# ANNUAL REPORT & ACCOUNTS 2006


## Review



## Accounts



The theme for this year's Annual Report & Accounts is favourite public spaces. *Following the section on the Group, we include nominations from people around the Grosvenor business (see page 20). In the sections on our Operating Companies, we include some of the favourite public spaces of architects with whom they have worked (see pages 28, 34, 40, 46, 47 and 52).*

Inner cover: Multi-story car park, Liverpool One; *architects Wilkinson Eyre.*

GROSVENOR

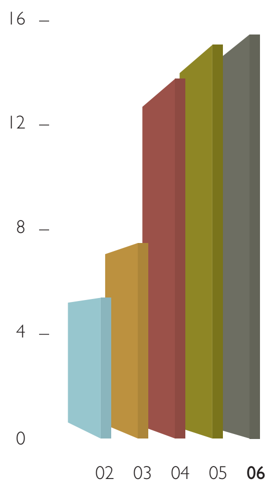
# Grosvenor is a Group of international property development, investment and fund management businesses.

We have regional Operating Companies in Britain & Ireland, the Americas, Continental Europe and Australia Asia Pacific. Our international fund management business operates across all these markets.

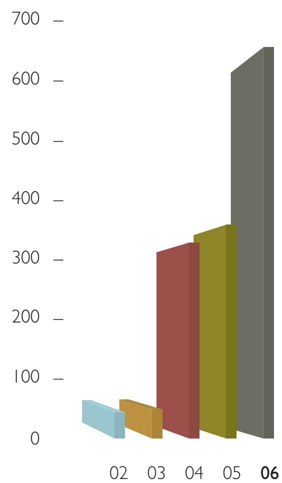
Grosvenor is privately owned.

# Highlights for 2006

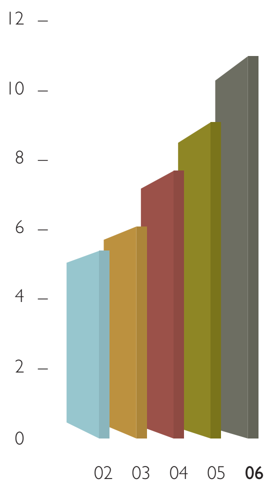
Total Return (%)

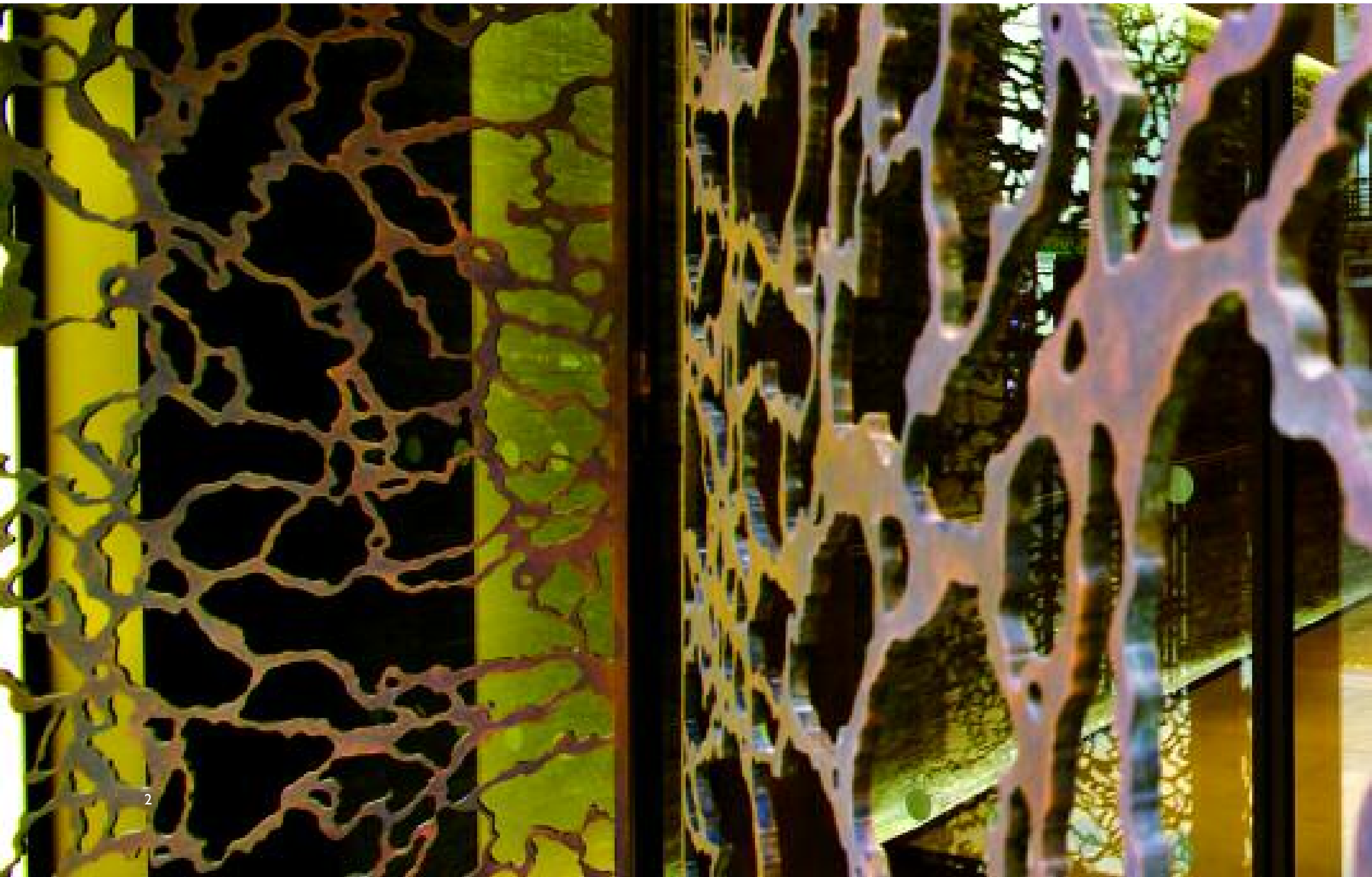



Revaluation movement (£m)




Total assets under management (£bn)



## Results

| | 2006 £m | 2005 £m |
|---|---|---|
| Property assets (note 17) | **4,592** | 3,728 |
| Shareholders' funds | **2,418** | 2,092 |
| Gross rental income | **106.8** | 96.8 |
| Profit before tax | **508.7** | 368.1 |
| Revenue (loss)/profit (note 4) | **(107.9)** | 46.6 |
| Revenue profit excluding development provisions (note 4) | **62.0** | 56.6 |

## Returns

| | 2006 % | 2005 % |
|---|---|---|
| Total return on property assets | **15.5** | 15.1 |
| Weighted average cost of capital | **7.2** | 7.5 |

Below: Entrance to 77 Grosvenor Street, London; *architects Sheppard Robson; bronze gates by Shelagh Wakely.*

Total returns, at 15.5%, were their highest for seven years

# Portfolio Analysis 2006

Grosvenor has total assets under management of

£11.0bn

(US$21.6bn, €16.3bn)

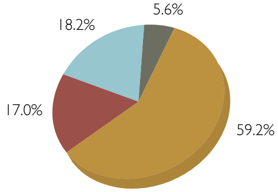
Further information on the portfolio can be found within the operating reviews and on pages 112-123.

Below: Lobby of Belgrave House, London; *architects Michael Squire & Partners.*

Assets under management have increased by 20.8%, to £11.0bn

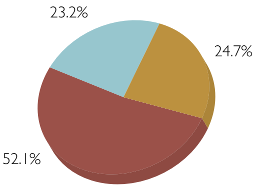
## By Region (£m)

| | |
|---|---|
| Britain & Ireland | 6,515 |
| Americas | 1,877 |
| Continental Europe | 2,008 |
| Australia Asia Pacific | 613 |



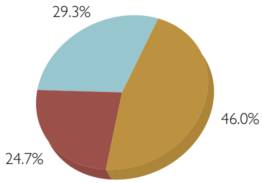

## By Sector (£m)

| | |
|---|---|
| Commercial | 2,723 |
| Retail | 5,734 |
| Residential | 2,556 |



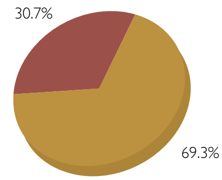

## By Interest (£m)

| | |
|---|---|
| Grosvenor (excluding Funds) | 5,067 |
| Funds under management | 2,721 |
| Joint ventures | 3,225 |




## By Activity (£m)

| | |
|---|---|
| Investment | 7,627 |
| Development | 3,386 |




# Chairman's Review

I am pleased to announce, in my last report as Chairman, that we achieved a total profit before tax of £508.7m.

I will retire from the Board on 1st May after 33 years' responsibility for this business and can look back on big changes in markets and circumstances, to which we have responded with a balance of care and ambition. We are a much larger and more relevant business than we were in 1974. We have become more outward-facing and conscious that our success stems ultimately from our ability to meet the expectations of the occupiers of our properties.

We watched inflation bring booms and spectacular busts during the 1970s and 1980s. Inflation was never "good for property" (as some pundits still like to suggest) and since it passed we have enjoyed a long upswing in property values.

Undoubtedly, the change with the greatest impact has been the institutional involvement in real estate: beginning in the mid-1970s, the activities of pension funds and insurance companies have shaped markets and practices worldwide. Our business in North America grew rapidly through the 1980s as we assisted many UK pension funds with their new investments there after the removal of exchange controls by the British Government in 1979.

More recently, we have witnessed the 'globalisation' of the property industry. This has followed well behind general financial and industrial globalisation but, now established, it is surely here to stay. Our own business broadened from the UK, North America and Australia during the 1990s to include Continental Europe and the Asia Pacific region.

For me, the most gratifying change has been the emergence of more enlightened attitudes to the development of buildings and public spaces over the last 10 years, allowing more imagination in design. The 1970s and 1980s, when the influence of architecture waned and planning increased, now feel like a sterile period for the evolution of cities. Today, the idea of 'mixed use development' – which Grosvenor undertook alongside others in the 18th and 19th centuries – is back in favour. Owners should be trusted to exercise responsibility for

*"I can look back over 33 years on big changes in markets and circumstances, to which we have responded with a balance of care and ambition. We have become more outward-facing and conscious that our success stems ultimately from our ability to meet the expectations of the occupiers of our properties."*

their contributions to the built environment; planners rightly control the use of buildings and density of development, but the more 'the state' is involved in design and aesthetics the more ordinary will be the result. I am pleased that our generation is recovering the chance to create glorious architecture and places to match those which nearly every city boasts from its past.

I believe strongly in the benefits of continuity of management and, with my fellow Directors, have pursued this as deliberate policy. Ours is a long term business and consistency of leadership and strategy is very important. The great advantage we have as a private business is that we can take the time needed to do things right, rather than working to a timescale which might suit an impatient stock market. It is nonsense to suggest, nowadays, that there is insufficient pressure on a private company: I expect our management team to create challenging plans as the basis for success in a very competitive marketplace.

Employing the right people is important. Staff numbers have grown since 1974 from around 100 to around 500. My views about the type of people we want and the way we work may seem old fashioned, but I believe they represent timeless virtues and are the hallmark of an enduring business. We seek people who are ambitious and who also respect and understand the business, its history and the markets we are in; people who support each other and are loyal to their colleagues and to the organisation. The result is a noticeably positive atmosphere and a business style which is focused on long term value and which is creative and friendly. So many wonderful people have contributed to the Grosvenor story over the last 33 years and I would like to thank each and every one for their hard work, for their inspiration and for making this such a distinguished organisation.

One option has never been open to us and that is to put the whole business at risk: as a business owned on behalf of future generations, we are caretakers of an historic legacy. We will not jeopardise the whole, but we are of a size whereby we can tackle large and complex schemes like Liverpool One, which will be very successful and influential in the City of Liverpool. The need to make a financial provision on this project is disappointing, but it does not detract from my pride in the way we have met a new challenge and opened up new ideas for the regeneration of city centres. The current stage of the scheme, when the myriad parts are finally coming together and its physical appearance is taking shape, is very exciting.

I am delighted that David Home is to succeed me as Chairman. David has been a Trustee of the Grosvenor Estate for 14 years and is very well known to management and staff. His understanding of our strategy, people and issues will ensure continuity. In November Eddie George will also step down as a Director. We have been extremely fortunate to have had the benefit of his steady advice since he retired as Governor of the Bank of England four years ago. He has the great skill of seeing past the 'theory of the day' about the worldwide economy, pinpointing in the process the matters important to a long term business such as ours. I thank him for the time he has dedicated to our cause. Another significant forthcoming change among our great cadre of Non-Executives arises in North America. Carmine Guerro will retire as Chairman of Grosvenor Americas in August, to be succeeded by Ralph Severson. Carmine has epitomised the way we want a Chairman of a devolved business to operate, taking full responsibility for the Board and the Company's activities within the framework of the Grosvenor culture.

I believe our business has a bright future, as we continue to grow five interconnected but different property companies inside the Grosvenor Group – each operating in a sector or part of the world with unique challenges and opportunities for a committed long term participant in the evolution of urban places.

**The Duke of Westminster KG OBE TD DL**
Chairman
15 March 2007

# Chief Executive's Review

In 2006 our total return was 15.5%. This return comfortably exceeded our cost of capital and reflects rapidly rising values of office buildings (in contrast to the rises in prior years in residential and retail property values). The occupational market for offices is strong in most parts of the world, reflecting the business cycle, and this provides some justification for investors to pay more for investments.

This result is after making a substantial provision on Liverpool One of £140m. This net provision is made up of a projected trading loss on completion of building works and a current valuation gain. It is not every day that one has to face up to errors on this scale, but we have adopted a prudent approach in estimating the loss.

The causes of the loss have been carefully analysed and generally relate to the time pressures on the project, which led us to make critical decisions without adequate detail in design. The Group is able to absorb this financial setback without any impact on the progress of the project itself or on the rest of the business. We remain fully committed to the project, which we believe will be an outstanding success for the people of Liverpool. If ever there has to be a trade-off between short and long term returns, we will always give precedence to the long term. More generally I am confident that our experience of the project and the difficulties encountered will make us better still and mean that we go forward with greater skill and assurance.

As we and other property investors enjoy runaway gains in value, it is a moot point whether market conditions are really 'good' or 'bad'. It has become too easy to make

*"As we and other property investors enjoy runaway gains in value, it is a moot point whether market conditions are really 'good' or 'bad'."*

high 'double digit' returns from investing in property and for many new investors attracted to the sector the results are self-fulfilling. There is a real danger of delusion as this additional capital chases a total stock of investments which can only grow very slowly. The inevitable result is rising prices: as capitalisation rates have dropped, experienced investors have been buying with the expectation of lower returns; some others assume there are more valuation increases to come – but history shows that a heavy price is often paid by those who presume that income growth and capital growth can become detached.

Undoubtedly the change of stance towards property of many professional and institutional investors in the last 10 years has led to a 'permanent' re-rating of property prices (made possible by the dousing of inflation around the world). When the rapid capital gains cease – which they probably already have – the damage caused by speculators departing the sector is likely to be greater than the market currently expects. As it is, these market conditions are not the best for us and we would like to see a return to times when real property skills are needed to deliver extra value.

In the meantime, our strategy is not to withdraw from the market or to sell up – we are a real estate business – but to take exceptional profits more frequently and to keep searching for the opportunities to create long term value by building income returns. The difficulty in finding such opportunities has resulted in an increase in cash at the year end. Above all, we will be ready to take advantage of any changes of circumstances in the market whenever they might arrive.

In 2006 our concentration on income delivered an underlying increase in 'revenue profit' of 9.5% to £62.0m. We create new income by improving assets in our existing portfolio and creating new buildings. When we have a 'core' asset, with lower risk and opportunity characteristics, we will typically sell it to recycle the capital into a property with potential for income growth. Appropriate assets may be sold to funds managed by Grosvenor Fund Management under strict guidelines supervised by our investors.

Our emphasis on development in the past decade has led to a unique collection of projects underway or planned around the world, where Grosvenor is seen as a local developer. Taken together they represent a very wide skill base, something which could be criticised as 'unfocused'; however, in our structure, property strategy is determined locally and in each place it is clear, focused and consistent.

Our projects include four town centre regeneration schemes in Britain (the active schemes in Cambridge and Liverpool and the proposed schemes in Crawley and Preston); nine shopping centres under construction in Continental Europe (through Sonae Sierra); a 38 storey residential tower in Hong Kong; a 45 unit block of high end apartments in Tokyo; a 33 storey office building in Brisbane and a 279,000 sq ft mixed use development in Vancouver. These, together with other smaller projects throughout the group, add up to a total of about 20m sq ft under construction or due to commence construction in the next two years.

As local developers our function is to help local communities to evolve. We do this by creating new buildings of value and distinction. We also continue to manage most of the buildings we complete, which reinforces the motivation not to take 'short cuts' which could undermine long term value.

# Chief Executive's Review (continued)

We completed the acquisition of an additional 17% of Sonae Sierra in the early part of 2006 and the company continues to perform to our highest expectations.

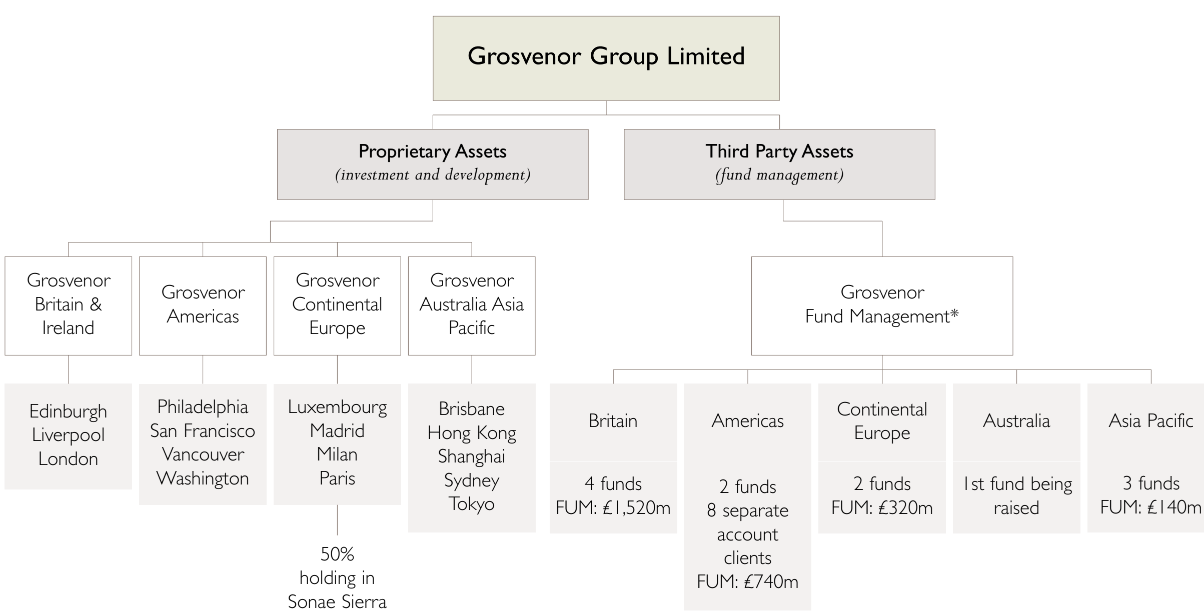
We also completed the acquisition of Legg Mason Real Estate Services Inc. to increase the scale of Grosvenor Fund Management in North America. The new business has been integrated with a high degree of co-operation from the fund management teams in all regions. The launch of new funds helped Grosvenor Fund Management to achieve good growth in turnover and funds under management. We recognised a significant performance fee in 2006, making Grosvenor Fund Management profitable last year although it is not yet profitable on an underlying basis. We are on target for this to occur in 2008.

All of the Operating Companies reported returns of between 12.5% and 20%, driven by strong valuation gains. Details of their operations are found in the Operating Company sections of this report.

Shareholders, Directors and senior management of the Group meet triennially to review and debate long term strategy and new opportunities. In 2006 we endorsed the high level strategy to maintain our international diversification: over the next few years we expect to add capital in the Australia Asia Pacific region and in the Americas, while reducing the exposure to Continental Europe and Britain & Ireland. However, we expect overall activity to continue to grow in all regions as we carry out more joint venture activity and expand the fund management business.

The current distribution of Group equity between our proprietary businesses is:

| | |
|---|---|
| > Britain & Ireland | 60.7% |
| > Americas | 14.7% |
| > Continental Europe | 16.0% |
| > Australia Asia Pacific | 7.5% |




* Includes Funds Under Management (FUM) of ISPT Grosvenor International Property Trust

In addition, we have 1.1% of equity invested in Grosvenor Fund Management, which is responsible for managing third party funds.

Total assets under management has a different geographic distribution as it reflects not only the strategy for our capital but also the strategies for each individual fund we manage.

Like others, we recognise the need to play our part in the world's collective effort to mitigate the impact of climate change. While we have always been responsible in our general approach to the use of resources, the time has clearly come when every business should be more knowledgeable and take more individual responsibility to determine and act upon its own principles. We expect to develop specific action in 2007 and we are coupling this work with a further review of the way we commission design for new projects: as creators of urban environments we should be aware of, and manage, the impact of development from initial design through to execution and management. We expect to incur short term costs of between £1m-£2m to support these initiatives, but it is not possible to estimate what capital costs may eventually be incurred as a result. In fact, I doubt whether many of these costs will ever be fully identifiable as they become absorbed into normal construction and management costs. We expect that future technological changes will have the largest impact on progress, but it is important that everybody should make a contribution, however small.

During the year we continued our involvement with the education sector – mostly at university level. We have chosen to support education as the best way for us to contribute to the societies and communities from which we derive our livelihood. This work takes many forms, from donations and scholarships to teaching about real estate and to advice about investments and university property. We are pleased to provide support to the Urban Land Institute to extend the successful Student Urban Design Competition to Europe. The competition allows real estate, planning, design and finance students to learn the importance of co-operation and collaboration between disciplines in the development process in a stimulating way on a real site.

The diversity of our teams in our 16 offices, working between them in each hour of each day, makes this a very exciting business. Harnessing ideas and managing talent internationally brings both opportunities and challenges. In the end, there is no greater satisfaction than seeing individuals fulfil their potential and develop their careers.

The year ahead looks positive, but I don't expect a repetition of the valuation gains we saw in 2006 and I believe that returns will therefore be lower. Nevertheless, the underlying market fundamentals remain good, which augurs well for both our business and our people in the long term.

**Jeremy Newsum**
Group Chief Executive
15 March 2007

# Finance Director's Report

In my first year as Finance Director, I am delighted to be able to report record profits before tax of £508.7m (£368.1m in 2005) for the year. Total returns, at 15.5% (15.1% in 2005), were their highest for seven years. Grosvenor's weighted average cost of capital for 2006 was 7.2% (7.5% in 2005), resulting in returns of 2.15 times our cost of capital (2.0 in 2005).

While annual returns and profitability are important, we also focus on returns over the medium and long term, measured against our cost of capital. Over the last 10 years returns have averaged 13.5% and our cost of capital has averaged 9.7%.

**EARNINGS** Revenue profit, which we use as our measure of underlying performance, was a loss of £107.9m (£46.6m profit in 2005). Excluding the provision for Liverpool One, revenue profit increased to £62.0m (£56.6m profit in 2005). The income statement provision for Liverpool One was £169.9m. A related gain of £29.9m, being Grosvenor's share of revaluation gain arising to the Liverpool investors, is taken through reserves, giving a net Grosvenor loss for the year on the project of £140.0m.

Grosvenor Fund Management celebrated its second year of operation as a separate business by generating an operating profit. This was due to performance fees, and leaves the medium term challenge of achieving stable profitability irrespective of such fees. An important element will be attaining critical mass in terms of the level of funds under management and increasing the number of large "flagship" funds.

Before the impact of Sterling's appreciation, each of Grosvenor America, Grosvenor Continental Europe and Grosvenor Australia Asia Pacific delivered an increased revenue profit.

*"I see significant opportunities for Grosvenor from an efficient derivative market. A deep liquid property derivative market would facilitate the Group's asset allocation optimisation and would present new product opportunities for our fund management business."*

Profit for the year was flattered by significant revaluations, driven principally by the continuing attractiveness to investors of property markets. Disaggregating underlying performance from market movements, particularly for our unique London Estate assets, is difficult. However, with the increasing number of relatively representative property market indices in many of our markets, we will be able to identify more accurately the value added by our teams, separate from general market movements.

**CORPORATE ACQUISITIONS** During the year we completed two corporate acquisitions. In February Grosvenor Continental Europe acquired control of a further 17% interest in Sonae Sierra for a cost of £157.3m (Euro 228.9m). Goodwill of £32.1m, principally in respect of deferred taxation, is recognised in respect of this acquisition. In March, Grosvenor Fund Management acquired Legg Mason Real Estate Services Inc (now Grosvenor Investment Management Inc) for £4.6m (US $8.5m), excluding co-investment interests. No goodwill arose on this transaction.

**PROPERTY ACTIVITY** Assets under management have increased by 20.8% to £11.0bn, reflecting the evolution of our fund management business and the increased shareholding in Sonae Sierra.

Our Operating Companies made acquisitions and incurred development expenditure totalling £1.3bn in 2006, and made sales of £800m. The principal property transactions are described in the Operating Company reports which follow.

**LIVERPOOL ONE** Grosvenor has always been committed to delivering this prestigious project to the highest standards. This commitment, coupled with the inherent uncertainties in cost estimates at the early stages of design, has led to development costs now being expected to exceed substantially the original estimates. The impact of the development cost guarantee, given by Grosvenor to investors, is that costs in excess of the guarantee level fall for Grosvenor's sole account. A provision is now required for all of these expected costs.

Liverpool One is now in its later stages of construction, so many of the financial uncertainties in the project have been resolved. The financial outcome of the project is now more certain than even a few months ago and we are confident that investors in the project, of which Grosvenor is one, will experience good returns.

**RISK MANAGEMENT** In the light of experience on Liverpool One, Grosvenor Britain & Ireland is reviewing its processes in relation to large scale developments. A number of changes have already been made.

An important part of our process for improving risk management and business practices is cross-Operating Company forums. The Group Finance Board, which comprises all regional Finance Directors and other senior finance staff, meets two to three times a year with a wide finance agenda. Other less formal cross-Operating Company forums exist for other key specialisms, such as property development. We are now focused on identifying opportunities for "better practice" throughout the business via a formal framework.

**TREASURY** At year end net debt was £204.1m, comprising cash of £455.4m less debt of £659.5m. As the proportion of the Group's assets invested outside Britain & Ireland grows and the volume of property transactions increases, it has become clear that management of the Group's treasury operations could be more efficient on a Group, rather than Operating Company, basis. From 2007 we are therefore introducing a Group-wide co-ordinated approach to treasury. Immediate benefits will include spare cash in one region becoming available for use elsewhere in the Group, avoiding the need for additional debt, and a more strategic approach to debt financing.

Our "relationship" approach to banking has served us, and our banks, well. The operational benefits of working with lenders who understand our business and culture, and value their relationship with us for the long term, more than outweigh any modest additional interest costs.

The Group monitors its "resilience" to potential general falls in property market values. We define resilience as the extent to which the Group's property interests could fall in value before Holding Company financial covenants would be breached, assuming no property sales or debt repayments. At year end resilience was substantially in excess of our minimum level.

The Group has substantial liquidity, with some £672.8m of spare funds being immediately available for Group opportunities. Our liquidity and resilience mean that if there were to be a substantial correction in the property markets, for us "the sooner the better".

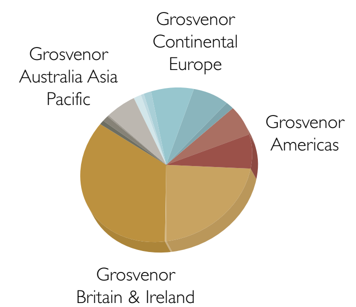
**PROPERTY DERIVATIVES** We have monitored the development of the property derivatives market with interest. I see significant opportunities for Grosvenor from an efficient derivative market. A deep liquid property derivative market would facilitate the Group's asset allocation optimisation and would present new product opportunities for our fund management business. We are now developing systems to enable efficient property derivative execution and we undertook our first small test trade in the latter part of 2006. We will continue to work with the industry and banks to facilitate a market suited to property investors and will develop our capability to take advantage of opportunities as they arise.

**CAPITAL ALLOCATION** Factors of increasing importance, in our process for allocating capital between our regional Operating Companies, include quality of life, demographics, city growth and climate change. Evidence of climate change is overwhelming and the potential consequences, if action is not taken, dramatic. Property markets will not wait for climate change; they will be affected much earlier by policy initiatives in response to potential climate change.

Grosvenor's economic interest in property in each region and country at 31 December 2006 is shown below.

Geographical Distribution of Portfolio – 2006

| | |
|---|---|
| 1.1% | Japan |
| 1.1% | Hong Kong |
| 0.2% | Singapore |
| 5.4% | Australia |
| 1.4% | Other Europe |
| 0.5% | Brazil |
| 1.4% | Italy |
| 8.1% | Portugal |
| 7.3% | Spain |
| 1.5% | France |
| 6.7% | Canada |
| 7.3% | USA |
| 22.0% | Outside London, in Britain & Ireland |
| 0.4% | City, London |
| 35.6% | West End, London |



**PROPERTY MARKETS** As a long term investor, Grosvenor is less reliant than others upon predicting property market cycles. Our focus is on individual property investment returns and associated risks, with equity generally fully invested. We manage the impact of the cycle on our business, by ensuring sufficient resilience and liquidity when the market is high, and seek to position the Group to take advantage of corrections whenever they arise. The price of this additional security is forgoing enhanced returns through very high gearing levels when markets perform well.

Much has been said about the state of the market and if, or when, a correction might arise. If a bubble is defined as irrational pricing, then I do not see that the time when a bubble bursts can be predicted rationally. All that you can say is that bubbles burst. The harder question is whether there is a bubble at all. When analysed in simple interest rate/return terms, property prices look high, yet when considered in terms of equity available for investment, while demand pressure has fallen, significant uninvested capital awaits suitable opportunities. There is probably no bubble, but one thing seems clear – risk is too cheap.

Of greater concern is that the current hype in the international property markets has attracted capital from a broad range of investors, including retail investors, some with little or no property experience. As prices rise the potential for significant reversal of market fortunes increases, leaving the retail investor, who requires most protection, the most exposed.

**SYSTEMS** 2006 saw the rollout of MRI, our new property management system, to most of our offices outside Britain & Ireland, and the implementation of an electronic invoice authorisation and payment workflow system in Britain & Ireland. For 2007 we plan an early overhaul of Grosvenor's web presence, the introduction of a treasury system in our principal offices and a review of human resource systems.

**FINANCE TEAM** Our finance teams have worked hard alongside property colleagues, providing financial guidance and support as required for our expanding operations. In addition to the corporate acquisitions I have mentioned, they have supported the opening of new offices in Madrid and Milan, and reorganisations of the Americas and Britain & Ireland teams, as well as several management changes. We have welcomed several new members to the team, including Robert Davis who joined as Finance Director of our fund management business in May.

Finally, on a personal note, I have experienced a delightfully smooth transition from Finance Director of our fund management business to Group Finance Director. This was assured by the guidance and support of my predecessor, Jonathan Hagger, to whom I am most grateful.

**Nicholas Scarles**
Group Finance Director
15 March 2007

# Group Board of Directors

## Grosvenor Group
### Non-Executive Directors

**The Duke of Westminster KG OBE TD DL** *(Chairman)* is Chairman of the Grosvenor Trusts. He is a Major-General (2 Star) in the Reserve Forces and is the first Territorial Army officer to be promoted to this rank since before the Second World War. He is Colonel of RMLY (Royal Mercian & Lancastrian Yeomanry), Colonel Commandant of the Yeomanry and Honorary Colonel of Seven Regiment Army Air Corps. He is also Colonel in Chief of the Royal Westminster Regiment, Vancouver.

He is a member of the Prince's Council of the Duchy of Cornwall and is involved with and actively supports over 150 charities and other organisations. Age 55.

**The Earl of Home CVO CBE (David Home)** *(Deputy Chairman)* is a Trustee of the Grosvenor Trusts, Chairman of Coutts & Co and is also an elected member of the House of Lords and Chairman of MAN Ltd. He was a Group Director of Morgan Grenfell & Company Ltd until 31 March 1999. He is President of the British Malaysian Society and joined the Board of the Dubai Financial Services Authority (DFSA) in February 2005. Age 63.

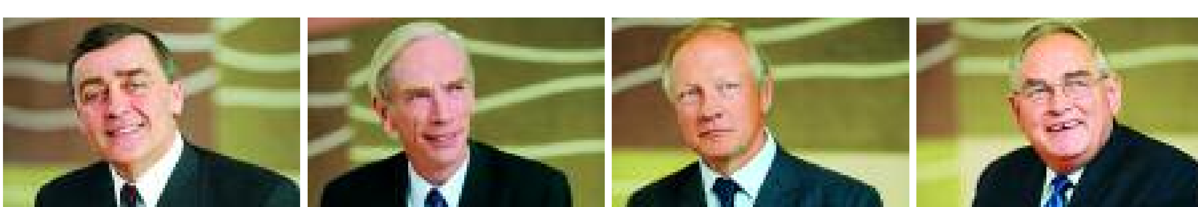
**Robin Broadhurst CBE FRICS** is a Trustee of the Grosvenor Trusts and a Non-Executive Director of the British Library, Grainger Trust plc, INVISTA Real Estate Investment plc, Sableknight Ltd and Chelsfield Partners. He is also consultant to Sir Robert McAlpine, a senior adviser to Credit Suisse and a member of the Prince's Council of the Duchy of Cornwall. He retired from Jones Lang LaSalle as European Chairman in 2003. Age 60.

**Lord George of St Tudy GBE (Eddie George)** was Governor of the Bank of England from 1993 until his retirement in 2003. He is a Non-Executive Director of N M Rothschild, where he chairs the European Advisory Council, and is an Executive Director on the Board of Rothschilds Continuation Holdings. He is also on the board of Nestlé SA. Age 68.

**Rod Kent** is Chairman of Grosvenor Britain & Ireland. He retired as Managing Director of Close Brothers Group plc in October 2002 but remained on the board and became Chairman in November 2006. He is also Chairman of Bradford and Bingley plc and a Non-Executive Director of Whitbread plc. Age 59.

**Alasdair Morrison** is a Managing Director of Morgan Stanley and a member of the firm's Management Committee. He is Chairman of Morgan Stanley Asia based in Hong Kong. Prior to joining Morgan Stanley, he worked in Asia for 28 years for the Jardine Matheson Group, where he was the Group Managing Director from 1994 to 2000. Age 58.

