

## Corporate governance

**Good communication, both internally and externally, together with transparency in how we operate, is fundamental to achieving good governance.**

Great Portland Estates' Board is committed to maintaining a high standard of corporate governance in respect of leadership, effectiveness, accountability, remuneration and our relationship with our shareholders as identified by the UK Corporate Governance Code. Fundamental to achieving these is, I believe, transparency in how we operate, together with good communication, both internally and externally.

### Board culture and evaluation

Leadership starts with the Board and each year the Board undertakes a formal evaluation of its own performance and that of its Committees and individual directors either internally, by the Senior Independent Director, or by external consultants. In order to maintain objectivity and to ensure "best practice" following two years of internal Board review, this year the performance evaluation was undertaken externally by Jan Hall of JCA Group, who provides no other services to the Group, which concluded the Board operated in an efficient and effective manner. The process covered Board, Committee and personal performance and the output was reviewed at the January 2011 Board meeting to ensure any pertinent points could be incorporated into the Group's strategic review and wider corporate governance review in March 2011. Overall the process confirmed that:

- there is open and real dialogue between the executive and Non-Executive Directors with the right balance being achieved in the level of constructive challenge and contribution given by the different members of the Board;
- the Committees were considered to be working effectively; and
- the quality of information provided to the Board was high.

Whilst there were no recommendations to change the way in which the Board operates, unsurprisingly, it was considered that the Board's review of risk and the make up of the Board were key areas which should be continually borne in mind in maintaining the Board's effectiveness.

### Resourcing and succession planning

To implement our strategy to make further selected acquisitions, to drive rental growth and execute our extensive development programme during the year we have actively recruited to help broaden the strength and depth of our asset management, investment, development and finance teams. Overall headcount has increased by almost 15% and we have appointed individuals with significant experience. As part of the Strategy Review, the Board also reviews the succession planning and development requirements for key executives and senior managers across each of the teams.

In January 2011, we announced that Timon Drakesmith will resign with effect from 27 May 2011 and we are in the process of recruiting his replacement. Timon Drakesmith has made a significant contribution to the Group's progress since 2005 and we wish him well in his new role.

In accordance with the UK Corporate Governance Code, for the first time this year, all of the directors will be submitting themselves for re-election at the Annual General Meeting.

### Risk management

Consideration of risks is integral to each stage in all of the Group's activities of investment, asset management and development. When seeking approval of projects or transaction events, "sponsoring" individuals are specifically required to highlight the main risks associated with the transaction and how these will be monitored and addressed. These are debated by both Senior Executives and the Board, as appropriate, as part of the transaction approval process. During 2010, the Group revisited how it formally reported on its risks internally and the revised processes were reviewed by the Audit Committee. Since July 2010, the whole Board now formally considers the Group's risks and review processes at its November and May Board meetings. The Group's key risks and how they have changed during the year, along with processes used to manage them are disclosed on pages 43 to 45.

The work undertaken by the Audit Committee during the year is also covered on pages 97 to 99.



Martin Scicluna Chairman

### Bribery Act 2010

With the Bribery Act 2010 coming into force on 1 July 2011, we have reviewed our policies and procedures to ensure that we will be compliant with the Act. Although our way of conducting our business has not changed as a result of this review, in some areas we have amended our policies and procedures to ensure that our agents acknowledge their obligations under the Act, and internally, that we document the basis of decisions taken in selecting contractors and awarding tenders. Where appropriate, members of the asset management, investment and development teams have received training on these changes. Our whistleblowing policy has also been updated to include third parties and has been made available on our Company website.

### Executive reward

In 2010, the Chairman of the Remuneration Committee and I met with a number of the Group's major shareholders and consulted with several shareholder representative bodies on a proposed new remuneration structure designed to simplify the Group's remuneration structures and to ensure the measures under the Group's performance plans mirrored the fundamental measures that demonstrate the Group's performance, being:

- growth in absolute Net Asset Value per share;
- relative Total Shareholder Return; and
- relative Total Property Return.

I am pleased to be able to report that the new remuneration structure was approved at our 2010 Annual General Meeting and the alignment of the Group's variable awards for executives with Company strategy is shown on page 105 of the Remuneration Report.

### Communication with shareholders

Communication with shareholders is given a high priority by the board with over 180 presentations being made in the year to investors, potential investors and analysts by a combination of the Executive Director team and senior managers 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. I am also delighted to be able to say that, for the third time in four years, we received external recognition for our efforts on our Annual Report in winning the PwC Building Public Trust Awards 2010 "Excellence in Reporting" in the FTSE 250.

