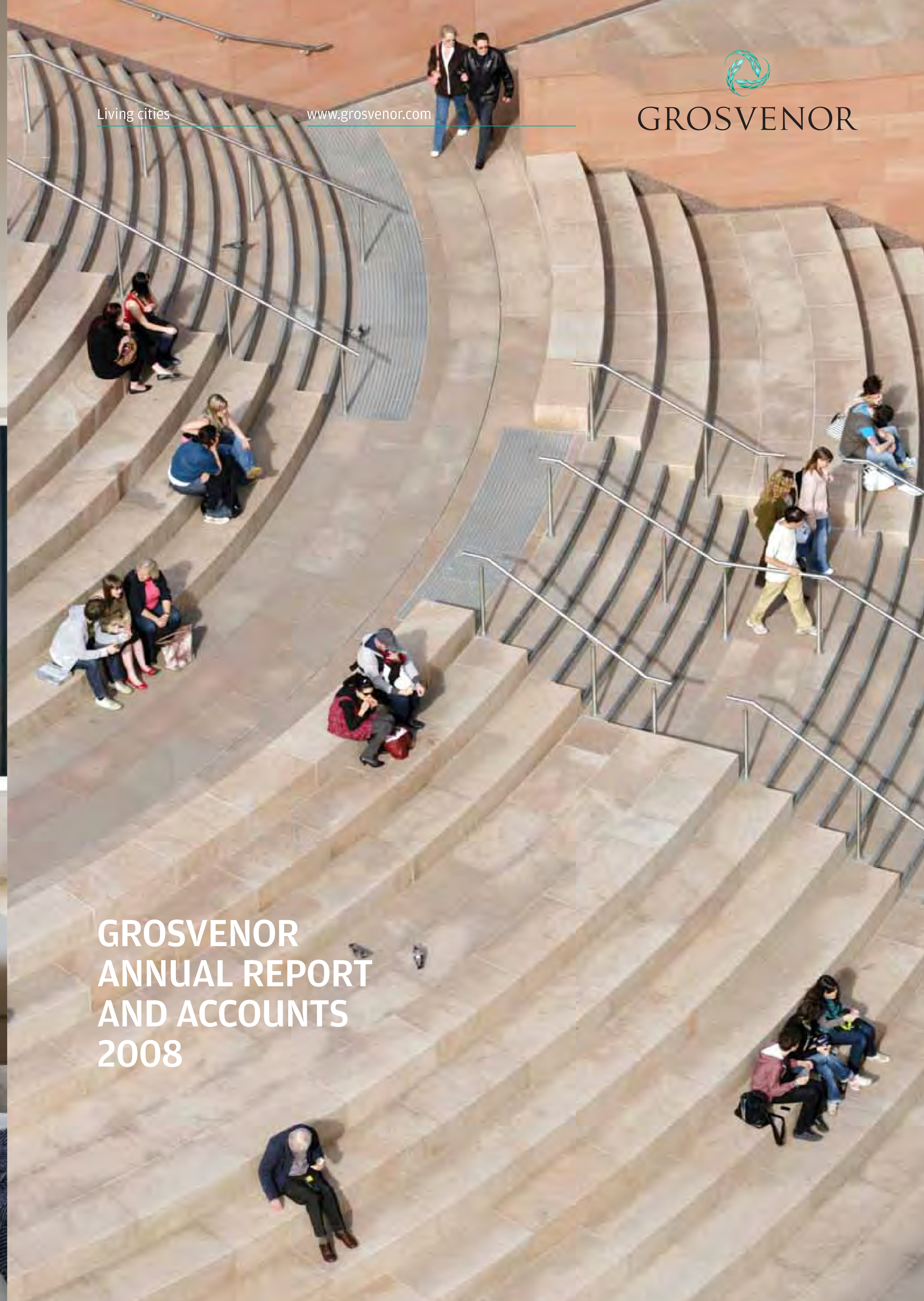




# GROSVENOR ANNUAL REPORT AND ACCOUNTS 2008

QUICK GLANCE



CONTENTS



**Front cover** Steps leading to Chavasse Park, Liverpool One
**Back cover** View over Yoyogi Park from Grosvenor Place Kamizono-cho, Tokyo



**Grosvenor is a privately owned property group active in some of the world's most dynamic cities.**

**We recognise that our future success as a business is tied to sustainable growth of the cities in which we have a presence. We have a vested interest in the future shape of the urban landscape and aim to help create and manage attractive and vibrant cities in which people choose to live and work.**

GROSVENOR

# FINANCIAL HIGHLIGHTS

An overview of our key performance figures for this financial year.

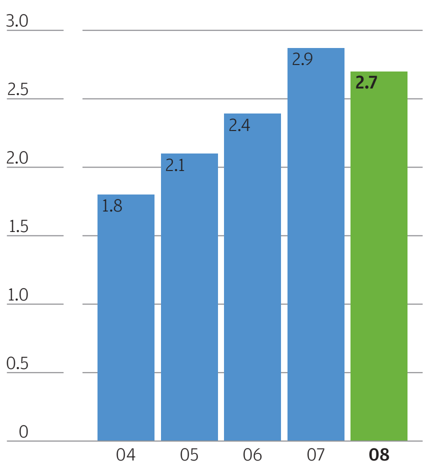
## £277.3m
**Gross rents (including share of joint ventures)**
2007 £229.5m

## £(76.7)m
**Revenue loss**
2007 £73.4m profit (see Accounts Note 4)

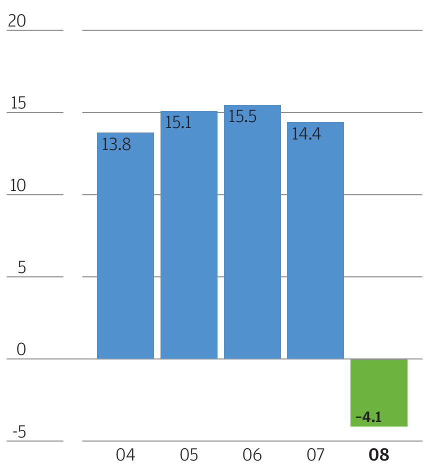
## £44.9m
**Adjusted revenue profit**
2007 £112.9m (see Accounts Note 4)

## £(593.9)m
**Loss before tax**
2007 £524m profit

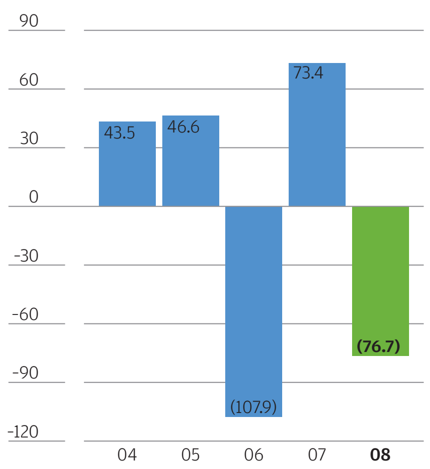
**Shareholders' funds £bn**




**Total returns %**




**Revenue profit £m**






## £6,173m
**Property assets**
2007 £5,963m (see Accounts Note 17)

## £2,650m
**Shareholders' funds**
2007 £2,888m

## –4.1%
**Total return on property assets (including currency movements)**
2007 14.4%

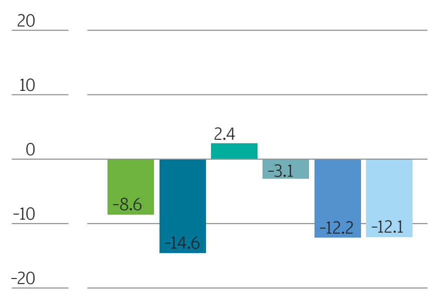
## £523m
**Financial capacity**
2007 £607m

**Shareholders' funds***
by Operating Company

| | | |
|---|---|---|
| Britain & Ireland | £1,120.0m | 42.7% |
| Americas | £584.0m | 22.2% |
| Continental Europe | £555.0m | 21.1% |
| Australia | £155.0m | 5.9% |
| Asia Pacific | £175.0m | 6.7% |
| Fund Management | £38.0m | 1.4% |

*Excludes the Holding Company.

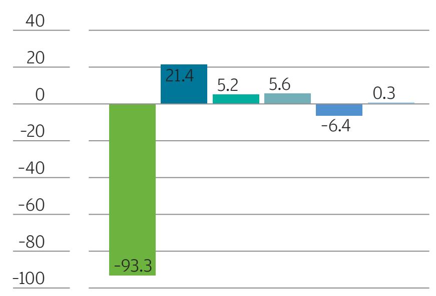
**Total returns % (excluding currency movements)**
by Operating Company




| | |
|---|---|
| Group | -8.6% |
| Britain & Ireland | -14.6% |
| Americas | 2.4% |
| Continental Europe | -3.1% |
| Australia | -12.2% |
| Asia Pacific | -12.1% |

Total return on property assets is not a relevant measure for Grosvenor Fund Management, so it is not quoted.

**Revenue profit £m***
by Operating Company




| | |
|---|---|
| Britain & Ireland | –£93.3m |
| Americas | £21.4m |
| Continental Europe | £5.2m |
| Australia | £5.6m |
| Asia Pacific | –£6.4m |
| Fund Management | £0.3m |

*Excludes the Holding Company.

# OPERATIONAL HIGHLIGHTS

An overview of our key operational figures for this financial year.

**£12.6bn**
**Assets under management**
2007 £12.9bn

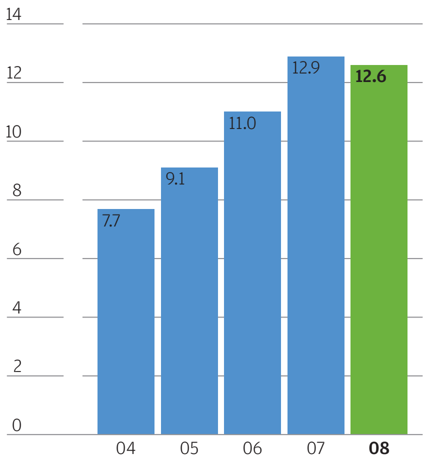
**£10.9bn**
**Investment properties under management**
2007 £9.6bn

**£1.7bn**
**Development projects under management**
2007 £3.3bn

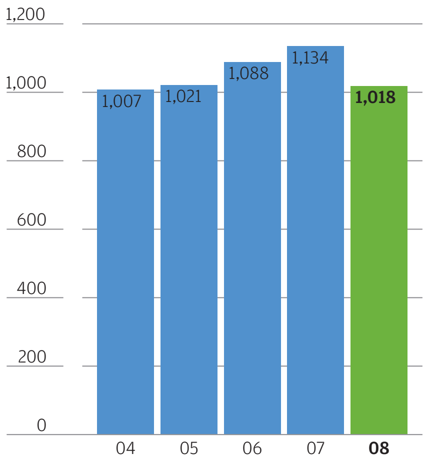
**1,018**
**Number of properties under management**
2007 1,134

**622**
**Employees**
2007 584 (see Accounts Note 9)

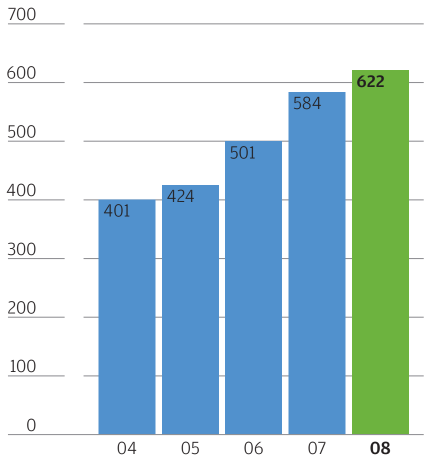
### Assets under management £bn




### Number of properties




### Employees






### Portfolio analysis

| | Grosvenor | | | | Third party | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Investment £m | Development £m | Financial assets £m | Total £m | Investment £m | Development £m | Total £m | Future development commitment £m | **Assets under management £m** |
| Britain & Ireland | 1,747 | 197 | – | 1,944 | 921 | 107 | 1,028 | 349 | **3,321** |
| Americas | 853 | 54 | 22 | 929 | 575 | 23 | 598 | 15 | **1,542** |
| Continental Europe | 1,756 | 275 | – | 2,031 | 224 | 191 | 415 | 114 | **2,560** |
| Australia | 232 | 39 | – | 271 | 20 | 39 | 59 | 72 | **402** |
| Asia Pacific | 226 | 72 | 3 | 301 | 95 | 132 | 227 | 20 | **548** |
| Fund Management | 674 | – | 23 | 697 | 3,506 | – | 3,506 | – | **4,203** |
| **Total** | 5,488 | 637 | 48 | 6,173 | 5,341 | 492 | 5,833 | 570 | **12,576** |
| Commercial | 1,301 | 101 | 28 | 1,430 | 1,762 | 79 | 1,841 | 117 | **3,388** |
| Retail | 3,063 | 371 | – | 3,434 | 2,398 | 191 | 2,589 | 158 | **6,181** |
| Residential | 1,124 | 165 | 20 | 1,309 | 1,181 | 222 | 1,403 | 295 | **3,007** |
| **Total** | 5,488 | 637 | 48 | 6,173 | 5,341 | 492 | 5,833 | 570 | **12,576** |

**Grosvenor's** share of investment properties, development properties and financial investments in property assets.

**Future development commitment** represents the expected costs to complete the committed development programme.

**Third party** shares of property assets managed by Grosvenor.

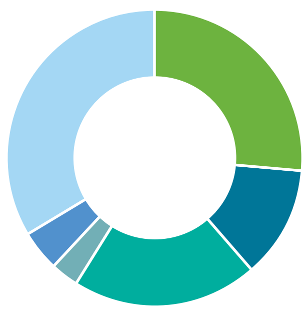
**Assets under management** represents the total investment in property assets managed by the Group (Grosvenor and third party investors), including the future costs of committed developments.

### Assets under management

#### By sector

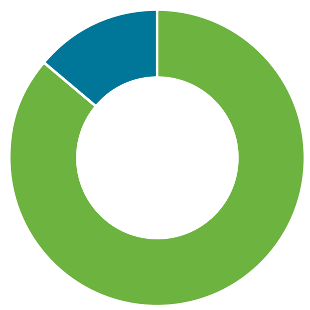
| | | |
|---|---|---|
| Commercial | £3,388m | 26.9% |
| Retail | £6,181m | 49.2% |
| Residential | £3,007m | 23.9% |

#### By Operating Company



| | | |
|---|---|---|
| Britain & Ireland | £3,321m | 26.4% |
| Americas | £1,542m | 12.3% |
| Continental Europe | £2,560m | 20.3% |
| Australia | £402m | 3.2% |
| Asia Pacific | £548m | 4.4% |
| Fund Management | £4,203m | 33.4% |

#### By activity



| | | |
|---|---|---|
| Investment | £10,860m | 86.4% |
| Development | £1,716m | 13.6% |

# GROUP STRUCTURE

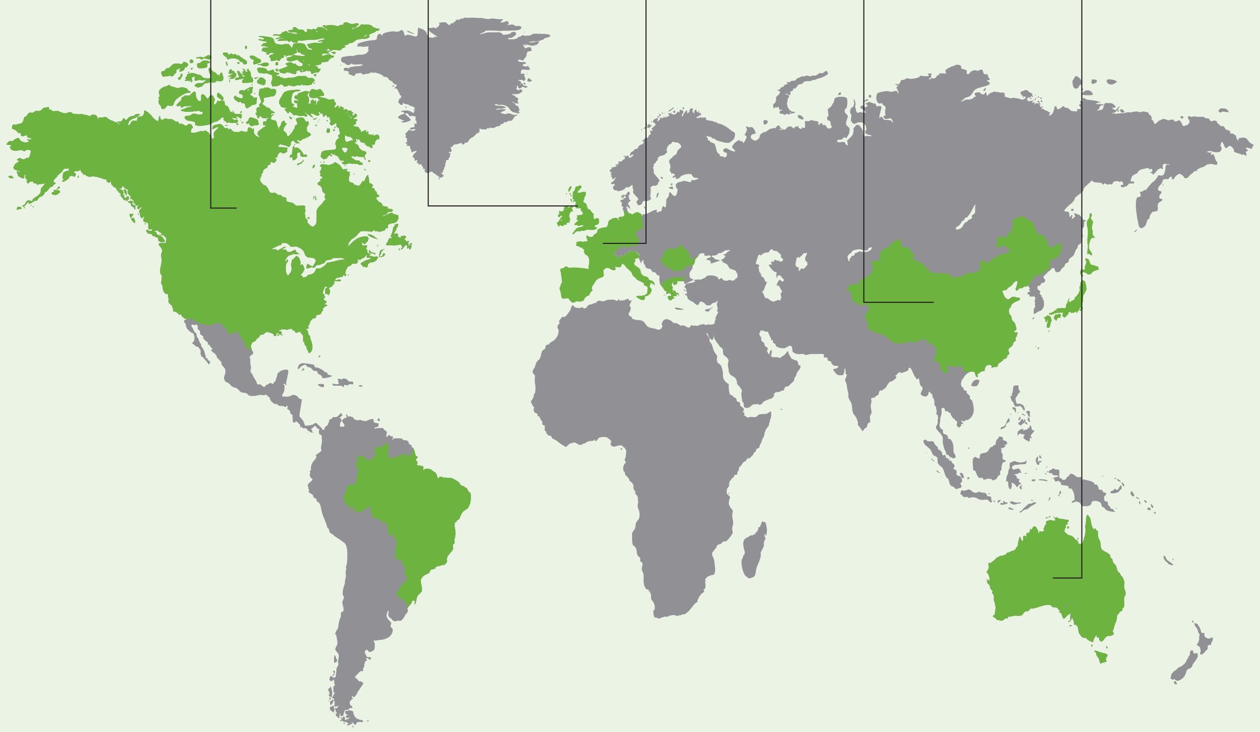
This diagram explains our current operating structure

# GROSVENOR GROUP

## INVESTMENT AND DEVELOPMENT

Grosvenor's five regional investment and development businesses have a presence in some of the world's most dynamic cities. Our activities span retail, commercial and residential property, as well as mixed-use and urban regeneration schemes. Sometimes we act as developer, working alone or as part of a joint venture from project inception to completion; sometimes we act as investor, acquiring existing buildings and focusing on strategic asset management. In all cases the insight which comes from being a local player, combined with years of experience on the ground, provides us with a deep understanding of the cities in which we operate.

| **Assets under management** | Americas | Britain & Ireland | Continental Europe* | Asia Pacific | Australia |
|---|---|---|---|---|---|
| £8,373m | £1,542m | £3,321m | £2,560m | £548m | £402m |
| Investment and development offices | Calgary<br>San Francisco<br>Vancouver<br>Washington | Edinburgh<br>Liverpool<br>London | Luxembourg<br>Madrid<br>Milan<br>Paris | Hong Kong<br>Shanghai<br>Tokyo | Brisbane<br>Sydney |

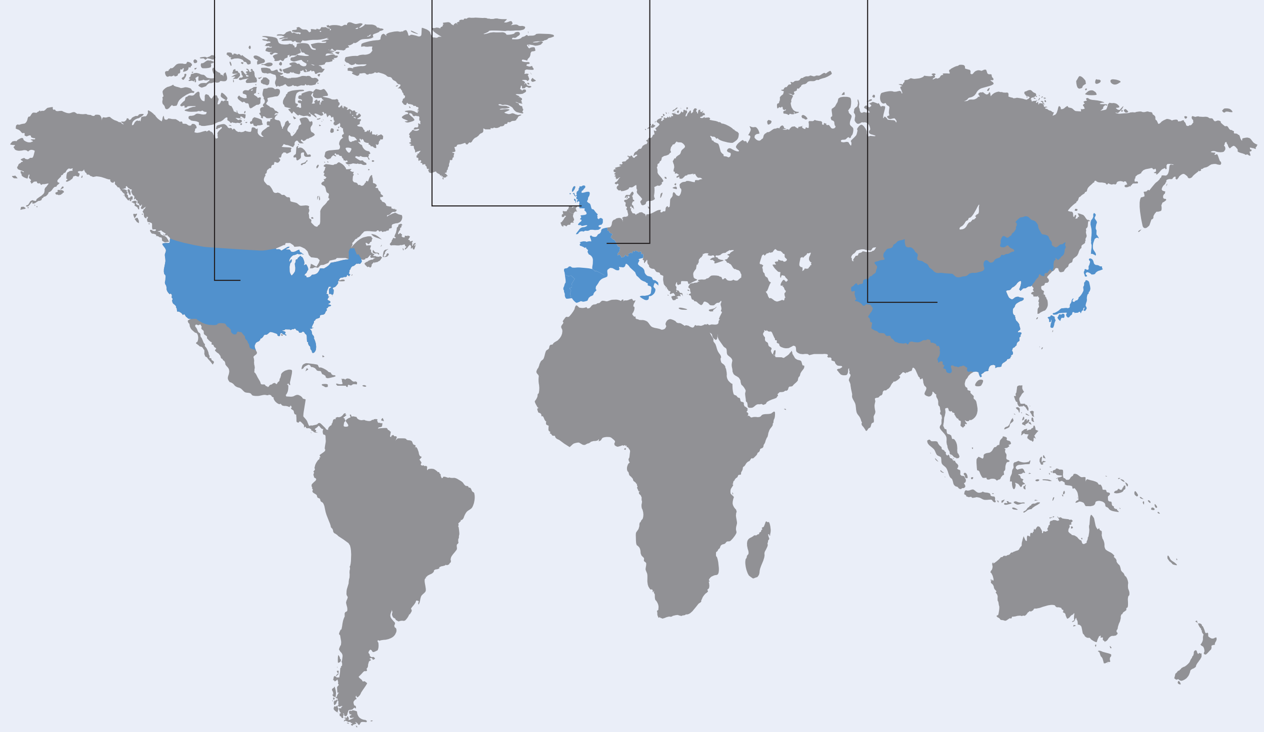


*Grosvenor's share of assets held by Sonae Sierra is included within Continental Europe regardless of their location.

