |
| Transfer to investment property under development | **(140.2)** | **–** | **(140.2)** |
| Net valuation surplus on investment property | **23.3** | **22.9** | **46.2** |
| Book value at 31 March 2018 | **1,059.6** | **1,083.1** | **2,142.7** |

### Investment property under development

| | Freehold £m | Leasehold £m | Total £m |
|---|---|---|---|
| Book value at 1 April 2016 | 536.6 | 215.1 | 751.7 |
| Costs capitalised | 107.1 | 48.1 | 155.2 |
| Interest capitalised | 9.1 | 0.9 | 10.0 |
| Transfer to investment property | (176.1) | – | (176.1) |
| Disposals | (392.2) | (264.1) | (656.3) |
| Net revaluation surplus on investment property under development | 3.4 | – | 3.4 |
| Book value at 31 March 2017 | 87.9 | – | 87.9 |
| Acquisitions | **25.6** | **–** | **25.6** |
| Costs capitalised | **14.2** | **–** | **14.2** |
| Interest capitalised | **0.8** | **–** | **0.8** |
| Transfer to investment property | **(102.9)** | **–** | **(102.9)** |
| Transfer from investment property | **140.2** | **–** | **140.2** |
| Net valuation deficit on investment property under development | **(3.3)** | **–** | **(3.3)** |
| Book value at 31 March 2018 | **162.5** | **–** | **162.5** |
| | | | |
| **Total investment property** | **1,222.1** | **1,083.1** | **2,305.2** |

The book value of investment property includes £40.8 million (2017: £35.9 million) in respect of the present value of future ground rents, the market value of the portfolio (excluding these amounts) is £2,264.4 million. The market value of the Group's total property portfolio, including trading properties, was £2,285.2 million (2017: £2,580.0 million). The total portfolio value including joint venture properties of £504.8 million (see note 12) was £2,790.0 million. At 31 March 2018, property with a carrying value of £388.4 million (2017: £380.9 million) was secured under the first mortgage debenture stock (see note 16). At 31 March 2018, £47.2 million of investment property was held for sale (2017: £nil).

### Surplus/(deficit) from investment property

| | 2018 £m | 2017 £m |
|---|---|---|
| Net valuation surplus/(deficit) on investment property | **42.9** | (111.4) |
| Loss on sale of investment properties | **(7.4)** | (25.5) |
| | **35.5** | (136.9) |

## 10 Investment property (continued)

The Group's investment properties, including those held in joint ventures (note 12), were valued on the basis of Fair Value by CBRE Limited (CBRE), external valuers, as at 31 March 2018. The valuations have been prepared in accordance with the RICS Valuation – Global Standards 2017 which incorporate the International Valuation Standards and the RICS Valuation – Professional Standards UK January 2014 (revised April 2015) ("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** | **48 – 85** | **4.3** | **3.9 – 6.1** |
| | Retail | **77** | **34 – 165** | **4.1** | **3.6 – 5.8** |
| Rest of West End | Office | **74** | **44 – 91** | **4.6** | **3.7 – 5.7** |
| | Retail | **115** | **15 – 295** | **4.0** | **2.8 – 5.7** |
| City, Midtown & Southwark | Office | **54** | **45 – 60** | **5.1** | **4.6 – 5.7** |
| | Retail | **79** | **28 – 122** | **4.6** | **4.6 – 4.7** |

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 a decrease in rental values will reduce the valuation of the property. 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 a reduction will increase its valuation. A decrease in the capitalisation yield by 25 basis points would result in an increase in the fair value of the Group's investment property by £135.6 million, whilst a 25 basis point increase would reduce the fair value by £121.3 million. 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. Additionally, investment property under development is sensitive to income, cost and developer's profit assumptions included in the valuations.

At 31 March 2018, the Group had capital commitments of £131.6 million (2017: £27.1 million). For further detail see Development Management on page 39.

### EPRA capital expenditure

| | **2018 £m** | 2017 £m |
|---|---|---|
| **Group** | | |
| Acquisitions | **55.5** | 32.5 |
| Developments (including trading properties) | **28.3** | 221.2 |
| Investment property | **35.4** | 20.9 |
| Interest capitalised (including trading properties) | **5.9** | 18.3 |
| **Joint ventures (at share)** | | |
| Developments | **33.7** | 11.9 |
| Investment property | **2.2** | 16.9 |
| Interest capitalised | **1.8** | 1.2 |
| | **162.8** | 322.9 |

# Notes forming part of the Group financial statements (continued)

## 11 Trading property

| | 2018 £m | 2017 £m |
|---|---|---|
| At 1 April | 246.7 | 172.4 |
| Costs capitalised | **14.1** | 66.0 |
| Interest capitalised | **5.1** | 8.3 |
| Disposals | **(246.4)** | – |
| At 31 March | **19.5** | 246.7 |

The Group has developed 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. During the year, the Group commenced completing the sales of the apartments and at 31 March 2018 four of the 142 apartments were still to be sold. The fair value of the trading property was £20.8 million (2017: £264.0 million), representing a level 3 valuation as defined by IFRS 13 (see note 10), and cumulative valuation uplift of £1.3 million (2017: £17.3 million).

## 12 Investment in joint ventures

The Group has the following investments in joint ventures:

| | Equity £m | Balances with partners £m | 2018 Total £m | 2017 Total £m |
|---|---|---|---|---|
| At 1 April | 250.6 | 230.2 | 480.8 | 543.4 |
| Movement on joint venture balances | – | **(90.1)** | **(90.1)** | 42.6 |
| Additions | **12.9** | – | **12.9** | 8.2 |
| Share of profit of joint ventures | **7.5** | – | **7.5** | 2.4 |
| Share of revaluation surplus/(deficit) of joint ventures | **24.8** | – | **24.8** | (55.6) |
| Share of profit/(loss) on disposal of joint venture properties | **8.9** | – | **8.9** | (4.0) |
| Share of results of joint ventures | **41.2** | – | **41.2** | (57.2) |
| Distributions | **(21.1)** | – | **(21.1)** | (56.2) |
| At 31 March | **283.6** | **140.1** | **423.7** | 480.8 |

All of the Group's joint ventures operate solely in the United Kingdom and comprise the following:

| | Country of registration | 2018 ownership | 2017 ownership |
|---|---|---|---|
| The GHS Limited Partnership | Jersey | **50%** | 50% |
| The Great Capital Partnership (inactive) | United Kingdom | **50%** | 50% |
| The Great Ropemaker Partnership | United Kingdom | **50%** | 50% |
| The Great Victoria Partnerships | United Kingdom | **50%** | 50% |
| The Great Wigmore Partnership (inactive) | United Kingdom | **50%** | 50% |

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 Ropemaker Partnership £m | The Great Victoria Partnerships £m | Other £m | 2018 Total £m | 2018 At share £m | 2017 At share £m |
|---|---|---|---|---|---|---|---|
| **Balance sheets** | | | | | | | |
| Investment property | **276.1** | **512.3** | **231.5** | – | **1,019.9** | **510.0** | 570.7 |
| Current assets | **2.3** | **0.3** | **0.1** | – | **2.7** | **1.3** | 0.9 |
| Cash | **7.0** | **12.0** | **4.7** | **0.2** | **23.9** | **12.0** | 10.6 |
| Balances (from)/to partners | **(108.5)** | **(182.7)** | **10.9** | – | **(280.3)** | **(140.1)** | (230.2) |
| Bank loans | – | **(89.6)** | **(79.7)** | – | **(169.3)** | **(84.7)** | (84.6) |
| Derivatives | – | **(0.6)** | – | – | **(0.6)** | **(0.3)** | (1.3) |
| Current liabilities | **(4.1)** | **(10.4)** | **(4.3)** | **(0.1)** | **(18.9)** | **(9.4)** | (10.3) |
| Finance leases | – | **(10.3)** | – | – | **(10.3)** | **(5.2)** | (5.2) |
| Net assets | **172.8** | **231.0** | **163.2** | **0.1** | **567.1** | **283.6** | 250.6 |

## 12 Investment in joint ventures (continued)

| | The GHS Limited Partnership £m | The Great Ropemaker Partnership £m | The Great Victoria Partnerships £m | Other £m | 2018 Total £m | 2018 At share £m | 2017 At share £m |
|---|---|---|---|---|---|---|---|
| **Income statements** | | | | | | | |
| Net rental income | – | 22.9 | 11.8 | – | 34.7 | 17.4 | 17.4 |
| Property and administration costs | 0.2 | 0.2 | (0.6) | (0.1) | (0.3) | (0.1) | (4.1) |
| Net finance costs | (4.8) | (13.6) | (3.1) | – | (21.5) | (10.8) | (10.8) |
| Movement in fair value of derivatives | – | 2.0 | – | – | 2.0 | 1.0 | (0.1) |
| Profit/(loss) from joint ventures | (4.6) | 11.5 | 8.1 | (0.1) | 14.9 | 7.5 | 2.4 |
| Revaluation of investment property | 18.1 | 29.1 | 3.1 | – | 50.3 | 24.8 | (55.6) |
| Profit/(loss) on sale of investment property | – | 17.6 | – | 0.1 | 17.7 | 8.9 | (4.0) |
| Share of results of joint ventures | 13.5 | 58.2 | 11.2 | – | 82.9 | 41.2 | (57.2) |

The non-recourse debt facilities of the joint ventures at 31 March 2018 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 | | | |

The Great Ropemaker Partnership has 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. Together with the swaps the loan has an all-in hedged coupon of 2.67% for its duration. At 31 March 2018, the Great Victoria Partnership loan had a fair value of £82.3 million (2017: £84.2 million). All interest-bearing loans are in Sterling. At 31 March 2018, the joint ventures had £nil undrawn facilities (2017: £nil).