**Tony Wyand** is Chairman of Grosvenor Continental Europe. He retired in 2003 from the Board of Aviva plc, where he was Group Executive Director. He is a Non-Executive Director of Société Générale, UniCredito Italiano S.p.A. and Société Foncière Lyonnaise, and a member of the Lehman Brothers European Advisory Board. Age 63.



Left to right, top to bottom:

**Non-Executive Directors:**
**Duke of Westminster, David Home, Robin Broadhurst, Eddie George, Rod Kent, Alasdair Morrison and Tony Wyand.**

## Executive Directors

**Jeremy Newsum FRICS** is Group Chief Executive and also Executive Trustee of the Grosvenor Trusts. He is a Director of TR Property Investment Trust plc, a member of the Council of Imperial College, and a Trustee of the Urban Land Institute. He was a Church Commissioner from 1993 to 2000 and was President of the British Property Federation in 2001. Age 51.

**Nicholas Scarles FCA CPA Attorney at Law,** is Group Finance Director. He joined Grosvenor in 2004 as Finance Director, Grosvenor Fund Management. His previous roles include Centrica, where he was Chief Financial Officer, North America, Price Waterhouse and Coopers and Lybrand. He is a Governor of the Haberdashers' Elstree Schools. Age 44.

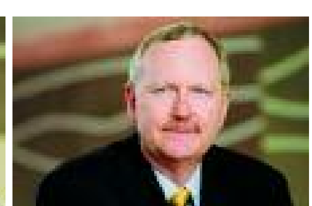
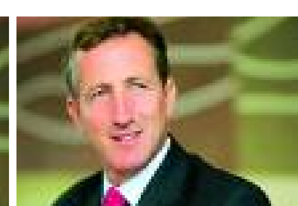
**William (Bill) Abelmann** is Chief Executive of Grosvenor Americas. He originally joined Grosvenor in 1974. He is a member of a number of real estate organisations. These include the Urban Land Institute, International Council of Shopping Centers, and the National Association of Real Estate Investment Managers. Age 56.

**Stuart Beevor FRICS** is Managing Director of Grosvenor Fund Management. Stuart joined Grosvenor in 2002 having been at Norwich Union, then Legal and General Property as Managing Director. He is a Non-Executive Director of the UNITE Group plc and a Trustee of the Investment Property Forum Educational Trust. Age 50.

**Neil Jones MRICS** is Chief Executive of Grosvenor Continental Europe. He joined Grosvenor in 1997 and was appointed to develop the Continental European business. He has been based in Paris since 1998 and also oversees the offices in Madrid and Milan. He has also worked in London, Brussels and Hong Kong. He is a Non-Executive Director of Sonae Sierra SGPS. Age 41.

**Mark Preston MRICS** is Chief Executive of Grosvenor Britain & Ireland. He joined Grosvenor in the UK in 1989. In 1995 he was seconded to Hong Kong, after which he returned to lead Grosvenor's fund management operations from 1997 to 2002. After four years in San Francisco as President of Grosvenor USA, he returned to the UK as CEO of Grosvenor Britain & Ireland in June 2006. He is Chairman of The Association of Foreign Investors in Real Estate. Age 39.



Left to right, top to bottom:

**Executive Directors:**
**Jeremy Newsum, Nicholas Scarles, Bill Abelmann, Stuart Beevor, Neil Jones and Mark Preston.**

Portrait photographs taken in front of the mural by David Tremlett in 70 Grosvenor Street.

# Operating Company Boards and Senior Staff

## Grosvenor Britain & Ireland

For Rod Kent (Non-Executive Chairman), Mark Preston (Chief Executive), Jeremy Newsum (Director) and Nicholas Scarles (Director) see pages 16 and 17.

**Andrew Baum PhD FRICS** *(Non-Executive Director)* is Chairman of Property Funds Research and Professor of Land Management at the University of Reading. He is Chief Strategist for the CBRE Investors Global Multi Manager team and a member of the Supervisory Board of the Schroder Exempt Property Unit Trust. Age 53.

**Richard Clare MRICS** *(Non-Executive Director)* is Executive Chairman of EC Harris LLP. He is a member of the Real Estate Advisory Committee for the Rector of Imperial College, the Property Advisory Panel for the Chairman of University College London Hospitals and the Strategic Forum Olympic Task Group and a past Chairman of the Anglo-American Real Property Institute. Age 53.

**Richard Handley FCA** *(Finance Director)* joined Grosvenor in 1991 and became Commercial Director of Grosvenor's European and asset management businesses in 1997. He was previously Group Chief Accountant for TSB Group plc. He is an independent Director of Casa Support. Age 52.

**John Irvine FRICS** *(Executive Director)* joined Grosvenor in 1989, based in Edinburgh, and is responsible for development in Britain & Ireland (outside London). He chairs the British Council of Offices Awards Panel in Scotland and is a member of the Advisory Board of Architecture and Design Scotland. Age 51.

**Peter Vernon MRICS** *(Executive Director)* is responsible for Grosvenor's UK investment portfolio in Britain & Ireland and for the development programme in London. He joined Grosvenor in March 2005. He was previously a Partner of the real estate consulting teams of IBM Business Consulting Services and PricewaterhouseCoopers. Age 47.

## Grosvenor Americas

For Bill Abelmann (Chief Executive), Jeremy Newsum (Director) and Nicholas Scarles (Director) see page 17.

**Carmine Guerro** *(Non-Executive Chairman)* is a Director and Chairman of the Audit Committee of PMI Group, Inc., a leader in mortgage risk management technology. Previously, he was a partner at PricewaterhouseCoopers for 26 years, holding a variety of positions. His past civic board affiliations have included President of the International Diplomacy Council of the Bay Area and Chairman of the U.C. Berkeley Business School Professional Accounting Program. Age 65.

**George Gaffney** *(Non-Executive Director)* retired from the Royal Bank of Canada, Ontario, where he was responsible for the overall management of the Bank's consumer and operations in the Province, in December 2000. He is a Governor of the Vancouver Board of Trade and a Director of Rick Hansen Foundation, B.C. Age 64.

**Lizanne Galbreath** *(Non-Executive Director)* is Managing Director of Galbreath & Company, a US real estate business. She has served on the LaSalle Partners Board of Directors. She is currently on the Board of Starwood Hotels & Resorts and the Urban Land Foundation, and is past Chair of the Wharton Real Estate Advisory Board and still sits on its Executive Committee. Age 49.

**Martha C Piper OC OBC PhD** *(Non-Executive Director)* retired as President and Vice Chancellor of the University of British Columbia in 2006. She has been a member of Canada's Board of the Advisory Council on Science and Technology and its predecessor Board, and British Columbia's Progress Board. Since receiving her PhD in Epidemiology and Biostatistics from McGill University, she has received honorary degrees from 12 international universities. She was named Educator of the Year by the Learning Partnership in 2004 and she is a member of the Trilateral Commission. Age 61.

**Ralph Severson** *(Non-Executive Director)* has been Chief Executive Officer of RF Severson Investment Management, which manages assets of c$200m, since 1998. Previously he was with Goldman Sachs, which he joined in 1971, becoming a partner in 1992, and latterly Resident Partner, San Francisco, and then Partner in Charge, Western US region. He serves on the National Advisory Council of Brigham Young University. Age 62.

**Rekha Patel CPA** *(Finance Director)* joined Grosvenor in 2003 following 12 years with the real estate investment arm of the Government of Singapore Investment Corporation. She is an active member of Commercial Real Estate Women. Age 42.

## Grosvenor Continental Europe

For Tony Wyand (Non-Executive Chairman), Neil Jones (Chief Executive), Jeremy Newsum (Director) and Nicholas Scarles (Director) see pages 16 and 17.

**Philippe Citerne** *(Non-Executive Director)* is Chief Executive Officer of Société Générale. He is also a member of the Supervisory Board of Sopra Group, the French consulting and service company, which is active in the field of information technologies. He is "Chevalier de la Légion d'Honneur" in France. Age 58.

**Luigi Maramotti** *(Non-Executive Director)* is Chairman of Max Mara and Vice Chairman of the Max Mara fashion group. He has built his career inside the family company. He is also Vice Chairman and member of the executive committee of Credito Emiliano, one of the top twenty banks in Italy, and a Director of Unicredito Italiano. Age 49.

**Benoît Prat-Stanford** *(Finance Director)* joined Grosvenor in 2000. He has worked for Arthur Andersen and the American company United Technology Corporation. He has lived and worked in Paris, Boston, Rome, Brussels and London. Age 41.

**Steve Cowen MRICS** *(Investment Director)* joined Grosvenor in June 2002 having spent five years with Corio France as Asset Management Director and seven years at Cushman & Wakefield as Associate Partner in the Investment Department. In total he has 16 years of transaction based retail property experience in France. Age 41.

**Rafael Aviles** *(Senior Staff – Managing Director Spain)* joined Grosvenor in June 2006, to open our office in Spain. He was previously a member of Lar Grosvenor's Management Board. He has 18 years' experience in the Spanish real estate market and has also worked for the developers Hammerson Spain and Procisa as General Manager and for Jones Lang Lasalle as an investment partner. Age 51.

## Grosvenor Australia Asia Pacific

For Jeremy Newsum (Director) and Nicholas Scarles (Director) see page 17.

**Tim Freshwater** *(Non-Executive Director)* is a vice chairman of Goldman Sachs Asia. Before joining Goldman Sachs in 2001, he was Chairman of Jardine Fleming, the Asian Investment bank acquired by Chase Manhattan in 2000. He spent 29 years with Slaughter and May before joining Jardine Fleming in 1996. Age 62.

**John Coates AC** *(Non-Executive Director)* is a partner of Kemp Strang Lawyers, Deputy Chairman of department store chain David Jones and a member of the Advisory Board of investment bank, Grant Samuel in Australia. He is President of the Australian Olympic Committee and a member of the International Olympic Committee and its Juridical, TV Rights and New Media and London 2012 Olympic Games Co-ordination Commissions. Age 56.

**Robert Kerr** *(Managing Director Australia)* joined Grosvenor in 1994 following nine years with CB Richard Ellis. He is a member of the Property Council of Australia Capital Markets Roundtable, Director of the Grosvenor ISPT International Property Trust, fellow of the Australian Property Institute and a member of the Australian Institute of Company Directors. Age 45.

**Nicholas Loup** *(Managing Director Asia Pacific)* initially worked for Grosvenor in London and rejoined in 1994 to establish the operation in Asia Pacific, following directorships with Colliers Jardine Hong Kong and Trafalgar House Property (UK). He is a Director of Asia Standard International, a Non-Executive Director of Printemps China Department Stores Ltd and serves on the advisory board for Bridge Capital in India. He is also a General Committee member of the British Chamber of Commerce in Hong Kong. Age 46.

**William Lo FCCA CFA** *(Regional Finance Director and Finance Director in Asia Pacific)* joined Grosvenor in 2002 following six years with Coopers and Lybrand and 11 years with AIA Capital Corporation, both in Hong Kong. Age 46.

**Ian Clark FCA FCIS** (*Finance Director in Australia)* joined Grosvenor 21 years ago after 10 years' experience in the accounting profession. Age 54.

**Graham Livingstone MRICS** *(Development Director)* joined Grosvenor in 1996 and moved to Brisbane in late 1999 to manage the Queensland operations. He is an active member of the Royal Institution of Chartered Surveyors and Property Council of Australia. Age 44.

## Fund Management

For Stuart Beevor (Managing Director), Jeremy Newsum (Director) and Nicholas Scarles (Director) see page 17.

**Robert Davis** *(Finance Director)* joined Grosvenor on 1 June 2006 from General Motors, where he undertook a number of roles within the group's finance function and was most recently Chief Operating Officer, European Operations, for GMAC Commercial Finance Plc. Age 39.

**Douglas Callantine** *(Director, President of Grosvenor Investment Management)* joined Grosvenor in 2006 following Grosvenor's acquisition of Legg Mason Real Estate Services, where he had been President since 1987. He is a member of a number of industry bodies. Age 55.

**Mervyn Howard** *(Fund Management Director, Britain & Ireland)* joined Grosvenor in 2001 following roles as Managing Director of GE Capital's real estate business in the UK and Scandinavia and Head of Business Development for TrizecHahn Europe. Age 47.

**James Raynor** *(Fund Management Director, Continental Europe)* joined Grosvenor in 2004 from Royal Bank of Scotland in Paris where he was Senior Director of European Real Estate. Age 33.

**John So CFA** *(Fund Management Director, Asia Pacific)* joined Grosvenor in 2000 from Jardine Fleming Securities (HK), where he was a Director and led the Regional Real Estate Research team. He is a Steering Committee Member of the Asian Real Estate Association. Age 41.

**Koshiro Hiroi** *(Senior Staff – Chief Representative in Japan)* joined Grosvenor in 2001. Previously, he worked for American private fund Lone Star Group and one of the leading developers in Japan. Age 37.

# *Favourite public spaces…*

When we asked people at Grosvenor to nominate their favourite public spaces, many suggested parks – sanctuaries from dense urbanism where, as Stuart Murray (Grosvenor Australia Asia Pacific) put it: *"you can escape the claustrophobia of the city, the people, the weather: all great cities should have a Hyde Park."*

However, there were also less obvious suggestions, such as the crowded Cairo Muslim quarter and the new look Buenos Aires river bank.

Here we illustrate some of our favourite public spaces in countries in which Grosvenor has operations.

Graham Livingstone
Grosvenor Australia Asia Pacific

**Royal Botanic Gardens, Edinburgh**

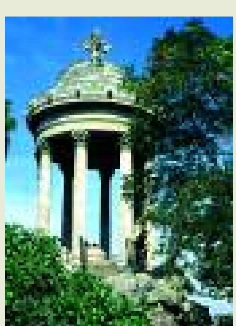
"This oasis, with spectacular views of the Edinburgh skyline, is home to a wide variety of plants from around the world. The gardens have provided an escape from city life for generations of families, including my own. We enjoy not only the beautiful surroundings but also the events that take place here all year round."

**Cloud Gate in Millennium Park, Chicago**

"I like to call this building 'the bean'. To me it is special because it captures not only the architecture in the Chicago skyline, but also the sky itself in a man-made piece of art. It is a fascinating object in the centre of a large city."

Emma Yendole
Grosvenor Americas

Timothy Young
Grosvenor Britain & Ireland



**Parc des Buttes-Chaumont, Paris**

"Walking there on a winter's day or lounging on the grass in the summer sun, I always enjoy the unabashed romanticism of this fantastical park with its man-made hill. In this little known corner of Paris you can step outside the otherwise ordered boulevards and grand public spaces of one of Europe's most structured cities."

**Tiananmen Square, Beijing**

"Tiananmen Square is an emotional place: there is so much history, which could make you feel so many things – lost, proud, happy, sad, big, small, and overwhelmed and so much more. Wherever you stand, the square conjures up images of all that has happened in Beijing over the years."

Ivy Chau
Grosvenor Australia Asia Pacific

Ruth Hollies
Grosvenor Holding Company

**Hungerford Bridge, London**
"The range of architecture visible from this bridge is huge – from the square greyness of the 1970s South Bank to the old dome of St. Paul's Cathedral. The movement of boats and barges adds to the interest and the width of the river creates an open space that has a certain calmness."

**El Templo de Debod, Madrid**
"I like that it has a little pond of water, and I always seem to make my way there at dusk, when the reflection of the orange and pink dying sun around the temple is amazing, and the light over all that green is tranquil. It's a calm end to a hectic day."

Celina Blasco
Grosvenor Continental Europe

Werner Bäumker
Grosvenor Holding Company

**Piazza san Marco, Venice**
"An exemplary space for the people, surrounded by beautiful buildings – some dating back to the 9th century. When the piazza is empty, the architecture gives it liveliness; when it is full of people, the buildings soar above the bustle. And there are no cars."

**Red-brick Warehouse, Yokohama**
"A place where the atmosphere of the Meiji era and modern Japan can be seen together. The contrast of the harbour, the red-brick warehouse and the modern buildings in the background is beautiful. Inside the refurbished warehouse is a contemporary retail space which attracts many people – a good example of active conservation."

Kotaro Yoshikawa
Grosvenor Fund Management

**Stanley Park, Vancouver**
*Richard:* "There is an unstressed atmosphere in Vancouver, helped by the proximity of a parkland area full of natural variety – sustaining for the environment and for the human spirit."

*Lesa:* "The Seawall encircling the park links the natural beauty of land, water and mountain views with all that is man-made, providing endless attractions for rich and poor, 24 hours, 365 days a year."

Richard Fowke and Lesa Sharp
Grosvenor Fund Management and Grosvenor Americas respectively

**Star Ferry, Victoria Harbour, Hong Kong**
"Drifting away from the shore and looking back on the skyline and the Peak is just unbeatable – nostalgic, peaceful, dramatic, vibrant all at once. On the water, you're protected from all the hustle and bustle: it's a great five-minute break before being jolted awake on the shores of Kowloon."

John So
Grosvenor Fund Management

# Change

## Business refocused around 'London' and 'outside London' activity

"Creating a lasting environment for people and business is our central business goal and guides our long term strategy. It underpins the way we design, invest and build for the future, as well as how we nurture our partnerships."

Above: Mark Preston, Chief Executive, outside 77 Grosvenor Street, London; *architects Sheppard Robson.*

Left: Fourth floor balcony at 77 Grosvenor Street.

# Britain & Ireland...

## 2006 in Review

A year of significant change saw Mark Preston return from the USA to take over as CEO for the Britain & Ireland business. A comprehensive review refocused our business strategy, simplified our management structure and clarified reporting lines. We are now organised around 'London' and 'outside London' teams, each led by an Executive Director – Peter Vernon and John Irvine respectively. Michael Baker has joined us as London Development Director, responsible for residential and commercial development in the capital.

Creating a lasting environment for people and businesses is our central business goal and guides our long term strategy. It underpins the way we design, invest and build for the future, as well as how we nurture our partnerships.

Overall, we aim to increase our exposure to retail and residential by delivering on our current retail-led development pipeline out of London, generating more residential development activity, and adding strategic assets such as The Halkins in Belgravia to our portfolio in central London.

In London, our strategy is to sustain the Estate as a mixed use investment. To achieve this we must create an offer that our customers value. Research commissioned from NOP and work by other advisers is now driving our approach to service, product development and management of the public realm. It is also guiding our thoughts on creating vibrant communities in locations where we can influence the urban environment and the retail and residential mix.

Both on and off Estate in London we have a strong development pipeline, particularly in high end residential development. Montrose Place, Belgravia – an 18 apartment luxury residential complex – provides a successful model for future projects to meet continuing international demand. In the short term we do not plan to develop city office property, but in the West End demand still justifies the development of more "Triple A" office space. Recently completed projects – including 77 Grosvenor Street, Belgrave House and 10 Grosvenor Street – illustrate the high standards of design and construction which we set ourselves.

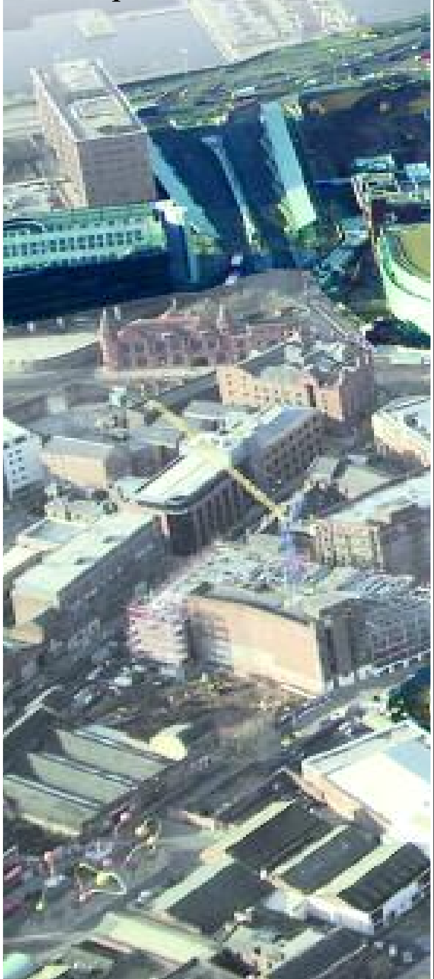
Outside London, our strategy is to develop large urban projects that create lasting, retail-led, mixed use environments. We aim to hold an investment in such projects, typically via one of our funds.

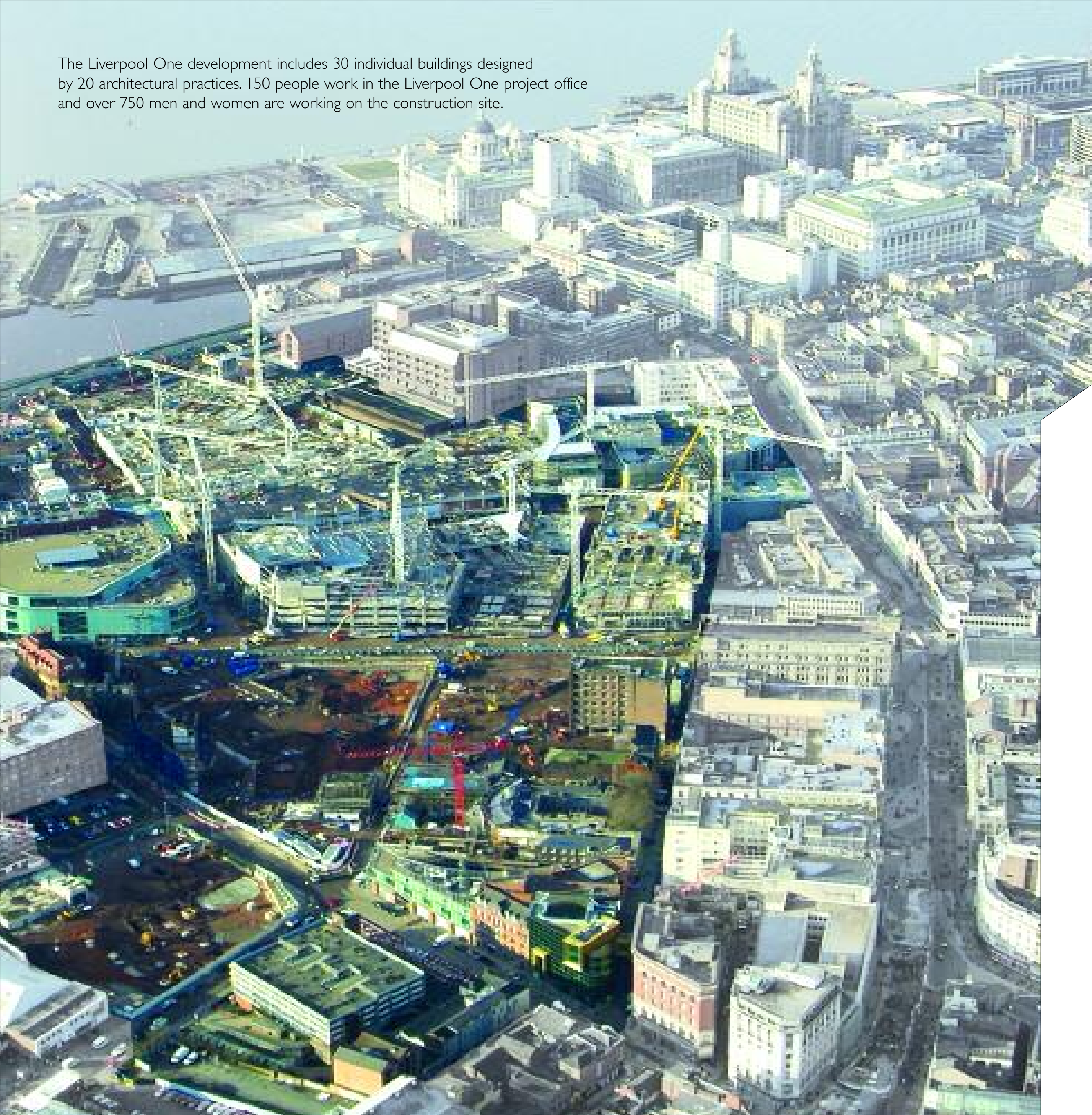
In Liverpool, our Liverpool One development (a 42 acre mixed use city centre scheme), which has experienced significant cost pressures, has led us to change our development control processes. Advancing design development early in the life of such projects is important and we must manage our risk exposure with more attention to the size, scale and complexity of the funding and procurement challenges. A strong independently accountable project management team is central to this.

Progress on site in Liverpool is remarkable and we will continue to deliver on our obligations to the city and other stakeholders in this unprecedented urban regeneration project, which will be of lasting benefit to the community. We plan to develop other complex schemes such as those we are involved with at Cambridge, Preston and Crawley. We will also seek smaller opportunities that play to our strengths and should generate shorter term profits.



"We will continue to deliver on our obligations to the City of Liverpool and other stakeholders in the 42-acre Liverpool One project."

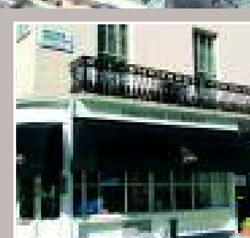




The Liverpool One development includes 30 individual buildings designed by 20 architectural practices. 150 people work in the Liverpool One project office and over 750 men and women are working on the construction site.

Left: Computer generated image of Debenhams, on the corner of South John Street and Lord Street, Liverpool One; *architects Groupe 6.*

Left: Computer generated image of Fountainbridge, Edinburgh; *architects Oberlanders.*



Left: Motcomb Street, London.

# Britain & Ireland...

## Portfolio Overview

Unprecedented downward movement in yields continued throughout 2006, driven by low interest rates, favourable occupier demand, strength of investor demand – particularly from institutional and new entrant investors – and lack of alternative asset classes offering adequate yield. However, the market remains vulnerable to threats from slowing economic growth, rising inflation, house price growth and volatile consumer spending.

Throughout the year we made a number of strategic sales and acquisitions based on our strategy to reinvest in key locations on the London Estate and divest in non-core sectors.

Our London office portfolio continued to deliver strong returns. Robust demand from the financial and banking services sectors fuelled growth – particularly in West End offices – and helped vacancy rates to reach their lowest level for some years. Our short term flexible office product – 'Space Solution' – will grow as we convert existing holdings to suit demand.

The London residential market showed no signs of weakening and our 'Market Let' business delivered strong performance. The portfolio now stands at over 220 properties, and makes a significant contribution to rental income.

In retail, we purchased all the units in The Halkins, a key retail and residential area close to Motcomb Street, London, SW1. This mixed use portfolio comprises over 125 tenants and offers scope for added value development.

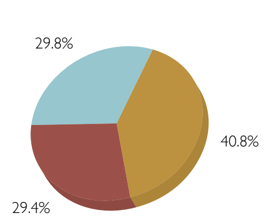
Two key West End office developments reached critical stages of completion. Marketing began on 77 Grosvenor Street (a 57,000 sq ft 'Triple A' office development) which achieved practical completion: four of its seven floors have already let at record-breaking headline rents. 52/54 Brook Street, W1 (a 12,000 sq ft refurbishment) also achieved practical completion and is currently being marketed as a Space Solution product.

Outside London, our 8m sq ft development pipeline (3m current, 5m future) is dominated by projects in Liverpool, Cambridge and Edinburgh. Our Liverpool One development is on course to deliver the core retail and catering during 2008 and the residential elements in 2009. Nearly 60% of space, by area, has been let. Leasing the remaining retail units is a major focus for 2007.

### Proprietary Investment Portfolio

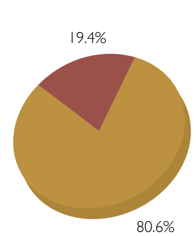
#### By Sector (£m)

| | |
|---|---|
| Commercial | 873.1 |
| Retail | 630.6 |
| Residential | 639.0 |



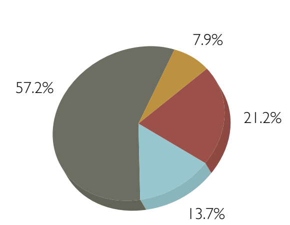

#### By Region (£m)

| | |
|---|---|
| London | 1,726.5 |
| Outside London | 416.2 |




#### By Value (£m)

| | |
|---|---|
| < £1m | 168.8 |
| £1m – £5m | 453.6 |
| £5m – £10m | 294.3 |
| > £10m | 1,226.0 |



In Cambridge, the Grand Arcade development (a 450,000 sq ft city centre retail development) is on programme for opening during spring 2008. The John Lewis store handover is on schedule, which will allow it to open in autumn 2007, six months ahead of the remainder of the scheme.

Tithebarn, Preston (a 28 acre city centre mixed use scheme), and Town Centre North, Crawley (comprising 2m sq ft of mixed-use development on 32 acres), are still in fairly early stages. Anchor store agreements, funding and risk sharing are important milestones yet to reach.

At Fountainbridge, Edinburgh (an eight acre residential-led scheme comprising 900,000 sq ft of residential, office and retail space), we took possession of the north side of the site during the year enabling demolition works to begin. Branding and early marketing of the development will be a key objective to achieve the sales targets required for each development phase.

Below: Computer generated image of Grand Arcade, Cambridge; *architects Chapman Taylor.*

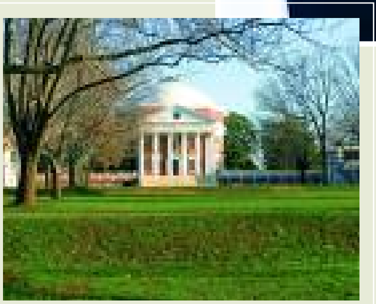
# *The Lawn... at the University of Virginia, USA*

A FAVOURITE PUBLIC SPACE OF CESAR PELLI

## One of the most beautiful public spaces I know of is The Lawn at the University of Virginia.

It was designed by Thomas Jefferson and built in 1827. When it was first designed, the University of Virginia was a very small institution and all of the key buildings of the University were grouped around the lawn helping to define it.

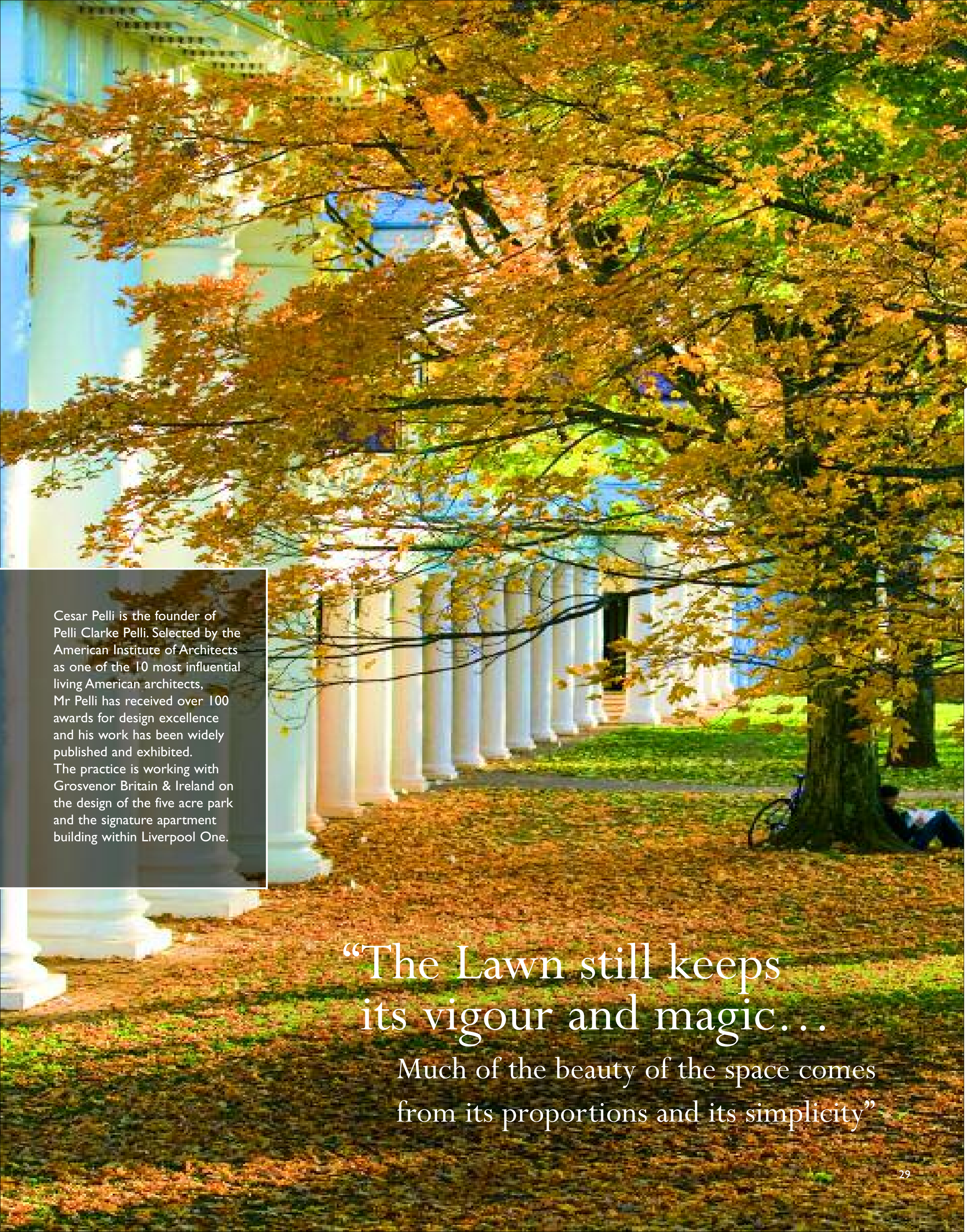
Today the University has grown greatly and few functions of the University remain on this old space, but the lawn still keeps its vigour and magic. It is a simple rectangle of grass that slopes in gentle terraces towards the distant view. It is surrounded by a series of smallish buildings on the sides and a larger more imposing one at its head, The Rotunda. All of these structures are connected by a small scale colonnade. The pavilions are all of similar scale, but Jefferson endeavoured to make each one a little different, giving it personality. There are several large trees on the lawn providing shade and contributing much to its scale.



In 1899, a building was added at its lower end which was regrettable because this closed the view towards the horizon. When I go there I always try to imagine it as Jefferson designed it, with its open end.

Much of the beauty of the space comes from its proportions and its simplicity. It is still a favourite gathering place for the students at the University of Virginia and one of the great public spaces in the world.

**Cesar Pelli**
New Haven, Connecticut



Cesar Pelli is the founder of Pelli Clarke Pelli. Selected by the American Institute of Architects as one of the 10 most influential living American architects, Mr Pelli has received over 100 awards for design excellence and his work has been widely published and exhibited. The practice is working with Grosvenor Britain & Ireland on the design of the five acre park and the signature apartment building within Liverpool One.