## FUND MANAGEMENT

Grosvenor Fund Management offers a range of sector and regional specialist property investment funds which aim to deliver attractive, risk-adjusted returns. Our activities cover each of Grosvenor's operating regions, in each of which we employ professionals with local knowledge and skills to execute our investment decisions. We relish developing long-term investor relationships and typically align our interests through co-investment.

| **Funds under management** | USA | UK | Continental Europe | Asia |
|---|---|---|---|---|
| £4,203m | £1,063m | £1,978m | £547m | £614m |
| Fund management offices | Philadelphia | Liverpool<br>London | Luxembourg<br>Madrid<br>Milan<br>Paris | Shanghai<br>Tokyo |



# THE GROSVENOR STORY

A unique blend of the old and the new

## The family and the land

The Grosvenor family history stretches back almost a thousand years, to the time of William the Conqueror. But the origins of the property business, and the brand that emerged with it, lie in the land in London which came into the family in 1677 with the marriage of Mary Davies and Sir Thomas Grosvenor. Successive generations of Grosvenors developed, managed and adapted this asset, thus creating in Mayfair and Belgravia one of the best known property investments in the world.

## An international Group

During the second half of the 20th century, Grosvenor applied its skills in property investment and development elsewhere in the UK and, successively, in the Americas, Australia, Asia Pacific and Continental Europe. We often worked in partnership with others, and moved progressively further into fund management. Today we have 17 offices in 11 countries and assets in 17. Further information on the Group is available at www.grosvenor.com.

**Below** Sir Thomas Grosvenor and Mary Davies
**Right** Map of the land (black), the greater part of which came into the Grosvenor family in 1677, as subsequently developed (red)

## Foundation of trust

We believe our independence and heritage as a private company owned by the Grosvenor family has given us a very strong ethos, based on the enduring values of loyalty and integrity, concentration on the long-term and a passionate belief in real expertise. We see this combination as the bedrock of our brand.

## 300 years in property

Grosvenor is unusual amongst property companies: we have been in the property business for more than three centuries. In our collective memory we have a remarkable range and depth of property 'know-how', based on the stewardship of our London estate and our 50 years of experience in property around the globe.




## Understanding of cities

Grosvenor's concern to understand the cities in which we operate is deep-rooted. In running the Group and in building up portfolios of assets around the world, we have emphasised the benefits of a local perspective. We have chosen to work with local strategies, offices and people. This ensures that we have an insight into local issues.

## Specialist capabilities

We have developed many specialist capabilities around Grosvenor, in response to local market needs and our desire to be 'best in class' in our chosen fields. Our focus ranges from offices to residential property, from retail space to industrial buildings, and from small-scale projects to comprehensive urban regeneration. However, the core of our brand remains the same.

## The Grosvenor brand

Together these elements – our values, long and varied experience, focus on cities and specialist capabilities – define our brand. 'Living cities' reflects them as a 'strapline'. Commitment to 'Living cities', notably in respect of design and environment, is one of the six priorities in our Group strategy (see page 14).

## Ownership

Grosvenor remains privately owned. The Shareholders – the Trustees – represent the legal entities through which shares and assets are held 'in trust' for the benefit of current and future members of the Grosvenor family. The family is headed by the 6th Duke of Westminster. Further information on the Grosvenor family is available at www.grosvenorestate.com

**Left to right**
The Grosvenor Building, Vancouver, Canada – an early office development in Canada
Grosvenor Place, Hong Kong – our award-winning first residential development in Asia
Centro Colombo, Lisbon, Portugal – Sonae Sierra's largest shopping centre in Continental Europe
103-105 Eaton Square, London, England – Belgravia housing from the 1820s
1500 K St, Washington, USA – a property managed on behalf of a separate account client
25 Smith Street, Parramatta, Australia – our first Green Star rated office development in Australia
**Below** Outline of Grosvenor's London estate today

Washington DC
We celebrated 20 years in the United States capital in October 2008.



# CHAIRMAN'S STATEMENT

2008 was testing for everyone in the property industry. As we anticipated last year, before the full impact of the credit crunch could be known, Grosvenor's total return for 2008 dropped significantly. However, at -4.1% (2007: 14.4%), it is clear that our diversification mitigated the consequential impact, vindicating a key part of our strategy.

Our response has been to conserve capital in readiness for opportunities to invest, making very few acquisitions and reducing our development exposure. We have also done our utmost to protect and realise the income potential of our assets. Despite current conditions, we remain committed to our long-term strategy, detailed in the Chief Executive's review.

Succession planning prompted several changes to the Group Board. At the end of June, Jeremy Newsum resigned as Group Chief Executive after nearly two decades in this role. He remains a Non-Executive Director – one of three Trustees of the Grosvenor Trusts on the Board. Mark Preston succeeded him as Group Chief Executive, and Peter Vernon succeeded Mark as Chief Executive of Grosvenor Britain & Ireland. At the end of December, Bill Abelmann retired as Chief Executive of Grosvenor Americas after three decades with us, and was succeeded by Andrew Bibby.

Mark, Peter and Andrew bring fresh ideas but also a profound understanding of what our brand stands for: Grosvenor has become stronger with each successive generation of our leadership and we look forward to continuation of this evolutionary process.

There were two changes amongst our Non-Executive Directors: in June Domenico Siniscalco joined the Group Board, bringing experience in government as well as in banking and academia; and in November, Tony Wyand retired from it, having given trenchant advice for many years.

In 2009 there will be a further change, following our reorganisation in Continental Europe. Neil Jones, who has played a huge part in our success, latterly as Chief Executive of Grosvenor Continental Europe, attends his last Group Board in June. Happily, he will remain involved with us through professional links and his many friendships here.

2009 promises to be a demanding year, but the Group benefits from its diversity with 17 offices and assets in 17 countries. We are supported by 22 Non-Executive Directors around the Group and their advice and guidance has never been more valuable than in these uncertain times. I thank them all on behalf of the Group.

**The Earl of Home**
Group Chairman
19 March 2009

The Earl of Home

**Lisbon**
Sonae Sierra, in which we have a joint controlling interest has three shopping centres in the Portuguese capital.

# CHIEF EXECUTIVE'S REVIEW

At Grosvenor we put long-term interests first. This is the approach we have always adopted with our capital partners, our occupiers and on investment and development decisions. This aspect of our way of doing business sets us apart from many of our competitors, and we strive to manifest it in the property assets we own and manage, and in the agreements and dealings we have with people around the world.

2008 did mark a very dramatic turning point in the market – especially in our biggest region (Britain & Ireland), but at a time of unprecedented financial distress and rapid economic slowdown, I want to start this review by emphasising that current conditions are just that – current; whereas our horizon and strategy lie well beyond prevailing conditions.

Following the seismic events in the banking systems of much of the world, the shortage of credit and dawning economic malaise caused property values to fall, starting with the retail sector in the UK during the autumn of 2007 and moving progressively around our markets via North America, Continental Europe, Australia and Asia.

Naturally, property values in Grosvenor's portfolio have been affected adversely. However, we have benefited, as before, from the high quality of our assets and from the diversification we have created. Along with a helpful currency impact this year, our net assets have therefore decreased to a limited extent, from £3.1bn to £2.8bn.

2009 promises to be a really challenging year for the property industry: we do not expect credit markets to free up quickly and we know that this contraction is both necessary and painful. Grosvenor's policy of low gearing is well suited to this environment.

In terms of our exposure to the continuing deterioration in economic conditions, which we expect to be a feature of our markets well beyond the end of 2009, we are positioned defensively, thanks to the reduction in our exposure to development, which is now only 15.0% compared to 24.5% 12 months ago and 28.2% 24 months ago. The reduction is a consequence of recent completions at projects in Liverpool, Vancouver, Madrid, Brisbane and Tokyo, and of deliberate decisions to postpone new starts around the Group.

**Mark Preston**

Our objective remains to build a leading international property group, united by a Group strategy, a shared set of operating requirements and our brand. One element of the brand is the long-termism referred to above, whose importance to Grosvenor springs not only from the private, family ownership of the Group and the perpetual nature of our Shareholders' commitment to property and partnership, but also from a belief that better property decisions are made with this perspective. Two important characteristics of Grosvenor are our diversified portfolio (geographically, sectorally and by currency) and the devolution of authority to six Operating Company Boards. Diversification enables us to manage the risk of exposure to any one market, while developing an international expertise and outlook. Devolution ensures that regional strategy and property decisions are made where they should be made: locally.

Group strategy was my first priority as the new Chief Executive in July 2008 and its main elements stay loyal to the high level strategy that has been evolving at Grosvenor for several decades. I call these elements the 'Big Six' and they are first, to continue to create value with our own capital; second, to grow further our fund management business, which manages other sources of capital; third, to ensure that we deploy all the capital we manage in the right place and at the right time, with Asia a particular focus for long-term growth; fourth, to sustain a core portfolio in London by reinvesting in our estate; fifth, to develop our people's careers more actively; and sixth, to live up to the aspirations of our brand by thinking long-term about our property assets and being 'smart' about our environmental impact.

On the development side of our activities, where 2007 was a year of construction, 2008 has been a year of completions in many parts of the Group. Liverpool One has received the most attention, owing to its size, complexity and importance to this key city in the North West of England. However, we also opened a large shopping centre in Cambridge, England (Grand Arcade); a mixed-use development in Vancouver, Canada (The RISE); a business park in Madrid, Spain (Omega); and a luxury residential building in Tokyo, Japan (Grosvenor Place Kamizono-cho). All of them demonstrate our desire to create value through our knowledge of leading cities, and to make a lasting contribution to those communities.

We continued work on other development projects already in the pipeline but, given the uncertainty in global property markets, chose not to embark on any large new projects – nor did we, in fact, in 2007.

Investment activity was similarly cautious; indeed our focus was mostly on sales where a good price could be achieved, not least to ensure we have significant cash resources to capitalise on new opportunities.

Grosvenor Fund Management, while affected by the fall in values, most notably in the UK, launched one new fund during the year: the Grosvenor Vega China Retail Fund, which is its first fund in mainland China. It has been cautious on new acquisitions since 2007, and continues to focus keenly on the interests of our partners.

On the operational side we reached some impressive milestones, celebrating 20 years in Washington and 10 years in Paris.

We also reached the point, in the development of our business in Continental Europe, where we needed to alter our management structure to reflect the business we are now undertaking there and to fulfil our ambitions in fund management. Our staff in Luxembourg, Madrid, Milan and Paris have switched their reporting line to Grosvenor Fund Management. Neil Jones, who has been pivotal in all we have achieved there, remains with us until the end of June. He then becomes a member of our new Advisory Committee for the region (see page 53). He will remain a Non-Executive Director of the board of Sonae Sierra.



We celebrated the contribution of Bill Abelmann, who led our operations in the Americas so well for so long and was succeeded by Andrew Bibby at the year end.

Lastly, we made progress in managing the environmental impact of our offices and our building projects. Details are given in the Directors' report in the Accounts. This publication too is affected: most of our stakeholders now receive a printed copy of the Annual Report only; the detailed Accounts are available to everyone online or, for a printed copy, on request.

Beyond the downturn, I believe we can look forward to exciting opportunities for pursuing Grosvenor's strategy, not least because the playing field in property will be more level than it has been for years. Specifically, without cheap and abundant bank credit our competitors will have a higher cost of capital than they have latterly enjoyed. I believe the fundamental attraction of property as a tangible asset will restore its performance credentials – probably rather faster, although not sooner, than many are predicting. On a different note, I expect perspectives generally to tend more towards the long-term, in marked contrast to the short-term mentality that has so characterised recent years.

With particular regard to growth in fund management, I expect our desire to co-invest with equity partners, together with opportunities emerging from upheaval in the financial services sector, to enable us to make good progress over the next several years. This business has grown strongly and is now a well-established part of the Group with £4.2bn of funds under management and a good track record of delivering attractive performance relative to benchmarks. It represents a key area of opportunity.

Jeremy Newsum, whom I succeeded in July, presented me with very substantial shoes to fill, but we completed an orderly handover and I was able to visit most of our offices as CEO-elect. Jeremy was, and is, generous with his time, advice and support. He remains on the Board as a Non-Executive Director.

All our achievements, as always, have been possible thanks to the hard work and ingenuity of Grosvenor's people and I thank them all after a particularly challenging year.

I have been with Grosvenor for 20 years and, over that time, have worked in our investment and development businesses in Britain & Ireland, Asia Pacific and the Americas, and in fund management. In all parts of the business, I have found commitment to professionalism and dedication to the Group. We are a strong community and my own sense of 'belonging' has been reinforced since my appointment, thanks to its support. For all of us, with that sense of belonging comes a strong sense of loyalty to Grosvenor, as well as to the family which lies behind it. I look forward to encouraging this over the years to come.

**Mark Preston**
Group Chief Executive
19 March 2009

**London**
Chester Square is one of three squares in Belgravia, part of Grosvenor's London estate.



# FINANCE DIRECTOR'S REPORT

In 2008 the downturn impacted each of our markets, contributing to a loss before tax of £593.9m (£524m profit in 2007). Total returns were negative 4.1% (14.4% in 2007), although they would have been negative 8.6% (12.8% in 2007) without the benefit of exchange movements.

## Earnings

Revenue profit, our measure of underlying performance, was a loss of £76.7m (profit of £73.4m in 2007). Excluding provisions for Liverpool One, our mixed-use urban regeneration development in the city, adjusted revenue profit decreased 60% to £44.9m (£112.9m in 2007). The provision in respect of Liverpool One was £165.3m in total (£144.1m in the income statement and £21.2m taken through reserves), arising principally from valuation movements.

Total returns in each region, before exchange movements, are shown on page 3.

Exchange gains of £304m, arising from the devaluation of Sterling, were taken in reserves, resulting in Grosvenor's equity at 31 December 2008 being £2.7 bn (£2.9bn, 31 December 2007) – some £232m higher than at 31 December 2006.

## Property activity

Assets under management have decreased 2.3% to £12.6bn. This is the net effect of negative revaluations of £1.3bn, acquisitions of £0.4bn, sales of £0.4bn, a reduction in the development programme of £0.9bn and favourable currency movements of £1.9bn. The principal property transactions of 2008 are described in the Operating Company reports which follow.

## Property markets

During the year our markets experienced declines in property values, with significant falls in value in Grosvenor Britain & Ireland, Grosvenor Australia and Grosvenor Asia. We expect each of our markets to fall further in 2009 in response to a lack of occupier confidence and further shrinkage of real estate loan finance. We do not expect a market recovery for some time, so are planning for a sustained downturn, while scanning the market for signs of an upturn.

Given these expectations, one might ask why anyone would buy commercial real estate. However, it may be only in a stressed market that particular investment assets become available, that development sites are attractively priced, or that it is possible to get back into the market on a significant scale before the flood of equity waiting on the sidelines precipitates a sudden rebound. For those who want to buy into the market as a whole,

**Nicholas Scarles**

**Geographical distribution of Grosvenor's economic property interests 2008**

| | |
|---|---|
| Britain & Ireland | 44.2% |
| Americas | 17.6% |
| Continental Europe | 26.8% |
| Australia | 4.8% |
| Asia Pacific | 6.6% |

| Britain & Ireland | |
|---|---|
| West End, London | 31.4% |
| Outside London | 12.6% |
| City, London | 0.2% |

| Americas | |
|---|---|
| USA | 10.7% |
| Canada | 6.9% |

| Continental Europe* | |
|---|---|
| Portugal | 11.0% |
| Spain | 5.8% |
| France | 2.2% |
| Germany | 2.7% |
| Italy | 2.5% |
| Brazil | 1.4% |
| Greece | 0.7% |
| Romania | 0.5% |

| Australia | |
|---|---|
| Brisbane | 2.5% |
| Sydney | 2.3% |

| Asia Pacific | |
|---|---|
| Japan | 3.0% |
| China | 2.8% |
| Hong Kong | 0.8% |

*Grosvenor's share of assets held by Sonae Sierra is included within Continental Europe regardless of their location.

there are substantial discounts to current market values through indirect vehicles and property derivatives. While the physical markets have not yet 'bottomed out', the indirect and derivative markets in some of our regions may be close to doing so.

### Grosvenor's downturn plan

In 2006 we agreed to undertake a study of property market crashes and in 2007 drew up an action plan for the market downturn. Whilst we could not predict when it would happen, what would cause it or exactly how it would play out, we were sure that it would come and we prepared ourselves for likely eventualities.

In 2008 we implemented much of the plan, focusing more on sales of non-strategic assets than on acquisitions, and only proceeding with development projects which will mature once the recovery has begun. We also carefully monitored cash spend, squeezed budgets, maintained projected liquidity and hoarded spare capital.

At the same time, we changed our approach to managing Grosvenor's own liquidity. We now require each of our Operating Companies to ensure that it has sufficient committed liquidity to survive a severe downturn and a liquidity crisis at the same time, and then to continue to make Grosvenor's required dividend payments. Our liquidity projections, even with potential significant falls in each of the markets in which we operate, remain robust.

Looking ahead, we are now developing an action plan for the inevitable market upturn. This plan centres on maximising our capacity to gain exposure to the property market, physical or synthetic, in time for the recovery. Predicting when the markets will start to recover is as hard as identifying when a crash will start. However, we do know that financial and property markets overshoot at the extremes so, for Grosvenor, 'calling the bottom of the market' is less important than ensuring the capacity to invest once values start to rise.

### Debt financing

Grosvenor's treasury needs, and those of our joint ventures and our funds, are managed through Operating Company finance teams, supported by a London-based co-ordinated treasury function staffed by treasury professionals. Overall, Grosvenor manages £4.1bn of debt, representing 154 loans/facilities in eight currencies and 10 countries, and £1.7bn of interest rate and foreign exchange derivatives.

The era of easy finance was never sustainable. The dramatic contraction of the credit markets has taken us towards the other extreme, for now at least. But bank financing for commercial property, while challenging, is still available. One might even say that, where financing is available, the terms now are more appropriate than those which were available 18 months ago. The market is experiencing painful reality, following blissful delusion.

In 2008 we financed or refinanced £516m of managed debt, from 10 banks. We attribute this success in part to our 'traditional' approach to our relationship banks, which recognises the value to lender and borrower of long-term banking relationships, coupled with an understanding and accommodation of each party's position, needs and objectives. Our preference for lower gearing is, once again, valued by lenders.

With dramatic declines in property values, we monitor bank covenants carefully, seeking to deal with any concerns openly with lenders and investors before any issues become critical. We experienced challenges in 2008 in certain funds and joint ventures and continue to work with lenders and investors to resolve any issues. 2009 will be at least as challenging.



