2018 Financial Statements

In addition to the information contained in these Financial Statements, you can download our 2018 Review to explore our operational achievements and progress during the year.

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GROSVENOR

Strategic report

The Directors present their Strategic report for Grosvenor Group Limited (the 'Group') for the year ended 31 December 2018.

Principal activities

The Group's principal activities are property investment, development and fund management.

The subsidiary and associated undertakings principally affecting the profits or net assets of the Group in the year are listed in Notes 19 and 20 to the Financial Statements.

The Group's purpose

Grosvenor Group's purpose is to improve properties and places to deliver lasting commercial and social benefit. To live up to this ambition, we have adopted an approach we call Living Cities which inspires our activities and encourages us to be far-sighted, locally engaged and to share and benefit from our international experience.

More detail on the Group's purpose and its approach and on the impact of our activities can be found in the 2018 Review available at www.grosvenor.com.

Business review

Group performance

2018 results once again show the resilience of the Group and demonstrate the merits of our diversification strategy.

Revenue profit (the main metric by which the Group measures itself) was on longer-term trend at £131.0m (2017: £143.5m).

Total return was 5.5% (2017: 2.7%). This incorporated underlying property returns of 4.7% and was enhanced this year by Sterling's depreciation, which contributed 0.8% (2017: negative 1.5%).

Shareholders' funds increased by £0.1bn to £5.0bn (2017: £4.9bn), as a consequence of the profit in the year and gains on translation of the Group's overseas assets and earnings.

Operating Company performance

All the Group's Operating Companies delivered encouraging results:

- Grosvenor Britain & Ireland's recurring income stream has once again been bolstered by trading profits, largely arising from the trading profit from the Campden Hill residential development, resulting in revenue profits for the year of £39.2m (2017: £48.4m). Total return was 3.2% (2017: 1.3%), reflecting low but positive valuation movements.
- As anticipated, following exceptional trading profits in 2017, Grosvenor Americas delivered on long-term trend revenue profit of £39.0m (2017: £71.6m). Highlights for the year include trading gains realised on two mixed-use residential developments: the sale of units at 288 Pacific in San Francisco and Grosvenor Ambleside in West Vancouver, and from the disposal of development land in Calgary. Total return was 5.7% (2017: 8.9%) reflecting lower positive revaluation gains.
- Grosvenor Asia Pacific generated revenue profit at £26.9m (2017: £6.9m) driven by trading profits on disposals of our residential development Opus in Tokyo and units at Jardine's Lookout in Hong Kong. Total return was 6.6% (2017: 7.2%), with marginally lower positive revaluation gains offsetting the improved revenue profits.
- Following the planned expansion of the business, including the acquisitions of their first wholly-owned property assets and assisted by performance fees, Grosvenor Europe delivered a revenue profit of £11.6m (2017: £0.6m loss). Total return was 3.3% (2017: 1.1%), once again impacted by weak revaluations.
- Indirect Investment revenue profit remained broadly stable at £33.6m (2017: £35.9m), reflecting an improved performance by Sonae Sierra, which largely negated the impact of the reduction of the Group's interest in the company. Total return was 9.1% (2017: 8.5%), with marginally lower revaluation gains in Sonae Sierra being offset by improved gains in other third-party investments.

Business review continued

Financial position

The Group's Shareholders' funds now stand at £5.0bn (2017: £4.9bn). The growth is due to the profit for the year and foreign currency translation gains occurring on overseas operations. Economic gearing was 20.5% (2017: 23.8%) at year end and resilience (the extent to which market values of the portfolio of property assets can fall before Group financial covenants are breached) was well above the Group's internal minimum at 83% (2017: 79%).

During 2018, the Group's share of property assets increased by 2.0% to £7.0bn and assets under management decreased by £0.3bn at £12.3bn. The movement in property assets is driven by net property acquisitions in Grosvenor Britain & Ireland and Grosvenor Europe, mixed with overall positive revaluation gains, and enhanced by foreign currency translation losses across our non-UK portfolio. These increases flow through to assets under management, but these increases are more than offset by disposals in separate mandates in Grosvenor Europe and the partial disposal in our stake in Sonae Sierra.

Financial capacity and liquidity

The Group is well positioned to take advantage of opportunities as they arise. The Group's financial capacity (being the spare cash and undrawn, committed, general use facilities which are immediately available) stood at £1.7bn at 31 December 2018 (2017: £1.4bn). The increase in the year is predominantly a result of a successful private placement by Grosvenor Britain & Ireland and sale of a 20% interest in Sonae Sierra. The weighted average life of wholly-owned facilities is 6.8 years (2017: 5.7 years).

The Group's 'relationship' approach to treasury continues. Grosvenor Britain & Ireland completed its third private placement in November, raising £250m of debt with seven UK and US institutions, the new senior notes due to mature in 10, 15 and 22 years at a blended interest rate of 2.89%.

Future developments

As a long-term investor, the Group has an evolutionary approach when it comes to repositioning the Group for the future – since it is best to be neither a forced seller nor a hurried buyer of real estate. Yet at the same time, the Group's Operating Companies remain nimble to respond quickly to the markets in which they operate.

In July, the Group agreed with Sonae SGPS, our partner shareholder in Sonae Sierra SGPS, to sell to them a 20% stake (of our 50% stake) in Sonae Sierra for €255.9m. This delivered Sonae's objective of increasing their international profile, while freeing up capital for the Group to deploy elsewhere outside the UK. The sales price was at a modest premium to IFRS net asset value. The Group's investment in Sonae Sierra, which commenced in 1996, has not only delivered good full cycle returns but also set the standard for real estate related partnerships.

As the potential impact of digital disruption on real estate becomes more apparent, the Group has progressed our 'Digital: Over the Horizon' project to assess how we can take advantage of the opportunities (and protect our business against the risks) which technological innovation present. The Group expects to be implementing a blend of local and Group-wide initiatives in 2019.

Key performance indicators and measures of return

The Group monitors revenue profit and total return on property assets, both on a proportional basis, i.e. including the appropriate share of joint ventures and associates.

Revenue profit is the measure by which we monitor our underlying performance, rather than profit before tax, as it excludes market movements. We measure total return to show how our property portfolio has performed, including both income and capital returns.

Revenue profit is shown in Note 5. Total return and revenue profit are defined in the glossary.

Appropriate key performance indicators are employed throughout the Group to help achieve ambitious goals and a philosophy of continuous improvement.

Key performance indicators and measures of return continued

Key Performance Indicator	Why it is measured	2018	2017	Comment
Revenue profit	To identify underlying performance, excluding market movements.	**£131.0m**	£143.5m	Revenue profit did not reach the exceptionally high level seen last year, but was nonetheless on long-term trend, largely due to strong trading profits.
Total return (including currency movement)	To show how the property portfolio has performed, including both income and capital returns.	**5.5%**	2.7%	Total returns before the impact of foreign currency translation of 4.6% (2017: 4.5%) were similar to last year, reflecting a softening of the property market in the UK bolstered by good performance overseas. Foreign currency translation provided gains in 2018 (losses in 2017).
Profit before tax	To show the return on assets delivered in absolute terms.	**£196.6m**	£233.1m	Good revenue profits combined with revaluation gains in our overseas operating companies.
Shareholders' funds	To report the total value of the Shareholders' investment in the Group.	**£5.0bn**	£4.9bn	Shareholders' funds grew in the year due to the profit earned and foreign currency translation gains.
Property assets	To quantify the Group's financial investment in property assets.	**£7.0bn**	£6.8bn	Net property acquisitions in Britain & Ireland and Europe, mixed with overall positive revaluation gains, and enhanced by foreign currency translation gains.
Assets under management	To monitor the scale of the portfolio of property assets for which the Group's management teams are responsible.	**£12.3bn**	£12.6bn	Increases in wholly-owned assets have been more than offset by disposals in separate mandates in Europe and a partial disposal in our stake in Sonae Sierra.
Development exposure	To indicate the level of committed development activity, expressed as a proportion of total property commitments.	**12.5%**	14.4%	2018 saw the completion and disposal of a number of development assets. Investment in the development pipeline continues.

Risks and uncertainties

The Group aims to develop and co-ordinate an internationally diversified group of property companies and investments in property companies and other property ventures. Each Operating Company endeavours to maximise its returns in accordance with an agreed stance on risk. The Group seeks to ensure that the risks encountered by the business are identified, quantified, understood and managed in an appropriate way.

The Group's operations are managed under a devolved structure. However, since the activities of property investment, development and fund management are common to each region, the nature of business risks encountered in each region is broadly similar. Set out below is a summary and explanation of the principal risks faced by the business.

Market risk

Property markets are cyclical, so the Group's businesses will always be subject to variations in the value of the portfolio. Taking a long-term view, the Group's focus is less on short-term value fluctuations and more on underlying value-generating potential.

Exposure to market risk is mitigated through a considered allocation of capital to different geographic markets, currencies and property sectors, which is explained in more detail under capital allocation below.

Short-term market risk is more relevant in development activity, where market conditions may affect leasing terms and capitalisation rates, which 'fix' value at or near the time of completion. The Group commits to development projects only after taking careful account of the market outlook. Development exposures are frequently reduced by working in joint ventures.

Strategic report

Risks and uncertainties continued

Capital allocation

The Group's primary financial objective is to maximise returns at an acceptable level of risk. Fundamental to this is the optimal allocation of capital invested between each of the Operating Companies and Indirect Investments and the devolution of property decision-making authority to local boards.

The allocation of capital across the Group's Operating Companies and Indirect Investments is based on 10-year projections with a five-yearly review. The allocation review process uses portfolio theory simulations, considering long-term (five+ years) macro-economic and property market projections, a review of Operating Company historic performance, consideration of the overall strategic objectives of the Group and wider issues such as climate change. The Board then determines long-term ranges for the proportion of capital to be allocated to each geographic area, supplemented with medium-term (two to five year) targets which sit within the long-term ranges. Actual allocation of new equity is made periodically to the Operating Companies and Indirect Investments, which is consistent with the medium-term targets and long-term ranges, but is also in response to short-term (zero to two year) tactical and opportunistic considerations. The Group retains the financial capacity for unplanned opportunities that may arise.

Long-term ranges for capital allocated to regions and between direct (i.e. Operating Companies) and indirect investments, together with actual allocations at 31 December 2018, were as follows:

	Percentage of Capital Invested		
	Long-term range %	Medium-term target %	At 31 December 2018 %
United Kingdom	40–50	45	52
North America	15–30	25	23
Europe	5–15	10	11
Asia Pacific	10–20	14	12
Others*	3–10	6	2

* Others includes South America, Africa and Australia

	Percentage of Capital Invested	
	Medium-term target %	At 31 December 2018 %
Direct	90	86
Indirect	10	14

At the Operating Company and Indirect Investments level, each board (the Group Investment Committee in the case of Indirect Investments) reviews its strategy annually. These reviews take account of the geographic allocation within the respective territory, as well as the allocation between sectors and the split between investment and development.

The Group Board reviews the five-year financial performance, 10-year strategic plans and current operational matters of each of the Operating Companies and Indirect Investments annually.

Strategic report

Risks and uncertainties continued

The distribution of the Group's property assets and assets under management at 31 December 2018 is shown below:

Group property interests and assets under management

	GROUP				THIRD-PARTY INTERESTS				
Year ended 31 December 2018	Investment £m	Development £m	Financial assets £m	Total £m	Investment £m	Development £m	Total £m	Future development commitment £m	**Assets under management £m**
Great Britain & Ireland (GBI)	3,209	220	–	3,429	1,767	24	1,791	120	**5,340**
Grosvenor Americas (GA)	1,158	151	92	1,401	1,226	132	1,358	218	**2,977**
Grosvenor Asia Pacific (GAsia)	735	103	–	838	88	8	96	62	**996**
Grosvenor Europe (GEurope)	364	18	–	382	1,607	17	1,624	–	**2,006**
Indirect Investments:									
Sonae Sierra	561	30	–	591	–	–	–	–	**591**
Third-party managed	315	–	29	344	–	–	–	–	**344**
TOTAL	6,342	522	121	6,985	4,688	181	4,869	400	**12,254**
Commercial	1,829	5	–	1,834	881	–	881	–	**2,715**
Retail	2,548	140	3	2,691	2,427	11	2,438	30	**5,159**
Residential	1,503	377	92	1,972	1,149	170	1,319	370	**3,661**
Industrial	233	–	20	253	–	–	–	–	**253**
Hotel	61	–	–	61	231	–	231	–	**292**
Other	168	–	6	174	–	–	–	–	**174**
TOTAL	6,342	522	121	6,985	4,688	181	4,869	400	**12,254**

Property risks

Investment properties

A significant risk in property investment is the loss of income. The Group's businesses ensure that properties are properly maintained and managed, occupancy is maximised and exposure to individual tenants is managed. Asset management is undertaken by teams with overall responsibility for the properties within their portfolios. Day-to-day property management is either outsourced to professional property managers or managed in-house.

Leasing risk is managed by dedicated in-house leasing teams and the use of professional leasing agents. Exposure to individual tenants or sector groups is reduced by maintaining a diversified tenant base and by reviewing the credit-worthiness of new tenants.

Developments

In property development, the main risks arise in managing the development process, including obtaining appropriate planning consents which can be challenging to achieve in a timely manner and controlling the construction process and costs. The Group has dedicated teams involved in site assembly and planning, and limits committed expenditure prior to planning consent being obtained. Construction risk is managed by in-house project management teams using external contractors. In many cases construction risk is shared with partners.

Capital raising

The Group has no plans to seek further equity capital through the issue of new shares. Capital for investment is available from retained earnings.

The Group's preference for working with partners and investors provides access to capital beyond its own resources, for specific investment and development opportunities. Working with like-minded partners and investors in property is a core part of the Group's business.

Strategic report

Risks and uncertainties continued

Acquisitions and sales

When acquiring or selling property, the principal risk is in assessing the future income flows in order to determine an appropriate price. The timing of property transactions is managed as part of the budget and annual asset allocation review within each Operating Company. Estimated price levels are supported by detailed financial appraisals, which are conducted for all property purchase and sale transactions. Every property transaction is subject to a due diligence review, including corporate due diligence where properties are acquired within corporate vehicles.

Financial and tax risks

The principal financial risks faced by the Group are liquidity, credit, interest rate and foreign currency risk. Each of these risks is explained in more detail and analysed in Note 28 to the Accounts.

Exposure to tax risk arises across a large number of tax jurisdictions. In addition to different tax filing requirements in each territory, there is also exposure to the impact of changes in tax legislation. These risks are reviewed annually as stipulated in the Group's tax policy and are managed by an in-house team which works alongside external tax advisers.

Health and safety

The Group is committed to ensuring that Operating Companies maintain high standards of health and safety management in all their operations and adhere to best practice. Overall Group Board accountability for health and safety is taken by the Group Finance Director. Each Operating Company board is responsible for health and safety within its business with the support of the internal Health and Safety Director and external consultants with local expertise to help them achieve compliance. Each Operating Company reviews and reports formally its compliance each year and progress is monitored on a regular basis. All accidents and cases of ill health are treated seriously, investigated where necessary, lessons identified, and necessary action taken to prevent recurrences.

Each Operating Company sets itself annual targets in order to achieve its objectives and all follow the OHSAS18001 international standard. These include verifying that workplace and other risks are being controlled and mitigated where necessary and this includes the Group's construction and development projects. One of the Group's objectives is to ensure that employees throughout the Group are well informed, consulted, kept up to date on matters regarding health and safety and competent to fulfil their roles and responsibilities. The Group continues to review and improve the reporting of performance information and the Group has a web-based health and safety IT management system to assist the Operating Companies.

There were no reportable health and safety incidents to statutory authorities involving the Group's employees in 2018. There were 11 recorded minor incidents to employees. Each business made good progress in completing its annual health and safety action plan. There were no enforcement notices or prosecutions.

In order to improve fire safety standards within our properties and on our construction projects, all our Operating Companies have reviewed and continue to review their procedures for managing fire. At present, we believe that fire safety improvements are most required in the UK and less so internationally, where legislative arrangements are already in place to minimise similar issues arising from the UK Government's investigation into the Grenfell Tower fire.

To date, we have identified a small number of properties in the UK and Continental Europe that have required remedial action but no properties that are classed under the UK Government's high-risk category for combustible cladding. As industry and regulatory improvement in this area continues, we are committed to playing our part including identifying, working to and sharing best practice.

Environment

The Group takes a long-term view of its activities and responsibilities and environmental considerations are an important factor. We aim to make a positive contribution to sustainable development, and we continue to focus on reducing our resource consumption.

At Grosvenor Group level, we seek to understand the risks and opportunities presented by global mega trends, particularly climate change. The sustainability landscape within the property industry is evolving and we consider the impacts of climate change on our portfolio, but we recognise that further analysis is required to help inform longer term decision making. Capital allocation considerations include environmental indicators of current and potential investment locations.

Each Operating Company has formally embedded social and environmental sustainability into their five or 10-year business strategies and this is one of the ways the Group implements its Living Cities philosophy, and has nominated a senior sponsor with responsibility to the respective board. Each Operating Company monitors, benchmarks and actively seeks to improve the energy, water and waste performance of their directly managed buildings. The Group's environmental metrics can be found in the 2018 Review available at www.grosvenor.com

As well as the beneficial environmental impact resulting from these measures, this also helps to reduce the risk of obsolescence of the Group's properties, and lessen the impact of utility price fluctuations and increasing legislation.

Strategic report

Risks and uncertainties continued

Reputation and brand

Our brand is a key intangible asset whose management we take very seriously. Its strength is founded in our reputation which has been built over centuries and continues to evolve.

In order to protect and strengthen our reputation and enhance our brand, we operate as a values led business, promoting our values of integrity, respect and trust all of the time – with our people, customers, partners, suppliers and wider society.

We aim to apply the highest standards of corporate conduct, adopting best practice in developing and implementing several policies and procedures to ensure that we not only meet the letter but also the spirit of the law. These include policies on anti-bribery and corruption, anti-money laundering, the UK Modern Slavery Act and the UK Criminal Finances Act. All employees are made aware of the Group's policies and receive training appropriate to their roles and responsibilities.

The Group seeks to manage and invest in its brand and reputation proactively, identifying potential risks, acting swiftly to mitigate them. All staff are briefed on the expected values and conduct we seek to uphold and in relation to our communications and brand policies and guidelines (which are also shared with relevant external consultants as appropriate).

Brexit uncertainty

The Group has been preparing and implementing practical plans to mitigate the potential impact on the Group's activities that may arise as a consequence of leaving the European Union (the 'EU'). The Group, as well as UK and Europe based Operating Company Audit Committees and Boards have all received reports to consider the immediate and longer-term impact on the Group's activities.

The most significant issues are likely to be faced by GBI, followed by GEurope and then, to a lesser extent, by our Indirect Investments business and the UK-based holding company.

The Group's exposure to some of the potentially most material issues associated with a no-deal Brexit has been limited by the following:

- There are no material committed UK development projects onsite, or significant contracts expected to be placed within the first six months of 2019.
- There are no material UK development schemes planned for sale in the next 24 months.
- There are no material UK financings required in the next 24 months.
- There are a limited number of employees of UK citizenship currently working in Continental Europe.
- We have assessed that all the tax treaties in the European countries in which the Group operates will all continue to apply and that the current treaties mirror the current EU tax directives.

The Group considers there to be four key issues by reference to the likely residual impact they could have on the Group following mitigation:

- Impact on critical suppliers' ability to continue to meet our needs.
- Increasing levels of tenant failure (London Estate and Liverpool).
- Negative impact on UK property capital values and rents.
- Restrictions on rights to live and work in the EU/UK and wider people considerations.

The Group continues to manage the risks posed by Brexit through the Brexit working groups that have been established in each affected Operating Company.

As highlighted in the Going Concern section of the Directors' Report, one of the core objectives agreed by the Group's Shareholders and Board is that the Board ensures a level of overall operational risk, an approach to debt, and sufficient liquidity which collectively ensures the Group's survival. 'Ensuring survival' is interpreted by management as meaning that the Group should only be expected to call upon Shareholder support on a one in 50-year basis (see page 13). The potential impact on the finances of the Group that may arise from the United Kingdom's exit from the European Union is not specifically factored into our financial risk management planning, as our planning already takes into account extreme downside volatility that may arise from any such 'shock' to the system.

At any given time, the Group Holding Company retains a certain amount of unallocated equity, which may be held in any of the Group's operating currencies. In view of the potential for fluctuations in exchange rates as a result of Brexit, the economic exposure is being managed by diversifying this currency exposure.

Strategic report

Risks and uncertainties continued

People

The Group takes considerable care in recruiting, retaining and developing Grosvenor people. A wide range of development opportunities exist for people to undertake tailored learning. Succession planning is overseen by each board through the HR committees as part of the Strategic People Agenda.

Compensation is regularly benchmarked against the market, with particular attention given to the low paid and legislative requirements. The Group rewards loyalty, excellence and effort, in line with Grosvenor's values.

Information technology and security

The Group's operations are dependent on the effectiveness of IT systems, including an international communications network, property and staff databases, and accounting and treasury systems. Procedures are in place to protect the security and integrity of data, and the Group has detailed incident management and business continuity plans which are tested on a regular basis. The Group IT Steering Committee monitors the efficient delivery of Group-wide process and system changes.

The Group recognises that effective governance is the cornerstone of good information security. It operates an organisation-wide Cyber Security Advisory Group with independent external expertise to provide challenge to the technology function and advice to Group and Operating Company Boards and Audit Committees. In 2018, the Group implemented a security incident and event management system that enables a faster response to information security threats. The technology function also delivered the system and process changes required to support the May 2018 introduction of the EU-wide General Data Protection Regulations, and is working across the Group in response to similar regulations being introduced in other jurisdictions.

New technology, digital disruption and corresponding emerging business models may disrupt the property industry and the traditional sectors that we operate in. The Group undertakes on-going horizon scanning for such industry trends and seeks ways to ensure that we are able to take advantage of new technologies.

Employees

The Directors recognise the importance of good communications and relations with the Group's employees and place considerable value on informing them on matters affecting them as employees. Each part of the Group maintains employee relations appropriate to its own particular needs and environment. The Group gives full and fair consideration to applications by disabled persons for employment. At Grosvenor we aim to build a diverse workforce, reflecting the communities in which we operate in order to ensure our businesses' success. We will achieve this by attracting the best people from as wide a pool as possible and retaining them within an inclusive culture.

Suzie McConnell
Company Secretary

UK Company registration number 3219943
Registered Office
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21 March 2019

Corporate governance

Corporate governance

Grosvenor's business approach is based on openness and high levels of accountability, and the Board's approach to corporate governance is to establish clear policies and procedures as they consider appropriate for a privately-owned Group with its Shareholders represented on the Board.

Board of Directors

Currently, the Board comprises:

– Michael McLintock (Chairman) *+
– Sir Philip Dilley *
– Christopher Pratt *
– Mark Preston +
– Dame Fiona Reynolds *+
– Nicholas Scarles
– Domenico Siniscalco *
– Peter Vernon

* Non-executive
+ Trustee

Structure of the Board

The composition of the Board is designed to ensure effective management and control of the Group, taking account of the devolved operating structure and ensuring that the Shareholders' interests are properly represented. It consists of the Group Chief Executive, Group Executive Director and Group Finance Director and five Non-Executive Directors (including the Chairman). The Non-Executive Directors include two who represent the Shareholders (as Trustees of the Grosvenor Trusts) and three who are independent. The Non-Executive Directors demonstrate a range of experience and professional background that enables them to make a valuable contribution to the Group and to provide independent judgement and challenge to the Board.

Biographies of the members of the Board, with their sub-committee memberships, are available at www.grosvenor.com.

Board effectiveness

The Board is responsible for setting and monitoring Group strategy, reviewing performance, ensuring adequate funding, formulating policy on key issues and reporting to the Shareholders.

The roles of Chairman and Chief Executive are clearly defined. The Chairman is primarily responsible for overseeing the working of the Board. The Chief Executive is responsible for the implementation of strategy and policies set by the Board and the day-to-day management of the Group.

To enable the Board to discharge its duties, all Directors receive appropriate and timely information, including briefing papers distributed in advance of Board meetings. The Directors have access to the Company Secretary and may, at the Company's expense, take independent professional advice and receive additional training as they see fit. All new Directors participate in an induction training programme.

The Board undertakes a regular evaluation of its own performance. The last review was in December 2017.

The Board encourages the appointment of Executive Directors to appropriate external posts as this increases their breadth of knowledge and experience. Earnings from all such appointments are returned to the Group, where such appointments are undertaken during time which would otherwise be allocated to Grosvenor activity.

The Board held five meetings during the year, with full attendance by each Director at every meeting except in June and November 2018 when one Director was absent and September 2018 when two Directors were absent.

Corporate governance

Committees of the Board

Audit Committee

Currently, the Audit Committee comprises:

- Christopher Pratt (Chairman)
- Michael McLintock
- Domenico Siniscalco

The Audit Committee is responsible for reviewing a wide range of financial matters, including the Annual Financial Statements and accompanying reports, Group internal and external audit arrangements, accounting policies, internal controls and the actions and procedures involved in the management of risk throughout the Group. The Audit Committee reviews annually the scope of the external auditor's work and fees. It also considers the auditor's independence which is ensured through a variety of procedures including regular rotation of audit partners. Any non-audit fees received by the auditor in excess of 70% of the average audit fee over the preceding three years are pre-approved by the Audit Committee.

The Audit Committee meets at least three times a year with the auditor and is attended by invitation by the Group Chief Executive, Group Finance Director and other senior personnel as appropriate. The Audit Committee met three times during the year, with full attendance at the March meeting, with one Director absent from the June and December 2018 meetings.

The Britain & Ireland, Americas, Asia Pacific and Grosvenor Europe Operating Companies each have their own audit committee, which meets at least twice a year. The key decisions of these audit committees are reported to the Group Audit Committee.

Nominations Committee

The Nominations Committee comprises all the Non–Executive Directors. The Committee meets when necessary and is attended, by invitation, by the Group Chief Executive and other senior personnel as appropriate. It is responsible for reviewing the structure of the Board, considering succession planning and for making recommendations to the Board with regard to any changes. It is also responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.

Remuneration Committee

Currently, the Group Remuneration Committee comprises:

- Michael McLintock (Chairman)
- Sir Philip Dilley

The Committee meets two to three times a year and is attended, by invitation, by the Group Chief Executive and Group HR Director. One of the Committee members is also a Trustee of the Grosvenor Estate and consequently the Shareholders are both fully informed and directly involved in the oversight of executive and staff remuneration. All eligible staff in the Group participate in a performance-related discretionary bonus scheme and senior staff also receive longer-term incentive opportunities (reflecting personal and company performance) established by each Operating Company and the Group.

Group Executive Committee

Currently, the Group Executive Committee comprises:

- Peter Vernon (Chairman)
- Benjamin Cha
- Craig McWilliam
- Steve O'Connell
- Mark Preston
- James Raynor
- Nicholas Scarles
- Peter Vernon

The Group Executive Committee meets three times a year and is responsible for co-ordinating the implementation of Group Strategy. Biographies of the members of the Group Executive Committee are available at www.grosvenor.com.

Corporate governance

Internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. This is designed to manage, rather than eliminate, the risk of not achieving business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board considers that there is a continuous process for identifying, evaluating and managing significant risks faced by the Group in the course of its business, which has been in place throughout the year and up to the date of approval of the Annual Financial Statements. This process is regularly reviewed by the Audit Committee and the Board.