"The Lawn still keeps its vigour and magic…

Much of the beauty of the space comes from its proportions and its simplicity"

# Reorganisation

## Our teams are now organised by function: development, investment and portfolio management

"Our strategy emphasises urban retail, premium community shopping centres and both for rent and for sale residential communities in selected markets. We are reopening an office in Calgary to benefit from its rapid economic growth and to build upon our experience and existing asset base in the market."

## Americas

Above: Bill Abelmann, Chief Executive, in front of 180 Post Street, San Francisco.

Left: 308-310 North Rodeo Drive, Beverly Hills; *architects Brand + Allen Architects Inc.*

# Americas...

## 2006 in Review

During 2006 Grosvenor Americas reorganised itself along functional lines, allowing our development, investment and portfolio management activities to be headed by our most experienced staff. Andrew Bibby became Chief Development Officer, Andrew Galbraith became Chief Investment Officer and David Olson took on the role of Chief Portfolio Officer. This reorganisation will help us realise the benefits of best practices and will improve succession planning. We will continue to pursue our overall goal of improving financial returns for our shareholders and partners.

Taking advantage of the strong capital markets, we sold several properties together valued at more than US$240m. We reinvested the majority of the proceeds in retail and residential properties and in development sites. This strategy is in line with Grosvenor Americas' focus on urban retail, premium community shopping centres and both for rent and for sale residential communities in selected markets. Additionally, to enhance returns we increased our allocation of capital to development properties.

Following the successful development of our Rodeo Drive retail property in Beverly Hills and our restaurant park in a Maryland suburb of Washington, DC, we are moving forward with two new retail projects on the West Coast. One of these projects is the redevelopment of an historic building in the fashionable Union Square shopping district of San Francisco. The second project is the development of a new grocery-anchored retail centre in an affluent suburb of San Francisco. In Canada, we added space to an existing retail centre in suburban Vancouver and acquired additional retail and residential development sites in the same vicinity.

The housing sector experienced a sharp downturn throughout most of North America during 2006. Nonetheless, we profited through limited strategic investments in the residential market. Our residential mezzanine finance program continues to gain momentum. In 2006, we provided mezzanine loans to a well-known developer in Vancouver, helping to finance over 200 luxury condominiums with a total sale value of CDN $142m. These residences are typically sold prior to completion, due to pent-up demand for luxury housing. Additionally, we expanded our mezzanine finance program into the San Francisco Bay area and furthered our programme in the Greater Seattle area. In these two markets we funded three loans with a total market value of US$10m.

In the third quarter of 2007 we plan to reopen an office in Calgary, where we had an office from 1997 through 2002. This decision enhances our ability to benefit from Calgary's rapid economic growth, driven by the local energy industry and facilitated by expansion of the transportation infrastructure. Within this promising market, we acquired two well-located retail shopping centres and two residential development sites. These acquisitions expand our existing base of operations for the years ahead.

> "Enclosed regional shopping centres with traditional anchored department stores will become increasingly risky investments, due to consolidation in the market and changing consumer preferences."

Above: Carlyle Gateway, Alexandria.

Above: The RISE, Vancouver; *architects Nigel Baldwin Architects.*

Above: 5955 Balsam, Vancouver; *architects IBI/HB Architects.*

# Portfolio Overview

Grosvenor Americas' portfolio comprises 5.2m sq ft of space, including retail, residential, office and industrial properties. At year end the average occupancy for the portfolio was 98%. Our occupancy rates continue to improve as we focus on retail and residential properties in selected high-growth markets. For example, in 2005 our California portfolio consisted of a blend of office, research and development, and retail space. By year end 2006, we had moved towards a portfolio dominated by retail properties.

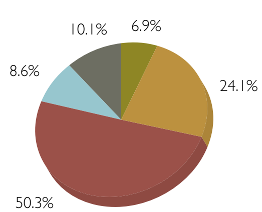
During 2006, in keeping with our strategic plan, we sold our remaining portfolio of R&D buildings in Silicon Valley, California. We also sold our last regional mall, Valley River Center in Oregon. We believe enclosed regional shopping malls will become increasingly risky investments. This is due to the consolidation of department stores and smaller retailers, as well as the ever-shifting preferences of the North American consumer. Our strategy correlates with the plans and activities of many North American retail property owners. These companies are either in the process of 'de-malling' their properties or expanding them with outdoor mixed-use concepts.

Our 2006 property acquisitions, on behalf of Grosvenor Americas and our partners, totalled approximately US$250m. These additions to our portfolio included a 50% interest in a high-quality lifestyle retail centre in suburban Chicago; a 235,000 sq ft community shopping centre in San Jose, California; a 46,000 sq ft specialty shopping centre in the high-income Silicon Valley community of Los Gatos; and a 140-unit apartment community in suburban Seattle. The present and projected success of these investments will further strengthen our portfolio.

## Proprietary Investment Portfolio

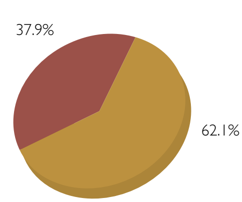
### By Sector (£m)

| | |
|---|---|
| Office | 122.6 |
| Retail | 256.6 |
| Residential | 43.9 |
| Industrial | 51.6 |
| Car parks | 35.1 |



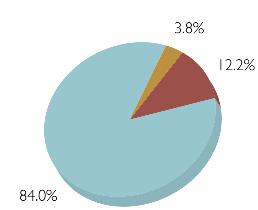

### By Region (£m)

| | |
|---|---|
| Canada | 316.4 |
| USA | 193.4 |




### By Value (£m)

| | |
|---|---|
| £1m – £5m | 19.2 |
| £5m – £10m | 62.3 |
| > £10m | 428.3 |



# National Gallery of Art…

## in Washington, DC, USA

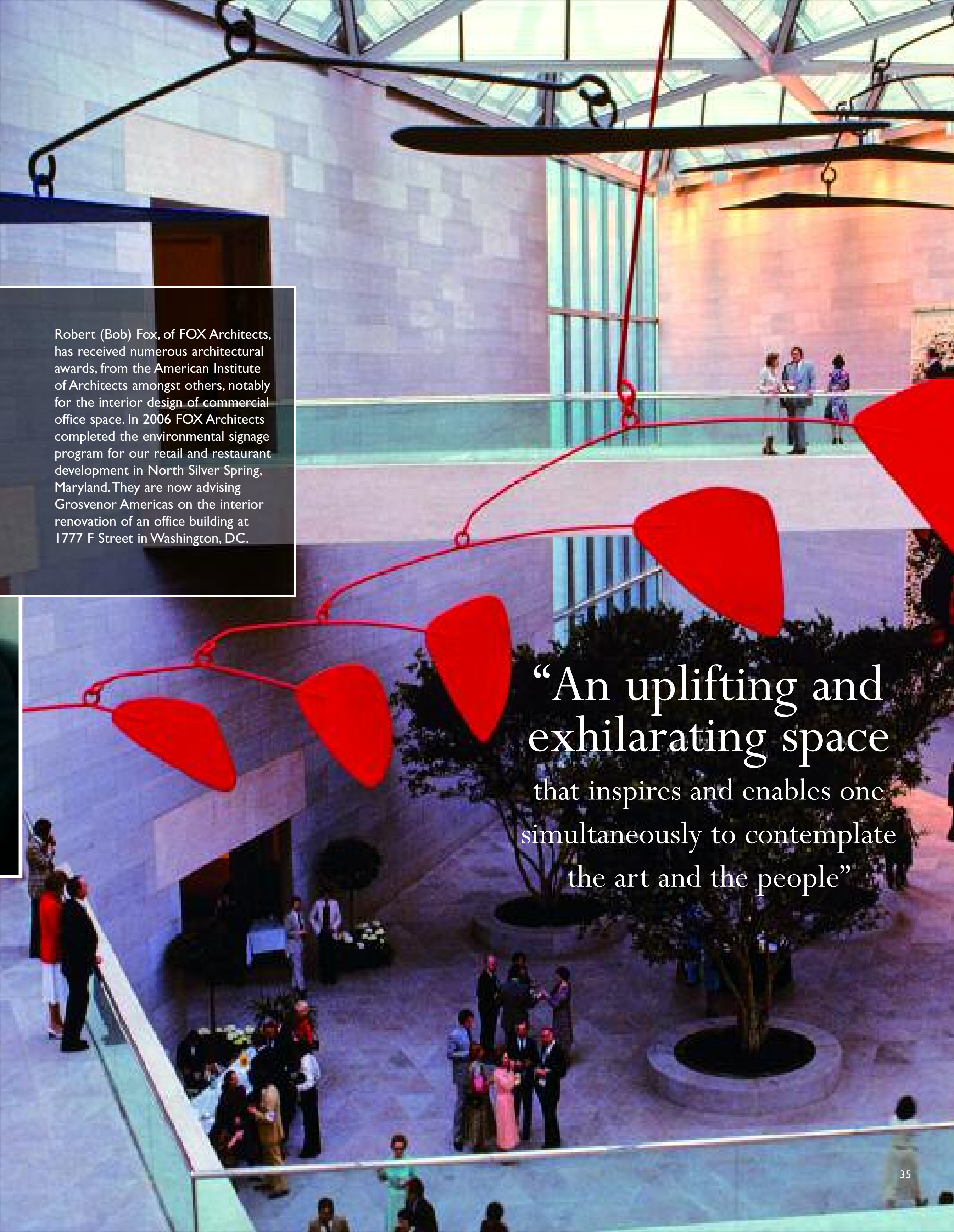
A favourite public space of Bob Fox

The Main Lobby of the East Wing of the National Gallery of Art is a striking large contemporary space that is flooded with natural light. The space is stimulating because of the size, light, art and people – it is different every time I walk in, subject to variations in the weather and time of day.

The volume of the space is uplifting and exhilarating. You enter the building under a low ceiling and emerge into a bright light-filled lobby that is open up to a large skylight with art placed centrally above. The large Calder mobile, being the main focal point, is dynamic and slowly travels through the volume of space. You can sense that the art extends beyond the space that you can see. The stairs, monumental and open, enable you to move through the different levels comfortably experiencing the people, the art and the architecture from a variety of vantage points.

The materials and finishes, predominantly stone, are smooth, light in colour, minimal in texture and subtle enough to provide a neutral backdrop to spotlight the significant pieces of art. The environment is flexible enough to accommodate the large crowds that move through yet intimate enough for an individual – who might want to stop, take some time, relax and enjoy the environment or view the art. The lobby is a brilliant and attractive space that inspires and enables one simultaneously to contemplate the art and the people.

**Bob Fox**
McLean, Virginia



Robert (Bob) Fox, of FOX Architects, has received numerous architectural awards, from the American Institute of Architects amongst others, notably for the interior design of commercial office space. In 2006 FOX Architects completed the environmental signage program for our retail and restaurant development in North Silver Spring, Maryland. They are now advising Grosvenor Americas on the interior renovation of an office building at 1777 F Street in Washington, DC.

**"An uplifting and exhilarating space**

**that inspires and enables one simultaneously to contemplate the art and the people"**

# Focus

## We specialise in retail property with selective forays into offices

"Looking ahead, we will further increase the importance of France and Italy in our portfolio while actively managing our Spanish business. We will apply our skills across the full risk spectrum from investment to development."

Above: Neil Jones, Chief Executive, outside 68 Faubourg Saint-Honoré, Paris.

Left: Sonae Sierra's Rio Sul shopping centre, Seixal, Portugal; *project architect José Quintela; design architects La Garda & Low.*

# Continental Europe...

## 2006 in Review

The year saw good progress in most aspects of our strategy – which focuses on the retail and office markets of France, Spain and Italy, and covers the full risk spectrum from investment to development.

We took the important strategic decision to open a wholly-owned office in Madrid, led by Rafael Aviles, and established an operational base in Italy. We also strengthened our team in Paris.

Our investment highlight was the acquisition in February of an additional 17% of European and Brazilian shopping centre specialist, Sonae Sierra, for €229m. Our involvement in this company dates back to 1997 and our ownership now stands at 50%. Sonae Sierra will now be our sole platform for shopping centres in Continental Europe.

As corporate demand grows, we returned to the French office market with the acquisition of the 9,650 sq m 68 Faubourg Saint-Honoré in Paris, located opposite the Elysée Palace. Our planned investment programme in this sector, a joint venture with Dutch pension fund ABP, focuses on prime office buildings in Paris and the major provincial cities of France. Further investments are planned in 2007.

Also in France, progress was made with some selective investments in urban retail and retail warehousing on behalf of Grosvenor Fund Management. These included a prime unit let to international textile retailer GAP at 102 rue de Rivoli, Paris, acquired in partnership with Solal Conseil et Développement, and a major 17,000 sq m retail warehouse park at Claye-Souilly in the Paris region. Further investments in these sectors are planned as well as a move into development.

2006 marked our 10 year anniversary of investing in Spain, which was the star financial performer for the year. The extraordinary domestic wealth creation during this period has caused probably the most acute imbalance of investment demand for property and available supply in Western Europe, with prices being correspondingly high. Our portfolio – amounting to €881m by completed costs – consisting mostly of developments, and co-owned with Grupo Lar, has benefited from this environment. We augmented returns with selective sales, including our 25% interest in the 77,000 sq m Parque Principado shopping centre; our 50% interest in the 45,000 sq m l'Aljub shopping centre; as well as the forward sale of an 18,000 sq m phase of Omega Business Park, currently under construction.

Sonae Sierra had another successful year, despite the aborted 3DO project in Dortmund, Germany. Particularly gratifying was the progress made elsewhere in Germany and in Greece, where some major new projects were launched, as well as in Brazil, where new funds were secured which will enable an acceleration of the investment and development programmes.

> "The star financial performer was Spain, where extraordinary domestic wealth creation has caused probably the most acute imbalance of investment demand for property and available supply in Western Europe."

Above: 102 Rue de Rivoli, Paris.

Above: Omega Park, Madrid; *architect Federico Echevarria.*

Above: 68 Faubourg Saint-Honoré, Paris.

# Portfolio Overview

Our total assets under management in Continental Europe have grown by 26% to €2.8bn. They are spread across eight countries, including Spain (32%) and Portugal (30%), both diminishing; as well as France (18%), Germany (8%) and Italy (7%), all increasing. Our directly managed business amounts to 56 properties and 717 lease contracts in France, Spain, Italy and Belgium.

Our portfolio is over 90% in retail assets, including shopping centres, town centre, retail warehouses and antique markets, which reflects our preference for this sector. Each retail asset class has different characteristics depending on its consumer base, legal jurisdiction and income profile, providing an element of diversification. The remainder of our assets are in office property.

30% of our assets are held for development.

Sonae Sierra has total assets under management of €4.7bn in 43 shopping centres and 7,500 lease contracts. Its development pipeline amounts to 11 projects in 6 countries.

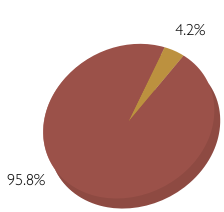
Of particular note in 2006, in Germany, Sonae Sierra launched a 61,000 sq m shopping centre project in Weiterstadt and acquired the 26,000 sq m Münster Arkaden, while 2007 will see the completion of its first development in Germany, the 56,000 sq m Alexa in Alexander Platz, Berlin. In Greece, Sonae Sierra won a competition to build a 39,000 sq m project in Galatsi in Athens, building on the successful 46,000 sq m Mediterranean Cosmos in Thessaloniki. In Brazil, where Sonae Sierra has been active for 8 years, 50% of the business was sold to Developers Diversified Realty, an American listed property company, assuring capital to fund the future growth of Sierra Brazil, which plans to invest R$600m over the next 3 years.

We continue our strategy of partnering with both capital providers and operators whose specialist expertise complements our own, including GIC Real Estate, The Wellcome Trust, Dutch pension fund ABP, Sonae SGPS, Grupo Lar and Solal Conseil et Développement. We are fortunate to have such organisations as our partners and are grateful to them for their support and confidence.

## Proprietary Investment Portfolio

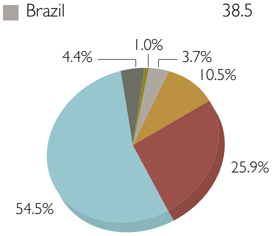
### By Sector (£m)

| | |
|---|---|
| Commercial | 43.3 |
| Retail | 989.3 |



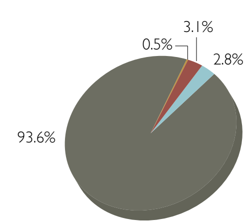

### By Region (£m)

| | |
|---|---|
| France | 109.0 |
| Spain | 267.1 |
| Portugal | 562.7 |
| Italy | 45.3 |
| Greece | 10.0 |
| Brazil | 38.5 |




### By Value (£m)

| | |
|---|---|
| < £1m | 4.9 |
| £1m – £5m | 32.0 |
| £5m – £10m | 29.4 |
| > £10m | 966.3 |



# *The Castle Gardens…*

## *Prague, the Czech Republic*

A FAVOURITE PUBLIC SPACE OF GABRIEL ALLENDE

Since President Masaryk decided to rebuild Prague Castle as the centrepiece of a democratic state rather than an imperial residence, it has been a symbol of complex cultural relationships and legendary mysteries.

Built on a hill above the left bank of the river Vltava, Prague Castle is attractive to modern sensibilities: many artists and writers have been inspired by their experiences of it to explore more general issues of modernity.

From 1920 to 1935 architect Jozè Plecnik was involved in the reorganisation and embellishment of the Castle. From the beginning, the connection between city and castle was the main problem to be solved.

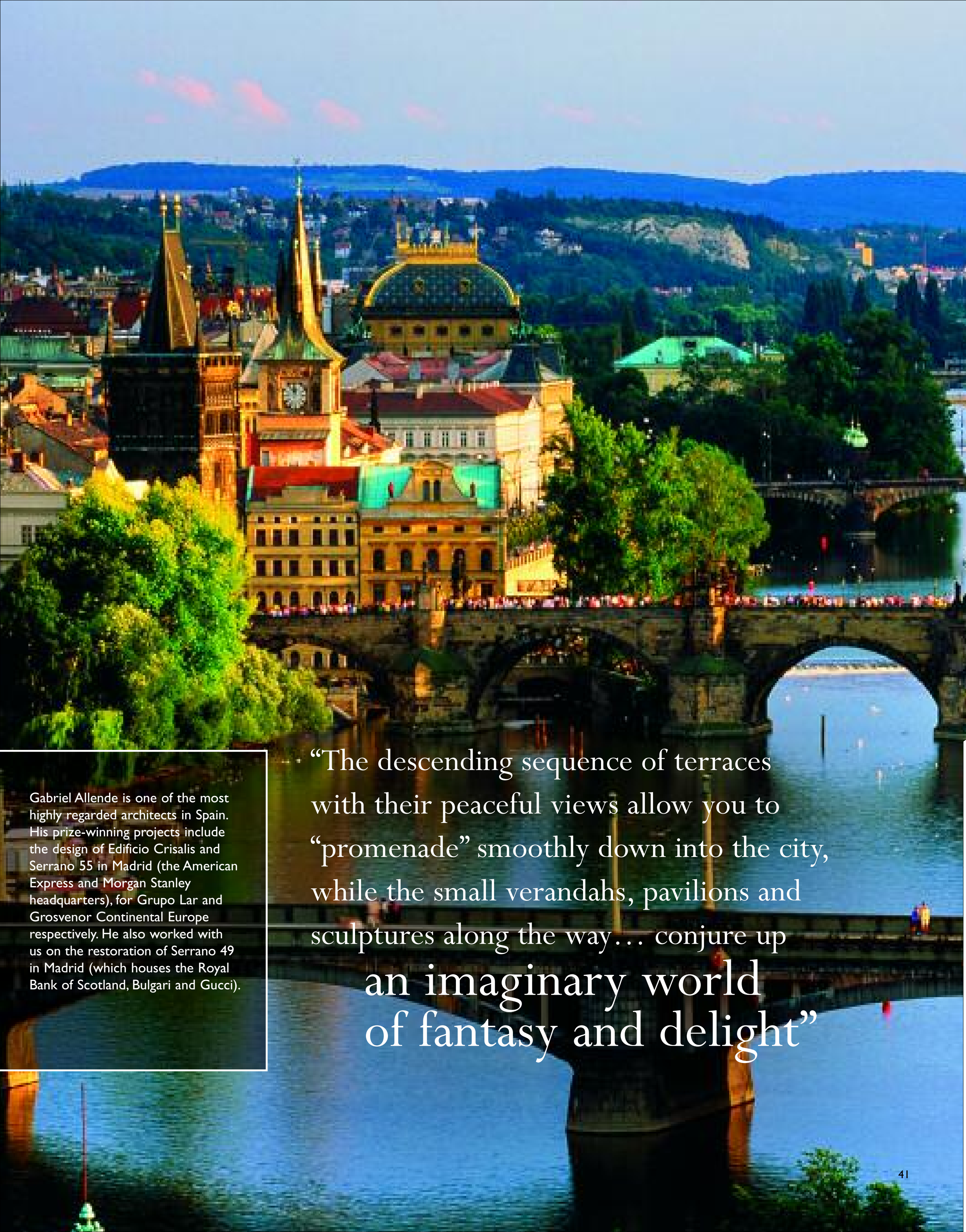
Plecnick's design for the Rampant and Paradise gardens, leading from the castle to the city below, links the historical architecture to the demands of modern urban living.

Material, texture and detail along the descending sequence of terraces with their peaceful views allow you to 'promenade' smoothly down into the city, while the small verandas, pavilions and sculptures along the way catch the eye and encourage you to freeze time for a moment to conjure up an imaginary world of fantasy and delight.

It is the most sensitive and vibrant example of the emergence of the avant garde.

Much has been written and published about Plecnick's masterpiece, but an intimate encounter with the 'genus loci' is always absolutely overwhelming.

**Gabrielle Allende**
Madrid



Gabriel Allende is one of the most highly regarded architects in Spain. His prize-winning projects include the design of Edificio Crisalis and Serrano 55 in Madrid (the American Express and Morgan Stanley headquarters), for Grupo Lar and Grosvenor Continental Europe respectively. He also worked with us on the restoration of Serrano 49 in Madrid (which houses the Royal Bank of Scotland, Bulgari and Gucci).

"The descending sequence of terraces with their peaceful views allow you to "promenade" smoothly down into the city, while the small verandahs, pavilions and sculptures along the way… conjure up

**an imaginary world of fantasy and delight"**

# Growth

## Increased emphasis on marketing, human resources, training and risk management

"The confluence of economic growth in China and Australia with that of India and Japan heralds a new era of opportunities and challenges for the Australia Asia Pacific region."

Above: Nick Loup, Managing Director Asia Pacific, and Robert Kerr, Managing Director Australia, at 20 Hunter Street, Sydney.

Left: Bank of Queensland Centre, Brisbane.

# Australia Asia Pacific...

## 2006 in Review

2006 proved to be a year of strong performance for both our markets and the business. China's economy became the world's fifth largest, and its demand for natural resources contributed to Australia's ongoing economic strength. The confluence of the economic growth of these two nations with that of India and Japan heralds a new era of opportunities and challenges for the Australia Asia Pacific Region.

Our five main markets – Brisbane, Sydney, Hong Kong, Shanghai and Tokyo – experienced different cyclical and fiscal conditions which created both growth in values and windows for us to adjust our portfolio weightings towards our medium-term strategic goals. In this five-year period, we aim to increase the allocation to development as we seek to generate higher total returns on a solid base of recurring income largely from investment in Grosvenor funds. Development will be focused on Grosvenor-branded luxury residential properties across the region and on Grade A offices in Australia, all with a focus on innovative architectural design and the latest environmental standards.

Our development programme was supported by strong growth in Brisbane and Hong Kong and nascent recovery in Sydney and Tokyo. There were two particular highlights. Brisbane saw a 19% year on year rise in Grade A office rents against a vacancy rate of 0.8%, as we committed to build speculatively our 43,000 sq m office development in George Street, in the central business district – a project undertaken in joint venture with Leighton Properties (as is the suburban office project under construction at Parramatta, Sydney). In Tokyo, we added to our luxury residential development programme by acquiring, in joint venture with Tokyo Tatemono and Properst, the 17,863 sq m CFA Kamizonocho project – a prime city centre location inside Yoyogi Park – and embarking on our third scheme designed by leading UK architect Paul Davis and Partners.

On the investment side, there were a number of acquisitions and disposals in Asia Pacific while Australia prepared to seed an office fund in 2007 with two assets in Sydney and Brisbane. Here also there are two notable points. In Shanghai, we committed to our first investment, Vienna Apartments, a 15,108 sq m apartment block in an established residential district which we will refurbish and retain for the medium term. In Tokyo, we acquired two office/retail investments – Yoshiyasu-Kanda, 4,920 sq m, and Kichijoji, 1,738 sq m – in our joint venture with Tokyo Tatemono, with both of which we aim to seed a fund in 2007.

2007 promises to be another busy year with a favourable outlook for all our markets.

As the business grows we are planning a 28% increase in staff in 2007 and we are placing increased emphasis on marketing, human resources, training and risk management.

> "Over the next five years we aim to continue to increase our capital allocation to development."

Above: 400 George Street, Brisbane; *architects Cox Rayner Architects.*

Above: Kamizonocho Project, Tokyo; *architects Paul Davis & Partners and Yasui Architects & Engineers, INC.*

Above: 25 Smith Street, Parramatta, Sydney; *architects Crone Partners Architecture Studios.*

# Portfolio Overview

In 2006, with progress on the construction of our office and residential projects and the addition of a new scheme in Tokyo, we increased our weighting to development to 33%. The investment portfolio, largely in Australia, recorded a strong revaluation surplus of £28m, with Bank of Queensland Centre, Brisbane, alone contributing £17m. Total property assets grew by 7% to £309m with total assets under management growing by 21% to £476m.

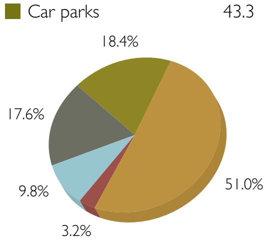
By the year end, 15% of our equity was in cash after several disposals. We sold the residential portion and several industrial lots in our mixed use Banyo development, Brisbane, and developed on two lots a 4,200 sq m warehouse facility for Symbion, a major health-care group. We have agreed to sell our share in the Forum, Singapore and our floor in the Lippo Centre, Hong Kong. We have divested the majority of assets in the Grosvenor Land Property Fund and we have also redeemed the Asia Standard bond. During 2007 we plan to sell down our interest in the office assets 20 Hunter Street, Sydney, and Bank of Queensland, Brisbane, to seed an Australian office fund. The majority of the proceeds are being directed to new core investments in Brisbane, Sydney, Tokyo and Shanghai with 15% allocated to our development programme.

In Brisbane and Sydney we are focusing on the office and industrial sectors for new opportunities in investment and development. In Hong Kong, Shanghai and Tokyo we are concentrating on the residential and retail sectors for investment, and the residential sector for development.

## Proprietary Investment Portfolio

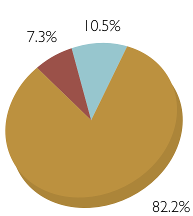
### By Sector (£m)

| | |
|---|---|
| Office | 119.9 |
| Retail | 7.6 |
| Residential | 23.1 |
| Industrial | 41.3 |
| Car parks | 43.3 |



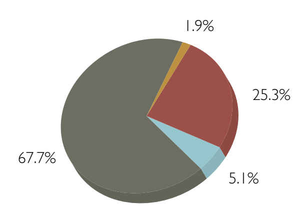

### By Region (£m)

| | |
|---|---|
| Australia | 193.4 |
| Hong Kong | 17.2 |
| Japan | 24.6 |




### By Value (£m)

| | |
|---|---|
| < £1m | 4.4 |
| £1m – £5m | 59.6 |
| £5m – £10m | 11.9 |
| > £10m | 159.3 |



# *Federation Square…*

## *in Melbourne, Australia*

A FAVOURITE PUBLIC SPACE OF GREG CRONE

Crone Partners Architecture Studios has an international reputation for innovative and award winning architecture, practising in many different sectors in Australia, New Zealand, South East Asia, China and the Middle East. Greg Crone is currently working with Grosvenor Australia Asia Pacific on our office development in Parramatta, Sydney.

Federation Square, Melbourne, Australia is one of my favourite urban public spaces. Since its construction in 2000, rarely has a public space been embraced by a city of the scale and size of Melbourne in such a short time.

Melbourne is generally regarded as the cornerstone of architecture across Australia, recognised for its diversity and for pushing the boundaries. Federation Square is a prime example. Its modern architecture and urban form is controversial, presenting the public with extremes.

With a series of bold transitional spaces, contrasting with soft areas, there is a degree of elegance in its urban form. Yet, it is almost loud and in its loudness it creates and promotes public expression. Through its confusion a sense of mystery and inviting appeal emerges.

This unique symbol of controversy and confusion has become an established meeting place for Melbourne – with over seven million people visiting it annually.

**Greg Crone**
Sydney

"Its modern architecture and urban form is controversial, presenting the public with extremes… a sense of mystery and inviting appeal emerges"

# *Heian Jingu shrine…*

## *in Kyoto, ancient capital of Japan*

A FAVOURITE PUBLIC SPACE OF PAUL DAVIS

A place that awakens the awareness of our senses, where time seems frozen, where memories are woken. A sense of stillness, containment evoking security, openness allowing us to feel the presence of the sky like an open-air cathedral. A place that holds light whatever the weather. Somewhere people pass through, linger or rest, giving a sense of serenity.

One such place stands in central Kyoto, ancient capital of Japan.

Entering the threshold of the grand gateway into a vast open court, footsteps crunch white gravel underfoot. The sounds of Buddhist bells tinkle in the breeze and merge with rustling leaves.

Four steps lift and guide you into a more intimate connection with the scale of buildings that define the space. Structures of outrageous colour – orange and gold support sea green glazed pantile roofs. Their pagoda forms mirror adjacent pine trees' upswept limbs.

Colour, light, sounds and forms are ordered to stimulate awareness, a structured meditation.

Kyoto holds so many spaces that enliven one's senses. If you ever can, visit this special city to find your favourite space and celebrate your human spirit.

**Paul Davis**
London

Paul Davis and Partners undertake a great diversity of projects, in terms of location, building type and use, many of which have received awards. Paul Davis is chief architect for Grosvenor Australia Asia Pacific's current luxury residential projects in Hong Kong and Tokyo, working alongside local practices. Our first joint project, Grosvenor Place in Hong Kong, was the first Asian scheme to win a MIPIM award.

"A sense of stillness, containment evoking security, openness allowing us to feel the presence of the sky like an open-air cathedral…"

# Quantum leap

## Expanding Grosvenor's fund management activities in the USA

"Our aim is to develop a range of sector specialist funds around the world to provide our investor clients with a breadth of opportunities to allocate capital within sectors and across regions."

Above: Stuart Beevor, Managing Director, outside Belgrave House, London; *architects Michael Squire & Partners.*

Left: 4orty, Grosvenor Place, London; *architects HOK.*

# Fund Management...

## 2006 in Review

Investment markets were even stronger than we expected in 2006 as investor demand continued to drive prices higher. Although increasing numbers of commentators caution against further capital appreciation, continuing price rises are more probable than not in many international markets. However, these are likely to be modest as the yield differential between property income and interest rates loses some of its attractiveness. We are encouraged by occupier fundamentals of strengthening demand and reducing vacancy levels particularly in many office markets. Looking forward, we still believe property offers attractive risk adjusted returns and thus justifies a significant role in diversified investment portfolios. However, disciplined stock selection within a clear investment strategy is crucial.

The highlight of 2006 was our acquisition of Legg Mason Real Estate Services in March, now known as Grosvenor Investment Management US Inc. This acquisition fulfilled an important goal to expand Grosvenor's investment management activities into the USA. Based in Philadelphia, we now have an integrated fund management operation comprising 30 staff, with funds under management of over US$1.4bn managed on behalf of ten institutional clients.

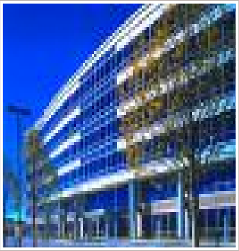
The growth of our fund management activities continues with expansion in existing funds and the launch of new funds. As a result, total funds under management have grown by 40% to £2.7bn. We now work with 50 investors in 20 funds, joint ventures and separate investor accounts in the UK, USA, Continental Europe and Australia Asia Pacific. In the UK our two flagship funds, Grosvenor Shopping Centre Fund and Grosvenor London Office Fund, both completed significant transactions. The Grosvenor Shopping Centre Fund disposed of The Forge Shopping Centre in Glasgow for £137m and the Grosvenor London Office Fund acquired a 50% interest in Belgrave House in London for £127.4m. We aim to grow both of these funds in the next few years. The Talbot joint venture has invested over £35m of its equity and is ready to seek further capital. It will become known as the Grosvenor Residential Investment Fund and our aim is to grow it into a flagship fund.

On the Continent, the Grosvenor Retail European Property Fund is close to being fully invested. Its successor fund, Grosvenor French Retail Investments, has been launched with capital of €145m. The first assets have been committed and a second closing is expected imminently.

> "Although increasing numbers of commentators caution against further capital appreciation, continuing price rises are more probable than not in many international markets."

Above: 854 Route d'Orléans, Bourges – held in the Grosvenor Retail European Properties Fund.

Above: Mayfair Garden, Takanawa, Tokyo – held in the Grosvenor Capital Advisers Partnership Fund.



Above: Park Ridge Four, Denver – held in the ISPT Grosvenor International Property Trust Fund.

In Asia, the Grosvenor Land Property Fund, which invests in luxury residential assets in Hong Kong and Tokyo, is being wound up in accordance with its strategy. Overall, returns have been very attractive, approaching 15% per annum. Our two residential funds in Japan continue to grow and we aim to launch a third Japanese fund, the Grosvenor Office Retail Fund, during 2007. We are researching the potential for our first fund in mainland China, where Grosvenor opened an office in 2005. In Australia we are marketing our first fund, which will invest in quality office investments; it is 30% invested with two seed assets.

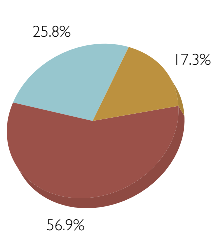
In the USA, our new colleagues have successfully launched the Grosvenor Residential Investment Partners fund with US$100m of capital. This fund will make mezzanine investments in the USA residential sector, offering an attractive counter cyclical play on the market. We have also been busy acquiring investments and a total of US$260m of capital was invested in the USA on behalf of five client mandates in 2006.