Turning to Grosvenor's own balance sheet position, Grosvenor's wholly owned unrestricted cash and undrawn committed facilities amounted to £523m at 31 December 2008. Over the next 12 months, £117m of wholly owned facilities mature. Despite dramatic falls in property values in 2008, the headroom for further declines in property values before Grosvenor Group gearing covenants are breached remains above our internal minimum. There are no income-related covenants in the Grosvenor Group debt facilities. When it comes to debt financing, we are conservative, confident, vigilant – but never complacent.

### Staff

A challenging real estate and financial market presents a great opportunity for our finance teams to demonstrate their value, and they have done so. In particular, I thank Benoît Prat-Stanford: as Finance Director of Grosvenor Continental Europe he played a key role in developing our business in that region. In June, after eight years at Grosvenor, he chose to take up an opportunity outside the Group. His contribution is evidenced in his legacy – the team which he built and leaves behind.

### Property derivatives

We have gained comfort from our property derivative test trades and are now ready to use them for commercial purposes. We see four potential uses for Grosvenor. First, to act as a hedge of property returns, particularly on developments where the completed value of the project is often the most significant financial uncertainty. Second, to plug the time gap between our desire to shift our economic portfolio between regions and our ability to complete the process of selling and buying physical properties. Third, to ensure efficient buying into a market upturn, where opportunities are likely to arise first in the derivative market. Fourth, for our fund management business or our proprietary account, to use derivatives as just another tool to earn a return from an understanding of property markets.

### Capital allocation

In 2008 we reaped the benefits of our international diversification strategy. Our portfolios in several of our markets performed significantly better than the UK. In addition, the denomination of non-UK assets in currencies other than Sterling, coupled with a considered policy of not hedging the balance sheet foreign exchange risk, dampened the impact of property market value declines on Grosvenor's equity. In essence, our rationale is that where the UK economy under-performs, Sterling is likely to fall in value. The likely consequential under-performance by the Grosvenor Britain & Ireland business is mitigated by an expected exchange gain on the net assets of Grosvenor's other regional Operating Companies. As a result, Grosvenor's returns should be less volatile and its equity – the value of the Group to Shareholders, and the bedrock which gives lenders comfort in assessing Grosvenor's credit overall – more stable.

### Conclusion

Grosvenor traces its history back 300 years. Our approach is designed to ensure we can thrive for the next 300.

**Nicholas Scarles**
Group Finance Director
19 March 2009


Earl of Home


Robin Broadhurst


Rod Kent


Alasdair Morrison


Jeremy Newsum


Domenico Siniscalco


Mark Preston


Nicholas Scarles


Stuart Beevor


Andrew Bibby


Neil Jones


Robert Kerr


Nicholas Loup


Peter Vernon



# GROUP BOARD OF DIRECTORS

## Non-Executive Directors

**The Earl of Home** CVO CBE **(David Home) (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 65.

**Robin Broadhurst** CBE FRICS is a Trustee of the Grosvenor Trusts, Chairman of Grainger plc and a Non-Executive Director of Invista Real Estate Investment plc, the British Library 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. Age 62.

**Rod Kent**, Chairman of Grosvenor Britain & Ireland, is Chairman of BT Pension Scheme Trustees Limited and a Governor of Wellcome Trust. He was Senior Independent Director at Whitbread Plc from 2002 to 2008 and Chairman of Bradford & Bingley Plc from 2003 to 2008. He was Managing Director of Close Brothers Group Plc from 1975 to 2002, and then a Non-Executive Director and latterly Chairman until 2008. Age 61.

**Alasdair Morrison** is Non-Executive Chairman of Kang & Company and North Asia Investment Corporation, a Non-Executive Director of Pacific Basin Shipping and a member of the Asia-Pacific Advisory Board of Bloomberg. Until April 2007 he was a Managing Director of Morgan Stanley, a member of the firm's Management Committee and Chairman of Morgan Stanley Asia. 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 60.

**Jeremy Newsum** FRICS is Executive Trustee of the Grosvenor Trusts. He was Group Chief Executive from 1989 to 2008. He is a member of the Council of Imperial College and Chairman Elect of the Urban Land Institute. He is a member of the Advisory Board to the Mayor of London on the Olympic Legacy. He was a Church Commissioner from 1993 to 2000 and was President of the British Property Federation in 2001. Age 53.

**Domenico Siniscalco** PH.D is Vice Chairman of Morgan Stanley International and country head for Italy. From 2001 to 2005 he served in the Italian government as Director General of the Treasury and then Minister of Finance. He has been a Professor of Economics at Torino University since 1990 and has a Ph.D in Economics from Cambridge. Age 54.

## Executive Directors

**Mark Preston** MRICS **(Group Chief Executive)** joined Grosvenor in the UK in 1989. In 1995, he was seconded to Hong Kong, returning to lead our fund management operations from 1997 to 2002. After four years in San Francisco he returned to the UK as CEO of Grosvenor Britain & Ireland in June 2006, becoming Group CEO in July 2008. He is on the Board of the Association of Foreign Investors in Real Estate and a member of the North West Business Leaders' Trust. He is a Non-Executive Director of Sonae Sierra SGPS. Age 41.

**Nicholas Scarles** FCA CPA ATTORNEY AT LAW **(Group Finance Director)** joined Grosvenor in 2004. He was previously at Centrica, Price Waterhouse, and Coopers and Lybrand. He is a Governor of the Haberdashers' Elstree Schools, Fourth Warden of the Haberdashers Livery Company, Chairman of the IPF's Property Derivative Group and a Non-Executive Director of Sonae Sierra SGPS. Age 46.

**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 52.

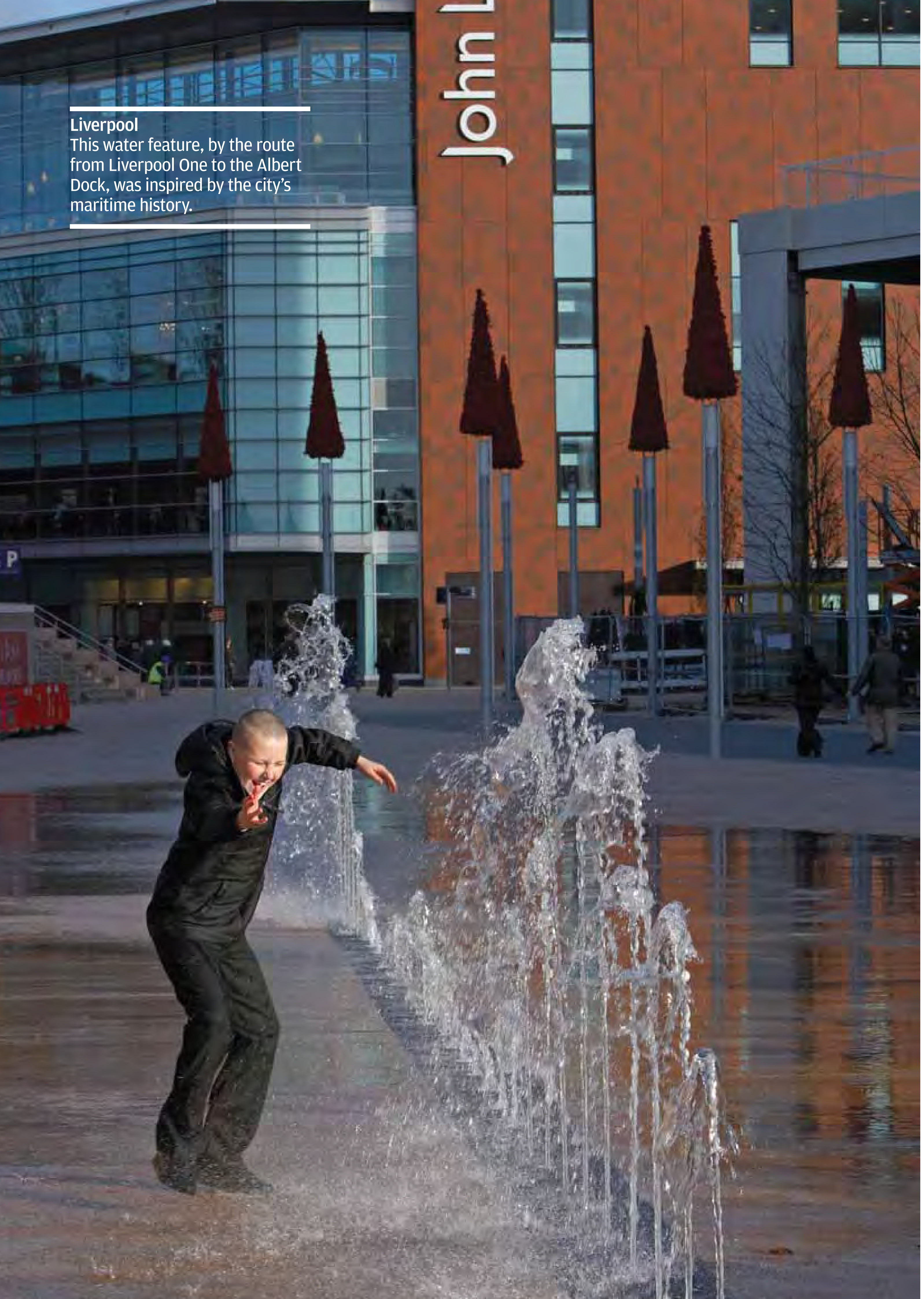
**Andrew Bibby** is Chief Executive of Grosvenor Americas. He joined Grosvenor in 1984. He is a Director of the Real Property Association of Canada and a member of the Faculty Advisory Board of the Sauder School of Business at the University of British Columbia. Age 51.

**Neil Jones** MRICS, Chief Executive of Grosvenor Continental Europe, joined Grosvenor in 1997 to develop the Continental European business. He has been based in Paris since 1998. He has also worked in London, Brussels and Hong Kong. He is a Non-Executive Director of Sonae Sierra SGPS. Age 43.

**Robert Kerr** FRICS FAPI is Chief Executive of Grosvenor Australia. He joined Grosvenor in 1994. He is a member of the Property Council of Australia Capital Markets Roundtable, Director of the Grosvenor ISPT International Property Trust and a member of the Australian Institute of Company Directors. Age 47.

**Nicholas Loup** is Chief Executive of Grosvenor Asia Pacific. He rejoined Grosvenor in 1994 to establish the operation there. 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 and a founding Director of the Asian Real Estate Association. Age 48.

**Peter Vernon** MRICS is Chief Executive of Grosvenor Britain & Ireland. He joined Grosvenor in 2005 to take responsibility for Grosvenor's direct and indirect property investments in the UK and Ireland, including Grosvenor's London estate and, from 2006, the London development business. He is a member of the Royal & Sun Alliance London Regional Board and the Board of London First. Previously he was a Partner at IBM Business Consulting Services and PwC Consulting. Age 49.



**Liverpool**
This water feature, by the route from Liverpool One to the Albert Dock, was inspired by the city's maritime history.

# BRITAIN & IRELAND

**Peter Vernon**

The 300 acres of land across Mayfair and Belgravia that we call our London estate came into the Grosvenor family in 1677. There has been an estate office in London for more than 170 years.

Grosvenor Britain & Ireland now has offices in London, Liverpool and Edinburgh, and a total of 285 people. Our Chief Executive, Peter Vernon, joined Grosvenor in 2005.

Our strategy in London, both on and off our estate, and in other UK cities emphasises the creation and management of successful places, often involving a mix of residential, retail, leisure and office uses.

Investment assets comprise the largest part of our portfolio, not least because of the scale of our historic landholdings in the capital. However, we also undertake large and small development projects to trade or to hold in investment vehicles, often in partnership with others.

**Office locations – Britain & Ireland**

1. Edinburgh
2. Liverpool
3. London

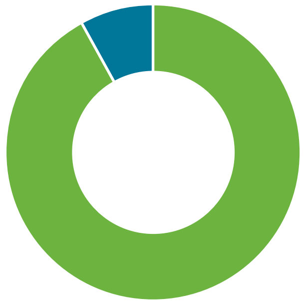
**By sector £m**

| | | |
|---|---|---|
| Office | £691.9m | 28.2% |
| Retail | £873.7m | 35.5% |
| Residential | £892.0m | 36.3% |

**By region £m**

| | | |
|---|---|---|
| London, West End | £1,748.9m | 71.2% |
| London City | £9.6m | 0.4% |
| Outside London | £699.1m | 28.4% |

**By activity £m**



| | | |
|---|---|---|
| Investment | £2,260.5m | 92.0% |
| Development | £197.1m | 8.0% |

During 2008 the capital value of our property assets fell significantly, due to the weakening economy and the credit crisis impacting the value of our holdings, both on our London estate and elsewhere. The capital value movement for the year was -16%; -13% for the core London estate and -24% for our holdings outside London and our fund interests. The fall in value of the London estate was substantially less than that of the UK market overall, due to the strong performance of our residential holdings, value added through asset management initiatives and the long leasehold nature of the London estate.

Our occupier markets were slower to respond to the effects of the downturn. Net rental income (including joint ventures and associates) of £71m was up 8% from 2007 (£66m), though revenue profit for the year before trading of £25.4m was down from £37.3m in 2007 due to higher interest costs following the rise in debt levels during the year. After trading, the business made a revenue loss of £93.3m (2007 revenue profit of £24.3m).

Our total return for 2008 was -14.6%. Assets under management, excluding assets managed by Grosvenor Fund Management, fell 37% to £3.3bn.

In mid-2007 we stopped all significant acquisitions but continued with our disposal programme in anticipation of market falls. In the two years to December 2008 we generated sales proceeds of £245m compared to acquisitions of £106m and development expenditure (excluding Liverpool One and trading properties) of £28m.

## Strategy

Our strategy is to develop and invest in real estate in cities and towns where we can improve the urban environment and, by so doing, can increase occupier demand and generate a strong return. We use our specialist capabilities and deep knowledge of city living to deliver value, building on our long experience of creating and managing lively, varied and sustainable places, and recognising the importance of the interplay between buildings and public space.

Our business focuses on four principal activities:

### Our London estate

Ownership and management of our London estate remains at the heart of our strategy. We aim to sustain the estate as a long-term investment, creating value by delivering a highly differentiated experience for all who live, work or visit there. We do so by focusing on the quality of the accommodation we provide, investing in the public realm, paying attention to the quality of design and architecture, providing a unique mix of retail uses and delivering first-class service to occupiers.

### London development

Grosvenor is a developer of prime residential property, West End office and Central London mixed-use projects. We develop primarily for investment, to support the long-term plan for our London estate.

### Out of London development

Out of London we develop high quality projects in selected city centres. We use our expertise and local knowledge to create value for ourselves, our development partners and investors, while also benefiting local authorities and the communities they serve.

### Investment in funds

We invest in Grosvenor funds in the UK which cover shopping centres, central London offices and residential investments. We also provide development expertise to the UK fund management business.

**Liverpool**
Liverpool One centres on the award-winning two hectare Chavasse Park, fringed by residential, leisure and retail facilities.

**Liverpool**
The 'zig zag' is a bold, kinked stairway between the retail and leisure areas in Liverpool One.



## Liverpool One

| | |
|---|---|
| Type | Investment |
| Country | England |
| City | Liverpool |
| Sector | Mixed-use |
| Ownership | Grosvenor Liverpool Fund |
| Area | 234,000m$^2$ |

The Albert Dock, an important district in Liverpool, is now linked to the city centre by Liverpool One and has seen an extra 100,000 visitors per week (a 46% increase). This is further proof of the transformative impact of Liverpool One.


## Highlights

### London

Business activity across Mayfair and Belgravia was strong given the financial and economic uncertainties of the market, which vindicates our strategy of continuous investment in the regeneration of our London estate.

In Mount Street, Mayfair (see opposite), we added several new luxury retailers to the mix, continuing our strategy of bringing new life to the street and the surrounding area. Balenciaga, Annick Goutal, Christian Laboutin, Lanvin and Dunhill were amongst the newcomers.

Our London retail rental portfolio comprises over 350 outlets with a rent roll of £16.8m. Only 17% of retailers are multiples or chain stores, which is rare in the UK and evidence of our success in providing a unique experience for residents and visitors.

The residential rental portfolio has increased its size from 269 to 336 properties – 25% growth. Occupancy levels and rents in our short-let portfolio averaged 95% throughout the year. One example is St Barnabas Mews (see opposite). We continue to add new stock through development, with a strong focus on design and specification in response to occupier demand, and this has been rewarded with an excellent return on our investment.

Integral to plans for the retail, residential and office portfolio on our London estate is a focus on improving the public realm. During the year we reached a milestone in our pioneering collaboration with Westminster City Council on the funding of such schemes. Councillors approved projects to upgrade and extend pedestrian footways; introduce granite sets on some stretches of the road – particularly Elizabeth Street; and simplify junction crossings to reduce clutter and increase safety for pedestrians. In August 2009 people will begin to experience the benefits of this public/private partnership.

Off the estate, in December we achieved a significant milestone with the signing of a contract with Carillion Construction for our residential project at Bankside (see opposite), adjacent to the Tate Modern on the River Thames – a development of 229 apartments in four towers undertaken in joint venture with Native Land. A transformation is taking place in this part of London and we are excited by the prospects for the area and our role in contributing to its success.

### Out of London

In Liverpool we celebrated the phased opening of the 17 hectare Liverpool One development (see page 27) with a visit by Her Majesty The Queen and the launch of 92,900m² of the retail space in May. This was followed by the opening of the remaining 55,700m² retail and leisure facilities, including the multi-plex cinema and five-acre park, by Her Royal Highness The Princess Royal in October.

90% of the total space is now let. The city has risen from 15th to 5th place in Experian's 2008 Retail Ranking. Since opening, Liverpool One has received widespread acclaim for the positive impact it has had on the city, from engendering civic pride to attracting consumers back into the city. Average footfall from May to December 2008 was 17% higher than the comparable period in 2007.

Construction is now complete with the exception of the Hilton hotel, which is programmed for completion in summer 2009.



### Mount Street

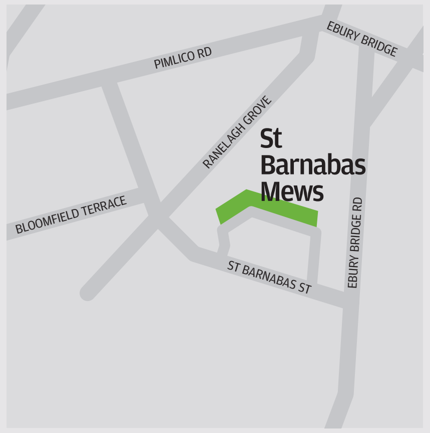
| | |
|---|---|
| Type | Investment |
| Country | England |
| City | London |
| Sector | Retail |
| Ownership | Grosvenor and the Grosvenor Trusts |
| Area | 72,500m² |

Retail streets define the character of the neighbourhoods we manage in London. The recent success of Mount Street reflects our efforts to keep abreast of changing trends in the luxury market.


### St Barnabas Mews

| | |
|---|---|
| Type | Investment |
| Country | England |
| City | London |
| Sector | Residential |
| Ownership | Wholly owned |
| Area | 1,100m² |

St Barnabas Mews is a new development in London's popular Pimlico Road area. Completed in March 2008, the eight two- and three-bedroom houses, which vary in size from 74m² to 167m², are part of Grosvenor's rental portfolio.