A key part of the system of internal control is the delegation of management responsibility for the Group's property investment, development and joint venture activities, together with supporting functions, to Operating Company management teams. The Group's Operating Companies have local boards, with independent Non-Executive Directors, which oversee the Operating Companies' operations. These boards form an integral part of the overall internal control process. The relationship between Operating Company boards and the Group Board is clearly defined and is set out in formally approved documents.
The membership of each Operating Company board is available at www.grosvenor.com.

Each Operating Company and the Holding Company has management structures in place to enable effective decision-making, supported by documented procedures and a regular review of financial performance, including comparisons against budget and forecasts. Risk management is a regular agenda item for all parts of the business with the emphasis on continuous improvement. Each Operating Company board undertakes a regular assessment of its exposure to financial, operational and strategic risks and the measures that have been put in place to manage those risks. Significant risks arising from Operating Company assessments are monitored by the Group Board.

In addition to local boards, each Operating Company, together with Indirect Investments and the Holding Company, is represented on the Group Finance Board, which meets twice each year and provides a forum for debating issues of a financial nature that are relevant to the Group as a whole, including Group financial policy and risk management, and for considering the development needs and opportunities of senior finance staff.

The Group operates a 'co-sourced' approach to internal audit, working jointly with PwC. Each Operating Company audit committee approves an internal audit plan, which is executed by PwC, but supplemented by Grosvenor employees on occasion and where appropriate. The Operating Company audit committees review the findings from the internal audit reports together with management plans to address any weaknesses in internal control. The Group Audit Committee has an oversight role, which involves reviewing the Operating Company and Holding Company internal audit plans, summaries of internal audit activity throughout the Group and significant findings of individual reviews.

The Group Audit Committee's consideration of internal control was reported to the Board in January 2019.

Relations with Shareholders and lenders

All the principal Shareholders are represented on the Board and all Shareholders receive a monthly report. The 2018 Review is widely distributed, and the 2018 Financial Statements are available on the website. The Group's policy is to maintain close contact during each financial year with bondholders and other lenders at Group and Operating Company levels.

Directors' report

The Directors present the Group's audited consolidated Financial Statements for the year ended 31 December 2018.

Directors' report disclosures

Details of the principal activities, results and key performance indicators, future developments, exposure to market risk, capital allocation risk, property risks and employee policies are included in the Strategic report. Details of the financial risk management objectives and policies, including the use of financial instruments, are disclosed in Note 28 to the accounts.

Directors

The Directors of the Company during the period were: Sir Philip Dilley, Lesley Knox, Michael McLintock, Christopher Pratt, Dame Fiona Reynolds, Domenico Siniscalco, Mark Preston, Nicholas Scarles and Peter Vernon. All Directors served throughout the year and to the date of signing these Financial Statements, with two exceptions. Lesley Knox resigned as a Director and Dame Fiona Reynolds was appointed as a Director, both on 13 September 2018.

Directors' interests in securities

The interests of the Directors who served during the year in the share and loan capital of Grosvenor Group Limited are shown below.

	Ordinary shares		Non-voting ordinary shares		'A' Preference shares		Non-voting Redeemable Preference shares	
	At 1 January 2018	**At 31 December 2018**	At 1 January 2018	**At 31 December 2018**	At 1 January 2018	**At 31 December 2018**	At 1 January 2018	**At 31 December 2018**
Non-beneficial								
Lesley M S Knox	1,674,580	**–**	13,396,639	**–**	1,674,580	**–**	–	**–**
Michael McLintock	5,453,726	**5,453,726**	43,629,809	**–**	5,453,726	**5,453,726**	–	**261,778,848**
Mark R Preston	2,881,004	**2,881,004**	23,048,032	**–**	2,881,004	**2,881,004**	–	**138,288,192**
Fiona C Reynolds	–	**1,674,580**	–	**–**	–	**1,674,580**	–	**80,379,840**

The non-beneficial interests above represent the shares owned by the respective Directors in their capacity as Trustees of the Grosvenor Trusts.

Where a Director has a joint interest in securities, the above disclosures include, for each Director, the number of securities that are jointly held.

Except as disclosed above, none of the Directors of the Company who served during the year had any interests in the securities of the Company or any of its subsidiary undertakings.

Dividends

Dividends paid during the year amounted to £44,398,891 (2017: £42,278,430).

The Directors have proposed a final dividend of £30,584,638 to be paid on 1 April 2019.

Financial services activities

Grosvenor Investment Management Limited, a wholly-owned subsidiary, is authorised and regulated in the UK by the Financial Conduct Authority for the purposes of undertaking regulated activities.

Directors' report

Going concern and viability

One of the core objectives agreed by the Group's Shareholders and Board is that the Board ensures a level of overall operational risk, an approach to debt and sufficient liquidity which collectively ensures the Group's survival. 'Ensuring survival' is interpreted as meaning that the Group should only be expected to call upon Shareholder support on a one in 50-year basis. The Group's viable long-term future is of paramount importance and its consideration is embedded in all activities and operations of the Group. The Group recognises that uncertainty over the range of potential outcomes of the United Kingdom's exit from the European Union has potential going concern ramifications for many companies. The Group's financial planning already incorporates a broad range of outcomes which is more extreme than those which we consider appropriate in planning for a no-deal Brexit scenario. Therefore, we consider that our planning already takes into account extreme downside volatility that may arise from any such 'shock' to the system.

The Group uses a range of financial limits as part of its risk management. The approach taken is to:

- Recognise that property markets are cyclical and to capitalise on the Group's corporate memory to use lessons from previous downturns in order to protect the Group from, and take advantage of, future market corrections.
- While investing only in real estate; diversify several risks, including sector, geography, currency and management.
- Focus on liquidity and balance sheet solvency, which are the two most common threats to the survival of property companies.
- Have limits which collectively aim to 'ensure the Group's survival', but which allow each Operating Company to allocate its risk 'ration' where it thinks best. This enables Operating Companies to be competitive on individual projects, while remaining more robust at an Operating Company level.
- Recognise that greater tolerance is justifiable for those property-related risks which we have expertise to manage and exploit.
- Have a lower tolerance for non-property (and particularly specialist) risk areas such as treasury, counterparty credit risk, tax, legal governance, investment in publicly listed securities etc. and increasingly engage suitably qualified specialists across the business to manage these risks in accordance with a very low level of risk tolerance.
- Devise targets and limits which facilitate delivery of the Group's long-term capital allocation objectives.
- Encourage business and structures which make the Group more robust against the shocks that occasionally occur in property and financial markets, such as encouraging sustainable future cash generation.

The Group uses the following measures:

- **Capital Allocation:** Long-term capital allocation ranges are calculated using a Group level portfolio risk/return optimisation model. This describes the optimal ranges for gross asset value by geographic region and by Direct/Indirect Investment, to deliver maximum return at acceptable risk subject to several constraints. Medium-term targets describe more specific allocations within the ranges, which are desirable to migrate towards over a two-to five-year time frame.
- **Resilience:** Resilience is the extent to which the Group can experience market value declines, synchronised across all markets, before Group financial covenants are breached. The Group must be able to withstand an average Group-wide market decline of 30%.
- **Gearing**: Gearing limits are designed to allow our Operating Companies maximum flexibility to take on debt financing to drive growth, whilst still meeting the Group resilience target and interest cover limits.
- **Debt Maturity:** This limit defines the maximum amount of that debt which can mature in any one year, thereby encouraging longer tenor debt facilities and limiting the liquidity risk arising from the need to refinance a larger proportion of debt at what might be a difficult time in the market.
- **Free Assets:** For instances where the Group may need to support further borrowing by way of security, Grosvenor Britain & Ireland and Grosvenor Americas are required to hold wholly-owned assets which are unencumbered with borrowing or other commitment and are capable of being sold or encumbered.
- **Interest Cover:** Interest cover limits are designed to ensure that Operating Companies are structurally, over the medium term, able to support their debt using reasonably assured income, thereby supporting the objective of medium-term liquidity.
- **Recurring revenue ratio:** This target recognises that much of the cost base and dividend obligations of the business are fixed, and encourages each Operating Company to develop lines of business which provide a minimum level of dependable, regular income with which to fund these fixed costs.

Directors' report

Going concern and viability continued

- **Shared Ownership Vehicles (SOVs):** A significant proportion of Group's cash flow comes from assets which Operating Companies co-own through joint ventures or other shared ownership vehicles. Generally, these entities are managed by wholly-owned Group entities, with commensurate cost which is recovered by way of cash flows from the joint ventures. Experience from previous market downturns shows us that these cash flows are less reliable than those from wholly-owned assets in times of economic stress. The SOV limits are designed to limit this risk, whilst recognising that SOVs offer an important route for the Operating Companies to share beneficial interests in assets which they might otherwise be unable to access.
- **Stressed Cash Flow:** This is the Group's principal protection against insolvency, particularly in a stressed market, and is calculated monthly over a five-year time span. It aims to ensure that in the event of a significant property market and financial market crash, such as possible scenarios caused by Brexit, the Group has the ability to meet all unavoidable cash commitments for a period of two years assuming a dramatic reduction in both the value of property assets and access to funds. This is reported on monthly.
- **Total Return:** The target for total return, for each Operating Company and for the Group, is that it should exceed the weighted average cost of capital over the cycle. This recognises that the Shareholders ultimately have a choice as to where they invest their capital and that in order to justify having that capital invested in the Grosvenor Group, the Group should generate a return which not only covers the cost of debt but also rewards the Shareholders for the risk they are taking when compared with alternative investment opportunities.
- **Weighted average cost of capital:** This is calculated for Group and Operating Companies by aggregating country level data weighted for the gross asset value in the countries in which investments are held.
- **Development profit at risk:** On a biannual basis, the Group Board assesses aggregate development risk and invested capital projections for all development projects which are committed or are expected to be committed in the following six-month period, against a defined set of risk categories. This allows the Board to consider stressed cash flow forecasts in the context of potential additional project cash requirements, to confirm that the level of financial risk arising from committed developments is supportable and to assess its level of comfort with the anticipated duration, and rate of erosion, of that development risk.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and financial position, and the principal risks and uncertainties faced by the Group are set out in the Strategic report on pages 1 to 8. In addition, Note 28 to the Financial Statements includes an explanation of the Group's policies and processes for managing its financial and capital risks, details of its financial instruments and exposure to interest rates, credit and liquidity risk.

Each Operating Company and the Group, as part of its regular evaluation of liquidity risk, models the principal risks and uncertainties in its cash flow projections for the foreseeable future, including an assessment of compliance with banking covenants and the implications of any facilities that are due to expire in the next 12 months.

Based on the Operating Company and Group cash flow projections, the Group is satisfied that it has sufficient headroom from its cash balances and committed borrowing facilities to support the funding requirements of those projections.

Therefore, after making appropriate enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in business for the foreseeable future. Accordingly, the Financial Statements have been prepared on the going concern basis.

Directors' report

Going concern and viability continued

Assessment of viability

The Shareholders of the Group are the Trustees of the Grosvenor Estate, who hold the shares and other assets for the benefit of current and future members of the Grosvenor family. The Trustees require the Group to fulfil defined business and financial objectives, including the delivery of long-term returns, subject to appropriate levels of operational risk.

To enable the Directors to fulfil the requirements of the Trustees, consideration of the long-term viability of the Group is paramount. For this reason, the Directors assess the prospects for the Group over a longer period than the 12 months required by the 'Going Concern' provision.

A key component of this assessment is the production of an annual Group strategic plan covering a five-year backward (to help the Group's understanding and assessment of forward projections) and 10-year forward period based on a financial projection of the 'most likely' economic projections. Downturn projections are also provided.

This strategic plan is based on submissions from all the Group's Operating Companies, the Indirect Investments portfolio and the Holding Company. The strategic plan covers analysis of:

- Income statement, balance sheet and cash flow forecasts.
- Total return forecasts.
- Growth of property assets through investment, development, refurbishment spend and asset sales, by sector and geography.
- Gearing projections.
- Interest cover and recurring revenue ratios.
- Capital allocation projections versus medium-term targets and long-term ranges.
- Forecast distributions to Shareholders.

These metrics are subject to sensitivity analysis and downturn scenario planning which involves flexing several of the main assumptions underlying the forecast both individually and in unison.

Operating Companies' strategic plans are reviewed by the respective boards annually. The consolidated strategic plan is also reviewed annually by the Group Board.

In addition, each month the Group prepares five-year cash flow forecasts. These include a two-year forward view of a stressed cash flow scenario, applied to the Operating Companies' current income and cost assumptions and currently approved development and investment projects. The scenario incorporates an extreme downturn; the assumptions for which have been derived from a thorough review of UK market downturns over the last 50 years. Each Operating Company is required to have sufficient cash and undrawn committed credit facilities to provide funding for at least the two-year period under these scenarios.

The cash flow forecasts are reviewed by the Group Finance Director on a monthly basis.

Directors' report

Charitable donations

Each of the Grosvenor Operating Companies contributes a percentage of its equity to charity each year. Grosvenor Britain & Ireland, Grosvenor Asia Pacific and Grosvenor Europe channel their giving via the Westminster Foundation which is a grant-making foundation representing the charitable interests of the Duke of Westminster, the Grosvenor family and the Grosvenor Estate, including Grosvenor Group Limited. In 2018, Grosvenor Group Limited's charitable contributions amounted to £4.8m (2017: £4.1m) of which £2.6m (2017: £2.4m) was donated via the Westminster Foundation. Grosvenor Americas contributes the same percentage but organises its charitable giving on an office by office basis independently of the Westminster Foundation.

Each of the proprietary Operating Companies has a staff charity committee. These have a dual role: first, to recommend (to the Westminster Foundation Trustees, as applicable) those charities in their local communities that they wish to receive support; and second, to help organise staff fund-raising activities, volunteering and pro-bono support to charities selected by employees. The Westminster Foundation matches the fund-raising efforts of individual members of staff for registered charities of their own choosing up to £1,000 per member of staff in any given year. In 2018, the total figure given by the Westminster Foundation in this way was £30,664 (2017: £33,002). In addition, Grosvenor supports Give As You Earn up to £1,200 per employee for UK-based employees and in 2018 this amounted to £28,028 (2017: £29,808).

The Westminster Foundation endowment increased during 2018 following legacy receipts of £40m from the late Duke of Westminster and personal donations totalling £44.2m from the Duke of Westminster in 2017 and 2018. The Westminster Foundation Trustees will be reviewing their grant making and distribution policies in the current year in view of the increased endowment however, as the foundation's distribution target is based on an average over five years, this will have a gradual impact on grant making.

Westminster Foundation funding during 2018 continued to focus on the existing themes of Supporting Communities in Need, Building Resilience, Crisis Intervention and Youth Homelessness. In the UK, this falls within geographical boundaries related to the activities of the Grosvenor Estate and Grosvenor Britain & Ireland, as outlined in the Westminster Foundation report and accounts.

Full details of charities awarded major grants in 2018 can be found in the foundation report and accounts.

Furthermore, in South Belgravia, a portfolio of approximately 20,000 sq. ft. of office space accommodates around 20 charities in small office units. This portfolio is managed by Grosvenor Britain & Ireland and each charity receives a contribution, typically amounting to 50% of its rent, from the Westminster Foundation. This is funded by the Group and in 2018 totalled £550,000. These charities tell us that they find the central location very helpful and their presence in the portfolio enables us to develop constructive longer-term relationships with them.

Political donations

No political donations were made during the year (2017: £nil).

Directors' report

Tax contribution

In applying our tax policy, the Group respects not only the letter of the law but also its underlying intention. In the case of real estate, the underlying premise is simple – property should be taxed in the jurisdiction in which it is located. The Group pays taxes on realised economic gains and profits, in accordance with applicable laws.

In the spirit of transparency, we analyse and report on tax contribution by type of tax borne and by country.

In 2018, our economic share of tax payments totalled £97.7m. Over the last three years, our economic tax contribution totalled £326.4m.

TAX TYPE	TOTAL TAX BORNE (£m) 2018	%	TOTAL TAX BORNE (£m) 3 YEARS to 2018	%
Corporate Income Tax paid in the year	49.8	51	192.9	59
Property transaction Taxes paid in the year	12.7	13	38.8	12
Annual Property Taxes	17.7	18	44.2	14
Employer Taxes and Social Security Costs	10.3	11	29.6	9
Irrecoverable VAT (UK only)	7.2	7	20.9	6
TOTAL	**97.7**	**100**	**326.4**	**100**

COUNTRY	TOTAL TAX BORNE (£m) 2018	%	TOTAL TAX BORNE (£m) 3 YEARS to 2018	%
United Kingdom	40.8	42	135.2	42
United States	23.2	24	56.8	17
Canada	12.2	13	27.0	8
Spain	3.2	3	5.6	2
Portugal	5.5	6	16.5	5
Japan	2.4	2	8.7	3
Australia	2.3	2	9.9	3
Hong Kong	1.3	1	12.6	4
Brazil	1.2	1	4.8	1
Ireland	–	–	37.4	11
Other	5.6	6	11.9	4
TOTAL	**97.7**	**100**	**326.4**	**100**

Directors' report

Auditor

Deloitte LLP has been reappointed as auditor under the provisions of section 487 of the Companies Act 2006.

Each person who is a Director at the date of approval of this report confirms that:

a) in so far as the Director is aware, there is no relevant audit information of which the auditor is unaware; and

b) the Director has taken all the steps that he/she ought to have taken to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This information is given and should be interpreted in accordance with section 418 of the Companies Act 2006.

Suzie McConnell
Company Secretary

UK Company registration number 3219943
Registered Office
70 Grosvenor Street
London W1K 3JP

21 March 2019

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. The Directors have elected to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 these Financial Statements, International Accounting Standards requires that the 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.
– 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 to 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:

1 the Financial Statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, 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; and

2 the strategic report and Directors report, include 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.

This responsibility statement was approved by the Board of Directors on 21 March 2019 and is signed on its behalf by:

Michael McLintock
Chairman

Corporate advisers and bankers

Auditor: Deloitte LLP

Tax advisers: KPMG LLP

Principal valuers: Cushman & Wakefield, CBRE

Solicitors: Boodle Hatfield LLP, Slaughter and May

Lead bankers: The Royal Bank of Scotland Group plc

Actuaries: Lane Clark & Peacock LLP

Independent auditor's report

to the members of Grosvenor Group Limited

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 December 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 IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.
- The Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements of Grosvenor Group Limited (the 'parent company') and its subsidiaries (the 'group') which comprise:

- The consolidated income statement.
- The consolidated statement of comprehensive income.
- The consolidated and parent company statements of changes in equity.
- The consolidated and parent company balance sheets.
- The consolidated statement of cash flows.
- The related Notes 1 to 37.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis of 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 Financial Reporting Council's (the "FRC's") Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- The Directors' use of the going concern basis of accounting in preparation of the Financial Statements is not appropriate.
- The Directors have not disclosed in the Financial Statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the Financial Statements are authorised for issue.

We have nothing to report in respect of these matters.

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.

We have nothing to report in respect of these matters.

Independent auditor's report

to the members of Grosvenor Group Limited

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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by 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.
- 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

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.
- The parent company financial statements are not in agreement with the accounting records and returns.
- Certain disclosures of Directors' remuneration specified by law are not made.
- We have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

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.

Georgina Robb
(Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

21 March 2019

Consolidated income statement

for the year ended 31 December 2018

	Notes	2018 £m	Restated[1] 2017 £m
Revenue	6	**391.8**	378.5
Property costs	7	**(218.9)**	(224.2)
Net property income		**172.9**	154.3
Administrative expenses	8	**(122.3)**	(116.5)
Net (losses)/gains on other investments	12	**(18.5)**	6.8
Net gains on revaluation and sale of investment property	13	**48.9**	20.1
Impairment loss on trade and other receivables, including contract assets	28	**(3.5)**	–
Share of profit from joint ventures and associates	20	**145.4**	189.7
Gain from operations including share of joint ventures and associates		**222.9**	254.4
Financial income	14	**16.3**	16.5
Financial expenses	14	**(41.7)**	(40.5)
Fair value adjustments	14	**(0.9)**	2.7
Net financing costs	14	**(26.3)**	(21.3)
Profit before tax		**196.6**	233.1
Current tax expense	15	**(27.0)**	(8.9)
Deferred tax (expense)/credit	15	**(7.0)**	24.5
Profit for the year	35	**162.6**	248.7
Attributable to:			
Equity holders of the parent	35	**162.6**	248.7
Non-controlling interests	35	**–**	–
Profit for the year	35	**162.6**	248.7

[1] *Restated for the adoption of IFRS 15*

Revenue profit is shown in Note 5.

All results are derived from continuing operations.

Consolidated statement of comprehensive income

for the year ended 31 December 2018

	Notes	2018 £m	2017 £m
Profit for the year	35	**162.6**	248.7
Other comprehensive income which may be reclassified to profit or loss in subsequent periods:			
Revaluation of property, plant and equipment	35	**(2.3)**	0.2
Available-for-sale financial assets:			
Gains arising during the period – Group	35	**–**	1.9
Net amount transferred to profit or loss	35	**–**	(7.1)
Fair value adjustments on swaps			
Gains arising during the period – Group	35	**0.1**	1.8
Exchange differences on translation of foreign operations – Group	35	**27.1**	(45.3)
Exchange differences on translation of foreign operations – joint ventures and associates	35	**58.6**	(67.4)
Tax relating to gains on fair value adjustments and revaluations	35	**–**	–
Other comprehensive income/(expense), net of tax, which may be reclassified to profit or loss in subsequent periods		**83.5**	(115.9)
Other comprehensive income/(expense) not to be reclassified to profit or loss in subsequent periods:			
Actuarial gains on defined benefit pension schemes	35	**17.9**	24.0
Tax relating to actuarial gains	15	**(2.9)**	(4.4)
Fair value loss on investments in equity instruments designated as at fair value through other comprehensive income	35	**(1.8)**	–
Other comprehensive income, net of tax, not to be reclassified to profit or loss in subsequent periods		**13.2**	19.6
Total comprehensive income for the period		**259.3**	152.4
Attributable to:			
Equity holders of the parent		**259.3**	152.4
Non-controlling interests		**–**	–
		259.3	152.4

The Company's equity decreased during the year as a result of the net effect of dividends received from subsidiaries of £125.4m (2017: £42.3m), dividends paid to Shareholders of £44.4m (2017: £42.3m) and consideration for the cancellation of the non-voting ordinary shares of £81.4m (2017: £nil).

The final dividend proposed by the Directors of £30,584,638 is to be paid on 3 April 2019.

Consolidated statement of changes in equity

for the year ended 31 December 2018

	Attributable to equity holders of the parent									
	Share capital £m	Share premium £m	Translation reserve £m	Other reserve £m	Fair value reserve £m	Revaluation reserve £m	Retained earnings £m	**Total £m**	Non-controlling interest £m	**Total equity £m**
Balance at 1 January 2017	56.9	28.3	561.8	225.2	6.0	28.2	3,871.9	**4,778.3**	(1.6)	**4,776.7**
Changes in equity for 2017										
Profit for the year	–	–	–	–	–	–	248.7	**248.7**	–	**248.7**
Other comprehensive (expense)/income	–	–	(112.4)	1.4	(5.2)	0.7	19.2	**(96.3)**	–	**(96.3)**
Dividends	–	–	–	–	–	–	(42.3)	**(42.3)**	–	**(42.3)**
Transfers between reserves	–	–	–	1.8	(1.2)	(0.9)	0.3	**–**	–	**–**
Acquisition of non-controlling interests	–	–	–	–	–	–	–	**–**	(0.5)	**(0.5)**
Balance at 31 December 2017	56.9	28.3	449.4	228.4	(0.4)	28.0	4,097.8	**4,888.4**	(2.1)	**4,886.3**
Adjustment on initial application of IFRS 9	–	–	–	–	–	–	4.9	**4.9**	–	**4.9**
Balance at 1 January 2018 – As restated*	56.9	28.3	449.4	228.4	(0.4)	28.0	4,102.7	**4,893.3**	(2.1)	**4,891.2**
Changes in equity for 2018										
Profit for the year	–	–	–	–	–	–	162.6	**162.6**	–	**162.6**
Other comprehensive income/(expense)	–	–	85.7	0.3	(1.8)	(0.7)	13.2	**96.7**	–	**96.7**
Dividends	–	–	–	–	–	–	(43.9)	**(43.9)**	(0.4)	**(44.3)**
Transfers between reserves	272.9	–	–	(6.1)	–	13.7	(280.5)	**–**	–	**–**
Ordinary share redemption	(45.5)	–	–	–	–	–	(35.9)	**(81.4)**	–	**(81.4)**
Disposal of non-controlling interests	–	–	–	–	–	–	–	**–**	2.2	**2.2**
Balance at 31 December 2018	284.3	28.3	535.1	222.6	(2.2)	41.0	3,918.2	**5,027.3**	(0.3)	**5,027.0**

The Company's statement of changes in equity is presented in Note 35(b).

* The comparative information has not been restated as a result of the initial application of IFRS 9 and IFRS 15 as discussed in Note 2.

Balance sheets

as at 31 December 2018

	Notes	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
ASSETS					
Non-current assets					
Investment property	17	**4,345.8**	4,177.1	**–**	–
Other property, plant and equipment	18	**66.8**	143.1	**–**	–
Investments in subsidiaries	19	**–**	–	**1,358.4**	1,358.4
Investments in joint ventures and associates	20	**1,406.3**	1,426.3	**–**	–
Other financial assets	21	**105.8**	53.9	**–**	–
Intangible assets	22	**7.2**	11.8	**–**	–
Trade and other receivables	23	**83.5**	83.1	**–**	–
Deferred tax assets	24	**43.7**	67.9	**–**	–
Total non-current assets		**6,059.1**	5,963.2	**1,358.4**	1,358.4
Current assets					
Trading properties	25	**119.8**	192.7	**–**	–
Trade and other receivables	23	**144.2**	123.6	**–**	–
Other financial assets	21	**25.7**	17.8	**–**	–
Cash and cash equivalents	26	**780.5**	430.8	**–**	–
Total current assets		**1,070.2**	764.9	**–**	–
TOTAL ASSETS		**7,129.3**	6,728.1	**1,358.4**	1,358.4
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings	27	**(963.0)**	(775.0)	**–**	–
Trade and other payables	29	**(200.2)**	(116.8)	**–**	–
Employee benefits	10	**(29.0)**	(39.4)	**–**	–
Deferred tax liabilities	24	**(605.4)**	(612.6)	**–**	–
Provisions	30	**–**	(0.3)	**–**	–
Total non-current liabilities		**(1,797.6)**	(1,544.1)	**–**	–
Current liabilities					
Interest-bearing loans and borrowings	27	**(62.8)**	(65.9)	**–**	–
Trade and other payables	29	**(232.9)**	(207.3)	**(0.4)**	–
Current tax payable		**(8.4)**	(18.6)	**–**	–
Provisions	30	**(0.6)**	(5.9)	**–**	–
Total current liabilities		**(304.7)**	(297.7)	**(0.4)**	–
TOTAL LIABILITIES		**(2,102.3)**	(1,841.8)	**(0.4)**	–
NET ASSETS		**5,027.0**	4,886.3	**1,358.0**	1,358.4
Equity					
Share capital	34	**284.3**	56.9	**284.3**	56.9
Share premium	35	**28.3**	28.3	**28.3**	28.3
Reserves	35	**796.5**	705.4	**874.6**	1,147.5
Retained earnings	35	**3,918.2**	4,097.8	**170.8**	125.7
Shareholders' funds	35	**5,027.3**	4,888.4	**1,358.0**	1,358.4
Non-controlling interests	35	**(0.3)**	(2.1)	**–**	–
TOTAL EQUITY	35	**5,027.0**	4,886.3	**1,358.0**	1,358.4

The Company has elected under section 408 of the Companies Act 2006 not to include its own income statement in these Financial Statements.