Transactions during the year between the Group and its joint ventures, which are related parties, are disclosed below:

| | 2018 £m | 2017 £m |
|---|---|---|
| Movement on joint venture balances during the year | 90.1 | (42.6) |
| Balances receivable at the year end from joint ventures | (140.1) | (230.2) |
| Distributions | 21.1 | 56.2 |
| Management fee income | 5.2 | 4.1 |

The joint venture balances are repayable on demand and 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 (2017: £5.2 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 £504.8 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.

At 31 March 2018, the Group had £nil contingent liabilities arising in its joint ventures (2017: £nil). At 31 March 2018, the Group had capital commitments in respect of its joint ventures of £112.9 million (2017: £48.1 million).

# Notes forming part of the Group financial statements (continued)

## 13 Plant and equipment

| | Leasehold improvements £m | Fixtures and fittings/other £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2016 | 1.1 | 1.7 | 2.8 |
| Costs capitalised in respect of head office refurbishment | 4.1 | 0.8 | 4.9 |
| Disposals | – | (1.5) | (1.5) |
| At 31 March 2017 | 5.2 | 1.0 | 6.2 |
| Costs capitalised | **0.3** | **0.1** | **0.4** |
| At 31 March 2018 | **5.5** | **1.1** | **6.6** |
| **Depreciation** | | | |
| At 1 April 2017 | 0.7 | 0.4 | 1.1 |
| Charge for the year | **0.6** | **0.3** | **0.9** |
| At 31 March 2018 | **1.3** | **0.7** | **2.0** |
| Carrying amount at 31 March 2017 | 4.5 | 0.6 | 5.1 |
| Carrying amount at 31 March 2018 | **4.2** | **0.4** | **4.6** |

## 14 Trade and other receivables

| | 2018 £m | 2017 £m |
|---|---|---|
| Trade receivables | **3.8** | 4.0 |
| Allowance for doubtful debts | **(0.4)** | (0.1) |
| | **3.4** | 3.9 |
| Prepayments and accrued income | **1.3** | 0.7 |
| Work in progress on development management contracts | **1.5** | 14.7 |
| Other trade receivables | **6.9** | 3.2 |
| Deferred consideration on property sales | **2.0** | 300.8 |
| Derivatives | **–** | 28.5 |
| | **15.1** | 351.8 |

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 occupier's lease. Trade receivables are provided for based on estimated irrecoverable amounts determined by past default experience and knowledge of the individual occupiers' circumstance. Debtors past due but not impaired were £2.0 million (2017: £2.8 million) of which £2.0 million (2017: £2.0 million) is over 30 days.

Work in progress on development management contracts is an amount due to the Group in relation to development properties 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 £27.4 million (2017: £12.9 million). At 31 March 2018, the aggregate cumulative cost incurred was £29.3 million (2017: £67.7 million) and the cumulative profits less losses recognised was a loss of £0.4 million (2017: £5.7 million profit). There are no material project retentions.

Deferred consideration on property sales relates to the amounts outstanding on the disposal of Rathbone Square, W1.

| | 2018 £m | 2017 £m |
|---|---|---|
| **Movements in allowance of doubtful debts** | | |
| Balance at the beginning of the year | **(0.1)** | (0.2) |
| Amounts provided for during the year | **(0.3)** | (0.2) |
| Amounts written-off as uncollectable | **–** | 0.3 |
| | **(0.4)** | (0.1) |

## 15 Trade and other payables

| | 2018 £m | 2017 £m |
|---|---|---|
| Rents received in advance | **22.8** | 22.8 |
| Deposits received on forward sale of residential units | **2.4** | 66.0 |
| Obligation to redeem B shares | **306.0** | – |
| Non-trade payables and accrued expenses | **32.1** | 58.2 |
| | **363.3** | 147.0 |

On 27 March 2018, the Company's shareholders approved a return of capital of £306.0 million through the issue of new B shares, with the intention of redeeming the shares in April 2018 in order to return 93.65 pence per ordinary share to shareholders. As a result, the obligation to redeem the B shares was a liability at 31 March 2018.

## 16 Interest-bearing loans and borrowings

| | 2018 £m | 2017 £m |
|---|---|---|
| **Current liabilities at fair value** | | |
| **Unsecured** | | |
| £150.0 million 1.00% convertible bonds 2018 | **150.9** | – |
| Current interest bearing loans and borrowings | **150.9** | – |
| | | |
| **Non-current liabilities at amortised cost** | | |
| **Secured** | | |
| £142.9 million 5⅝% debenture stock 2029 | **22.0** | 143.9 |
| **Unsecured** | | |
| £450.0 million revolving credit facility | **–** | 107.0 |
| £175.0 million 2.15% private placement notes 2024 | **174.2** | – |
| $160.0 million 4.20% private placement notes 2019 | **–** | 101.9 |
| $40.0 million 4.82% private placement notes 2022 | **–** | 25.5 |
| **Non-current liabilities at fair value** | | |
| **Unsecured** | | |
| £150.0 million 1.00% convertible bonds 2018 | **–** | 159.4 |
| Non-current interest bearing loans and borrowings | **196.2** | 537.7 |
| | | |
| Interest bearing loans and borrowings | **347.1** | 537.7 |

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 2021.

In May 2017, the Group repaid its 2019 and 2022 private placement notes for a total redemption premium of £13.5 million, representing a £36.6 million redemption premium net of £23.1 million receipt on cancellation of the associated cross currency swaps. The premium includes unamortised costs and currency movements since issue, of which £31.7 million of currency movements relate to previous periods. No prior period adjustment has been made for this amount as the Directors consider the impact to be immaterial.

In May 2017, the Group issued a £175 million of new seven-year US private placement notes. The Sterling denominated unsecured debt has a fixed rate coupon of 2.15% (representing a margin of 125 basis points over the relevant Gilt).

In March 2018, the Group closed the issue of £100 million of new ten, twelve and fifteen-year US private placement notes. The Sterling denominated unsecured debt has a fixed rate coupon of 2.80% (representing a margin of 106 basis points over the relevant Gilt). These will be drawn down in June 2018.

In February 2018, the Group concluded a tender offer for the £142.9 million 5⅝% debenture stock 2019. Approximately 85% of the stock was purchased at a cash cost of £159.9 million (including transaction costs), resulting in a redemption premium of £38.1 million.

At 31 March 2018, the Group had £451 million (2017: £342.0 million) of undrawn credit facilities.

# Notes forming part of the Group financial statements (continued)

## 17 Financial instruments

| Categories of financial instrument | Carrying amount 2018 £m | Amounts recognised in income statement 2018 £m | Gain/(loss) to equity 2018 £m | Carrying amount 2017 £m | Amounts recognised in income statement 2017 £m | Gain/(loss) to equity 2017 £m |
|---|---|---|---|---|---|---|
| Convertible bond | (150.9) | 7.0 | – | – | – | – |
| Current liabilities at fair value | (150.9) | 7.0 | – | – | – | – |
| Convertible bond | – | – | – | (159.4) | 8.6 | – |
| Non-current liabilities at fair value | – | – | – | (159.4) | 8.6 | – |
| Interest rate floor | – | (0.5) | – | 0.5 | 0.7 | – |
| Cross currency swaps | – | (4.9) | – | 28.0 | 40.2 | – |
| Non-current assets held at fair value | – | (5.4) | – | 28.5 | 40.9 | – |
| Trade receivables | 15.1 | (0.3) | – | 324.3 | (0.1) | – |
| Cash and cash equivalents | 351.4 | 0.2 | – | 25.5 | – | – |
| Loans and receivables | 366.5 | (0.1) | – | 349.8 | (0.1) | – |
| Trade and other payables | (9.4) | – | – | (69.1) | – | – |
| Obligation to redeem B shares | (306.0) | – | – | – | – | – |
| Interest-bearing loans and borrowings | (196.2) | (7.9) | – | (378.3) | (7.9) | – |
| Obligations under finance leases | (40.8) | (1.8) | – | (35.9) | (1.8) | – |
| Liabilities at amortised cost | (552.4) | (9.7) | – | (483.3) | (9.7) | – |
| Total financial instruments | (336.8) | (8.2) | – | (264.4) | 39.7 | – |

## 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 reviewing the financial information of prospective occupiers and only dealing with those that are creditworthy 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 occupier 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 14 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 aims to maintain a loan-to-property value of between 10% – 40% (see note 9).