### Bankside

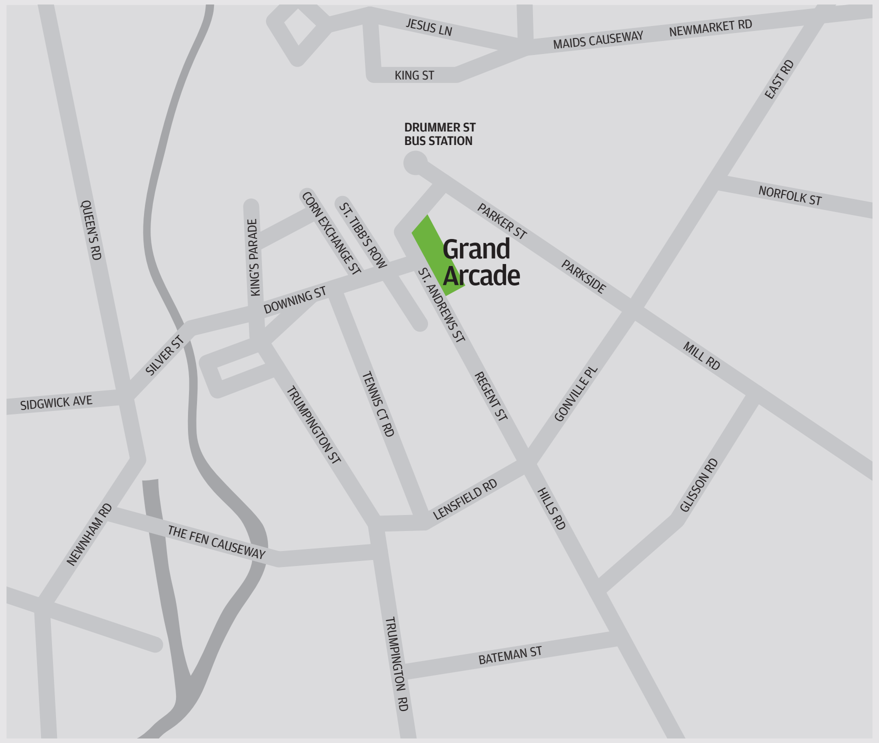
| | |
|---|---|
| Type | Development |
| Country | England |
| City | London |
| Sector | Residential |
| Ownership | Held in joint venture |
| Area | 38,000m² |

Work started on site on the Bankside development in January 2009. Two of the four towers will be finished towards the end of 2010; the target date for overall completion is 2012.


## Grand Arcade

| | |
|---|---|
| Type | Development |
| Country | England |
| City | Cambridge |
| Sector | Retail |
| Ownership | Held in joint venture |
| Area | 41,800m$^2$ |

Grand Arcade opened for business in March 2008. It is the first major retail scheme in the city centre for 30 years. Anchored by John Lewis, the development has helped Cambridge move four places up the Experian retail rankings.








Together these statistics reveal a dramatic change in the way the city centre is perceived, which we believe reflects the integration of Liverpool One with its surroundings. Commentators have written favourably on the concept, design and execution of the project, commending Grosvenor's tenacity in remaining true to our vision whilst highlighting the lessons learned in the process. Amongst the many plaudits are Shopping Location of the Year (from *Retail Week*), European Retail/Leisure Developer of the Year (from *Property Week*); Mixed-Use Project of the Year (from *Regeneration and Renewal*), Best Use of Planning in Regeneration (from *Regeneration and Renewal*) and Best City or Metropolitan Scheme (from *The Royal Town Planning Institute*).

In March we completed the Grand Arcade retail development in Cambridge (see opposite) – a project undertaken in joint venture with Universities Superannuation Scheme. We have taken time to achieve the right tenant mix for the catchment and this is reflected in the quality of retailers who have invested in the 41,800m$^2$ development – brands such as The White Company, Penhaligons, Ted Baker, Hugo Boss, Links of London and LK Bennet have taken space.

In Edinburgh, work on our Springside development (which promises to create a vibrant residential-led mixed-use community on the nine-acre site of a disused brewery) continued to progress on programme. Infrastructure works were finished and Phase I buildings 'topped-out' in readiness for fit-out and completion during 2009.

Work continued on the Preston Tithebarn project (a joint venture between Grosvenor and Lend Lease). A planning application was submitted in September 2008 which will be determined in May 2009.

At Liffey Valley, our joint venture retail development near Dublin, we worked on designs to extend the centre, doubling its size. We expect to submit a planning application by June 2009.

Discussions continued between Grosvenor and Crawley Borough Council on delivering the Town Centre North scheme (a 13 hectare site within the existing town centre).

**Changes to the portfolio**
The completion of Liverpool One and Grand Arcade, adding 276,000m$^2$ of prime retail space, increased the size and quality of our retail portfolio. The sector mix remained broadly unchanged over the year. Our development exposure ratio at the end of 2008 fell to 15.3% from 27.7% at the end of 2007.

**Management changes**
Rod Kent steps down as a Non-Executive Director and Chairman of the Board in July 2009, remaining as a Non-Executive Director of the Grosvenor Group. He will be succeeded as Chairman by Graham Pimlott, who joined the Board as a Non-Executive Director in January 2009. Richard Clare stepped down in January 2009. We are grateful to both Rod and Richard for their outstanding contributions.

Roger Blundell, our Finance Director, joined the Board in April 2008, and on 1 July 2008 Peter Vernon succeeded Mark Preston as Chief Executive. At the same time Giles Clarke succeeded Peter as Executive Director responsible for the investment portfolio in the UK.

An early decision of the new executive team was to stress the importance of top quality service delivery for occupiers with the appointment of Simon Elmer to the new role of Director of Operations for our London estate. The year also saw the completion of a significant further investment in our customer relationship management systems.

**The future**
The first quarter of 2009 suggests it will be a tough year, with the economy and financial markets continuing to face significant difficulties. We believe valuations are likely to decline further in 2009 and we do not expect to be making significant new investment and development commitments until there is greater clarity on where values will 'bottom out'.

Our priorities for 2009 are a strong focus on managing core rental income and costs, and on financial flexibility to ensure we are in a strong position to take advantage of any market opportunities.


**Cambridge**
Wide 'streets' beneath a steel and glass roof give an airy feel to the enclosed Grand Arcade development.


Rod Kent


Michael Gradon


Graham Pimlott


Mark Preston


Nicholas Scarles


Peter Vernon


Roger Blundell


Giles Clarke


John Irvine

# BRITAIN & IRELAND BOARD OF DIRECTORS

## Non-Executive Directors

**Rod Kent (Chairman)** is also a Non-Executive Director of Grosvenor Group Limited. He is Chairman of BT Pension Scheme Trustees Limited and a Governor of Wellcome Trust. He was Senior Independent Director at Whitbread Plc from 2002 to 2008 and Chairman of Bradford & Bingley Plc from 2003 to 2008. He was Managing Director of Close Brothers Group Plc from 1975 to 2002, and then a Non-Executive Director and latterly Chairman until 2008. Age 61.

**Michael Gradon** is a Senior Independent Director of Modern Water plc, a Non-Executive Director of Genesis Lease Limited and Exclusive Hotels and on The Committee of Management of the All England Lawn Tennis Club Wimbledon Championships. He spent 20 years with P&O, including eight years as a Main Board Director. Age 49.

**Graham Pimlott (Chairman Designate)** was a partner in the law firm Lovells before switching to a career in investment banking, taking senior roles within BZW and Barclays PLC. He holds and has held a number of non-executive roles including current positions with Tesco Personal Finance PLC and Inchcape plc. Age 59.

**Mark Preston** MRICS is Group Chief Executive. He joined Grosvenor in the UK in 1989. In 1995, he was seconded to Hong Kong, returning to lead our fund management operations from 1997 to 2002. After four years in San Francisco he returned to the UK as CEO of Grosvenor Britain & Ireland in June 2006, becoming Group CEO in July 2008. He is on the Board of the Association of Foreign Investors in Real Estate and a member of the North West Business Leaders' Trust. He is a Non-Executive Director of Sonae Sierra SGPS. Age 41.

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## Executive Directors

**Peter Vernon** MRICS **(Chief Executive**) joined Grosvenor in 2005 to take responsibility for Grosvenor's direct and indirect property investments in the UK and Ireland, including Grosvenor's London estate and, from 2006, the London development business. He is a member of the Royal & Sun Alliance London Regional Board and the Board of London First. Previously he was a Partner at IBM Business Consulting Services and PwC Consulting. Age 49.

**Roger Blundell** ACA **(Finance Director)** joined Grosvenor in December 2007. He was previously Group Finance Director at Kensington Group Plc, Finance Director at BSkyB Interactive, and Director of Group Finance, Tax and Treasury at Kingfisher. Age 46.

**Giles Clarke (Executive Director, Investment)** joined Grosvenor in 2007. He is responsible for our investment portfolio in London and indirect property investments via funds in the UK and Ireland. He was previously at The Crown Estate where he was Director of Investment & Asset Management. Age 41.

**John Irvine** FRICS **(Executive Director, Development)** joined Grosvenor in 1989 and is responsible for development in Britain & Ireland (outside London). He is a member of the Advisory Board of Architecture and Design Scotland. Age 53.



# BRITAIN & IRELAND PROPERTY PORTFOLIO

### Investment properties

| | Gross yields | | | | Values | | | |
|---|---|---|---|---|---|---|---|---|
| | Passing rent £m | ERV £m | Running yield % | Reversionary yield % | Number of properties | Grosvenor share £m | Third party £m | Assets under management £m |
| Office | 48.9 | 55.0 | 7.1 | 8.0 | 251 | 689.2 | 225.3 | 914.5 |
| Retail | 45.3 | 47.6 | 6.0 | 6.3 | 108 | 760.5 | 108.1 | 868.6 |
| Residential* | 13.1 | 20.5 | 1.6 | 2.5 | 376 | 810.8 | 588.4 | 1,399.2 |
| | 107.3 | 123.1 | 4.7 | 5.4 | 735 | 2,260.5 | 921.8 | 3,182.3† |

*The majority of the residential portfolio is ground rented and because of this it has a low average yield. The average yield on the rack-rented portfolio is 3.5%.
†Includes £513.2m managed by Grosvenor Fund Management.

### Development and trading properties

| | Values | | | | |
|---|---|---|---|---|---|
| | Number of properties | Grosvenor share £m | Third party £m | Future development commitment £m | Assets under management £m |
| Office | 1 | 2.7 | – | – | 2.7 |
| Retail | 4 | 113.2 | 22.3 | 74.5 | 210.0 |
| Residential | 5 | 81.2 | 83.7 | 274.9 | 439.8 |
| | 10 | 197.1 | 106.0 | 349.4 | 652.5 |

### Geographic analysis

| | Grosvenor share | | |
|---|---|---|---|
| | Investment £m | Development £m | Total £m |
| London West End | 1,692.3 | 56.6 | 1,748.9 |
| London City | 9.6 | – | 9.6 |
| Outside London | 558.6 | 140.5 | 699.1 |
| | 2,260.5 | 197.1 | 2,457.6 |

# BRITAIN & IRELAND PROPERTY PORTFOLIO CONTINUED

Grosvenor Britain & Ireland has interests in and manages a portfolio of assets across 300 acres of Mayfair and Belgravia, some parts of which are owned by the Grosvenor Trusts. More than 700 retail, residential and commercial properties make up the portfolio. It is not practical to list all these assets. However, set out below are the assets grouped at street level that are strategic locations on the London estate; the table opposite shows some of the assets held outside London, and large individual properties in the London portfolio.

**Grosvenor Street**

| | | |
|---|---|---|
| **Location** | Mayfair, London | |
| **Sector** | Office | 76 units |
| | Retail | 16 units |
| | Residential | 12 units |
| **Area** | 70,700m$^2$ | |

Located within the heart of Mayfair, Grosvenor Street is one of London's premier office locations. Behind many of the period façades sit state-of-the-art modern offices.

**Grosvenor Square**

| | | |
|---|---|---|
| **Location** | Mayfair, London | |
| **Sector** | Office | 16 units |
| | Residential | 51 units |
| **Area** | 71,500m$^2$ | |

A large garden square in the heart of Mayfair. The central garden, which is surrounded by residential apartments, hotels and offices (including the US Embassy), is now a public space managed by the Royal Parks.

**Duke Street**

| | | |
|---|---|---|
| **Location** | Mayfair, London | |
| **Sector** | Office | 20 units |
| | Retail | 25 units |
| | Residential | 27 units |
| **Area** | 8,300m$^2$ | |

A fashionable, quiet street in the heart of Mayfair which provides the main pedestrian route from busy Oxford Street to Grosvenor Square.

**Mount Street**

| | | |
|---|---|---|
| **Location** | Mayfair, London | |
| **Sector** | Office | 25 units |
| | Retail | 53 units |
| | Residential | 86 units |
| **Area** | 72,500m$^2$ | |

A vibrant mixed-use street and surrounding area populated with a growing number of luxury retailers. Renowned restaurants and fine period residential apartments characterise this fashionable area of Mayfair.

**Motcomb Street**

| | | |
|---|---|---|
| **Location** | Belgravia, London | |
| **Sector** | Office | Four units |
| | Retail | 36 units |
| | Residential | 25 units |
| **Area** | 8,700m$^2$ | |

A quiet enclave close to Sloane Street and Knightsbridge which is home to high-end, specialist retailers in fashion, accessories, art and antiques, Michelin star restaurants and other amenities which serve the local community.

**Eaton Square**

| | |
|---|---|
| **Location** | Belgravia, London |
| **Sector** | Residential units on six floors in historic Grade 2* Listed Buildings |
| **Area** | 63,000m$^2$ |

Lying at the heart of Belgravia and bordered by Chelsea, Knightsbridge, Pimlico and Hyde Park, Eaton Square is recognised as one of the finest residential addresses in the world. Arranged around six private gardens, the square is a series of imposing classical, stucco-fronted terraces.



| Property | Description | Location | Area m$^2$ |
|---|---|---|---|
| **Investment properties – directly owned** | | | |
| **Office** | | | |
| 52 Brook Street | Office space for flexible lettings | West End, London | 1,100 |
| 16/20 North Audley Street | Six-floor refurbished and partly rebuilt office building | West End, London | 5,600 |
| St. Anselm House, 65 Davies Street | Eight-floor 1930's office building | West End, London | 7,800 |
| **Retail** | | | |
| Liffey Valley Shopping Centre | Regional shopping centre with 94 retail units and cinema | Dublin, Republic of Ireland | 36,300 |
| **Residential** | | | |
| Chantrey House | Residential apartment block | West End, London | 5,100 |
| Erskine House | 11 residential apartments | West End, London | 1,000 |
| 25 Gilbert Street | Residential apartment block | West End, London | 1,500 |
| 97/99 Park Street | Residential apartment block | West End, London | 1,600 |
| **Mixed-use** | | | |
| Grosvenor Hill Court | Two-floor office building with 30 residential units and car park | West End, London | 7,300 |
| Terminal House, 52 Grosvenor Gardens | Seven-floor office building with nine retail units | West End, London | 8,200 |
| **Investment properties – held in joint ventures** | | | |
| **Office** | | | |
| Viewpoint – Mayfair | Nine-floor open-plan refurbished office building with three retail units in Oxford Street | West End, London | 4,600 |

| Property | Description | Location | Area m$^2$ | Completion date |
|---|---|---|---|---|
| **Development and trading properties – directly owned** | | | | |
| **Office** | | | | |
| Edinburgh Technopole | Science Park | Edinburgh, Scotland | 46,500 | Phased: 2004-2028 |
| **Development and trading properties – held in joint ventures** | | | | |
| **Retail** | | | | |
| Grand Arcade | Mixed-use city centre development | Cambridge, Cambridgeshire | 41,800 | Note 1 |
| **Residential** | | | | |
| Bankside | Residential apartment block | Central London | 38,000 | 2010-2012 |
| Springside | Mixed-use city centre scheme | Edinburgh, Scotland | 83,200 | 2015 |
| **Mixed-use** | | | | |
| Liverpool One | Retail-led, mixed-use urban regeneration project | Liverpool, Merseyside | 234,000 | Note 2 |
| Tithebarn, Preston | Retail-led mixed-use urban regeneration scheme | Preston, Lancashire | 160,000 | 2015 |

**Note 1**
During the year Grand Arcade moved from being managed by Grosvenor Britain & Ireland to Grosvenor Fund Management, on behalf of Grosvenor and USS (see page 77).

**Note 2**
During the year the retail and leisure elements of Liverpool One (totalling 149,000m$^2$) moved from a Grosvenor Britain & Ireland development to a Grosvenor Fund Management managed asset under the Grosvenor Liverpool Fund (see page 78). The remaining 85,000m$^2$, which make up the balance of the 234,000m$^2$ Liverpool One development, comprise the wholly owned Grosvenor sites including One Park West (326 apartments) and a 216-bedroom Hilton Hotel.

**Vancouver**
The flexible living offered at The RISE is surprisingly rare in a city known for a healthy attitude to work/life balance.



# AMERICAS

**Andrew Bibby**

Grosvenor has been active in North America for over 50 years and has well-established relationships in several key property markets.

We have had an office in Vancouver since 1953, in San Francisco since 1977 and in Washington since 1988. We re-opened in Calgary in 2007, having been investing there since 1998.

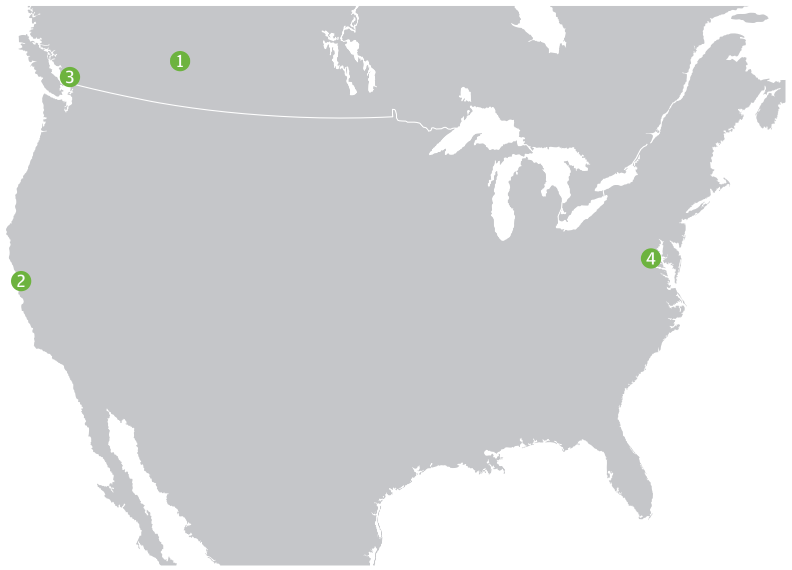
Our strategy throughout the Americas is to focus on four sectors – primarily retail and residential, but also office and industrial. We concentrate on the eight cities that we know best, seeking a balance of investment and development activity.

Our Americas team of 66 people is led by Chief Executive Andrew Bibby, who has been with Grosvenor for almost 25 years.

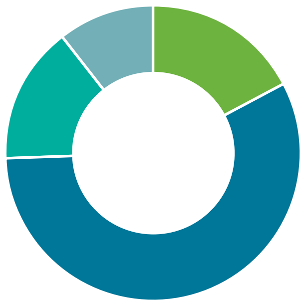


**Office locations – Americas**

1. Calgary
2. San Francisco
3. Vancouver
4. Washington, DC



**By sector C$m**

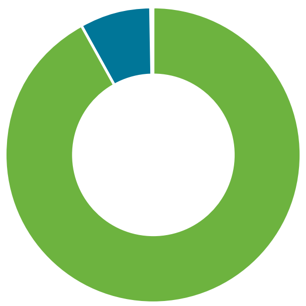


| | | |
|---|---|---|
| Office | C$293.1m | 17.3% |
| Retail | C$972.5m | 57.2% |
| Residential | C$258.0m | 15.2% |
| Industrial | C$175.5m | 10.3% |

**By region C$m**

| | | |
|---|---|---|
| USA | C$1,018.7m | 60.0% |
| Canada | C$680.4m | 40.0% |

**By activity C$m**



| | | |
|---|---|---|
| Investment | C$1,565.2m | 92.1% |
| Development | C$133.9m | 7.9% |

As expected, 2008 was a challenging year – although our focused strategy protected us well from the worst of the credit crunch fall out. Valuations in all markets were under varying degrees of downward pressure and, although occupancy levels remained high throughout our portfolio, we had to prepare for further deterioration in conditions.

Due to market uncertainty, it was a year of consolidating previous gains and delivering on projects already started. We postponed some construction starts and deferred planned upgrades to existing assets in order to maintain our ability to respond to future acquisition opportunities. We also took the necessary steps to ensure a smooth succession in our senior management team.

Revenue profit decreased from C$43.2m in 2007 to C$42m in 2008. Total return fell from 16.8% in 2007 to 2.4% in 2008. Assets under management, excluding assets managed by Grosvenor Fund Management, increased slightly, from C$2.5bn to C$2.7bn.