Approved by the Board and authorised for issue on 21 March 2019 and signed on behalf of the Board

Michael McLintock
(Chairman)

Nicholas Scarles
(Group Finance Director)

Consolidated statement of cash flows

for the year ended 31 December 2018

	Notes	2018 £m	2017 £m
Operating activities			
Operating profit before changes in working capital and provisions	36(a)	**39.3**	15.5
Increase in trade and other receivables		**(12.5)**	(15.0)
Decrease in trading properties		**79.4**	55.4
Increase in trade and other payables		**118.5**	1.1
Increase in employee benefits		**7.5**	6.1
Decrease in provisions		**(5.6)**	(10.8)
Cash flow from operations		**226.6**	52.3
Interest paid		**(53.9)**	(48.9)
Taxes paid		**(40.1)**	(39.5)
Interest received		**17.0**	16.2
Net cash flow from/(used) in operations		**149.6**	(19.9)
Investing activities			
Proceeds from sale of investing activities		**197.2**	69.7
Acquisition of investment and development properties		**(299.9)**	(414.6)
Development of investment and development properties		**(37.0)**	(30.4)
Acquisition of other property, plant and equipment		**(5.7)**	(9.0)
Proceeds from sale of other property, plant and equipment		**117.3**	–
Acquisition of other financial assets		**(71.3)**	(15.3)
Proceeds from sale of other financial assets		**14.9**	54.4
Loans to joint ventures and associates		**(11.0)**	(29.1)
Loans repaid from joint ventures and associates		**–**	14.7
Distributions from joint ventures and associates		**118.1**	94.4
Acquisitions of joint ventures and associates		**(98.9)**	(59.8)
Disposals of joint ventures and associates		**221.0**	28.2
Cash flow from/(used in) investing activities		**144.7**	(296.8)
Financing activities			
Proceeds from additional borrowings		**321.4**	95.2
Repayment of borrowings		**(154.1)**	(34.8)
Redemption of ordinary shares		**(81.4)**	–
Dividends paid to minorities		**(0.4)**	–
Dividends paid		**(43.9)**	(42.3)
Cash flow from financing activities		**41.6**	18.1
Net increase/(decrease) in cash and cash equivalents		**335.9**	(298.6)
Cash and cash equivalents at 1 January		**430.8**	741.8
Effect of exchange rate fluctuation on cash held		**13.8**	(12.4)
Cash and cash equivalents at 31 December		**780.5**	430.8

The Company had no cash or cash equivalents during the current and prior year and accordingly no cash flow is presented for the Company.

Notes to the Financial Statements

1 Accounting policies

(a) General information and basis of preparation

Grosvenor Group Limited ('the Company') is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered office is shown on page 8.

The principal activities of the Company and its subsidiaries ('the Group') and the nature of the Group's operations are set out in the strategic report on pages 1 to 8.

These Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. These are those International Accounting Standards, International Financial Reporting Standards and related Interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB) that have been adopted by the European Union.

The Financial Statements are prepared in Sterling. They have been prepared on the going concern basis as described in the going concern section of the Directors' report on page 13. The principal accounting policies adopted are set out below. The Company has elected under section 408 of the Companies Act 2006 not to include its own income statement in these Financial Statements.

Reclassification
Certain comparative figures have been reclassified to conform to the current period's presentation as a result of the adoption of IFRS 15 from 1 January 2018. As a result, certain line items have been amended in the income statement and the related notes to the financial statements. Further detail is disclosed in Note 2.

(b) Basis of consolidation

The consolidated Financial Statements of the Group incorporate the Financial Statements of the Company and its subsidiary undertakings.

Subsidiary undertakings are those entities, including special purpose entities, controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Financial Statements of subsidiaries are included in the consolidated Financial Statements from the date that control commences until the date that control ceases.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Associates are those entities over whose activities the Group has significant influence. Interests in joint ventures and associates are accounted for under the equity method whereby the consolidated balance sheet incorporates the Group's share of the net assets of its joint ventures and associates and the consolidated income statement includes the Group's share of the joint ventures' and associates' profit or loss after tax for the period. The consolidated Financial Statements include the Group's share of the total recognised gains and losses of joint ventures and associates on an equity accounted basis.

Non-controlling interests represent the portion of equity in a subsidiary not attributable to the Company. Non-controlling interests are shown on a net asset value basis in the consolidated Financial Statements.

Where the Group has contractual relationships to share assets with other entities (jointly-controlled assets), the Group's share of the individual items of assets, liabilities, income and expenses are recognised in the Financial Statements and classified according to their nature.

Where necessary, adjustments are made to the results of subsidiaries, joint ventures and associates to bring their accounting policies into line with those used by the Group. Intra-Group transactions, balances, income and expense are eliminated on consolidation, where appropriate.

Business combinations are accounted for under the acquisition method. The Group treats acquisition assets in corporate structures as asset purchases in line with the substance of the transaction.

The Group assesses whether the acquisition of property through the purchase of a corporate vehicle should be accounted for as an asset purchase or a business combination. Where the acquired corporate vehicle contains significant assets or liabilities in addition to property, the transaction is accounted for as a business combination. Where there are no such significant items, the transaction is treated as an asset purchase.

Any discount between the cost of the acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary, joint venture or associate at the effective date of acquisition is credited to the income statement in the period of acquisition, while any excess is recognised as goodwill. Goodwill is reported in the balance sheet as an intangible asset or included within associates and joint ventures, as appropriate. Goodwill has an indefinite useful life, is not subject to amortisation, is subject to annual impairment reviews and is stated at cost less any impairment. Acquisition-related costs are generally recognised in profit or loss as incurred.

The gain or loss on disposal of subsidiaries, joint ventures and associates is calculated by reference to the Group's share of the net assets at the date of disposal including the attributable amount of goodwill which has not been impaired.

The Group has determined that investment funds that it invests in and manages are joint ventures and associates. An interest arises as a result of the Group's power conveyed through the investment management and other agreements, which permit the Group to participate in the investing and operating decisions of the funds. The Group's interests in these funds include the management and performance fees that it earns from them, together with ownership interests that it holds.

Notes to the Financial Statements

1 Accounting policies continued

(c) Foreign currency translation

At entity level, transactions denominated in foreign currencies are translated into the relevant functional currency at the exchange rate ruling on the date the transaction is recorded. Monetary assets and liabilities denominated in foreign currencies are re-translated at the exchange rate ruling at the balance sheet date or, if hedged, at the exchange rate under the related hedging transaction and the resultant exchange differences are dealt with in the income statement. On consolidation, the results of overseas companies are translated into Sterling at the average exchange rate for the period and their assets and liabilities are translated into Sterling at the exchange rate ruling at the balance sheet date. Exchange differences arising from the translation of foreign operations, and of related hedges, are taken to the translation reserve. They are released into the income statement upon disposal.

In the cash flow statement, cash flows denominated in foreign currencies are translated into Sterling at the average exchange rate for the period.

(d) Investment property

Investment properties, including freehold and long leasehold properties, are those which are held either to earn rental income or for capital appreciation or both. Investment properties include property that is being constructed or developed for future use as an investment property. Investment properties are initially measured at cost, including transaction costs. After initial recognition investment properties are carried at their fair values, based on annual market valuations as determined by independent valuers.

Any surplus or deficit on revaluation is recognised in the income statement as a valuation gain or loss.

When the Group begins to redevelop an existing investment property for continued use as investment property, the property continues to be classified as an investment property and is carried at fair value with valuation gains and losses being recorded in the income statement.

When the Group begins to redevelop an existing investment property with a view to sale, the property is transferred to trading properties and held as a current asset. The property is re-measured to fair value at the date of transfer and any gain or loss is recognised in the income statement. The re-measured amount becomes the deemed cost at which the property is then carried in trading properties.

(e) Leases

The Group has leases for which it must account for from the position of both a lessee and a lessor.

Group as lessor

Leases to tenants where substantially all the risks and rewards of ownership are retained by the Group as the lessor are classified as operating leases. Payments made under operating leases, including prepayments, and net of any incentives provided by the Group, are charged to the income statement on a straight-line basis over the period of the lease.

Leases where substantially all the risks and rewards of ownership are transferred to the tenant are classified as finance leases. A finance lease asset is recognised as a receivable in the balance sheet at an amount equal to the present value of the minimum lease payments plus any unguaranteed residual values. Payments received are allocated between repayment of the finance lease receivable and interest income so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. A profit or loss on disposal is recognised in the income statement upon entering into a finance lease for any difference between the present value of the minimum lease payments plus any unguaranteed residual values and the carrying value of the property derecognised.

Group as lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Where a long leasehold property is held as an investment property, it is initially recognised at an amount equal to the sum of the premium paid on acquisition and the present value of minimum ground rent payments. The corresponding rent liability to the freeholder is included in the balance sheet as a finance lease obligation.

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

(f) Other property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Land and buildings are stated at fair value, with valuation gains and losses recognised in equity.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, and major components that are accounted for separately, at rates varying between 10% and 33.3% per annum, except for freehold property occupied by the Group, which is depreciated where material over its expected useful life.

Notes to the Financial Statements

1 Accounting policies continued

(g) Other financial assets

The following accounting policy is applied until 31 December 2017. Refer to Note 2 for the accounting policy applied from 1 January 2018.

Financial assets available-for-sale are stated at fair value which is determined by reference to an active market and any resultant gain or loss is recognised in the fair value reserve. Where the Group has the positive intent and ability to hold a financial asset to maturity, it is stated at amortised cost less impairment losses. Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted on an active market are classified as loans and receivables. Loans and receivables are included at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Financial assets are assessed for indicators of impairment at each balance sheet date. Structured development loans comprise a loan principal, which attracts a rate of interest and is accounted for as loans and receivables, and a profit participation element which is treated as an embedded derivative and classified as held for trading. The embedded derivative is held at fair value determined by reference to a prudent estimate of the profit participation that will be ultimately receivable, discounted where material. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the investment have been adversely affected.

(h) Trading properties

Trading properties are held as current assets and are shown at the lower of cost and net realisable value. Net realisable value is the estimated selling price at completion less the estimated costs of completion including the estimated costs necessary to make the sale.

(i) Trade and other receivables

Trade and other receivables are stated at cost less any impairment.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Cash equivalents are short-term (held for three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a deduction from cash and cash equivalents for the purpose of the statement of cash flows.

(k) Derivative financial instruments

Derivative financial instruments utilised by the Group are interest rate swaps and forward exchange contracts against known transactions. The Group does not enter into derivative contracts for solely speculative purposes. Instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the Group in line with its risk management policies. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the contracts.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement.

(l) Trade and other payables

Trade and other payables are stated at cost.

(m) Borrowings and other financial liabilities

Borrowings and other financial liabilities are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, borrowings and other financial liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Notes to the Financial Statements

1 Accounting policies continued

(n) Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The calculation is performed by an actuary using the projected unit credit method. The future benefit liability is offset by the fair value of the pension plan assets at the balance sheet date.

The expected annual charge for the defined benefit pension costs as estimated by the actuary is included in the income statement and comprises the current service cost and the interest cost on the future net benefit liability.

Adjustments between expectation and actual, together with all actuarial adjustments, are recognised in full in the year in which they arise and are credited or debited directly to reserves.

(o) Revenue

The following accounting policy is applied until 31 December 2017. Refer to Note 2 for the accounting policy applied from 1 January 2018.

The Group recognises revenue on an accruals basis, when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Group. Revenue is measured at the fair value of the consideration received or receivable.

The Group's revenue comprises rental income, service charges and other recoverables from tenants, income from the provision of services including property management fees, development fees, income from hotel operations and fund management fees, proceeds of sales of its trading properties and development income.

Revenue from development is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. Revenue is not recognised if there are significant uncertainties regarding recovery of the consideration due. Provision is made for anticipated development losses.

Rental income from investment property leased out under an operating lease is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income over the life of the lease.

Revenue from hotel operations is recognised net of VAT. Revenue from the rental of rooms is recognised when rooms are occupied and food and beverage sales recognised at the point of sale. Turnover excludes staff discretionary service charges which are independently collected and distributed by a Tronc committee.

Revenue from the sale of trading properties is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, which is usually at completion.

Performance fees receivable from funds are recognised in income when it is considered probable that a performance fee will be received and that fee can be reliably estimated. The amount of the performance fee recognised is the lower of the fee that has accrued at the balance sheet date and a prudent estimate of the fee that will be receivable at the end of the life of the fund. Where material, performance fees are discounted with any unwinding of the discount being recognised in interest income.

(p) Expenses

Rental payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense on a straight-line basis over the life of the lease.

Minimum lease payments on finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

(q) Borrowing costs

Borrowing costs relating to the financing of development properties, major improvements to investment properties and trading properties that require substantial periods of time to bring into saleable condition are capitalised. Borrowing costs are calculated by reference to the actual rate payable on borrowings specific to a project or, where a project is financed out of general funds, to the average rate for all borrowings. Borrowing costs are capitalised from the commencement of the project, until the date of practical completion of the project.

All other borrowing costs are recognised in the Group income statement in the period in which they are incurred.

Notes to the Financial Statements

1 Accounting policies continued

(r) Corporate income taxes

Income tax on the profit and loss for the year comprises current and deferred tax including tax on capital gains. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, and any adjustment to tax payable in respect of previous years. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are not taxable or deductible. The liability for current tax is calculated using the tax rates that have been enacted or substantively enacted by the end of the reporting period; refer to Note 15 for reconciliation.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided on the initial recognition of assets and liabilities that affect neither accounting nor taxable profit and on differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. The Group provides deferred tax on investment properties by reference to the tax that would be due on the ultimate sale of the properties. Recognition on this basis means that, where applicable, indexation allowance is taken into account in determining the tax base cost. Where tax liabilities arising on the sale of property are able to be deferred against the cost of new property, a deferred tax liability is provided, to recognise that tax may be payable should the new property be sold in the future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets are measured at the tax rates that are expected to apply in the period in which the asset is realised, based on tax rates (and tax laws) that have been enacted at the end of the reporting period. The measurement of deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets.

(s) Government grants

An unconditional government grant is recognised in the income statement as revenue when the grant becomes receivable. Any other government grant is recognised in the balance sheet initially as deferred income when it is virtually certain that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset.

(t) Adoption of new and revised standards

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

IFRS 9 Financial Instruments; and

IFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 2 below.

The other standards as presented below did not have any impact on the Group's accounting policies and did not require retrospective adjustments:

IAS 40 (Amendments) Transfers of Investment Property;

IFRIC 22 Foreign Currency Transactions and Advanced Consideration; and

Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.

At the date of authorisation of these Financial Statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

IAS 19 (Amendments) Employee Benefits: Plan Amendment, Curtailment or Settlement;

IAS 28 (Amendments) Long-term Interests in Associates and Joint Ventures;

IFRIC 23 Uncertainty over Income Tax Treatments;

IFRS 10 Consolidated Financial Statements and IAS 28 (Amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;

IFRS 16 Leases;

Amendments to References to the Conceptual Framework in IFRS Standards; and

Annual Improvements to IFRS Standards 2015-2017 Cycle - Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs.

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except that:

Notes to the Financial Statements

1 Accounting policies continued

(t) Adoption of new and revised standards continued

The Group has reviewed all of its leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases. IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 January 2019.

At 31 December 2018, the Group has non-cancellable operating lease commitments of £76.8m, see Note 31. A preliminary assessment indicates that of these commitments, approximately £0.8m relate to low value leases (such as personal computers and office furniture) which will be recognised on a straight-line basis as an expense in the income statement.

For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately £63m on 1 January 2019, lease liabilities of £65m and deferred tax assets of £0.3m. Overall net assets will be approximately £2.1m lower, and net current assets will be £1.3m lower due to the presentation of a portion of the liability as a current liability.

The Group expects that profit for the year will decrease by approximately £0.7m for 2019 as a result of adopting the new rules.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to increase the cash generated by operating activities by £7.8m and to increase net cash used in financing activities by the same amount.

(u) Significant accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may be different from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

i) Significant judgements in applying the Group's accounting policies

The following are critical judgements, apart from those involving estimations (which are dealt with in (1(u)ii)) that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in Financial Statements.

Taxation

The Group applies judgement in the application of taxation regulations and makes estimates in calculating current income tax and deferred tax assets and liabilities, including the likely availability of future taxable profits against which deferred tax assets can be utilised. Where there is uncertainty on the tax position, provision is made until the outcome is certain.

ii) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Property valuations

Due to the size of the investment property portfolio held on the balance sheet at market value small changes to the estimates used to derive the market values can have a significant impact on the valuations and therefore a significant impact on the results and financial position of the Group. This includes the value of property yields and the estimated future rental income assumed in the valuations. See Note 17 for details of the estimates used in deriving the valuations.

As deferred tax is provided on investment properties by reference to the tax that would be due on the ultimate sale of the properties, changes to the estimates used to derive the market values would also have an impact on the deferred tax provided.

Defined benefit pension schemes

The assumptions used in calculating the balance sheet assets and liabilities of the defined benefit pension schemes include estimates as set out in Note 10. The assets and liabilities are sensitive to the application of these estimates and small changes can have a significant impact on the results and financial position of the Group.

Notes to the Financial Statements

2 Adoption of new standards

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017.

The Group has initially adopted IFRS 15 Revenue from Contracts with Customers (see 2(a)) and IFRS 9 Financial Instruments (see 2(b)) from 1 January 2018. The Group has not restated comparatives as allowed under the transition provisions set out in IFRS 15 and IFRS 9.

The effect of initially applying these standards is mainly attributed to the following:

– the reclassification of structured development loans from loans and receivables at amortised cost under IAS 39 to fair value through profit or loss under IFRS 9; and
– an increase in impairment losses recognised in respect of financial assets (see 2(b) (ii) below).

2(a) Impact of application of IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework and introduced a five-step approach to revenue recognition in determining whether, how much and when revenue is recognised. It has replaced IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations. The Group has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and the related interpretations.

There are no changes to revenue recognition on adoption of IFRS 15; however there are changes in accounting policies and disclosure requirements which are discussed below:

– A new 'Revenue' line has been included in the consolidated income statement which replaces the previously presented 'Gross rental income' line. An analysis of 'Revenue' is provided in Note 6 to the financial statements.
– A new 'Property costs' line has also been included in the consolidated income statement. This line includes the amounts in 'Property outgoings' and 'Net gains/(losses) on trading properties' as presented in the 2017 financial statements. An analysis of 'Property costs' is provided in Note 7 to the financial statements.
– Under IFRS 15 gross service charge income is included within the 'Revenue' line; previously this was included within property outgoings.

The Group has changed the presentation of certain current year and comparative amounts in the trade and other receivables (Note 23) and trade and other payables (Note 29) to reflect the terminology of IFRS 15.

– Contract assets recognised in relation to property developments contracts were previously presented as part of accrued income (£4.4m as at 31 December 2018 and £2.7m as at 1 January 2018). Also included is a contract asset in relation to performance fees (£24.1m as at 31 December 2018 and £nil as at 1 January 2018).
– Contract liabilities in relation to property development contracts were previously included in deferred income (£13.4m as at 31 December 2018 and £9.0m as at 1 January 2018).

Notes to the Financial Statements

2(a) Impact of application of IFRS 15 Revenue from Contracts with Customers continued

The Group's accounting policies for revenue from contracts with customers on initial adoption of IFRS 15 from 1 January 2018 are set out below

The Group's revenue comprises rental income, service charges and other recoverables from tenants, income from the provision of services including property management fees, development fees, income from hotel operations and fund management fees, proceeds of sales of its trading properties and development income.

Rental income from investment property leased out under an operating lease is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income over the life of the lease.

The Group's revenue from contracts with customers, as defined in IFRS 15 includes service charges and other recoverables from tenants, income from the provision of services including property management fees, income from hotel operations and fund management fees, proceeds of sales of its trading properties and development income.

The Group recognises revenue when a customer obtains control of the goods or services. Revenue is measured at the fair value of the consideration received or receivable. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent and has concluded it is acting as principal in all of its revenue arrangements.

Revenue from service charges, other recoverables from tenants and income from the provision of services including property management fees and fund management fees are recorded as income over time in the period in which the services are rendered.

Revenue from development is recognised over time over the period of the contract in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. Revenue is not recognised if there are significant uncertainties regarding recovery of the consideration due. Provision is made for anticipated development losses.

Revenue from hotel operations, being the rental of rooms, is recognised at a point in time when rooms are occupied, and food and beverage sales are recognised at the point of sale. Revenue excludes staff discretionary service charges which are independently collected and distributed by a Tronc committee.

Revenue from the sale of trading properties is recognised when control over the property has been transferred to the buyer. However, an enforceable right to payment does not arise until legal title has passed to the buyer, which is usually at completion. Therefore, revenue is recognised at a point in time when the legal title has passed to the buyer.

Performance fees receivable from funds are recognised in income when it is considered virtually certain that a performance fee will be received and that fee can be reliably estimated. The amount of the performance fee recognised is the lower of the fee that has accrued at the balance sheet date and a prudent estimate of the fee that will be receivable at the end of the life of the fund. Where material, performance fees are discounted with any unwinding of the discount being recognised in interest income.

Notes to the Financial Statements

2(b) Impact of application of IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The Group has applied IFRS 9 from 1 January 2018, but will not restate comparatives on initial application.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the consolidated income statement. Previously, the Group's approach was to include the impairment of trade receivables within property outgoings.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of retained earnings (for a description of the transition method, see 2(b) (iv) below).

	Impact of adopting IFRS 9 on opening balance £m
Retained earnings	
Loans to joint ventures	**(1.5)**
Structured development loans	**6.6**
Trade and other receivables	**(0.2)**
Impact at 1 January 2018	**4.9**

(i) Classification and measurement of financial assets and liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and available-for-sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities including borrowings and derivative financial instruments (for derivatives that are used as hedging instruments, see (iii) below).

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income ('FVOCI') – equity investments; or fair value through profit or loss ('FVTPL'). Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

2(b) Impact of application of IFRS 9 Financial Instruments continued

The following table and the accompanying notes below explain the original classification and measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

	Note	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39 £m	New carrying amount under IFRS 9 £m
Financial assets					
Equity shares	(a)	Available-for-sale	FVOCI – equity instrument	0.4	0.4
Other financial assets	(a)	Available-for-sale	FVOCI – equity instrument	9.9	9.9
Structured development loans	(b)	Loans and receivables	FVTPL	49.6	59.2
Structured development loans (embedded derivative)	(b)	Held-for-trading	Mandatorily at FVTPL	3.0	
Trade and other receivables		Loans and receivables	Amortised cost	196.8	195.1
Cash and cash equivalents		Loans and receivables	Amortised cost	430.8	430.8
Derivatives (Interest rate swaps)		Held-for-trading	Mandatorily at FVTPL	3.0	3.0
Total financial assets				**693.5**	**698.4**

There have been no changes to the classification or measurement of financial liabilities as a result of the application of IFRS 9.

(a) The Group elected to present in OCI changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held for strategic rather than investment purposes and are not expected to be sold in the short to medium term.

(b) Under the previous standard, structured development loans comprise a loan principal, which attracts a rate of interest and is accounted for as loans and receivables, and a profit participation element which is treated as an embedded derivative and classified as held for trading. The embedded derivative is held at fair value determined by reference to a prudent estimate of the profit participation that will be ultimately receivable, discounted where material. Under the new standard, embedded derivatives are not separated from the loan. As a result, the entire loan and embedded derivative is classified entirely as a 'fair value through profit and loss' financial asset.

The following accounting policies apply to the measurement of financial assets from 1 January 2018

The Group has made an irrevocable election at initial recognition for certain equity investments to be classified as fair value through other comprehensive income. Equity investments at FVOCI are stated at fair value which is determined by reference to an active market and any resultant gain or loss is recognised in the fair value reserve. There is no subsequent reclassification of fair value gains and losses to profit or loss following derecognition of the investment.

Trade receivables, loans and other receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Financial assets are assessed for indicators of impairment at each balance sheet date.

Structured development loans comprise a loan principal, which attracts a rate of interest and a profit participation element which is treated as an embedded derivative. Under IFRS 9, structured development loans are classified entirely as a fair value through profit or loss financial asset. Changes in fair value are recognised in fair value adjustments in the income statement.

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, lease receivables and contract assets, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Notes to the Financial Statements

2(b) Impact of application of IFRS 9 Financial Instruments continued

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 Carrying amount at 31 December 2017 £m	Reclassification £m	Remeasurement £m	IFRS 9 carrying amount at 1 January 2018 £m
Financial assets				
Amortised cost				
Cash and cash equivalents				
Brought forward: *Loans and receivables*	430.8			
Carried forward: *Amortised cost*				430.8
Receivables due from joint ventures:				
Brought forward: Loans and receivables	85.9			
Remeasurement			(1.5)	
Carried forward: *Amortised cost*				84.4
Structured development loans				
Brought forward: *Loans and receivables*	49.6			
Reclassified to: *FVTPL*		(49.6)		–
Trade and other receivables				
Brought forward: *Loans and receivables*	110.9			
Remeasurement			(0.2)	
Carried forward: *Amortised cost*				110.7
Total amortised cost	677.2	(49.6)	(1.7)	625.9

	IAS 39 carrying amount at 31 December 2017 £m	Reclassification £m	Remeasurement £m	IFRS 9 carrying amount at 1 January 2018 £m
Financial assets				
FVOCI				
Equity investments:				
Brought forward: *Available-for-sale*	10.3			
Reclassified to: *FVOCI – equity*		(10.3)		
FVOCI – equity				
Trade investments:				
Brought forward: *Available-for-sale*		10.3		
Carried forward: *FVOCI – equity*				10.3
Total FVOCI	10.3	–	–	10.3

Notes to the Financial Statements

2(b) Impact of application of IFRS 9 Financial Instruments continued

£m	IAS 39 carrying amount at 31 December 2017 £m	Reclassification £m	Remeasurement £m	IFRS 9 carrying amount at 1 January 2018 £m
Financial assets				
FVTPL				
Loans and receivables:				
Addition: *From amortised cost*		49.6		
Carried forward: *FVTPL*				49.6
Derivatives (Interest rate swaps):				
Opening balance under IAS 39 and closing balance under IFRS 9	3.0			3.0
Structured development loans (embedded derivative):				
Opening balance under IAS 39	3.0			
Remeasurement of derivatives under IFRS 9			6.6	
Carried forward: *FVTPL*				9.6
Total FVTPL	6.0	49.6	6.6	62.2
Total financial asset balances, reclassifications and remeasurements at 1 January 2018	693.5	–	4.9	698.4

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost and contract assets, but not to investments in equity instruments. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The financial assets at amortised cost consist of loans to joint ventures, trade receivables, lease receivables, contract assets and cash and cash equivalents.

Impact of the new impairment model
The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional impairment allowance as follows.

	£m
Loss allowance at 31 December 2017 under IAS 39	1.8
Additional impairment recognised at 1 January 2018 on:	
Loans to joint ventures	1.5
Trade and other receivables as at 31 December 2017	0.2
Loss allowance at 1 January 2018 under IFRS 9	3.5

Notes to the Financial Statements

2(b) Impact of application of IFRS 9 Financial Instruments continued

Trade receivables and contract assets
The Group has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime expected credit losses under the simplified approach as these items do not have a significant financing component.