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 has historically been fully hedged through foreign currency derivatives to create a synthetic sterling exposure.

## 17 Financial instruments (continued)

### Liquidity risk

The Group operates a framework for the management of its 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 facility. The availability of this facility 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 2018 actuals |
|---|---|---|
| **Group** | | |
| Net debt/net equity | **<1.25x** | **n/a** |
| Inner borrowing (unencumbered asset value/unsecured borrowings) | **>1.66x** | **n/a** |
| Interest cover | **>1.35x** | **n/a** |

Due to the Group being in a net cash position at the balance sheet date, and there was no interest charge (as measured under our debt covenants) in the year, none of the Group's debt covenants were measurable. 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 2018 | 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 | **22.0** | **35.2** | **1.2** | **1.2** | **3.7** | **29.1** |
| £450.0 million revolving credit facility | **–** | **4.4** | **1.7** | **1.7** | **1.0** | **–** |
| Private placement notes | **174.2** | **198.2** | **3.8** | **3.8** | **11.3** | **179.3** |
| £150.0 million 1.00% convertible bonds 2018 | **150.9** | **150.6** | **150.6** | **–** | **–** | **–** |
| | **347.1** | **388.4** | **157.3** | **6.7** | **16.0** | **208.4** |

| At 31 March 2017 | 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 | 143.9 | 237.9 | 8.0 | 8.0 | 24.1 | 197.8 |
| £450.0 million revolving credit facility | 107.0 | 113.1 | 1.6 | 1.6 | 109.9 | – |
| Private placement notes | 127.4 | 142.6 | 5.2 | 5.3 | 106.4 | 25.7 |
| £150.0 million 1.00% convertible bonds 2018 | 159.4 | 152.1 | 1.5 | 150.6 | – | – |
| **Derivative financial instruments** | | | | | | |
| Cross currency swaps (note 14) | (28.0) | 0.7 | 0.3 | 0.2 | 0.2 | – |
| Interest rate floor (note 14) | (0.5) | (1.0) | (1.0) | – | – | – |
| | 509.2 | 645.4 | 15.6 | 165.7 | 240.6 | 223.5 |

# Notes forming part of the Group financial statements (continued)

## 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 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 fixed rate debt, 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 | |
|---|---|---|---|---|---|---|
| | **2018 %** | 2017 % | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| **Interest rate floor** | | | | | | |
| Less than one year | **–** | 1.80 | **–** | 159.7 | **–** | (0.5) |
| | **–** | 1.80 | **–** | 159.7 | **–** | (0.5) |

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 | |
|---|---|---|---|---|---|---|---|---|
| | **2018 rate** | 2017 rate | **2018 US$m** | 2017 US$m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| **Cross currency swaps** | | | | | | | | |
| Between two and five years | **–** | 1.566 | **–** | 160.0 | **–** | 102.2 | **–** | (23.3) |
| In excess of five years | **–** | 1.566 | **–** | 40.0 | **–** | 25.5 | **–** | (4.7) |
| | **–** | 1.566 | **–** | 200.0 | **–** | 127.7 | **–** | (28.0) |

### 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 based on historical trends. For the floating rate liabilities the analysis is prepared assuming the amount of the liability at 31 March 2018 was outstanding for the whole year:

| | Impact on profit | | Impact on equity | |
|---|---|---|---|---|
| | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| Increase of 100 basis points | **1.1** | 2.9 | **1.1** | 2.9 |
| Increase of 50 basis points | **0.6** | 1.5 | **0.6** | 1.5 |
| Decrease of 25 basis points | **(0.3)** | (0.7) | **(0.3)** | (0.7) |
| Decrease of 50 basis points | **(0.6)** | n/a | **(0.6)** | n/a |

## 17 Financial instruments (continued)

### Foreign exchange sensitivity

The sensitivity analysis for the prior year as set out below was 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 based on historical trends:

| | Impact on profit | | Impact on equity | |
|---|---|---|---|---|
| | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| Increase of 20% in the exchange spot rate | **–** | (28.9) | **–** | (28.9) |
| Increase of 10% in the exchange spot rate | **–** | (15.8) | **–** | (15.8) |
| Decrease of 10% in the exchange spot rate | **–** | 19.3 | **–** | 19.3 |
| Decrease of 20% in the exchange spot rate | **–** | 43.4 | **–** | 43.4 |

### Fair value of interest-bearing loans and borrowings

| | **Book value 2018 £m** | **Fair value 2018 £m** | Book value 2017 £m | Fair value 2017 £m |
|---|---|---|---|---|
| **Level 1** | | | | |
| £150.0 million 1.00% convertible bonds 2018 | **150.9** | **150.9** | 159.4 | 159.4 |
| **Level 2** | | | | |
| Cross currency swaps | **–** | **–** | (28.0) | (28.0) |
| Interest rate floor | **–** | **–** | (0.5) | (0.5) |
| **Other items not carried at fair value** | | | | |
| £142.9 million 5⅝% debenture stock 2029 | **22.0** | **27.0** | 143.9 | 177.9 |
| Private placement notes | **174.2** | **172.0** | 127.4 | 164.4 |
| £450.0 million revolving credit facility | **–** | **–** | 107.0 | 107.0 |
| | **347.1** | **349.9** | 509.2 | 580.2 |

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. In the prior year, the fair value of the Group's outstanding interest rate floor was 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. In the prior year, the fair value of the Group's cross currency swaps was 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 private placement notes were determined by comparing the discounted future cash flows using the contracted yields with those of the reference gilts plus the implied margins.

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 Obligations under finance leases

Finance lease obligations in respect of the Group's leasehold properties are payable as follows:

| | **Minimum lease payments 2018 £m** | **Interest 2018 £m** | **Present value of minimum lease payments 2018 £m** | Minimum lease payments 2017 £m | Interest 2017 £m | Present value of minimum lease payments 2017 £m |
|---|---|---|---|---|---|---|
| Less than one year | **1.9** | **(1.9)** | **–** | 1.8 | (1.8) | – |
| Between two and five years | **9.5** | **(9.4)** | **0.1** | 7.1 | (7.0) | 0.1 |
| More than five years | **196.9** | **(156.2)** | **40.7** | 178.6 | (142.8) | 35.8 |
| | **208.3** | **(167.5)** | **40.8** | 187.5 | (151.6) | 35.9 |

The Group's finance lease obligations increased to £40.8 million at 31 March 2018 due to the re-gear of the head-lease at City Tower, EC1.

# Notes forming part of the Group financial statements (continued)

## 19 Share capital

| | 2018 Number | 2018 £m | 2017 Number | 2017 £m |
|---|---|---|---|---|
| **Allotted, called up and fully paid ordinary shares of 15 5⁄19 pence** | | | | |
| At 1 April | **343,926,149** | **43.0** | 343,926,149 | 43.0 |
| Issue of shares | **22** | **–** | – | – |
| 19 for 20 share consolidation | **(17,196,308)** | **–** | – | – |
| 25 for 29 share consolidation | **(45,066,188)** | **–** | – | – |
| At 31 March | **281,663,675** | **43.0** | 343,926,149 | 43.0 |

On 18 May 2017, in conjunction with a special dividend (see note 22), the Company carried out a 19 for 20 share consolidation of the Company's ordinary share capital. On 27 March 2018, the Company's shareholders approved a return of capital of £306 million through the issue of new B shares, reducing the share premium account. On 13 April 2018, the Company redeemed the shares in order to return 93.65 pence per ordinary share to shareholders. The return of capital via a B share scheme, was carried out in conjunction with a 25 for 29 share consolidation of the Company's ordinary share capital. During the year, the Company issued 22 ordinary shares at par. After the issue and consolidations the Company had 281,663,675 ordinary shares with a nominal value of 15 5⁄19 pence each.

## 20 Investment in own shares

| | 2018 £m | 2017 £m |
|---|---|---|
| At 1 April | **3.8** | 9.1 |
| Employee Long-Term Incentive Plan and Share Matching Plan charge | **(2.0)** | (1.0) |
| Transfer to retained earnings | **0.6** | (4.3) |
| At 31 March | **2.4** | 3.8 |

The investment in the Company's own shares is held at cost and comprises 1,178,137 shares (2017: 1,804,412 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, 347,572 shares (2017: 765,065 shares) were awarded to directors and senior employees in respect of the 2014 LTIP and SMP award and 22 additional shares were acquired by the Trust (2017: no shares). The fair value of shares awarded and outstanding at 31 March 2018 was £2.4 million (2017: £2.1 million).