## Strategy

The current state of property markets has reinforced our confidence in our long-term strategy. We still concentrate on our primary markets in the USA and Canada (the four cities in which we have offices – Calgary, San Francisco, Vancouver and Washington) and four secondary markets (Chicago, Edmonton, Los Angeles and Seattle).

Our sectoral emphasis remains selective – primarily a variety of retail formats, albeit all open rather than enclosed; multi-family residential accommodation for sale or rental; industrial properties, chiefly on Annacis Island in Vancouver; and mixed-use projects, generally driven by residential. The office sector will remain largely a cyclical opportunity.

We aim to have 20–25% of our capital committed to development projects over time, but in the prevailing climate it was important to ensure we ended the year with only one new development and one hotel refurbishment under construction; development activity is still focused on our primary cities.

This year it was important to look also to shorter horizons. The first six months focused on completing development projects on time and leasing them promptly, and on managing our investment portfolio to ensure that occupancy levels remained high. In the second part of the year we turned our attention increasingly to raising cash, so we can take full advantage of opportunities to expand our portfolio. We look forward to the return of the risk premium; in its absence, we have avoided making acquisitions over the past two years. We also substantially reduced our exposure to mezzanine lending, given the further deterioration in the residential market.

We continue to work closely with our colleagues in Grosvenor Fund Management and over the past several years invested in two of their real estate funds: the Shmael Fund, which has invested approximately US$100m in a portfolio of 'core' and 'core plus' office buildings around the US; and the Grosvenor Residential Investment Partners Fund, which is investing opportunistically in distressed debt in the US residential sector.

## Highlights

There were a number of important milestones this year.

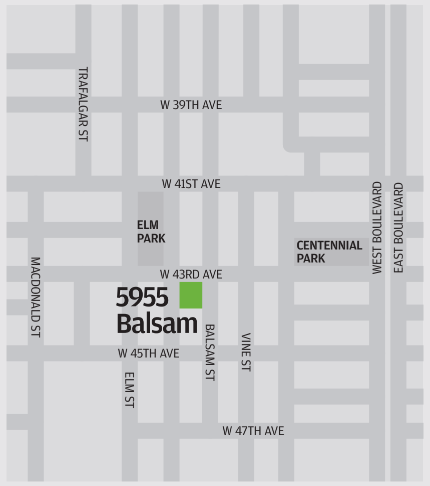
In Canada, we ended the year having sold all but two units in the 41-unit C$46.5m 5955 Balsam luxury residential development in Kerrisdale, Vancouver (see opposite), completed in September. Also in Vancouver, we achieved 98% leasing of the retail space and 61% of the residential units at our C$87.6m development project The RISE, in Vancouver's Cambie Street corridor (see opposite), completed in September.



## 5955 Balsam

| | |
|---|---|
| Type | Development |
| Country | Canada |
| City | Vancouver |
| Sector | Residential |
| Ownership | Wholly owned |
| Area | 5,900m$^2$ |

5955 Balsam is a 12-storey luxury residential development in the sought-after neighbourhood of Kerrisdale in Vancouver, BC. The building's modernist design creates spacious one-level homes. All residences have high ceilings, large windows allowing ample natural light, and generous balconies. All kitchens have sleek Miele appliances, richly finished cabinetry and granite countertops.




## The RISE

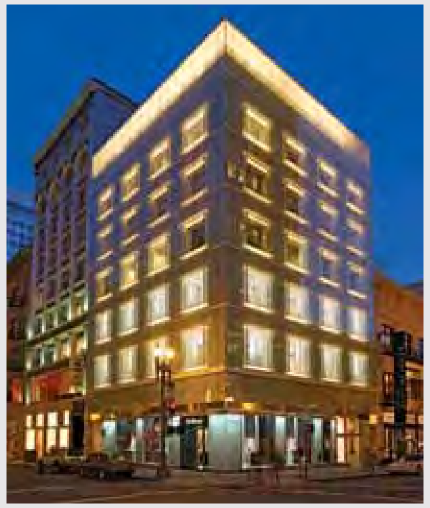
| | |
|---|---|
| Type | Investment |
| Country | Canada |
| City | Vancouver |
| Sector | Mixed-use (retail and residential) |
| Ownership | Held in joint venture |
| Area | 28,100m$^2$ 92 live-work units and 18,350m$^2$ of retail, with 700 car spaces |

The RISE is a sustainable mixed-use retail/residential development covering a full city block in the heart of Fairview Slopes in Vancouver, BC. It has three levels of retail space, leased to large format national retailers and street-front independent tenants. There are also 92 live-work rental lofts, a 1,900m$^2$ green roof and community garden and panoramic views of the North Shore Mountains.


## 185 Post Street

| | |
|---|---|
| Type | Investment |
| Country | USA |
| City | San Francisco |
| Sector | Mixed-use (office and retail) |
| Ownership | Held in joint venture |
| Area | 1,900m² |

This six-storey mixed-use office and retail redevelopment in the Union Square district of San Francisco received a 2008 Excellence in Architecture Honor Award from the San Francisco chapter of the American Institute of Architects (AIA). The building's tenants include De Beers jewellers; Priscilla of Boston, a luxury bridal salon; and several boutique office tenants on the upper floors.




## Hamilton Marketplace

| | |
|---|---|
| Type | Investment |
| Country | USA |
| City | San Francisco Bay area |
| Sector | Retail |
| Ownership | Wholly owned |
| Area | 11,300m² |

Located north of San Francisco, Hamilton Marketplace is a new grocery-anchored shopping centre development. It is one of the first centres in North America to use solar power for its community space. Other energy-efficient features include storm water treatment and retention systems, and reflective roofing. The development received a 2008 Top Projects Award from the *North Bay Business Journal*.


## 5520 Wisconsin Avenue

| | |
|---|---|
| Type | Development |
| Country | USA |
| City | Chevy Chase |
| Sector | Mixed-use (hotel and retail) |
| Ownership | Held in joint venture |
| Area | 10,500m² |

Grosvenor is embarking on a US$35m renovation and re-branding of a former Holiday Inn in Chevy Chase, Maryland. The hotel, which closed in June of 2008, will re-open as a 'Courtyard' by Marriott in the spring of 2009. Grosvenor is seeking a Silver Leadership in Energy and Environmental Design (LEED) rating from the US Green Building Council for the newly renovated hotel.




We celebrated the opening of our new office in Calgary in October. The contraction in the energy sector prompted us temporarily to 'warehouse' the two-tower residential condominium planned for our site in the west end of downtown Calgary, for which we had achieved planning consent in December 2008, but we remain confident in the long-term prospects for this periodically volatile market.

In the USA, De Beers moved into 185 Post Street in San Francisco's Union Square prime retail district (see opposite), and we leased four of the five upper floors in the renovated US$25.6m building. In August we opened Hamilton Marketplace in the San Francisco Bay area (see opposite), where Safeway anchors the US$50.3m retail centre, and leased 87% of the retail space.

In October we celebrated the 20th anniversary of our Washington, DC office with a roof-top party at the Hay Adams Hotel, overlooking Lafayette Park and the White House.

We began work in March on our development at High Street, South Surrey, BC, which is the expansion of South Point Exchange, a successful existing retail centre. At 5520 Wisconsin Avenue in Chevy Chase, Maryland (see page opposite), we started construction in June on the re-branding and renovation of a 226-room Holiday Inn as a limited service 'Courtyard' by Marriott – a US$35m project due for completion in the spring of 2009.

### Changes to the portfolio

As expected in a year of market turbulence, in which we focused on maintaining a good short-term cash position with a view to longer-term deal-making in line with our strategy, our portfolio is essentially unchanged.

### Management changes

Bill Abelmann retired on 31 December 2008 after 32 years with Grosvenor, six of them as the head of our operations in the Americas, and was succeeded as Chief Executive by Andrew Bibby. Jean Whittet-Brown retired after 38 years, most recently as Company Secretary.

We took the opportunity to promote a key member of the team, Ryan Beechinor, who took over from Andrew as Chief Development Officer. This and other consequential appointments reinforce our commitment to a function-based management structure, which emphasises our specialist capabilities and fosters a uniformly high skill-base throughout our operations. Notwithstanding the departure of well-known figures, our succession planning ensured we entered 2009 with a strong, balanced and focused team.

### The future

At the beginning of 2009 the economy continues to weaken and there is no sign of even the beginnings of a recovery.

Our short-term emphasis will be on operational matters: achieving the targets for our development projects and maximising the performance of our investment assets. We will sell assets when appropriate so that we can take advantage of opportunities to re-cycle capital profitably. We will also explore different means of reinvestment, whether through partnerships or mezzanine finance.


Ralph Severson


Lizanne Galbreath


Martha Piper


Mark Preston


Nicholas Scarles


Andrew Bibby


Rekha Patel

# AMERICAS BOARD OF DIRECTORS

## Non-Executive Directors

**Ralph Severson (Chairman)** has been Chief Executive Officer of RF Severson Investment Management 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 Western US region. He serves on the National Advisory Council of Brigham Young University. Age 64.

**Lizanne Galbreath** 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 Institute, and is past Chair of the Wharton Real Estate Advisory Board and still sits on its Executive Committee. Age 51.

**Martha Piper** OC OBC PH.D retired as President and Vice Chancellor of the University of British Columbia in 2006. She is a Director of the Bank of Montreal, TransAlta Corp, Shoppers Drug Mart and the Trilateral Commission. Since receiving her Ph.D in Epidemiology and Biostatistics from McGill University, she has received honorary degrees from 16 international universities. and is an Officer of the Order of Canada. Age 63.

**Mark Preston** MRICS is Group Chief Executive. He joined Grosvenor in the UK in 1989. In 1995, he was seconded to Hong Kong, returning to lead our fund management operations from 1997 to 2002. After four years in San Francisco he returned to the UK as CEO of Grosvenor Britain & Ireland in June 2006, becoming Group CEO in July 2008. He is on the Board of the Association of Foreign Investors in Real Estate and a member of the North West Business Leaders' Trust. He is a Non-Executive Director of Sonae Sierra SGPS. Age 41.

**Nicholas Scarles** FCA CPA ATTORNEY AT LAW is Group Finance Director. He joined Grosvenor in 2004. He was previously at Centrica, Price Waterhouse, and Coopers and Lybrand. He is a Governor of the Haberdashers' Elstree Schools, Fourth Warden of the Haberdashers Livery Company, Chairman of the IPF's Property Derivative Group and a Non-Executive Director of Sonae Sierra SGPS. Age 46.

## Executive Directors

**Andrew Bibby (Chief Executive)** joined Grosvenor in 1984. He is a Director of the Real Property Association of Canada and a member of the Faculty Advisory Board of the Sauder School of Business at the University of British Columbia. Age 51.

**Rekha Patel** CPA **(Finance Director)** joined Grosvenor in 2003 following 12 years with the real estate investment arm of GIC Real Estate, a sovereign wealth fund. She is a member of Commercial Real Estate Women. Age 44.



# AMERICAS PROPERTY PORTFOLIO

### Investment properties

| | Gross yields | | | | Values | | | |
|---|---|---|---|---|---|---|---|---|
| | Passing rent C$m | ERV C$m | Running yield % | Reversionary yield % | Number of properties | Grosvenor share C$m | Third party C$m | Assets under management C$m |
| Office | 19.0 | 21.8 | 6.5 | 7.4 | 5 | 293.1 | 245.7 | 538.8 |
| Retail | 46.1 | 55.3 | 5.1 | 6.2 | 39 | 898.5 | 729.4 | 1,627.9 |
| Residential | 15.3 | 15.8 | 7.7 | 8.0 | 7 | 198.1 | 29.8 | 227.9 |
| Industrial | 7.4 | 8.5 | 4.2 | 4.8 | 2 | 175.5 | 14.9 | 190.4 |
| | 87.8 | 101.4 | 5.6 | 6.5 | 53 | 1,565.2 | 1,019.8 | 2,585.0* |

*Includes C$43.5m managed by Grosvenor Fund Management.

### Development and trading properties

| | Values | | | | |
|---|---|---|---|---|---|
| | Number of properties | Grosvenor share C$m | Third party C$m | Future development commitment C$m | Assets under management C$m |
| Retail | 6 | 74.0 | 30.6 | 26.3 | 130.9 |
| Residential | 4 | 22.2 | 10.6 | 0.9 | 33.7 |
| | 10 | 96.2 | 41.2 | 27.2 | 164.6 |

### Geographic analysis

| | Grosvenor share | | | |
|---|---|---|---|---|
| | Investment C$m | Development C$m | Financial assets C$m | Total C$m |
| USA | 1,002.5 | – | 16.2 | 1,018.7 |
| Canada | 562.7 | 96.2 | 21.5 | 680.4 |
| | 1,565.2 | 96.2 | 37.7 | 1,699.1 |

## AMERICAS PROPERTY PORTFOLIO CONTINUED

| Property | Description | Location | Area m² |
|---|---|---|---|
| **Investment properties – directly owned** | | | |
| **Office** | | | |
| The Grosvenor Building | 22-storey Class-A, office building with retail space and parking | Vancouver, BC, Canada | 18,900 |
| **Retail** | | | |
| Crowfoot Corner | Community shopping centre | Calgary, AB, Canada | 4,700 |
| Crowfoot Village | Community shopping centre | Calgary, AB, Canada | 5,800 |
| DVC Plaza | Community shopping centre | Pleasant Hill, CA, USA | 18,100 |
| Hamilton Marketplace | Grocery-anchored, community shopping centre | Novato, CA, USA | 11,300 |
| La Colonnade | Three-storey mixed-use building with retail and office space | Beverly Hills, CA, USA | 2,500 |
| Los Gatos Village Square | Two-storey grocery-anchored community shopping centre with retail and shopping space | Los Gatos, CA, USA | 4,200 |
| Venator Building | Urban retail building | Calgary, AB, Canada | 2,300 |
| Westgate West | Community shopping centre | San Jose, CA, USA | 21,900 |
| **Residential** | | | |
| BluWater | 152-unit apartment community | Silver Lake, WA, USA | 13,000 |
| Chelsea at Juanita Village | 196-unit apartment community | Kirkland, WA, USA | 16,700 |
| Peloton | 150-unit apartment community | Redmond, WA, USA | 11,800 |
| Viscount and Viceroy | 26-unit high-rise apartment building | Calgary, AB, Canada | 1,900 |
| **Industrial** | | | |
| Annacis Business Park | Warehouse and distribution park | Vancouver, BC, Canada | 103,900 |
| **Investment properties – held in joint ventures** | | | |
| **Office** | | | |
| 2 North Lake | 11-storey office tower with a three-storey historic building and an eight-storey split-level parking garage | Pasadena, CA, USA | 21,300 |
| 1500 K Street | 11-storey historic office building with parking | Washington, DC, USA | 22,600 |
| 1701 Pennsylvania Avenue, N.W. | 12-storey office building with ground floor retail and parking | Washington, DC, USA | 17,800 |
| Carlyle Gateway I & II | Two six-storey office buildings with ground floor retail and parking | Alexandria, VA, USA | 23,200 |
| **Retail** | | | |
| 308-310 North Rodeo Drive | Urban retail building | Beverly Hills, CA, USA | 1,400 |
| 701 North Michigan Avenue | Ground floor retail located outside the historic Allerton Hotel in Chicago | Chicago, IL, USA | 2,100 |
| 830 North Michigan Avenue | Six-storey urban retail building | Chicago, IL, USA | 11,600 |
| Broadmead Village Shopping Center | Community shopping centre | Saanich, BC, Canada | 11,800 |
| Church Street Plaza | Community lifestyle centre | Evanston, IL, USA | 16,400 |
| Coventry Hills Shopping Center | Community shopping centre | Calgary, AB, Canada | 12,200 |
| DC Urban Retail Portfolio | 15-building urban retail portfolio | Washington, DC, USA | 32,400 |
| Frontier Drive Metro Center | Community shopping centre | Springfield, VA, USA | 9,800 |
| Rice Lake Square | Nine-building community shopping centre | Wheaton, IL, USA | 23,400 |
| South Edmonton Common | Retail power centre | Edmonton, AB, Canada | 25,500 |
| South Point Exchange | Community shopping centre | Surrey, BC, Canada | 24,900 |
| Valley River Center (East out parcel) | Inline shopping centre near Valley River Center mall | Eugene, OR, USA | 700 |
| WesTech Village Corner | Community shopping centre | Silver Spring, MD, USA | 3,900 |



| Property | Description | Location | Area m² |
|---|---|---|---|
| **Investment properties – held in joint ventures (continued)** | | | |
| **Residential** | | | |
| Ascent | 90-unit apartment community | Kirkland, WA, USA | 7,000 |
| Sancerre | 140-unit apartment community | Kirkland, WA, USA | 10,500 |
| West Ridge Apartment Homes | 239-unit apartment community | Seattle, WA, USA | 21,900 |
| **Industrial** | | | |
| 4100 Westwinds Drive | Single floor warehouse/distribution building | Calgary, AB Canada | 28,100 |
| **Mixed-use** | | | |
| 180 Post Street | Three-storey mixed-use building with office and retail space | San Francisco, CA, USA | 2,700 |
| 185 Post Street | Six-storey mixed-use redevelopment with office and retail space | San Francisco, CA, USA | 1,900 |
| 251 Post Street | Six-storey mixed-use building with retail and office space | San Francisco, CA, USA | 3,400 |
| The RISE (2300 Cambie Street) | Mixed-use shopping centre development with 92 live-work rental lofts | Vancouver, BC, Canada | 28,100 |

| Property | Description | Location | Area m² | Completion date |
|---|---|---|---|---|
| **Principal development and trading properties – directly owned** | | | | |
| **Residential** | | | | |
| 5955 Balsam | 41-unit mid-rise (12 storey), luxury residential development | Kerrisdale, BC, Canada | 5,900 | 2008 |
| **Principal development and trading properties – held in joint ventures** | | | | |
| **Residential** | | | | |
| Avondale (Lions Gate Hospital Site) | 79-unit low-rise, residential development | North Vancouver, BC, Canada | 9,000 | 2008 |
| **Mixed-use** | | | | |
| High Street at South Point Exchange | 88-unit mixed-use development with 1,600m² of retail | South Surrey, BC, Canada | 10,200 | 2009 |
| South Edmonton Common | Retail power centre | Edmonton, AB, Canada | 16,800 | 2010 |
| **Hotel** | | | | |
| 5520 Wisconsin Avenue ('Courtyard' by Marriott) | 226-room hotel renovation with ground floor retail | Chevy Chase, MD, USA | 10,500 | 2009 |


**Paris**
The St. Ouen markets (including Paul Bert and Serpette) are amongst the most visited attractions in France.



# CONTINENTAL EUROPE

**Neil Jones**

Grosvenor has been active in Continental Europe since 1996. We opened in Luxembourg and Paris in 1998, Madrid in 2000 and Milan in 2006.

Our strategy for proprietary investment and development on the continent focuses on retail, which has the most attractive long-term risk-return characteristics. We achieve this primarily through our joint control holding in shopping centre specialist Sonae Sierra, which is active in 43 cities in seven countries. We also have stakes in several Grosvenor-managed funds, along with a directly-managed proprietary portfolio.

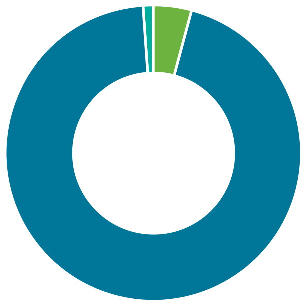
Early in 2009 we adopted a new management structure for our team of 50 specialists in the region, who have become part of Grosvenor Fund Management – recognition of the significance of their work for that part of Grosvenor. Responsibility for our proprietary capital across the region now sits with the Grosvenor Group.