This adoption of the simplified approach resulted in a change to the loss allowance on 1 January 2018 of £0.2m for trade receivables.

Loans to joint ventures
Loans to joint ventures at amortised cost are considered to be low risk, and therefore the impairment provision is determined as 12 months expected credit losses. Applying the expected credit risk model resulted in the recognition of a loss allowance of £1.5m on 1 January 2018 (previous loss allowance was nil) for loans to joint ventures at amortised cost and a further increase in the allowance by £3.0m in the current reporting period.

(iii) Hedge accounting

On initial application of IFRS 9, an entity may choose, as its accounting policy, to continue to apply the hedge accounting requirements of IFRS 39 instead of the hedge accounting requirements of IFRS 9. The Group will continue to apply the hedge accounting requirements of IAS 39.

(iv) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held; and
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- The application of IFRS 9 has had no impact on the consolidated cash flows of the Group.

3 Foreign currencies

The principal exchange rates used to translate into Sterling the results, assets, liabilities and cash flows of overseas companies were as follows:

	Average rate		Year end rate	
	2018 £1	2017 £1	**2018 £1**	2017 £1
US Dollars	**1.33**	1.30	**1.27**	1.35
Canadian Dollars	**1.73**	1.68	**1.74**	1.69
Euros	**1.13**	1.15	**1.11**	1.13
Australian Dollars	**1.79**	1.69	**1.81**	1.73
Hong Kong Dollars	**10.43**	10.10	**9.98**	10.58
Chinese Renminbi	**8.82**	8.75	**8.81**	8.79
Japanese Yen	**146.71**	145.51	**139.80**	152.42
Swedish Krona	**11.63**	11.05	**11.32**	11.07

4 Segmental analysis

The Group's reportable segments are the four regional Operating Companies and Indirect Investments, which includes Sonae Sierra and third-party managed investments. These operating segments reflect the components of the Group that are regularly reviewed by the Group Board to allocate resources and assess performance. Not allocated represents the Group Holding Company and consolidation adjustments. The accounting policies of the reportable segments are consistent with the Group accounting policies detailed in Note 1 and Note 2. The balance sheet is presented on a proportional basis as property assets presented in this manner is a key performance metric of the Group.

2018

	Proprietary assets – Direct				Proprietary assets – Indirect				
	Britain & Ireland £m	Americas £m	Asia Pacific £m	Europe £m	Sonae Sierra £m	Third-party managed £m	Other £m	Not allocated £m	**Total £m**
Income statement									
Revenue	121.3	140.5	96.0	33.8	–	–	–	0.2	**391.8**
Property costs (excluding major refurbishments)	(48.6)	(85.8)	(68.8)	(1.3)	–	–	–	–	**(204.5)**
Net property income*	72.7	54.7	27.2	32.5	–	–	–	0.2	**187.3**
Administrative expenses	(26.2)	(31.6)	(15.2)	(24.0)	–	–	(4.3)	(21.0)	**(122.3)**
Impairment loss on trade and other receivables, including contract assets	(3.3)	–	(0.2)	–	–	–	–	–	**(3.5)**
Net financing (costs)/income	(23.5)	(4.2)	0.1	(0.4)	–	1.5	(0.4)	1.5	**(25.4)**
Revenue profit of joint ventures and associates (Note 20)	19.5	20.1	15.0	3.5	29.9	6.9	–	–	**94.9**
Group revenue profit/(loss)	39.2	39.0	26.9	11.6	29.9	8.4	(4.7)	(19.3)	**131.0**
Net gains on revaluation and sale of investment properties	17.0	22.0	5.7	4.2	–	–	–	–	**48.9**
Major refurbishment costs	(14.4)	–	–	–	–	–	–	–	**(14.4)**
Net (losses)/gains on other investments	(6.4)	(0.2)	0.1	0.1	–	–	(12.1)	–	**(18.5)**
Derivative fair value adjustments	–	1.2	(0.6)	–	–	–	–	(2.3)	**(1.7)**
Derivative fair value adjustments related to structured development loans	–	0.8	–	–	–	–	–	–	**0.8**
Other gains/(losses) of joint ventures and associates (Note 20)	–	2.8	24.3	(7.0)	30.2	18.1	–	–	**68.4**
Profit/(loss) before tax	35.4	65.6	56.4	8.9	60.1	26.5	(16.8)	(21.6)	**214.5**
Tax and non-controlling interests in joint ventures and associates	(0.2)	(0.1)	(3.4)	(0.1)	(14.0)	(0.1)	–	–	**(17.9)**
Profit/(loss) before tax reported in the income statement	35.2	65.5	53.0	8.8	46.1	26.4	(16.8)	(21.6)	**196.6**
Tax (expense)/credit	(7.0)	(16.5)	(8.5)	(2.5)	–	(1.7)	0.8	1.4	**(34.0)**
Profit/(loss) after tax reported in the income statement	28.2	49.0	44.5	6.3	46.1	24.7	(16.0)	(20.2)	**162.6**

* Included in net property income are net gains on trading properties amounting to £31.4m (2017: £35.5m) arising from income from sale of trading and development properties of £167.9m (2017: £177.1m) less the carrying value of trading properties sold of £136.5m (2017: £141.6m).

Notes to the Financial Statements

4 Segmental analysis continued

2018

	Proprietary assets – Direct				Proprietary assets – Indirect				
	Britain & Ireland £m	Americas £m	Asia Pacific £m	Europe £m	Sonae Sierra £m	Third-party managed £m	Other £m	Not allocated £m	**Total £m**
Balance sheet (proportional basis)									
Investment property	3,209.1	1,158.1	734.3	364.7	561.4	314.4	–	–	**6,342.0**
Investment property under development	175.3	–	–	–	29.9	–	–	–	**205.2**
Trading property	44.5	151.4	103.4	17.6	–	–	–	–	**316.9**
Other financial assets	–	91.9	0.5	–	–	28.8	–	–	**121.2**
Total property assets	3,428.9	1,401.4	838.2	382.3	591.3	343.2	–	–	**6,985.3**
Net (debt)/cash	(355.3)	(283.6)	(116.5)	(166.4)	(157.4)	(151.1)	8.7	157.1	**(1,064.5)**
Deferred tax (liability)/asset	(393.2)	(133.4)	(28.3)	(18.6)	(92.1)	(0.5)	(2.7)	(4.7)	**(673.5)**
Other net (liabilities)/assets	(200.6)	(78.5)	(6.1)	(2.0)	(9.7)	7.0	(43.5)	113.1	**(220.3)**
Net assets	2,479.8	905.9	687.3	195.3	332.1	198.6	(37.5)	265.5	**5,027.0**
Property additions	139.4	56.7	30.4	152.4	72.5	109.5	–	–	**560.9**

2017

	Proprietary assets – Direct				Proprietary assets – Indirect				
	Britain & Ireland £m	Americas £m	Asia Pacific £m	Europe £m	Sonae Sierra £m	Third-party managed £m	Other £m	Not allocated £m	Total £m
Income statement									
Revenue	165.2	183.7	13.9	15.8	–	–	0.1	(0.2)	378.5
Property costs (excluding major refurbishments)	(83.5)	(115.8)	(8.9)	–	–	–	–	–	(208.2)
Net property income	81.7	67.9	5.0	15.8	–	–	0.1	(0.2)	170.3
Administrative expenses	(27.4)	(28.3)	(14.8)	(22.1)	–	–	(4.4)	(19.5)	(116.5)
Net financing (costs)/income	(24.7)	0.1	0.2	0.4	–	0.7	(0.2)	1.0	(22.5)
Revenue profit of joint ventures and associates (Note 20)	18.8	31.9	16.5	5.3	34.5	5.2	–	–	112.2
Group revenue profit/(loss)	48.4	71.6	6.9	(0.6)	34.5	5.9	(4.5)	(18.7)	143.5
Net (losses)/gains on revaluation and sale of investment properties	(12.6)	30.5	2.2	–	–	–	–	–	20.1
Major refurbishment costs	(16.0)	–	–	–	–	–	–	–	(16.0)
Net gains on other investments	0.3	–	–	0.4	–	6.1	–	–	6.8
Derivative fair value adjustments	–	1.3	(1.4)	–	–	–	–	1.3	1.2
Other gains of joint ventures and associates (Note 20)	–	5.4	45.7	2.8	36.4	10.5	–	–	100.8
Profit/(loss) before tax	20.1	108.8	53.4	2.6	70.9	22.5	(4.5)	(17.4)	256.4
Tax and non-controlling interests in joint ventures and associates	(0.8)	–	(1.9)	(0.3)	(20.2)	(0.1)	–	–	(23.3)
Profit/(loss) before tax reported in the income statement	19.3	108.8	51.5	2.3	50.7	22.4	(4.5)	(17.4)	233.1
Tax credit/(expense)	(3.9)	18.7	3.9	0.3	–	(5.4)	(0.1)	2.1	15.6
Profit/(loss) after tax reported in the income statement	15.4	127.5	55.4	2.6	50.7	17.0	(4.6)	(15.3)	248.7

Notes to the Financial Statements

4 Segmental analysis continued

2017

	Proprietary assets – Direct				Proprietary assets – Indirect				
	Britain & Ireland £m	Americas £m	Asia Pacific £m	Europe £m	Sonae Sierra £m	Third-party managed £m	Other £m	Not allocated £m	Total £m
Balance sheet (proportional basis)									
Investment property	3,035.6	1,144.8	693.0	217.8	905.5	176.0	–	–	6,172.7
Investment property under development	206.4	–	–	–	33.6	–	–	–	240.0
Trading property	65.4	177.8	113.7	13.7	–	–	–	–	370.6
Other financial assets	–	49.6	0.4	–	–	9.9	–	–	59.9
Total property assets	3,307.4	1,372.2	807.1	231.5	939.1	185.9	–	–	6,843.2
Net (debt)/cash	(338.2)	(354.9)	(258.6)	(54.7)	(282.8)	(87.6)	7.3	164.4	(1,205.1)
Deferred tax (liability)/asset	(413.4)	(133.7)	(15.2)	(17.7)	(148.4)	(0.5)	(1.9)	4.1	(726.7)
Other net (liabilities)/assets	(69.7)	(43.2)	(9.0)	23.0	17.8	7.2	9.5	39.3	(25.1)
Net assets	2,486.1	840.4	524.3	182.1	525.7	105.0	14.9	207.8	4,886.3
Property additions	191.6	41.3	220.8	48.0	20.6	57.7	–	–	580.0

5 Revenue profit

The Group uses revenue profit as its primary measure of underlying operating performance as the Group's property-related activities have only modest impact on short-term valuation movements and none over foreign exchange rates, hence revenue profit is a better metric to assess the commercial impact of the Group's efforts. The calculation of revenue profit and its reconciliation to profit before tax is set out below.

	2018			2017		
	Group £m	**Share of joint ventures and associates (Note 20) £m**	**Total £m**	Group £m	Share of joint ventures and associates (Note 20) £m	Total £m
Revenue	**391.8**	**258.4**	**650.2**	378.5	255.7	634.2
Property costs (excluding major refurbishments)	**(204.5)**	**(109.7)**	**(314.2)**	(208.2)	(87.3)	(295.5)
Net property income (before major refurbishments)	**187.3**	**148.7**	**336.0**	170.3	168.4	338.7
Administrative expenses	**(122.3)**	**(28.0)**	**(150.3)**	(116.5)	(31.3)	(147.8)
Impairment loss on trade and other receivables, including contract assets	**(3.5)**	**–**	**(3.5)**	–	–	–
Net financing costs (excluding derivative fair value adjustments)	**(25.4)**	**(25.8)**	**(51.2)**	(22.5)	(24.9)	(47.4)
Revenue profit	**36.1**	**94.9**	**131.0**	31.3	112.2	143.5
Reconciliation of revenue profit to profit before tax:						
Revenue profit	**36.1**	**94.9**	**131.0**	31.3	112.2	143.5
Joint ventures and associates:						
– Revenue profit	**–**	**(94.9)**	**(94.9)**	–	(112.2)	(112.2)
– Equity accounted profit	**–**	**145.4**	**145.4**	–	189.7	189.7
Net gains on revaluation and sale of investment properties	**48.9**	**–**	**48.9**	20.1	–	20.1
Major refurbishment costs	**(14.4)**	**–**	**(14.4)**	(16.0)	–	(16.0)
Net (losses)/gains on other investments	**(18.5)**	**–**	**(18.5)**	6.8	–	6.8
Derivative fair value adjustments related to structured development loans	**0.8**	**–**	**0.8**	–	–	–
Derivative fair value adjustments	**(1.7)**	**–**	**(1.7)**	1.2	–	1.2
Profit before tax	**51.2**	**145.4**	**196.6**	43.4	189.7	233.1

Notes to the Financial Statements

6 Revenue

	2018 £m	2017 £m
Gross lease payments receivable	**145.8**	130.8
Amortisation of lease incentives	**8.7**	10.9
Amortisation of deferred lease premiums	**9.3**	9.2
Gross rental income	**163.8**	150.9
Revenue from contracts with customers:		
Income from sale of trading and development properties	**167.9**	177.1
Service charge income	**12.4**	12.4
Other income	**47.7**	38.1
Revenue from contracts with customers	**228.0**	227.6
	391.8	378.5

Investment properties are leased out under operating leases. The majority of operating lease terms fall in the range between six months and 20 years.

Total contingent rents included in gross rental income amounted to £nil (2017: £nil).

Other income can be further analysed as follows:

	2018 £m	2017 £m
Fund management and asset management fees	**38.5**	24.8
Project management fees	**3.9**	3.6
Net income from hotel operations	**0.6**	2.1
Other income	**4.7**	7.6
	47.7	38.1

Disaggregation of revenue derived from contracts with customers

In the following table, revenue is disaggregated by the Group's reportable segments.

	Britain & Ireland £m	Americas £m	Asia Pacific £m	Europe £m	Other £m	Total £m
Income from trading and development properties	0.2	85.2	82.5	–	–	**167.9**
Service charge income	12.1	0.3	–	–	–	**12.4**
Fund management and asset management fees	0.4*	5.4	0.8	29.7	–	**36.3**
Project management fees	0.1	3.7	–	–	–	**3.8**
Net income from hotel operations	0.6	–	–	–	–	**0.6**
Other income	–	2.2	3.9	0.6	0.3	**7.0**
	13.4	96.8	87.2	30.3	0.3	**228.0**
Timing of revenue recognition						
At a point in time	0.2	85.2	82.5	–	–	**167.9**
Over time	13.2	11.6	4.7	30.3	0.3	**60.1**
	13.4	96.8	87.2	30.3	0.3	**228.0**

* Included within fund management and asset management fees are £2.2m of land development costs written-off.

Notes to the Financial Statements

7 Property costs

	2018 £m	2017 £m
Service charge expenses	**12.1**	12.1
Major refurbishment costs	**14.4**	16.0
Development costs	**2.1**	2.6
Carrying value of trading properties sold	**133.5**	137.1
Reversal of impairment of trading properties	**0.9**	1.9
Other property operating expenses	**55.9**	54.5
Total property costs	**218.9**	224.2

Operating expenses associated with unlet properties totalled £0.7m (2017: £0.7m). The carrying value of trading properties sold includes £1.1m of capitalised interest (2017: £0.8m).

8 Administrative expenses

	2018 £m	2017 £m
Staff costs	**95.0**	86.3
Office costs	**18.2**	18.6
Auditor's remuneration – audit services in relation to Financial Statements	**1.5**	1.6
– other services	**0.3**	0.1
Other professional fees	**10.6**	10.9
Allocation of costs to Grosvenor Trusts	**(22.9)**	(23.3)
Other administrative expenses	**19.6**	22.3
	122.3	116.5

All of the Group's Operating Companies were audited by Deloitte LLP and other member firms of Deloitte Touche Tohmatsu Limited. £0.1m (2017: £0.1m) of the total audit fee is estimated to relate to the audit of the Group and £1.4m (2017: £1.5m) to the audit of the Group's subsidiaries. The Company's audit fees (£0.1m) were borne by another Group company (2017: £0.1m). Amounts paid to other accountancy firms for non-audit services in 2018 totalled £1.6m (2017: £1.2m).

Notes to the Financial Statements

9 Employee information

	2018 £m	2017 £m
Staff costs		
Wages and salaries	**79.5**	73.3
Social security contributions	**7.5**	6.4
Other staff costs	**10.3**	9.1
Pension costs		
Contributions to defined contribution plans	**3.5**	3.1
Net cost of defined benefit plans (Note 10)	**12.4**	13.4
	113.2	105.3
Included in:		
Administrative expenses	**95.0**	86.3
Property operating expenses	**16.4**	17.6
Development costs	**1.8**	1.4
	113.2	105.3

The costs of staff directly engaged in investment activities are included in property outgoings and the costs of those directly engaged in development activities are included in development costs. In addition, £4.1m (2017: £5.4m) of staff and pension cost is included in net income from hotel operations (Note 6).

Employee numbers

	At the end of the year		Average	
	2018 number	2017 number	2018 number	2017 number
Britain & Ireland	**283**	465	**465**	457
Americas	**103**	96	**100**	94
Asia Pacific	**50**	51	**50**	52
Europe	**63**	67	**63**	67
Indirect	**7**	7	**7**	7
Holding Company and shared services	**59**	62	**59**	60
	565	748	**744**	737

The Company employs no staff (2017: none).

10 Retirement benefit schemes

Defined contribution schemes

The Group operates a number of defined contribution retirement benefit schemes. The Group contributes a percentage of salary into defined contribution schemes to fund the benefits. The assets of the schemes are held separately from those of the Group, in funds under the control of independent pension providers. The only obligation of the Group with respect to the defined contribution schemes is to make the specified contributions.

The total cost of defined contribution pension schemes charged to the income statement was £3.5m (2017: £3.1m).

Defined benefit schemes

The Group operates several defined benefit pension schemes in the UK, the USA and Canada.

In the UK, the Group operates a defined benefit scheme which has sections where benefits are based on service and average or final salary. The scheme is approved by Her Majesty's Revenue and Customs for tax purposes, and is operated separately from the Group and managed by a set of Grosvenor Estate and Grosvenor Estate staff appointed Trustees. The Trustees are responsible for payment of the benefits and management of the scheme's assets. The scheme is subject to UK regulations, which require the Employers and Trustees to agree a funding strategy and contribution schedules for the schemes. The formal process results in the production and adherence to a Schedule of Contributions, both for regular on-going contributions and, if required, any additional deficit contributions. This is signed by both the Principal Employer and the Trustees, and certified by the Scheme Actuary as making adequate contributions to meet accruing liabilities for a five-year period. The adequacy test is governed by regulations and certified by the Scheme Actuary.

In Canada, the Group operates defined benefit plans which have benefits based on service and final salary. The scheme was closed to new entrants in 2008. Benefits in the scheme in the USA were frozen in 2007. The plans are approved by the Canada Revenue Agency for Canadian tax purposes and the IRS for USA tax purposes, respectively, and are operated separately from the Group and managed by independent Trustees. The Trustees are responsible for payment of the benefits and management of the plans' assets. The plans are subject to Canadian and USA regulations, which require the Group and Trustees to agree a funding strategy and contribution schedule for the plans.

The three defined benefit schemes outlined above are funded. They are administered by member and employer nominated Trustees. Independent qualified actuaries complete valuations of the schemes every three years and, in accordance with their recommendations, annual contributions are paid to the schemes to secure the benefits set out in the rules.

As with the vast majority of similar arrangements, the Group incurs a high degree of risk relating to the defined benefit schemes. These risks include investment risks and demographic risks, such as the risk of members living longer than expected. The UK scheme holds a large proportion of its assets in equity investments. Strong future equity returns would be expected to reduce the Group's future cash contributions (and vice versa). If the contributions currently agreed are insufficient to pay the benefits due, the Group may need to make further contributions to the scheme. With headroom (being cash and committed undrawn facilities) of £1.7bn, the Group is comfortably positioned to make further contributions to the schemes should they be required.

Notes to the Financial Statements

10 Retirement benefit schemes continued

The UK scheme is a multi-employer scheme because it provides pensions for both the Group and employees of other entities owned by the Shareholders. The Group accounts for its proportionate share of the defined benefit obligation, scheme assets and cost of this scheme, based on the proportion of the accrued liabilities that relate to the Group's employees. Changes in the Group's proportionate share of the assets and liabilities of this scheme arising during the year are treated as actuarial gains or losses. Upon wind-up of the plan or an entity's withdrawal from the plan, each employer would become liable to pay their share of the scheme's liabilities (their section 75 debt).

Actuarial valuations were last carried out at the following dates:

UK	31 December 2017
USA	31 December 2016
Canada	31 December 2016

All the valuations have been updated to 31 December 2018 using updated assumptions. The results of these valuations together with the key assumptions used are set out below.

In addition to the defined benefit schemes set out above, the Group operates unfunded defined benefit schemes in the UK and the USA to satisfy pension commitments not catered for by the funded schemes.

In Canada, the Group agreed with the Trustees of the plans to make contributions, in addition to payments in respect of the continuing accrual of benefits, of CA$3.8m per annum from 2017 until 2019 to fund the plan deficit, and, in the USA, contributions are determined on an annual basis. The level of contributions will be reviewed following the next triennial valuation due as at 31 December 2019.

In the UK, no contributions in addition to payments in respect of the continuing accrual of benefits are currently required (2017: £nil). The requirement for additional contributions will be reviewed following the next triennial valuation due as at 31 December 2020.

The weighted average duration to payment of the expected benefit cash flows from the schemes in respect of accrued service at the end of the accounting period is approximately 22 years in the UK scheme, 13 years in the US scheme and 13 years in the Canadian scheme.

The amounts recognised in the income statement in respect of defined benefit schemes are:

	2018 £m	2017 £m
Current service cost	**11.1**	12.4
Past service cost	**0.2**	0.1
Interest cost	**1.0**	1.5
Administrative expense	**0.1**	0.1
Settlements and curtailments	**–**	(0.7)
	12.4	13.4

The amounts recognised in the statement of comprehensive income in respect of defined benefit schemes are:

	2018 £m	2017 £m
Actuarial gains	**17.9**	24.0
	17.9	24.0

Within actuarial gains is a loss of £0.6m (2017: £8.0m gain) due to changes in demographic assumptions.

Notes to the Financial Statements

10 Retirement benefit schemes continued

The movement in the net defined benefit obligation is:

	2018 £m	2017 £m
1 January	**(39.4)**	(57.4)
Expense charged to income statement	**(12.3)**	(13.4)
Amount recognised in the statement of comprehensive income	**17.9**	24.0
Employer contributions	**5.2**	5.5
Benefit payments	**0.3**	0.7
Exchange movement	**(0.7)**	1.2
31 December	**(29.0)**	(39.4)

The amounts included in the balance sheet arising from the Group's obligations in respect of defined benefit schemes are:

	2018 £m	2017 £m
Present value of unfunded obligations	**(20.7)**	(21.3)
Present value of funded obligations	**(256.3)**	(280.8)
Present value of total defined benefit obligations	**(277.0)**	(302.1)
Fair value of scheme assets	**248.0**	262.7
Defined benefit pension deficit	**(29.0)**	(39.4)

The net deficit arises in the following regions:

	2018 £m	2017 £m
UK	**(10.0)**	(19.2)
USA	**(10.3)**	(11.1)
Canada	**(8.7)**	(9.1)
	(29.0)	(39.4)

Movements in the present value of defined benefit obligations are:

	2018 £m	2017 £m
At 1 January	**302.1**	300.5
Current service cost	**11.1**	12.4
Past service cost	**0.2**	0.1
Interest cost	**7.7**	8.4
Settlements and curtailments	**–**	(0.7)
Actuarial losses/(gains) due to:		
Experience on benefit obligation	**2.0**	(10.3)
Changes in financial assumptions	**(40.3)**	11.0
Changes in demographic assumptions	**0.6**	(8.0)
Benefits paid	**(7.0)**	(8.2)
Exchange movements	**0.6**	(3.1)
At 31 December	**277.0**	302.1

Notes to the Financial Statements

10 Retirement benefit schemes continued

Analysis of the scheme liabilities:

	2018 £m	2017 £m
UK	**217.3**	240.4
USA	**24.1**	25.3
Canada	**35.6**	36.4
At 31 December	**277.0**	302.1

Movements in fair value of scheme assets were:

	2018 £m	2017 £m
At 1 January	**262.7**	243.1
Interest on plan assets	**6.7**	6.9
Actual return on plan assets less interest on plan assets	**(19.8)**	16.5
Contributions by the employer	**5.2**	5.5
Benefits paid	**(6.7)**	(7.5)
Administrative expense	**(0.1)**	(0.1)
Exchange movements	**–**	(1.7)
At 31 December	**248.0**	262.7

Analysis of scheme assets:

	2018 £m	2017 £m
Equities	**180.4**	196.1
Corporate bonds	**37.1**	36.2
Multi-asset credit funds	**18.6**	19.2
Other	**11.9**	11.2
Fair value of plan assets	**248.0**	262.7

The schemes do not invest directly in property occupied by the Group or in financial securities issued by the Group.

The schemes' assets are invested in a diversified range of asset classes as set out in this Note.

Notes to the Financial Statements

10 Retirement benefit schemes continued

The principal actuarial assumptions used for accounting purposes reflect prevailing market conditions and are:

2018

	UK	**USA**	**Canada**
Discount rate	**2.91%**	**4.10%**	**3.80%**
Expected rate of salary increase	**3.90%**	**n/a**	**3.50%**
Expected rate of future pension increase	**3.21%**	**2.50%**	**2.00%**
Inflation	**3.21%**	**2.50%**	**2.00%**

2017

	UK	USA	Canada
Discount rate	2.36%	3.50%	3.55%
Expected rate of salary increase	4.90%	n/a	3.50%
Expected rate of future pension increase	3.17%	2.50%	2.00%
Inflation	3.17%	2.50%	2.00%

	Male		Female	
	2018	2017	**2018**	2017
Life expectancy of a 65-year-old today				
UK	**24.4**	24.2	**26.1**	25.9
USA	**20.6**	20.7	**22.6**	22.7
Canada	**23.0**	22.9	**25.4**	25.3
Life expectancy of a 65-year-old in 20 years				
UK	**26.1**	25.9	**27.6**	27.4
USA	**22.3**	22.3	**24.2**	24.2
Canada	**24.0**	24.0	**26.3**	26.3

The sensitivity to the significant assumptions above of the total defined benefit obligation and approximate income statement charge is set out below.

	Total defined benefit obligation £m	Approximate charge in 2019 £m
Based on the assumptions above	277.1	13.1
Approximate impact of:		
Increase in discount rate by 0.25%	(16.0)	(0.7)
Increase in inflation rate by 0.25%	10.2	0.8
Increase in life expectancy by one year at 65	6.5	0.5

The calculations in this section have been carried out using the same method and data as the Group's pensions and accounting figures with each assumption adjusted as shown above. Each assumption has been varied individually and a combination of changes in assumptions could produce a different result.

Notes to the Financial Statements

11 Directors' remuneration details

	2018 £'000	2017 £'000
Aggregate remuneration:		
Emoluments	**2,489**	2,060
Performance-related bonus	**602**	1,316
Long-term incentive scheme	**1,885**	2,287
	4,976	5,663

The total amounts payable under long-term incentive schemes comprise all amounts to which Directors became unconditionally entitled during the year.

The amounts above include, for the highest paid Director, emoluments of £1,183,000 (2017: £793,000) and a long-term incentive plan payment of £1,266,000 (2017: £1,319,000). The performance related bonus (2017: £788,000) has been replaced by a fixed pay supplement.