A handwritten signature in black ink, which appears to read "M. Scicluna". The signature is fluid and cursive.

Martin Scicluna  
Chairman

## Corporate governance

**What is the role of the Board and the Committees and what have they done during the year?****The Board of Directors**

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

**Composition**

The Board comprises the Chairman, three Executive Directors and four Non-Executive Directors. The biographies of all members of the Board are set out on pages 36 and 37. Martin Scicluna as Chairman is responsible for leading the Board and its effectiveness and Toby Courtauld as Chief Executive is responsible for the day-to-day management of the Company, with the division of responsibilities approved by the Board. Charles Irby, the Senior Independent Director is available to shareholders as required and acts as a sounding board for the Chairman.

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

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

	Board – scheduled (7 meetings)	Board – other (8 meetings) <sup>1</sup>	Nomination Committee (1 meeting)	Remuneration Committee (7 meetings)	Audit Committee (6 meetings)
Chairman					
Martin Scicluna <sup>2</sup>	7	8	1	4(4)	3(2)
Executive Directors					
Toby Courtauld	7	8	–	–	–
Timon Drakesmith	7	8	–	–	–
Neil Thompson	7	8	–	–	–
Non-Executive Directors					
Charles Irby	7	6	1	7	6
Jonathan Nicholls	7	8	–	7	6
Phillip Rose	7	7	1	–	6
Jonathan Short	7	8	–	7	6

<sup>1</sup> As a result of a number of significant transactions during the year, there were eight unscheduled Board meetings during the year – see page 95.

<sup>2</sup> Although Martin Scicluna is not a member of either the Audit or Remuneration Committee, in his role of Chairman, he attends key meetings of the Remuneration Committee relating 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 Remuneration and Audit Committee meetings the Chairman is expected to have attended in this respect.

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

**Board activities**

The Board meets for scheduled Board meetings at least seven times a year. Key matters reserved for the Board at those meetings include:

- the setting and monitoring of strategy, including dividend policy;
- review of the Group's risk and related controls;
- reviewing performance and implementation of the strategy by the Executive Directors;
- reviewing the Group's property valuation;
- significant financing arrangements;
- examining major potential acquisitions and disposals;
- approval of major developments;
- interim, half year and annual reporting to shareholders;
- approving policy on key areas including sustainability objectives and targets, health and safety and the environment;
- Board appointments and the appointment of the Company Secretary; and
- corporate governance arrangements and the Board evaluation.

Additional Board meetings were held during the year to approve:

- the establishment of GSP and the purchase of City Place House, EC3 (see pages 10 and 11);
- the Bishopsgate Business Plan, a new Development Agreement with the Leathersellers Company and the demolition contract;
- the purchase of Capital & Counties Properties PLC half share of four properties held within GCP (see page 24);
- a new £350 million revolving credit facility (see page 34);
- the pre-let of 24/25 Britton Street, EC1 (see pages 12 and 13);
- the acquisition of 20 St James's Street, SW1 (see page 24)
- the lease surrender of 160 Great Portland Street, W1 (see page 26);
- the GWP Wigmore Street development; and
- the Crossrail Masterplan Development Agreement (see page 29).

At least once a year 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 twice a year the Non-Executives meet without the Chairman.

In addition, individual directors meet regularly outside the formal Board meetings as part of each director's contribution to the delivery of the Company's strategy and review of operations. The Executive Directors meet weekly as the Executive Committee, chaired by the Chief Executive, to deal with the ongoing management of the Group with copies of the minutes of these meetings distributed to the Chairman and Non-Executive Directors.

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 which, this year, included a tour of the GSP buildings, City Tower and City Place House and the public exhibition in relation to the Hanover Square site. All directors have access to the advice and services of the Company Secretary, who is responsible to the Chairman on matters of corporate governance.

The Company maintains directors' and officers' liability insurance and pension trustee liability insurance, both of which are reviewed annually.

## Committees of the Board

The Board has Audit, Remuneration and Nomination Committees which deal with specific aspects of the Group's affairs, each of which has written terms of reference and which are reviewed annually by the Board. Copies of these terms of reference are available on written request and on the Company's website at [www.gpe.co.uk/investors/governance/](http://www.gpe.co.uk/investors/governance/)

The Chairman of each Committee reports the outcome of the meetings to the Board.