**Office locations – Continental Europe**

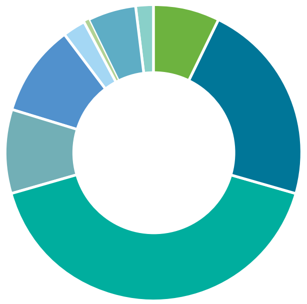
1. Luxembourg
2. Madrid
3. Milan
4. Paris

**By sector €m**



| | | |
|---|---|---|
| Office | €99.4m | 4.6% |
| Retail | €2,045.5m | 94.5% |
| Industrial | €19.9m | 0.9% |

**By region €m**



| | | |
|---|---|---|
| France | €161.6m | 7.5% |
| Spain | €479.7m | 22.2% |
| Portugal | €892.4 | 41.2% |
| Italy | €200.5m | 9.3% |
| Germany | €217.8m | 10.1% |
| Greece | €56.8m | 2.6% |
| Belgium | €1.0m | 0.0% |
| Brazil | €113.1m | 5.2% |
| Romania | €41.9m | 1.9% |

2008 was a challenging year in Continental Europe, as elsewhere. Rental income held up well although capital values fell across the board by year end. Revenue profit decreased to €6.5m whereas total return was -3.1%, primarily due to a €27m write-down on two Sonae Sierra developments in Romania. Assets under management, excluding those managed by Grosvenor Fund Management, fell 21% to €2.6bn due to sales, suspension of development projects and declines in value. Our portfolio has proved to be relatively resilient: retail, our primary focus, has dropped much less in value than other asset classes.

Sonae Sierra – the specialist European and Brazilian shopping centre developer, investor and manager in which we have a joint controlling interest – achieved important sales into its funds and opened four new centres.

In the rest of our proprietary business and in activity undertaken on behalf of Grosvenor Fund Management, the team focused on sales of mature assets; new investment was very subdued. While demand for investment property dropped off during the year, we were able to accelerate our sales programme and take advantage of continued liquidity in the market in the first six months, notably in France, repeatedly achieving good prices.

### Strategy

Grosvenor's strategy in Continental Europe is to focus on our proprietary investment in Sonae Sierra and on growth in our fund management business.

Sonae Sierra aims to provide a balance of higher returning development profits and recurrent income from its investment and management activities – the latter feeding back into product development, while investment in completed projects is recycled through sales to funds in which it retains a stake. It is active in Portugal, Spain, Italy, Greece, Romania, Germany and Brazil, with 50 operating shopping centres, 14 new developments and 11 projects in pre-development phases. It has 2 million $m^2$ of gross lettable area under management and manages 8,455 lease contracts. (See www.sonaesierra.com)

Sonae Sierra is owned 50% by a Grosvenor-controlled company and 50% by Portuguese conglomerate Sonae SGPS.

We also have stakes in Grosvenor-managed funds in France, Italy, Portugal and Belgium, along with a directly-managed proprietary portfolio.

### Highlights

Given capital market conditions, the highlights of the year were the successful planned sales of property assets. Total sales amounted to €275m: €199m on behalf of proprietary joint ventures and €76m for Grosvenor Fund Management.

From our proprietary portfolio, we sold investment property 68 rue du Faubourg Saint-Honoré, Paris (see opposite), on behalf of a joint venture with APG. In Spain, we completed the development of Phase 1 of Omega Business Park (see opposite), held in joint venture with Grupo Lar, and sold the two buildings to German and Spanish investors.

There was much focus also on improving rental income. We renewed 63 lease contracts in our antiques markets (Paul Bert and Serpette) in the northern Parisian suburb of St. Ouen. We also constructed and let six new units, as part of a phased improvement programme.

In October, we celebrated the tenth anniversary of our office in Paris and our long association with many stakeholders in the French property market, which has given rise to strong and valued working relationships.



## 68 rue du Faubourg Saint-Honoré

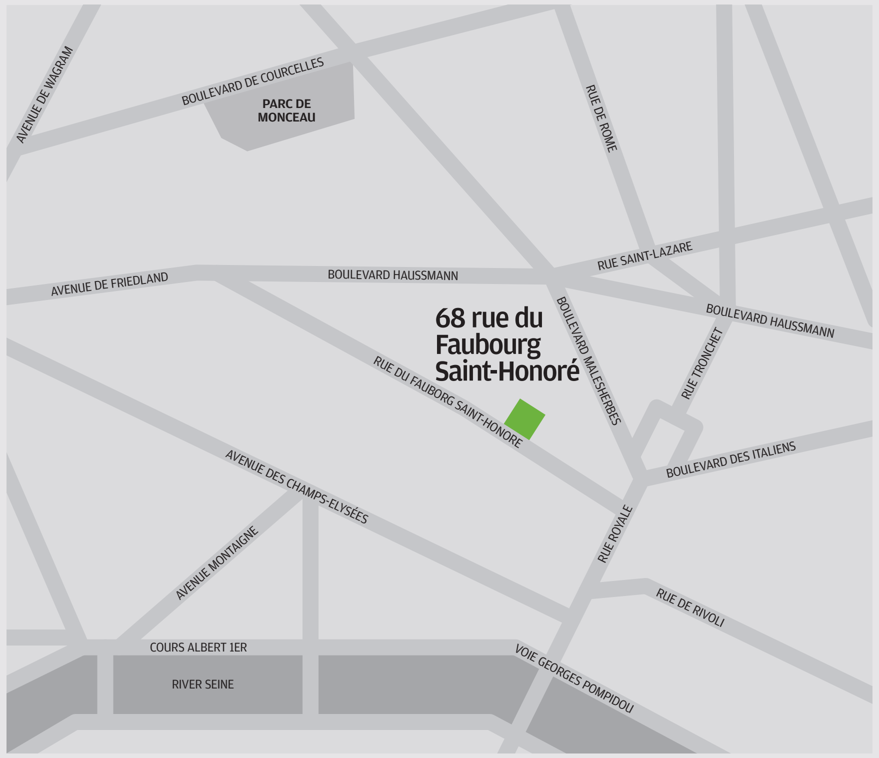
| | |
|---|---|
| Type | Investment |
| Country | France |
| City | Paris |
| Sector | Offices |
| Ownership | Held in joint venture |
| Area | 9,600$m^2$ |

Our programme of mature assets sales for 2008 included this prime office building – the subject of a number of improvements by our asset management team which had added to its value. In June 2008 we sold the property.

## Omega Business Park

| | |
|---|---|
| Type | Development |
| Country | Spain |
| City | Alcobendas, Greater Madrid |
| Sector | Offices |
| Ownership | Held in joint venture |
| Area | 50,700$m^2$ |

We sold the first two completed buildings in the Omega Business Park in 2008. The remaining four were completed in February 2009 and are now in the letting process. The location, in the business district of Alcobendas, has excellent road links and is close to Madrid airport.

## Freccia Rossa

| | |
|---|---|
| Type | Development |
| Country | Italy |
| City | Brescia |
| Sector | Retail – shopping centre |
| Ownership | Sonae Sierra in joint venture |
| Area | 29,700m$^2$ |

This shopping centre is a milestone in Sonae Sierra's international expansion, as it is their first development in Italy. Innovative in its overall design and detailing, Freccia Rossa revives the historic and cultural tradition of the city of Brescia. It is the largest Italian shopping centre in a town centre.


## Alexa

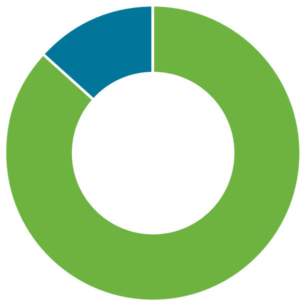
| | |
|---|---|
| Type | Investment |
| Country | Germany |
| City | Berlin |
| Sector | Retail – shopping centre |
| Ownership | Sonae Sierra in joint venture |
| Area | 56,200m$^2$ |

The architectural detailing of the Alexa shopping centre recalls the historical Alexanderplatz in central Berlin, which was dominated in the 1920s by Art Deco department stores. As a result of an innovative advertising and marketing campaign, Alexa was distinguished with the 'Silver Award' at the Solal Marketing Awards 2008.





**By activity €m**



| | | |
|---|---|---|
| Investment | €1,880.0m | 86.8% |
| Development | €284.8m | 13.2% |

During the year Sonae Sierra completed the sale of its stake in Mediterranean Cosmos to the Sierra Fund, in which it holds a 50.1% stake, and sold €425m of property assets to the newly created Sierra Portugal Fund, in which it retains a stake of 42%.

The company opened new shopping centres totalling 116,600m$^2$ gross lettable area: Pantheon Plaza, Larissa, in Greece; Freccia Rossa, Brescia (see opposite), and Gli Orsi, Biella, both in Italy; and Plaza Mayor Shopping, Malaga, in Spain. The refurbishment of the iconic 119,800m$^2$ Centro Colombo in Lisbon was completed in March 2009. Alexa, in Germany's capital (see opposite), received 13.5 million visits in 2008, its first full year of operation.

Sonae Sierra continues to impress with its commitment to environmental social responsibility. It received ISO 14001 certificates for the construction of five new shopping centres and for the management of a further 18 centres already in operation.

### Changes to the portfolio

Asset sales, portfolio syndications and development completions have changed the shape of our portfolio. Sonae Sierra's assets under management grew 3.3% to €6.2bn. Excluding Sonae Sierra, assets under management have fallen 41% to €533m, due to three sales totalling €200m of assets during the year coupled with subdued new investment. Our development exposure ratio, including Sonae Sierra and future development commitments, has fallen from 22% to 16%.

### Management changes

We reorganised the structure of our Continental European business to reflect our strategic focus and our ambitions for growth.

The Grosvenor Group has assumed responsibility for Grosvenor's proprietary capital across the region in investments, joint ventures and funds. It now also manages the investment in Sonae Sierra, on which it is assisted by a new Advisory Committee for Continental Europe. All staff in the region have been transferred to Grosvenor Fund Management (see page 71), to which management of Grosvenor's other proprietary investments and its joint ventures has been outsourced.

Neil Jones, responsible for the region since 1997, has stepped down as Chief Executive of Grosvenor Continental Europe. He remains with Grosvenor until 30 June 2009 and then becomes an external member of the new Advisory Committee. He continues as a Non-Executive Director of Sonae Sierra.

Tony Wyand, Non-Executive Chairman of Grosvenor Continental Europe since 2004, has also stepped down, along with Non-Executive Director Luigi Maramotti. Bernardo Sanchez Incera, who joined the Board as a Non-Executive Director in June 2008, becomes a member of the new Advisory Committee; Philippe Citerne, also previously a Non-Executive Director, becomes a consultant to Grosvenor Fund Management.

The final meeting of the Grosvenor Continental Europe Board is on 24 March 2009.

### The future

Revenue and cash flow will be challenged in 2009 as occupiers acclimatise to lower sales. The relative 'winners' in our industry will be those property managers who, over the years, have built up the knowledge and skills to operate their portfolios creatively, who understand their occupiers' businesses and work effectively with them.


Tony Wyand


Phillippe Citerne


Luigi Maramotti


Bernado Sanchez Incera


Mark Preston


Nicholas Scarles


Neil Jones


Steve Cowen


Rafael Aviles

# CONTINENTAL EUROPE BOARD OF DIRECTORS

Non-Executive Directors

**Tony Wyand (Chairman)** is a Non-Executive Director of Société Générale, UniCredito Italiano S.p.A. and Société Foncière Lyonnaise. Age 65.

**Philippe Citerne** is Joint Chief Executive Officer of Société Générale and Non-Executive Director of Accor. 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 60.

**Luigi Maramotti** 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 20 banks in Italy, and a Director of Unicredito Italiano S.p.A. Age 51.

**Bernado Sanchez Incera** joined Monoprix in July 2004 as Chief Executive Officer. Previously he had been Managing Director at Vivarte France, Chairman Europe at LVMH Fashion Group, International Managing Director of Inditex, with the Crédit Lyonnais Group as Managing Director of the Chase-Banque of Commerce, and Managing Director of the Banca Jover. Age 48.

**Mark Preston MRICS** is Group Chief Executive. He joined Grosvenor in the UK in 1989. In 1995, he was seconded to Hong Kong, returning to lead our fund management operations from 1997 to 2002. After four years in San Francisco he returned to the UK as CEO of Grosvenor Britain & Ireland in June 2006, becoming Group CEO in July 2008. He is on the Board of the Association of Foreign Investors in Real Estate and a member of the North West Business Leaders' Trust. He is a Non-Executive Director of Sonae Sierra SGPS. Age 41.

**Nicholas Scarles FCA CPA ATTORNEY AT LAW** is Group Finance Director. He joined Grosvenor in 2004. He was previously at Centrica, Price Waterhouse, and Coopers and Lybrand. He is a Governor of the Haberdashers' Elstree Schools, Fourth Warden of the Haberdashers Livery Company, Chairman of the IPF's Property Derivative Group and a Non-Executive Director of Sonae Sierra SGPS. Age 46.

Executive Directors

**Neil Jones MRICS (Chief Executive)** joined Grosvenor in 1997 to develop the Continental European business. He has been based in Par is since 1998. He has also worked in London, Brussels and Hong Kong. He is a Non-Executive Director of Sonae Sierra SGPS. Age 43.

**Steve Cowen MRICS (Director, Investment)** joined Grosvenor in 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 19 years of transaction-based experience in France. Age 43.

**Rafael Aviles (Director, Spain)** joined Grosvenor in 2006, to open our office in Spain. He was previously a member of Lar Grosvenor's Management Board. He has 20 years' experience in the Spanish real estate market during which he also worked for the developers Hammerson Spain and Procisa as General Manager and for Jones Lang LaSalle as an Investment Partner. Age 53.



# CONTINENTAL EUROPE PROPERTY PORTFOLIO

**Investment properties**

| | Gross yields | | | | Values | | | |
|---|---|---|---|---|---|---|---|---|
| | Passing rent €m | ERV €m | Running yield % | Reversionary yield % | Number of properties | Grosvenor share €m | Third party €m | Assets under management €m |
| Office | 3.9 | 3.5 | 6.7 | 6.0 | 3 | 58.1 | 136.4 | 194.5 |
| Retail | 111.2 | 118.1 | 6.1 | 6.5 | 85 | 1,821.9 | 95.2 | 1,917.1 |
| | 115.1 | 121.6 | 6.1 | 6.5 | 88 | 1,880.0 | 231.6 | 2,111.6* |

*Includes €63.8m managed by Grosvenor Fund Management.

**Development and trading properties**

| | Values | | | | |
|---|---|---|---|---|---|
| | Number of properties | Grosvenor share €m | Third party €m | Future development commitment €m | Assets under management €m |
| Office | 2 | 41.3 | 41.3 | 47.6 | 130.2 |
| Retail | 5 | 223.6 | 156.4 | 70.6 | 450.6 |
| Industrial | 1 | 19.9 | – | – | 19.9 |
| | 8 | 284.8 | 197.7 | 118.2 | 600.7 |

**Geographic analysis**

| | Grosvenor share | | |
|---|---|---|---|
| | Investment €m | Development €m | Total €m |
| France | 160.8 | 0.8 | 161.6 |
| Spain | 343.1 | 136.6 | 479.7 |
| Portugal | 870.8 | 21.6 | 892.4 |
| Italy | 190.6 | 9.9 | 200.5 |
| Germany | 163.5 | 54.3 | 217.8 |
| Greece | 38.3 | 18.5 | 56.8 |
| Belgium | 1.0 | – | 1.0 |
| Brazil | 93.1 | 20.0 | 113.1 |
| Romania | 18.8 | 23.1 | 41.9 |
| | 1,880.0 | 284.8 | 2,164.8 |

## CONTINENTAL EUROPE PROPERTY PORTFOLIO CONTINUED

| Property | Description | Location | Area m² |
|---|---|---|---|
| **Investment properties – directly owned** | | | |
| **Retail** | | | |
| Paris Antiques market | Two galleries with 450 small retail units | Paris, France | 8,300 |
| **Investment properties – held in joint ventures** | | | |
| **Office** | | | |
| Colisée | Office building with two tenants | Paris, France | 23,100 |
| Lonthènes | Office building with one tenants | Paris, France | 3,700 |
| **Retail** | | | |
| Airone | Shopping centre with 38 retail units | Monselice, Italy | 15,800 |
| Alexa | Shopping and leisure centre with 178 retail units | Berlin, Germany | 56,200 |
| Algarve Shopping | Shopping centre with 132 retail units | Guia, Portugal | 42,500 |
| Arrábida Shopping | Shopping centre with 199 retail units | Vila Nova de Gaia, Portugal | 61,400 |
| Avenida M40 | Shopping centre with 143 retail units | Leganés, Spain | 48,200 |
| Boavista Shopping | Shopping centre with 171 retail units | São Paulo, Brazil | 25,900 |
| Campo Limpo Shopping | Shopping centre with 135 retail units | São Paulo, Brazil | 19,800 |
| Cascai Shopping | Shopping centre with 204 retail units | Cascais, Portugal | 73,500 |
| Centro Colombo | Shopping centre with 413 retail units | Lisbon, Portugal | 119,800 |
| Centro Vasco da Gama | Shopping centre with 167 retail units | Lisbon, Portugal | 47,700 |
| Comercial Modelo Albufeira | Shopping centre with 43 retail units | Albufeira, Portugal | 10,500 |
| Comercial Continente Portimão | Shopping centre with 60 retail units | Portimão, Portugal | 13,500 |
| Coimbra Shopping | Shopping centre with 71 retail units | Coimbra, Portugal | 26,500 |
| Dos Mares | Shopping and leisure centre with 80 retail units | San Javier, Spain | 24,800 |
| El Rosal | Shopping and leisure centre with 143 retail units | Ponferrada, Spain | 49,500 |
| Estaçao Viana Shopping | Shopping centre with 107 retail units | Viana do Castelo, Portugal | 18,600 |
| Franca Shopping | Shopping centre with 105 retail units | São Paulo, Brazil | 16,600 |
| Freccia Rossa | Shopping centre with 120 retail units | Brescia, Italy | 29,700 |
| Gaia Shopping | Shopping centre with 165 retail units | Vila Nova de Gaia, Portugal | 59,700 |
| Gli Orsi | Shopping centre with 120 retail units | Biella, Italy | 41,100 |
| Grancasa | Shopping centre with 158 retail units | Zaragoza, Spain | 77,300 |
| Guimarãe Shopping | Shopping centre with 94 retail units | Guimarães, Portugal | 26,800 |
| Islazul | Shopping centre with 183 retail units | Carabanchel, Madrid | 87,700 |
| La Farga | Shopping and leisure centre with 89 retail units | Barcelona, Spain | 17,400 |
| Loure Shopping | Shopping centre with 123 retail units | Loures, Portugal | 39,000 |
| Luz del Tajo | Shopping centre with 129 retail units | Toledo, Spain | 42,000 |
| Madeira Shopping | Shopping centre with 112 retail units | Funchal, Madeira | 26,700 |
| Maia Shopping | Shopping centres with 109 retail units | Maia, Portugal | 28,900 |
| Max Centre and Max Ocio | Shopping centre with 165 retail units | Bilbao, Spain | 59,400 |
| Mediterranean Cosmos | Shopping and leisure centre with 210 retail units | Thessaloniki, Greece | 46,000 |
| Metrópole Shopping | Shopping centre with 167 retail units | São Bernado do Campo, Brazil | 24,800 |

| Property | Description | Location | Area m² |
|---|---|---|---|
| **Investment properties – held by joint ventures (continued)** | | | |
| Munster Arkaden | Shopping centre with 41 retail units | Munster, Germany | 39,900 |
| Norte Shopping | Shopping centre with 285 retail units | Porto, Portugal | 73,100 |
| Pantheon Plaza | Shopping centre with 110 retail units | Larissa, Greece | 27,000 |
| Parque Atlântico | Shopping and leisure centre with 103 retail units | Ponta Delgada, Portugal | 22,300 |
| Parque Dom Pedro | Shopping centre with 390 retail units | Campinas, Brazil | 120,000 |
| Parque Principado | Shopping centre with 134 retail units | Oviedo, Spain | 74,400 |
| Pátio Brazil | Shopping centre with 228 retail units | Brasília, Brazil | 33,300 |
| Penha Shopping | Shopping centre with 226 retail units | São Paulo, Brazil | 29,900 |
| Plaza Eboli | Shopping centre with 100 retail units | Pinto, Spain | 31,100 |
| Plaza Mayor | Shopping and leisure centre with 152 retail units | Malaga, Spain | 53,150 |
| Plaza Sul Shopping | Shopping centre with 222 retail units | Jd.Saúde, Brazil | 27,000 |
| Ribeira del Xuquer | Shopping centre with 92 retail units | Valencia, Spain | 21,900 |
| Rio Sul Shopping | Shopping and leisure centre with 140 retail units | Seixal, Portugal | 44,400 |
| River Plaza Mall | Shopping centre with 90 retail units | Ramnicu Valcea, Romania | 12,000 |
| Serra Shopping | Shopping centre with 86 retail units | Covilhã, Portugal | 17,700 |
| Tivoli Shopping | Shopping centre with 145 retail units | São Paulo, Brazil | 21,700 |
| Valecenter | Shopping centre with 91 retail units | Marcon, Italy | 58,200 |
| Valle Real | Shopping centre with 104 retail units | Santander, Spain | 47,700 |
| ViaCatarina | Shopping centre with 98 retail units | Porto, Portugal | 11,700 |
| VIII Avenida | Shopping centre with 133 retail units | São João de Madeira, Portugal | 28,300 |
| Zubiarte | Shopping and leisure centre with 76 retail units | Bilbao, Spain | 20,600 |

| Property | Description | Location | Area m² | Completion date |
|---|---|---|---|---|
| **Principal development and trading properties – held in joint ventures** | | | | |
| **Office** | | | | |
| Omega II | Office development | Madrid, Spain | 32,700 | 2009 |
| **Retail** | | | | |
| LeiriaShopping | Shopping centre development | Leiria, Portugal | 24,000 | 2010 |
| Loop 5 | Shopping centre development | Weiterstadt, Germany | 60,000 | 2009 |
| Manauara Shopping | Shopping centre development | Manaus, Brazil | 44,400 | 2009 |

**Sydney**
The area around 20 Hunter Street, in the heart of the city's financial centre, is always busy on a balmy evening.