Retirement benefits accrued to two Directors. The highest paid Director accrued benefits under the defined benefit scheme and an unfunded defined benefit scheme. The other Director accrued benefits under an arrangement combining defined benefit and money purchase benefits until April 2012 when he became a deferred member of the defined benefit scheme. The total annual accrued pension under the defined benefit pension schemes was £173,000 (2017: £155,000) and for the highest paid Director was £173,000 (2017: £155,000). Total contributions in respect of money purchase pension benefits were £nil (2017: £nil) and for the highest paid Director were £nil (2017: £nil).

Notes to the Financial Statements

12 Net (losses)/gains on other investments

	2018 £m	2017 £m
(Loss)/profit on disposal of trade investments/other fixed assets	**(18.5)**	6.8
	(18.5)	6.8

13 Net gains on revaluation and sale of investment property

	2018 £m	2017 £m
Valuation gains on investment property	**62.0**	34.3
Valuation losses on investment property	**(21.3)**	(11.9)
Valuation losses on development properties	**(15.2)**	(14.1)
Net valuation gains on investment property	**25.5**	8.3
Profit on disposal of investment property	**23.4**	11.8
Net gains on revaluation and sale of investment property	**48.9**	20.1

14 Net financing costs

	2018 £m	2017 £m
Interest income	**9.3**	8.7
Other financial income	**7.0**	7.8
Financial income	**16.3**	16.5
Gross interest expense	**(45.8)**	(43.9)
Interest capitalised	**11.1**	9.3
Commitment and other financing costs	**(7.0)**	(5.9)
Financial expenses	**(41.7)**	(40.5)
Fair value adjustments of interest rate swaps and foreign exchange contracts	**(1.7)**	1.2
Fair value adjustments of embedded derivatives related to structured development loans	**0.8**	1.5
Total fair value adjustments	**(0.9)**	2.7
Net financing costs	**(26.3)**	(21.3)

The average rate of interest capitalised in the year was 5.1% (2017: 5.7%).

The fair value adjustments above include interest rate swaps which relate to cash flow hedges that are not designated as effective. The movements in fair value of these derivatives arise from underlying market movements and changes in time to maturity.

Notes to the Financial Statements

15 Corporate income tax

Recognised in the income statement

	2018 £m	2017 £m
Current tax expense		
UK corporation tax at 19.00% (2017: 19.25%)	**7.5**	6.7
Overseas tax	**27.0**	9.1
Adjustment for prior years	**(7.5)**	(6.9)
	27.0	8.9
Deferred tax expense/(credit)		
Origination and reversal of temporary differences	**3.9**	28.0
Effect of tax rate change	**–**	(52.5)
Adjustment for prior years	**3.1**	–
	7.0	(24.5)
Total income tax expense/(credit) in the income statement	**34.0**	(15.6)

Deferred tax recognised in other comprehensive income

	2018 £m	2017 £m
Revaluation of property plant and equipment	**(1.5)**	(0.4)
Fair value adjustments on financial instruments treated as cash flow hedges	**1.5**	0.4
Actuarial gains on defined benefit pension schemes	**2.9**	4.4
	2.9	4.4

Reconciliation of effective tax rate		
Profit before taxation	**196.6**	233.1
Less: share of profit of joint ventures	**(145.4)**	(189.7)
Add: profit of joint ventures where the tax charge is directly attributable to the Group	**68.0**	85.7
Adjusted Group profit before taxation	**119.2**	129.1
Tax on adjusted Group profit at standard UK corporation tax rate of 19.00% (2017: 19.25%)	**22.6**	24.9
Effect of foreign tax rates	**12.3**	17.6
Adjustment for Indexation	**0.5**	(3.7)
Expenses not deductible for tax purposes	**1.0**	2.4
Provision for uncertain tax positions	**1.7**	–
Deferred tax not recognised	**0.3**	2.6
Effect of tax rate change on deferred tax balance	**(0.0)**	(52.5)
Adjustments in respect of prior years	**(4.4)**	(6.9)
Total income tax charge/(credit) in the income statement	**34.0**	(15.6)
Effective tax rate based on adjusted Group profit	**28.6%**	(12.1%)
Effective tax rate excluding the rate change impact on deferred tax	**28.6%**	28.6%

Notes to the Financial Statements

15 Corporate income tax continued

Factors affecting tax charges

Grosvenor, as an international property group, pays taxes in the jurisdictions in which it has operations and holds interests in property. The Group's tax charge and effective tax rate are a direct reflection of the mix of profits across the business regions.

The Group's profits are comprised of realised profits, being net revenue and gains on property disposals, and unrealised profits, being revaluations of investment properties.

The Group accrues and pays current tax to local governments on realised profits and gains and accrues deferred tax on unrealised profits on investment properties not yet sold.

A current tax rate of 19%, being the UK corporation tax rate throughout the period, has been applied to the year ended 31 December 2018. From 1 April 2020, the UK corporation tax rate will reduce to 17% (Finance Act 2016).

A deferred tax rate of 17% (2017: 17%) has been applied to UK opening balances and movements in deferred tax in the year ended 31 December 2018.

The 2018 total tax charge of £34.0m includes a current tax (CT) charge of £27m, and a deferred tax (DT) charge of £7m.

The CT charge of £27m is due to:

- Tax arising on investment property disposals during 2018.
- The effect of foreign tax rates on overseas profits.
- CT on rental income and other revenues.
- The release of previous years' provisions in respect of uncertain tax positions now agreed.

The DT charge of £7m is due to:

- Release of DT liabilities previously booked on investment property disposals.
- Movement in DT arising from the revaluation movement in the accounts.
- A DT provision relating to gains that would arise in the event of future disposals of the Group's investments in Europe. Due to fiscal uncertainty following the UK's departure from the European Union, it is considered appropriate to make a DT provision.

In view of the declining UK tax rate as compared to overseas territories, it is likely that overseas taxes will increase the effective tax rate above the UK statutory rate for the foreseeable future.

The Group's share of joint ventures' and associates' tax charges of £17.9m (2017: £23.3m) are included in the Share of profit from joint ventures and associates shown in the Consolidated income statement.

For information on the Group's global tax contribution, refer to page 17 of the Directors' Report.

16 Property assets

The table below analyses the Group's interests in property assets on a proportional basis, including the Group's share of property assets in joint ventures and associates.

		2018 £m	2017 £m
Investment property	– Group	**4,170.5**	3,970.7
	– Share of joint ventures and associates	**2,171.5**	2,202.0
Investment properties under development	– Group	**175.3**	206.4
	– Share of joint ventures and associates	**29.9**	33.6
Trading properties	– Group	**119.8**	192.7
	– Share of joint ventures and associates	**197.1**	177.9
Other financial assets*		**121.2**	59.9
Total property assets		**6,985.3**	6,843.2

* Other financial assets included in property assets relate to equity and debt investments in property companies.

Notes to the Financial Statements

17 Investment property

	Completed property			Under development			
	Freehold £m	Leasehold £m	Total £m	Freehold £m	Leasehold £m	Total £m	**Total £m**
At January 2017	609.7	2,956.1	3,565.8	77.0	102.4	179.4	**3,745.2**
Acquisitions	117.3	297.3	414.6	–	–	–	**414.6**
Costs capitalised	7.3	25.6	32.9	14.9	–	14.9	**47.8**
Disposals	–	(58.5)	(58.5)	–	–	–	**(58.5)**
Revaluation gains/(losses)	35.2	(12.8)	22.4	(14.1)	–	(14.1)	**8.3**
Transfer from development projects	–	(26.2)	(26.2)	–	26.2	26.2	**–**
Transfer from trading properties	70.2	–	70.2	–	–	–	**70.2**
Exchange movements	(43.3)	(7.2)	(50.5)	–	–	–	**(50.5)**
At 31 December 2017	796.4	3,174.3	3,970.7	77.8	128.6	206.4	**4,177.1**
Acquisitions	193.4	106.3	299.7	0.2	–	0.2	**299.9**
Costs capitalised	2.9	35.9	38.8	14.5	–	14.5	**53.3**
Disposals	(88.1)	(85.5)	(173.6)	–	–	–	**(173.6)**
Revaluation gains/(losses)	25.7	15.0	40.7	(15.2)	–	(15.2)	**25.5**
Transfer from development projects	–	30.6	30.6	–	(30.6)	(30.6)	**–**
Transfer to investment in joint ventures	(80.0)	–	(80.0)	–	–	–	**(80.0)**
Transfer from other property plant and equipment	–	7.3	7.3	–	–	–	**7.3**
Exchange movements	27.1	9.2	36.3	–	–	–	**36.3**
At 31 December 2018	877.4	3,293.1	4,170.5	77.3	98.0	175.3	**4,345.8**

Investment properties were valued at 31 December 2018 by independent external valuers on the basis of market value in accordance with generally accepted international valuation standards. Valuations were performed as follows:

			£m
Britain & Ireland	Freehold	Cushman & Wakefield, Chartered Surveyors	**85.4**
	Long leasehold	Cushman & Wakefield, Chartered Surveyors	**3,299.0**
Americas	Freehold	Altus Group, Research valuation and advisory	**239.3**
	Freehold	CB Richard Ellis, Chartered Surveyors	**373.7**
Asia Pacific	Freehold	Tanizawa SOGO Appraisal, Chartered Surveyors	**99.6**
	Long leasehold	Tanizawa SOGO Appraisal, Chartered Surveyors	**92.1**
	Long leasehold	Knight Frank, Chartered Surveyors	**64.6**
Europe	Freehold	CB Richard Ellis	**92.1**
	Freehold	Directors' valuation	**64.6**
			4,345.8

The historical cost of the Group's investment properties was £2,010.2m (2017: £1,943.0m).

The carrying value of investment properties includes capitalised interest of £31.4m (2017: £23.5m).

At 31 December 2018, investment properties with a carrying amount of £1,961.4m were pledged as security for bank loans (2017: £2,073.4m).

Included in the above are investment properties available for sale of £4.9m (2017: £nil).

Notes to the Financial Statements

17 Investment property continued

Fair value measurement

The portfolio is valued on an annual basis by independent and qualified valuers on a fair value basis in accordance with generally accepted international valuation standards. The fee payable to the valuers is on a fixed basis.

Investment properties have been valued using one of the following methods: (i) the investment method which involves applying a yield to rental income streams. Inputs include yield, current rent and Estimated Rental Value (ERV); (ii) on a market comparable basis of value per square foot (psf) derived and adjusted from actual market transactions; (iii) income capitalisation where the normalised net operating income generated by the property is divided by the capitalisation (discount) rate; or (iv) discounted cash flow method which involves the projection of a series of cash flows (the duration of the cash flow and specific timings of inflows and outflows are determined by events such as rent reviews, lease renewal and re-letting, redevelopment or refurbishment), to which an appropriate, market-derived discount rate is applied to establish the present value of the income stream. Development properties are valued using a residual method which involves valuing the completed investment property using an investment or comparable market method and deducting estimated costs to complete.

Valuation reports are based on both information provided by the Group e.g. current rents and lease terms which is derived from the Group's financial and property management systems and is subject to the Group's overall control environment, and assumptions applied by the valuers e.g. ERVs and yields. These assumptions are based on market observation and the valuers' professional judgement. The 2018 fair value represents the highest and best use of the properties.

The following table shows an analysis of the fair values of investment property recognised in the balance sheet by class of asset:

Class of property	Fair value hierarchy	Valuation/FV 2018 £m	Valuation/FV 2017 £m	Valuation technique	Valuation inputs	Average property 2018	Average property 2017
GBI – Office	Level 3	1,087.5	992.7	Investment method and market comparable method	Weighted average ERV psf	£70 psf	£62 psf
					ERV range psf	£24–£125 psf	£10–£125 psf
					Weighted average Eq yld	4.2%	4.2%
					Equivalent yield range	3.4%–6.3%	3.4%–6.3%
GBI – Retail	Level 3	1,090.0	1,051.0	Investment method and market comparable method	Weighted average ERV psf	£66 psf	£62 psf
					ERV range psf	£12–£178 psf	£12–£178 psf
					Weighted average Eq yld	3.6%	3.6%
					Equivalent yield range	2.9%–5.0%	2.9%–5.5%
GBI – Residential	Level 3	1,104.0	1,090.0	Investment method and market comparable method	Average revaluation capital value psf	£1,516 psf	£1,508 psf
					Capital value range psf	£450–£3,780 psf	£780–£3,840 psf
GBI – Hotel	Level 3	49.0	102.0	Discounted cash flow method and market comparable method	Weighted average ERV psf	£20 psf	£53 psf
					ERV range psf	£4–£38 psf	£38–£54 psf
					Weighted average Eq yld	6.0%	4.9%
					Discount rate range	6.0%	6.8%–8.0%
GBI – Investment properties under development	Level 3	98.0	125.0	Residual approach	Average capital value psf	n/a	n/a
					ERV range psf	£27–£147 psf	£35–£86 psf
					Exit yield	3.5%	3.8%
GA – Office	Level 3	132.5	119.2	Discounted cash flow	Weighted average capitalisation rate	6.1%	6.3%
					Weighted average discount rate	7.1%	7.5%
GA – Retail	Level 3	169.2	211.2	Discounted cash flow	Weighted average capitalisation rate	4.6%	4.7%
					Weighted average discount rate	6.4%	6.2%

Notes to the Financial Statements

17 Investment property continued

Class of property	Fair value hierarchy	Valuation/FV 2018 £m	Valuation/FV 2017 £m	Valuation technique	Valuation inputs	Average property 2018	Average property 2017
GA – Residential	Level 3	163.4	234.5	Discounted cash flow	Weighted average capitalisation rate	5.2%	3.7%
					Weighted average discount rate	6.5%	4.7%
GA – Industrial	Level 3	147.9	132.5	Discounted cash flow	Weighted average capitalisation rate	4.5%	5.0%
					Weighted average discount rate	5.8%	6.0%
GAsia – Residential	Level 3	–	27.7	Investment method and market comparable method	Weighted average passing rents psf	–	£38 psf
					Weighted average ERV psf	–	£37 psf
					Weighted average running yield	–	5.3%
					Weighted average reversionary yield	–	5.4%
GAsia – Retail	Level 3	191.7	209.9	Investment method and market comparable method	Weighted average passing rents psf	£132 psf	£95 psf
					Weighted average ERV psf	£148 psf	£116 psf
					Weighted average running yield	3.1%	2.5%
					Weighted average reversionary yield	3.4%	3.1%
				(Residential) Investment method and market comparable method	Weighted average passing rents psf	£16 psf	–
					Weighted average ERV psf	£15 psf	–
					Weighted average running yield	3.2%	–
					Weighted average reversionary yield	3.5%	–
GEurope	Level 3	156.7	–	(Shopping centre) Investment method and market comparable method	Weighted average ERV psf	£23 psf	–
					ERV range psf	£11 – £60 psf	–
					Equivalent yield range	4.3%	–
				(Office) Investment method and market comparable method	Weighted average ERV psf	£21 psf	–
					Weighted average Eq yld	4.5%	–
Total		**4,389.9**	**4,295.7**				
The table above includes property classed in Other Property, Plant and Equipment		44.1	118.6				

Class of property: The portfolio consists of a variety of uses often within the same building. The class of property shown is based upon the predominant use by income.

17 Investment property continued

Fair value hierarchy:

Level 1: fair values derived from quoted prices in active markets for identical assets/liabilities.

Level 2: fair values derived from observable inputs other than quoted prices.

Level 3: fair values derived from valuation techniques that include inputs that are not based on observable data.

There were no transfers between levels during the year.

Valuation technique: There were no changes in the valuation techniques during the year.

Valuation inputs: The portfolio contains a mix of different lease tenure types. These consist of market rented (properties let at a market rent which is reviewed periodically), geared rented (properties let on long leases which pay only a percentage of the market rent which is reviewed periodically) or ground rented (properties which are let on long leases at low fixed ground rents). Properties may contain a mix of these tenure types. The average rents/ERVs referred to above ignore properties which have a tenure type which is completely ground rented as these can distort the averages.

The range of inputs within a class of property has been stated for GBI due to the large and diverse nature of the portfolio of properties.

Sensitivity to significant changes in unobservable inputs

Rents and ERVs have a direct relationship to valuation, while yield has an inverse relationship. Estimated costs of a development project will inversely affect the valuation of development properties. There are interrelationships between all these unobservable inputs as they are determined by market conditions. The existence of an increase in more than one unobservable input could be to magnify the impact on the valuation. The impact on the valuation will be mitigated by the interrelationship of two unobservable inputs moving in directions which have an opposite impact on value e.g. an increase in rent may be offset by an increase in yield, resulting in no net impact on the valuation.

Notes to the Financial Statements

18 Other property, plant and equipment

2018

	Land and buildings £m	Leasehold improvements £m	Computer and IT equipment £m	Fixtures, fittings and motor vehicles £m	**Total £m**
Cost					
At 1 January 2018	118.6	10.8	24.7	15.5	**169.6**
Additions	0.1	0.5	4.3	0.9	**5.8**
Disposals	(65.0)	–	–	(0.2)	**(65.2)**
Revaluation losses	(2.3)	–	–	–	**(2.3)**
Transfer to investment property	(7.3)	–	–	–	**(7.3)**
At 31 December 2018	44.1	11.3	29.0	16.2	**100.6**
Depreciation					
At 1 January 2018	–	(6.9)	(13.3)	(6.3)	**(26.5)**
Depreciation charge for the year	–	(0.9)	(3.7)	(1.7)	**(6.3)**
Disposals	–	–	–	(1.0)	**(1.0)**
At 31 December 2018	–	(7.8)	(17.0)	(9.0)	**(33.8)**
Carrying amount					
At 1 January 2018	118.6	3.9	11.4	9.2	**143.1**
At 31 December 2018	44.1	3.5	12.0	7.2	**66.8**

2017

	Land and buildings £m	Leasehold improvements £m	Computer and IT equipment £m	Fixtures, fittings and motor vehicles £m	Total £m
Cost					
At 1 January 2017	118.3	10.6	20.4	15.9	165.2
Additions	0.1	1.5	4.4	3.0	9.0
Disposals	–	(1.3)	(0.1)	(3.4)	(4.8)
Revaluation gains	0.2	–	–	–	0.2
At 31 December 2017	118.6	10.8	24.7	15.5	169.6
Depreciation					
At 1 January 2017	–	(7.6)	(10.5)	(7.9)	(26.0)
Depreciation charge for the year	–	(0.5)	(2.9)	(1.7)	(5.1)
Disposals	–	1.2	0.1	3.3	4.6
At 31 December 2017	–	(6.9)	(13.3)	(6.3)	(26.5)
Carrying amount					
At 1 January 2017	118.3	3.0	9.9	8.0	139.2
At 31 December 2017	118.6	3.9	11.4	9.2	143.1

The land and buildings above are long leasehold properties and were valued at 31 December 2018 by independent valuers Cushman & Wakefield, Chartered Surveyors, on the basis of fair value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

Notes to the Financial Statements

18 Other property, plant and equipment continued

The historical cost of the revalued land and buildings above at 31 December 2018 was £12.5m (2017: £70.3m).

The carrying value of the freehold land and buildings above includes capitalised interest of £nil (2017: £nil).

At 31 December 2018, land and buildings above with a carrying value of £nil were pledged as security for bank loans (2017: £nil).

19 Investments in subsidiary undertakings, associated undertakings and significant holdings

Company

	Shares at cost £m
At 1 January 2018 and 31 December 2018	**1,358.4**

At 31 December 2018, the Company had the following subsidiary undertakings, associated undertakings and significant holdings:

Direct subsidiary
The Company has a 100% interest in the ordinary share capital of Grosvenor Estates Holdings (registered office: 70 Grosvenor Street, London W1K 3JP).

Indirect subsidiaries
Unless otherwise stated, the Company has a 100% interest in the capital of the following entities, which are registered in the countries below.

United Kingdom
Registered office: 70 Grosvenor Street, London W1K 3JP

1-5 GP Management Limited
110 Park Street Limited
29-37 Davies Street Limited
32-42 BPR Limited
64/70 South Audley Street Limited
65 Davies Street Development Limited
65 Davies Street Investment Limited
Bankside 4 Limited
Belgrave House Developments Limited
Belgravia Leases Limited
Cambridge Retail Investment Limited
Coton Park Limited
Drummond Road Limited
Due West Investments Limited
Eaton Square Properties Limited
Fountain North Limited[1]
Fournier Securities Limited
GCH Investments (1) Limited
GCH Investments (2) Limited
GCH Investments LLP
GEB2 Limited
GFAL Limited
Gio Investments Limited
Grosvenor Alpha Place LLP
Grosvenor Americas Holdings Limited
Grosvenor Americas Investments Limited
Grosvenor Asset Management Limited
Grosvenor Australia Asia Pacific Limited
Grosvenor Basingstoke Management Limited
Grosvenor Basingstoke Properties Limited
Grosvenor Commercial Properties
Grosvenor Continental Europe Holdings Limited
Grosvenor Developments (GB) Limited
Grosvenor Developments (UK) Limited
Grosvenor Developments Limited
Grosvenor ECO Limited
Grosvenor Eighty Five Limited
Grosvenor Eighty Four Limited
Grosvenor Eighty Seven Limited
Grosvenor Eighty Six LLP
Grosvenor Eighty Three Limited
Grosvenor Estate Belgravia
Grosvenor Estate Holdings
Grosvenor Estate International Developments

Notes to the Financial Statements

19 Investments in subsidiary undertakings, associated undertakings and significant holdings continued

Grosvenor Estate International Investments Limited
Grosvenor Estate International Properties
Grosvenor Estate Investment Management Limited
Grosvenor Estate Management Limited
Grosvenor Estates Limited
Grosvenor Europe Investments Limited
Grosvenor Europe Limited
Grosvenor Europe LP Limited
Grosvenor European Properties Limited
Grosvenor Fund Management Limited
Grosvenor Fund Management UK Limited
Grosvenor Garden Leisure Limited
Grosvenor Group Finance Company
Grosvenor Group Holdings Limited
Grosvenor Group Management Services Ltd
Grosvenor International Fund Management Limited
Grosvenor International Investments Limited
Grosvenor International Investments (Finance) Ltd
Grosvenor Investment Management Limited
Grosvenor Investments Limited
Grosvenor Investments UK Limited
Grosvenor Keysign Limited
Grosvenor Limited
Grosvenor Liverpool Limited
Grosvenor Management Limited
Grosvenor Mayfair Properties Limited
Grosvenor Overseas Holdings Limited
Grosvenor Policy Management Limited
Grosvenor Properties
Grosvenor Property Asset Management Limited
Grosvenor Property Developments Limited
Grosvenor Property Group Limited
Grosvenor Property Management Services Limited
Grosvenor Quarryvale Limited
Grosvenor Realty Investments Limited
Grosvenor Residential GP Limited
Grosvenor Seventy Five Limited
Grosvenor Seventy Nine Limited
Grosvenor Sports Club Limited
Grosvenor TECA – in liquidation
Grosvenor UK Finance plc
Grosvenor UK Properties Limited
Grosvenor West End Properties
Grosvenor Westminster Holdings Limited
Liffey Valley Limited
Liverpool One Residential GP Limited
Liverpool Property Investments Limited
Liverpool PSDA Limited
Liverpool Site 11 Hotel Limited
Liverpool Site 12 Limited
London Leasehold Flats Limited
London Leasehold Properties Limited
London Office II (Growth) General Partner Ltd
London Office II (Growth) LP Ltd
Mayfair Leasehold Properties Limited
Montrose Place Development Limited
Old Broad Street Properties Limited
Quarryvale Two Limited
Retail Centres V (Sweden) General Partner Ltd
Retail Centres V (Sweden) LP Limited
Sekmount Properties Limited
Southwark GP 1 Limited
Southwark GP 2 Limited
Southwark GP Nominee 1 Limited
Southwark GP Nominee 2 Limited
Southwark Holding LP
Southwark LP
Southwark Real Estate Investments Limited
Talbot General Partner Limited
UNHEM Construction Limited
Urban Neighbourhood Holdings Limited
Urban Neighbourhoods Limited

Registered office: [1] 50 Lothian Road, Festival Square, Edinburgh EH3 9WJ;

19 Investments in subsidiary undertakings, associated undertakings and significant holdings continued

Australia
Registered office: Level 38, Tower 3, 300 Barangaroo Avenue, Sydney

Grosvenor Australasia Investments Pty Ltd

British Virgin Islands
Registered office: PO Box 957, Offshore Incorporations Centre, Road Town, Tortola

Golden Eternal Limited

Canada
Registered office: 2000-1040 West Georgia

1300 Marine Holdings Ltd	Grosvenor International Investments Corporation
1146078 B.C Limited	Grosvenor Oak Street Holdings Limited
1164 Robson Holdings BT Limited	Grosvenor Pacific Development Limited
Balsam BT Holdings Limited	Grosvenor Properties (2008) Limited
Edgemont Village BT Ltd [1]	Grosvenor True North Services Canada
Edgemont Village GP Ltd	Grosvenor True North Services Management Canada
GCC Balsam Properties Limited	Grosvenor Village GP Limited
Grosvenor 5th Avenue Holdings Limited	Grosvenor Village Holdings Limited
Grosvenor Americas Corporation	Grosvenor Village Limited Partnership [1]
Grosvenor Beltline Holdings II Limited	Hornby BT Holdings Ltd
Grosvenor Beltline Holdings III Limited	Hornby Pacific GP Limited
Grosvenor Beltline Holdings Limited	King George GP Limited
Grosvenor Canada Limited	Marine Drive BT Holdings Limited
Grosvenor Capital Corporation	Marine Drive WV Development Limited
Grosvenor Development Corporation	Pacific BT Holdings Limited
Grosvenor Edgemont Holdings Limited	Rosemary GP Limited
Grosvenor High Street GP Limited	True North GP Limited
Grosvenor High Street Limited Partnership [1]	True North Two GP Limited [1]
Grosvenor High Street LP Limited	True North Residential One LP
Grosvenor International Investments (Canada) Limited	True North Residential Two LP[1]
Grosvenor International Investments (USA) Corporation	West 15 Ventures Limited

Registered office: [1] 1200 Waterfront, Vancouver

Cayman Islands
Registered office: PO Box 309, Ugland House, Grand Cayman, KY-1104

Grosvenor Vega Fund Management Ltd – 75% owned	Grosvenor Vega GP Ltd – 75% owned

Notes to the Financial Statements

19 Investments in subsidiary undertakings, associated undertakings and significant holdings continued

China
Registered office: Unit 602-603, No. 233, Taicang Road, Huangpu District, Shanghai

Grosvenor Management Consulting (Shanghai) Limited

France
Registered office: 69 Boulevard Haussman, 75008 Paris

Grosvenor Continental Europe SAS

Hong Kong
Registered office: 1910-1917 Jardine House, One Connaught Place, Central, Hong Kong

Fortune Joy Properties Limited
Global Trinity Limited
Grosvenor Asia Pacific Limited
Grosvenor Fund Management Hong Kong Limited
Grosvenor Hong Kong Limited
Grosvenor Limited
Majesty International Limited
Regal Way International Limited
Star Land Enterprises Limited

Isle of Man
Registered office: 2nd floor, St Georges Court, Upper Church St, Douglas IM1 1EE

Grosvenor Belgravia Investment Limited

Japan
Registered office: 1-12-32 Akasaka, Mnato-ku, Tokyo

Ginzanamiki Tokutei Mokuteki Kaisya
GOP3 Tokutei Mokuteki Kaisya
Grosvenor Limited Japan branch