Grosvenor Fund Management was set up two years ago as a single international client facing business. Our aim is to develop a range of sector specialist funds around the world to provide our investor clients with a breadth of opportunities to allocate capital within sectors and across regions. We acknowledge the support and encouragement we have received from our clients, with whom we will continue to work closely to realise our ambitious business plans which include more than doubling funds under management in the next five years. Our business model demands skill and determination in our people and we are fortunate to have an able and committed team around the world. As our business volumes expand, so we will grow: we expect our staff to rise from 88 today to around 170 in 2011.

## Funds and Equity Under Management

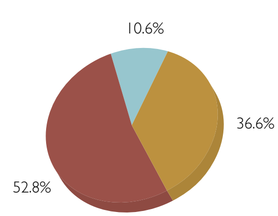
### Equity invested by Interest (£m)

| | |
|---|---|
| Grosvenor | 329.5 |
| Pension Funds | 1,084.5 |
| Other | 492.3 |



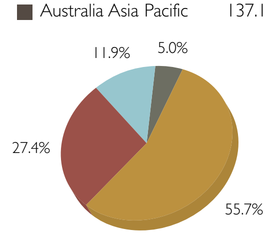

### Funds under management by Sector (£m)

| | |
|---|---|
| Office | 996.9 |
| Retail | 1,436.6 |
| Residential | 287.5 |




### Funds under management by Region (£m)

| | |
|---|---|
| Britain & Ireland | 1,516.4 |
| Americas | 744.6 |
| Continental Europe | 322.9 |
| Australia Asia Pacific | 137.1 |



# *Piazza del Campo…*

## *in Siena, Italy*

A FAVOURITE PUBLIC SPACE OF LARRY MALCIC

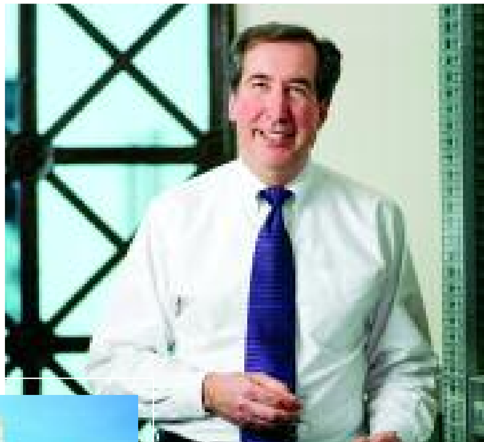
The Piazza in Siena is a magical urban space that welcomes visitors and locals with huge embrace.

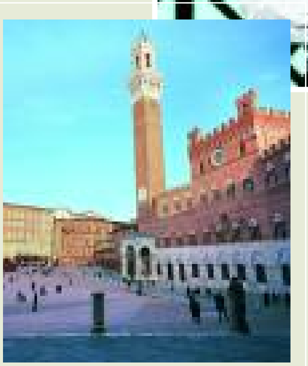
This public space impresses without intimidating, and offers, simultaneously, rich variety and coherent consistency. It is foremost a place for people: a place to gather, to stroll, to admire the architecture, to survey other visitors in that special Italian way of seeing and being seen. In short, the Piazza encourages humanity.

Its strength is its very lack of formal composition. It is not symmetrical and does not impose a rigid order on people. The walls of the buildings that enclose the square vary in height, colour and materials, yet they create a continuous enclosure punctuated by the narrow streets that radiate from the Piazza. The campanile of the Cathedral provides the dramatic exception that gives the composition vitality: its powerful verticality offers focus to the Piazza and contrast to the handsome horizontal paving stones.

The Piazza's versatility is proven when the famous Palio occurs and the Piazza is converted into a racecourse. With much Medieval pageantry horses gallop round the square with thousands of spectators cheering them onward. This spectacle is twice a year, while the value of this public space is proven every day as it offers generous hospitality to all who come and visit.

**Larry Malcic**
London





Larry Malcic is Director of Design at HOK International Ltd – the global provider of design and project services. He led the team on "4orty", which won the British Council for Offices "Best of the Best" Award in 2001. "4orty" is held in Grosvenor Fund Management's London Office Fund.

"A place to gather, to stroll, to admire the architecture, to survey other visitors in that special Italian way of seeing and being seen"

# Accounts

# CORPORATE GOVERNANCE

## THE COMBINED CODE

Grosvenor's business approach is based on openness and high levels of accountability, elements which are essential not only for the conduct of our own business but particularly for the operation of our third party arrangements, whether in fund management, joint ventures or other partnerships. As a consequence, Grosvenor's approach to corporate governance follows best practice recommended by the Financial Reporting Council under the heading of the "Combined Code", even though that code applies only to publicly quoted companies. After consultation with the Group's auditors, the Board has reviewed all the provisions of the Combined Code issued by the UK Financial Reporting Council in July 2003 and has determined which of those provisions are appropriate in the context of Grosvenor's ownership structure.

## BOARD OF DIRECTORS

The Board comprises six full time Executive Directors and seven Non-Executive Directors, amongst whom four are also Trustees of the Grosvenor Trusts (see page 62). The composition of the Board is designed to ensure effective management and control of the Group, provide complete and timely information to the shareholders as well as proper representation of the shareholders' interests.

The Board is responsible for setting and monitoring Group strategy, reviewing performance, ensuring adequate funding, formulating policy on key issues and reporting to 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 the strategy and policies set by the Board and the day-to-day management of the business.

The Board and its committees held ten meetings during the year, with majority attendance at all meetings. The Group's Operating Companies have their own boards, each with Non-Executive Directors who are independent from the management team; each Operating Company is required to hold at least four board meetings each year.

The biographies of the members of the Board on pages 16 and 17 demonstrate a range of experience and professional background to bring independent judgement on issues of strategy, performance, resources (including key appointments) and standards of conduct. A Statement of the Directors' Responsibilities in respect of the accounts is set out on page 64.

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 receive an induction training programme.

The Board undertakes a regular evaluation of its own performance.

The Board encourages the appointment of Executive Directors to appropriate external posts as this increases the breadth of knowledge and experience of Directors. Earnings from all such appointments are returned to the Group. Trustees of the Grosvenor Trusts receive no fees from the Company.

## AUDIT COMMITTEE

The Board has a well established Audit Committee, which provides independent scrutiny of the Group's affairs. The Audit Committee is chaired by Lord George and includes two other Non-Executive Directors. The members bring both a wide range of relevant international experience and an appreciation of the long term interests of the shareholders.

The Audit Committee meets at least twice a year with the auditors and is attended by invitation by the Group Chief Executive, Group Finance Director and other senior personnel as appropriate. It is responsible for reviewing a wide range of financial matters including the annual financial statements and accompanying reports, Group audit arrangements, accounting policies, internal control and the actions and procedures involved in the management of risk throughout the Group.

The Audit Committee reviews annually the independence of the auditors. Auditor objectivity is ensured through a variety of procedures including rotation of audit partners. Any non-audit fees received by the auditors in excess of fifty per cent of the audit fee are pre-approved by the Audit Committee.

The regional Operating Companies each have their own audit committees which also meet at least twice a year; the decisions of these audit committees are reported to the Group Audit Committee.

## NOMINATIONS COMMITTEE

The Nominations Committee comprises all of the Non-Executive Directors. The Committee meets at least once a year 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, giving consideration to 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.

## RELATIONS WITH SHAREHOLDERS AND LENDERS

Given the private ownership of the Group, the requirements of the Combined Code to communicate with institutional shareholders are not relevant. All the principal shareholders are represented on the Board and all shareholders receive a monthly report. The Annual Report and Accounts is widely distributed and the Group's policy is to maintain close contact during each financial year with bondholders and other lenders at Group and Operating Company levels.

# 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 Report and Accounts. This process is regularly reviewed by the Audit Committee and the Board and is consistent with the internal control guidance for Directors in the Combined Code.

A key part of the system of internal control is the delegation of management responsibility for all the Group's property investment, development and fund management activities together with supporting financial functions to regional management teams. The Britain & Ireland, Americas and Continental Europe regions have local boards, with Non-Executive Chairmen and at least two other Non-Executive Directors, which oversee the regions' operations. These boards form an integral part of the overall internal control process. Local boards for the Australia Asia Pacific region and Grosvenor Fund Management work closely with the Holding Company team to ensure appropriate internal controls are maintained. The relationship between regional boards and the Group Board is clearly defined and is set out in formally approved financial delegation procedures.

In addition to local boards, each region and Grosvenor Fund Management, together with the Holding Company, is represented on the Group Finance Board, which meets at least two times each year and provides a forum for debating issues of a financial nature which are relevant to the Group as a whole, including the setting of Group policy, development of systems and risk management.

In view of the relatively small number of staff and the interaction of local boards, including the Group Finance Board, the Grosvenor Group Board has been satisfied that an internal audit function has not been required. The need for this additional control is reviewed by the Board on a regular basis and a framework for internal audit, risk management and better practice reviews has been adopted by the audit committee.

The Board carried out its annual assessment of internal control for the year 2006 at its meeting in March 2007 by considering reports from management and the Audit Committee and taking account of events since 31 December 2006.

Risk management is a regular agenda item for all parts of the business with the emphasis on continuous improvement. Specific financial and other controls can be summarised under the following headings:

**OPERATING AND HOLDING COMPANY CONTROLS**

Key controls over major business risks include reviews against performance indicators and exception reporting. Each team makes regular assessments of its exposure to major financial, operational and strategy risks and the extent to which these are controlled.

**FINANCIAL INFORMATION**

The Group and each Operating Company have comprehensive systems for reporting financial results. Financial results are reviewed on a quarterly basis (consistent with the pattern of income receipts in the majority of the Group's operations) with comparisons against budget and prior periods together with a forecast for the full financial year and the potential variances to that forecast. Each year a detailed operational budget and a five year financial plan is prepared. Treasury reporting is reviewed on a monthly basis, with further reporting each quarter.

**TREASURY POLICIES**

Treasury policies, approved by the Board, are:

- except for Holding Company operations, to raise all debt at Operating Company level and operate a decentralised treasury management structure. In November 2006 the Board approved a co-ordinated Group approach to treasury;
- 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 cashflow 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 for the next three years;
- not to hedge long term net asset positions held in foreign currencies; and
- to invest short term cash with approved institutions within limits agreed by the Board.

Transactions in financial instruments 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.

**FINANCIAL SERVICES AUTHORITY (FSA)**

Grosvenor Investment Management Limited, a wholly owned subsidiary, is authorised and regulated by the FSA for the purposes of undertaking regulated property advisory investment activities. All transactions with managed funds are separately accounted for under a full client accounting regime.

Grosvenor Australia Nominees Pty Limited, a wholly owned subsidiary, provides financial services and products to wholesale clients as authorised under its Australian Financial Services Licence No. 302153 issued by the Australian Securities and Investments Commission.

Grosvenor Investment Management US Inc, a wholly owned subsidiary, is a registered investment adviser pursuant to the Investment Advisers Act of 1940, for the purposes of providing real estate related investment advice.

## REPORT ON EMPLOYMENT AND REMUNERATION MATTERS SPECIFICALLY RELATING TO EXECUTIVE DIRECTORS AND SENIOR STAFF

Consistent with the delegation of management responsibility to regional management teams, each Operating Company has its own remuneration committee with appropriate responsibility for remuneration matters within its Operating Company.

**THE GROUP'S EMPLOYMENT POLICIES** recognise the value of staff to its long term success. The promotion of loyalty is important for Grosvenor and good relationships between employer and employee are nurtured. Grosvenor is an equal opportunities employer and staff are kept informed on matters affecting them and on the financial and economic factors affecting the Group's performance. We are committed to improving performance through regular review and continuous learning. Programmes are in place to train and develop suitable individuals for future senior or Directors' roles.

**THE REMUNERATION COMMITTEE** comprises three Non-Executive Directors. It meets at least twice a year. The Group Chief Executive and Group Human Resources Director are in attendance unless their own remuneration is being discussed. The committee is responsible for overseeing remuneration and employment policies across the whole Group and also for administering directly the remuneration and contracts of Directors and staff in the Holding Company, Australia Asia Pacific and Grosvenor Fund Management. They consult with independent professional advisers as necessary.

**THE GROUP'S REMUNERATION POLICIES** recognise the importance of attracting, retaining and motivating executives of the appropriate calibre and experience to enhance the performance and reputation of the Group. The size, complexity and international perspective, as well as the long term nature of the business, are all important factors. The policy is to provide competitive potential levels of compensation, benefits and incentive opportunities within appropriate local markets. Compensation includes variable elements to reward superior Company, team and individual performance, in line with market practice.

**THE REMUNERATION** of Executive Directors and senior staff includes a blend of short and long term rewards and has been designed to address the interests of both employees and shareholders. The elements are:

- **BASIC SALARY AND BENEFITS** are competitive within the property industry in the locations in which the Group operates. Salaries are reviewed annually, or on promotion. Taxable benefits are provided at levels similar to those for comparable positions and include, as appropriate, health insurance and car allowance.
- **BONUS AND INCENTIVE SCHEMES** operate for Executive Directors and senior staff and are designed to link rewards to both individual and Company performance. Awards relating to Company performance are determined by the achievement of total return compared with the relevant weighted average cost of capital and, in the case of Grosvenor Fund Management, performance against other business improvement targets. The incentive arrangements are designed to reward outstanding performance and are linked to the achievement of performance targets at both team and individual levels. A proportion of incentive awards each year are long term and vest over periods of up to five years. The Remuneration Committee has discretion to award individual bonuses in recognition of special performance.
- **PENSIONS AND LIFE ASSURANCE** for Executive Directors and senior staff in the UK are provided through membership of the Grosvenor Pension Plan (GPP) and, if applicable, supplementary pension arrangements. GPP is non-contributory and provides, for those who were members before 2004, a maximum pension of up to two-thirds of pensionable salary on retirement. The cost of the Group's contribution to GPP in respect of each Director is based on the senior executive member current average contribution rate of 29.1% of pensionable salary per year. The GPP also provides for dependants' pensions of two-thirds of the member's pension and an insured lump sum payment of four times basic salary in the event of death in service. For all staff who joined the Group after 1 January 2004 GPP provides a defined benefit pension up to an upper earnings limit, and above this limit the Group will contribute between 25% and 30% of salary into employees' accounts with the Grosvenor Estate Money Purchase Scheme.

  Outside the UK pensions are provided from a number of schemes, including separate defined benefit schemes in Australia, Canada and the USA. Further details of the Group's pension schemes are given in note 10 of the Accounts.

# REMUNERATION REPORT

**A SCHEDULE OF DIRECTORS' REMUNERATION**, including all amounts required to be disclosed by the Directors' Remuneration Report Regulations 2002, is approved by the shareholders and details of Directors' remuneration in accordance with the Companies Act 1985 are set out in note 11 to the financial statements.

**THE NOTICE PERIOD** for the termination of the employment of an Executive Director is six months.

**NON-EXECUTIVE DIRECTORS** representing the shareholders receive no fee from the Company. The fees for other Non-Executive Directors are reviewed every two years by the Chairman. Non-Executive Directors do not have service contracts and do not participate in bonus arrangements.

**TRANSACTIONS BETWEEN THE GROUP AND GROSVENOR TRUSTS** are disclosed in note 40 to the financial statements. Certain Company Directors are Trustees of Grosvenor Trusts and are also Directors of other companies with which the Group may from time to time enter into transactions on normal commercial terms. In the opinion of the Board, none of these relationships are such as to impair the independence of the Non-Executive Directors.

**Robin Broadhurst**
Chairman of the Remuneration Committee
15 March 2007

# DIRECTORS' REPORT

The Directors present their annual report and the Group's audited consolidated financial statements for the year ended 31 December 2006.

**PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The Group's principal activities are property investment, development and fund management in Britain & Ireland, North America, Continental Europe and Australia Asia Pacific.

The review of the business in accordance with the requirements of Section 234ZZB of the Companies Act 1985 (the "Business Review") can be found in the review section on pages 1 to 53, which is incorporated into this report by reference.

The other information that fulfils the requirements of the Business Review is set out below.

**RISKS AND UNCERTAINTIES**

We aim to generate returns over the long term (5-10+ years) at or above our cost of capital. Each Operating Company endeavours to maximise its returns in accordance with an agreed stance on risk. We seek 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 of the principal risks faced by the business, followed by an explanation of each of those risks.

### Market risk

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

Our exposure to market risk is mitigated through a balanced allocation of capital to different geographic markets and property sectors, which is explained in more detail under asset allocation below.

Short term market risk is more relevant in our development activity, where market conditions may affect leasing terms. We commit to development projects only after taking careful account of the outlook for our markets. Development exposures are frequently reduced by working in joint ventures. If a trading project completes at a relatively low point in the market cycle, we might retain the asset until the market recovers.

In the future we expect to be able to make use of property derivatives as a further mechanism for managing our exposure to market risk.

### Asset allocation

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

The allocation of equity to regional Operating Companies is a continuous process on an annual cycle. The process includes detailed research of long term (5+ years) macro-economic projections, a review of regional economic and Operating Company historic and projected performance, consideration of wider issues such as climate change, and the use of portfolio theory simulations. From this, the Holding Company determines a range of the desired relative weighting of capital to each region over the long term. Medium term (2-5 year) target weightings are set by reference to long term ranges, adjusted for medium term factors. Actual annual allocations are made consistent with medium term targets and long term ranges, but in response to short term (0-2 year), tactical and opportunistic considerations. The Group retains the financial capacity for unplanned opportunities that may arise.

Long term ranges agreed in January 2007, and actual equity allocations at 31 December 2006, were as follows:

| | **Percentage of Group Equity** | |
|---|---|---|
| Region | Long term range % | At 31 December 2006 % |
| Britain & Ireland | 45.0 – 65.0 | 60.7 |
| Americas | 12.5 – 27.5 | 14.7 |
| Continental Europe | 10.0 – 22.5 | 16.0 |
| Australia Asia Pacific | 5.0 – 20.0 | 7.5 |
| Fund Management | 0 – 10.0 | 1.1 |

At the Operating Company level, each board reviews the strategy within its region annually. This review takes account of the geographic allocation in the region as well as the allocation between sectors and the split between investment and development.

The current distribution of the Group's portfolio by sector and region is shown in the portfolio summary on pages 112 and 113, and the distribution of total assets under management is shown on pages 4 and 5.

### Property risks

#### Investment properties

The principal risk in property investment is the loss of income. We ensure that properties are properly maintained and managed, occupancy is maximised and our 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 cycle, including obtaining appropriate planning consents and controlling the construction process. We have dedicated teams involved in site assembly and planning and we limit 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

We have no plans to seek further equity capital through the issue of new shares. Capital for investment is available from retained earnings. Our preference for working with partners and fund management investors provides access to capital, beyond our own resources, for investment and development opportunities. Recognising the importance of this source of capital we established Grosvenor Fund Management two years ago. Working with like minded investors in property is now a core part of our business.

### Acquisitions and sales

When acquiring or selling property the principal risk is in underwriting the future income flows in order to determine an appropriate price. Timing of property transactions is managed as part of the annual asset allocation review within each Operating Company. Estimated price levels are supported by detailed financial appraisals – which are conducted for all property transactions. Where deals occur within joint ventures or funds, they require the approval of an investment committee which is independent from the asset management team. Every property transaction is subject to a due diligence review, including corporate due diligence where properties are acquired within corporate vehicles.

### Health and safety

Grosvenor operates in four regions of the world and across a range of sectors including offices, residential, retail, business parks and light industrial. The Group is committed to achieving high standards of health and safety throughout the business and adhering to best practice.

Overall responsibility for health and safety is taken by the Group Finance Director. Each Operating Company board is responsible for health and safety in its business with the support of the internal Health and Safety Director and external consultants with local expertise to help them achieve compliance.

The Group's objective is to ensure that employees throughout the Group are well informed and consulted on matters regarding health and safety which is treated as a key part of the wider risk management process.

Each Operating Company formally reports its compliance each year and progress is monitored on a regular basis.

The Group continues to review its reporting of performance information and has implemented a health and safety IT management system to assist the business. All accidents and cases of ill health are treated seriously. In 2006 each business had a health and safety action plan and made good progress in completing these plans.

In 2006, there were 170 (2005 – 29) incidents relating to premises and projects that Grosvenor controls that were reportable to statutory authorities. The increase arises from an expansion in our development activities and relates to injuries to third parties.

Grosvenor did not receive any enforcement action from statutory Health and Safety authorities in 2006.

Health and safety targets have been developed by the Group and each Operating Company. These include achieving a full understanding of the risk burden that each business needs to manage and receiving assurances that we have management systems in place to cope with workplace and other risks.

### Environment

The Group takes a long term view of its activities and responsibilities. Environmental considerations are therefore an important factor throughout the management of all Group companies. Two main principles are observed:

- Grosvenor seeks to identify and minimise its environmental impact, wherever it occurs, aiming for continuous improvement in performance; and
- Grosvenor seeks to make a positive contribution to sustainable development, giving consideration to environmental, economic and social sustainability in all its operations.

These principles are applied through specific objectives, policies, targets and benchmarks which are managed at Operating Company level. The Director responsible for environmental policy is the Group Chief Executive.

### Reputation and brand

We are aware that the professional reputation of the individuals and businesses within the Group is an important intangible asset, as is the Grosvenor brand. We seek to manage those assets by investing appropriately in them, and by identifying potential reputational or brand risks and acting swiftly to mitigate them whether they be real or perceived. In 2006 we enhanced the expertise available to us by increasing our in house and consultancy resource in reputation management; for 2007 we have initiated a Group-wide project to continue the development of our brand.

### Financial risks

#### Liquidity/cashflow

Grosvenor obtains financing from a number of sources, including secured lending at project level together with secured and unsecured borrowing at the corporate level. To ensure we have sufficient available cash to meet our operating plans, cash flow projections are maintained at Operating Company level. Committed borrowing facilities are maintained as deemed appropriate. At 31 December 2006 the Group had undrawn working capital facilities of £429.1m.

We set limits at each Operating Company to ensure that the interest cost of all projected debt can be met from "sustainable" cash flows, excluding those that are dependent on property sales.

#### Credit

Surplus cash is deposited with major financial institutions with credit ratings at or above a specified level. We set limits to restrict the total amount of funds that can be deposited with any single counterparty.

#### Interest rate

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 the required interest rate profile.

#### Foreign currency

Our investments outside Britain & Ireland are held for the long term, so it is the Group's policy not to hedge the net investment in these regions. Within each region there is a certain amount of natural currency hedging as debt is drawn in local currency to finance local operations. Short term cash flows between currencies are hedged by the use of foreign exchange derivatives.

#### Tax

Exposure to tax risk arises as a result of the Group operating 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 future changes in tax legislation. These risks are managed by an in-house team who work alongside a team of external tax advisers.

### People

We take considerable care in recruiting, retaining and growing Grosvenor people. We have graduate qualifying programmes and a range of development opportunities exist. Succession planning is overseen by Remuneration Committees. Our compensation is regularly benchmarked against the market and we reward loyalty, excellence and effort.

### Information technology

The Group's operations are highly dependent on the effectiveness of IT systems, including communications systems, property databases and financial systems. We have control procedures to protect the integrity and security of our data. These procedures are supported by detailed disaster recovery plans, tested on a regular basis. In 2006 we established the Business Process Group to ensure that the Group achieves business improvement through the efficient delivery of Group-wide process and system changes.

## KEY PERFORMANCE INDICATORS AND MEASURES OF RETURN

At Grosvenor we take a long term view so we are less interested in year on year comparisons and more concerned with the overall trend in our performance.

We monitor total return on property assets and growth in revenue profit. We calculate total return on a proportional basis, including our share of joint ventures and associates. We define it as profit before tax and interest payable, plus revaluations and after exchange movements, as a percentage of average property assets (before current year revaluations) including cash. Revenue profit is shown in note 4.

Our achievement against these indicators is set out in the Finance Director's report on pages 12 to 15. We currently employ numerous key performance indicators throughout the Group to help achieve ambitious goals and our philosophy of continuous improvement.

# DIRECTORS' REPORT

## RESULTS AND DIVIDENDS

The results for the year are set out in the consolidated income statement on page 66. Profit for the year was £364.2m (2005 – £265.1m). Dividends paid during the year amounted to £9.4m (2005 – £8.5m). Subsequent to the year end a dividend of £6.7m (2005 – £6.1m) was proposed, but in accordance with IFRS has not been provided in these financial statements.

On 14 March 2007 the Company purchased the following shares from shareholders representing 6.56% of its called up share capital:

| | | |
|---|---|---|
| Ordinary shares | Nominal value £1 | 399,047 |
| Non-voting ordinary shares | Nominal value £1 | 3,192,376 |
| 12% Non-cumulative irredeemable preference shares | Nominal value £1 | 399,047 |

The total consideration for the purchase of the above shares was £40.3m, funded from available cash. The reason for the purchase of the shares is to better align the shareholders' interests with the Group's activities.

## DIRECTORS

Details of the Directors of the Company and their biographies are given on pages 16 and 17. All Directors served throughout the year with the exception of those set out below.

Jonathan O Hagger (resigned 31 May 2006)
Nicholas R Scarles (appointed 1 June 2006)
Mark R Preston (appointed 15 June 2006)
Stephen H R Musgrave (resigned 30 June 2006)

## 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** | | **12% Non-cumulative irredeemable preference shares** | |
|---|---|---|---|---|---|---|
| | **At 1 January 2006** | **At 31 December 2006** | **At 1 January 2006** | **At 31 December 2006** | **At 1 January 2006** | **At 31 December 2006** |
| **Beneficial** | | | | | | |
| The Duke of Westminster | 6,083,924 | 6,083,924 | 48,671,392 | 48,671,392 | 6,083,924 | 6,083,924 |
| **Non-beneficial** | | | | | | |
| The Earl of Home | 1,515,529 | 1,515,529 | 12,124,233 | 12,124,233 | 1,515,529 | 1,515,529 |
| Jeremy H M Newsum | 4,290,433 | 4,290,433 | 34,323,463 | 34,323,463 | 4,290,433 | 4,290,433 |
| Robin S Broadhurst | 4,052,363 | 4,052,363 | 32,418,904 | 32,418,904 | 4,052,363 | 4,052,363 |

The non-beneficial interests above represent the shares owned by the respective Directors in their capacity as Trustees of the Grosvenor Trusts. There have been no changes in beneficial or non-beneficial interests since 31 December 2006 other than the beneficial interests of the Duke of Westminster, which have reduced as a result of the purchase of shares noted above.

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

5,438 ordinary shares of Grosvenor Continental Europe Holdings S.A., representing 0.2% of its share capital, have been awarded but not yet issued to Neil Jones in connection with a long term incentive scheme.

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.

### CHARITABLE AND POLITICAL CONTRIBUTIONS

Charitable contributions during the year amounted to £1.5m (2005 – £1.3m). £1.2m was donated to the Westminster Foundation (2005 – £1.0m) which supports a wide range of charitable causes. No political contributions were made during the year (2005 – £nil).

### POLICY ON PAYMENT OF SUPPLIERS

Payment terms are agreed with suppliers on an individual basis. It is the policy of both the Company and the Group to abide by the agreed terms, provided that the suppliers also comply with all relevant terms and conditions. In respect of the Group's activities in the UK, trade creditors at 31 December 2006 represented 8 days' purchases (2005 – 8 days). The Company has no trade creditors.

### EMPLOYEES

The Group gives full and fair consideration to applications by disabled persons for employment. Disabled employees and those who become disabled are afforded the same training, career development and promotion opportunities as other staff. The Directors recognise the importance of good communications and relations with the Group's employees. Each part of the Group maintains employee relationships appropriate to its own particular needs and environment.

### AUDITORS

The Company has elected to dispense with the obligation to appoint auditors annually and, accordingly, Deloitte & Touche LLP shall be deemed to be re-appointed as auditors for a further term under the provisions of section 386(2) of the Companies Act 1985.

In so far as the Directors are aware:

a) there is no relevant audit information of which the auditors are unaware; and
b) the Directors have taken all reasonable steps that they ought to have taken to make themselves aware of any relevant information and to establish that the Company's auditors are aware of that information.

This information is given in accordance with s.234ZA of the Companies Act 1985.

**Judith Ball**
Company Secretary
15 March 2007

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

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

# CORPORATE ADVISERS AND BANKERS

| | |
|---|---|
| **AUDITORS:** | Deloitte & Touche LLP |
| **TAX ADVISERS:** | KPMG LLP |
| **PRINCIPAL VALUERS:** | CB Richard Ellis, Cushman & Wakefield, DTZ Debenham Tie Leung |
| **SOLICITORS:** | Boodle Hatfield, Slaughter and May |
| **LEAD BANKERS:** | The Royal Bank of Scotland Group plc |
| **ACTUARIES:** | Lane Clark & Peacock LLP |

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GROSVENOR GROUP LIMITED

We have audited the Group and parent Company financial statements (the "financial statements") of Grosvenor Group Limited for the year ended 31 December 2006 which comprise the consolidated income statement, the consolidated and parent Company balance sheets, the consolidated statement of recognised income and expense, the consolidated statement of cash flows, and the related notes 1 to 40. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' Remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

### BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's and the Parent Company's affairs as at 31 December 2006, and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

**Deloitte & Touche LLP**
Chartered Accountants and Registered Auditors
London
15 March 2007

Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

# CONSOLIDATED INCOME STATEMENT

*for the year ended 31 December 2006*

| | Note | 2006 £m | 2005 £m |
|---|---|---|---|
| Total revenue | *3* | **352.8** | 391.2 |
| Gross rental income | *5* | **106.8** | 96.8 |
| Property outgoings | *6* | **(41.6)** | (45.9) |
| **Net rental income** | | **65.2** | 50.9 |
| Other income | *7* | **52.9** | 29.9 |
| Administrative expenses | *8* | **(75.8)** | (53.3) |
| Loss on trading and development properties | *12* | **(176.6)** | (7.3) |
| Gains on other investments | *13* | **0.3** | – |
| Net gains on revaluation and sale of investment property | *14* | **518.7** | 246.8 |
| Impairment of goodwill | *25* | **(0.2)** | (3.3) |
| Share of profit from joint ventures | *22* | **149.6** | 121.6 |
| Share of loss from associates | *23* | **(4.6)** | – |
| **Profit from operations including share of joint ventures and associates** | | **529.5** | 385.3 |
| Dividend income | *15* | **1.1** | 0.3 |
| Financial income | *15* | **19.3** | 21.4 |
| Financial expenses | *15* | **(41.2)** | (38.9) |
| **Net financing costs** | *15* | **(20.8)** | (17.2) |
| **Profit before tax** | | **508.7** | 368.1 |
| Current tax | *16* | **(20.1)** | (8.5) |
| Deferred tax | *16* | **(124.4)** | (94.5) |
| **Profit for the year** | *38* | **364.2** | 265.1 |
| **Attributable to:** | | | |
| Equity holders of the parent | *38* | **347.1** | 251.5 |
| Minority interests | *38* | **17.1** | 13.6 |
| **Profit for the year** | *38* | **364.2** | 265.1 |

All activities derive from continuing operations.

# BALANCE SHEETS

*as at 31 December 2006*

| | Note | Group 2006 £m | Group 2005 £m | Company 2006 £m | Company 2005 £m |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Investment property | 18 | **2,264.4** | 1,936.0 | **–** | – |
| Investment property under development | 19 | **85.6** | 71.4 | **–** | – |
| Other property, plant and equipment | 20 | **43.1** | 33.8 | **–** | – |
| Investments in subsidiaries | 21 | **–** | – | **1,358.4** | 1,363.9 |
| Investments in joint ventures | 22 | **988.3** | 790.0 | **–** | – |
| Investment in associates | 23 | **61.8** | 29.4 | **–** | – |
| Other financial assets | 24 | **50.0** | 71.0 | **–** | – |
| Intangible assets | 25 | **4.9** | 3.9 | **–** | – |
| Deferred tax assets | 26 | **65.8** | 95.0 | **–** | – |
| **Total non-current assets** | | **3,563.9** | 3,030.5 | **1,358.4** | 1,363.9 |
| **Current assets** | | | | | |
| Trading properties | 27 | **48.7** | 34.5 | **–** | – |
| Trade and other receivables | 28 | **133.1** | 75.5 | **110.5** | 15.0 |
| Other financial assets | 24 | **9.4** | – | **–** | – |
| Income tax receivable | | **30.7** | 12.7 | **–** | – |
| Cash and cash equivalents | 29 | **455.4** | 385.5 | **–** | – |
| **Total current assets** | | **677.3** | 508.2 | **110.5** | 15.0 |
| **TOTAL ASSETS** | | **4,241.2** | 3,538.7 | **1,468.9** | 1,378.9 |
| **LIABILITIES** | | | | | |
| **Non-current liabilities** | | | | | |
| Interest-bearing loans and borrowings | 30 | **(565.6)** | (555.1) | **–** | – |
| Trade and other payables | 32 | **(154.6)** | (176.0) | **–** | – |
| Employee benefits | 10 | **(15.8)** | (27.8) | **–** | – |
| Deferred tax liabilities | 26 | **(555.2)** | (450.6) | **–** | – |
| **Total non-current liabilities** | | **(1,291.2)** | (1,209.5) | **–** | – |
| **Current liabilities** | | | | | |
| Overdrafts | 29 | **(4.6)** | (1.2) | **–** | – |
| Interest-bearing loans and borrowings | 30 | **(89.3)** | (19.1) | **–** | – |
| Trade and other payables | 32 | **(106.9)** | (94.7) | **–** | – |
| Income tax payable | | **(23.6)** | (17.7) | **–** | – |
| Provisions | 33 | **(158.8)** | (10.0) | **–** | – |
| **Total current liabilities** | | **(383.2)** | (142.7) | **–** | – |
| **TOTAL LIABILITIES** | | **(1,674.4)** | (1,352.2) | **–** | – |
| **NET ASSETS** | | **2,566.8** | 2,186.5 | **1,468.9** | 1,378.9 |
| **Equity** | | | | | |
| Share capital | 37 | **60.8** | 60.8 | **60.8** | 60.8 |
| Share premium | 38 | **173.1** | 173.1 | **28.3** | 28.3 |
| Reserves | 38 | **210.2** | 240.2 | **1,268.7** | 1,268.7 |
| Retained earnings | 38 | **1,973.8** | 1,617.5 | **111.1** | 21.1 |
| **Shareholders' funds** | 38 | **2,417.9** | 2,091.6 | **1,468.9** | 1,378.9 |
| Minority interests | 38 | **148.9** | 94.9 | **–** | – |
| **TOTAL EQUITY** | 38 | **2,566.8** | 2,186.5 | **1,468.9** | 1,378.9 |

Approved by the Board on 15 March 2007 and signed on behalf of the Board

**The Duke of Westminster** KG OBE TD DL (Chairman)

**Nicholas Scarles** FCA CPA ATTORNEY AT LAW (Group Finance Director)

# CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

*for the year ended 31 December 2006*

| | | 2006 £m | 2005 £m |
|---|---|---|---|
| Foreign exchange translation differences | | **(77.5)** | 55.6 |
| Revaluation of investment property under development | – Group | **19.0** | 11.4 |
| | – joint ventures | **22.0** | 0.1 |
| | – associates | **29.9** | – |
| Revaluation of other property, plant and equipment | | **8.7** | 5.8 |
| Change in fair value of equity shares available for sale | | **(0.1)** | (7.8) |
| Fair value adjustments on swaps | | **2.9** | 0.2 |
| Fair value adjustments transferred to income statement | | **–** | 5.7 |
| Deferred tax on gains recognised in reserves | | **(25.0)** | 0.8 |
| Actuarial gains and losses on defined benefit pension schemes | | **10.6** | (11.3) |
| **Net (loss)/gain recognised directly in equity** | | **(9.5)** | 60.5 |
| **Profit for the year** | | **364.2** | 265.1 |
| **Total recognised income and expense for the year** | | **354.7** | 325.6 |
| **Attributable to:** | | | |
| Equity holders of the parent | | **335.7** | 311.9 |
| Minority interest | | **19.0** | 13.7 |
| | | **354.7** | 325.6 |

A consolidated statement of changes in equity is given in the reconciliation of share capital and reserves on page 104. The Company's equity increased during the year as a result of the retained profit for the year of £99.4m (2005 – £8.5m) and reduced as a result of dividends paid to shareholders of £9.4m (2005 – £8.5m).