# AUSTRALIA

**Robert Kerr**

Grosvenor has been active in the Australian property market for more than four decades, providing diversification for the Group, co-investors and joint venture partners. We have had an office in Sydney since 1968 and in Brisbane since 1992.

Whilst we have experience in all sectors, recently our strategy has focused on the commercial sector. Our portfolio is predominantly investment assets and new office developments. We continue to develop 'green' buildings: the government, corporate and investor market places a high value on sustainability.

Robert Kerr, our Chief Executive, has led our Australian business for eight years, establishing a well-qualified team of 23 people to support its future growth.

**Office locations – Australia**

1. Brisbane
2. Sydney

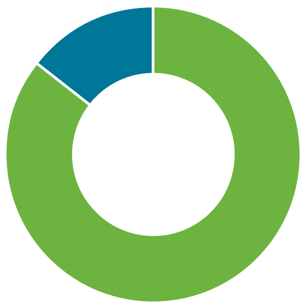
**By sector A$m**

| | | |
|---|---|---|
| Office | A$407.3m | 72.9% |
| Industrial | A$103.5m | 18.5% |
| Car park | A$48.0m | 8.6% |

**By region A$m**

| | | |
|---|---|---|
| New South wales | A$269.4m | 48.2% |
| Queensland | A$289.4m | 51.8% |

**By activity A$m**



| | | |
|---|---|---|
| Investment | A$478.5m | 85.6% |
| Development | A$80.3m | 14.4% |

Australia is not immune to the downturn in the global economy and financial markets. During 2008, we anticipated the slow down and ensured high occupancy levels across our portfolio and tenant pre-commitment on our developments.

The Australian listed property index for the 12 months ended 31 December 2008 fell 50%. It was affected by falls in equity markets and the impact of the credit crunch, particularly on highly leveraged property companies with exposure to overseas markets.

Direct property, in contrast, experienced more modest falls in values, even taking account of gearing, due to limited supply and continuing demand, supported by the solid Australian economic base. This is reflected in our total return for the year of -12.2%. Our revenue profit was A$12.2m. Our assets under management at the end of 2008 were A$829m.

## Strategy

Our focus is on adding value – primarily in the commercial sector that, according to our research, shows strong long-term growth prospects in Australia's major cities.

As Green Star ratings are considered a benchmark of long-term quality for A-grade buildings in Australia, our investment in 'green' design and construction will continue to preserve and enhance the value of our assets.

As property markets adjust, there will be opportunities for us to extend our portfolio with core investments and replenish our development pipeline.

## Highlights

We achieved a significant level of pre-commitment on 400 George Street (see opposite), our speculative office development in Brisbane, which has a Five Star Green Star Certified Rating for office design.

In Parramatta, we received development approval from the local council, under its new design competition process, for our project at 60 Station Street (see opposite). This has been designed to 'Australian excellence in environmental standards'. Both projects are with our joint venture partner Leighton Properties.

Across our investment portfolio, we achieved 97% occupancy for the year. IAG moved into the entire office component of 25 Smith Street, Parramatta, with a long-term lease agreement from April 2008. At Sir Joseph Bank Corporate Park, our co-investment with the Buccleuch Group, we re-leased 10,000m² with no downtime in occupancy.

## Changes to the portfolio

We sold the last industrial lot in our mixed-use Banyo development, Brisbane – the culmination of a five-year phased project which delivered a 42.71% return on cost. In addition, we sold a 7,500m² retail outlet at 42-46 Abbott Road, Sydney, for 6% more than book value.

## Management changes

In July, Charles Goode joined the Board as Non-Executive Chairman and Stephen Lonie as Non-Executive Director, providing valuable banking, finance and advisory expertise.

## The future

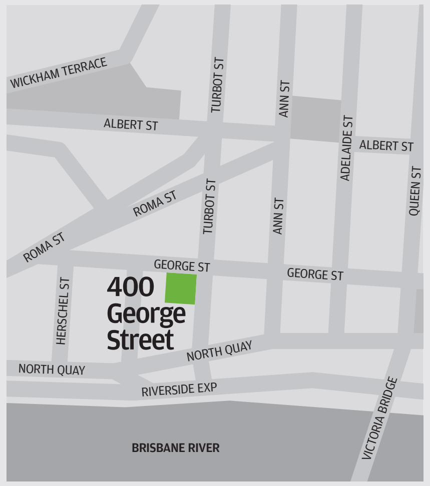
In the short term, Australia will be challenged by continuing volatility in the global economy and financial markets. However, with prudent financial and portfolio management we expect to be in a good position to take advantage of opportunities arising in the medium term. These will enable us to establish a firm platform for long-term growth for many years to come.



## 400 George Street

| | |
|---|---|
| Type | Development |
| Country | Australia |
| City | Brisbane |
| Sector | Office |
| Ownership | Held in joint venture |
| Area | 43,700m² net lettable area |

Centrally located in the heart of Brisbane's North Quarter district, 400 George Street is a 34-storey office tower with the first three levels dedicated to retail and a child care centre. Showcasing 'Australian excellence in environmental sustainable design', the project has already been awarded a Five Star Green Star Certified Rating. Construction is on track for completion in late 2009.




## 60 Station Street

| | |
|---|---|
| Type | Development |
| Country | Australia |
| City | Sydney |
| Sector | Office |
| Ownership | Held in joint venture |
| Area | 25,700m² net lettable area |

Using our experience and knowledge of Parramatta, we acquired the development site located next to its train and rail transport hub. In 2008, we gained development approval for a 20-storey office tower that raises the standard of design in the area, supporting the state government's and local council's plans to rejuvenate the city. We expect construction to start in 2010.


Charles Goode


John Coates


Stephen Lonie


Mark Preston


Nicholas Scarles


Robert Kerr


Ian Clark


Graham Livingstone

# AUSTRALIA BOARD OF DIRECTORS

## Non-Executive Directors

**Charles Goode (Chairman)** is Chairman of the Australia and New Zealand Banking Group Limited, Australian United Investment Company Ltd. and Diversified United Investment Ltd. He has been Chairman of Woodside Petroleum Limited and a Director of Singapore Airlines Limited. He has a wide range of community interests which include serving as Chairman of The Ian Potter Foundation. The former, founded by the late Australian financier, Sir Ian Potter, is Australia's largest private philanthropic foundation. Age 70.

**John Coates** AC is a partner of Kemp Strang Lawyers, Deputy Chairman of department store chain David Jones, a member of the Advisory Board of investment bank Grant Samuel in Australia and Chairman of thoroughbred auctioneers William Inglis & Sons Ltd. He is president of the Australian Olympic Committee and a member of the International Olympic Committee and its Juridical, TV rights, New Media and London 2012 Olympic Games Co-ordination Commissions. Age 58.

**Stephen Lonie** is a former Managing Partner of KPMG Queensland. He practices as an independent management consultant and is also currently the Chairman of CS Energy Ltd, Brisbane Transport Advisory Board, Queensland Coal Mine Management Pty Ltd, and Queensland Hearing Aids and Audiological Services Pty Ltd. He is also a Trustee of the Brisbane Grammar School Board of Trustees and an Adjunct Professor of the University of Queensland Business School. Age 57.

**Mark Preston** MRICS is Group Chief Executive. He joined Grosvenor in the UK in 1989. In 1995, he was seconded to Hong Kong, returning to lead our fund management operations from 1997 to 2002. After four years in San Francisco he returned to the UK as CEO of Grosvenor Britain & Ireland in June 2006, becoming Group CEO in July 2008. He is on the Board of the Association of Foreign Investors in Real Estate and a member of the North West Business Leaders' Trust. He is a Non-Executive Director of Sonae Sierra SGPS. Age 41.

**Nicholas Scarles** FCA CPA ATTORNEY AT LAW is Group Finance Director. He joined Grosvenor in 2004. He was previously at Centrica, Price Waterhouse, and Coopers and Lybrand. He is a Governor of the Haberdashers' Elstree Schools, Fourth Warden of the Haberdashers Livery Company, Chairman of the IPF's Property Derivative Group and a Non-Executive Director of Sonae Sierra SGPS. Age 46.

## Executive Directors

**Robert Kerr** FRICS FAPI **(Chief Executive)** joined Grosvenor in 1994. He is a member of the Property Council of Australia Capital Markets Roundtable, Director of the Grosvenor ISPT International Property Trust and a member of the Australian Institute of Company Directors. Age 47.

**Ian Clark** FCA FCIS **(Chief Operating Officer)** joined Grosvenor 23 years ago after 10 years' experience in the accounting profession, including five years with Price Waterhouse. Age 56.

**Graham Livingstone** MRICS **(Director, Development)** joined Grosvenor in 1996 and has been Development Director since 2007. Prior to that he was the Queensland Director. He previously worked in senior roles, as a consultant in Sydney, Australia, and Edinburgh, Scotland. Age 46.



# AUSTRALIA PROPERTY PORTFOLIO

## Investment properties

| | Gross yields | | | | Values | | | |
|---|---|---|---|---|---|---|---|---|
| | Passing rent A$m | ERV A$m | Running yield % | Reversionary yield % | Number of properties | Grosvenor share A$m | Third party A$m | Assets under management A$m |
| Office | 20.3 | 30.8 | 6.2 | 9.4 | 3 | 327.0 | – | 327.0 |
| Industrial | 8.7 | 8.3 | 8.4 | 8.0 | 11 | 103.5 | 41.3 | 144.8 |
| Car parks | 6.5 | 6.5 | 13.5 | 13.5 | 1 | 48.0 | – | 48.0 |
| | 35.5 | 45.6 | 7.4 | 9.5 | 15 | 478.5 | 41.3 | 519.8 |

## Development properties

| | Values | | | | |
|---|---|---|---|---|---|
| | Number of properties | Grosvenor share A$m | Third party A$m | Future development commitment A$m | Assets under management A$m |
| Office | 2 | 80.3 | 80.3 | 148.5 | 309.1 |

## Geographic analysis

| | Grosvenor share | | |
|---|---|---|---|
| | Investment A$m | Development A$m | Total A$m |
| New South Wales | 260.4 | 9.0 | 269.4 |
| Queensland | 218.1 | 71.3 | 289.4 |
| | 478.5 | 80.3 | 558.8 |

| Property | Description | Location | Area m² |
|---|---|---|---|
| **Investment properties – directly owned** | | | |
| **Office** | | | |
| 25 Smith Street | 'A' grade office building | Parramatta, Australia | 11,000 |
| 20 Hunter Street | 'A' grade office building | Sydney, Australia | 10,000 |
| Bank of Queensland Centre | 'A' grade office building | Brisbane, Australia | 24,700 |
| **Industrial and car park** | | | |
| Cinema Centre Car Park | Car park with 906 spaces and development approval for residential apartments above the car park structure | Sydney, Australia | 26,800 |
| 151 & 153 Glendenning Road | Two industrial distribution buildings | Sydney, Australia | 12,100 |
| 2828-2840 Ipswich Road | Industrial distribution building | Brisbane, Australia | 13,900 |
| 61 Plumpton Road | Industrial distribution building | Sydney, Australia | 10,000 |
| 22-34 Rosebery Avenue | Industrial distribution building | Sydney, Australia | 5,700 |
| 76 Depot Street | Industrial distribution building | Brisbane, Australia | 4,200 |
| **Investment properties – held in joint ventures** | | | |
| **Industrial** | | | |
| Sir Joseph Banks Corporate Park | High technology business park | Sydney, Australia | 31,600 |

| Property | Description | Location | Area m² |
|---|---|---|---|
| **Development and trading properties – held in joint ventures** | | | |
| **Office** | | | |
| 400 George Street | Office development under construction with completion due Quarter 4 2009 | Brisbane, Australia | 43,700 |
| 60 Station Street | Office development with development approval for 20-storey 'A' grade building | Parramatta, Australia | 25,700 |

**Tokyo**
The calm design and setting of the apartments at Grosvenor Place Kamizono-cho is welcome in the world's most populous metropolitan city.

# ASIA PACIFIC

**Nick Loup**

Grosvenor's first office in Asia Pacific was in Hong Kong, opened in 1994. We opened in Tokyo in 2001 and in Shanghai in 2004.

Our strategy in Asia Pacific is first to build a luxury residential brand under the Grosvenor banner, differentiated by the quality, imagination and internationalism of its design. We are also investing in properties for retail and mixed-use development.

In the region we have a total of 37 people. They are led by Nick Loup, Chief Executive, who initiated the business in 1994.

**Office locations – Asia Pacific**

1. Hong Kong
2. Shanghai
3. Tokyo

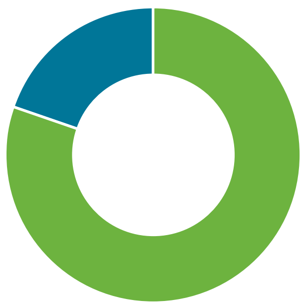
**By sector HK$m**

| | | |
|---|---|---|
| Office | HK$634.4m | 15.6% |
| Retail | HK$376.2m | 9.2% |
| Residential | HK$3,065.8m | 75.2% |

**By region HK$m**

| | | |
|---|---|---|
| Hong Kong | HK$492.2m | 12.1% |
| China | HK$1,711.5m | 42.0% |
| Japan | HK$1,872.7m | 45.9% |

**By activity HK$m**



| | | |
|---|---|---|
| Investment | HK$3,280.0m | 80.5% |
| Development | HK$796.4m | 19.5% |

Although affected by the financial and economic crisis in the west, China and Japan are better placed to weather the downturn, with low levels of household debt and banks with limited exposure to sub-prime. We therefore expect a solid recovery once confidence returns.

Asia Pacific reported a revenue loss of HK$92m for 2008 and a negative return of 12.1% on our property assets. Part of the revaluation loss was offset by strong currency movements. Together with new acquisitions, our portfolio has increased by 35% to HK$4.1bn. Total assets under management, excluding assets managed by Grosvenor Fund Management, also increased by 32% to HK$6,1bn.

It was, nevertheless, an important year in building our residential brand in Asia, as we began leasing our first development in Tokyo and our first investments in Shanghai.

## Strategy

Our strategy is to establish Grosvenor as a leader in the luxury residential development and investment market in Hong Kong, Shanghai and Tokyo. We are also investing in shopping centres and luxury retail across the region with a view, longer term, to undertaking retail development projects in China. Both sectors are underpinned by a growing middle class.

Having disposed of non-core assets in 2007, we are well placed to take advantage of opportunities in 2009/10. Partnership is also a key element of our approach and we will continue to work with co-investors, to fund projects, and local partners, to complement our property expertise.

We invested in the Grosvenor Vega-China Retail Fund, Grosvenor's first fund in mainland China (see page 72), and our share of investments in Grosvenor's three funds in Japan increased to HK$722.7m.

## Highlights

The launch of Grosvenor Place Kamizono-cho in Tokyo (see opposite) in November was a highlight both for Grosvenor and for the local market, as the only significant development of high-end residential led by a foreign property company.

We had three launches in Shanghai: Belgravia Place at Hua Shan, where we upgraded the finishes and completed the interior design; Chester Court at Gubei, which we comprehensively refurbished; and Grosvenor Place at Lakeville Regency (see opposite), a prime urban location.

In Hong Kong we 'topped out' our second development, The Westminster Terrace.

## Changes to the portfolio

The only change to the portfolio was the acquisition of Belgravia Place.

## Management changes

In July, Michael Lee, Norman Lyle and Ken Hotta joined the Board as Non-Executive Directors, bringing insights from their experience of family companies, multi-nationals and the Japanese financial sector respectively. At the same time, Tim Freshwater assumed the role of Non-Executive Chairman.

## The future

Looking further into 2009, we believe buying opportunities will surface in each of our markets and remain optimistic about the medium-term prospects, led by steady growth in China. Japan and Hong Kong are likely to be our first targets, where we are looking for core investments and development sites.



## Grosvenor Place Kamizono-cho

| | |
|---|---|
| Type | Development |
| Country | Japan |
| City | Tokyo |
| Sector | Residential |
| Ownership | Held in joint venture |
| Area | 17,700m² |

Grosvenor Place Kamizono-cho is our first residential development in Japan. Located inside Yoyogi Park, one of the largest parks in Tokyo, its design brings the harmony and serenity of the surroundings into the apartments themselves. It offers a feeling of living in a natural environment, and a standard of luxury, which have not been combined before in the capital.


## Grosvenor Place at Lakeville Regency

| | |
|---|---|
| Type | Investment |
| Country | Mainland China |
| City | Shanghai |
| Sector | Residential |
| Ownership | Wholly owned |
| Area | 8,900m² |

We believe Grosvenor Place at Lakeville Regency is one of the best residential blocks in Shanghai today: all 28 triplex units have a high specification and pleasant views over Xintiandi. Since acquiring the building, we have upgraded finishes and introduced underfloor heating in all apartments – a rarity in the city.



Tim Freshwater


Kensuke Hotta


Michael Lee


Norman Lyle


Mark Preston


Nicholas Scarles


Nicholas Loup


William Lo


Mark Hahn


John So

# ASIA PACIFIC BOARD OF DIRECTORS

Non-Executive Directors

**Tim Freshwater (Chairman)** is Vice Chairman of Goldman Sachs Asia. From 2001 to 2004, he was Chairman of Investment Banking in Asia. Prior to that, he was Chairman of Jardine Fleming. Previously, he spent 29 years with Slaughter and May. Tim is a director of several listed companies, including Swire Pacific, and a Council Member of the Hong Kong Trade Development Council. Age 64.

**Kensuke Hotta** is Chairman of Greenhill &Co. and is also Chairman of Hotta Partners Inc. He served as Chairman of Morgan Stanley Japan from 2001 to 2007. Prior to that he was Deputy President of Sumitomo Bank and also worked for Japan's Ministry of Finance for two years. He has served as director/advisor for various institutions, universities and foundations. Age 71.

**Michael Lee** is Managing Director of MAP Capital Ltd. Previously he was Managing Director of Hysan Development. He is a member of the Securities and Futures Commission Committee (HKEC listing) and a member of the Executive Committee of Hong Kong Housing Society. Age 47.

**Norman Lyle** OBE is a Non Executive Director of Standard Chartered Bank (HK) Ltd and Doha Land Company. He was Group Finance Director of Jardine Matheson Holdings Ltd until his retirement in 2005 and prior to this worked for Zeneca Group Plc and ICI Plc where he was Group Treasurer and worked in the UK, Kenya and Malaysia. Age 61.

**Mark Preston** MRICS is Group Chief Executive. He joined Grosvenor in the UK in 1989. In 1995, he was seconded to Hong Kong, returning to lead our fund management operations from 1997 to 2002. After four years in San Francisco he returned to the UK as CEO of Grosvenor Britain & Ireland in June 2006, becoming Group CEO in July 2008. He is on the Board of the Association of Foreign Investors in Real Estate and a member of the North West Business Leaders' Trust. He is a Non-Executive Director of Sonae Sierra SGPS. Age 41.