Jersey
Registered office: 22 Grenville St, St Helier, Jersey JE4 8PX

Grosvenor Management Jersey Limited

Luxembourg
Registered office: 46a Avenue John F Kennedy, L1855 Luxembourg

GFM (CE) S.A.
Grosvenor Continental Europe Holdings Sarl
Grosvenor First European Property Investments Sarl
Grosvenor International Sarl
Grosvenor Investments Portugal Sarl

19 Investments in subsidiary undertakings, associated undertakings and significant holdings continued

Spain
Registered office: Calle de Génova 17, 3ºA, 28004 Madrid, Spain

Avenida de America 38, SL
GEurope Investments Madrid SL
GEurope Investments Spain SL
Grosvenor Fund Management Spain SL
Rey Francisco 9 Real Estate SL

Sweden
Registered office: Smalandsgatan 10, 4tr, 11146 Stockholm

Grosvenor Fund Management Sweden
Lidingo Centrum GP AB [1]
KB Lidingo NYA Centrum[1]
Lidingo Centrum Investments AB [1]
Lidingo Centrum LP AB [1]

Registered office: [1] c/O KPMG AB, Box 49, 721 04, Vasteras, Stockholm

United States of America
Registered office: One California Street, Suite 2500, San Francisco, CA 94111

1645 Pacific Homes LLC
240 Stockton LLC
3800 California Street, LLC
394 Pacific, LLC
5520 Wisconsin LLC [1]
720 Battery LLC
875 California II LLC
875 California LLC
Ballpark Hotel LLC [1]
Ballpark Square LLC [1] – 99.4% owned
Ballpark Square REA Manager Inc.
Chelsea at Juantina Village LP [1]
CP6WW LLC
FCB Silver Spring LLC [1]
Fenton Street Apartments LLC [1]
GFM Equity Advisors Inc. [4]
GP Warehouse Investment Member One LLC [3]
Grosvenor Americas Inc
Grosvenor Americas Joint Ventures LLC
Grosvenor Americas LLC
Grosvenor Americas Partners
Grosvenor Americas USA Inc
Grosvenor Atlantic Limited
Grosvenor California Limited
Grosvenor Capco Limited
Grosvenor Financial California LLC
Grosvenor Financial Inc [1]
Grosvenor Investment North American Holdings Inc.[4]
Grosvenor Fund Management LLC [4]
Grosvenor GP Limited LLC
Grosvenor International (American Freeholds) Limited
Grosvenor International (Atlantic Freeholds) Limited
Grosvenor International (Nevada) Limited
Grosvenor International (Westcoast Freeholds) Limited
Grosvenor Investments North America LLC [3]
Grosvenor Residential GP Limited LLC
Grosvenor Urban Maryland [1]
Grosvenor USA Limited
Hamaker Court, LLC [1]
Hamilton Marketplace LLC
Reston Sunrise, LLC [1]
True North California, LLC
True North US, Inc [1]
True North US Two, Inc
True North California Two, LLC
West Ridge Park Apartments LP [2]

Registered office: [1] 1701 Pennsylvania Avenue, Suite 450, Washington; [2] 2620 Third Avenue Suite 100, Seattle, WA 98121; [3] 850 New Burton Road, Suite 201, Dover, Kent County, DE 19904; [4] 50 S 16th Street, Suite 2600, Philadelphia, PA 19102

Notes to the Financial Statements

19 Investments in subsidiary undertakings, associated undertakings and significant holdings continued

Indirectly held joint venture entities, associates and significant undertakings

England and Wales
Registered office: 70 Grosvenor Street, London W1K 3JP

20 Balderton Street Project 1 Limited – 50% owned
59/60 South Audley Street (Management) Limited – 11.1% owned
7 Green Street Limited – 33.3% owned
10 Bourdon Street Limited – 66.67% owned
Alpha Place Developments LLP – 33.3% owned
Barton Oxford LLP – 50% owned
Barton Park Estate Management Company Limited – 50% owned
Clan Kensington LLP [3] – 33.3% owned
Coton Park Consortium Limited [4] – 50% owned
Four Ashes Limited [1] – 40% owned
GC Bankside LLP [3] – 50% owned
GC Campden Hill LLP [3] – 16.7% owned
GCPPIB (GB) Ltd – 50% owned
Grosvenor Liverpool Fund – 10% owned
Grosvenor Liverpool Residential Fund – 10% interest
Grosvenor London Office Fund – 12.89% owned
Grosvenor Stow Limited – 50% owned
Grosvenor Stow Projects 2 Limited – 50% owned
Grosvenor Stow Projects Limited – 50% owned
Halkin Street LLP – 50% owned
IO Investment 2 LLP [2] – 27.2% owned
IO Investment LLP [2] – 97.75% owned
IOG2 LLP [2] – 99.2% owned
Liverpool One Management Company Limited – 50% owned
London Office (No.1) General Partner Limited – 50% owned
Montrose Place LLP – 50% owned
NLG Campden LLP [3] – 33.3% owned
Paris Office JV Limited – 50% owned
Retail Centres V (Sweden) Investment Ltd – 17.6% owned
Retail Centres V (Sweden) Limited Partnership – 17.6% owned
Trumpington Meadows Land Company Limited – 50% owned
Urban Retail V (UK) General Partner Limited – 9.09% owned
Urban Retail V (UK) Limited Partnership – 9.09% owned

Registered office: [1] 4th Floor, 7/10 Chandos Street, Cavendish Square, London W1G 9DQ; [2] 9-10 Carlos Place, London W1K 3AT; [3] The Pavilion, 118 Southwark Street, London SE1 0SW; [4] Temple House, 20 Holywell Row, London EC2A 4XH

Australia	Registered office
Heathley JV Property Fund – 50% owned	'01' Suite 7, 56 Clarence Street, Sydney NSW 2000
POP III Investment Partnership – 89% owned	Level 29, 20 Bond Street, Sydney NSW 2000

British Virgin Islands	Registered office
Acute Choice Limited – 20% owned	Sea Meadow House, Blackburn Highway, PO Box 116, Road Town, Tortola
Bonrite Limited – 30% owned	PO Box 957, Offshore Incorporations Centre, Road Town, Tortola
Eagle Wonder Limited – 20% owned	PO Box 957, Offshore Incorporations Centre, Road Town, Tortola
Spring Plus Limited – 50% owned	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola

Notes to the Financial Statements

19 Investments in subsidiary undertakings, associated undertakings and significant holdings continued

Canada
Registered office: 1200 Waterfront, Vancouver

1300 Marine LP – 30% owned	Grosvenor Rempel East Clayton Development Ltd – 50% owned [1]
Brentwood Office Centre Limited – 50% owned	Hornby Pacific Limited Partnership – 50% owned
The Cambie Rise Limited Partnership – 50% owned	Rise BT Holdings Ltd [1] – 50% owned
Edgemont Village Limited Partnership – 0.01% owned	The Rise GP Limited – 50% owned
Greensoil Building Innovation Fund (International) LP – 88.71% owned (33.9% of underlying investments)	West 15 Project Holdings Limited – 50% owned

Registered office: [1] 900 Waterfront, Vancouver

Cayman Islands
Registered office: PO Box 309, Ugland House, Grand Cayman, KY-1104

Grosvenor Park Partners Limited – 63.27% owned	Grosvenor Vega China Retail Fund LP – 10.57% owned

China
Registered office: Room 210, Cooperation and Innovation Building, Block 1, 8 Yuan Hua Road, Xian Lin University Town, Xian Lin Community, Qi Xia District, Nanjing

Nanjing Fu Chen Property Limited – 40% owned

Hong Kong	Registered office
Dukes Place Management Services Ltd – 20% owned	30/F, Jardine House, One Connaught Place, Central, Hong Kong
First Globe Limited – 50% owned	1910-1917 Jardine House, One Connaught Place, Central, Hong Kong
GDPHK Holdings Limited – 50% owned	3108 Bank of America Tower, 12 Harcourt Road, Central, Hong Kong
Imperial Time Limited – 20% owned	30th Floor, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong
Lucky New Investment Limited – 30% owned	30th Floor, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong
Paramount Shine Limited – 50% owned	21st Floor, Edinburgh Tower, The Landmark, 15 Queen's Road, Central, Hong Kong
Richly Leader Ltd – 50% owned	3108, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong
Unity Asian Development Limited – 60% owned	1910-1917 Jardine House, One Connaught Place, Central, Hong Kong

Ireland
Registered office: 21 Lavitts Quay, Cork

Barkhill Limited – 50% owned	Dutywell Trading Limited – 50% owned
Dietacaron Limited – 50% owned	Everuton Limited – 50% owned

Japan
Registered office: 1-12-32 Akasaka, Mnato-ku, Tokyo

Azabu Tokutei Mokuteki Kaisya – 50% owned	GDP2 Tokutei Mokuteki Kaisya – 38% owned
GDP1 Tokutei Mokuteki Kaisya – 38% owned	GPT Tokutei Mokuteki Kaisya – 78.8% owned
GDP2 Investment Business Limited Partnership – 38% owned	

Notes to the Financial Statements

19 Investments in subsidiary undertakings, associated undertakings and significant holdings continued

Luxembourg
Registered office: 46a Avenue John F Kennedy, L1855 Luxembourg

GERP Luxembourg SARL – 5% owned
GFRI 2007 Sarl – 32.73% owned
GFRI 2010 Sarl – 32.73% owned
Grosvenor French Retail Investments SA – 32.73% owned
Grosvenor Hexagone Sarl – 55% owned
Grosvenor Retail European Properties II Sarl – 13.95% owned
Grosvenor Retail European Properties SA – 13.95% owned – in liquidation
Urban Retail V (Europe) Sarl – 9.09% owned

Portugal	Registered office
Sonae Sierra SGPS SA (Portugal) – 30% owned	Lugar do Espido, Via Norte, Apartado 1197, 4471-909 Maia

Spain
Registered office: Calle de Génova 17, 3ºA, 28004 Madrid, Spain

G De Parades 4 SL – 50% owned
Grupo Lar Grosvenor Servicios Dos SL – 50% owned
H 47 Salamanca Real Estate SL – 50% owned
Jorge J.53 SL – 50% owned
Logic Spain KCRE SL – 40% owned
LS SPV One SL – 40% owned
Modesto L.26 Investment SL – 50% owned
Santa E. 32 Real Estate SL – 50% owned
Urban Value Add I (Spain) SL – 50% owned

Sweden
Registered office: Smalandsgatan 10, 4tr, 11146 Stockholm

GERP Balsta Centrum AB – 5% owned
GERP Burlov AB – 5% owned
GERP Haninge Centrum AB – 5% owned
GERP Sverige AB – 5% owned
GERP Vasby Centrum AB – 5% owned
RCV Skarholmen AB – 17.6% owned
Skarholmen Property Management AB – 17.6% owned
Skarholmen Retail AB – 17.6% owned

Notes to the Financial Statements

19 Investments in subsidiary undertakings, associated undertakings and significant holdings continued

United States of America

Registered office: One California Street, Suite 2500, San Francisco, CA 94111

1500 K Street LLC – 20% owned
180 Post Street LLC – 50% owned
185 Post Street LLC – 50% owned
1900 Duke Street LP [1] – 25% owned
251 Post Street LLC – 50% owned
306 Rodeo Drive LLC – 50% owned
701 North Michigan Avenue LLC – 20% owned
AGP JV LLC – 99% owned [4]
Atlantic Freeholds [1] – 50% owned
Ballpark Residential LLC [1] – 50% owned
Crossings II LLC – 19.8% owned
Crossings, LLC – 19.8% owned
Fair Oaks Polo Drive II, LLC – 19.8% owned
Fair Oaks Polo Drive, LLC – 19.8% owned
Frontier Drive Metro Centre LP [1] – 50% owned
Grosvenor Maple Leaf Ventures II, LP [1] – 20% owned
Grosvenor Maple Leaf Ventures III LP – 20% owned
Grosvenor Maple Leaf Ventures IV LP – 20% owned
Grosvenor Maple Leaf Ventures LP – 20% owned
Grosvenor Maple Leaf Ventures V LP – 20% owned
Grosvenor Maple Leaf Ventures VI LP – 20% owned
Grosvenor Maple Leaf Ventures VII LP – 20% owned
Grosvenor Maple Leaf Ventures VIII LP – 20% owned
Grosvenor Urban Retail LP – 25% owned
HS/GP Warehouse Investment Company LLC [2] – 52.5% owned
ML7 Residential II, LLC – 19.8% owned
ML7 Residential, LLC – 19.8% owned
Rice Lake Square LP – 25% owned
Stockdale Parking, LLC [3] – 90% owned

Registered office: [1] 1701 Pennsylvania Avenue, Suite 450, DC 20006 Washington; [2] 53 State Street, 38th Floor, Boston, MA 02109; [3] c/o Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801; [4] 2711 Centerville Road, Suite 400, Wilmington, DE 19801

Notes to the Financial Statements

20(a) Investments in joint ventures and associates

2018

	Proprietary assets – Direct				Proprietary assets – Indirect		
	Britain & Ireland £m	Americas £m	Asia Pacific £m	Europe £m	Sonae Sierra* £m	Third-party managed £m	**Total £m**
Share of profit from joint ventures and associates							
Revenue	50.9	65.3	26.8	12.1	83.2	20.1	**258.4**
Property costs	(31.4)	(38.5)	(8.3)	(4.5)	(20.5)	(6.5)	**(109.7)**
Net property income	19.5	26.8	18.5	7.6	62.7	13.6	**148.7**
Administrative expenses	–	(0.4)	(0.6)	(1.4)	(23.8)	(1.8)	**(28.0)**
Net financing costs	–	(6.3)	(2.9)	(2.7)	(9.0)	(4.9)	**(25.8)**
Revenue profit	19.5	20.1	15.0	3.5	29.9	6.9	**94.9**
Net gains/(losses) on revaluation and sale of investment properties	–	3.0	24.4	(7.0)	30.2	18.0	**68.6**
Derivative fair value adjustments	–	(0.2)	(0.1)	–	–	0.1	**(0.2)**
Profit/(loss) before tax	19.5	22.9	39.3	(3.5)	60.1	25.0	**163.3**
Current tax	(0.2)	(0.1)	(1.3)	–	(5.8)	(0.1)	**(7.5)**
Deferred tax	–	–	(2.1)	(0.1)	(8.2)	–	**(10.4)**
	19.3	22.8	35.9	(3.6)	46.1	24.9	**145.4**
Share of assets and liabilities							
Non-current assets							
– investment properties	–	545.1	542.6	208.0	561.4	314.4	**2,171.5**
– investment properties under development	–	–	–	–	29.9	–	**29.9**
– other	0.1	0.3	–	(0.6)	6.1	3.6	**9.5**
Current assets							
– cash	11.4	4.3	23.7	8.3	70.2	5.1	**123.0**
– trading properties	32.3	43.8	103.4	17.6	–	–	**197.1**
– other	1.4	2.6	15.7	7.2	21.0	7.5	**55.4**
Non-current liabilities	–	(172.1)	(225.9)	(137.8)	(319.7)	(151.4)	**(1,006.9)**
Current liabilities	(24.4)	(48.1)	(38.4)	(6.4)	(44.0)	(11.9)	**(173.2)**
Net assets	20.8	375.9	421.1	96.3	324.9	167.3	**1,406.3**
Borrowings included in liabilities	–	(205.7)	(216.2)	(136.5)	(227.6)	(156.2)	**(942.2)**

* In order to best reflect the underlying results of the Group, for purposes of presenting the Group's revenue profit (Note 5) and share of property assets (Note 16), Sonae Sierra's results have been incorporated on a management accounts basis rather than an IFRS basis, reflecting Sonae Sierra's proportionate share of its underlying investments.

Notes to the Financial Statements

20(a) Investments in joint ventures and associates continued

2017

	Proprietary assets – Direct				Proprietary assets – Indirect		
	Britain & Ireland £m	Americas £m	Asia Pacific £m	Europe £m	Sonae Sierra* £m	Third-party managed £m	Total £m
Share of profit from joint ventures and associates							
Revenue	49.5	49.4	31.4	13.2	97.7	14.5	255.7
Property costs	(30.5)	(11.4)	(12.6)	(3.9)	(24.5)	(4.4)	(87.3)
Net property income	19.0	38.0	18.8	9.3	73.2	10.1	168.4
Administrative expenses	(0.1)	(0.4)	(0.4)	(1.2)	(27.8)	(1.4)	(31.3)
Net financing costs	(0.1)	(5.7)	(1.9)	(2.8)	(10.9)	(3.5)	(24.9)
Revenue profit	18.8	31.9	16.5	5.3	34.5	5.2	112.2
Net gains on revaluation and sale of investment properties	–	4.9	45.6	1.9	36.4	10.1	98.9
Net gains on other investments	–	–	–	0.9	–	0.2	1.1
Derivative fair value adjustments	–	0.5	0.1	–	–	0.2	0.8
Profit before tax	18.8	37.3	62.2	8.1	70.9	15.7	213.0
Current tax	(0.8)	–	(1.4)	(0.8)	(6.6)	(0.1)	(9.7)
Deferred tax	–	–	(0.5)	0.5	(13.6)	–	(13.6)
	18.0	37.3	60.3	7.8	50.7	15.6	189.7
Share of assets and liabilities							
Non-current assets							
– investment properties	–	447.4	455.4	217.8	905.4	176.0	2,202.0
– investment properties under development	–	–	–	–	33.6	–	33.6
– other	–	0.3	–	(0.3)	6.3	2.7	9.0
Current assets							
– cash	13.1	4.8	22.3	22.9	63.7	4.2	131.0
– trading properties	55.2	58.4	50.6	13.7	–	–	177.9
– other	7.2	1.1	4.6	8.0	58.0	2.1	81.0
Non-current liabilities	(5.3)	(123.1)	(183.9)	(139.7)	(494.9)	(88.9)	(1,035.8)
Current liabilities	(24.6)	(58.9)	(19.3)	(7.9)	(58.4)	(3.3)	(172.4)
Net assets	45.6	330.0	329.7	114.5	513.7	92.8	1,426.3
Borrowings included in liabilities	–	(170.6)	(177.5)	(139.5)	(346.6)	(91.8)	(926.0)

* In order to best reflect the underlying results of the Group, for purposes of presenting the Group's revenue profit (Note 5) and share of property assets (Note 16), Sonae Sierra's results have been incorporated on a management accounts basis rather than an IFRS basis, reflecting Sonae Sierra's proportionate share of its underlying investments.

Notes to the Financial Statements

20(b) Investments in joint ventures and associates

Summarised financial information in respect of the Group's material associate, Sonae Sierra is set out below. This represents amounts shown in Sonae Sierra's financial statements prepared in accordance with IFRS and is prepared on a different basis to the information shown in Note 20(a) where it is presented on a management accounts basis (see Note 20(a)).

Sonae Sierra

	2018 £m	2017 £m
Net rental income	192.7	206.5
Depreciation and amortisation	(0.8)	(0.9)
Other operating expenses	(110.5)	(118.8)
Financial income	6.5	6.0
Financial expenses	(13.6)	(12.9)
Share of results of associates	80.2	110.5
Losses on investments	12.7	9.6
Profit before tax	**167.2**	**200.0**
Tax	(17.7)	(22.7)
Profit after tax	**149.5**	**177.3**
Attributable to:		
Equity holders of Sonae Sierra	97.5	101.3
Non-controlling interest	52.1	76.0
Consolidated net profit for the period	**149.6**	**177.3**
The Group's share of profit for the year (Note 20(a))	**46.1**	**50.7**

	2018 £m	2017 £m
Non-current assets	1,994.1	1,915.1
Current assets		
Cash	287.1	60.5
Other current assets	47.1	92.2
Total assets	**2,328.3**	**2,067.4**
Non-current liabilities		
Non-current financial liabilities	(405.5)	(176.2)
Other non-current liabilities	(159.3)	(128.2)
Current liabilities		
Current financial liabilities	(40.8)	(152.4)
Other current liabilities	(95.1)	(69.9)
Total liabilities	**(700.7)**	**(526.7)**
Net assets	**1,627.6**	**1,541.1**
Shareholders' funds	1,083.0	1,027.4
Non-controlling interest	544.6	513.7
Total Equity	**1,627.6**	**1,541.1**
Carrying amount of the Group's interest in Sonae Sierra (Note 20(a))	**324.9**	**513.7**

20(c) Investments in joint ventures and associates

At 31 December 2018, the Group had the following principal interests in joint ventures and associates which are accounted for on the basis explained in Note 1(b):

	Principal activities	Country of incorporation/registration	Effective interest	Group share of net assets £m
Britain & Ireland				
GC Bankside LLP	Property development	England and Wales	50.0%	1.7
Barkhill Limited	Property development	Republic of Ireland	50.0%	9.3
NLG Campden LLP	Property development	England and Wales	16.7%	5.3
Trumpington Meadows Land Company Limited	Property development	England and Wales	50.0%	4.8
Americas				
Joint ventures with BBCAF Inc	Property investment	United States of America	50.0%/25.0%	197.4
Joint ventures with the Getty Family Trust	Property investment	United States of America	50.0%	19.2
Joint ventures with PSP and Alberta Teachers' Retirement Fund	Property investment	United States of America	20.0%	33.5
Joint ventures with Clark Ballpark Residential LLC	Property investment	United States of America	50.0%	29.3
Joint ventures with Manitoba Civil Service Superannuation Board, Bindali Group	Property investment	Canada	30.0%	11.8
GEMOA Inc	Property investment	United States of America	50.0%	24.3
Asia Pacific				
Richly Leader Limited*	Property investment	Hong Kong	50.0%	282.5
Imperial Time Limited*	Property development	Hong Kong	20.0%	16.0
Grosvenor Park Partners Limited	Property development	Cayman Islands	63.3%	10.3
Azabu Tokutei Mokuteki Kaisya	Property development	Japan	50.0%	21.8
GPT Tokutei Mokuteki Kaisya	Property development	Japan	78.8%	27.6
GDP1 Tokutei Mokuteki Kaisya	Investment holding	Japan	38.5%	5.2
GDP2 Tokutei Mokuteki Kaisya	Investment holding	Japan	38.5%	4.9
Nanjing Fu Chen Property Limited	Property development	China	40.0%	45.5
Europe				
Grosvenor London Office Fund*	Property investment	England and Wales	12.7%	16.4
Grosvenor Liverpool Fund*	Property investment	England and Wales	10.0%	52.7
Retail Centres V (Sweden) Limited Partnership	Property investment	England and Wales	17.6%	32.5
Grosvenor Retail European Properties*	Property investment	Luxembourg	14.0%	0.4
Grosvenor French Retail Investment	Property investment	Luxembourg	11.1%	1.6
Grosvenor European Retail Partnership	Property investment	Luxembourg	5.0%	8.8
Urban Value Add I (Spain) SL	Property investment	Spain	50.0%	12.4

* Associate (all other investments are joint ventures).

Notes to the Financial Statements

20(c) Investments in joint ventures and associates continued

	Principal activities	Country of incorporation/registration	Effective interest	Group share of net assets £m
Indirect investments				
Sonae Sierra SGPS SA*	Property investment and development	Portugal	30.0%	324.9
HS/GP Warehouse Investment Company, LLP	Property investment	United States of America	50.0%	21.8
iO Investment 2 LLP	Property investment	England and Wales	27.2%	21.0
Propertylink Office Partnership III	Property investment	Australia	88.8%	33.8
Heathley JV Property (JV Trust)	Property investment	Australia	50.0%	3.4
Logic Spain KCRE, S.L.	Property investment	Spain	40.0%	6.6
Stockdale Parking, LLC	Property investment	United States of America	90.0%	12.0
Four Ashes Limited	Property investment	England and Wales	40.0%	8.7
Alden Street Capital Management LLC	Property investment	United States of America	99.0%	59.6

* Associate (all other investments are joint ventures).

20(d) Investments in joint ventures and associates

The Financial Statements include, on an equity accounted basis, the results and financial position of the Group's interests in UK limited partnerships. Accordingly, advantage has been taken of the exemptions provided by Regulation 7 of the Partnerships (Accounts) Regulations 2008, which dispenses with the requirement for those partnerships to file accounts with Companies House.

21 Other financial assets

	2018 £m	2017 £m
Non-current assets		
Equity shares	**1.6**	0.4
Structured development loans	**66.1**	36.6
Other financial assets	**38.1**	16.9
	105.8	53.9
Current assets		
Structured development loans	**25.7**	16.0
Current portion of currency swaps	**–**	1.8
	25.7	17.8

Included in the above are property-related financial assets of £121.2m (2017: £59.9m).

Structured development loans

Structured development loans are provided to residential developers in the USA and Canada. A return is earned comprising a fixed rate of interest and a share of the profits on completion of the development.

Notes to the Financial Statements

22 Intangible assets

2018

	Goodwill £m	**Total £m**
Cost		
At 1 January 2018	12.1	**12.1**
Disposals	(5.0)	**(5.0)**
Exchange movements	0.1	**0.1**
At 31 December 2018	7.2	**7.2**
Amortisation/impairment		
At 1 January 2018	(0.3)	**(0.3)**
Disposals	0.3	**0.3**
At 31 December 2018	–	**–**
Carrying amount		
At 1 January 2018	11.8	**11.8**
At 31 December 2018	7.2	**7.2**

2017

	Goodwill £m	Total £m
Cost		
At 1 January 2017	11.6	11.6
Exchange movements	0.5	0.5
At 31 December 2017	12.1	12.1
Amortisation/impairment		
At 1 January 2017	(0.3)	(0.3)
At 31 December 2017	(0.3)	(0.3)
Carrying amount		
At 1 January 2017	11.3	11.3
At 31 December 2017	11.8	11.8

Notes to the Financial Statements

23 Trade and other receivables

	2018 £m	2017 £m
Current receivables		
Trade receivables	**20.8**	29.2
Contract assets	**28.5**	2.7
Loss allowance	**(1.0)**	(1.8)
	48.3	30.1
Receivables due from joint ventures	**2.6**	2.8
Other receivables	**80.8**	80.8
Prepayments	**5.9**	6.0
Accrued income	**6.6**	3.9
	144.2	123.6
Non-current receivables		
Receivables due from joint ventures	**83.5**	83.1
	83.5	83.1
	227.7	206.7

Included in the above are receivables due after more than one year totalling £0.1m (2017: £0.1m). Non-current receivables relate to loans to joint ventures which are considered to be low credit risk. Credit risks for these loans have not increased since their initial recognition.

24 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	2018			2017		
	Assets £m	Liabilities £m	Net £m	Assets £m	Liabilities £m	Net £m
Investment property – contingent gains	**–**	**(591.2)**	**(591.2)**	24.1	(592.0)	(567.9)
Investment property – deferred losses	**31.0**	**–**	**31.0**	27.7	(7.5)	20.2*
Other property, plant and equipment	**–**	**(13.9)**	**(13.9)**	–	(12.8)	(12.8)
Interest-bearing loans and borrowings	**–**	**(0.3)**	**(0.3)**	1.6	(0.1)	1.5
Employee benefits	**9.9**	**–**	**9.9**	11.8	(0.2)	11.6
Tax value and loss carry-forwards recognised	**2.8**	**–**	**2.8**	2.7	–	2.7
Tax assets/(liabilities)	**43.7**	**(605.4)**	**(561.7)**	67.9	(612.6)	(544.7)

* The deferred tax liability for unrealised gains on investment property for GAmericas has been reallocated to the investment property – contingent gains line so the treatment is consistent across the Group.

The deferred tax assets are recognised on the basis that it is probable that the temporary differences will reverse in the foreseeable future, and that taxable profits will be available against which the temporary differences can be utilised.