## Board induction and development

On appointment, Non-Executive Directors, who are expected to provide a time commitment to the Company of at least 24 days a year, are provided with a detailed induction programme. This covers the Company's operations, including social, ethical and environmental matters, and meetings with senior management as part of a guided tour of the Group's main properties.

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 presented to the Board during the year on a range of subjects including the outlook for the property market, the West End and City markets and asset management tools used by the Group. The directors also individually attend seminars or conferences associated with their expertise or responsibility. The level and nature of training by the directors is reviewed by the Chairman at least annually.

## Conflicts of interest

In accordance with the Companies Act 2006, 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 decision to authorise a conflict of interest can only be made by non-conflicted directors (those who have no interest in the matter being considered) and in making such a decision the directors must act in a way they consider in good faith will be most likely to promote the Company's success. The Company has established a procedure whereby actual and potential conflicts of interest of current and proposed roles to be undertaken by the Board 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 prior to the appointment of any new director. The Board consider these procedures to be working effectively.

## Corporate governance

### Internal controls and risk management

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

Such a system can only provide reasonable, and not absolute, assurance against material 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 Turnbull guidance "Internal Control – Guidance for Directors on the Combined Code".

Key features of the system of internal control include:

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

Twice a year, the Audit Committee carries out a review of the framework of how the Group's risks are managed through operational management procedures/authorisations, ongoing review by the Executive Committee, and Board review and oversight. The Committee formally considers the scope and effectiveness of the Group's system of internal control and reports to the Board. This involves the identification of risks specific to the areas of property and financial markets which impact on the Group's objectives, together with the controls and reporting procedures designed to minimise those risks, which are reviewed, formalised and updated throughout the year, as appropriate. These include business risks, financial controls, social, ethical and environmental issues and policy, and the regulatory environment. Key risks to the business, how these have changed during the year and the processes in place by which the Company aims to manage those risks are included on pages 43 and 45.

### Relations with shareholders

Communication with shareholders is given a high priority and the Company undertakes a regular dialogue with major shareholders and fund managers. Visits are also arranged to properties of particular interest or significance, particularly in relation to developments, to assist investors' understanding of the Company's business. The Executive Directors 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 all major shareholders is provided to the Non-Executive Directors on a regular basis.

Martin Scicluna, as Chairman, also meets with major shareholders, as appropriate, during the course of the year.

Presentations to analysts and the accompanying script are simultaneously posted on the Company's website at [www.gpe.co.uk/investors/presentations](http://www.gpe.co.uk/investors/presentations). As Chairman and Senior Independent Director, respectively, Martin Scicluna and Charles Irby are each available, as appropriate, as a contact for shareholders.

The Annual General Meeting provides the Board with an opportunity to communicate with, and answer questions from, private and institutional shareholders and the whole Board is available before the meeting, in particular, for shareholders to meet new directors.

The Chairman of each of the Audit, Nomination and Remuneration Committees is available at the Annual General Meeting to answer questions. Details of the resolutions to be proposed at the Annual General Meeting on 7 July 2011 can be found in the Notice of Meeting on pages 116 and 117. 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.

### Statement by the directors on compliance with the provisions of the Combined Code

A summary of the system of governance adopted by the Company is set out on pages 92 to 101. Throughout the year ended 31 March 2011, the Company fully complied with the Code provisions set out in section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008. In June 2010, the FRC published *The UK Corporate Governance Code* which supersedes the Combined Code and is applicable for companies with accounting periods beginning on or after 29 June 2010. The Board has reviewed the provisions of the new Governance Code and believes it will comply with all of these recommendations.

## Audit Committee

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

### Chairman:

Jonathan Nicholls



### Members:

Charles Irby

Phillip Rose

Jonathan Short

Jonathan Nicholls was previously Group Finance Director of Old Mutual plc and Hanson plc and is Chairman of the Audit Committee of SIG plc and D S Smith plc. The Audit Committee provides a forum for reporting by the Group's external auditors and meetings are also attended by certain Executive Directors and Senior Managers, by invitation and Martin Scicluna, as Chairman, also attends the Committee meetings in connection with the half year and year end results.

The Committee is responsible for reviewing, and reporting to the Board on, a range of matters including:

- the interim management statements, the half year and annual financial statements and significant reporting judgements and key assumptions therein;
- meetings with the Company auditors and property valuers;
- developments in accounting and reporting requirements;
- the review of the Company's internal control and risk management systems;
- the Company's systems and controls for the prevention of bribery and reports on non-compliance;
- the Company's whistleblowing policy;
- the scope, effectiveness, independence and objectivity of the external audit;
- the external auditors' management letter;
- the level of fees paid to the external auditors for audit and non-audit services; and
- the potential need for an internal audit function.