## 21 Notes to the Group statement of cash flows

### Reconciliation of financing liabilities

| | 1 April 2017 £m | Inflows/ (outflows) £m | New obligations £m | Fair value changes £m | Other £m | 31 March 2018 £m |
|---|---|---|---|---|---|---|
| Long-term borrowings | 537.7 | **(258.9)** | **75.2** | **–** | **(157.8)** | **196.2** |
| Short-term borrowings | – | **–** | **–** | **(8.5)** | **159.4** | **150.9** |
| Obligations under finance leases | 35.9 | **–** | **4.9** | **–** | **–** | **40.8** |
| Obligation to redeem B shares | – | **–** | **306.0** | **–** | **–** | **306.0** |
| Derivatives | (28.5) | **23.1** | **–** | **5.4** | **–** | **–** |
| | 545.1 | **(235.8)** | **386.1** | **(3.1)** | **1.6** | **693.9** |

## 21 Notes to the Group statement of cash flows (continued)

### Adjustment for non-cash items

| | 2018 £m | 2017 £m |
|---|---|---|
| (Surplus)/deficit from investment property | (35.5) | 136.9 |
| Employee Long-Term Incentive Plan and Share Matching Plan charge | 2.0 | 1.0 |
| Spreading of tenant lease incentives | (5.1) | (3.1) |
| Share of results of joint ventures | (41.2) | 57.2 |
| Depreciation | 0.9 | 0.9 |
| Other | – | (0.5) |
| Adjustments for non-cash items | (78.9) | 192.4 |

## 22 Dividends

| | 2018 £m | 2017 £m |
|---|---|---|
| **Ordinary dividends paid** | | |
| Interim dividend for the year ended 31 March 2018 of 4.0 pence per share | 13.0 | – |
| Special dividend for the year ended 31 March 2018 of 32.15 pence per share | 110.0 | – |
| Final dividend for the year ended 31 March 2017 of 6.4 pence per share | 20.8 | – |
| Interim dividend for the year ended 31 March 2017 of 3.7 pence per share | – | 12.7 |
| Final dividend for the year ended 31 March 2016 of 5.6 pence per share | – | 19.1 |
| | 143.8 | 31.8 |

A final dividend of 7.3 pence per share was approved by the Board on 23 May 2018 and will be paid on 9 July 2018 to shareholders on the register on 1 June 2018. The dividend is not recognised as a liability at 31 March 2018. The 2017 final dividend, 2018 interim dividend and the 2018 special 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:

| | 2018 £m | 2017 £m |
|---|---|---|
| **The Group as a lessor** | | |
| Less than one year | 81.7 | 76.7 |
| Between two and five years | 223.7 | 224.3 |
| More than five years | 166.8 | 169.2 |
| | 472.2 | 470.2 |

The Group leases its investment properties under operating leases. The weighted average length of lease at 31 March 2018 was 5.1 years (2017: 5.2 years). All investment properties, except those under development, generated rental income and no contingent rents were recognised in the year (2017: £nil).

| | 2018 £m | 2017 £m |
|---|---|---|
| **The Group as a lessee** | | |
| Less than one year | 1.0 | 1.0 |
| Between two and five years | 4.1 | 4.1 |
| More than five years | 2.0 | 3.0 |
| | 7.1 | 8.1 |

# Notes forming part of the Group financial statements (continued)

## 24 Employee benefits

The Group operates a UK-funded approved defined contribution plan. The Group's contribution for the year was £0.8 million (2017: £0.6 million). The Group also contributes to a defined benefit final salary pension plan ('the Plan'), the assets of which are held and managed 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 2017 by a qualified independent actuary using the projected unit method. The Plan was valued using the following key actuarial assumptions:

| | 2018 % | 2017 % |
|---|---|---|
| Discount rate | **2.70** | 2.60 |
| Expected rate of salary increases | **4.10** | 4.20 |
| RPI inflation | **3.10** | 3.20 |
| Rate of future pension increases | **5.00** | 5.00 |

Life expectancy assumptions at age 65:

| | 2018 Years | 2017 Years |
|---|---|---|
| Retiring today age 65 | **24** | 24 |
| Retiring in 25 years (age 40 today) | **27** | 27 |

The amount recognised in the balance sheet in respect of the Plan is as follows:

| | 2018 £m | 2017 £m |
|---|---|---|
| Present value of unfunded obligations | **(34.5)** | (39.9) |
| Fair value of the Plan assets | **35.0** | 34.1 |
| Pension surplus/(liability) | **0.5** | (5.8) |

Amounts recognised as administration expenses in the income statement are as follows:

| | 2018 £m | 2017 £m |
|---|---|---|
| Current service cost | **(0.5)** | (0.3) |
| Net interest cost | **(0.1)** | (0.1) |
| | **(0.6)** | (0.4) |

Changes in the present value of the pension obligation are as follows:

| | 2018 £m | 2017 £m |
|---|---|---|
| Defined benefit obligation at 1 April | **39.9** | 31.3 |
| Service cost | **0.5** | 0.3 |
| Interest cost | **1.0** | 1.1 |
| Effect of changes in financial assumptions | **(1.5)** | 7.8 |
| Effect of changes in demographic assumptions | **(1.4)** | – |
| Effect of experience adjustments | **(3.2)** | – |
| Benefits paid | **(0.8)** | (0.6) |
| Present value of defined benefit obligation at 31 March | **34.5** | 39.9 |

Changes to the fair value of the Plan assets are as follows:

| | 2018 £m | 2017 £m |
|---|---|---|
| Fair value of the Plan assets at 1 April | **34.1** | 28.6 |
| Interest income | **0.9** | 1.0 |
| Actuarial gain/(loss) | **0.1** | 4.2 |
| Employer contributions | **0.7** | 0.9 |
| Benefits paid | **(0.8)** | (0.6) |
| Fair value of the Plan assets at 31 March | **35.0** | 34.1 |
| Net pension surplus/(liability) | **0.5** | (5.8) |

The amount recognised immediately in the Group statement of comprehensive income was a gain of £6.1 million (2017: loss of £3.6 million).

## 24 Employee benefits (continued)

Virtually all equity and debt instruments have quoted prices in active markets. The fair value of the Plan assets at the balance sheet date is analysed as follows:

| | 2018 £m | 2017 £m |
|---|---|---|
| Cash | **0.5** | 0.1 |
| Equities | **13.7** | 14.1 |
| Bonds | **20.8** | 19.9 |
| | **35.0** | 34.1 |

Other than market and demographic risks, which are common to all retirement benefit schemes, there are no specific risks in the relevant benefit schemes which the Group considers to be significant or unusual. Detail on two of the more specific risks is detailed below:

### Changes in bond yields

Falling bond yields tend to increase the funding and accounting liabilities. However, the investment in corporate and government bonds offers a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is reduced.

### Life expectancy

The majority of the obligations are to provide a pension for the life of the member on retirement, so increases in life expectancy will result in an increase in the liabilities. The inflation-linked nature of the majority of benefit payments increases the sensitivity of the liabilities to changes in life expectancy.

The effect on the defined benefit obligation of changing the key assumptions, calculated using approximate methods based on historical trends, is set out below:

| | 2018 £m | 2017 £m |
|---|---|---|
| Discount rate -0.25% | **36.3** | 42.0 |
| Discount rate +0.25% | **32.9** | 37.9 |
| RPI inflation -0.25% | **33.7** | 38.9 |
| RPI inflation +0.25% | **35.3** | 40.9 |
| Post-retirement mortality assumption -1 year | **36.0** | 41.5 |

The Group expects to contribute £0.8 million to the Plan in the year ending 31 March 2019. The expected total benefit payments for the year ending 31 March 2019 is £0.6 million, with £4.5 million expected to be paid over the next five years. A revised funding plan has been agreed committing the Group to cash combinations of £347,000 p.a. over five years as well as a contribution rate of 46.8% p.a. of member pensionable salaries to eliminate any funding shortfalls and the ongoing benefit accrual.

## 25 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 15 $^{5}/_{19}$ 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.

## 26 Prior year adjustment

Following a review of the Group's Annual Report and Accounts for the year ended 31 March 2017 by the Financial Reporting Council, the cash flow statement for the year ended 31 March 2017 has been re-presented to classify funds to joint ventures of £33.6 million as investing rather than financing activities. There is no impact on the income statement or net assets as a result of this re-presentation.

# Independent auditor's report

## Independent auditor's report to the members of Great Portland Estates Plc

### Report on the audit of the financial statements

### Opinion

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 2018 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 Financial Reporting Standard 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.

We have audited the financial statements of Great Portland Estates plc (the 'parent company') and its subsidiaries (the 'Group') which 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 and parent Statements of Changes in Equity and the related notes 1 to 26 for the Group financial statements and i to viii for the parent company financial statements.