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2006*

| | Note | 2006 £m | 2005 £m |
|---|---|---|---|
| **Operating activities** | | | |
| Operating profit before changes in working capital and provisions | *39(A)* | **38.1** | 22.0 |
| (Increase)/decrease in trade and other receivables | | **(24.4)** | 55.7 |
| (Increase)/decrease in trading and development properties | | **(17.4)** | 16.3 |
| Increase in trade and other payables | | **8.3** | 20.8 |
| Decrease in employee benefits | | **(4.9)** | (1.6) |
| **Cash generated from operations** | | **(0.3)** | 113.2 |
| Interest paid | | **(47.2)** | (44.5) |
| Income taxes paid | | **(30.5)** | (8.1) |
| Interest received | | **22.4** | 16.4 |
| **Net cash flows from operating activities** | | **(55.6)** | 77.0 |
| **Investing activities** | | | |
| Proceeds from sale of investment property | | **371.9** | 261.2 |
| Acquisition of investment property | | **(192.7)** | (73.1) |
| Development of investment property | | **(20.3)** | (31.0) |
| Acquisition of other property, plant and equipment | | **(2.6)** | (0.7) |
| Acquisition of other financial assets | | **(14.5)** | (13.5) |
| Proceeds from sales of other financial assets | | **24.9** | 5.7 |
| Net cash flow from joint ventures and associates | | **15.9** | (14.7) |
| Acquisition of Group undertakings | *39(C)* | **(161.9)** | – |
| Dividends received | | **1.1** | 0.3 |
| **Net cash flows from investing activities** | | **21.8** | 134.2 |
| **Financing activities** | | | |
| Proceeds from additional borrowings | | **108.0** | 26.3 |
| Repayment of borrowings | | **(19.9)** | (79.1) |
| Capital reduction in a subsidiary undertaking | | **–** | (30.1) |
| Minority shares issued by subsidiaries | | **35.5** | – |
| Dividends paid | | **(9.9)** | (10.7) |
| **Net cash flows from financing activities** | | **113.7** | (93.6) |
| **Net increase in cash and cash equivalents** | | **79.9** | 117.6 |
| Cash and cash equivalents at 1 January | | **384.3** | 264.2 |
| Effect of exchange rate fluctuation on cash held | | **(13.4)** | 2.5 |
| **Cash and cash equivalents at 31 December** | *29* | **450.8** | 384.3 |

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

# NOTES TO THE FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES

### (A) BASIS OF PREPARATION

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, future 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 on the historical cost basis, except for the revaluation of investment and development properties, certain financial assets and derivatives and deferred tax thereon. The principal accounting policies adopted are set out below.

Certain minor changes have been made to the comparative figures in order to assist with comparability. The Company has elected under section 230 of the Companies Act 1985 not to include its own income statement in these financial statements.

### (B) BASIS OF CONSOLIDATION

The consolidated financial statements of the Group incorporate the financial statements of the Company and entities controlled wholly or jointly by the Company up to 31 December 2006.

Subsidiaries 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 established by contractual agreement. 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, in both cases presented separately. 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.

Jointly controlled assets are those where the Group has joint ownership of a direct interest in an asset. The Group accounts for jointly controlled assets by including its share of the individual items of assets, liabilities, income and expenses.

Business combinations are accounted for under the acquisition method. 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 is subject to annual impairment reviews and is stated at cost less any impairment.

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.

### (C) FOREIGN CURRENCY TRANSLATION

At entity level, transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling on the date the transaction is recorded. Monetary assets and liabilities denominated in foreign currencies are retranslated 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.

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

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.

### (D) INVESTMENT PROPERTY

Investment properties, including freehold and long leasehold properties and those in joint ventures, are those which are held either to earn rental income or for capital appreciation or for both. 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 future use as investment property, the property continues to be classified as an investment property, and is measured based on the fair value model 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.

## 1. ACCOUNTING POLICIES (CONTINUED)

Property that is being constructed or developed for future use as investment property but which has not been previously classified as such is classified as investment property under development. Investment properties under development are initially measured at cost, including transaction costs. After initial recognition the properties are carried at their fair values, with any surplus or deficit recognised in the revaluation reserve, unless a deficit reduces the carrying value of a property to below its historic cost in which case it is recognised in the income statement. On practical completion development properties are transferred to investment property.

### (E) LEASES

Leases to tenants where substantially all the risks and rewards of ownership are retained by the Group as 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.

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.

### (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.

### (G) OTHER FINANCIAL ASSETS

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. Loans and receivables are included at amortised cost.

### (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 provision for impairment.

### (J) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits. Cash equivalents are short term, 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 component of cash and cash equivalents for the purpose of the statement of cash flows.

### (K) FINANCIAL INSTRUMENTS

Derivative instruments utilised by the Group are interest rate swaps and caps and forward exchange contracts against known transactions. The Group does not enter into speculative derivative contracts. Any instruments used are 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. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

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.

## 1. ACCOUNTING POLICIES (CONTINUED)

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or 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

Borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, borrowings 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.

### (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 a qualified 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, the interest cost on the future benefit liability and the expected return on plan assets.

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 Group's revenue comprises rental income, service charges and other recoverables from tenants, income from provision of services including property management fees, development fees 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 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.

## 1. ACCOUNTING POLICIES (CONTINUED)

### (Q) BORROWING COSTS

Borrowing costs relating to the financing of development properties and major improvements to investment properties 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.

### (R) INCOME TAX

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.

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. The following temporary differences are not provided for: the initial recognition of assets and liabilities that affect neither accounting nor taxable profit and 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 the tax base cost.

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.

### (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 there is reasonable assurance 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 STANDARDS

The following standards and interpretations have been issued but are not yet effective:

- IFRS 7 Financial instruments: disclosures
- IFRS 8 Operating segments
- IFRIC 7 Applying the restatement approach under IAS 29
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of embedded derivatives
- IFRIC 10 Interim financial reporting and impairment
- IFRIC 11 IFRS 2: Group and treasury share transactions
- IFRIC 12 Service concession arrangements

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007.

## 1. ACCOUNTING POLICIES (CONTINUED)

### (U) SIGNIFICANT JUDGEMENTS AND KEY ESTIMATES

#### i) Investment property valuation

Investment properties and investment properties under development are carried at open market value in accordance with valuations carried out by independent valuers. Valuations are based on a number of key assumptions including an estimate of future rental income and the appropriate discount rate. For investment properties under development, key judgements also include estimates of future development costs.

#### ii) Development provisions

The provision for losses on the Liverpool One project is based on a detailed review of progress and an estimate of the remaining costs to complete the project.

#### iii) Deferred lease premiums

Where operating lease premiums are received in exchange for the grant of a long leasehold interest, the related profit is recognised over the term of the lease. Many of the transactions giving rise to deferred lease premiums took place a number of years ago before the requirement to spread profit recognition; the Group has had to apply its judgement to estimate certain of the lease premium deferrals and associated deferred tax assets.

#### iv) Defined benefit pension schemes

The net balance sheet obligation and the expected annual charge in respect of defined benefit pension plans is determined according to estimates carried out by actuaries on the basis of assumptions agreed by the Board. The key assumptions underlying these calculations are set out in note 10.

## 2. FOREIGN CURRENCY

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

| | Average rate | | Year end rate | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **£1** | £1 | **£1** | £1 |
| Euro | **1.47** | 1.46 | **1.48** | 1.46 |
| US Dollar | **1.85** | 1.82 | **1.96** | 1.72 |
| Canadian Dollar | **2.09** | 2.20 | **2.28** | 2.01 |
| Australian Dollar | **2.44** | 2.39 | **2.48** | 2.34 |
| Hong Kong Dollar | **14.35** | 14.17 | **15.22** | 13.31 |
| Singapore Dollar | **2.93** | 3.03 | **3.00** | 2.85 |
| Japanese Yen | **214.53** | 200.36 | **233.20** | 202.63 |

## 3. SEGMENTAL ANALYSIS

**2006**

| GEOGRAPHICAL SEGMENTS* | Britain & Ireland £m | Americas £m | Continental Europe £m | Australia Asia Pacific £m | Fund Management £m | **Consolidated £m** |
|---|---|---|---|---|---|---|
| **Income statement** | | | | | | |
| Income from external customers | | | | | | |
| Rental income | 69.1 | 22.0 | 2.4 | 13.3 | – | **106.8** |
| Income from trading and development properties | 164.2 | 9.4 | – | 11.6 | – | **185.2** |
| Service charge income | 7.6 | – | 0.3 | – | – | **7.9** |
| Other income | 12.3 | 11.4 | 1.5 | 1.1 | 26.6 | **52.9** |
| Total revenue | 253.2 | 42.8 | 4.2 | 26.0 | 26.6 | **352.8** |
| Net rental and other income less administrative expenses | 18.2 | 11.0 | (1.2) | 5.3 | 9.0 | **42.3** |
| (Losses)/gains from trading and development properties | (180.7) | 2.9 | – | 1.2 | – | **(176.6)** |
| Gains on other investments | 0.1 | – | – | 0.2 | – | **0.3** |
| Net gains/(losses) on revaluation and sale of investment property | 440.8 | 51.3 | (0.2) | 26.8 | – | **518.7** |
| Impairment of goodwill | – | – | (0.2) | – | – | **(0.2)** |
| Share of profit from joint ventures | 67.1 | 20.5 | 58.3 | 3.4 | 0.3 | **149.6** |
| Share of losses from associates | (4.6) | – | – | – | – | **(4.6)** |
| Net financing costs | (20.7) | 1.6 | (1.6) | (0.7) | 0.6 | **(20.8)** |
| Profit before tax | 320.2 | 87.3 | 55.1 | 36.2 | 9.9 | **508.7** |
| Current tax | (5.8) | (7.4) | (0.6) | (2.1) | (4.2) | **(20.1)** |
| Deferred tax | (98.2) | (20.8) | 0.5 | (6.6) | 0.7 | **(124.4)** |
| Profit for the year | 216.2 | 59.1 | 55.0 | 27.5 | 6.4 | **364.2** |
| **Balance sheet** | | | | | | |
| Segment assets – Investments in joint ventures and associates | 417.1 | 142.9 | 454.8 | 33.6 | 1.7 | **1,050.1** |
| – Other | 2,131.1 | 462.8 | 178.1 | 276.6 | 46.0 | **3,094.6** |
| | 2,548.2 | 605.7 | 632.9 | 310.2 | 47.7 | **4,144.7** |
| Segment liabilities | (782.4) | (155.4) | (65.0) | (82.5) | (10.3) | **(1,095.6)** |
| Segment net tax liabilities | (371.3) | (83.0) | (9.7) | (14.8) | (3.5) | **(482.3)** |
| Net assets | 1,394.5 | 367.3 | 558.2 | 212.9 | 33.9 | **2,566.8** |
| Capital expenditure | 103.0 | 139.4 | – | 14.8 | – | **257.2** |
| Depreciation and amortisation of segment assets | 2.0 | 0.1 | – | 0.1 | 0.7 | **2.9** |

* The business is organised across five Operating Companies, four of which are geographical regions. Grosvenor Fund Management operates across all regions and is therefore presented separately.

## 3. SEGMENTAL ANALYSIS (CONTINUED)

### BUSINESS SEGMENTS

| | Property Investment £m | Property Development £m | Fund and Joint Venture Management £m | Unallocated £m | **Consolidated £m** |
|---|---|---|---|---|---|
| Income from external customers | 117.9 | 208.3 | 26.6 | – | **352.8** |
| Profit/(loss) for the period | 551.6 | (115.4) | 9.9 | (81.9) | **364.2** |
| Segment assets | 3,292.5 | 397.4 | 68.9 | 385.9 | **4,144.7** |
| Capital expenditure | 215.1 | 42.1 | – | – | **257.2** |

**2005**

| GEOGRAPHICAL SEGMENTS | Britain & Ireland £m | Americas £m | Continental Europe £m | Australia Asia Pacific £m | Fund Management £m | Consolidated £m |
|---|---|---|---|---|---|---|
| **Income statement** | | | | | | |
| Income from external customers | | | | | | |
| Rental income | 66.0 | 16.7 | – | 14.1 | – | 96.8 |
| Income from trading and development properties | 245.6 | 13.9 | – | – | – | 259.5 |
| Service charge income | 5.0 | – | – | – | – | 5.0 |
| Other income | 10.7 | 9.7 | 1.0 | 0.9 | 7.6 | 29.9 |
| Total revenue | 327.3 | 40.3 | 1.0 | 15.0 | 7.6 | 391.2 |
| Net rental and other income less administrative expenses | 16.3 | 8.2 | (1.3) | 7.1 | (2.8) | 27.5 |
| (Losses)/gains from trading and development properties | (10.4) | 3.9 | – | (0.8) | – | (7.3) |
| Net gains on revaluation and sale of investment property | 208.4 | 23.7 | – | 14.7 | – | 246.8 |
| Impairment of goodwill | – | – | (3.3) | – | – | (3.3) |
| Share of profit from joint ventures | 44.1 | 32.4 | 41.0 | 3.9 | 0.2 | 121.6 |
| Net financing costs | (18.8) | 0.5 | 2.8 | (1.9) | 0.2 | (17.2) |
| Profit/(loss) before tax | 239.6 | 68.7 | 39.2 | 23.0 | (2.4) | 368.1 |
| Current tax | 0.9 | (4.5) | (0.4) | (4.5) | – | (8.5) |
| Deferred tax | (78.0) | (15.1) | (0.5) | (0.7) | (0.2) | (94.5) |
| Profit/(loss) for the year | 162.5 | 49.1 | 38.3 | 17.8 | (2.6) | 265.1 |
| **Balance sheet** | | | | | | |
| Segment assets – Investments in joint ventures | 327.7 | 197.6 | 270.0 | 22.7 | 1.4 | 819.4 |
| – Other | 1,844.7 | 352.5 | 133.8 | 260.0 | 20.6 | 2,611.6 |
| | 2,172.4 | 550.1 | 403.8 | 282.7 | 22.0 | 3,431.0 |
| Segment liabilities | (649.5) | (115.4) | (38.5) | (61.5) | (19.0) | (883.9) |
| Segment net tax liabilities | (270.3) | (68.4) | (10.3) | (11.3) | (0.3) | (360.6) |
| Net assets | 1,252.6 | 366.3 | 355.0 | 209.9 | 2.7 | 2,186.5 |
| Capital expenditure | 30.3 | 54.0 | 32.1 | 12.4 | – | 128.8 |
| Depreciation and amortisation of segment assets | 1.4 | 0.1 | 0.1 | 0.1 | – | 1.7 |

## 3. SEGMENTAL ANALYSIS (CONTINUED)

**2005**

**BUSINESS SEGMENTS**

| | Property Investment £m | Property Development £m | Fund and Joint Venture Management £m | Unallocated £m | Consolidated £m |
|---|---|---|---|---|---|
| Income from external customers | 106.6 | 271.8 | 12.8 | – | 391.2 |
| Profit/(loss) for the period | 373.6 | 25.9 | 0.2 | (134.6) | 265.1 |
| Segment assets | 2,834.8 | 260.3 | 34.6 | 301.3 | 3,431.0 |
| Capital expenditure | 98.0 | 30.8 | – | – | 128.8 |

## 4. REVENUE (LOSS)/PROFIT

| | **2006** | | | 2005 | | |
|---|---|---|---|---|---|---|
| | **Group £m** | **Share of joint ventures and associates £m** | **Total £m** | Group £m | Share of joint ventures and associates £m | Total £m |
| Gross rental income | **106.8** | **113.5** | **220.3** | 96.8 | 93.0 | 189.8 |
| Property outgoings (excluding major refurbishments) | **(35.5)** | **(29.8)** | **(65.3)** | (38.9) | (23.0) | (61.9) |
| Net rental income (before major refurbishments) | **71.3** | **83.7** | **155.0** | 57.9 | 70.0 | 127.9 |
| Fees and other income | **52.9** | **17.7** | **70.6** | 29.9 | 11.4 | 41.3 |
| (Loss)/profit on trading and development properties | **(176.6)** | **(4.0)** | **(180.6)** | (7.3) | 7.1 | (0.2) |
| Administrative expenses | **(75.8)** | **(28.3)** | **(104.1)** | (53.3) | (23.9) | (77.2) |
| Net financing costs (excluding fair value adjustments) | **(21.8)** | **(27.0)** | **(48.8)** | (20.1) | (25.1) | (45.2) |
| Revenue (loss)/profit | **(150.0)** | **42.1** | **(107.9)** | 7.1 | 39.5 | 46.6 |
| Development loss provision | **169.9** | **–** | **169.9** | 10.0 | – | 10.0 |
| Revenue profit excluding development loss provision | **19.9** | **42.1** | **62.0** | 17.1 | 39.5 | 56.6 |

## 5. GROSS RENTAL INCOME

| | **2006 £m** | 2005 £m |
|---|---|---|
| Gross lease payments collected/accrued | **104.1** | 92.1 |
| Amortisation of capitalised lease incentives | **0.8** | 3.0 |
| Amortisation of deferred lease premiums | **1.9** | 1.7 |
| | **106.8** | 96.8 |

Investment properties are leased out under operating leases. The majority of operating lease terms fall in the range between 6 months and 20 years. Certain investment properties on the London Estate are leased out on longer term ground rent based leases for periods of up to 947 years.

Total contingent rents included in gross rental income amounted to £0.2m (2005 – £0.1m).

## 6. PROPERTY OUTGOINGS

| | 2006 £m | 2005 £m |
|---|---|---|
| Service charge income | **7.9** | 5.0 |
| Service charge expenses | **(8.5)** | (5.0) |
| Net service charge income | **(0.6)** | – |
| Other property operating expenses | **(41.0)** | (45.9) |
| Total net property outgoings | **(41.6)** | (45.9) |

Included within property operating expenses are major refurbishment costs of £6.1m (2005 – £7.0m).

## 7. OTHER INCOME

| | 2006 £m | 2005 £m |
|---|---|---|
| Fund management and asset management fees | **32.8** | 12.8 |
| Project management fees | **11.3** | 10.2 |
| Other income | **8.8** | 6.9 |
| | **52.9** | 29.9 |

## 8. ADMINISTRATIVE EXPENSES

| | | 2006 £m | 2005 £m |
|---|---|---|---|
| Staff costs | | **51.1** | 35.6 |
| Office costs | | **10.9** | 9.5 |
| Auditors remuneration | – audit services | **0.8** | 0.7 |
| | – other services | **0.1** | 0.2 |
| Other professional fees | | **8.1** | 4.6 |
| Other administrative expenses | | **4.8** | 2.7 |
| | | **75.8** | 53.3 |

All of the Group's Operating Companies were audited by Deloitte. £0.5m of the total audit fee is estimated to relate to the audit of the Group and £0.3m to the audit of the Group's subsidiaries. The Company's audit fees were borne by another Group Company. Amounts paid to other accountancy firms in 2006 totalled £1.1m (2005 – £1.3m).

## 9. EMPLOYEE INFORMATION

| | 2006 £m | 2005 £m |
|---|---|---|
| **Staff costs** | | |
| Wages and salaries | **46.7** | 36.5 |
| Social security contributions | **4.0** | 3.4 |
| Other staff costs | **9.0** | 3.6 |
| **Pension costs** | | |
| Contributions to defined contribution plans | **1.1** | 0.4 |
| Net cost of defined benefit plans | **6.1** | 5.2 |
| | **66.9** | 49.1 |
| Included in: | | |
| Administrative expenses | **51.1** | 35.6 |
| Property operating expenses | **6.7** | 5.5 |
| Development costs | **9.1** | 8.0 |
| | **66.9** | 49.1 |

| **Average number of employees by business** | **2006** | 2005 |
|---|---|---|
| Property investment | **142** | 137 |
| Property development | **98** | 79 |
| Fund management | **83** | 31 |
| Management and administration | **149** | 145 |
| Shopping centre and property management | **29** | 32 |
| | **501** | 424 |

| **Average number of employees by geographic region** | **2006** | 2005 |
|---|---|---|
| Britain & Ireland | **325** | 301 |
| Continental Europe | **28** | 22 |
| North America | **97** | 64 |
| Australia Asia Pacific | **51** | 37 |
| | **501** | 424 |

The Group carries out its own property management for the majority of the portfolio in Britain & Ireland. The Company employs no staff (2005 – nil).

## 10. RETIREMENT BENEFIT SCHEMES

### DEFINED BENEFIT SCHEMES

The Group operates defined benefit pension schemes in Britain & Ireland, Australia, Canada and the USA. The schemes provide retirement benefits based upon pensionable salary and length of service. The Britain & Ireland scheme, which is open to all staff, provides a defined benefit pension up to an upper earnings limit; above this limit the Group contributes between 25% and 30% of that tranche of salary into a defined contribution scheme. Some members of the Britain & Ireland scheme accrue benefits on historical scales which pension full salary (subject to the earnings cap).

The defined benefit schemes are funded and are administered by independent trustees. Independent qualified actuaries complete valuations of the schemes at least every three years and in accordance with their recommendations annual contributions are paid to the schemes so as to secure the benefits set out in the rules.

## 10. RETIREMENT BENEFIT SCHEMES (CONTINUED)

The Britain & Ireland 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, plan assets and cost of this scheme.

Actuarial valuations were last carried out at the following dates:

| | |
|---|---|
| Britain & Ireland | 31 December 2002 |
| Australia | 31 December 2006 |
| Canada | 31 December 2006 |
| USA | 1 January 2006 |

All the valuations have been updated to 31 December 2006 where appropriate. The results of these valuations together with the key assumptions used are set out below. The actuarial valuation of the Britain & Ireland scheme as at 31 December 2005 has been completed but is awaiting final sign off at the date of approving these accounts.

In addition to the defined benefit schemes set out above, the Group operates unfunded defined benefit schemes in Britain & Ireland and the USA to satisfy pension commitments not catered for by the funded 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 £1.1m (2005 – £0.4m).

### ANALYSIS OF DEFINED BENEFIT SCHEMES

The key assumptions used in each scheme were:

| | **2006** | 2005 |
|---|---|---|
| **Discount rate** | | |
| Britain & Ireland | **5.1%** | 4.7% |
| Canada | **5.2%** | 5.0% |
| USA | **5.7%** | 5.5% |
| Australia | **5.0%** | 4.9% |
| **Expected return on scheme assets** | | |
| Britain & Ireland | **7.2%** | 7.0% |
| Canada | **5.0%** | 5.2% |
| USA | **8.3%** | 8.5% |
| Australia | **6.5%** | 6.5% |
| **Expected rate of salary increases** | | |
| Britain & Ireland | **6.3%** | 6.3% |
| Canada | **4.5%** | 4.5% |
| USA | **5.0%** | 5.0% |
| Australia | **4.5%** | 4.5% |
| **Expected rate of future pension increases** | | |
| Britain & Ireland | **2.9%** | 2.9% |
| Canada | **3.0%** | 2.5% |
| USA | **3.0%** | 3.0% |
| Australia | **1.9%** | 3.0% |
| **Inflation** | | |
| Britain & Ireland | **2.9%** | 2.9% |
| Canada | **3.0%** | 3.0% |
| USA | **3.0%** | 3.0% |
| Australia | **2.5%** | 3.0% |

## 10. RETIREMENT BENEFIT SCHEMES (CONTINUED)

The amounts recognised in income in respect of defined benefit schemes were:

| | **2006** **£m** | 2005 £m |
|---|---|---|
| Current service cost | **6.2** | 5.4 |
| Past service cost | **0.3** | – |
| Interest cost | **5.9** | 5.2 |
| Expected return on scheme assets | **(6.3)** | (5.4) |
| | **6.1** | 5.2 |

The amount included in the balance sheet arising from the Group's obligations in respect of defined benefit schemes is as follows:

| | **2006** **£m** | 2005 £m |
|---|---|---|
| Present value of unfunded obligations | **9.7** | 10.5 |
| Present value of funded obligations | **101.4** | 113.6 |
| Present value of total defined benefit obligations | **111.1** | 124.1 |
| Fair value of scheme assets | **(95.3)** | (96.3) |
| Defined benefit pension deficit | **15.8** | 27.8 |
| The deficit arises in the following regions: | | |
| Britain & Ireland | **5.9** | 17.8 |
| Canada | **1.6** | 1.6 |
| USA | **7.3** | 7.1 |
| Australia | **1.0** | 1.3 |
| | **15.8** | 27.8 |

This amount is included in the balance sheet under non-current liabilities.

**MOVEMENTS IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS WERE:**

| | **2006** **£m** | 2005 £m |
|---|---|---|
| At 1 January | **124.1** | 93.6 |
| Current service cost | **6.2** | 5.4 |
| Past service cost | **0.3** | – |
| Interest cost | **5.9** | 5.2 |
| Actuarial (gains)/losses | **(5.5)** | 19.3 |
| Adjustment to the Group's share of multi employer schemes | **(10.3)** | – |
| Benefits paid | **(4.3)** | (3.3) |
| Curtailment | **(0.6)** | – |
| Settlement | **(0.7)** | – |
| Exchange movements | **(4.0)** | 3.9 |
| At 31 December | **111.1** | 124.1 |

## 10. RETIREMENT BENEFIT SCHEMES (CONTINUED)

### MOVEMENTS IN FAIR VALUE OF SCHEME ASSETS WERE:

| | **2006 £m** | 2005 £m |
|---|---|---|
| At 1 January | **96.3** | 76.5 |
| Expected return on plan assets | **6.3** | 5.4 |
| Actuarial gains | **4.9** | 8.0 |
| Adjustment to the Group's share of multi employer schemes | **(10.1)** | – |
| Contributions by the employer | **5.3** | 6.8 |
| Benefits paid | **(4.3)** | (3.3) |
| Exchange movements | **(3.1)** | 2.9 |
| At 31 December | **95.3** | 96.3 |

Analysis of the scheme assets and the expected rates of return:

**2006**

| | Equities | | Bonds | | Other | | **Total** |
|---|---|---|---|---|---|---|---|
| | % | £m | % | £m | % | £m | **£m** |
| Britain & Ireland | 7.5 | 63.5 | 4.5 | 6.8 | 4.5 | 0.9 | **71.2** |
| Canada | 8.2 | 7.7 | 4.5 | 4.0 | 3.3 | 3.7 | **15.4** |
| USA | 9.7 | 4.8 | 6.0 | 2.0 | 4.2 | 0.3 | **7.1** |
| Australia | 10.7 | 0.9 | 6.2 | 0.4 | 5.6 | 0.3 | **1.6** |
| | | 76.9 | | 13.2 | | 5.2 | **95.3** |

**2005**

| | Equities | | Bonds | | Other | | Total |
|---|---|---|---|---|---|---|---|
| | % | £m | % | £m | % | £m | £m |
| Britain & Ireland | 7.3 | 63.1 | 4.0 | 6.9 | 4.0 | 1.0 | 71.0 |
| Canada | 8.1 | 8.0 | 4.8 | 4.5 | 0.3 | 4.3 | 16.8 |
| USA | 10.5 | 4.5 | 5.3 | 2.1 | 4.0 | 0.5 | 7.1 |
| Australia | 8.0 | 0.7 | 5.0 | 0.3 | 5.2 | 0.4 | 1.4 |
| | | 76.3 | | 13.8 | | 6.2 | 96.3 |

The history of experience gains and losses is as follows:

| | **2006 £m** | 2005 £m | 2004 £m | 2003 £m | 2002 £m |
|---|---|---|---|---|---|
| Present value of defined benefit obligation | **111.1** | 124.1 | 93.6 | 77.0 | 66.6 |
| Fair value of scheme assets | **(95.3)** | (96.3) | (76.5) | (66.5) | (51.9) |
| Deficit in the scheme | **15.8** | 27.8 | 17.1 | 10.5 | 14.7 |
| Experience adjustments on plan assets: | | | | | |
| Amount of gain/(loss) | **4.9** | 8.0 | 3.3 | 5.6 | (14.4) |
| Percentage of plan assets | **5.1%** | 8.3% | 4.3% | 8.5% | (27.7)% |
| Experience adjustments on plan liabilities | | | | | |
| Amount of (gain)/loss | **(5.5)** | 19.3 | 6.8 | – | 0.4 |
| Percentage of the present value of scheme liabilities | **5.0%** | 15.6% | 7.3% | – | 0.6% |

## 11. DIRECTORS' REMUNERATION DETAILS

| | 2006 £000 | 2005 £000 |
|---|---|---|
| **Aggregate remuneration:** | | |
| Emoluments | **2,285** | 2,120 |
| Performance-related bonus | **929** | 860 |
| Long term incentive scheme | **1,145** | 197 |
| Compensation to Director for loss of office | **1,339** | – |
| | **5,698** | 3,177 |

The total amounts payable under long term incentive schemes comprise all amounts to which Directors became unconditionally entitled during the year. In previous years the Company has disclosed the amounts accrued in the year, including amounts not vested. The Directors believe that the new presentation more fairly meets the requirements of the Companies Act 1985. The comparative amounts have been amended accordingly.

The amounts above include for the highest paid Director emoluments of £505,000 (2005 – £455,000), performance related bonus of £199,000 (2005 – £193,000) and long term incentive plans of £262,000 (2005 – £nil).

Retirement benefits are accruing to six Directors under defined benefit schemes sponsored by Group companies, one of whom is a member of a scheme which combines defined benefit and money purchase benefits. The total annual accrued pension under the defined benefit pension schemes was £472,000 (2005 – £630,000) and for the highest paid Director was £201,000 (2005 – £186,000). Total contributions in respect of money purchase pension benefits were £35,000 (2005 – £nil) and for the highest paid Director were £nil (2005 – £nil).

## 12. LOSS ON TRADING AND DEVELOPMENT PROPERTIES

| | 2006 £m | 2005 £m |
|---|---|---|
| Development income | **160.3** | 229.7 |
| Development costs | **(342.5)** | (239.7) |
| Proceeds from sale of trading properties | **24.8** | 29.8 |
| Carrying value of trading properties sold | **(17.8)** | (26.3) |
| Provision for impairment of trading properties | **(1.4)** | (0.8) |
| | **(176.6)** | (7.3) |

The carrying value of trading properties sold includes £0.6m of capitalised interest (2005 – £0.4m).

## 13. GAINS ON OTHER INVESTMENTS

| | 2006 £m | 2005 £m |
|---|---|---|
| Profit on disposal of trade investments | **0.3** | 0.1 |
| Amounts written off investment properties held for development | **–** | (0.1) |
| | **0.3** | – |

## 14. NET GAINS ON REVALUATION AND SALE OF INVESTMENT PROPERTY

| | 2006 £m | 2005 £m |
|---|---|---|
| Valuation gains on investment property | **407.1** | 233.1 |
| Valuation losses on investment property | **(4.7)** | (1.7) |
| Valuation gains on redevelopment properties | **7.1** | – |
| Net valuation gains on investment property | **409.5** | 231.4 |
| Profit on disposal of investment property | **109.2** | 15.4 |
| | **518.7** | 246.8 |

## 15. NET FINANCING COSTS

| | 2006 £m | 2005 £m |
|---|---|---|
| Dividend income | **1.1** | 0.3 |
| Interest income | **12.7** | 14.9 |
| Other financial income | **5.6** | 3.6 |
| Fair value adjustments of interest rate swaps | **1.0** | 2.9 |
| Financial income | **19.3** | 21.4 |
| Gross interest expense | **(43.2)** | (42.2) |
| Interest capitalised | **2.6** | 3.7 |
| Commitment and other financing costs | **(0.6)** | (0.4) |
| Financial expenses | **(41.2)** | (38.9) |
| Net financing costs | **(20.8)** | (17.2) |

The average rate of interest capitalised in the year was 6.3% (2005 – 6.3%).