## Corporate governance

Month	Principal activities
May 2010	Review of year end results <ul style="list-style-type: none"> <li>- Meeting with the Valuers</li> <li>- Meeting with the Auditors</li> <li>- Review of internal controls and risk management process and the consideration of the need for internal audit</li> <li>- Review of Annual Report/Preliminary Announcement</li> <li>- Review of relationship between the auditors and GPE management</li> </ul>
July 2010	Review of Interim Management Statement <ul style="list-style-type: none"> <li>- Meeting with the Valuers</li> <li>- Review of Interim Management Statement Announcement</li> </ul>
September 2010	Annual planning meeting <ul style="list-style-type: none"> <li>- Meeting with the Auditors</li> <li>- Review of:               <ul style="list-style-type: none"> <li>- effectiveness and independence of the auditors</li> <li>- 2010 management letter</li> <li>- accounting and reporting matters</li> <li>- 2011 Audit Plan</li> <li>- Risk areas for review in respect of the Bribery Act 2010</li> </ul> </li> </ul> Review of pension plan annual accounts
October 2010	Review of half year results <ul style="list-style-type: none"> <li>- Meeting with the Valuers</li> <li>- Meeting with the Auditors</li> <li>- Review of internal controls and risk management process</li> <li>- Review of half year result announcement</li> <li>- Review of Property Sector Key Performance Indicators</li> </ul>
January 2011	Review of Interim Management Statement <ul style="list-style-type: none"> <li>- Meeting with the Valuers</li> <li>- Review of Interim Management Statement Announcement</li> <li>- Review of the effectiveness of the Committee</li> </ul>
March 2011	Year end planning update <ul style="list-style-type: none"> <li>- Meeting with the Auditors</li> <li>- Review of:               <ul style="list-style-type: none"> <li>- developments in accounting and reporting requirements</li> <li>- Audit Plan update</li> </ul> </li> </ul> Approval of: <ul style="list-style-type: none"> <li>- updated whistleblowing policy</li> </ul>

## Accounting and disclosure matters

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

As the valuation of the Group's portfolio is fundamental to the Group's balance sheet, the Audit Committee together with Martin Scicluna meet with the valuers to discuss the valuation included within the half year and year-end financial statements together with changes in market conditions. The Audit Committee also meets with the valuers to discuss the valuation included in the interim management statements.

Following a review of the Group's KPIs it was decided that an operational measure used internally relating to the Group's void levels should be included as one of the main measures in reporting the Group's results. EPRA vacancy has, therefore, been formally reported on for the first time this year, replacing the Group's ROCE measure. The performance of the ROCE KPI is highly correlated with the KPIs of EPRA Net Assets per share growth and Total Property Return and was, therefore, considered to duplicate information already provided.

## The external audit

The Audit Committee advises the Board on the appointment of the external auditors, their remuneration for audit and non-audit work, and their cost effectiveness, independence and objectivity, and discusses the nature, scope and results of the audit with the external auditors. As part of the review of the effectiveness of the auditors, a formal evaluation process incorporating feedback from the Audit Committee and relevant members of management is provided to the auditors. In addition to the review of the formal management letter from the auditors which outlines how points raised by the auditors have been addressed by management, feedback is also sought from the auditors on the conduct of members of the finance team during the audit process.

The auditors are responsible for the annual statutory audit and other services which the Audit Committee believe they are best placed to undertake due to their position as auditors. Under the Group's policy in respect of non-audit services permitted to be provided by the external auditor (available from the Company's website at [www.gpe.co.uk/investors/governance](http://www.gpe.co.uk/investors/governance)), prior approval is required by the Audit Committee for assignments over £50,000, or where such an assignment would take the cumulative total of non-audit fees paid to the external auditors over 50% of that year's audit fees. During the year activities undertaken by the auditors outside of the main audit included reporting in connection with the debenture trust deed. Payments made by the Group for audit and non-audit fees for the year are disclosed on page 65.

Deloitte LLP has been the Group's auditors since 2003. It is a requirement that the audit partner responsible for the Group and subsidiary audits is rotated every five years and the current lead audit partner has been in place since 2008. Deloitte LLP has confirmed to the Audit Committee that they remain independent and have maintained internal safeguards to ensure their objectivity.