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, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Summary of our audit approach

| | |
|---|---|
| Key audit matters | The key audit matters that we identified in the current year were:<br>– Valuation of the property portfolio; and<br>– Accounting for acquisitions and disposals.<br>Last year our report included one other key audit matter which is not included in our report this year, being Revenue Recognition. The reasoning for the exclusion of the key audit matter is detailed below in our key audit matters section. |
| Materiality | The materiality that we used for the Group financial statements was £30 million which was determined on the basis of c.1% of Net Asset Value (NAV). |
| Scoping | Each subsidiary and joint venture entity is treated as a separate component for the audit. The Group team perform full scope audits for all of the Group's subsidiaries and joint ventures which are subject to audit. Those entities not subject to an underlying statutory audit are reviewed based on Group materiality. |
| Significant changes in our approach | There has been no other significant change in the Group's operations and therefore other than the change in audit matters as mentioned above there are no required changes to our approach. |

## Conclusions relating to going concern, principal risks and viability statement

| | | |
|---|---|---|
| **Going concern** | We have reviewed 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 and parent company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.<br><br>We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit. | **We confirm that we have nothing material to report, add or draw attention to in respect of these matters.** |
| **Principal risks and viability statement** | Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the parent company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:<br><br>– the disclosures on pages 72 to 81 that describe the principal risks and explain how they are being managed or mitigated;<br><br>– the directors' confirmation on page 68 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; or<br><br>– the directors' explanation on page 136 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.<br><br>We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit. | **We confirm that we have nothing material to report, add or draw attention to in respect of these matters.** |

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

In the prior year our report included one other key audit matter, in relation to revenue recognition, which is not included this year. Revenue for the Group consists primarily of rental income, where there is a standard process in place for recording revenue based on tenancy agreements. Complexities in revenue recognition may arise due to adjustments made to revenue for lease incentives and the recognition of surrender premia. In the current year there have been no material surrender premia and the level of lease incentives has continued to decrease, therefore we no longer consider revenue recognition to be a key audit matter.

# Independent auditor's report (continued)

| Valuation of property portfolio | |
|---|---|
| Key audit matter description | The Group owns a portfolio of property assets in central London. The portfolio is valued at £2,790.0 million (2017: £3,145.5 million), including share of joint venture properties, as at 31 March 2018.<br><br>The valuation of the portfolio is an area of significant judgement and includes a number of assumptions including capitalisation yields and future rental values. There is also a potential for fraud relating to the level of estimation required in determining the valuation.<br><br>The level of development activity remains high and therefore continues to be 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, financing costs and ERVs.<br><br>Please see critical judgements and accounting policy at pages 146 and 148, notes 10 and 12 to the financial statements and discussion in the report of the Audit Committee on page 102. |
| How the scope of our audit responded to the key audit matter | We assessed the design and implementation of controls relating to the valuation process.<br><br>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 an expert member of the audit team, who is a chartered surveyor, we discussed and challenged the valuation process, performance of the portfolio and significant judgements and assumptions applied in their valuation model, including yields, occupancy rates, lease incentives and break clauses. Our challenge included benchmarking the key assumptions to external market 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, and verifying costs to complete.<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. |
| Key observations | We conclude that the assumptions used in the valuations are supportable in light of available and comparable market evidence. |

| Accounting for acquisitions and disposals | |
|---|---|
| Key audit matter description | The Group has undertaken a number of acquisitions and disposals during the year including: (i) the acquisition of the freehold interest in Challenger House and Cityside House for a combined consideration of £49.5 million; (ii) the disposal of 30 Broadwick Street for £185.9 million; and (iii) the disposal of 240 Blackfriars Road from the Joint Venture for a total of £226.5 million. These are significant due to the individual nature, size, cash flows involved and the related specific disclosure requirements.<br><br>The Group recognise acquisitions and disposals when the risks and rewards of ownership have transferred, typically on completion. Depending on the specific terms of the transactions this can involve a high level of judgement in assessing the point at which the transaction should be accounted for.<br><br>Please see accounting policy at page 148 and notes 10, 11 and 12 to the financial statements. |
| How the scope of our audit responded to the key audit matter | For each transaction, we understood the nature of the transaction and assessed the proposed accounting treatment in relation to the Group's accounting policies.<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. Related costs and cash receipts have been verified to supporting evidence on a sample basis. |
| Key observations | 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. |

## 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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Group financial statements | Parent company financial statements |
|---|---|---|
| Materiality | £30.0 million (2017: £31.0 million) | £18.4 million (2017: £25.3 million) |
| Basis for determining materiality | We determined materiality for the Group to be £30 million (2017: £31 million), which is approximately 1% of NAV (2017: approximately 1% of NAV). | We determined materiality for the parent company to be £18.4 million (2017: £25.3 million), which is 3% of NAV (2017: 3% of NAV). |
| Rationale for the benchmark applied | 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. | We consider net assets to be a critical financial performance measure for the Group on the basis that the parent company holds all the investments therefore making the Balance Sheet the relevant primary statement for Management and lenders. |

In addition to net assets, we consider EPRA Profit Before Tax to be a critical financial performance measure for the Group and we applied a lower threshold of £3.0 million (2017: £2.8 million) based on 5% (2017: 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 £1 million (2017: £1 million) for the Group, 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 perform full scope audits for all of the Group's subsidiaries and joint ventures which are subject to audit at statutory materiality level which is lower than Group materiality, these materiality levels range from £3k to £27 million. Those entities not subject to an underlying statutory audit are reviewed based on Group materiality. This comprises 99% (2017: 99%) of the Group's revenue and 100% (2017: 100%) of net assets.

# Independent auditor's report (continued)

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

– **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

– **Audit Committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or

– **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

**We have nothing to report in respect of these matters.**

## Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

## Use of our report

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.

## Report on other legal and regulatory requirements

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- 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 Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the directors' 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 in respect of these matters.**

## Other matters

### Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Shareholders on 15 July 2003 to audit the financial statements for the year ending 31 March 2004 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 15 years, covering the years ending 31 March 2004 to 31 March 2018.

### Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

**Richard Muschamp, FCA (Senior statutory auditor)**
**For and on behalf of Deloitte LLP**
Statutory Auditor
London, United Kingdom
23 May 2018

# Company balance sheet

At 31 March 2018

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed asset investments | iii | **1,174.3** | 1,185.9 |
| | | **1,174.3** | 1,185.9 |
| **Current assets** | | | |
| Debtors | iv | **732.4** | 1,097.8 |
| Cash at bank and short-term deposits | | **356.3** | 24.9 |
| | | **1,088.7** | 1,122.7 |
| **Total assets** | | **2,263.0** | 2,308.6 |
| **Current liabilities** | v | **(1,466.1)** | (1,074.2) |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | vi | **(196.2)** | (378.3) |
| Option element of convertible bond | vii | **–** | (12.0) |
| Deferred tax | viii | **(2.3)** | – |
| | | **(198.5)** | (390.3) |
| **Total liabilities** | | **(1,664.6)** | (1,464.5) |
| **Net assets** | | **598.4** | 844.1 |
| | | | |
| **Capital and reserves** | | | |
| Share capital | 19 | **43.0** | 43.0 |
| Share premium account | | **46.0** | 352.0 |
| Capital redemption reserve | | **322.4** | 16.4 |
| Retained earnings | | **189.4** | 436.5 |
| Investment in own shares | 20 | **(2.4)** | (3.8) |
| **Shareholders' funds** | | **598.4** | 844.1 |

Notes: The profit within the Company financial statements was £202.1 million (2017: £2.0 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: 00596137) were approved by the Board on 23 May 2018 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 2018

| | Notes | Share capital £m | Share premium account £m | Capital redemption reserve £m | Retained earnings £m | Investment in own shares £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| Total equity at 1 April 2017 | | **43.0** | **352.0** | **16.4** | **436.5** | **(3.8)** | **844.1** |
| Profit for the year and total comprehensive income | | – | – | – | **202.1** | – | **202.1** |
| Issue of B shares | 19 | – | **(306.0)** | – | – | – | **(306.0)** |
| Redemption of B shares | 19 | – | – | **306.0** | **(306.0)** | – | – |
| Dividends to shareholders | 22 | – | – | – | **(143.8)** | – | **(143.8)** |
| Employee Long-Term Incentive Plan and Share Matching Plan charge | 20 | | – | – | – | **2.0** | **2.0** |
| Transfer to retained earnings | | – | – | – | **0.6** | **(0.6)** | – |
| **Total equity at 31 March 2018** | | **43.0** | **46.0** | **322.4** | **189.4** | **(2.4)** | **598.4** |

# Statement of changes in equity

For the year ended 31 March 2017

| | Notes | Share capital £m | Share premium account £m | Capital redemption reserve £m | Retained earnings £m | Investment in own shares £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| Total equity at 1 April 2016 | | 43.0 | 352.0 | 16.4 | 470.6 | (9.1) | 872.9 |
| Profit for the year and total comprehensive loss | | – | – | – | 2.0 | – | 2.0 |
| Employee Long-Term Incentive Plan and Share Matching Plan charge | 20 | – | – | – | – | 1.0 | 1.0 |
| Dividends to shareholders | 22 | – | – | – | (31.8) | – | (31.8) |
| Transfer to retained earnings | 22 | – | – | – | (4.3) | 4.3 | – |
| **Total equity at 31 March 2017** | | 43.0 | 352.0 | 16.4 | 436.5 | (3.8) | 844.1 |

# Notes forming part of the Company financial statements

## i Accounting policies

### Accounting convention

Great Portland Estates plc is a public company limited by shares incorporated and domiciled in the United Kingdom (England & Wales). The address of the registered office is given on page 189. The financial statements have been prepared on the historical cost basis except for the re-measurement of certain financial instruments to fair value. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. There were no significant judgements made or critical estimates applied in the preparation of the financial statements.