## 16. INCOME TAX EXPENSE

### RECOGNISED IN THE INCOME STATEMENT

| | 2006 £m | 2005 £m |
|---|---|---|
| **Current tax expense** | | |
| UK corporation tax at 30% (2005 – 30%) | **2.0** | 24.9 |
| Overseas tax | **10.7** | 9.3 |
| Adjustment for prior years | **7.4** | (25.7) |
| | **20.1** | 8.5 |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | **125.3** | 94.7 |
| Reduction in tax rate | **(0.2)** | (0.2) |
| Benefit of tax losses recognised | **(0.7)** | – |
| | **124.4** | 94.5 |
| Total income tax expense | **144.5** | 103.0 |

## 16. INCOME TAX EXPENSE (CONTINUED)

### DEFERRED TAX RECOGNISED DIRECTLY IN EQUITY

| | Note | 2006 £m | 2005 £m |
|---|---|---|---|
| Recognised in equity – Group | 26 | **20.2** | (0.8) |
| Recognised in equity – joint ventures | | **4.8** | – |
| Total recognised in equity | | **25.0** | (0.8) |

| | 2006 £m | 2005 £m |
|---|---|---|
| **Reconciliation of effective tax rate** | | |
| Profit on ordinary activities before taxation | **508.7** | 368.1 |
| Less: share of profit of joint ventures and associates | **(145.0)** | (121.6) |
| Add: profit of joint ventures where the tax charge is directly attributable to the Group | **59.5** | 75.1 |
| **Adjusted group profit on ordinary activities before taxation** | **423.2** | 321.6 |
| Tax on adjusted group profit at standard UK corporation tax rate of 30% (2005 – 30%) | **127.0** | 96.5 |
| Higher tax rates on overseas earnings | **6.0** | 4.7 |
| Expenses not deductible for tax purposes | **7.4** | 1.7 |
| Other items attracting no tax relief or liability | **(23.0)** | (2.3) |
| Other timing differences | **(0.2)** | (0.2) |
| Adjustments in respect of prior years | **27.3** | 2.6 |
| **Total income tax expense** | **144.5** | 103.0 |
| Effective tax rate based on adjusted Group profit | **34.1%** | 32.0% |

## 17. PROPERTY ASSETS

| | | Note | 2006 £m | 2005 £m |
|---|---|---|---|---|
| Investment property | – Group | 18 | **2,264.4** | 1,936.0 |
| | – Share of joint ventures | 22 | **1,658.3** | 1,390.8 |
| Investment property under development | – Group | 19 | **85.6** | 71.4 |
| | – Share of joint ventures | 22 | **242.9** | 107.3 |
| | – Share of associates | 23 | **115.4** | 51.5 |
| Other financial assets | – Group | 24 | **56.5** | 68.0 |
| Trading properties | – Group | 27 | **48.7** | 34.5 |
| | – Share of joint ventures | 22 | **120.6** | 68.2 |
| **Total property assets** | | | **4,592.4** | 3,727.7 |

## 18. INVESTMENT PROPERTY

| | Completed property | | | Redevelopment projects | | | |
|---|---|---|---|---|---|---|---|
| | Freehold £m | Leasehold £m | Total £m | Freehold £m | Leasehold £m | Total £m | **Total £m** |
| **At 1 January 2005** | 1,352.3 | 389.9 | 1,742.2 | 14.1 | – | 14.1 | **1,756.3** |
| Acquisitions | 67.4 | 2.4 | 69.8 | – | – | – | **69.8** |
| Costs capitalised | 2.8 | 2.1 | 4.9 | 6.8 | 0.1 | 6.9 | **11.8** |
| Disposals | (174.4) | (20.8) | (195.2) | – | – | – | **(195.2)** |
| Revaluation gains | 183.9 | 47.5 | 231.4 | – | – | – | **231.4** |
| Release of deferred costs | – | 0.1 | 0.1 | – | – | – | **0.1** |
| Transfer to/(from) redevelopment projects | 20.9 | (6.8) | 14.1 | (20.9) | 6.8 | (14.1) | **–** |
| Transfer from investment properties under development | 19.3 | 2.2 | 21.5 | – | – | – | **21.5** |
| Transfer from trading properties | 3.1 | – | 3.1 | – | – | – | **3.1** |
| Exchange movements | 36.3 | 0.9 | 37.2 | – | – | – | **37.2** |
| **At 31 December 2005** | 1,511.6 | 417.5 | 1,929.1 | – | 6.9 | 6.9 | **1,936.0** |
| Acquisitions | 97.4 | 90.1 | 187.5 | – | – | – | **187.5** |
| Costs capitalised | 0.8 | 4.1 | 4.9 | 1.1 | – | 1.1 | **6.0** |
| Disposals | (80.5) | (228.9) | (309.4) | – | – | – | **(309.4)** |
| Sale of freeholds | (955.2) | 950.2 | (5.0) | – | – | – | **(5.0)** |
| Revaluation gains/(losses) | 91.8 | 310.6 | 402.4 | (1.0) | 8.1 | 7.1 | **409.5** |
| Release of deferred costs | (0.6) | 3.7 | 3.1 | – | – | – | **3.1** |
| Depreciation of short leasehold properties | – | (0.2) | (0.2) | – | – | – | **(0.2)** |
| Transfer (from)/to redevelopment projects | (11.8) | 15.0 | 3.2 | 11.8 | (15.0) | (3.2) | **–** |
| Transfer from investment properties under development | 4.9 | 17.0 | 21.9 | – | – | – | **21.9** |
| Transfer to trading properties | (3.2) | – | (3.2) | – | – | – | **(3.2)** |
| Transfer from joint ventures | 65.5 | – | 65.5 | – | – | – | **65.5** |
| Exchange movements | (45.7) | (0.7) | (46.4) | (0.9) | – | (0.9) | **(47.3)** |
| **At 31 December 2006** | 675.0 | 1,578.4 | 2,253.4 | 11.0 | – | 11.0 | **2,264.4** |

Investment properties were valued at 31 December 2006 by external valuers on the basis of open market value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. Valuations were performed as follows:

| | | | **£m** |
|---|---|---|---|
| Britain & Ireland | Freehold | CB Richard Ellis, Chartered Surveyors | **141.1** |
| | Long Leasehold | CB Richard Ellis, Chartered Surveyors | **1,578.3** |
| Americas | Freehold | Cushman & Wakefield Le Page, Chartered Surveyors | **323.2** |
| Continental Europe | Freehold | Cushman & Wakefield, Chartered Surveyors | **31.2** |
| Australia Asia Pacific | Freehold | DTZ Australia, Chartered Surveyors | **99.9** |
| | Freehold | CB Richard Ellis, Chartered Surveyors | **76.4** |
| | Freehold | LandMark White, Chartered Surveyors | **2.8** |
| | Freehold | Tanizawa SOGO Appraisal Co Ltd | **11.5** |
| | | | **2,264.4** |

The historical cost of the Group's investment properties was £946.5m (2005 – £1,008.8m).

At 31 December 2006, investment properties with a carrying amount of £1,038.0m were pledged as security for bank loans (2005 – £882.5m).

## 19. INVESTMENT PROPERTY UNDER DEVELOPMENT

| | Freehold £m | Leasehold £m | **Total £m** |
|---|---|---|---|
| **At 1 January 2005** | 49.8 | 3.0 | **52.8** |
| Acquisitions | 20.0 | 4.8 | **24.8** |
| Costs capitalised | 4.5 | – | **4.5** |
| Disposals | (0.4) | – | **(0.4)** |
| Revaluation gains | 10.2 | 1.2 | **11.4** |
| Transfer to investment properties | (19.3) | (2.2) | **(21.5)** |
| Transfer to trading properties | (3.3) | – | **(3.3)** |
| Exchange movements | 3.1 | – | **3.1** |
| **At 31 December 2005** | 64.6 | 6.8 | **71.4** |
| Acquisitions | 12.4 | 1.6 | **14.0** |
| Costs capitalised | 1.4 | 7.1 | **8.5** |
| Revaluation gains | 6.5 | 12.5 | **19.0** |
| Transfer to investment properties | (4.9) | (17.0) | **(21.9)** |
| Exchange movements | (5.4) | – | **(5.4)** |
| **At 31 December 2006** | **74.6** | **11.0** | **85.6** |

Investment properties under development were valued at 31 December 2006 by external valuers on the basis of open market value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. Valuations were performed as follows:

| | | | **£m** |
|---|---|---|---|
| Britain & Ireland | Freehold | CB Richard Ellis, Chartered Surveyors | **28.3** |
| | Long Leasehold | CB Richard Ellis, Chartered Surveyors | **20.7** |
| Americas | Freehold | Cushman & Wakefield Le Page, Chartered Surveyors | **36.6** |
| | | | **85.6** |

The historical cost of the Group's investment property under development was £59.2m (2005 – £64.1m).

At 31 December 2006, investment property under development with a carrying amount of £25.5m was pledged as security for bank loans (2005 – £nil).

The carrying value of investment property under development includes capitalised interest of £1.5m (2005 – £0.5m).

## 20. OTHER PROPERTY, PLANT AND EQUIPMENT

**2006**

| | Land and buildings £m | Leasehold improvements £m | Computer and IT equipment £m | Fixtures, fittings and motor vehicles £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2006 | 29.1 | 5.1 | 4.1 | 3.9 | **42.2** |
| Additions | 0.1 | 0.6 | 1.0 | 0.9 | **2.6** |
| Disposals | – | (0.1) | (0.1) | (0.2) | **(0.4)** |
| Revaluation gains | 8.7 | – | – | – | **8.7** |
| Exchange movements | – | – | – | (0.1) | **(0.1)** |
| At 31 December 2006 | 37.9 | 5.6 | 5.0 | 4.5 | **53.0** |
| **Depreciation** | | | | | |
| At 1 January 2006 | (0.1) | (3.7) | (2.3) | (2.3) | **(8.4)** |
| Depreciation charge for the year | – | (0.7) | (0.9) | (0.5) | **(2.1)** |
| Disposals | – | 0.1 | – | 0.3 | **0.4** |
| Exchange movements | – | 0.1 | – | 0.1 | **0.2** |
| At 31 December 2006 | (0.1) | (4.2) | (3.2) | (2.4) | **(9.9)** |
| **Carrying amount** | | | | | |
| At 1 January 2006 | 29.0 | 1.4 | 1.8 | 1.6 | **33.8** |
| At 31 December 2006 | 37.8 | 1.4 | 1.8 | 2.1 | **43.1** |

**2005**

| | Land and buildings £m | Leasehold improvements £m | Computer and IT equipment £m | Fixtures, fittings and motor vehicles £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2005 | 23.4 | 5.0 | 3.4 | 3.7 | 35.5 |
| Additions | – | – | 0.7 | 0.2 | 0.9 |
| Disposals | (0.1) | – | – | (0.1) | (0.2) |
| Revaluation gains | 5.8 | – | – | – | 5.8 |
| Exchange movements | – | 0.1 | – | 0.1 | 0.2 |
| At 31 December 2005 | 29.1 | 5.1 | 4.1 | 3.9 | 42.2 |
| **Depreciation** | | | | | |
| At 1 January 2005 | (0.2) | (3.0) | (1.7) | (1.8) | (6.7) |
| Depreciation charge for the year | – | (0.7) | (0.6) | (0.4) | (1.7) |
| Disposals | 0.1 | – | – | – | 0.1 |
| Exchange movements | – | – | – | (0.1) | (0.1) |
| At 31 December 2005 | (0.1) | (3.7) | (2.3) | (2.3) | (8.4) |
| **Carrying amount** | | | | | |
| At 1 January 2005 | 23.2 | 2.0 | 1.7 | 1.9 | 28.8 |
| At 31 December 2005 | 29.0 | 1.4 | 1.8 | 1.6 | 33.8 |

Land and buildings are freehold and were valued at 31 December 2006 by CB Richard Ellis, Chartered Surveyors, on the basis of open market value for existing use in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

The historical cost of the Group's revalued land and buildings above at 31 December 2006 was £14.4m (2005 – £14.4m).

The carrying value of freehold land and buildings above includes capitalised interest of £0.1m (2005 – £0.1m).

At 31 December 2006, land and buildings with a carrying value of £37.1m were pledged as security for bank loans (2005 – £28.6m).

## 21. INVESTMENTS IN SUBSIDIARIES

| Company | Shares at cost £m |
|---|---|
| At 1 January 2006 | **1,363.9** |
| Disposals | **(5.5)** |
| At 31 December 2006 | **1,358.4** |

**AT 31 DECEMBER 2006, THE GROUP HAD THE FOLLOWING PRINCIPAL INVESTMENTS IN SUBSIDIARIES:**

**INTERMEDIATE HOLDING COMPANIES**

Grosvenor Estate Holdings*÷
Grosvenor Limited (Great Britain)
Grosvenor Americas Limited (Canada)
Grosvenor Americas USA Inc. (USA)
Grosvenor International SA (Luxembourg)π
Grosvenor Continental Europe Holdings SA (Luxembourg)
Grosvenor First European Property Investments SA (Luxembourg) †
Grosvenor Australia Properties Pty Limited (Australia)
Grosvenor Australia Investments Pty Limited (Australia)
Grosvenor Asset Management Limited (Hong Kong)
Grosvenor Fund Management Limited (Great Britain)

**PROPERTY INVESTMENT**

Grosvenor West End Properties*
Eaton Square Properties Limited ÷
Grosvenor (Basingstoke) Limited
Grosvenor Commercial Properties*
Grosvenor Properties*
Old Broad Street Properties Limited
Grosvenor Realty Investments Limited
Cambridge Retail Investments Limited
Liverpool Property Investments Limited

**PROPERTY DEVELOPMENT**

Grosvenor Developments Limited
Liverpool PSDA Limited

**FUND MANAGEMENT**

Grosvenor Investment Management Limited (Great Britain)
Grosvenor Investment Management US Inc. (USA)

**FINANCING**

Grosvenor UK Finance Plc

* Unlimited company
π Ordinary and non-voting preference shares are wholly owned. All of the floating rate guaranteed voting preferred redeemable shares, which carry approximately 36% of the total voting rights, are publicly held.
÷ 100% of preference shares also owned
† 67.5% owned

All the above companies except Grosvenor Estate Holdings are indirectly owned. All companies are wholly owned and incorporated in Great Britain except where indicated. Except as disclosed above, all interests are in the form of ordinary shares.

The above represents the Group's material subsidiary undertakings. A full list of all subsidiary undertakings is available on request.

## 22. INVESTMENTS IN JOINT VENTURES

**2006**

| | Britain & Ireland £m | Americas £m | Continental Europe £m | Australia Asia Pacific £m | Total £m |
|---|---|---|---|---|---|
| **Share of profit from joint ventures:** | | | | | |
| Gross rental income | 23.0 | 12.6 | 74.9 | 3.0 | **113.5** |
| Net rental and other income less administrative expenses | 17.9 | 9.8 | 59.0 | 2.1 | **88.8** |
| Income from trading and development properties | 2.8 | (0.1) | (6.7) | – | **(4.0)** |
| Net gains on revaluation and sale of investment property | 56.9 | 14.2 | 93.2 | 2.5 | **166.8** |
| Net financing costs | (5.1) | (3.4) | (19.2) | (0.6) | **(28.3)** |
| Profit before tax | 72.5 | 20.5 | 126.3 | 4.0 | **223.3** |
| Current tax | (5.1) | – | (6.6) | 0.2 | **(11.5)** |
| Deferred tax | – | – | (24.1) | (0.8) | **(24.9)** |
| Minority interest | – | – | (37.3) | – | **(37.3)** |
| | 67.4 | 20.5 | 58.3 | 3.4 | **149.6** |
| **Share of assets and liabilities:** | | | | | |
| Non-current assets | | | | | |
| – Investment properties | 425.5 | 186.6 | 1,001.5 | 44.7 | **1,658.3** |
| – Investment properties under development | 29.5 | 11.2 | 202.2 | – | **242.9** |
| – Other | – | – | 69.0 | 0.2 | **69.2** |
| Current assets | | | | | |
| – Trading properties | 75.7 | 0.3 | 2.8 | 41.8 | **120.6** |
| – Other | 33.6 | 4.5 | 178.4 | 7.0 | **223.5** |
| Non-current liabilities | (142.8) | (55.9) | (848.6) | (44.5) | **(1,091.8)** |
| Current liabilities | (64.2) | (3.8) | (182.2) | (15.6) | **(265.8)** |
| Net assets | 357.3 | 142.9 | 423.1 | 33.6 | **956.9** |
| Goodwill | – | – | 31.4 | – | **31.4** |
| | 357.3 | 142.9 | 454.5 | 33.6 | **988.3** |
| Borrowings included in liabilities (non-recourse to the Group) | (142.8) | (55.9) | (538.0) | (41.2) | **(777.9)** |

## 22. INVESTMENTS IN JOINT VENTURES (CONTINUED)

**2005**

| | Britain & Ireland £m | Americas £m | Continental Europe £m | Australia Asia Pacific £m | Total £m |
|---|---|---|---|---|---|
| **Share of profit from joint ventures:** | | | | | |
| Gross rental income | 22.0 | 18.9 | 49.5 | 2.6 | 93.0 |
| Net rental and other income less administrative expenses | 16.4 | 14.8 | 25.2 | 1.1 | 57.5 |
| Income from trading and development properties | 4.6 | 0.4 | 2.1 | – | 7.1 |
| Net gains on revaluation and sale of investment property | 32.9 | 22.0 | 61.6 | 4.1 | 120.6 |
| Net financing costs | (7.5) | (4.7) | (12.2) | (0.7) | (25.1) |
| Profit before tax | 46.4 | 32.5 | 76.7 | 4.5 | 160.1 |
| Current tax | (1.6) | (0.1) | (4.0) | (0.2) | (5.9) |
| Deferred tax | (0.5) | – | (15.6) | (0.4) | (16.5) |
| Minority interest | – | – | (16.1) | – | (16.1) |
| | 44.3 | 32.4 | 41.0 | 3.9 | 121.6 |
| **Share of assets and liabilities:** | | | | | |
| Non-current assets | | | | | |
| – Investment properties | 410.1 | 279.8 | 650.2 | 50.7 | 1,390.8 |
| – Investment properties under development | – | 8.6 | 98.7 | – | 107.3 |
| – Other | – | 0.1 | 32.6 | 0.2 | 32.9 |
| Current assets | | | | | |
| – Trading properties | 56.1 | – | – | 12.1 | 68.2 |
| – Other | 36.1 | 3.5 | 128.6 | 9.6 | 177.8 |
| Non-current liabilities | (157.4) | (89.5) | (532.1) | (32.2) | (811.2) |
| Current liabilities | (45.2) | (4.9) | (108.0) | (17.7) | (175.8) |
| Net assets | 299.7 | 197.6 | 270.0 | 22.7 | 790.0 |
| Borrowings included in liabilities (non-recourse to the Group) | (157.4) | (89.5) | (362.0) | (29.0) | (637.9) |

## 22. INVESTMENTS IN JOINT VENTURES (CONTINUED)

At 31 December 2006, the Group had the following principal interests in joint ventures which are accounted for on the basis explained in note 1:

| | Principal activities | Country of incorporation/registration | Effective interest | Group share of net assets £m |
|---|---|---|---|---|
| **Britain & Ireland** | | | | |
| Grosvenor Shopping Centre Fund | Property investment | England and Wales | 23.4% | 103.9 |
| Grosvenor London Office Fund | Property investment | England and Wales | 26.7% | 89.3 |
| Grosvenor Festival Place Fund | Property investment | England and Wales | 24.5% | 67.2 |
| Talbot Residential Fund | Property investment | England and Wales | 50.0% | 9.4 |
| Grosvenor Street Limited Partnership | Property investment | England and Wales | 50.0% | 46.6 |
| Barkhill Limited | Property development | Republic of Ireland | 50.0% | 18.0 |
| **Americas** | | | | |
| Joint ventures with BBCAF Inc | Property investment | United States of America | 50.0%/25.0% | 118.8 |
| Joint ventures with the Getty Family Trust | Property investment | United States of America | 50.0% | 6.7 |
| GEMOA Inc | Property investment | United States of America | 20.0% | 11.0 |
| Art Hill Management | Property investment | United States of America | 48.9% | 6.4 |
| **Continental Europe*** | | | | |
| Sonae Sierra SGPS SA | Property investment and development | Portugal | 50.0% | 431.4 |
| Joint ventures with Grupo Lar | Property investment and development | The Netherlands | 50.0% | 18.4 |
| **Australia Asia Pacific** | | | | |
| YK Japan Residential Fund | Property investment | Japan | 33.7%/ 18.8% | 8.6 |
| TTRES Joint Venture | Property investment | Japan | 50% | 1.5 |
| Grosvenor Park Partners Limited | Property development | Japan | 25% | 4.1 |
| Fieldglen II | Property investment | Australia | 50.0% | 8.8 |

* The investments in joint ventures in Continental Europe are held by Grosvenor First European Property Investments SA (GFEPI), which is 67.5% owned by the Group. The effective interest above is stated before taking account of the minority investors in GFEPI.

The financial statements include, on an equity accounted basis, the results and financial position of the Group's interests in the UK limited partnerships shown above. Accordingly advantage has been taken of the exemptions provided by Regulation 7 of the Partnerships and Unlimited Companies (Accounts) Regulations 1992 as amended by SI 2005 No. 1987 The Partnerships and Unlimited Companies (Accounts) (Amendment) Regulations 2005, which dispenses with the requirement for those partnerships to file accounts with Companies House.

## 23. ASSOCIATES

| | 2006 £m | 2005 £m |
|---|---|---|
| **Share of profit from associates:** | | |
| Profit before tax | **1.3** | – |
| Deferred tax | **(5.9)** | – |
| Loss after tax | **(4.6)** | – |
| **Share of assets and liabilities:** | | |
| Investment properties under development | **115.4** | 51.5 |
| Other assets | **1.3** | 1.1 |
| Liabilities | **(54.9)** | (23.2) |
| Net assets | **61.8** | 29.4 |
| Borrowings included in liabilities (non-recourse to the Group) | **(48.7)** | (22.8) |

The investment in associates comprises the Group's 19.6% interest in the Grosvenor Liverpool Fund, which is involved in property development and is incorporated in England and Wales.

## 24. OTHER FINANCIAL ASSETS

| | 2006 £m | 2005 £m |
|---|---|---|
| **Non-current assets** | | |
| Available for sale – equity shares | **41.9** | 34.1 |
| – other | **2.9** | 3.0 |
| Held to maturity – fixed rate bond | **–** | 21.1 |
| Loans and receivables – mezzanine loans | **5.2** | 12.8 |
| | **50.0** | 71.0 |
| **Current assets** | | |
| Loans and receivables – mezzanine loans | **9.4** | – |

Included in the above are property related financial assets of £56.5m (2005 – £68.0m).

Principal other financial assets at 31 December 2006:

### EQUITY SHARES

| | Principal activities | Country of incorporation | Effective interest |
|---|---|---|---|
| Asia Standard International Group Limited (listed on the Hong Kong Stock Exchange) | Property Investment and development | Hong Kong | 15% |
| Hermill Investments Pte Limited | Property Investment | Singapore | 17.4% |

### MEZZANINE LOANS

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

## 25. INTANGIBLE ASSETS

| 2006 | Goodwill £m | Other intangible assets £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2006 | 7.2 | – | **7.2** |
| Acquisitions | 0.1 | 2.3 | **2.4** |
| Disposals | - | (0.4) | **(0.4)** |
| Exchange | - | (0.2) | **(0.2)** |
| At 31 December 2006 | 7.3 | 1.7 | **9.0** |
| **Amortisation/impairment** | | | |
| At 1 January 2006 | (3.3) | – | **(3.3)** |
| Provision for impairment | (0.2) | – | **(0.2)** |
| Amortisation | - | (0.6) | **(0.6)** |
| At 31 December 2006 | (3.5) | (0.6) | **(4.1)** |
| **Carrying amount** | | | |
| At 1 January 2006 | 3.9 | – | **3.9** |
| At 31 December 2006 | 3.8 | 1.1 | **4.9** |

| 2005 | Goodwill £m | Other intangible assets £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2005 | – | – | – |
| Acquisitions | 7.2 | – | 7.2 |
| At 31 December 2005 | 7.2 | – | 7.2 |
| **Amortisation/impairment** | | | |
| At 1 January 2005 | – | – | – |
| Provision for impairment | (3.3) | – | (3.3) |
| At 31 December 2005 | (3.3) | – | (3.3) |
| **Carrying amount** | | | |
| At 1 January 2005 | – | – | – |
| At 31 December 2005 | 3.9 | – | 3.9 |

## 26. DEFERRED TAX ASSETS AND LIABILITIES

### RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

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

| | **Assets 2006 £m** | **Liabilities 2006 £m** | **Net 2006 £m** | Assets 2005 £m | Liabilities 2005 £m | Net 2005 £m |
|---|---|---|---|---|---|---|
| Investment property – contingent gains | **2.4** | **(521.2)** | **(518.8)** | 2.3 | (414.7) | (412.4) |
| Investment property – deferred gains | **46.6** | **–** | **46.6** | 75.7 | – | 75.7 |
| Other property, plant and equipment | **–** | **(7.5)** | **(7.5)** | – | (17.2) | (17.2) |
| Other financial assets | **1.0** | **(0.4)** | **0.6** | 0.5 | (0.9) | (0.4) |
| Interest-bearing loans and borrowings | **–** | **(0.5)** | **(0.5)** | 0.1 | (0.4) | (0.3) |
| Employee benefits | **10.9** | **(1.7)** | **9.2** | 11.0 | (0.1) | 10.9 |
| Provisions | **0.4** | **(18.3)** | **(17.9)** | 3.2 | (16.8) | (13.6) |
| Other items | **2.2** | **(5.6)** | **(3.4)** | 1.1 | (0.5) | 0.6 |
| Tax value and loss carry-forwards recognised | **2.3** | **–** | **2.3** | 1.1 | – | 1.1 |
| Tax assets/(liabilities) | **65.8** | **(555.2)** | **(489.4)** | 95.0 | (450.6) | (355.6) |

At 31 December 2006, no deferred tax was provided in respect of investments in subsidiaries because the Group is able to control the timing of the reversal of temporary differences and is satisfied that it is probable they will not reverse in the foreseeable future.

### UNRECOGNISED DEFERRED TAX ASSETS

| | **2006 £m** | 2005 £m |
|---|---|---|
| Tax losses | **0.7** | 0.2 |

### Movement in temporary differences during the year

| | Balance at 1 Jan 2006 £m | Recognised in Income £m | Recognised in Equity £m | Exchange movement £m | **Balance at 31 Dec 2006 £m** |
|---|---|---|---|---|---|
| Investment property – contingent gains | (412.4) | (100.5) | (17.1) | 11.2 | **(518.8)** |
| Investment property – deferred gains | 75.7 | (29.1) | – | – | **46.6** |
| Other property, plant and equipment | (17.2) | 9.7 | – | – | **(7.5)** |
| Other financial assets | (0.4) | 1.0 | – | – | **0.6** |
| Interest-bearing loans and borrowings | (0.3) | (0.1) | (0.2) | 0.1 | **(0.5)** |
| Employee benefits | 10.9 | 2.1 | (2.9) | (0.9) | **9.2** |
| Provisions | (13.6) | (6.0) | – | 1.7 | **(17.9)** |
| Other items | 0.6 | (2.6) | – | (1.4) | **(3.4)** |
| Tax value and loss carry-forwards recognised | 1.1 | 1.1 | – | 0.1 | **2.3** |
| | (355.6) | (124.4) | (20.2) | 10.8 | **(489.4)** |

## 27. TRADING PROPERTIES

| | 2006 £m | 2005 £m |
|---|---|---|
| At 1 January | **34.5** | 44.1 |
| Additions | **39.3** | 13.9 |
| Disposals | **(17.5)** | (24.8) |
| Provision for impairment | **(1.4)** | (0.8) |
| Transfer from/(to) investment properties | **3.2** | (3.1) |
| Transfer from investment property under development | **–** | 3.3 |
| Transfer to joint venture | **(6.0)** | – |
| Exchange movements | **(3.4)** | 1.9 |
| At 31 December | **48.7** | 34.5 |

At 31 December 2006, trading properties with a carrying amount of £11.8m were pledged as security for bank loans (2005 – £7.0m).

## 28. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| Trade receivables | **11.7** | 12.3 | **–** | – |
| Receivables due from subsidiaries | **–** | – | **110.5** | 15.0 |
| Receivables due from joint ventures | **58.9** | 30.6 | **–** | – |
| Other receivables | **46.4** | 16.6 | **–** | – |
| Prepayments | **16.1** | 16.0 | **–** | – |
| | **133.1** | 75.5 | **110.5** | 15.0 |

Included in the above are receivables due after more than one year totalling £47.4m (2005 – £14.5m).

## 29. CASH AND CASH EQUIVALENTS

| | 2006 £m | 2005 £m |
|---|---|---|
| Bank balances | **113.1** | 70.4 |
| Cash deposits | **342.3** | 315.1 |
| Cash and cash equivalents | **455.4** | 385.5 |
| Bank overdrafts | **(4.6)** | (1.2) |
| Cash and cash equivalents in the statement of cash flows | **450.8** | 384.3 |

The amount of cash and cash equivalents not available for use by the Group totals £125.2m (2005 – £3.3m).

## 30. INTEREST-BEARING LOANS AND BORROWINGS

| | 2006 £m | 2005 £m |
|---|---|---|
| **Non-current liabilities** | | |
| Secured bank loans | **238.5** | 210.2 |
| Unsecured bank loans | **70.0** | 70.1 |
| Secured bond issues | **202.6** | 202.6 |
| Unsecured bond issues | **53.1** | 65.9 |
| Finance lease liabilities | **1.4** | 6.3 |
| | **565.6** | 555.1 |
| **Current liabilities** | | |
| Current portion of secured bank loans | **26.6** | 3.6 |
| Current portion of unsecured bank loans | **–** | 0.7 |
| Current portion on unsecured bond issues | **13.3** | – |
| Current portion of loan from joint ventures | **49.4** | 14.8 |
| | **89.3** | 19.1 |

The bank loans and secured bonds are secured over investment properties and investment properties under development with a carrying value of £1,063.5m (2005 – £882.5m), land and buildings with a carrying value of £37.1m (2005 – £28.6m) and trading properties with a carrying value of £11.8m (2005 – £7.0m).

### MATURITY PROFILE OF INTEREST-BEARING LOANS AND BORROWINGS

| | 2006 £m | 2005 £m |
|---|---|---|
| From 1 to 2 years | **61.3** | 90.6 |
| From 2 to 5 years | **146.8** | 127.3 |
| After 5 years | **357.5** | 337.2 |
| Due after more than one year | **565.6** | 555.1 |
| Due within one year | **89.3** | 19.1 |
| | **654.9** | 574.2 |

### BORROWING FACILITIES

Undrawn committed borrowing facilities available to the Group at 31 December 2006 were as follows:

| | 2006 £m | 2005 £m |
|---|---|---|
| Expiring less than 1 year | **99.7** | 145.5 |
| Expiring from 1 to 2 years | **26.0** | 77.5 |
| Expiring from 2 to 5 years | **303.4** | 242.9 |
| Total | **429.1** | 465.9 |

### FINANCE LEASE LIABILITIES

Finance lease liabilities are payable as follows:

| | **2006** | | | 2005 | | |
|---|---|---|---|---|---|---|
| | **Minimum lease payments £m** | **Interest £m** | **Principal £m** | Minimum lease payments £m | Interest £m | Principal £m |
| Less than one year | **0.3** | **0.3** | **–** | 0.7 | 0.7 | – |
| Between one and five years | **1.2** | **1.2** | **–** | 2.7 | 2.7 | – |
| More than five years | **74.8** | **73.4** | **1.4** | 98.3 | 92.0 | 6.3 |
| | **76.3** | **74.9** | **1.4** | 101.7 | 95.4 | 6.3 |

## 31. FINANCIAL INSTRUMENTS

### EFFECTIVE INTEREST RATE AND REPRICING ANALYSIS

**2006**

| | 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** | | | | | | | |
| Other financial assets | | | | | | | |
| – available for sale | – | – | – | – | – | 44.8 | **44.8** |
| – loans and receivables | 10.0 | – | 6.5 | 8.1 | – | – | **14.6** |
| Trade and other receivables | – | – | – | – | – | 133.1 | **133.1** |
| Cash and cash equivalents | 4.4 | 455.4 | – | – | – | – | **455.4** |
| Total financial assets | | 455.4 | 6.5 | 8.1 | – | 177.9 | **647.9** |
| **Financial liabilities** | | | | | | | |
| Bank overdrafts | 6.0 | (4.6) | – | – | – | – | **(4.6)** |
| Fixed rate loans | | | | | | | |
| Sterling secured mortgage 2034 | 10.4 | – | – | – | (50.0) | – | **(50.0)** |
| Sterling secured bond 2026 | 6.4 | – | – | – | (202.5) | – | **(202.5)** |
| Sterling unsecured bond 2019 | 8.4 | – | – | – | (52.5) | – | **(52.5)** |
| Other Sterling loans | 11.0 | – | – | (15.0) | – | – | **(15.0)** |
| Euro | 4.3 | – | – | – | (17.4) | – | **(17.4)** |
| US Dollar | 6.0 | – | – | (61.5) | (22.2) | – | **(83.7)** |
| Canadian Dollar | 5.9 | – | (13.9) | (11.7) | (12.2) | – | **(37.8)** |
| Australian Dollar | 6.8 | – | – | (36.8) | – | – | **(36.8)** |
| Japanese Yen | 2.9 | – | – | (8.0) | – | – | **(8.0)** |
| Total fixed rate loans | | – | (13.9) | (133.0) | (356.8) | – | **(503.7)** |
| Floating rate loans | | | | | | | |
| Sterling | 5.5 | (55.0) | – | – | – | – | **(55.0)** |
| Euro | 4.3 | (13.3) | – | – | – | – | **(13.3)** |
| Canadian Dollar | 6.3 | (10.4) | – | – | – | – | **(10.4)** |
| Australian Dollar | 7.2 | (21.7) | – | – | – | – | **(21.7)** |
| Total floating rate loans | | (100.4) | – | – | – | – | **(100.4)** |
| Loan from joint ventures | 3.8 | (41.1) | – | – | – | (8.3) | **(49.4)** |
| Trade and other payables | – | – | – | – | – | (107.6) | **(107.6)** |
| Finance lease liabilities | 11.0 | – | – | – | (1.4) | – | **(1.4)** |
| Total financial liabilities | | (146.1) | (13.9) | (133.0) | (358.2) | (115.9) | **(767.1)** |

In the table above borrowings of £108.6m included in fixed rate loans take account of the effect of interest rate swap agreements at 31 December 2006.

## 31. FINANCIAL INSTRUMENTS (CONTINUED)

**2005**

| | 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** | | | | | | | |
| Other financial assets | | | | | | | |
| – available for sale | 7.5 | – | 0.1 | – | – | 37.0 | 37.1 |
| – held to maturity | 10.0 | – | – | 21.1 | – | – | 21.1 |
| – loans and receivables | 9.5 | – | – | 12.8 | – | – | 12.8 |
| Trade and other receivables | – | – | – | – | – | 75.5 | 75.5 |
| Cash and cash equivalents | 4.1 | 385.5 | – | – | – | – | 385.5 |
| Total financial assets | | 385.5 | 0.1 | 33.9 | – | 112.5 | 532.0 |
| **Financial liabilities** | | | | | | | |
| Bank overdrafts | 5.5 | (1.2) | – | – | – | – | (1.2) |
| Fixed rate loans | | | | | | | |
| Sterling secured mortgage 2034 | 10.4 | – | – | – | (50.0) | – | (50.0) |
| Sterling secured bond 2026 | 6.4 | – | – | – | (202.6) | – | (202.6) |
| Sterling unsecured bond 2019 | 8.4 | – | – | – | (52.5) | – | (52.5) |
| Other Sterling loans | 11.0 | – | – | (15.0) | (0.1) | – | (15.1) |
| US Dollar | 6.3 | – | – | (45.9) | – | – | (45.9) |
| Canadian Dollar | 6.8 | – | – | (27.1) | (4.5) | – | (31.6) |
| Australian Dollar | 6.8 | – | – | (40.1) | – | – | (40.1) |
| Total fixed rate loans | | – | – | (128.1) | (309.7) | – | (437.8) |
| Floating rate loans | | | | | | | |
| Sterling | 5.1 | (55.0) | – | – | – | – | (55.0) |
| Euro | 3.5 | (31.2) | – | – | – | – | (31.2) |
| US Dollar | 6.1 | (19.2) | – | – | – | – | (19.2) |
| Canadian Dollar | 5.5 | (2.0) | – | – | – | – | (2.0) |
| Australian Dollar | 6.5 | (7.9) | – | – | – | – | (7.9) |
| Total floating rate loans | | (115.3) | – | – | – | – | (115.3) |
| Loan from joint ventures | 2.6 | (14.8) | – | – | – | – | (14.8) |
| Trade and other payables | – | – | – | – | – | (104.6) | (104.6) |
| Finance lease liabilities | 8.2 | – | – | – | (6.3) | – | (6.3) |
| Total financial liabilities | | (131.3) | – | (128.1) | (316.0) | (104.6) | (680.0) |

## 31. FINANCIAL INSTRUMENTS (CONTINUED)

In the table below the underlying debt is recorded ignoring the effect of interest swap agreements, which are shown separately.