In the opinion of the Audit Committee, the relationship with the auditors works well and the Committee remains satisfied with their independence and effectiveness. It has, accordingly, not considered it necessary to require the firm to retender for the audit work to date. There are no contractual obligations restricting the Company's choice of external auditor.

## Internal audit

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

Corporate governance

**Remuneration Committee**

The Remuneration Committee has responsibility for determining the remuneration, bonuses, long-term incentive arrangements, contract terms and other benefits in respect of the Executive Directors and approval of remuneration arrangements for senior employees and the Chairman. It also reviews the framework for the remuneration of all other employees.

**Chairman:**

[Charles Irby](#)



**Members:**

[Jonathan Nicholls](#)

[Jonathan Short](#)

Month	Principal activities
April/May 2010	Consultation with major shareholders, the ABI and RiskMetrics of proposed changes to executive incentive arrangements
May 2010	Approval of: <ul style="list-style-type: none"> <li>- Chairman's fees for 2010/11</li> <li>- Circular to shareholders in respect of proposed 2010 Performance Plan and all Employee share schemes</li> </ul>
June 2010	Review of the 2007 LTIP and SMP performance and vesting of awards Review of the effectiveness of the Committee
July 2010	Approval of: <ul style="list-style-type: none"> <li>- 2010 LTIP and SMP awards</li> </ul>
January 2011	Review of executive remuneration and updated guidance from institutional investors Review of the effectiveness of the Committee
March 2011	Review of: <ul style="list-style-type: none"> <li>- Senior Manager bonuses</li> <li>- Senior Manager salary, bonus and long-term incentive levels for forthcoming year</li> </ul> Approval of: <ul style="list-style-type: none"> <li>- 2010 corporate bonus adjustment following partial settlement of CPO claim in respect of 18/19 Hanover Square, W1</li> </ul>
May 2011	Review of: <ul style="list-style-type: none"> <li>- year end appraisals of Executive Directors, Investment Director and Company Secretary and their objectives and targets set for forthcoming year</li> </ul> Approval of: <ul style="list-style-type: none"> <li>- Executive Director, Investment Director and Company Secretary bonuses</li> <li>- Executive Director, Investment Director and Company Secretary salary and bonus levels for forthcoming year</li> <li>- Executive Director and employee corporate bonus plan targets</li> </ul>

The Committee has access to professional advice outside the Company, as required. Its role is described further in the Directors' remuneration report on pages 102 to 112.

## Nomination Committee

The Nomination Committee undertakes an annual review of succession planning and ensures that the membership and composition of the Board, including the balance of the skills, continue to be appropriate.

### Chairman:

Martin Scicluna



### Members:

Charles Irby

Jonathan Nicholls

Phillip Rose

Month	Principal activities
May 2010	Review of succession and development plans for the Executive Directors and key senior managers with the Chief Executive
January 2011	Review of the role and qualities sought in the new Finance Director Review of the effectiveness of the Committee
February 2011	Review of: <ul style="list-style-type: none"> <li>– matters arising from the 2011 Board Evaluation Report;</li> <li>– reappointments to the Board to be proposed at the 2011 Annual General Meeting;</li> <li>– Committee memberships; and</li> <li>– training and development.</li> </ul>

In making recommendations to the Board on Non-Executive Directors, the Nomination Committee specifically considers the expected time commitment of the proposed Non-Executive and other commitments they already have. Agreement of the Board is also required before a Non-Executive Director may accept any additional commitments to ensure possible conflicts of interest are identified and which could affect their time available to devote to the Company.

Non-Executive Directors are not appointed for specified terms, but following the UK Corporate Governance Code are subject to annual re-election and all proposed reappointments to the Board are formally considered by the Nomination Committee in respect of each individual's continued effectiveness and commitment to the role.

Following Timon Drakesmith's resignation in January 2011 with effect from 27 May 2011, prior to external recruitment consultants Russell Reynolds being appointed, the role of new Finance Director and the qualities sought in Timon Drakesmith's successor were agreed by Martin Scicluna as Chairman of the Board and Nomination Committee, Jonathan Nicholls as Chairman of the Audit Committee and Toby Courtauld as Chief Executive.

Following the Board evaluation process in January 2011, Charles Irby as Senior Independent Director led a review of the Chairman's performance which concluded that the Chairman had established a good working relationship with each of the Executive Directors and encouraged discussion and debate between the members of the Board. The Nomination Committee also considered the composition of the Board and its Committees with Jonathan Nicholls being appointed to the Nomination Committee with effect from 1 April 2011.

By order of the Board

**Desna Martin**

Company Secretary

24 May 2011