### Disclosure exemptions adopted

The separate financial statements of the company are presented as required by the Companies Act 2006. The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, the financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) Reduced Disclosure Framework as issued by the Financial Reporting Council incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and July 2016.

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

The Company is holding and financing Company for the Great Portland Estates plc Group. Shares in subsidiary undertakings and joint ventures are carried at amounts equal to their original cost less any provision for 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 146 to 150.

The Company participates in a group defined benefit scheme which is the legal responsibility of the B&HS Management Limited as the sponsoring employer. There is no contractual agreement or stated policy for charging the net defined benefit cost. In accordance with IAS 19 (Revised 2011), the Company accounts for the contributions to the scheme as if it were a defined contribution scheme. Details of the Group's pension plan can be found on pages 163 and 164.

The auditor's remuneration for audit and other services is disclosed in note 5 to the Group accounts.

## 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 £202.1 million (2017: profit of £2.0 million). The employees of the Company are the directors and the Company Secretary. Full disclosure of the directors' remuneration can be found on pages 108 to 134.

## iii Fixed asset investments

| | Investment in joint ventures £m | Shares in subsidiary undertakings £m | Total £m |
|---|---|---|---|
| At 1 April 2017 | 0.2 | 1,185.7 | 1,185.9 |
| Impairment | – | (11.6) | (11.6) |
| 31 March 2018 | **0.2** | **1,174.1** | **1,174.3** |

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 2018 was £1,174.3 million (2017: £1,185.9 million).

The subsidiaries of the Company at 31 March 2018 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 |
| Rathbone Square (No. 1) Limited | Property investment | G.P.E. (Rathbone Place 2) Limited | Property investment |
| Rathbone 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 | 73/77 Oxford Street 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 |
| The Rathbone Place Limited Partnership | Property investment | | |

# Notes forming part of the Company financial statements (continued)

## 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 |
| GHS (GP) Limited | Property investment | GPE (Hanover Square) Limited | Property investment |
| The GHS Limited Partnership | Property investment | GHS (Nominee) Limited | Property investment |
| GWP Duke Street Limited | Property investment | GWP Grays Yard Limited | Property investment |

All of the above companies are registered at 33 Cavendish Square, London W1G 0PW and operate in England and Wales except for: Great Portland Estates Capital (Jersey) Limited which is registered at 47 Esplanade, St Helier, Jersey JE1 0BD; Marcol House Jersey Limited, GHS (GP) Limited, GHS (Nominee) Limited and The GHS Limited Partnership which are registered at 44 Esplanade, St Helier, Jersey, JE4 9WG; The Newman Street Unite Trust which is registered at 11 Old Jewry, London, EC2R 8DU and VIII City Tower Holdings Sarl VIII and City Place House Holdings Sarl; which are registered 5, rue Guillaume Kroll, L-1822, Luxembourg. Great Portland Estates plc is the ultimate parent undertaking of the Great Portland Estates Group.

## iv Debtors

| | **2018 £m** | 2017 £m |
|---|---|---|
| Amounts owed by subsidiary undertakings | **584.6** | 876.7 |
| Amounts owed by joint ventures | **145.6** | 192.2 |
| Other debtors | **2.2** | 0.4 |
| Derivatives | **–** | 28.5 |
| | **732.4** | 1,097.8 |

See note 17 in the Group accounts for the full derivative disclosures.

## v Current liabilities

| | 2018 £m | 2017 £m |
|---|---|---|
| Amounts owed to subsidiary undertakings | **1,146.3** | 1,060.6 |
| Amounts owed to joint ventures | **5.5** | 5.5 |
| Other taxes and social security costs | **2.4** | 2.0 |
| Obligation to redeem B shares | **306.0** | – |
| Other creditors | **1.9** | 1.7 |
| Option element of convertible bond (see note vii) | **0.9** | – |
| Accruals | **3.1** | 4.4 |
| | **1,466.1** | 1,074.2 |

On 27 March 2018, the Company's shareholders approved a return of capital of £306.0 million through the issue of new B shares. On 13 April 2018, the Company redeemed the shares in order to return 93.65 pence per ordinary share to shareholders. As a result, this was a liability at 31 March 2018.

## vi Interest-bearing loans and borrowings

| | 2018 £m | 2017 £m |
|---|---|---|
| Bank loans | **–** | 107.0 |
| Debentures | **22.0** | 143.9 |
| Private placement notes | **174.2** | 127.4 |
| | **196.2** | 378.3 |

At 31 March 2018, property with a carrying value of £388.4 million (2017: £380.9 million) was secured under the first mortgage debenture stock. 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 a conversion price of £7.21 per share. 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 Deferred tax

| | 1 April 2017 £m | Recognised in the income statement £m | 31 March 2018 £m |
|---|---|---|---|
| Deferred tax liability in respect of £150 million 1.00% convertible bonds 2018 | (2.8) | **–** | **(2.8)** |
| Deferred tax in respect of revenue losses | 2.0 | **(2.0)** | **–** |
| Deferred tax in respect of other temporary differences | 0.8 | **(0.3)** | **0.5** |
| | – | **(2.3)** | **(2.3)** |

A deferred tax asset of £0.5 million (2017: £1.1 million) mainly relating to revenue losses and contingent share awards was not recognised because it is uncertain whether future taxable profits will arise against which this asset can be utilised.

# Other information

In this section:



## What they say...

"It was a great experience for us to partner with a landlord who shares our values of good design, collaboration and innovation. Through these values, we have created a new home that is 'Well' standard accredited and reflects the business we are proud of."

**David Savage**
Technical Director, HKS Architects

## What we say...

"One of the most satisfying parts of my job is taking the bare bones of a building and being involved in the re-imagination and creation of its potential. When you undertake that journey in partnership with an occupier wanting to produce an outstanding new headquarters for their business, it is even more rewarding."

**Paul Howard**
Building Surveyor

Paul Howard, Building Surveyor, David Savage and Rob Russell-Smith, Portfolio Manager on the basement floor at Esley House, W1.

# Five year record

## Based on the Group financial statements for the years ended 31 March

### Balance sheet

| | 2014 £m | 2015 £m | 2016 £m | 2017 £m | **2018 £m** |
|---|---|---|---|---|---|
| Property portfolio | 1,972.7 | 2,348.2 | 2,932.1 | 2,351.9 | **2,305.2** |
| Joint ventures | 524.8 | 636.7 | 543.4 | 480.8 | **423.7** |
| Trading property | 93.3 | 115.9 | 172.4 | 246.7 | **19.5** |
| Loans and borrowings | (623.5) | (638.5) | (600.2) | (537.7) | **(347.1)** |
| Other liabilities | (35.4) | (71.4) | (135.5) | 196.7 | **(34.4)** |
| **Net assets** | **1,931.9** | **2,390.9** | **2,912.2** | **2,738.4** | **2,366.9** |

### Financed by

| | £m | £m | £m | £m | **£m** |
|---|---|---|---|---|---|
| Issued share capital | 43.0 | 43.0 | 43.0 | 43.0 | **43.0** |
| Reserves | 1,888.9 | 2,347.9 | 2,869.2 | 2,695.4 | **2,323.9** |
| **Total equity** | **1,931.9** | **2,390.9** | **2,912.2** | **2,738.4** | **2,366.9** |
| | | | | | |
| **Net assets per share** | **564p** | **701p** | **847p** | **796p** | **840p** |
| **EPRA NAV** | **569p** | **709p** | **847p** | **799p** | **845p** |