### FAIR VALUES

| | 2006 Carrying amount £m | 2006 Fair value £m | 2005 Carrying amount £m | 2005 Fair value £m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Other financial assets | | | | |
| – available for sale | **44.8** | **44.8** | 37.1 | 37.1 |
| – held to maturity | **–** | **–** | 21.1 | 21.5 |
| – loans and receivables | **14.6** | **14.6** | 12.8 | 12.8 |
| Trade and other receivables | **133.1** | **133.1** | 75.5 | 75.5 |
| Cash and cash equivalents | **455.4** | **455.4** | 385.5 | 385.5 |
| Total financial assets | **647.9** | **647.9** | 532.0 | 532.4 |
| **Financial liabilities** | | | | |
| Bank overdrafts | **(4.6)** | **(4.6)** | (1.2) | (1.2) |
| Fixed rate loans | | | | |
| Sterling secured mortgage 2034 | **(50.0)** | **(86.6)** | (50.0) | (89.2) |
| Sterling secured bond 2026 | **(202.5)** | **(231.5)** | (202.6) | (237.1) |
| Sterling unsecured bond 2019 | **(52.5)** | **(65.3)** | (52.5) | (68.9) |
| Other sterling loans | **(15.0)** | **(16.5)** | (15.1) | (17.6) |
| US Dollar | **(40.8)** | **(41.0)** | (2.4) | (2.5) |
| Canadian Dollar | **(26.8)** | **(27.5)** | (18.4) | (19.1) |
| Japanese Yen | **(8.0)** | **(8.0)** | | |
| Total fixed rate loans | **(395.6)** | **(476.4)** | (341.0) | (434.4) |
| Interest rate swaps | | | | |
| US Dollar | **0.1** | **0.1** | (0.1) | (0.1) |
| Canadian Dollar | **–** | **–** | (0.7) | (0.7) |
| Australian Dollar | **0.4** | **0.4** | (0.4) | (0.4) |
| Total interest rate swaps | **0.5** | **0.5** | (1.2) | (1.2) |
| Floating rate loans | | | | |
| Sterling | **(55.0)** | **(55.0)** | (55.0) | (55.0) |
| Euro | **(30.7)** | **(30.7)** | (31.2) | (31.2) |
| US Dollar | **(42.9)** | **(42.9)** | (62.7) | (62.7) |
| Canadian Dollar | **(21.4)** | **(21.4)** | (14.4) | (14.4) |
| Australian Dollar | **(59.0)** | **(59.0)** | (47.6) | (47.6) |
| Total floating rate loans | **(209.0)** | **(209.0)** | (210.9) | (210.9) |
| Loan from joint ventures | **(49.4)** | **(49.4)** | (14.8) | (14.8) |
| Trade and other payables | **(107.6)** | **(107.5)** | (104.6) | (104.6) |
| Finance lease liabilities | **(1.4)** | **(2.9)** | (6.3) | (9.1) |
| Total financial liabilities | **(767.1)** | **(849.3)** | (680.0) | (776.2) |

## 32. TRADE AND OTHER PAYABLES

| | 2006 £m | 2005 £m |
|---|---|---|
| **Current liabilities** | | |
| Trade payables | **15.5** | 12.1 |
| Payables due to subsidiaries | **–** | – |
| Payables due to joint ventures | **0.6** | 6.6 |
| Other payables | **24.4** | 11.4 |
| Accrued expenses | **64.7** | 62.9 |
| Deferred income | **1.7** | 1.7 |
| | **106.9** | 94.7 |
| **Non-current liabilities** | | |
| Deferred income | **152.2** | 164.4 |
| Other payables | **2.4** | 11.6 |
| | **154.6** | 176.0 |

Deferred income includes £153.7m in respect of deferred lease premium profits (2005 – £165.9m).

## 33. PROVISIONS

| **Development loss provision** | 2006 £m | 2005 £m |
|---|---|---|
| At 1 January | **10.0** | – |
| Recognised in the year | **148.8** | 10.0 |
| At 31 December | **158.8** | 10.0 |

The development loss provision is in respect of the forecast loss on the Liverpool One project. It is not considered practicable to split this amount between current and non-current liabilities. The liabilities are expected to crystallise in the period 2007 to 2008.

## 34. OPERATING LEASE COMMITMENTS

### LEASES AS LESSEE

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

| | 2006 £m | 2005 £m |
|---|---|---|
| Land and buildings | **4.4** | 4.3 |
| | **4.4** | 4.3 |

Non-cancellable operating lease rentals are payable as follows:

| | 2006 £m | 2005 £m |
|---|---|---|
| Less than one year | **4.6** | 3.7 |
| Between one and five years | **17.6** | 13.9 |
| More than five years | **10.2** | 12.3 |
| | **32.4** | 29.9 |

### LEASES AS LESSOR

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

| | 2006 £m | 2005 £m |
|---|---|---|
| Less than one year | **91.2** | 73.1 |
| Between one and five years | **277.3** | 212.6 |
| More than five years | **1,416.1** | 1,712.5 |
| | **1,784.6** | 1,998.2 |

## 35. CAPITAL COMMITMENTS

| | 2006 £m | 2005 £m |
|---|---|---|
| Investment properties contracted but not provided | **91.0** | 31.6 |
| Development properties contracted but not provided | **80.8** | 152.1 |
| | **171.8** | 183.7 |

## 36. CONTINGENT LIABILITIES

In connection with the demerger of Deva Group Limited (non-core activities) in 1999 the Company has provided guarantees up to a maximum of £22m (2005 – £22m).

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

## 37. SHARE CAPITAL

| | **2006** Number of shares | **2006** £m | 2005 Number of shares | 2005 £m |
|---|---|---|---|---|
| Authorised | | | | |
| Ordinary shares of £1 | **8,000,000** | **8.0** | 8,000,000 | 8.0 |
| Non-voting ordinary shares of £1 | **64,000,000** | **64.0** | 64,000,000 | 64.0 |
| 12% Non-cumulative irredeemable preference shares of £1 | **8,000,000** | **8.0** | 8,000,000 | 8.0 |
| | **80,000,000** | **80.0** | 80,000,000 | 80.0 |

| | **2006** Number of shares | **2006** £m | 2005 Number of shares | 2005 £m |
|---|---|---|---|---|
| Allocated, called up and fully paid | | | | |
| Ordinary shares of £1 | **6,083,924** | **6.1** | 6,083,924 | 6.1 |
| Non-voting ordinary shares of £1 | **48,671,392** | **48.6** | 48,671,392 | 48.6 |
| 12% Non-cumulative irredeemable preference shares of £1 | **6,083,924** | **6.1** | 6,083,924 | 6.1 |
| | **60,839,240** | **60.8** | 60,839,240 | 60.8 |

### 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 12% non-cumulative irredeemable preference shares. The balance of profits available for distribution is payable 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 12% non-cumulative irredeemable preferences shares the amounts 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.

Holders of the 12% non-cumulative irredeemable preference shares and non-voting ordinary shares are not entitled to vote at general meetings of the members of the Company except on resolutions varying or abrogating any of the special rights or privileges attaching to their shares.

On 14 March 2007 the Company purchased the following shares from shareholders representing 6.56% of its called up share capital:

| | | |
|---|---|---|
| Ordinary shares | Nominal value £1 | 399,047 |
| Non-voting ordinary shares | Nominal value £1 | 3,192,376 |
| 12% Non-cumulative irredeemable preference shares | Nominal value £1 | 399,047 |

The total consideration for the purchase of the above shares was £40.3m.

## 38. 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** | Minority Interest £m | **Total equity £m** |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2005** | 60.8 | 173.1 | (14.5) | 102.2 | 12.0 | 72.0 | 1,383.0 | **1,788.6** | 113.3 | **1,901.9** |
| Profit for the year | – | – | – | – | – | – | 251.5 | **251.5** | 13.6 | **265.1** |
| Revaluation movement | – | – | – | – | – | 17.0 | – | **17.0** | 0.3 | **17.3** |
| Fair value adjustments | – | – | – | 0.2 | (7.8) | – | – | **(7.6)** | – | **(7.6)** |
| Recycled to income statement | – | – | – | 5.7 | – | – | – | **5.7** | – | **5.7** |
| Deferred tax | – | – | – | – | – | (2.5) | 3.3 | **0.8** | – | **0.8** |
| Pension actuarial losses | – | – | – | – | – | – | (11.3) | **(11.3)** | – | **(11.3)** |
| Dividends to shareholders | – | – | – | – | – | – | (8.5) | **(8.5)** | (2.2) | **(10.7)** |
| Other | – | – | – | 0.1 | – | – | (0.5) | **(0.4)** | (29.9) | **(30.3)** |
| Exchange | – | – | 55.8 | – | – | – | – | **55.8** | (0.2) | **55.6** |
| **At 31 December 2005** | 60.8 | 173.1 | 41.3 | 108.2 | 4.2 | 86.5 | 1,617.5 | **2,091.6** | 94.9 | **2,186.5** |
| Profit for the year | – | – | – | – | – | – | 347.1 | **347.1** | 17.1 | **364.2** |
| Revaluation movement | – | – | – | – | – | 75.9 | – | **75.9** | 3.7 | **79.6** |
| Fair value adjustments | – | – | – | 2.9 | (0.1) | – | – | **2.8** | – | **2.8** |
| Deferred tax | – | – | – | – | – | (22.1) | (2.9) | **(25.0)** | – | **(25.0)** |
| Pension actuarial gains | – | – | – | – | – | – | 10.6 | **10.6** | – | **10.6** |
| Dividends to shareholders | – | – | – | – | – | – | (9.4) | **(9.4)** | (0.5) | **(9.9)** |
| Transfer between reserves | – | – | – | – | – | (10.9) | 10.9 | **–** | – | **–** |
| Minority shares issued by subsidiaries | – | – | – | | – | – | – | **–** | 35.5 | **35.5** |
| Exchange | – | – | (75.7) | – | – | – | – | **(75.7)** | (1.8) | **(77.5)** |
| **At 31 December 2006** | 60.8 | 173.1 | (34.4) | 111.1 | 4.1 | 129.4 | 1,973.8 | **2,417.9** | 148.9 | **2,566.8** |

Other reserves primarily comprise exchange gains and losses recognised by the Group prior to the adoption of IFRS accounting standards.

### (B) COMPANY

| | Share capital £m | Share Premium £m | Merger Capital reserve £m | Profit and loss account £m | **Total equity £m** |
|---|---|---|---|---|---|
| **At 1 January 2005** | 60.8 | 28.3 | 1,268.7 | 21.1 | **1,378.9** |
| Retained profit for the year | – | – | – | 8.5 | **8.5** |
| Dividends to shareholders | – | – | – | (8.5) | **(8.5)** |
| **At 31 December 2005** | 60.8 | 28.3 | 1,268.7 | 21.1 | **1,378.9** |
| Retained profit for the year | – | – | – | 99.4 | **99.4** |
| Dividends to shareholders | – | – | – | (9.4) | **(9.4)** |
| **At 31 December 2006** | 60.8 | 28.3 | 1,268.7 | 111.1 | **1,468.9** |

### DIVIDENDS

After the balance sheet date, the following dividends were proposed:

| | £m |
|---|---|
| Dividends on ordinary shares | 6.0 |
| Dividends on preference shares | 0.7 |
| | 6.7 |

The dividends have not been provided for and there are no income tax consequences for the Group.

## 39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (A) RECONCILIATION OF PROFIT FROM OPERATIONS INCLUDING SHARE OF JOINT VENTURES TO OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL AND PROVISIONS

| | **2006 £m** | 2005 £m |
|---|---|---|
| **Operating activities** | | |
| Profit from operations including share of joint ventures | **529.5** | 385.3 |
| Adjustments for | | |
| Depreciation | **2.3** | 1.7 |
| Foreign exchange losses | **0.3** | 0.8 |
| Amortisation of capitalised lease incentives | **(0.8)** | (2.1) |
| Amortisation of deferred lease premiums | **(1.9)** | (1.7) |
| Recognition of income from operating lease incentives | **(3.7)** | (2.0) |
| Gain on sale on other investments | **(0.3)** | (0.1) |
| Hedging gains | **(1.0)** | (2.1) |
| Net gains on revaluation and sale of investment property | **(518.7)** | (246.8) |
| Share of profit of joint ventures | **(149.6)** | (121.6) |
| Share of loss of associates | **4.6** | – |
| Impairment of goodwill | **0.2** | 3.3 |
| Amortisation of other intangible assets | **0.6** | – |
| Loss on trading and development properties | **176.6** | 7.3 |
| **Operating profit before changes in working capital and provisions** | **38.1** | 22.0 |

### (B) ANALYSIS OF NET DEBT

| | 1 January 2006 £m | Cash flow £m | Other non-cash movements £m | Exchange movements £m | **31 December 2006 £m** |
|---|---|---|---|---|---|
| Cash at bank and in hand | 70.4 | 45.4 | – | (2.7) | **113.1** |
| Short term deposits and short term liquid investments | 315.1 | 38.3 | – | (11.1) | **342.3** |
| Bank overdraft | (1.2) | (3.8) | – | 0.4 | **(4.6)** |
| Cash and cash equivalents | 384.3 | 79.9 | – | (13.4) | **450.8** |
| Borrowings due within one year | (19.1) | (73.3) | – | 3.1 | **(89.3)** |
| Borrowings due after more than 1 year | (555.1) | (14.8) | (12.8) | 17.1 | **(565.6)** |
| Total borrowings | (574.2) | (88.1) | (12.8) | 20.2 | **(654.9)** |
| Net borrowings | (189.9) | (8.2) | (12.8) | 6.8 | **(204.1)** |

Other non-cash movements relate to a £17.7m transfer of debt from joint ventures and a £4.9m reduction of finance lease liabilities arising on property sales.

## 39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

### (C) ACQUISITION OF GROUP UNDERTAKINGS

| | 2006 £m |
|---|---|
| Additional investment in Sonae Sierra SGPS | **157.3** |
| Acquisition of Legg Mason Real Estate Services Inc. | **4.6** |
| | **161.9** |

On 21 February 2006 the Group acquired 17.1% of Sonae Sierra SGPS, increasing the previous investment of 32.9% to 50%. On 31 March 2006 the Group acquired 100% of Legg Mason Real Estate Services Inc. (now Grosvenor Investment Management Inc.).

**Sonae Sierra SGPS**

| | Book value at acquisition £m | Fair value adjustments £m | Fair value acquired £m |
|---|---|---|---|
| **Fair value of assets acquired** | | | |
| Intangible assets | 6.3 | 7.4 | 13.7 |
| Tangible assets | 325.5 | – | 325.5 |
| Debtors | 19.6 | – | 19.6 |
| Cash and cash equivalents | 20.2 | – | 20.2 |
| Current liabilities | (23.8) | – | (23.8) |
| Non-current liabilities | (230.0) | – | (230.0) |
| Net assets acquired | 117.8 | 7.4 | 125.2 |
| Goodwill | | | 32.1 |
| Total | | | 157.3 |
| **Fair value of consideration** | | | |
| Cash | | | 156.0 |
| Costs | | | 1.3 |
| Total | | | 157.3 |

**Legg Mason Real Estate Services Inc.**

| | Book value at acquisition £m | Fair value adjustments £m | Fair value acquired £m |
|---|---|---|---|
| **Fair value of assets acquired** | | | |
| Intangible assets | 0.3 | 2.0 | 2.3 |
| Tangible assets | 0.6 | – | 0.6 |
| Debtors | – | 1.7 | 1.7 |
| Net assets acquired | 0.9 | 3.7 | 4.6 |
| **Fair value of consideration** | | | |
| Cash | | | 3.8 |
| Costs | | | 0.8 |
| Total | | | 4.6 |

## 40. RELATED PARTY TRANSACTIONS

Grosvenor Group Limited is wholly owned by Trusts and members of the Grosvenor Family headed by the 6th Duke of Westminster. Group companies paid £1.0m (2005 – £1.0m) in arms length rentals to Grosvenor Trusts and received £1.0m (2005 – £0.3m) in arms length rentals and service charges from certain Directors, members of the Grosvenor Family and Grosvenor Trusts.

In the ordinary course of its business the Group provides services to Grosvenor Trusts and some members of the Grosvenor Family. Income from these services totalled £6.0m (2005 – £4.7m). At the year end the balance due to certain members of the Grosvenor Family and Grosvenor Trusts was £0.2m (2005 – £0.2m due from) in relation to these services. These services mainly relate to the Group's management of the Belgravia Estate.

In 2006, the Group arranged insurance cover on normal commercial terms through a related company. Aggregate premiums paid in the year were £6.3m (2005 – £5.9m).

In 2006, the Group purchased development properties of £nil (2005 – £19.9m) in arms length agreements from Grosvenor Trusts. At the year end £nil (2005 – £nil) was due from Grosvenor Trusts.

In 2006, the Group received development management income of £0.9m (2005 – £3.6m) in arms length arrangements from Grosvenor Trusts, and £5.2m (2005 – £6.0m) from associates. At year end £nil (2005 – £nil) was due from Grosvenor Trusts and £nil (2005 – £0.5m) was accrued in relation to income owed from associates.

At 31 December 2006, the Group owed £41.1m (2005 – £14.8m) to Sonae Sierra SGPS SA and £8.3m to Barkhill Ltd (2005 – £nil), both joint ventures.

On 28 February 2006 the Group sold two subsidiaries, Grosvenor (Mayfair) Estate and Grosvenor (Belgravia) Estate to one of the Trusts for a total consideration of £5.4m. The sale was at book value before the adjustments to defer lease premium profits; the release of these deferrals resulted in a profit in the year of £41.1m.

As explained in note 36 the Company has provided guarantees up to a maximum of £22m (2005 – £22m) to the Deva Group Limited, which is owned by the Grosvenor Trusts.

# CONSOLIDATED INCOME STATEMENT PRESENTED IN US DOLLARS

*for the year ended 31 December 2006*

| | 2006 US$m | 2005 US$m |
|---|---|---|
| **Total revenue** | **651.9** | 712.8 |
| Gross rental income | **197.3** | 176.3 |
| Property outgoings | **(76.9)** | (83.6) |
| **Net rental income** | **120.4** | 92.7 |
| Net other income | **97.8** | 54.5 |
| Administrative expenses | **(140.1)** | (97.2) |
| Loss on trading and development properties | **(326.3)** | (13.3) |
| Gains on other investments | **0.6** | – |
| Gains on revaluation and sale of investment property | **958.5** | 449.7 |
| Impairment of goodwill | **(0.4)** | (6.0) |
| Share of profit of joint ventures | **276.4** | 221.6 |
| Share of loss of associates | **(8.5)** | – |
| **Profit from operations including share of joint ventures and associates** | **978.4** | 702.0 |
| Dividend income | **2.0** | 0.5 |
| Financial income | **35.7** | 39.1 |
| Financial expenses | **(76.1)** | (71.0) |
| **Net financing costs** | **(38.4)** | (31.4) |
| **Profit before tax** | **940.0** | 670.6 |
| Current tax | **(37.1)** | (15.4) |
| Deferred tax | **(229.9)** | (172.2) |
| **Profit for the year** | **673.0** | 483.0 |
| **Attributable to:** | | |
| Equity holders of the parent | **641.4** | 458.1 |
| Minority interest | **31.6** | 24.9 |
| **Profit for the year** | **673.0** | 483.0 |

The above statement, prepared under IFRS accounting standards, is translated at the average exchange rate for the relevant year.

# CONSOLIDATED BALANCE SHEET PRESENTED IN US DOLLARS

*as at 31 December 2006*

| | **Group 2006 US$m** | Group 2005 US$m |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Investment property | **4431.9** | 3,323.7 |
| Investment property under development | **167.5** | 122.6 |
| Other property, plant and equipment | **84.4** | 58.0 |
| Investments in joint ventures | **1,934.3** | 1,356.3 |
| Investment in associates | **121.0** | 50.5 |
| Other financial assets | **97.8** | 121.9 |
| Intangible assets | **9.6** | 6.7 |
| Deferred tax assets | **128.8** | 163.1 |
| **Total non-current assets** | **6,975.3** | 5,202.8 |
| **Current assets** | | |
| Trading properties | **95.3** | 59.2 |
| Trade and other receivables | **260.5** | 129.6 |
| Other financial assets | **18.4** | – |
| Income tax receivable | **60.0** | 21.8 |
| Cash and cash equivalents | **891.3** | 661.8 |
| **Total current assets** | **1,325.5** | 872.4 |
| **TOTAL ASSETS** | **8,300.8** | 6,075.2 |
| **LIABILITIES** | | |
| **Non-current liabilities** | | |
| Interest-bearing loans and borrowings | **(1,107.0)** | (953.0) |
| Trade and other payables | **(302.6)** | (302.2) |
| Employee benefits | **(30.9)** | (47.7) |
| Deferred tax liabilities | **(1,086.6)** | (773.6) |
| **Total non-current liabilities** | **(2,527.1)** | (2,076.5) |
| **Current liabilities** | | |
| Overdrafts | **(9.0)** | (2.1) |
| Interest-bearing loans and borrowings | **(174.8)** | (32.8) |
| Trade and other payables | **(209.2)** | (162.4) |
| Income tax payable | **(46.2)** | (30.4) |
| Provisions | **(310.8)** | (17.2) |
| **Total current liabilities** | **(750.0)** | (244.9) |
| **TOTAL LIABILITIES** | **(3,277.1)** | (2,321.4) |
| **NET ASSETS** | **5,023.7** | 3,753.8 |
| **Equity** | | |
| Issued capital | **119.0** | 104.4 |
| Share premium | **338.8** | 297.2 |
| Reserves | **411.4** | 412.4 |
| Retained earnings | **3,863.1** | 2,776.9 |
| **Shareholders' funds** | **4,732.3** | 3,590.9 |
| Minority interest | **291.4** | 162.9 |
| **TOTAL EQUITY** | **5,023.7** | 3,753.8 |

The above statement, prepared under IFRS accounting standards, is translated at the closing exchange rate for the relevant year.

# CONSOLIDATED INCOME STATEMENT PRESENTED IN EUROS

*for the year ended 31 December 2006*

| | 2006 €m | 2005 €m |
|---|---|---|
| **Total revenue** | **517.6** | 571.0 |
| Gross rental income | **156.7** | 141.3 |
| Property outgoings | **(61.0)** | (67.0) |
| **Net rental income** | **95.7** | 74.3 |
| Other income | **77.6** | 43.7 |
| Administrative expenses | **(111.2)** | (77.8) |
| Loss on trading and development properties | **(259.1)** | (10.7) |
| Gains on other investments | **0.4** | – |
| Gains on revaluation and sale of investment property | **761.0** | 360.2 |
| Impairment of goodwill | **(0.3)** | (4.8) |
| Share of profit of joint ventures | **219.5** | 177.5 |
| Share of loss of associates | **(6.7)** | – |
| **Profit from operations including share of joint ventures and associates** | **776.9** | 562.4 |
| Dividend income | **1.6** | 0.4 |
| Financial income | **28.3** | 31.3 |
| Financial expenses | **(60.4)** | (56.8) |
| **Net financing costs** | **(30.5)** | (25.1) |
| **Profit before tax** | **746.4** | 537.3 |
| Current tax | **(29.5)** | (12.4) |
| Deferred tax | **(182.5)** | (137.9) |
| **Profit for the year** | **534.4** | 387.0 |
| **Attributable to:** | | |
| Equity holders of the parent | **509.3** | 367.1 |
| Minority interest | **25.1** | 19.9 |
| **Profit for the year** | **534.4** | 387.0 |

The above statement, prepared under IFRS accounting standards, is translated, at the average exchange rate for the relevant year.

# CONSOLIDATED BALANCE SHEET PRESENTED IN EUROS

*as at 31 December 2006*

| | **Group 2006 €m** | Group 2005 €m |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Investment property | **3,360.8** | 2,817.7 |
| Investment property under development | **127.0** | 103.9 |
| Other property, plant and equipment | **64.0** | 49.2 |
| Investments in joint ventures | **1,466.8** | 1,149.8 |
| Investment in associates | **91.7** | 42.7 |
| Other financial assets | **74.2** | 103.3 |
| Intangible assets | **7.3** | 5.7 |
| Deferred tax assets | **97.7** | 138.3 |
| **Total non-current assets** | **5,289.5** | 4,410.6 |
| **Current assets** | | |
| Trading properties | **72.3** | 50.2 |
| Trade and other receivables | **197.5** | 109.9 |
| Other financial assets | **14.0** | – |
| Income tax receivable | **45.6** | 18.4 |
| Cash and cash equivalents | **675.9** | 561.1 |
| **Total current assets** | **1,005.3** | 739.6 |
| **TOTAL ASSETS** | **6,294.8** | 5,150.2 |
| **LIABILITIES** | | |
| **Non-current liabilities** | | |
| Interest-bearing loans and borrowings | **(839.5)** | (807.9) |
| Trade and other payables | **(229.5)** | (256.2) |
| Employee benefits | **(23.4)** | (40.5) |
| Deferred tax liabilities | **(824.0)** | (655.8) |
| **Total non-current liabilities** | **(1,916.4)** | (1,760.4) |
| **Current liabilities** | | |
| Overdrafts | **(6.8)** | (1.7) |
| Interest-bearing loans and borrowings | **(132.5)** | (27.8) |
| Trade and other payables | **(158.7)** | (137.8) |
| Income tax payable | **(35.0)** | (25.7) |
| Provisions | **(235.7)** | (14.6) |
| **Total current liabilities** | **(568.7)** | (207.6) |
| **TOTAL LIABILITIES** | **(2,485.1)** | (1,968.0) |
| **NET ASSETS** | **3,809.7** | 3,182.2 |
| **Equity** | | |
| Issued capital | **90.2** | 88.5 |
| Share premium | **256.9** | 251.9 |
| Reserves | **312.0** | 349.6 |
| Retained earnings | **2,929.5** | 2,354.1 |
| **Shareholders' funds** | **3,588.6** | 3,044.1 |
| Minority interest | **221.1** | 138.1 |
| **TOTAL EQUITY** | **3,809.7** | 3,182.2 |

The above statement, prepared under IFRS accounting standards, is translated at the closing exchange rate for the relevant year.

# PROPERTY PORTFOLIO SUMMARY

## PORTFOLIO ANALYSIS – PROPRIETARY ASSETS

| | Investment properties | | | | | Development programme | | Financial assets | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| | Number No. | Value £m | Passing rent £m | ERV £m | Running yield % | Number No. | Completed cost £m | Carrying value £m | **£m** |
| Britain & Ireland | | | | | | | | | |
| Office | 287 | 873.1 | 35.5 | 50.8 | 4.1% | 6 | 20.3 | – | **893.4** |
| Retail | 134 | 630.6 | 25.6 | 35.9 | 4.1% | 6 | 671.0 | – | **1,301.6** |
| Residential * | 346 | 639.0 | 11.1 | n/a | 1.7% | 8 | 122.1 | – | **761.1** |
| | 767 | 2,142.7 | 72.2 | n/a | 3.4% | 20 | 813.4 | – | **2,956.1** |
| Americas | | | | | | | | | |
| Office | 8 | 122.6 | 7.8 | 10.0 | 6.4% | 2 | 33.6 | 0.8 | **157.0** |
| Retail | 41 | 256.6 | 15.0 | 19.2 | 5.8% | 3 | 57.1 | – | **313.7** |
| Residential | 3 | 43.9 | 2.7 | 3.2 | 6.1% | 2 | 92.7 | 14.7 | **151.3** |
| Industrial | 11 | 51.6 | 2.9 | 2.9 | 5.6% | – | – | – | **51.6** |
| Car parks | 1 | 35.1 | 2.7 | 2.7 | 7.7% | – | – | – | **35.1** |
| | 64 | 509.8 | 31.1 | 38.0 | 6.1% | 7 | 183.4 | 15.5 | **708.7** |
| Continental Europe | | | | | | | | | |
| Office | 2 | 43.3 | 1.7 | 1.7 | 4.0% | 2 | 53.0 | – | **96.3** |
| Retail | 109 | 989.3 | 58.2 | 60.0 | 5.9% | 13 | 332.5 | – | **1,321.8** |
| Industrial | – | – | – | – | – | 6 | 47.3 | – | **47.3** |
| | 111 | 1,032.6 | 59.9 | 61.7 | 5.8% | 21 | 432.8 | – | **1,465.4** |
| Australia Asia Pacific | | | | | | | | | |
| Office | 4 | 119.9 | 7.9 | 9.3 | 6.6% | 2 | 62.4 | 4.1 | **186.4** |
| Retail | 1 | 7.6 | 0.3 | 0.3 | 3.9% | – | – | 16.1 | **23.7** |
| Residential | 24 | 23.1 | 1.2 | 1.2 | 5.2% | 3 | 61.7 | 4.6 | **89.4** |
| Industrial | 11 | 41.3 | 3.1 | 3.2 | 7.5% | 1 | 6.1 | – | **47.4** |
| Car parks | 2 | 43.3 | 1.5 | 1.5 | 3.5% | – | – | – | **43.3** |
| | 42 | 235.2 | 14.0 | 15.5 | 6.0% | 6 | 130.2 | 24.8 | **390.2** |
| Grosvenor Fund Management (investment in fund vehicles) | | | | | | | | | |
| Office | 1 | 0.9 | n/a | n/a | n/a | – | – | 8.1 | **9.0** |
| Retail | 1 | 1.3 | n/a | n/a | n/a | | | 8.1 | **9.4** |
| | 2 | 2.2 | n/a | n/a | n/a | – | – | 16.2 | **18.4** |
| Total Group | | | | | | | | | |
| Office | 302 | 1,159.8 | 52.9 | 71.8 | 4.6% | 12 | 169.3 | 13.0 | **1,342.1** |
| Retail | 286 | 1,885.4 | 99.1 | 115.4 | 5.3% | 22 | 1,060.6 | 24.2 | **2,970.2** |
| Residential | 373 | 706.0 | 15.0 | n/a | 2.1% | 13 | 276.5 | 19.3 | **1,001.8** |
| Industrial | 22 | 92.9 | 6.0 | 6.1 | 6.5% | 7 | 53.4 | – | **146.3** |
| Car parks | 3 | 78.4 | 4.2 | 4.2 | 5.4% | – | – | – | **78.4** |
| | 986 | 3,922.5 | 177.2 | n/a | 4.5% | 54 | 1,559.8 | 56.5 | **5,538.8** |

* The majority of the residential portfolio in Britain & Ireland is ground rented (low fixed rent).
The average yield on the rack rented residential portfolio is 3.8%.

# PROPERTY PORTFOLIO SUMMARY

## GEOGRAPHIC ANALYSIS – PROPRIETARY ASSETS

| | Investment properties £m | Development programme £m | Financial assets £m | **Total £m** |
|---|---|---|---|---|
| Britain & Ireland | | | | |
| West End | 1,707.5 | 95.7 | – | **1,803.2** |
| City | 19.0 | – | – | **19.0** |
| Outside London | 416.2 | 717.7 | – | **1,133.9** |
| | 2,142.7 | 813.4 | – | **2,956.1** |
| Americas | | | | |
| USA | 316.4 | 45.6 | 6.2 | **368.2** |
| Canada | 193.4 | 137.8 | 9.3 | **340.5** |
| | 509.8 | 183.4 | 15.5 | **708.7** |
| Continental Europe | | | | |
| France | 109.0 | – | – | **109.0** |
| Spain | 267.1 | 265.2 | – | **532.3** |
| Portugal | 562.7 | 18.7 | – | **581.4** |
| Italy | 45.3 | 56.9 | – | **102.2** |
| Germany | – | 81.2 | – | **81.2** |
| Greece | 10.0 | 10.8 | – | **20.8** |
| Brazil | 38.5 | – | – | **38.5** |
| | 1,032.6 | 432.8 | – | **1,465.4** |
| Australia Asia Pacific | | | | |
| Australia | 193.4 | 73.6 | – | **267.0** |
| Hong Kong | 17.2 | 37.5 | 12.8 | **67.5** |
| Japan | 24.6 | 19.1 | – | **43.7** |
| Singapore | – | – | 12.0 | **12.0** |
| | 235.2 | 130.2 | 24.8 | **390.2** |
| Grosvenor Fund Management | | | | |
| Investment in fund vehicles | 2.2 | – | 16.2 | **18.4** |
| | 2.2 | – | 16.2 | **18.4** |
| Total Group | 3,922.5 | 1,559.8 | 56.5 | **5,538.8** |

# PROPERTY PORTFOLIO
# BRITAIN & IRELAND

Grosvenor Britain & Ireland has an interest in a portfolio of assets across 300 acres of Mayfair and Belgravia. More than 760 retail, residential and commercial properties make up the portfolio. It is not practical to list all these assets. However, the table below shows assets held outside London, large individual properties in the London portfolio and assets grouped at street-level that are strategic locations on the London Estate. The ownership of some of these strategic locations lies with Grosvenor family trusts. The number of assets on each street, together with the total floor area, is recorded in the table below.

| Property | Description | Location | Area sq m |
|---|---|---|---|
| **Investment properties – directly or Trust owned** | | | |
| Chantry House | Residential apartment block | West End, London, UK | 5,100 |
| Duke Street | 19 offices, 20 exclusive apartments and 24 retail units. | West End, London, UK | 25,300 |
| Eaton Square | Residential units on 6 floors in historic Grade 2* listed buildings | West End, London, UK | 68,200 |
| Ebury Street | 25 offices, 86 residential and 48 retail units | West End, London, UK | 6,400 |
| Elizabeth Street | 5 offices, 28 residential and 58 retail units on historic Georgian street | West End, London, UK | 2,000 |
| Erskine House | Residential apartment block | West End, London, UK | 1,000 |
| Grosvenor Square | 52 units, of which 19 are offices and 34 are residential | West End, London, UK | 71,600 |
| 4/8 Grosvenor Street & 30/32 Avery Row | 6 floor office building with 5 retail units | West End, London, UK | 2,900 |
| 73 Grosvenor Street | 6 floor refurbished and partly rebuilt office building | West End, London, UK | 1,300 |
| 75 Grosvenor Street | 6 floor refurbished and partly rebuilt office building | West End, London, UK | 1,500 |
| Grosvenor Hill Court | 2 floor office building with 30 residential units above and car park | West End, London, UK | 7,300 |
| Mount Street | 21 offices, 33 residential, 28 retail | West End, London, UK | 70,600 |
| Motcomb Street | 4 offices, 26 residential units and 41 retail units | West End, London, UK | 9,600 |
| 16/20North Audley Street | 6 floor refurbished and partly rebuilt office building | West End, London, UK | 11,300 |
| 97/99 Park Street | Residential apartment block | West End, London, UK | 1,600 |
| Peterson House, 25 Gilbert Street | Residential apartment block | West End, London, UK | 1,500 |
| Pimlico Road | 1 office, 14 residential units and 60 retail units | West End, London, UK | 1,200 |
| St. Anselm House, 65 Davies Street | 8 floor 1930's office building | West End, London, UK | 7,800 |
| Terminal House, 52 Grosvenor Gardens | 7 floor office building with 9 retail units | West End, London, UK | 8,200 |

This analysis excludes Operating Companies' interests in properties managed by Grosvenor Fund Management.