Temporary differences, including those from unremitted earnings, can arise on the Group's investments in subsidiaries and jointly controlled entities. Deferred tax is not recognised on these as the Group is able to control their reversal and it is probable they will not reverse in the foreseeable future. At 31 December 2018, the total of these temporary differences was £703.6m (2017: £680.7m) and the potential tax effect was £35.2m (2017: £40.7m), accruing principally as a result of potential dividend withholding taxes levied by overseas tax jurisdictions.

Notes to the Financial Statements

24 Deferred tax assets and liabilities continued

Unrecognised deferred tax assets

	2018 £m	2017 £m
Tax losses	**62.5**	64.3

Movement in temporary differences during the year

	Balance at 1 January 2018 £m	Recognised in income £m	Recognised in equity £m	Exchange movement £m	Balance at 31 December 2018 £m
Investment property – contingent gains	(567.9)	(17.5)	1.5	(7.3)	**(591.2)**
Investment property – deferred gains	20.2	10.8	–	–	**31.0**
Other property, plant and equipment	(12.8)	(1.1)	–	–	**(13.9)**
Interest-bearing loans and borrowings	1.5	(0.4)	(1.5)	0.1	**(0.3)**
Employee benefits	11.6	1.3	(2.9)	(0.1)	**9.9**
Tax value and loss carry-forwards recognised	2.7	(0.1)	–	0.2	**2.8**
Tax (liabilities)/assets	(544.7)	(7.0)	(2.9)	(7.1)	**(561.7)**

25 Trading properties

	2018 £m	2017 £m
At 1 January	**192.7**	336.7
Additions	**55.0**	72.2
Capitalised interest	**0.6**	0.7
Disposals	**(133.5)**	(137.1)
Transfer to investment properties	**–**	(62.8)
Provision for impairment	**(0.9)**	(1.9)
Exchange movements	**5.9**	(15.1)
	119.8	192.7

At 31 December 2018, trading properties with a carrying value of £14.2m were pledged as security for bank loans (2017: £56.5m).

Notes to the Financial Statements

26 Cash and cash equivalents

	2018 £m	2017 £m
Bank balances	**593.8**	118.7
Cash deposits	**186.7**	312.1
Cash and cash equivalents	**780.5**	430.8
Cash and cash equivalents in the statement of cash flows	**780.5**	430.8

The amount of cash and cash equivalents not available for use by the Group totals £40.7m (2017: £37.6m), of which £nil (2017: £nil) has been pledged as collateral.

27 Interest-bearing loans and borrowings

	2018 £m	2017 £m
Non-current liabilities		
Secured bank loans	**295.5**	295.5
Unsecured bank loans	**–**	10.8
Secured bond issues	**202.0**	202.8
Unsecured bond issues	**465.0**	267.5
Finance lease liabilities	**1.3**	1.4
Deferred finance costs	**(4.3)**	(3.0)
Currency swaps	**3.5**	–
	963.0	775.0
Current liabilities		
Current portion of secured bank loans	**10.3**	65.9
Current portion of unsecured bank loans	**52.5**	–
Current portion of currency swaps	**–**	–
	62.8	65.9
	1,025.8	840.9

The secured bank loans and secured bonds are secured over investment properties with a carrying value of £1,961.4m (2017: £2,073.4m) and trading properties with a carrying value of £14.2m (2017: £56.5m). Included in secured bond issues is £1.3m (2017: £1.6m) of net unamortised premium.

Finance lease liabilities

Finance lease obligations in respect of rents payable on leasehold properties are payable as follows:

	2018			2017		
	Minimum lease payments £m	**Interest £m**	**Principal £m**	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	**0.5**	**0.5**	**–**	0.4	0.3	0.1
Between one and five years	**2.2**	**2.2**	**–**	1.3	1.3	0.1
More than five years	**85.7**	**84.4**	**1.3**	72.3	71.0	1.2
	88.4	**87.1**	**1.3**	74.0	72.6	1.4

Notes to the Financial Statements

28 Financial instruments

Capital risk management

The capital structure of the Group comprises debt, which includes the borrowings disclosed in Note 27; cash and cash equivalents disclosed in Note 26; and equity, comprising issued share capital, reserves and retained earnings as disclosed in Notes 34 and 35.

The Group manages its capital to optimise the allocation of equity between the Operating Companies and Indirect Investments and to enable them to meet their short-, medium- and long-term targets. Internal gearing and interest cover limits are set for each Operating Company. Group gearing on an IFRS basis at the year end is 4.9% (2017: 8.4%); while gearing on an economic basis is 20.5% (2017: 23.8%).

Categories of financial instruments and their fair values

2018

	Financial assets at amortised cost £m	At fair value through profit and loss £m	At fair value through other comprehensive income £m	**Total carrying amount £m**	**Fair value £m**
Financial assets:					
Equity shares	–	–	1.6	**1.6**	**1.6**
Structured development loans (current and non-current)	–	91.8	–	**91.8**	**91.8**
Other financial assets	–	2.5	28.8	**31.3**	**31.3**
Trade and other receivables	215.2	–	–	**215.2**	**215.2**
Cash and cash equivalents	780.5	–	–	**780.5**	**780.5**
Total financial assets	995.7	94.3	30.4	**1,120.4**	**1,120.4**

Notes to the Financial Statements

28 Financial instruments continued

The table below provides an analysis of financial instruments that are measured at amortised cost subsequent to initial recognition.

	Financial liabilities at amortised cost £m	Total carrying amount £m	Fair value £m
Financial liabilities:			
Fixed rate loans			
Sterling secured bond 2026	(201.3)	**(201.3)**	**(257.5)**
Sterling secured mortgage 2034	(50.0)	**(50.0)**	**(92.9)**
Sterling unsecured bond 2019	(52.5)	**(52.5)**	**(54.5)**
Sterling unsecured bond 2022	(60.0)	**(60.0)**	**(58.9)**
Sterling unsecured bond 2028	(100.0)	**(100.0)**	**(86.5)**
Sterling unsecured bond 2031	(95.0)	**(95.0)**	**(104.5)**
Sterling unsecured bond 2033	(105.0)	**(105.0)**	**(85.9)**
Sterling unsecured bond 2037	(30.0)	**(30.0)**	**(31.5)**
Sterling unsecured bond 2040	(45.0)	**(45.0)**	**(35.5)**
Sterling unsecured bond 2041	(30.0)	**(30.0)**	**(36.1)**
US Dollars	(19.4)	**(19.4)**	**(19.8)**
Canadian Dollars	(8.3)	**(8.3)**	**(8.3)**
Japanese Yen	(110.3)	**(110.3)**	**(109.7)**
Total fixed rate loans	(906.8)	**(906.8)**	**(981.6)**
Floating rate loans			
US Dollars	(23.5)	**(23.5)**	**(23.5)**
Canadian Dollars	(25.9)	**(25.9)**	**(25.9)**
Euros	(31.7)	**(31.7)**	**(31.7)**
Swedish Krona	(36.6)	**(36.6)**	**(36.6)**
Total floating rate loans	(117.7)	**(117.7)**	**(117.7)**
Finance lease liabilities	(1.3)	**(1.3)**	**(1.3)**
Trade and other payables	(170.0)	**(170.0)**	**(170.0)**
Total financial liabilities	(1,195.8)	**(1,195.8)**	**(1,270.6)**

	At fair value through profit and loss £m	Total carrying amount £m	Fair value £m
Derivatives			
Interest rate swaps			
US Dollars	(1.5)	**(1.5)**	**(1.5)**
Hong Kong Dollars	2.5	**2.5**	**2.5**
Total interest rate swaps	1.0	**1.0**	**1.0**
Currency swaps			
Euros	(3.5)	**(3.5)**	**(3.5)**
Total currency swaps	(3.5)	**(3.5)**	**(3.5)**
Total derivatives	(2.5)	**(2.5)**	**(2.5)**

Currency swaps are against Sterling unless stated otherwise.

Notes to the Financial Statements

28 Financial instruments continued

The table below provides an analysis of financial instruments that are measured at fair value subsequent to initial recognition, grouped according to the degree to which the fair value is derived from observable data.

	2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through other comprehensive income				
Equity shares	1.6	–	–	1.6
Other	–	2.5	28.8	31.3
Financial assets at fair value through profit and loss				
Structured development loans	–	–	91.8	91.8
Total financial assets	1.6	2.5	120.6	124.7
Financial liabilities at fair value				
Derivatives	–	(5.0)	–	(5.0)
Total financial liabilities	–	(5.0)	–	(5.0)

There were no transfers between levels during the period.

Level 1: fair values derived from quoted prices in active markets for identical assets/liabilities.

Level 2: fair values derived from observable inputs other than quoted prices.

Level 3: fair values derived from valuation techniques that include inputs that are not based on observable data.

The fair values of financial assets and liabilities are determined as follows:

- Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.
- The fair value of financial assets and liabilities with standard terms and conditions and traded on active markets is determined with reference to quoted market prices.
- The fair value of other financial assets and liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

2017

	Loans and receivables £m	Held for trading £m	Available-for-sale securities £m	Financial assets at amortised cost £m	Total carrying amount £m	Fair value £m
Financial assets:						
Equity shares	–	–	0.4	–	0.4	0.4
Structured development loans (current and non-current)	49.6	3.0	–	–	52.6	52.6
Other financial assets	–	–	9.9	–	9.9	9.9
Trade and other receivables	196.8	–	–	–	196.8	196.8
Cash and cash equivalents	–	–	–	430.8	430.8	430.8
Total financial assets	246.4	3.0	10.3	430.8	690.5	690.5

Notes to the Financial Statements

28 Financial instruments continued

	Financial liabilities at amortised cost £m	Total carrying amount £m	Fair value £m
Financial liabilities:			
Fixed rate loans			
Sterling unsecured bond 2019	(52.5)	(52.5)	(58.3)
Sterling unsecured bond 2022	(60.0)	(60.0)	(64.5)
Sterling secured bond 2026	(201.8)	(201.8)	(267.4)
Sterling unsecured bond 2031	(95.0)	(95.0)	(128.7)
Sterling secured mortgage 2034	(50.0)	(50.0)	(97.2)
Sterling unsecured bond 2037	(30.0)	(30.0)	(41.1)
Sterling unsecured bond 2041	(30.0)	(30.0)	(47.7)
US Dollars	(18.6)	(18.6)	(18.6)
Canadian Dollars	(28.7)	(28.7)	(28.7)
Japanese Yen	(100.7)	(100.7)	(100.7)
Total fixed rate loans	(667.3)	(667.3)	(852.9)
Floating rate loans			
US Dollars	(93.4)	(93.4)	(93.4)
Canadian Dollars	(29.4)	(29.4)	(29.4)
Japanese Yen	(50.5)	(50.5)	(50.5)
Total floating rate loans	(173.3)	(173.3)	(173.3)
Finance lease liabilities	(1.4)	(1.4)	(1.4)
Trade and other payables	(110.2)	(110.2)	(110.2)
Total financial liabilities	(952.2)	(952.2)	(1,137.8)

Notes to the Financial Statements

28 Financial instruments continued

	Held for trading £m	Total carrying amount £m	Fair value £m
Derivatives			
Interest rate swaps			
US Dollars	(1.9)	(1.9)	(1.9)
Hong Kong Dollars	3.0	3.0	3.0
Total interest rate swaps	1.1	1.1	1.1
Currency swaps			
Euros	(0.6)	(0.6)	(0.6)
Total currency swaps	(0.6)	(0.6)	(0.6)
Total derivatives	0.5	0.5	0.5

Currency swaps are against Sterling unless stated otherwise.

The table below provides an analysis of financial instruments that are measured at fair value subsequent to initial recognition, grouped according to the degree to which the fair value is derived from observable data.

	2017			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available-for-sale financial assets				
Equity shares	0.4	–	–	0.4
Other	–	–	9.9	9.9
Financial assets held for trading				
Structured development loans	–	–	3.0	3.0
Derivatives	–	3.0	–	3.0
Total financial assets	0.4	3.0	12.9	16.3
Financial liabilities held for trading				
Derivatives	–	(2.5)	–	(2.5)
Total financial liabilities	–	(2.5)	–	(2.5)

There were no transfers between levels during the period.

Level 1: fair values derived from quoted prices in active markets for identical assets/liabilities.

Level 2: fair values derived from observable inputs other than quoted prices.

Level 3: fair values derived from valuation techniques that include inputs that are not based on observable data.

Notes to the Financial Statements

28 Financial instruments continued

Financial risk management

The Group has a decentralised treasury management operating structure, co-ordinated through a central treasury function, which monitors and manages the financial risks relating to the Group's operations and seeks to maximise the efficiency of borrowings and cash deposits throughout the Group. Treasury policies, approved by the Board, are:

- To manage wholly-owned treasury operations in a co-ordinated manner; debt for joint ventures and funds is raised at joint venture and fund level but is managed within the co-ordinated approach.
- To ensure sufficient committed loan facilities to support anticipated business requirements as they arise.
- To ensure that the Group's debt can be supported from maintainable cash flow through clear internal guidelines.
- To manage interest rate exposure with a combination of fixed rate debt and interest rate swaps so that a minimum of 60% of borrowings are at fixed interest rates.
- Not to hedge long-term net asset positions held in foreign currencies absent in abnormal circumstances.
- To invest short-term cash with approved institutions within limits agreed by the Board.

Transactions in financial instruments, including derivatives, are either governed by specific delegations to Operating Company boards or have prior Board approval. The Group does not enter into any treasury positions for purely speculative purposes. Detailed treasury reports are produced on a monthly basis with consolidated treasury risk reports presented to the Board. Risks include market risk (interest rates, currency and pricing), credit risk and liquidity risk.

Interest rate risk

Exposure to interest rate movements is controlled through the use of a mixture of floating and fixed rate debt and interest rate derivatives, to achieve a balanced interest rate profile to ensure that a minimum level of borrowings are at fixed interest rates. The interest rate profile is reviewed by the Group on a monthly basis.

28 Financial instruments continued

The Group's exposure to interest rates on financial assets and financial liabilities is analysed below:

2018

	Effective interest rate %	Floating interest rate £m	Fixed interest rate < 1 year £m	Fixed interest rate 1–5 years £m	Fixed interest rate > 5 years £m	Non-interest-bearing £m	**Total £m**
Financial assets:							
Equity shares	–	–	–	–	–	1.6	**1.6**
Structured development loans (current and non-current)	10.0	–	25.7	60.2	5.9	–	**91.8**
Other financial assets	–	–	–	2.5	–	28.8	**31.3**
Trade and other receivables (excluding prepayments and accrued income)	2.8	66.1	–	–	–	149.1	**215.2**
Cash and cash equivalents	0.3	579.0	–	–	–	201.5	**780.5**
Total financial assets	–	645.1	25.7	62.7	5.9	381.0	**1,120.4**
Financial liabilities:							
Fixed rate loans							
Sterling secured bond 2026	6.5	–	–	–	(201.3)	–	**(201.3)**
Sterling secured mortgage 2034	10.4	–	–	–	(50.0)	–	**(50.0)**
Sterling unsecured bond 2019	8.4	–	(52.5)	–	–	–	**(52.5)**
Sterling unsecured bond 2022	3.4	–	–	(60.0)	–	–	**(60.0)**
Sterling unsecured bond 2028	2.8	–	–	–	(100.0)	–	**(100.0)**
Sterling unsecured bond 2031	5.6	–	–	–	(95.0)	–	**(95.0)**
Sterling unsecured bond 2033	4.9	–	–	–	(105.0)	–	**(105.0)**
Sterling unsecured bond 2037	5.0	–	–	–	(30.0)	–	**(30.0)**
Sterling unsecured bond 2040	3.6	–	–	–	(45.0)	–	**(45.0)**
Sterling unsecured bond 2041	6.1	–	–	–	(30.0)	–	**(30.0)**
US Dollars fixed rate	4.9	–	(0.4)	(19.0)	–	–	**(19.4)**
Canadian Dollars fixed rate	3.6	–	(0.2)	(8.0)	(0.1)	–	**(8.3)**
Japanese Yen fixed rate	1.0	–	(0.3)	(0.8)	(109.2)	–	**(110.3)**
Total fixed rate loans		–	(53.4)	(87.8)	(765.6)	–	**(906.8)**
Floating rate loans fixed through interest rate swaps							
US Dollars	5.4	–	0.2	(0.3)	(24.1)	–	**(24.2)**
Canadian Dollars	3.9	–	(0.5)	(16.2)	–	–	**(16.7)**
Total floating rate loans fixed through interest rate swaps		–	(0.3)	(16.5)	(24.1)	–	**(40.9)**
Floating rate loans							
US Dollars floating rate	3.6	(0.8)	–	–	–	–	**(0.8)**
Canadian Dollars floating rate	4.5	(9.2)	–	–	–	–	**(9.2)**
Euro floating rate	1.1	(31.7)	–	–	–	–	**(31.7)**
Swedish Krona rate	1.7	(36.6)	–	–	–	–	**(36.6)**
Total floating rate loans		(78.3)	–	–	–	–	**(78.3)**
Currency swaps	–	–	(0.2)	(3.3)	–	–	**(3.5)**
Finance lease liabilities	6.0	–	–	–	(1.3)	–	**(1.3)**
Trade and other payables (excluding deferred income and accrued expenses)	–	–	–	–	–	(170.0)	**(170.0)**
Total financial liabilities		(78.3)	(53.9)	(107.6)	(791.0)	(170.0)	**(1,200.8)**

The total average cost of debt for the year ended 31 December 2018 was 4.8% (2017: 5.1%).

28 Financial instruments continued

2017

	Effective interest rate %	Floating interest rate £m	Fixed interest rate < 1 year £m	Fixed interest rate 1–5 years £m	Fixed interest rate > 5 years £m	Non-interest-bearing £m	Total £m
Financial assets:							
Equity shares	–	–	–	–	–	0.4	0.4
Structured development loans (current and non-current)	10.0	–	16.0	28.7	7.9	–	52.6
Other financial assets	–	–	–	3.0	–	6.9	9.9
Trade and other receivables (excluding prepayments and accrued income)	2.6	60.0	–	–	–	136.8	196.8
Cash and cash equivalents	0.3	385.2	–	–	–	45.6	430.8
Total financial assets		445.2	16.0	31.7	7.9	189.7	690.5
Financial liabilities:							
Fixed rate loans							
Sterling unsecured bond 2019	8.4	–	–	(52.5)	–	–	(52.5)
Sterling unsecured bond 2022	3.4	–	–	–	(60.0)	–	(60.0)
Sterling secured bond 2026	6.5	–	–	–	(201.8)	–	(201.8)
Sterling unsecured bond 2031	5.6	–	–	–	(95.0)	–	(95.0)
Sterling secured mortgage 2034	10.4	–	–	–	(50.0)	–	(50.0)
Sterling unsecured bond 2037	5.0	–	–	–	(30.0)	–	(30.0)
Sterling unsecured bond 2041	6.1	–	–	–	(30.0)	–	(30.0)
US Dollars fixed rate	4.9	–	(0.3)	(18.3)	–	–	(18.6)
Canadian Dollars fixed rate	5.2	–	(20.2)	(0.8)	(7.7)	–	(28.7)
Japanese Yen fixed rate	1.0	–	–	–	(100.7)	–	(100.7)
Total fixed rate loans		–	(20.5)	(71.6)	(575.2)	–	(667.3)
Floating rate loans fixed through interest rate swaps							
US Dollars	1.7	–	(6.2)	(1.3)	–	–	(7.5)
Canadian Dollars	3.9	–	(0.5)	(1.5)	(15.6)	–	(17.6)
Total floating rate loans fixed through interest rate swaps		–	(6.7)	(2.8)	(15.6)	–	(25.1)
Floating rate loans							
US Dollars floating rate	3.6	(87.8)	–	–	–	–	(87.8)
Canadian Dollars floating rate	3.6	(11.8)	–	–	–	–	(11.8)
Japanese Yen floating rate	0.4	(50.5)	–	–	–	–	(50.5)
Total floating rate loans		(150.1)	–	–	–	–	(150.1)
Currency swaps	–	–	1.8	(2.4)	–	–	(0.6)
Finance lease liabilities	6.0	–	–	–	(1.4)	–	(1.4)
Trade and other payables (excluding deferred income and accrued expenses)	–	–	–	–	–	(110.2)	(110.2)
Total financial liabilities		(150.1)	(25.4)	(76.8)	(592.2)	(110.2)	(954.7)

Notes to the Financial Statements

28 Financial instruments continued

Interest rate sensitivity

The sensitivity analysis below is based on the exposure to interest rates at the balance sheet date. For floating rate liabilities and cash balances, it is assumed the liability or asset at the balance sheet date was outstanding for the whole year.

For illustrative purposes the interest rate sensitivity has been estimated based on a 50 basis point increase or decrease to interest rates. If interest rates had been 0.5% higher and all other variables were held constant, the impact on the Group's equity would be:

		2018 £m	2017 £m
Increase in results for the year	– interest charge	**4.2**	1.9
	– mark to market of interest rate swaps	**3.1**	2.7
	– tax charge	**(1.4)**	(0.9)
Total impact on profit and equity		**5.9**	3.7

Similarly, if interest rates had been 0.5% lower, then Group profit and equity would have decreased by £5.9m (2017: £3.7m).

As part of the Group's interest rate risk management, interest rate swaps exchanging floating for fixed interest with a notional principal of £70.5m (2017: £24.5m) and a fair value liability of £0.3m (2017: £0.1m liability) were designated for cash flow hedge accounting at 31 December 2018. These hedges were highly effective during the year.

Foreign currency risk

Investments outside the UK are held for the long term, so it is the Group's policy not to hedge the net investment in these regions absent exceptional circumstances. Within each region there is a certain amount of natural currency hedging as debt is drawn in local currency to finance local operations. Committed cash flows between currencies are routinely hedged by the use of foreign exchange derivatives. Anticipated cash flows between currencies are reviewed and may also be hedged to reduce any foreign currency risk.

At the end of the year, other than that arising on its equity in non-UK Operating Companies investments and related hedges and those stated above, the Group has no material foreign exchange currency risk as there are no material financial instruments denominated in non-functional currencies.

Equity price risk

The Group is exposed to equity price risks arising from its equity investments disclosed in Note 21. Equity investments designated as fair value through other comprehensive income (2017: available-for-sale) are held for strategic rather than trading purposes.

Equity price sensitivity

The sensitivity analysis below is based on the exposure to equity price risks at the balance sheet date.

If equity prices had been 10% higher/lower other equity reserves would increase/decrease by £0.2m (2017: increase/decrease by £0.1m) as a result of changes in fair value of equity-shares.

28 Financial instruments continued

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual financial obligations resulting in financial loss to the Group. The Group is exposed to credit risk in respect of its surplus cash deposits, undrawn committed borrowing facilities, trade receivables, structured development loans that are measured at fair value through profit or loss, loans to joint ventures and in the money derivatives.

Surplus cash is deposited with major financial institutions and in money market funds with credit ratings at or above a specified level. Limits are set to restrict the total amount of funds that can be deposited with any single counterparty.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. The Group monitors changes in credit risk by tracking published external credit ratings. To determine whether published ratings remain up to date and to assess whether there has been a significant increase in credit risk at the reporting date that has not been reflected in published ratings, the Group supplements this by reviewing changes in bond yields and, where available, credit default swap (CDS) prices together with available press and regulatory information about issuers.

The tables below detail the credit quality of the Group's financial assets and other items, as well as the Group's maximum exposure to credit risk by credit risk rating grades:

2018	Note	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Financial assets at amortised cost							
Trade and other receivables	23	N/A	Low risk	12m ECL	105.0	(0.4)	104.6
Loans to joint ventures	23	N/A	Low risk	12m ECL	89.1	(3.0)	86.1
Contract assets	23	N/A	Low risk	12m ECL	28.5	(0.1)	28.4
Cash and cash equivalents	26	Refer to Note 28	Low risk	12m ECL	780.5	–	780.5
Pledged bank deposits	26	A–	Low risk	12m ECL	40.7	–	40.7

At the year end, deposits were invested as follows using ratings from major, reputable credit rating institutions:

	Total cash and cash equivalents at 31 December 2018 £m	2017 £m
AAA	**443.6**	247.0
AA–	**62.6**	47.2
A+	**109.9**	14.8
A	**86.7**	70.4
A-	**60.6**	8.2
BBB+	**3.7**	43.2
BBB-	**13.4**	–
	780.5	430.8

Trade receivables consist of amounts due from a large number of tenants, spread across diverse industries and geographical areas. Credit checks are carried out before commencement of tenancies and before entering joint venture partnership agreements and continuing credit evaluation seeks to ensure any receivables are provided for as required. Trade receivables are small relative to turnover and therefore do not present a significant risk to the Group. Trade receivables at the year end totalled £24.8m (2017: £30.1m) of which £3.9m was outstanding at 1 March 2019 (1 March 2018: £7.4m).

Structured development loans represent loans to developers on which the Group earns interest and a share of the development profit. The Group provides loans to established developers with a track record of stable performance and carries out due diligence before committing funds. In the majority of such loans, the Group receives a second charge on the development property and a guarantee regarding the principal and interest.

Notes to the Financial Statements

28 Financial instruments continued

The carrying amount of financial assets, excluding equity investments, recorded in the Financial Statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk on those financial assets without taking account of the value of any collateral obtained.

Liquidity risk

The Group obtains financing from a number of sources, including secured lending at project level together with secured and unsecured borrowing at various corporate levels. To ensure sufficient cash is available to meet operating plans, cash flow projections are maintained at Operating Company level and are reviewed by the Group on a monthly basis. In addition to facilities at Operating Company and project level, committed borrowing facilities are maintained in the Holding Company at levels deemed appropriate by the Group Board.

At 31 December, the Group had the following drawn and undrawn committed borrowing facilities available:

	Drawn facilities		Undrawn facilities	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Expiring in less than one year	**61.4**	64.8	**53.3**	65.1
Expiring from one to two years	**–**	80.0	**–**	85.6
Expiring from two to five years	**114.7**	162.4	**967.7**	822.5
Expiring after more than five years	**844.9**	532.8	**–**	–
Total	**1,021.0**	840.0	**1,021.0**	973.2

Borrowing limits are set for each Operating Company. Each Operating Company and the Group produces, on a monthly basis, a medium-term cash forecast under an expected and stressed scenario, the latter designed to simulate an extreme financial and market crash. The Operating Companies and the Group seek to maintain sufficient liquidity to sustain such a crash for at least two years.

The Group also monitors its resilience to potential falls in property market values. Resilience is defined in the glossary.