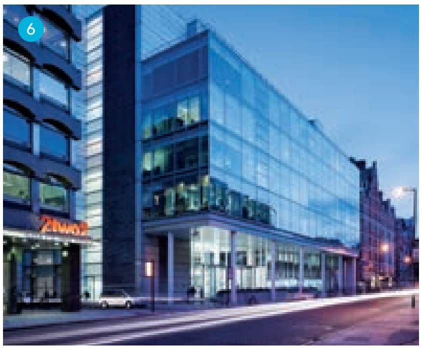
### Income statement

| | £m | £m | £m | £m | **£m** |
|---|---|---|---|---|---|
| Net rental income | 69.7 | 66.0 | 75.5 | 80.2 | **92.0** |
| Joint venture fee income | 6.9 | 4.2 | 4.1 | 4.1 | **5.2** |
| Rental and joint venture fee income | 76.6 | 70.2 | 79.6 | 84.3 | **97.2** |
| Property and administration expenses | (32.3) | (27.8) | (32.6) | (27.4) | **(35.4)** |
| Profit/(loss) on trading property | (1.6) | (4.8) | (0.6) | (0.3) | **11.6** |
| Development management (losses)/profits | – | 1.7 | 4.0 | – | **(0.4)** |
| | 42.7 | 39.3 | 50.4 | 56.6 | **73.0** |
| Surplus/(deficit) on investment property | 325.6 | 380.6 | 422.2 | (136.9) | **35.5** |
| Share of results of joint ventures | 105.6 | 84.7 | 66.8 | (57.2) | **41.2** |
| **Operating profit/(loss)** | **473.9** | **504.6** | **539.4** | **(137.5)** | **149.7** |
| Finance income | 9.9 | 11.8 | 7.8 | 9.0 | **9.8** |
| Finance costs | (26.5) | (17.7) | (14.8) | (9.2) | **(11.2)** |
| Fair value movement on convertible bond | (11.3) | (21.7) | 13.5 | 10.1 | **8.5** |
| Fair value movement on derivatives | (23.8) | 30.4 | 9.2 | 38.9 | **(5.4)** |
| Non-recurring items | – | – | – | (51.5) | **(74.7)** |
| **Profit/(loss) before tax** | **422.2** | **507.4** | **555.1** | **(140.2)** | **76.7** |
| Tax | – | 0.8 | 1.1 | 0.8 | **(6.4)** |
| **Profit/(loss) for the year** | **422.2** | **508.2** | **556.2** | **(139.4)** | **70.3** |
| | | | | | |
| **Earnings/(loss) per share – basic** | **123.4p** | **148.3p** | **162.6p** | **(40.8)p** | **21.5p** |
| **Earnings/(loss) per share – diluted** | **122.5p** | **147.4p** | **161.9p** | **(40.8)p** | **18.2p** |
| **EPRA earnings per share – diluted** | **11.0p** | **12.7p** | **13.5p** | **17.3p** | **20.4p** |
| **Dividend per share** | **8.8p** | **9.0p** | **9.2p** | **10.1p** | **11.3p** |

# Our properties and occupiers






In value order (GPE share)

## £200 million plus

| Ownership | Property name | | Location | Tenure | Rent roll (GPE share) £ | Net internal area sq ft |
|---|---|---|---|---|---|---|
| 100% | The Piccadilly Buildings | 1 | Rest of West End | LH | 13,074,800 | 187,800 |

## £100 million – £200 million

| Ownership | Property name | | Location | Tenure | Rent roll (GPE share) £ | Net internal area sq ft |
|---|---|---|---|---|---|---|
| 100% | Wells & More, 45 Mortimer Street | 2 | Noho | FH | 6,236,400 | 123,200 |
| 100% | Oxford House, 76 Oxford Street | 3 | Noho | FH | 1,993,500 | 116,000 |
| 50% | Hanover Square Estate | 4 | Rest of West End | FH | – | 221,300 |
| 100% | 160 Great Portland Street | 5 | Noho | FH | 5,548,300 | 92,900 |
| 50% | 200 & 2014 Gray's Inn Road | 6 | Midtown | LH | 5,539,700 | 287,000 |
| 50% | Mount Royal, 508/540 Oxford Street | 7 | Noho | LH | 6,337,000 | 92,100 |
| 100% | City Tower, 40 Basinghall Street | 8 | City | LH | 5,555,500 | 142,000 |
| 100% | 50 Finsbury Square | 9 | City | FH | 6,753,700 | 126,400 |
| 100% | Kent House, 14/17 Market Place | 10 | Noho | FH | 4,055,800 | 59,300 |
| 100% | Walmar House, 288/300 Regent Street | 11 | City | LH | 4,270,000 | 56,500 |

## £75 million – £100 million

| Ownership | Property name | | Location | Tenure | Rent roll (GPE share) £ | Net internal area sq ft |
|---|---|---|---|---|---|---|
| 100% | Elsley House, 20/30 Great Titchfield Street | 12 | Noho | FH | 2,477,000 | 64,900 |
| 100% | City Place House, 55 Basinghall Street | 13 | City | LH | 4,591,700 | 176,600 |
| 100% | Minerva House | | Southwark | FH | 3,929,900 | 106,800 |
| 100% | New City Court, 14/20 St Thomas Street | | Southwark | FH | 3,360,000 | 97,800 |
| 100% | 35 Portman Square | | Noho | LH | 3,908,400 | 73,000 |
| 100% | Carrington House, 126/130 Regent Street | | Rest of West End | LH | 2,348,00 | 31,100 |



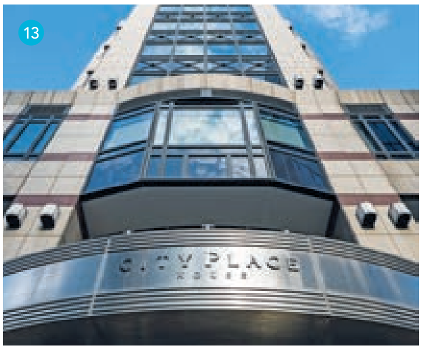




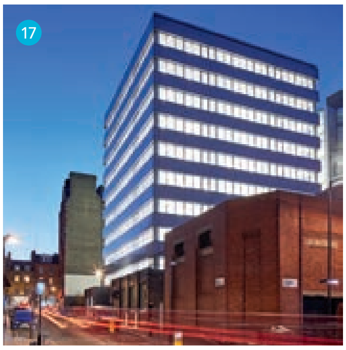
In value order (GPE share)

| Ownership | Property name | | Location | Tenure | Rent roll (GPE share) £ | Net internal area sq ft |
|---|---|---|---|---|---|---|
| **£50 million – £75 million** | | | | | | |
| 50% | 160 Old Street | 14 | City | FH | – | 161,700 |
| 100% | 55 Wells Street | 15 | Noho | FH | 2,355,800 | 37,300 |
| 100% | 78/92 Great Portland Street | 16 | Noho | FH | 1,761,105 | 54,300 |
| 100% | Orchard Court | | Noho | LH | 2,224,600 | 47,800 |
| 100% | 24/25 Britton Street | | Midtown | FH/LH | 2,558,500 | 51,400 |
| **£40 million – £50 million** | | | | | | |
| 100% | 46/58 Bermondsey Street | | Southwark | FH | 1,995,600 | 46,800 |
| **£30 million – £40 million** | | | | | | |
| 100% | 27/35 Mortimer Street | | Noho | FH | 1,506,000 | 30,900 |
| 50% | 103/113 Regent Street | | Rest of West End | LH | 2,125,000 | 56,900 |
| 100% | 31/34 Alfred Place | | Noho | LH | 2,221,300 | 37,200 |
| 100% | 10/12 Cork Street | | Rest of West End | LH | 1,573,100 | 21,300 |
| 100% | 95/96 New Bond Street | | Rest of West End | LH | 880,000 | 9,600 |
| 100% | 48/54 Broadwick Street | | Rest of West End | FH | 1,013,000 | 32,300 |
| 100% | 6/10 Market Place | | Noho | FH | 1,133,000 | 18,400 |
| **£20 million – £30 million** | | | | | | |
| 100% | Challenger House | | City | FH | 1,412,500 | 14,400 |
| 100% | Percy House, 33/34 Gresse Street | | Noho | FH | 875,400 | 17,300 |
| 50% | Elm Yard | 17 | Midtown | FH | 633,500 | 49,400 |
| 100% | Kingsland House, 122/124 Regent Street | | Rest of West End | LH | 964,800 | 8,700 |
| 100% | Cityside House | 18 | City | FH | – | 74,700 |
| 100% | Rathbone Square residential | | Noho | LH | – | 9,000 |

# Our properties and occupiers (continued)











In value order (GPE share)

| Ownership | Property name | Location | Tenure | Rent roll (GPE share) £ | Net internal area sq ft |
|---|---|---|---|---|---|
| **£10 million – £20 million** | | | | | |
| 100% | 32/36 Great Portland Street | Noho | FH | 730,500 | 12,900 |
| **Below £10 million** | | | | | |
| 100% | 6 Brook Street | Rest of West End | LH | 295,700 | 3,600 |
| 100% | 183/190 Tottenham Court Road | Noho | LH | 455,800 | 12,000 |
| 100% | Poland Street | Rest of West End | FH | 109,500 | 1,900 |
| 100% | 23/24 Newman Street | Noho | LH | 192,900 | 25,100 |

FH = Freehold or Virtual Freehold.
LH = Leasehold.