# PROPERTY PORTFOLIO
# BRITAIN & IRELAND (continued)

| Property | Description | Location | Area sq m |
|---|---|---|---|
| **Investment properties – held in joint ventures** | | | |
| Grosvenor Street | Comprising 113 units of which 85 are offices, 13 are residential and 15 are retail. | West End, London, UK | 57,600 |
| 10 Grosvenor Street | 6 floor open plan office building | West End, London, UK | 5,300 |
| Liffey Valley Shopping Centre | Regional shopping centre with 94 retail units and cinema | Dublin, Republic of Ireland | 36,300 |
| Viewpoint - Mayfair | 9 floor open plan refurbished office building with 3 retail units in Oxford Street | West End, London, UK | 4,600 |
| **Development properties – directly owned** | | | |
| Montrose Place | Residential apartment block | West End, London, UK | 60,000 |
| Preston | £600m retail-led mixed use urban regeneration scheme | Preston, Lancashire, UK | 145,900 |
| **Development properties – held in joint ventures and associates** | | | |
| Bankside | Residential apartment block | Central London, UK | 66,000 |
| Edinburgh Technopole | Science Park | Edinburgh, Scotland, UK | 46,500 |
| Fountain North | Mixed use city centre scheme | Edinburgh, Scotland, UK | 83,200 |
| Grand Arcade | Mixed use city centre development | Cambridge, East Anglia, England | 41,800 |
| Liverpool One | £600m retail-led, mixed-use urban regeneration project. | Liverpool, Merseyside, UK | 191,000 |
| Pacific Quay | 15 acres of commercial development at the heart of Glasgow's new urban business district | Glasgow, Scotland, UK | 46,500 |

This analysis excludes Operating Companies' interests in properties managed by Grosvenor Fund Management.

# PROPERTY PORTFOLIO AMERICAS

| Property | Description | Location | Area sq m |
|---|---|---|---|
| **Investment properties – directly owned** | | | |
| Annacis Business Park | Warehouse and distribution park | Vancouver, B.C., Canada | 80,500 |
| Ascent | Multiple low-rise apartment buildings containing 90 units | Seattle, WA, USA | 7,000 |
| Bow Parkade | 2 multi-level parking structures (1,000 parking spaces) with ground floor retail | Calgary, AB, Canada | 2,400 |
| Chelsea at Juanita Village | 2 mid-rise apartment buildings containing 196 units and ground floor retail | Seattle, WA, USA | 14,800 |
| Crowfoot Corner | Community shopping centre | Calgary, AB, Canada | 5,800 |
| Crowfoot Village | Community shopping centre | Calgary, AB, Canada | 4,700 |
| 1777 F Street | 8-storey office building | Washington, D.C., USA | 5,500 |
| The Grosvenor Building | 22 storey office building with retail space and parking | Vancouver, B.C., Canada | 18,900 |
| Los Gatos Village Square | Neighbourhood shopping centre | Los Gatos, CA, USA | 4,200 |
| Sancerre | Multiple low-rise apartment buildings comprising 140 units | Seattle, WA, USA | 10,500 |
| 1799 Union Street | 2-storey retail and office building | San Francisco, CA, USA | 1,200 |
| 1944 Union Street | Single building restaurant building | San Francisco, CA, USA | 400 |
| Venator Building | Urban retail building | Calgary, AB, Canada | 2,300 |
| Viscount & Viceroy | 2 low-rise apartment buildings comprising 26 units | Calgary, AB, Canada | 1,600 |
| Walnut Gate | Neighbourhood retail centre | Langley, B.C., Canada | 2,500 |
| Westgate West | Neighbourhood shopping centre | San Jose, CA, USA | 21,900 |
| **Investment properties – held in joint ventures and associates** | | | |
| Best Buy Metro Center | Community shopping centre | Springfield, VA, USA | 9,800 |
| Broadmead Village Shopping Centre | Neighbourhood retail centre | Saanich, B.C., Canada | 11,800 |
| Carlyle Gateway I & II | Two 6-storey office buildings with ground floor retail | Alexandria, VA, USA | 23,200 |
| Church Street Plaza | Community lifestyle centre | Evanston, IL, USA | 16,400 |
| Coventry Hills Shopping Centre | Community retail centre | Calgary, AB, Canada | 12,200 |
| DC Urban Retail Portfolio | Retail portfolio comprising 17 buildings | Washington, D.C., USA | 42,900 |
| 2 North Lake | 11-storey office building, 3-storey historic building and an 8-storey split-level garage | Pasadena, CA, USA | 20,500 |
| 830 North Michigan Avenue | 6-storey urban retail building | Chicago, IL, USA | 11,600 |
| 1701 Pennsylvania Avenue, N.W. | 12-storey office building with ground floor retail and parking | Washington, D.C., USA | 17,700 |
| 180 Post Street | Urban retail building | San Francisco, CA, USA | 2,700 |
| 251 Post Street | Urban retail/office building | San Francisco, CA, USA | 3,400 |
| Rice Lake Square | 9 building community retail centre | Wheaton, IL, USA | 23,400 |
| 308 – 310 N. Rodeo Drive | Urban retail building | Beverly Hills, CA, USA | 1,400 |
| South Edmonton Common | Regional 'power centre' | Edmonton, AB, Canada | 16,800 |
| South Point Exchange | Community shopping centre | Surrey, B.C., Canada | 20,600 |
| USCO Distribution Facility | Single floor warehouse/distribution building | Calgary, AB Canada | 28,100 |
| Valley River Center | 2 building retail centre with theatre | Eugene, OR, USA | 96,000 |

This analysis excludes Operating Companies' interests in properties managed by Grosvenor Fund Management.

# PROPERTY PORTFOLIO AMERICAS (continued)

| Property | Description | Location | Area sq m |
|---|---|---|---|
| **Principal developments – directly owned** | | | |
| 15th Avenue/7th Street (Beltline Site) | High rise (17 storey) residential development site comprising 98 units | Calgary, AB, Canada | 10,500 |
| 5955 Balsam | Mid rise (12 storey) luxury residential development comprising 42 units | Vancouver, B.C., Canada | 6,800 |
| Hamilton Marketplace | 8.93 acre site, planned for a 90,000 sq ft grocery-anchored Neighbourhood retail centre | Novato, CA, USA | 8,400 |
| Melcor Site | High rise (20 storey) residential development site comprising 320 units in two towers | Calgary, AB, Canada | 25,900 |
| Triangle Assembly | Low rise (4 storey) residential development site comprising 220 units | Surrey, B.C., Canada | 22,100 |
| **Principal developments – held in joint ventures** | | | |
| Avondale (Lions Gate Hospital Site) | Low rise residential development comprising 83 units | North Vancouver, B.C., Canada | 9,000 |
| The Boulevard @ South Point Exchange | Fashion oriented lifestyle centre | Surrey, B.C., Canada | 3,100 |
| High Street @ South Point Exchange | Mixed use development comprising 88 residential units and 17,000 s.f. of retail | Surrey, B.C., Canada | 9,300 |
| The RISE (2300 Cambie Street) | Mixed use commercial and residential urban development | Vancouver, B.C., Canada | 25,900 |
| 185 Post Street | 6 storey retail urban re-development | San Francisco, CA, USA | 2,400 |
| South Edmonton Common | ‘Big Box’ retail development expansion | Edmonton, AB, Canada | 223,000 |
| The Village @ South Point Exchange | Community oriented main street retail and residential development | Surrey, B.C., Canada | 47,900 |
| WesTech Restaurant Park | In-line retail building and 5 restaurant and bank “pad” sites | Silver Spring, MD, USA | 3,900 |

This analysis excludes Operating Companies’ interests in properties managed by Grosvenor Fund Management.

# PROPERTY PORTFOLIO
# CONTINENTAL EUROPE

| Property | Description | Location | Area sq m |
|---|---|---|---|
| **Investment properties – directly owned** | | | |
| Paris Antiques market | Two galleries with 450 small retail units | Paris, France | 8,300 |
| **Principal Investment properties – held by joint ventures** | | | |
| Airone | Shopping centre with 42 retail units | Monselice, Italy | 9,900 |
| AlgarveShopping | Shopping centre with 133 retail units | Guia, Portugal | 42,400 |
| ArrábidaShopping | Shopping centre with 180 retail units | Vila Nova de Gaia, Portugal | 56,400 |
| Avenida M40 | Shopping centre with 136 retail units | Leganés, Madrid, Spain | 48,300 |
| Boavista Shopping | Shopping centre with 182 retail units | São Paulo, Brazil | 23,900 |
| CascaiShopping | Shopping centre with 169 retail units | Cascais, Portugal | 72,200 |
| Centro Colombo | Shopping centre with 427 retail units | Lisbon, Portugal | 120,000 |
| CoimbraShopping | Shopping centre with 69 retail units | Coimbra, Portugal | 26,500 |
| Dos Mares | Shopping and leisure centre with 84 retail units | San Javier, Spain | 24,300 |
| Estaçao Viana Shopping | Shopping centre with 114 retail units | Viana do Castelo, Portugal | 65,500 |
| La Farga | Shopping and leisure centre with 128 retail units | Barcelona, Spain | 18,600 |
| Faubourg Saint-Honoré, 68 | Office building with 9 tenants | Paris, France | 9,600 |
| Franca Shopping | Shopping centre with 95 retail units | São Paulo, Brazil | 18,200 |
| GaiaShopping | Shopping centre with 167 retail units | Vila Nova de Gaia, Portugal | 59,700 |
| Grancasa | Shopping centre with 166 retail units | Zaragoza, Spain | 79,400 |
| GuimarãeShopping | Shopping centre with 92 retail units | Guimarães, Portugal | 26,900 |
| LoureShopping | Shopping centre with 123 retail units | Loures, Portugal | 39,000 |
| Luz del Tajo | Shopping centre with 134 retail units | Toledo, Spain | 45,600 |
| MadeiraShopping | Shopping centre with 112 retail units | Funchal, Portugal | 26,600 |
| MaiaShopping | Shopping centre with 112 retail units | Maia, Portugal | 30,900 |
| Max Centre | Shopping centre with 159 retail units | Bilbao, Spain | 59,400 |
| Mediterranean Cosmos | Shopping and leisure centre with 209 retail units | Thessaloniki, Greece | 46,000 |
| Metrópole | Shopping centre with 131 retail units | São Paulo, Brazil | 23,600 |
| NorteShopping | Shopping centre with 289 retail units | Porto, Portugal | 71,900 |
| Parque Atlântico | Shopping and leisure centre with 104 retail units | Ponta Delgado, Portugal | 22,300 |
| Parque Dom Pedro | Shopping centre with 390 retail units | Campinas, Brazil | 107,000 |
| Parque Principado | Shopping centre with 159 retail units | Oviedo, Spain | 76,800 |
| Pátio Brazil | Shopping centre with 167 retail units | Brasilia, Brazil | 28,500 |
| Penha Shopping | Shopping centre with 191 retail units | São Paulo, Brazil | 26,400 |
| Plaza Eboli | Shopping centre with 97 retail units | Pinto, Spain | 28,500 |
| Plaza Mayor | Shopping and leisure centre with 99 retail units | Malaga, Spain | 33,300 |
| Plaza Sul | Shopping centre with 238 retail units | Jd.Saúde, Brazil | 27,100 |
| Rio Sul | Shopping and leisure centre with 137 retail units | Seixal, Portugal | 39,700 |
| SerraShopping | Shopping centre with 86 retail units | Lugar da Qta. do Pinheiro, Portugal | 17,700 |
| Tivoli | Shopping centre with 265 retail units | São Paulo, Brazil | 22,500 |
| Valecentre | Shopping centre with 91 retail units | Macron, Italy | 26,700 |
| Valle Real | Shopping centre with 102 retail units | Santander, Spain | 47,700 |
| Vasco da Gama | Shopping centre with 164 retail units | Lisbon, Portugal | 47,600 |
| ViaCatarinaShopping | Shopping centre with 100 retail units | Porto, Portugal | 11,900 |
| Warner Village | Leisure centre with 5 retail units | Marcon, Italy | 11,700 |
| Zubiarte | Shopping and leisure centre with 79 retail units | Bilbao, Spain | 20,700 |

This analysis excludes Operating Companies' interests in properties managed by Grosvenor Fund Management.

# PROPERTY PORTFOLIO
# CONTINENTAL EUROPE (continued)

| **Property** | **Description** | **Location** | **Area sq m** |
|---|---|---|---|
| **Principal Development properties – held by joint ventures** | | | |
| Alexa | City centre retail development | Berlin, Germany | 56,000 |
| Arganda | Industrial development | Arganda, Spain | 14,900 |
| Colombo Towers | Office development | Lisbon, Portugal | 48,000 |
| Coslada 2 | Industrial development | Coslada, Spain | 18,700 |
| Coslada 3 | Industrial development | Coslada, Spain | 11,000 |
| El Rosal | Shopping centre development | Ponferrada, Spain | 49,100 |
| Freccia Rossa | Retail and leisure development | Brescia, Italy | 30,300 |
| Galatsi | Shopping centre development | Athens, Greece | 39,000 |
| Gli Orsi | Shopping centre development | Biella, Italy | 27,000 |
| Lima Retail Park | Shopping centre development | Viana, Portugal | 10,700 |
| Omega | Office development | Madrid, Spain | 50,700 |
| Pinto | Industrial development | Pinto, Spain | 18,800 |
| Plaza Mayor Shopping | Expansion of existing shopping centre | Málaga, Spain | 18,800 |
| São Jão da Madeira | Shopping centre development | SJ Madeira, Portugal | 19,800 |
| Torrejon | Industrial development | Torrejon, Spain | 44,800 |
| Valencia | Industrial development | Valencia, Spain | 13,300 |
| Weiterstadt | Shopping centre development | Weiterstadt, Germany | 61,300 |

This analysis excludes Operating Companies' interests in properties managed by Grosvenor Fund Management.

# PROPERTY PORTFOLIO
# AUSTRALIA ASIA PACIFIC

| Property | Description | Location | Area sq m |
|---|---|---|---|
| **Investment properties – directly owned** | | | |
| Abbot Road, Seven Hills | Retail Trade Outlet | Sydney, Australia | 7,500 |
| Cinema Centre Car Park | Car park with 906 spaces | Sydney, Australia | 26,800 |
| 114 Flinders Street | Car park with 864 spaces plus 2500m$^2$ of office | Melbourne, Australia | 28,800 |
| 151&153 Glendenning Road | 2 industrial distribution buildings | Sydney, Australia | 12,000 |
| 20 Hunter Street | 'A' grade office building | Sydney, Australia | 10,000 |
| 2828-2840 Ipswich Road | Industrial warehouse | Brisbane, Australia | 13,900 |
| 61 Plumpton Road | Industrial distribution building | Sydney, Australia | 10,000 |
| 22-34 Rosebery Avenue | Industrial warehouse | Sydney, Australia | 5,700 |
| 259 Queen Street | 'A+' grade office building | Brisbane, Australia | 24,700 |
| Vienna Apartment | High-end serviced apartment building | Shanghai, China | 13,800 |
| Yoshiyasu-kanda Office | Office in Chiyoda-ku, Tokyo | Japan | 3,200 |
| **Investment properties – held in joint ventures** | | | |
| 15/F Lippo Centre I | Office on 15th floor of Lippo Tower | Hong Kong | 1,200 |
| Sir Joseph Banks Corporate Park | Hi Tech business park | Sydney, Australia | 32,000 |
| Kichijoji | Town retail in suburban Tokyo | Japan | 1,400 |
| **Development properties – directly owned** | | | |
| Banyo | Residential and industrial sub-division (*land area) | Brisbane, Australia | 136,700* |
| 19-21 Church Street, 20-23 Tomaree Street | 58 Serviced apartments | Nelson Bay, Australia | 8,300 |
| **Development properties – held in joint ventures** | | | |
| 103 Castle Peak Road | Residential development | Castle Peak, Hong Kong | 16,200 |
| 400 George Street | Office development | Brisbane, Australia | 41,400 |
| 25 Smith Street | Office development | Parramatta, Australia | 11,000 |
| Kamizonocho | Residential development | Tokyo, Japan | 17,900 |

This analysis excludes Operating Companies' interests in properties managed by Grosvenor Fund Management.

# PROPERTY PORTFOLIO
# PROPERTIES MANAGED BY GROSVENOR FUND MANAGEMENT

| Property | Description | Location | Area sq m |
|---|---|---|---|
| **Grosvenor Shopping Centre Fund** | | | |
| Coopers Square | Covered shopping centre with 70 retail outlets | Burton-on-Trent, East Midlands, UK | 35,800 |
| Dolphin Centre | Shopping centre with 125 retail units | Poole, Dorset, UK | 46,100 |
| The Eastgate Centre | Covered shopping centre with 65 retail units | Inverness, Scotland, UK | 38,100 |
| Freshney Place | Single level covered shopping centre with 100 retail outlets | Grimsby, Lincolnshire, UK | 46,500 |
| **Grosvenor London Office Fund** | | | |
| Almack House, King Street | 7 floor 1990s office building | West End, London, UK | 9,300 |
| Belgrave House | 8 floor open plan office building | West End, London, UK | 25,500 |
| 40 Grosvenor Place | 6 floor open plan office building | West End, London, UK | 18,600 |
| 25 Moorgate | 7 floor open plan office building | City, London, UK | 7,700 |
| **Grosvenor Festival Place Fund** | | | |
| Festival Place, Basingstoke | Covered two level shopping centre with 195 shops, restaurants and cafes | Basingstoke, Hampshire, UK | 96,700 |
| **Talbot Residential Investment Fund** | | | |
| Astwick Manor | 8 three bedroom townhouses | Hatfield, Hertfordshire, UK | 1,100 |
| Beaumont House | 8 unit residential building | Willesden Green, London, UK | 300 |
| Belgrave House | 19 unit residential building | Pimlico, London, UK | 900 |
| Bridge Court | 13 two bedroom flats | Welwyn Garden City, Hertfordshire, UK | 800 |
| Grosvenor House | 9 two bedroom flats; 2 three bedroom flats | Cheltenham, Gloucestershire, UK | 1,000 |
| 23 Hulse Road | 16 two bedroom apartments | Southampton, Hampshire, UK | 1,200 |
| The Rosery | 3 one bedroom flats; 5 two bedroom flats | Worcester, Worcestershire, UK | 500 |
| Trenchard Close | 18 two bedroom terraced houses | Stanmore, Middlesex, UK | 1,300 |
| **Grosvenor Retail European Property** | | | |
| 10 rue d'Alsace Lorraine | High street retail unit | Toulouse, France | 700 |
| 19 rue d'Alsace Lorraine | High street retail unit | Toulouse, France | 600 |
| 6 Avenue Pierre Brosselette | Three retail units | Cannes, France | 400 |
| Porte de Chatillon | Retail warehouse unit and shopping gallery | Malakoff, France | 5,800 |
| 48 rue de la Chaussée d'Antin | Retail space located in one of the prime retail areas of Paris | Paris, France | 300 |
| Cisalfa Portfolio | One town centre and one warehouse retail unit | Bergamo, Italy | 5,800 |
| French retail warehouse portfolio | Three retail warehouse parks with a total of 15 units | Bondy, Bourges, France | 16,300 |
| 15-19 Place Gambetta | Four storey Virgin Megastore | Bordeaux, France | 5,500 |
| 28-30 Avenue George V | Three restaurant units | Paris, France | 2,000 |
| Lyon Jacobins | Retail space divided into ten small boutiques and a restaurant | Lyon, France | 900 |
| 10 Place du Marché | Town centre retail gallery with 7 units | Thionville, France | 2,200 |
| Place du RER | Two retail warehouse style units | Saint Ouen, France | 3,100 |
| 102 rue de Rivoli | High street retail unit | Paris, France | 1,100 |
| Rue Jean Monnet | Retail warehouse park with 17 units | Claye Souilly, France | 16,900 |
| SPIIC Portfolio | Portfolio of 11 French high street retail properties with a total of 23 units | Bordeaux, Toulouse, Avignon, Paris; France | 18,600 |
| Transeuropean Retail Warehouses | Portfolio of 8 retail warehouses | Belgium and Luxembourg | 11,300 |
| Avenue de l'Avenir, Avenue de Lézennes | Retail warehouse park with 7 units and office space | Villeneuve d'Ascq, France | 10,500 |

# PROPERTY PORTFOLIO
# PROPERTIES MANAGED BY GROSVENOR FUND MANAGEMENT (continued)

| Property | Description | Location | Area sq m |
|---|---|---|---|
| **Grosvenor Land Property Fund** | | | |
| Chester Court | 12 unit residential building | Hong Kong | 1,700 |
| 15C Fairlane Tower | 1 residential unit | Hong Kong | 100 |
| 46C Tavistock II | 1 residential unit | Hong Kong | 200 |
| **Grosvenor Diamond Capital – Stable Residential Fund** | | | |
| Chester Court, Nihonbashi | 104 unit residential building | Tokyo, Japan | 4,900 |
| Chester Court, Sengoku | 23 unit residential building | Tokyo, Japan | 1,500 |
| Chester House Funabori | 54 unit residential building | Tokyo, Japan | 1,300 |
| Chester House, Mejiro | 18 unit residential building | Tokyo, Japan | 400 |
| Chester House Yoyogi | 28 unit residential building | Tokyo, Japan | 1,200 |
| Mayfair Court, Nishiazabu | 9 unit residential building | Tokyo, Japan | 1,300 |
| Mayfair Court, Roppongi | 11 unit residential building | Tokyo, Japan | 1,900 |
| KJ Maison Kishine Koen | 70 unit residential building | Kanagawa, Japan | 1,400 |
| Vert Varie Kitasando | 144 unit residential building | Tokyo, Japan | 5,000 |
| **Grosvenor Capital Advisers Partnership** | | | |
| Buena Vista Shimiz | 33 unit residential building | Osaka, Japan | 2,300 |
| Chester Court, Honkomagome | 36 unit residential building | Tokyo, Japan | 2,200 |
| Chester Court, Kasuga | 68 unit residential building | Tokyo, Japan | 3,600 |
| Chester Court, Mitsukoshimae | 36 unit residential building | Tokyo, Japan | 1,400 |
| Chester House, Nishimagome | 52 unit residential building | Tokyo, Japan | 1,600 |
| Hakusan Heights | 32 unit residential building | Tokyo, Japan | 2,700 |
| Modulor Asagaya | 32 unit residential building | Tokyo, Japan | 1,000 |
| Modulor Shirokane | 36 unit residential building | Tokyo, Japan | 1,000 |
| Rafine Yotsubashi | 19 unit residential building | Osaka, Japan | 2,200 |
| Takanawa Compound | 6 unit residential building | Tokyo, Japan | 1,400 |
| Toei Building | 47 unit residential building | Kanagwa, Japan | 1,300 |
| Yoyogi Uehara Terrace | 5 unit residential building | Tokyo, Japan | 1,000 |
| **ISPT Grosvenor International Property Trust** | | | |
| L'Anec Blau | Covered Shopping Centre over 3 levels | Barcelona, Spain | 27,800 |
| 4501 N. Fairfax Drive | 9 floor office building | Arlington, VA, USA | 18,100 |
| ParkRidge Four | 6 floor office building | Littleton, CO, USA | 17,900 |
| The River | Shopping Centre with 41 units | Rancho Mirage, CA, USA | 21,200 |
| **Shmael U.S. Real Estate Fund** | | | |
| 5505 Morehouse Drive | 3 floor office building | San Diego, CA, USA | 6,700 |
| 1350 Piccard Drive | 4 floor office building | Rockville, MD, USA | 9,700 |

# PROPERTIES MANAGED BY GROSVENOR FUND MANAGEMENT (continued)

| Property | Description | Location | Area sq m |
|---|---|---|---|
| **Grosvenor Investment Management US Inc. – Representative Properties Managed on Behalf of Separate Account Clients** | | | |
| Alcoa Building | 6 floor office building | Pittsburgh, PA USA | 21,300 |
| AtlanTech Tower | 12 floor office building | Ft. Lauderdale, FL, USA | 48,400 |
| Benchmark Assisted Living | 15 assisted living facilities with 1,181 units | New England, USA | 84,900 |
| 1180 Church Road | Office/warehouse building | Lansdale, PA USA | 19,000 |
| Collegeville Marriott Courtyard | 130 room hotel | Collegeville, PA USA | 7,200 |
| Cornerstone | 2 floor medical office building | Warrenville, IL USA | 5,900 |
| Digital Lightwave Drive | 3 floor office building | Clearwater, FL, USA | 8,600 |
| GSW Building | 3 floor office building | Westerville, OH USA | 9,000 |
| Heritage of Green Hills | 619 unit senior housing community | Reading, PA USA | 58,300 |
| 1500 K Street | 11 floor office building | Washington D.C., USA | 22,600 |
| Koppers Building | 31 floor office building | Pittsburgh, PA USA | 33,100 |
| Meadowood Apartments | 296 unit residential complex | San Antonio, TX USA | 23,300 |
| Mifflin County Commons | Retail strip center | Lewistown, PA USA | 18,400 |
| 1200 Morris Drive | 3 floor office building | Wayne, PA USA | 10,600 |
| 79 North Industrial | Industrial warehouse park with 7 buildings plus 23.4 aces of buildable land | Sewickley, PA USA | 37,800 |
| 701 North Michigan Avenue | 2 floor retail building | Chicago, IL, USA | 2,100 |
| Parkway 120 | 5 floor office building | Old Bridge, NJ USA | 19,000 |
| Spread Eagle Village | Specialty retail center | Strafford, PA USA | 7,400 |
| Station Square | 346 unit residential complex | Lansdale, PA USA | 36,100 |
| Toll Brothers Realty Trust I & II | Interest in 6 projects including office, residential and retail | Multiple locations, USA | 209,200 |

# FIVE YEAR SUMMARY

| | 2002 £m | 2003 £m | 2004 £m | 2005 £m | **2006 £m** |
|---|---|---|---|---|---|
| **INCOME STATEMENT** | | | | | |
| Net rental and other income | 108.0 | 101.1 | 61.7 | 80.8 | **118.1** |
| Administrative expenses | (35.5) | (41.5) | (46.7) | (53.3) | **(75.8)** |
| Profit/(loss) on trading and development properties | 2.6 | 6.5 | 9.6 | (7.3) | **(176.6)** |
| (Losses)/gains on other investments | (17.3) | 3.3 | 22.9 | – | **0.3** |
| Net gains on revaluation and sale of investment properties | 24.6 | 37.2 | 198.8 | 246.8 | **518.7** |
| Impairment of goodwill | – | – | – | (3.3) | **(0.2)** |
| Share of profit from joint ventures | 17.7 | 22.3 | 123.8 | 121.6 | **149.6** |
| Share of loss from associates | – | – | – | – | **(4.6)** |
| Profit before net financing costs and tax | 100.1 | 128.9 | 370.1 | 385.3 | **529.5** |
| Net financing costs | (39.3) | (37.2) | (28.0) | (17.2) | **(20.8)** |
| **Profit before tax** | 60.8 | 91.7 | 342.1 | 368.1 | **508.7** |
| **BALANCE SHEET** | | | | | |
| **Total property assets including share of joint ventures and associates** | 2,678.0 | 2,728.8 | 3,237.3 | 3,727.7 | **4,592.4** |
| Investment property (including under development) | 2,079.1 | 2,050.5 | 1,809.1 | 2,007.4 | **2,350.0** |
| Investment in joint ventures and associates | 209.4 | 222.4 | 694.6 | 819.4 | **1,050.1** |
| Other financial assets | 93.0 | 85.6 | 58.3 | 71.0 | **50.0** |
| Other non-current assets | 28.1 | 23.9 | 100.1 | 132.7 | **113.8** |
| | 2,409.6 | 2,382.4 | 2,662.1 | 3,030.5 | **3,563.9** |
| Trading properties | 81.6 | 94.4 | 44.1 | 34.5 | **48.7** |
| Cash and cash equivalents | 143.9 | 204.0 | 264.2 | 385.5 | **455.4** |
| Other net current assets | (21.9) | 8.4 | 1.4 | (34.2) | **42.7** |
| | 203.6 | 306.8 | 309.7 | 385.8 | **546.8** |
| Borrowings (including current) | (748.9) | (687.6) | (614.5) | (575.4) | **(659.5)** |
| Deferred tax | (30.7) | (31.5) | (317.9) | (450.6) | **(555.2)** |
| Other non-current liabilities | (14.0) | (7.9) | (130.1) | (203.8) | **(329.2)** |
| | (793.6) | (727.0) | (1,062.5) | (1,229.8) | **(1,543.9)** |
| **Net assets** | 1,819.6 | 1,962.2 | 1,909.3 | 2,186.5 | **2,566.8** |
| Share capital and share premium | 233.9 | 233.9 | 233.9 | 233.9 | **233.9** |
| Reserves | 1,519.2 | 1,614.5 | 1,561.4 | 1,857.7 | **2,184.0** |
| | 1,753.1 | 1,848.4 | 1,795.3 | 2,091.6 | **2,417.9** |
| Minority interest | 66.5 | 113.8 | 114.0 | 94.9 | **148.9** |
| **Total equity** | 1,819.6 | 1,962.2 | 1,909.3 | 2,186.5 | **2,566.8** |

International Financial Reporting Standards were adopted with effect from 1 January 2004. Figures prior to 2004 are presented under UK GAAP.

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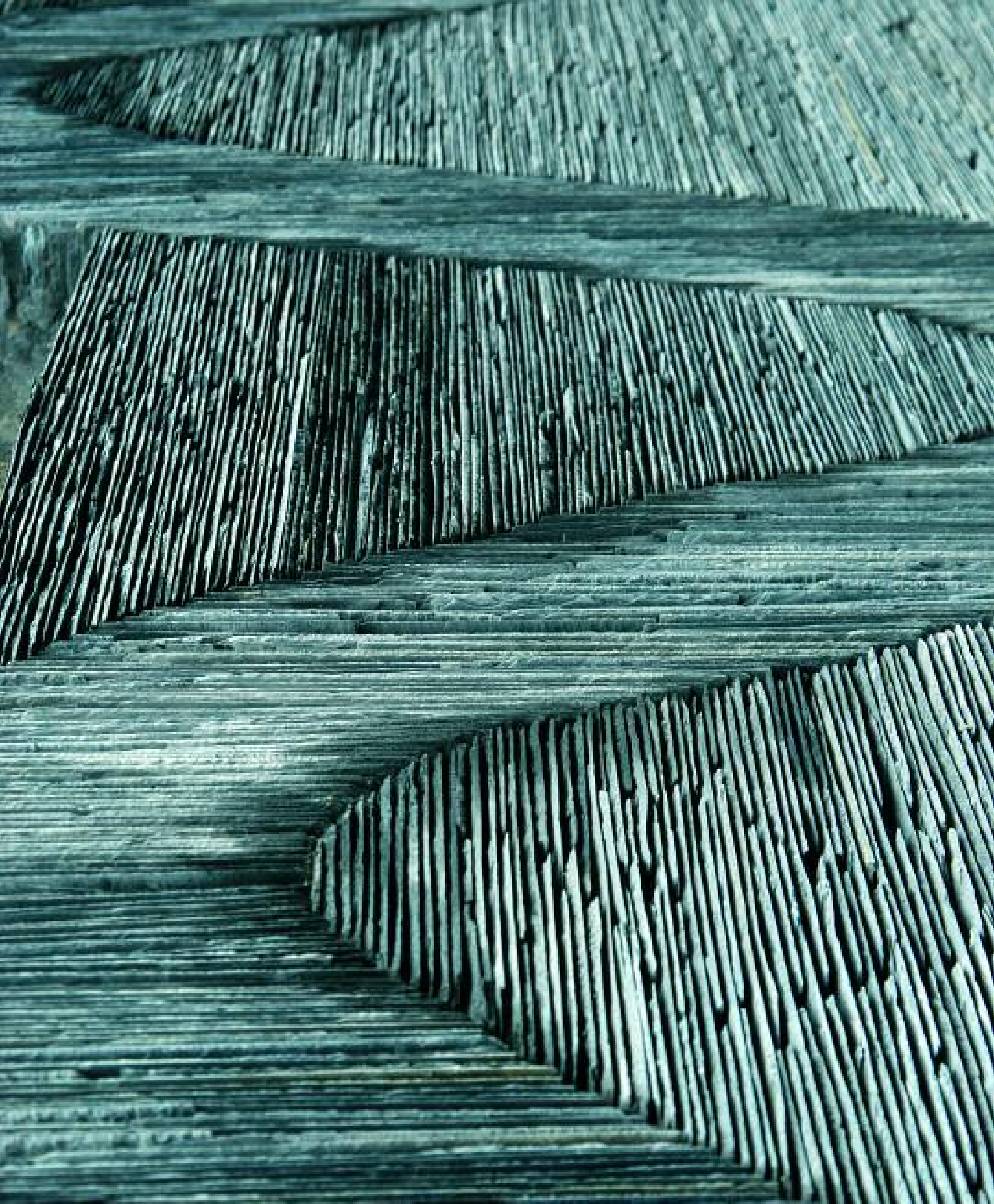


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