The maturity profile of the anticipated future cash flows, including interest, relating to the Group's non-derivative financial liabilities, on an undiscounted basis (which therefore differs from both carrying value and fair value) is as follows:

2018

	Fixed rate loans £m	Floating rate loans £m	Finance lease liabilities £m	Other £m	**Total £m**
Due within one year	92.4	12.7	0.5	148.6	**254.2**
From one to two years	39.3	3.3	0.5	21.4	**64.6**
From two to three years	57.2	3.3	0.5	–	**61.1**
From three to four years	97.6	3.3	0.5	–	**101.5**
From four to five years	36.0	40.2	0.5	–	**76.7**
After five years	1,019.7	75.8	85.7	–	**1,181.2**
	1,342.2	138.7	88.4	170.0	**1,739.3**

Notes to the Financial Statements

28 Financial instruments continued

2017

	Fixed rate loans £m	Floating rate loans £m	Finance lease liabilities £m	Other £m	Total £m
Due within one year	56.7	50.0	0.4	109.4	216.5
From one to two years	84.7	30.6	0.4	0.8	116.5
From two to three years	31.7	30.6	0.3	–	62.6
From three to four years	48.5	5.6	0.3	–	54.4
From four to five years	90.1	52.2	0.3	–	142.6
After five years	723.5	16.2	72.3	–	812.0
	1,035.2	185.2	74.0	110.2	1,404.6

The maturity profile of the Group's financial derivatives, using undiscounted cash flows, is as follows:

	2018		2017	
	Payable £m	**Receivable £m**	Payable £m	Receivable £m
Due within one year	**(165.0)**	**166.1**	(211.2)	214.5
From one to two years	**(39.4)**	**37.3**	(51.1)	52.0
From two to three years	**(36.0)**	**35.9**	(24.9)	23.6
From three to four years	**(1.3)**	**1.3**	(17.6)	18.5
From four to five years	**(1.2)**	**1.3**	(0.6)	0.6
After five years	**(3.3)**	**3.6**	(0.8)	0.9
	(246.2)	**245.6**	(306.2)	310.1

29 Trade and other payables

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Current liabilities				
Trade payables	**20.2**	26.0	**–**	–
Contract liabilities	**13.4**	9.0	**–**	–
Payables due to subsidiaries	**–**	–	**0.4**	–
Other payables	**115.0**	83.4	**–**	–
Accrued expenses	**51.9**	57.1	**–**	–
Deferred income	**32.4**	31.8	**–**	–
	232.9	207.3	**0.4**	–
Non-current liabilities				
Other payables	**21.4**	0.8	**–**	–
Deferred income	**178.8**	116.0	**–**	–
	200.2	116.8	**–**	–
	433.1	324.1	**0.4**	–

Deferred income includes £182.4m in respect of deferred lease premium profits (2017: £119.4m).

30 Provisions

Development loss provision

	2018 £m	2017 £m
Current liabilities		
At 1 January	**5.9**	13.2
Recognised in the year	**0.1**	3.7
Utilised in the year	**(5.4)**	(11.0)
At 31 December	**0.6**	5.9
Non-current liabilities		
At 1 January	**0.3**	3.8
Recognised in the year	**–**	–
Released in the year	**–**	(3.5)
Utilised in the year	**(0.3)**	–
At 31 December	**–**	0.3
	0.6	6.2

The provisions disclosed above relate to an obligation in respect of an ongoing development.

31 Operating lease commitments

Leases as lessee

The amount of lease rentals charged to the income statement during the year comprised:

	2018 £m	2017 £m
Land and buildings	**6.7**	6.0

Non-cancellable operating lease rentals are payable as follows:

	2018 £m	2017 £m
Less than one year	**8.2**	8.2
Between one and five years	**25.5**	26.3
More than five years	**43.1**	57.8
	76.8	92.3

Leases as lessor

Future minimum lease payments under non-cancellable leases are as follows:

	2018 £m	2017 £m
Less than one year	**121.1**	108.9
Between one and five years	**320.0**	290.8
More than five years	**1,098.3**	1,191.6
	1,539.4	1,591.3

Notes to the Financial Statements

32 Capital commitments

	2018 £m	2017 £m
Investment properties contracted but not provided	**78.7**	35.3
Development properties contracted but not provided	**123.3**	45.0
	202.0	80.3

Included in the above is the Group's share of joint venture and associate capital commitments of £72.6m (2017: £15.1m) relating to development properties.

33 Contingent liabilities

Certain Group companies have given performance undertakings to third parties in respect of various contractual obligations entered into in the ordinary course of business.

34 Share capital

	Authorised number of shares	2018 £m	Authorised number of shares	2017 £m
Allocated, called up and fully paid				
Ordinary shares of £1	**5,684,877**	**5.7**	5,684,877	5.7
Non-voting ordinary shares of £1	**–**	**–**	45,479,016	45.5
'A' preference shares of £1	**5,684,877**	**5.7**	5,684,877	5.7
Non-voting redeemable D1 preference shares of £1	**272,874,096**	**272.9**	–	–
	284,243,850	**284.3**	56,848,770	56.9

On 13 September the Board made an offer to redeem all of the outstanding non-voting ordinary shares. The shares were cancelled on 18 September. On 13 September the Board proposed and the Shareholders approved a bonus issue of 272,874,096 new D1 preference shares out of the reserves of the Holding Company (see Note 35(b)).

Rights of classes of shares

Profits determined by the Directors as available for distribution are to be applied first in paying a fixed non-cumulative dividend of 12% per annum on the amounts paid up on the 'A' preference shares; secondly in paying to the holders of the D1 and D2 Preference Shares. The balance of profits available for distribution shall be distributed pari passu by way of dividend to the holders of the ordinary shares and non-voting ordinary shares in proportion to the amounts paid up on their shares.

On a return of the Company's assets to Shareholders the assets are to be applied first in repaying to the holders of the 'A' preferences shares the amounts paid up on their shares; secondly repaying to the holders of the 'D1' and 'D2' preference shares in the amounts paid up or deemed paid up on their shares. The balance of the assets is payable to the holders of the ordinary shares and non-voting ordinary shares in proportion to the amounts paid up on their shares.

Notes to the Financial Statements

35 Reconciliation of share capital and reserves

(a) Group

	Share capital £m	Share premium £m	Translation reserve £m	Other reserve £m	Fair value reserve £m	Revaluation reserve £m	Retained earnings £m	**Total £m**	Non-controlling interest £m	**Total equity £m**
At 1 January 2017	56.9	28.3	561.8	225.2	6.0	28.2	3,871.9	**4,778.3**	(1.6)	**4,776.7**
Profit for the year	–	–	–	–	–	–	248.7	**248.7**	–	**248.7**
Revaluation movement	–	–	–	–	–	0.2	–	**0.2**	–	**0.2**
Fair value adjustments	–	–	–	1.8	1.9	–	–	**3.7**	–	**3.7**
Net gains reclassified from fair value reserve to profit or loss	–	–	–	–	(7.1)	–	–	**(7.1)**	–	**(7.1)**
Deferred tax	–	–	–	(0.4)	–	0.4	(4.4)	**(4.4)**	–	**(4.4)**
Pension actuarial gains	–	–	–	–	–	–	24.0	**24.0**	–	**24.0**
Dividends	–	–	–	–	–	–	(42.3)	**(42.3)**	–	**(42.3)**
Transfer between reserves	–	–	–	1.8	(1.2)	(0.9)	0.3	**–**	–	**–**
Acquisition of non-controlling interests	–	–	–	–	–	–	–	**–**	(0.5)	**(0.5)**
Exchange	–	–	(112.4)	–	–	0.1	(0.4)	**(112.7)**	–	**(112.7)**
Balance at 31 December 2017	56.9	28.3	449.4	228.4	(0.4)	28.0	4,097.8	**4,888.4**	(2.1)	**4,886.3**
Adjustment on initial application of IFRS 9 (see Note 2(b))	–	–	–	–	–	–	4.9	**4.9**	–	**4.9**
Balance at 1 January 2018 – As restated	56.9	28.3	449.4	228.4	(0.4)	28.0	4,102.7	**4,893.3**	(2.1)	**4,891.2**
Profit for the year	–	–	–	–	–	–	162.6	**162.6**	–	**162.6**
Revaluation movement	–	–	–	–	–	(2.3)	–	**(2.3)**	–	**(2.3)**
Fair value adjustments	–	–	–	0.1	(1.8)	–	–	**(1.7)**	–	**(1.7)**
Deferred tax	–	–	–	(1.5)	–	1.5	(2.9)	**(2.9)**	–	**(2.9)**
Pension actuarial gains	–	–	–	–	–	–	17.9	**17.9**	–	**17.9**
Dividends		–	–	–	–	–	(43.9)	**(43.9)**	(0.4)	**(44.3)**
Transfer between reserves	272.9	–	–	(6.1)	–	13.7	(280.5)	**–**	–	**–**
Ordinary share redemption	(45.5)	–	–	–	–	–	(35.9)	**(81.4)**	–	**(81.4)**
Disposal of non-controlling interests	–	–	–	–	–	–	–	**–**	2.2	**2.2**
Reclassification to profit and loss	–	–	22.2	–	–	–	–	**22.2**	–	**22.2**
Exchange	–	–	63.5	1.7	–	0.1	(1.8)	**63.5**	–	**63.5**
Balance at 31 December 2018	284.3	28.3	535.1	222.6	(2.2)	41.0	3,918.2	**5,027.3**	(0.3)	**5,027.0**

Other reserves comprise net interest rate hedging gains of £0.4m (2017: gains of £0.7m) and capital redemption reserve of £222.2m (2017: £227.7m).

Notes to the Financial Statements

35 Reconciliation of share capital and reserves continued

(b) Company

	Share capital £m	Share premium £m	Merger capital reserve £m	Capital redemption reserve £m	Retained earnings £m	**Total equity £m**
At 1 January 2017	56.9	28.3	921.9	225.6	125.7	**1,358.4**
Dividends received from subsidiaries	–	–	–	–	42.3	**42.3**
Dividends paid	–	–	–	–	(42.3)	**(42.3)**
At 31 December 2017	56.9	28.3	921.9	225.6	125.7	**1,358.4**
Ordinary share redemption	(45.5)	–	–	–	(35.9)	**(81.4)**
Ordinary shares issued from merger reserve	272.9	–	(272.9)	–	–	**–**
Dividends received from subsidiaries	–	–	–	–	125.4	**125.4**
Dividends paid	–	–	–	–	(44.4)	**(44.4)**
At 31 December 2018	284.3	28.3	649.0	225.6	170.8	**1,358.0**

36 Notes to the consolidated statement of cash flows

(a) Reconciliation of profit from operations including share of profit from joint ventures to operating profit before changes in working capital and provisions

	2018 £m	2017 £m
Operating activities		
Profit from operations including share of profit from joint ventures	**222.9**	254.4
Adjustments for:		
Depreciation	**6.3**	5.1
Amortisation of capitalised lease incentives	**(8.7)**	(10.9)
Amortisation of deferred lease premiums	**(9.3)**	(9.2)
Recognition of income from operating lease incentives	**0.4**	0.2
Uplift on trading properties completed and transferred to investment property	**–**	(7.5)
Net losses/(gains) on other investments	**18.5**	(6.8)
Net losses on revaluation and sale of investment property	**(48.9)**	(20.1)
Share of profit from joint ventures	**(145.4)**	(189.7)
Impairment losses on trade receivables, including contract assets	**3.5**	–
Operating profit before changes in working capital and provisions	**39.3**	15.5

(b) Analysis of net debt

	1 January 2018 £m	Cash flow £m	Other non-cash movements £m	**Exchange £m**	**31 December 2018 £m**
Cash at bank and in hand	118.7	465.5	–	**9.6**	**593.8**
Short-term deposits and short-term liquidity investments	312.1	(129.6)	–	**4.2**	**186.7**
Cash and cash equivalents	430.8	335.9	–	**13.8**	**780.5**
Borrowings due within one year	(65.9)	5.0	0.1	**(2.0)**	**(62.8)**
Borrowings due after more than one year	(775.0)	(172.3)	0.3	**(16.0)**	**(963.0)**
Total borrowings	(840.9)	(167.3)	0.4	**(18.0)**	**(1,025.8)**
Net debt	(410.1)	168.6	0.4	**(4.2)**	**(245.3)**

Other non-cash movements include net fair value adjustments on interest rate and currency swaps.

Notes to the Financial Statements

37 Related party transactions

The Group is wholly-owned by Trustees of the Grosvenor Trusts who hold the shares for the benefit of current and future generations of the Grosvenor family headed by the Duke of Westminster. During 2018, the Group entered into the following transactions with the Grosvenor Trusts and members of the Grosvenor family:

	2018 £m	2017 £m
Rent and service charge income	**0.6**	0.6
Rent and service charge expenses	**(1.6)**	(1.9)
Development management fees	**1.6**	1.5
Management and administration fees	**22.2**	22.5

During 2018, the Group entered into the following transactions with other related parties:

	2018 £m	2017 £m
Fees received from joint ventures	**2.9**	2.6
Fees paid to joint ventures	**(0.7)**	(0.7)
Insurance premiums payable to a related company	**(8.5)**	(8.2)

At the end of the year, the following amounts were due from/(to) related parties:

	2018 £m	2017 £m
Amounts due from joint ventures	**86.1**	85.9
Amounts due from a related company	**0.4**	0.3

The transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions.

Consolidated income statement presented in US Dollars

for the year ended 31 December 2018

	2018 $m	2017 $m
Revenue	**521.3**	490.5
Property costs	**(291.2)**	(290.6)
Net property income	**230.1**	199.9
Administrative expenses	**(162.7)**	(150.9)
Net (losses)/gains on other investments	**(24.6)**	8.8
Net gains on revaluation and sale of investment property	**65.1**	26.0
Impairment loss on trade and other receivables, including contract assets	**(4.7)**	–
Share of profit from joint ventures and associates	**193.5**	245.9
Gain from operations including share of joint ventures and associates	**296.7**	329.7
Financial income	**21.7**	21.3
Financial expenses	**(55.5)**	(52.5)
Fair value adjustments	**(1.2)**	3.5
Net financing costs	**(35.0)**	(27.7)
Profit before tax	**261.7**	302.0
Current tax expense	**(35.9)**	(11.5)
Deferred tax expense	**(9.3)**	31.7
Profit for the year	**216.5**	322.2
Attributable to:		
Equity holders of the parent	**216.5**	322.2
Non-controlling interests	**–**	–
Profit for the year	**216.5**	322.2

Consolidated balance sheet presented in US Dollars

as at 31 December 2018

	Group 2018 $m	Group 2017 $m
ASSETS		
Non-current assets		
Investment property	**5,539.1**	5,654.2
Other property, plant and equipment	**85.0**	193.7
Investments in joint ventures and associates	**1,792.1**	1,930.6
Other financial assets	**134.9**	74.5
Intangible assets	**9.1**	16.0
Trade and other receivables	**106.4**	112.5
Deferred tax assets	**75.8**	91.9
Total non-current assets	**7,742.4**	8,073.4
Current assets		
Trading properties	**152.6**	260.9
Trade and other receivables	**183.8**	165.7
Other financial assets	**32.8**	24.1
Cash and cash equivalents	**994.8**	583.2
Total current assets	**1,364.0**	1,033.9
TOTAL ASSETS	**9,106.4**	9,107.3
LIABILITIES		
Non-current liabilities		
Interest-bearing loans and borrowings	**(1,174.0)**	(1,049.0)
Trade and other payables	**(255.0)**	(158.2)
Employee benefits	**(36.8)**	(53.4)
Deferred tax liabilities	**(791.7)**	(829.2)
Provisions	**–**	(0.4)
Total non-current liabilities	**(2,257.5)**	(2,090.2)
Current liabilities		
Interest-bearing loans and borrowings	**(134.0)**	(89.3)
Trade and other payables	**(270.6)**	(280.6)
Income tax payable	**(36.4)**	(25.1)
Provisions	**(0.8)**	(7.9)
Total current liabilities	**(441.8)**	(402.9)
TOTAL LIABILITIES	**(2,699.3)**	(2,493.1)
NET ASSETS	**6,407.1**	6,614.2
Equity		
Share capital	**362.5**	77.0
Share premium	**35.8**	38.6
Reserves	**1,015.1**	954.7
Retained earnings	**4,994.1**	5,546.7
Shareholders' funds	**6,407.5**	6,617.0
Non-controlling interests	**(0.4)**	(2.8)
TOTAL EQUITY	**6,407.1**	6,614.2

Consolidated income statement presented in Euros

for the year ended 31 December 2018

	2018 €m	2017 €m
Revenue	**442.5**	433.5
Property costs	**(247.2)**	(256.8)
Net property income	**195.3**	176.7
Administrative expenses	**(138.1)**	(133.4)
Net (losses)/gains on other investments	**(20.9)**	7.8
Net gains on revaluation and sale of investment property	**55.2**	23.0
Impairment of trade and other receivables, including contract assets	**(4.0)**	–
Share of profit from joint ventures and associates	**164.2**	217.3
Gain from operations including share of joint ventures and associates	**251.7**	291.4
Financial income	**18.4**	18.9
Financial expenses	**(47.1)**	(46.4)
Fair value adjustments	**(1.0)**	3.1
Net financing costs	**(29.7)**	(24.4)
Profit before tax	**222.0**	267.0
Current tax expense	**(30.5)**	(10.2)
Deferred tax expense	**(7.9)**	28.0
Profit for the year	**183.6**	284.8
Attributable to:		
Equity holders of the parent	**183.6**	284.8
Non-controlling interests	**–**	–
Profit for the year	**183.6**	284.8

Consolidated balance sheet presented in Euros

as at 31 December 2018

	Group	
	2018 €m	2017 €m
ASSETS		
Non-current assets		
Investment property	**4,837.3**	4,702.2
Other property, plant and equipment	**74.3**	161.1
Investments in joint ventures and associates	**1,565.0**	1,605.6
Other financial assets	**117.6**	61.9
Intangible assets	**8.0**	13.3
Trade and other receivables	**92.9**	93.5
Deferred tax assets	**66.2**	76.4
Total non-current assets	**6,761.3**	6,714.0
Current assets		
Trading properties	**133.3**	217.0
Trade and other receivables	**160.5**	137.9
Other financial assets	**28.7**	20.0
Cash and cash equivalents	**868.8**	485.0
Total current assets	**1,191.3**	859.9
TOTAL ASSETS	**7,952.6**	7,573.9
LIABILITIES		
Non-current liabilities		
Interest-bearing loans and borrowings	**(1,025.3)**	(872.4)
Trade and other payables	**(222.7)**	(131.5)
Employee benefits	**(32.1)**	(44.4)
Deferred tax liabilities	**(691.4)**	(689.6)
Provisions	**–**	(0.3)
Total non-current liabilities	**(1,971.5)**	(1,738.2)
Current liabilities		
Interest-bearing loans and borrowings	**(117.0)**	(74.2)
Trade and other payables	**(236.3)**	(233.4)
Income tax payable	**(31.8)**	(20.9)
Provisions	**(0.7)**	(6.6)
Total current liabilities	**(385.8)**	(335.1)
TOTAL LIABILITIES	**(2,357.3)**	(2,073.3)
NET ASSETS	**5,595.3**	5,500.6
Equity		
Share capital	**316.6**	64.1
Share premium	**31.2**	31.8
Reserves	**886.5**	794.3
Retained earnings	**4,361.3**	4,612.8
Shareholders' funds	**5,595.6**	5,503.0
Non-controlling interests	**(0.3)**	(2.4)
TOTAL EQUITY	**5,595.3**	5,500.6

Ten year summary

Income statement

	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	**2018 £m**
Revenue	286.3	211.7	195.2	265.5	515.4	254.1	209.1	225.1	378.5	**391.8**
Property costs	(165.2)	(89.7)	(80.1)	(157.7)	(315.3)	(124.8)	(86.3)	(91.4)	(224.2)	**(218.9)**
Administrative and other expenses	(84.5)	(86.2)	(89.8)	(91.0)	(98.6)	(94.7)	(103.9)	(108.9)	(116.5)	**(125.8)**
Net (losses)/gains on other investments	(12.8)	(1.5)	(7.1)	0.9	(17.7)	(0.2)	(0.5)	1.5	6.8	**(18.5)**
Net (losses)/gains on revaluation and sale of investment properties	(87.6)	292.4	324.4	329.0	354.7	540.6	386.3	(36.4)	20.1	**48.9**
Impairment of goodwill	–	–	(0.7)	–	(4.4)	–	–	(0.3)	–	**–**
Share of (loss)/profit from joint ventures	(134.4)	103.7	25.0	58.5	103.2	138.1	151.3	167.7	189.7	**145.4**
Profit/(loss) before net financing costs and tax	(198.2)	430.4	366.9	405.2	537.3	713.1	556.0	157.3	254.4	**222.9**
Net financing costs	(37.6)	(35.6)	(51.9)	(37.4)	(30.4)	(31.3)	(29.4)	(20.5)	(21.3)	**(26.3)**
Profit/(loss) before tax	(235.8)	394.8	315.0	367.8	506.9	681.8	526.6	136.8	233.1	**196.6**
Revenue profit	52.3	50.5	63.6	65.2	153.3	80.1	83.3	79.2	143.5	**131.0**

Balance sheet

	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	**2018 £m**
Total property assets including share of joint ventures	4,689.8	5,031.0	5,358.9	5,440.7	5,491.3	6,001.2	6,674.6	6,509.5	6,843.2	**6,985.3**
Investment property	2,279.1	2,525.9	2,812.7	3,054.4	3,349.0	3,876.7	4,349.4	3,745.2	4,177.1	**4,345.8**
Investment in joint ventures	859.6	1,063.3	1,074.8	1,003.9	964.1	992.9	1,114.0	1,350.1	1,426.3	**1,406.3**
Other financial assets	38.7	42.6	36.9	52.9	43.6	67.0	83.3	105.3	53.9	**105.8**
Other non-current assets	133.4	144.4	148.1	120.0	113.0	134.3	218.8	305.9	305.9	**201.2**
	3,310.8	3,776.2	4,072.5	4,231.2	4,469.7	5,070.9	5,765.5	5,506.5	5,963.2	**6,059.1**
Trading properties	142.3	138.7	245.2	294.8	124.9	128.1	157.1	336.7	192.7	**119.8**
Cash and cash equivalents	505.2	269.4	237.5	238.4	516.6	477.6	237.6	741.8	430.8	**780.5**
Other net current assets/(liabilities)	(22.3)	54.5	31.3	40.2	(49.2)	(68.7)	(109.6)	(150.0)	(90.4)	**(72.0)**
	625.2	462.6	514.0	573.4	592.3	537.0	285.1	928.5	533.1	**828.3**
Borrowings (including current)	(775.4)	(738.7)	(805.5)	(818.9)	(825.8)	(743.4)	(736.4)	(816.2)	(840.9)	**(1,025.8)**
Deferred tax	(431.5)	(522.1)	(576.4)	(600.1)	(613.7)	(703.4)	(749.1)	(668.3)	(612.6)	**(605.4)**
Other non-current liabilities	(185.8)	(202.1)	(241.5)	(107.0)	(81.6)	(106.2)	(103.7)	(173.8)	(156.5)	**(229.2)**
	(1,392.7)	(1,462.9)	(1,623.4)	(1,526.0)	(1,521.1)	(1,553.0)	(1,589.2)	(1,658.3)	(1,610.0)	**(1,860.4)**
Net Assets	2,543.3	2,775.9	2,963.1	3,278.6	3,540.9	4,054.9	4,461.4	4,776.7	4,886.3	**5,027.0**
Share capital and share premium	306.8	193.2	167.3	130.8	106.8	85.2	85.2	85.2	85.2	**312.6**
Reserves	2,080.0	2,456.1	2,688.0	3,061.4	3,348.3	3,881.4	4,289.0	4,693.1	4,803.2	**4,714.7**
Shareholders' funds	2,386.8	2,649.3	2,855.3	3,192.2	3,455.1	3,966.6	4,374.2	4,778.3	4,888.4	**5,027.3**
Non-controlling interest	156.5	126.6	107.8	86.4	85.8	88.3	87.2	(1.6)	(2.1)	**(0.3)**
Total equity	2,543.3	2,775.9	2,963.1	3,278.6	3,540.9	4,054.9	4,461.4	4,776.7	4,886.3	**5,027.0**

Glossary

Assets under management
The total investment in property assets managed by the Group, including the future costs of committed developments.

Co-investment
Where the Group invests equity in joint venture or fund vehicles alongside third parties.

Development exposure
The Group's share of development properties, including its share of the future development commitment, as a percentage of property assets including the future development commitment.

Development property
A property that is being developed for future use as an investment property.

ERV (Estimated Rental Value)
The estimated market rental value of the total lettable space in a property, calculated by the Group's valuers. This will usually be different from the rent being paid.

Finance lease
A lease that transfers substantially all the risks and rewards of ownership from the lessor to the lessee.

Financial capacity
Wholly-owned unrestricted cash and undrawn committed facilities.

Future development commitment
The expected costs to complete the development programme to which the Group is committed.

Gearing
Total short- and long-term borrowings, including bank overdrafts, less cash and cash deposits, as a percentage of Shareholders' funds.

Gearing is calculated both on an IFRS basis (using wholly-owned net debt) and an economic basis incorporating our wholly-owned and share of joint venture net debt.

Gross rental income
Total income from rents from the Group's properties.

Grosvenor Estate
The Grosvenor Estate is the term used to represent all the interests of the Grosvenor family headed by the Duke of Westminster. There are three principal elements to these activities: Grosvenor Group, Wheatsheaf Investments and The Family Investment Office.

Ground-rented
Property where the freeholder grants a long lease to the tenant, usually in exchange for an up-front premium (for the major part of the value) and a lower ground rent payment for the duration of the lease.

Group
Grosvenor Group Limited and its subsidiary undertakings.

IFRS
International Financial Reporting Standard(s).

Indirect Investments
Grosvenor capital invested with third-party specialists who are responsible for the day-to-day management and business plan delivery of the opportunity.

Interest rate swap
A contractual agreement with a counterparty (usually a bank) to exchange an interest obligation for an alternative interest obligation for a predetermined period of time (usually used to convert floating rate interest obligation to fixed rate obligations).

Investment property
A property that is held for the purposes of earning rental income or for capital appreciation or both.

Joint venture
An entity in which the Group invests and which it jointly controls with the other investors.

London estate
The Grosvenor Estate's and the Group's portfolio of office, retail and residential properties in the Mayfair and Belgravia areas of London's West End.

Mark to market
An accounting adjustment to adjust the book value of an asset or liability to its market value.

Market value
Market value is the amount for which an interest in an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. For investment properties, it is determined by independent external valuers.

Glossary

Operating Companies
The Group's regional investment and development businesses.

Passing rent
The annual rental income receivable, which may be more or less than the ERV.

Performance fees
Fees that are payable in the event that the performance of the underlying investment exceeds a predetermined benchmark.

Property assets
Investments in property and property-related instruments – comprises investment properties, development properties, trading properties, structured development loans and equity investments in property companies.

Proportional
The total of the Group's wholly-owned and its share of jointly-owned property assets or net debt as accounted for on an IFRS basis, with the exception of our share of Sonae Sierra, which is accounted for on a management accounts basis.

Proprietary
Relating to the Group's share of investments in property assets. Proprietary assets are both directly and indirectly owned.

Resilience
The extent to which market values of property assets, on a proportional basis, can fall before Group financial covenants are breached.

Revenue profit
Profit before tax, excluding profits on the sale of investment properties, gains or losses on other non-current investments, revaluation movements, major refurbishment costs and derivative fair value adjustments. See also Note 5 to the Financial Statements.

Reversionary yield
The anticipated yield to which running yield will rise (or fall) once the rent reaches ERV; calculated as ERV as a percentage of the value of investment properties.

Running yield
Passing rent as a percentage of the value of investment properties.

Structured development loans
Loans to property developers that are subordinated to senior loans in return for interest and a profit share in the completed development.

Third-party interests
The non-Group share of investments managed by Group.

Total return
Total return on property assets is revenue profit before financial expenses but after major refurbishments, plus the net gain on revaluation and sale of investment properties and other investments and including fair value adjustments and exchange movements recognised in reserves, as a percentage of average property assets (before current year revaluations) and cash. Joint ventures and associates are treated proportionally for the purposes of this calculation.

Trading property
A property held as a current asset in the balance sheet that is being developed with a view to subsequent resale.