### Top ten occupiers

| | Occupier | Use | Rent roll (our share) £m | % of rent roll (our share) |
|---|---|---|---|---|
| 1 | Bloomberg L.P. | Office | 5.7 | 5.3 |
| 2 | Double Negative Limited | Office | 5.4 | 5.0 |
| 3 | New Look | Office | 3.8 | 3.5 |
| 4 | Richemont UK Limited | Office | 2.6 | 2.4 |
| 5 | Kurt Geiger Limited | Office | 2.5 | 2.3 |
| 6 | Winckworth Sherwood LLP | Office | 2.5 | 2.3 |
| 7 | Carlton Communications Limited | Office | 2.3 | 2.2 |
| 8 | Superdry | Retail | 2.1 | 2.0 |
| 9 | Williams Lea Limited | Office | 1.7 | 1.6 |
| 10 | ITN Limited | Office | 1.6 | 1.5 |
| | **Total** | | **30.2** | **28.1** |

# Portfolio statistics at 31 March 2018

## 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 | 32.9 | 1.9 | 34.8 | – | – | – | 34.8 |
| | | Retail | 9.4 | 2.0 | 11.4 | 6.4 | 0.1 | 6.5 | 17.9 |
| | Rest of West End | Office | 11.4 | 0.6 | 12.0 | – | – | – | 12.0 |
| | | Retail | 8.8 | 2.3 | 11.1 | 2.1 | 0.2 | 2.3 | 13.4 |
| | **Total West End** | | **62.5** | **6.8** | **69.3** | **8.5** | **0.3** | **8.8** | **78.1** |
| | City, Midtown and Southwark | Office | 27.4 | 4.9 | 32.3 | 6.2 | 1.0 | 7.2 | 39.5 |
| | | Retail | 2.7 | – | 2.7 | – | – | – | 2.7 |
| | **Total City, Midtown and Southwark** | | **30.1** | **4.9** | **35.0** | **6.2** | **1.0** | **7.2** | **42.2** |
| **Total let portfolio** | | | **92.6** | **11.7** | **104.3** | **14.7** | **1.3** | **16.0** | **120.3** |
| Voids | | | | | 7.4 | | | 0.6 | 8.0 |
| Premises under refurbishment | | | | | 18.7 | | | 17.1 | 35.8 |
| **Total portfolio** | | | | | **130.4** | | | **33.7** | **164.1** |

## 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 | 47.3 | 6.6 | 5.3 | – | – | – |
| | | Retail | 50.0 | 5.3 | 1.6 | 31.3 | 5.0 | – |
| | Rest of West End | Office | 4.7 | 3.2 | 15.5 | – | – | – |
| | | Retail | 40.2 | 5.1 | – | 100.0 | 9.0 | – |
| | **Total West End** | | **38.9** | **5.5** | **5.8** | **48.6** | **6.0** | **–** |
| | City, Midtown and Southwark | Office | 20.3 | 3.2 | 5.4 | 48.4 | 5.0 | 4.6 |
| | | Retail | 70.0 | 13.5 | 1.2 | – | – | – |
| | **Total City, Midtown and Southwark** | | **24.9** | **4.2** | **5.5** | **48.4** | **5.0** | **4.5** |
| **Total portfolio** | | | **34.3** | **5.1** | **5.7** | **48.5** | **5.6** | **1.6** |

## 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 | 64.3 | 71.0 | – | – | 3.4 | 4.3 | – | – |
| | | Retail | 56.5 | 77.3 | 137.6 | 141.1 | 3.2 | 4.1 | 5.1 | 4.1 |
| | Rest of West End | Office | 71.0 | 74.1 | – | 107.4 | 3.6 | 4.6 | – | – |
| | | Retail | 90.5 | 114.7 | 74.8 | 122.3 | 3.7 | 4.0 | 3.9 | 3.7 |
| | **Total West End** | | **66.8** | **72.2** | **113.6** | **116.2** | **3.4** | **4.3** | **4.8** | **4.0** |
| | City, Midtown and Southwark | Office | 46.0 | 53.8 | 39.4 | 48.8 | 4.5 | 5.1 | 3.4 | 5.0 |
| | | Retail | 81.2 | 80.3 | – | 47.5 | 3.8 | 4.6 | – | – |
| | **Total City, Midtown and Southwark** | | **47.9** | **53.9** | **39.4** | **48.8** | **4.5** | **5.1** | **3.4** | **5.0** |
| **Total portfolio** | | | **59.2** | **64.6** | **63.3** | **76.5** | **3.7** | **4.5** | **4.1** | **4.5** |

# Notice of meeting

Notice is hereby given that the 61st Annual General Meeting of Great Portland Estates plc will be held at Chandos House, 2 Queen Anne Street, London W1, on Thursday, 5 July 2018 at 11.30am, for the purposes set out below, with the Board available from 11am to meet shareholders and answer questions.

As ordinary business, to consider and, if thought fit, pass the following Resolutions 1 to 13 inclusive as ordinary resolutions.

## 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 2018.
2. To authorise the payment of a final dividend for the year ended 31 March 2018.
3. To approve the Directors' remuneration report as set out on pages 108 to 134, other than the part containing the Directors' remuneration policy that appears on pages 124 to 134, for the year ended 31 March 2018.
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 Martin Scicluna as a director of the Company.
7. To re-elect Charles Philipps as a director of the Company.
8. To re-elect Wendy Becker as a director of the Company.
9. To re-elect Nick Hampton as a director of the Company.
10. To re-elect Richard Mully as a director of the Company.
11. To elect Alison Rose as a director of the Company.
12. To reappoint Deloitte LLP as auditor.
13. To authorise the Audit Committee to agree the remuneration of the auditor.

As special business, to consider and, if thought fit, to pass the following resolution 14 as an ordinary resolution, and resolutions 15 to 18 inclusive as special resolutions. The items of special business are explained in more detail in the Report of the directors on pages 137 to 139.

14. 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 2019; 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

15. 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 2019.
16. That:
    - (a) in addition to any authority granted under resolution 15, the directors be given power:
        - (i) subject to the passing of resolution 14, 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 2019; 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.
17. That, in accordance with section 701 of 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 ordinary shares on such terms and in such manner as the directors may determine, provided that:
    - (a) the maximum number of ordinary shares which may be purchased is 42,221,384;
    - (b) the maximum price at which ordinary 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 ordinary 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 on the trading venue where the purchase is carried out, and the minimum price shall be $15^{5}/_{19}$ pence, being the nominal value of the ordinary 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 2019, 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 ordinary shares in pursuance of any such contract; and

(d) all existing authorities for the Company to make market purchases of its ordinary shares are revoked, except in relation to the purchase of ordinary shares under a contract or contracts concluded before the date of this resolution and which has or have not yet been executed.

18. 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
23 May 2018

## 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.signalshares.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 (excluding any UK non-working days).
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 22 May 2018 (being the latest practicable date prior to the publication of this Notice), the Company's issued share capital consists of 281,663,675 ordinary shares, carrying one vote each. No shares were held in treasury. Therefore, the total voting rights in the Company as at 22 May 2018 are 281,663,675.
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 close of business on 3 July 2018 (or in the event of any adjournment, at close of business on the date which is two days before the date of the adjourned meeting excluding any UK non-working days) 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.

# 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.

### Cash EPS
EPRA EPS adjusted for non-cash items: tenant incentives, capitalised interest and charges for share-based payments.

### Development profit on cost
The value of the development at completion, less the value of the land at the point of development commencement and costs to construct (including finance charges, letting fees, void costs and marketing expenses).

### Development profit on cost %
The development profit on cost divided by the land value at the point of development commencement together with the costs to construct.

### Earnings Per Share (EPS)
Profit after tax divided by the weighted average number of ordinary shares in issue.

### EPRA metrics
Standard calculation methods for adjusted EPS and NAV and other operating metrics 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 Group's valuers at each balance sheet date.

### Fair value – Investment property
The amount as estimated by the Group'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 (Lfl)
The element of the portfolio that has 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.

### 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 potential
The percentage by which ERV exceeds rent roll on let space.

### Total Accounting Return (TAR)
Growth of EPRA NAV plus dividends paid.

### 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, deferred tax and tax arising on sale of trading properties 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.

### Ungeared IRR
The ungeared internal rate of return (IRR) is the interest rate at which the net present value of all the cash flows (both positive and negative) from a project or investment equal zero, without the benefit of financing. The internal rate of return is used to evaluate the attractiveness of a project or investment.

### 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.

### Whole life surplus
The value of the development at completion, less the value of the land at the point of acquisition and costs to construct (including finance charges, letting fees, void costs and marketing expenses) plus any income earned over the period.

# 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:

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU
Tel: 0871 664 0300
E-mail: shareholder.services@linkgroup.co.uk

(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 **https://register.fca.org.uk**
- 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 Link Asset Services, 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 Link Share Deal. For further information on this service, or to buy and sell shares, please contact:

Online dealing – **www.linksharedeal.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
Registered number: 596137

# Financial calendar

## 2018

**31 May**
Ex-dividend date for 2017/18 final dividend

**1 June**
Registration qualifying date for 2017/18 final dividend

**5 July**
Annual General Meeting

**9 July**
2017/18 final dividend payable

**15 November**
Announcement of 2018/19 interim results

**22 November**
Ex-dividend date for 2018/19 interim dividend (provisional)[1]

**23 November**
Registration qualifying date for 2018/19 interim dividend (provisional)[1]

## 2019

**2 January**
2018/19 interim dividend payable (provisional)[1]

**22 May**
Announcement of 2018/19 full year results (provisional)[1, 2]

1. Provisional dates will be confirmed in the half year results announcement 2018.
2. The timetable for the potential final dividend will be confirmed in the 2019 Annual Report.

Design and production by Radley Yeldar | ry.com

Key photography taken by Steve Bates and Andy Wilson

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