**Nicholas Scarles** FCA CPA ATTORNEY AT LAW is Group Finance Director. He joined Grosvenor in 2004. He was previously at Centrica, Price Waterhouse, and Coopers and Lybrand. He is a Governor of the Haberdashers' Elstree Schools, Fourth Warden of the Haberdashers Livery Company, Chairman of the IPF's Property Derivative Group and a Non-Executive Director of Sonae Sierra SGPS. Age 46.

Executive Directors

**Nicholas Loup (Chief Executive)** rejoined Grosvenor in 1994 to establish the operation in Asia Pacific. 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 and a founding Director of the Asian Real Estate Association. Age 48.

**William Lo** FCCA CFA **(Finance Director)** joined Grosvenor in 2002, following six years with Coopers and Lybrand and 11 years with AIA Capital Corporation, both in Hong Kong. Age 48.

**Mark Hahn (Director, Development, China)** joined Grosvenor in 2007. Since 2002 he had worked at Sino Land, a major developer in Hong Kong, as Associate Director; prior to that, at DTZ Debenham Tie Leung as Head of Investments. Age 45.

**John So** CFA **(Director, Investment, China)** 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 43.



# ASIA PACIFIC PROPERTY PORTFOLIO

**Investment properties**

| | Gross yields | | | | Values | | | |
|---|---|---|---|---|---|---|---|---|
| | Passing rent HK$m | ERV HK$m | Running yield % | Reversionary yield % | Number of properties | Grosvenor share HK$m | Third party HK$m | Assets under management HK$m |
| Office | 36.1 | 40.2 | 5.9 | 6.5 | 14 | 616.8 | – | 616.8 |
| Retail | 2.4 | 23.3 | 0.6 | 6.2 | 1 | 376.2 | 376.2 | 752.4 |
| Residential | 43.4 | 122.6 | 1.9 | 5.4 | 42 | 2,251.7 | 682.7 | 2,934.4 |
| | 81.9 | 186.1 | 2.5 | 5.7 | 57 | 3,244.7 | 1,058.9 | 4,303.6* |

*Includes HK$722.7m managed by Grosvenor Fund Management.

**Development and trading properties**

| | Values | | | | |
|---|---|---|---|---|---|
| | Number of properties | Grosvenor share HK$m | Third party HK$m | Future development commitment HK$m | Assets under management HK$m |
| Residential | 2 | 796.4 | 1,475.3 | 216.0 | 2,487.7 |

**Geographic analysis**

| | Grosvenor share | | | |
|---|---|---|---|---|
| | Investment HK$m | Development HK$m | Financial assets HK$m | Total HK$m |
| Hong Kong | – | 456.9 | 35.3 | 492.2 |
| China | 1,711.5 | – | – | 1,711.5 |
| Japan | 1,533.2 | 339.5 | – | 1,827.7 |
| | 3,244.7 | 796.4 | 35.3 | 4,076.4 |

| Property | Description | Location | Area m² |
|---|---|---|---|
| **Investment properties – directly owned** | | | |
| **Office** | | | |
| Yoshiyasu-Kanda | Office building in Chiyoda-ku | Tokyo, Japan | 5,000 |
| Shinsen Building | Office building in Shibuya-ku | Tokyo, Japan | 2,800 |
| **Residential** | | | |
| Chester Court at Gubei | High-end serviced apartment building | Shanghai, China | 15,100 |
| Grosvenor Place at Lakeville Regency | Luxury residential | Shanghai, China | 8,900 |
| **Investment properties – held in joint ventures** | | | |
| **Retail** | | | |
| Dotonbori Aruze | Retail property in Chuo-ku | Osaka, Japan | 8,700 |
| **Residential** | | | |
| Belgravia Place at Huashan Park | Residential | Shanghai, China | 36,100 |

| Property | Description | Location | Area m² | Completion date |
|---|---|---|---|---|
| **Development and trading properties – held in joint ventures** | | | | |
| **Residential** | | | | |
| The Westminster Terrace, 103 Castle Peak Road | Residential development | Castle Peak, Hong Kong | 16,300 | 2009 |
| Grosvenor Place, Kamizono-cho | Residential property in Shibuya-ku | Tokyo, Japan | 17,700 | 2008 |


**Shanghai**
We researched the long-term growth prospects of a number of Chinese cities before launching our first fund covering the mainland.



# FUND MANAGEMENT

Stuart Beevor

Grosvenor has been working alongside co-investors since 1975. Today Grosvenor Fund Management has 70 investors in 23 funds and separate account mandates.

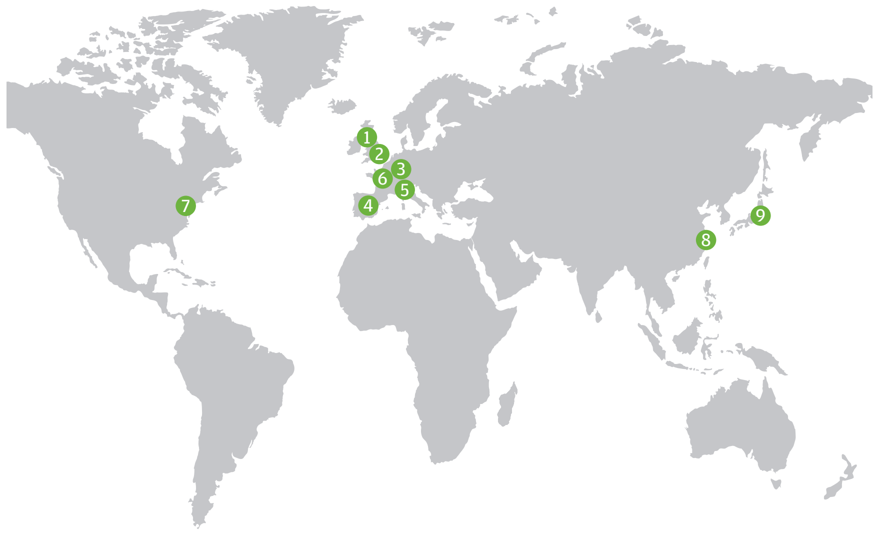
Since we were formally established in 2005, we have grown funds under management from £1.4bn to £4.2bn. We now have local teams active in the UK, the USA, France, Italy, Spain, Luxembourg, Japan and China. The 162 staff are led globally by Managing Director Stuart Beevor, who has been with us for seven years.

Our aim is to continue building and managing a range of successful funds across select international markets delivering attractive risk-adjusted returns.

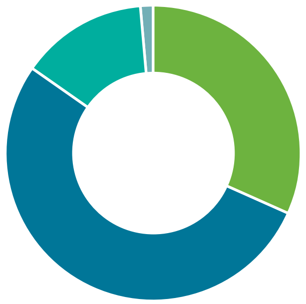
Fundamental to our business approach is the creation of long-term partnerships and the maintenance of close working relationships with all our investor clients.

**Office locations – Fund Management**

1. Liverpool
2. London
3. Luxembourg
4. Madrid
5. Milan
6. Paris
7. Philadelphia
8. Shanghai
9. Tokyo



**By sector £m**

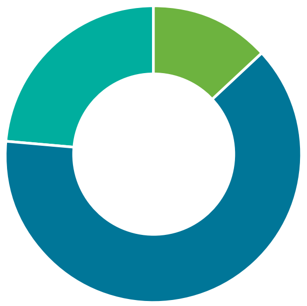


| | | |
|---|---|---|
| Office | £1,338.2m | 31.8% |
| Retail | £2,232.0m | 53.1% |
| Residential | £574.4m | 13.7% |
| Industrial | £58.1m | 1.4% |

**By region £m**

| | | |
|---|---|---|
| UK | £1,978.3m | 47.1% |
| USA | £1,063.0m | 25.3% |
| Continental Europe | £547.2m | 13.0% |
| Asia | £614.2m | 14.6% |

**Equity invested £m**



| | | |
|---|---|---|
| Grosvenor | £268.2m | 13.2% |
| Pension funds | £1,286.4m | 63.4% |
| Other | £474.6m | 23.4% |

2008 was the most turbulent year many of us have experienced in the financial markets and property was no exception. A year ago, notwithstanding all the talk of the credit crunch, who would have predicted the demise of so much of the global banking system, or the stresses which this has brought to markets such as our own?

Grosvenor first acquired land in London in 1677. Our experiences in the property business over three centuries help put current circumstances into perspective. Since 1677 there have been more than 50 major wars, 20 severe recessions, and over 20 severe stock market crashes. However, while economic recessions and market downswings create uncertainties, they also generate the next cycle of opportunities. Moreover, when comparing the virtues of all investment asset classes, the case for property, as a long-term tangible investment offering attractive income and a source of growth in long-term capital values, remains compelling.

### Strategy

Our long-term strategy remains as relevant as ever: we provide investors with a unified approach to property fund management around the world, focusing on markets where Grosvenor has local knowledge and skills and that deliver attractive risk-adjusted returns.

We have taken a cautious approach, particularly in terms of new fund launches and investment acquisitions. Indeed, given market conditions, we have focused on active asset management, particularly on income preservation, drawing on the in-depth knowledge of our locally-based teams.

### Fund launches

The highlight of the year was the launch in August of the Grosvenor Vega – China Retail Fund, our first fund in mainland China and our sixth in the region. This US$600m fund will invest in retail malls and mixed-use projects, offering investors exposure to China's growing retail property market. We were delighted that two of our existing investors and three new investors supported us by contributing capital for it. We are currently analysing a number of exciting investment opportunities.

On behalf of Sonae Sierra – the specialist European and Brazilian shopping centre developer, investor and manager in which Grosvenor has joint control – we placed €157m of the Sierra Portugal Fund equity with new investors.

We had planned to launch four other new funds in 2008 but, after consulting potential investors, we decided neither to launch the proposed Grosvenor New York Multi-Family Fund nor to expand our existing French office joint venture into a fund. We also chose neither to close the Grosvenor Italian Retail Fund, despite attracting investor capital, nor indeed to relaunch our Australian office fund. In all cases our caution was based on the conditions prevailing in what remained inauspicious markets.

### Operational highlights

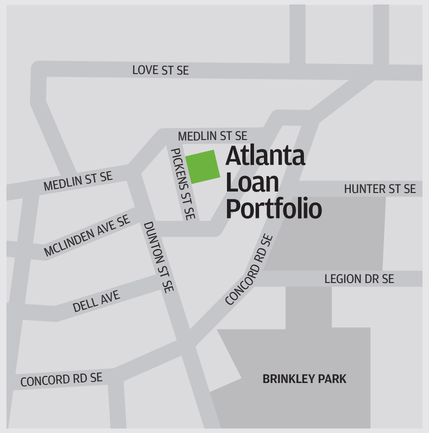
Grosvenor reorganised its Continental European operations (see page 49), to allow – amongst other things – greater focus on fund management activity. James Raynor has taken on the new role of Director, Continental Europe, within Grosvenor Fund Management and is responsible for our activities in France, Italy, Spain and Luxembourg. We now have 50 staff in the region.



## Atlanta Loan Portfolio

| | |
|---|---|
| Country | USA |
| City | Atlanta |
| Sector | Residential |
| Ownership | Grosvenor Residential Investment Partners |
| Area | 193,100m² |

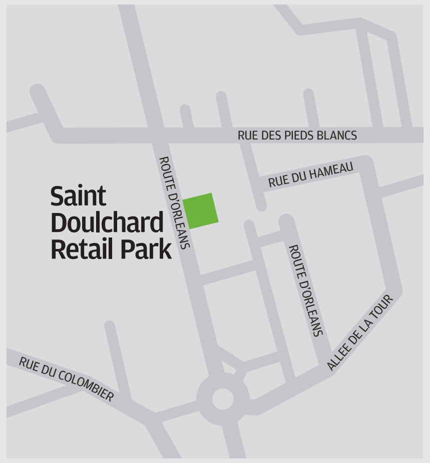
In November 2008, Grosvenor Residential Investment Partners, together with a local operator, purchased a portfolio containing loans on single-family homes and finished lots throughout the metropolitan Atlanta region.




## Saint Doulchard Retail Park

| | |
|---|---|
| Country | France |
| City | Bourges |
| Sector | Retail |
| Ownership | Grosvenor Retail European Properties |
| Area | 7,100m² |

Located in the Berry region, south of Paris, Bourges is an important and prosperous town centre. The retail park is split into six units let to well-known national and international retail warehousing tenants such as Casa and Maisons du Monde. The fund held the asset for four years until September 2008 when it was sold for 50% more than the acquisition price.





## Liverpool One

| | |
|---|---|
| Country | UK |
| City | Liverpool |
| Sector | Diversified |
| Ownership | Grosvenor Liverpool Fund |
| Area | 149,000m$^2$ |

In 2004, Grosvenor's commitment to its investment partners on Liverpool One was not only to deliver a retail-led urban regeneration development on an unprecedented scale, but also to fulfil the potential of such an investment, once complete, by delivering 'best in class' fund, asset and property management services. In 2008, with over 100 people employed in the local management team, that second part of performance delivery began in earnest.




## Kichijoji Mays One

| | |
|---|---|
| Country | Japan |
| City | Tokyo |
| Sector | Retail |
| Ownership | Grosvenor Office Retail Fund |
| Area | 1,500m$^2$ |

The Grosvenor Office Retail Fund acquired Kichijoji Mays One in December 2008. It is located in a suburban transportation hub in Musashino-shi, west of central Tokyo. The area immediately surrounding the building is the main entertainment, dining, and retail centre for a large, affluent residential district in the city.




In Italy we received Bank of Italy approval for a 'Societa di Gestione del Risparmio' – a management company to carry out fund management on behalf of third parties in Italy.

We continued to grow our teams in Japan and China and now have 29 and 13 staff respectively. In Tokyo we were successful in gaining the FSA licence required under new Japanese market regulations.

Our team in Philadelphia moved to new offices better suited to the scale of Grosvenor Fund Management's activities in the USA, where we now have 36 people.

### Fund activity

Funds under management grew to £4.2bn in 2008. The most significant change to the portfolio occurred in October when we assumed management responsibility for Liverpool One: Grosvenor's 17-hectare city centre regeneration project (see opposite). Exchange rates also made a positive contribution to the growth.

Transactional activity was deliberately modest in our core markets of the UK, USA, Continental Europe and Asia – in all cases a response to the market conditions outlined above. For instance, in Continental Europe Grosvenor Retail European Properties sold three retail parks in France and a retail warehouse portfolio in Belgium, achieving at or above year end 2007 valuations (see Saint Doulchard Retail Park, page 73). By contrast in Japan we made limited investments on behalf of the Grosvenor Office Retail Fund, which closed in 2007 (see Kichijoji Mays One, opposite). Our US debt fund, Grosvenor Residential Investment Partners, made two investments in the USA in the second half of 2008, taking advantage of the attractive pricing and unique market conditions (see Atlanta Loan Portfolio, page 73).

Where funds have bank borrowings, falling values result in rising loan-to-value ratios. We are monitoring and managing these positions carefully and are actively talking with our lenders and investors. In 2009, £742.9m of this debt is due for refinancing, of which £223.3m has already been renewed; negotiations are at an advanced stage on the majority of the balance.

### The future

It is too soon to suggest that market turbulence has subsided. We, along with our investors, appreciate the long-term attributes of property investment and 2009 will be a year when patience and focus on property fundamentals, which preserves income, will be rewarded. But we will be keeping an eye on market developments. Weak markets and falling prices bring with them the prospect, in due course, of industry consolidation and great buying opportunities – and scope for growing our business further.

Grosvenor Fund Management, as a specialist business focused on the long-term, looks forward to the future with optimism.


Mark Preston


Nicholas Scarles


Stuart Beevor


Robert Davis


Douglas Callantine


Mervyn Howard


James Raynor


Koshiro Hiroi

# FUND MANAGEMENT BOARD OF DIRECTORS AND SENIOR STAFF

## Non-Executive Directors

**Mark Preston** MRICS **(Chairman)** is Group Chief Executive. He joined Grosvenor in the UK in 1989. In 1995, he was seconded to Hong Kong, returning to lead our fund management operations from 1997 to 2002. After four years in San Francisco he returned to the UK as CEO of Grosvenor Britain & Ireland in June 2006, becoming Group CEO in July 2008. He is on the Board of the Association of Foreign Investors in Real Estate and a member of the North West Business Leaders' Trust. He is a Non-Executive Director of Sonae Sierra SGPS. Age 41.

**Nicholas Scarles** FCA CPA ATTORNEY AT LAW is Group Finance Director. He joined Grosvenor in 2004. He was previously at Centrica, Price Waterhouse, and Coopers and Lybrand.
He is a Governor of the Haberdashers' Elstree Schools, Fourth Warden of the Haberdashers Livery Company, Chairman of the IPF's Property Derivative Group and a Non-Executive Director of Sonae Sierra SGPS. Age 46.

## Executive Directors

**Stuart Beevor** FRICS **(Managing Director)** 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 52.

**Robert Davis (Finance Director)** joined Grosvenor in 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 41.

**Douglas Callantine (Director, US)** 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 57.

**Mervyn Howard (Director, UK)** 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 49.

**James Raynor (Director, Continental Europe)** joined Grosvenor in 2004 from Royal Bank of Scotland in Paris, where he was Senior Director of European Real Estate. Age 35.

**Koshiro Hiroi (Chief Representative in Japan)** joined Grosvenor in 2001. Previously, he worked for American private fund Lone Star Group and Tokyo Tatemono in Japan. Age 39.



# FUND MANAGEMENT PORTFOLIO

### Funds under management

| | | Gross asset value | | | | |
|---|---|---|---|---|---|---|
| | Number of funds | Office £m | Retail £m | Residential £m | Industrial £m | Total £m |
| UK | 6 | 393.0 | 1,550.9 | 34.4 | – | 1,978.3 |
| USA | 10* | 729.5 | 133.9 | 141.5 | 58.1 | 1,063.0 |
| Continental Europe | 2 | – | 547.2 | – | – | 547.2 |
| Asia | 4 | 215.7 | – | 398.5 | – | 614.2 |
| International | 1 | included above | | | | |
| | 23 | 1,338.2 | 2,232.0 | 574.4 | 58.1 | 4,202.7 |
| Total | | 31.8% | 53.1% | 13.7% | 1.4% | |

*Includes separate account clients.

### UK

| | | | |
|---|---|---|---|
| **Name:** | GROSVENOR SHOPPING CENTRE FUND | **Gross asset value:** | £521m* |
| **Launch date:** | 1998 | **Number of assets:** | 4 |
| **Sector:** | Retail | **Number of investors:** | 20 |
| **Risk profile:** | Core | | |
| **Representative assets:** | | | |
| Dolphin Centre | Covered two-level shopping centre with 125 retail units | Poole, Dorset | 46,100m$^2$ |
| Eastgate Centre | Covered two-level shopping centre with 65 retail units | Inverness, Scotland | 38,100m$^2$ |

*Includes interest in Grosvenor Festival Place Fund.

| | | | |
|---|---|---|---|
| **Name:** | GROSVENOR LONDON OFFICE FUND | **Gross asset value:** | £393m |
| **Launch date:** | 1999 | **Number of assets:** | 5 |
| **Sector:** | Office | **Number of investors:** | 5 |
| **Risk profile:** | Core | | |
| **Representative assets:** | | | |
| Belgrave House | Eight-floor open-plan office building | West End, London | 25,500m$^2$ |
| 40 Grosvenor Place | Seven-floor open-plan office building | West End, London | 21,300m$^2$ |

| | | | |
|---|---|---|---|
| **Name:** | GROSVENOR FESTIVAL PLACE FUND | **Gross asset value:** | £380m |
| **Launch date:** | 1999 | **Number of assets:** | 1 |
| **Sector:** | Retail | **Number of investors:** | 3 |
| **Risk profile:** | Core | | |
| **Sole asset:** | | | |
| Festival Place, Basingstoke | Covered two-level shopping centre with 195 retail units | Basingstoke, Hampshire | 96,700m$^2$ |

| | | | |
|---|---|---|---|
| **Name:** | GRAND ARCADE PARTNERSHIP | **Risk profile:** | Core |
| **Launch date:** | 2008 | **Number of assets:** | 1 |
| **Sector:** | Retail | **Number of investors:** | 2 |
| **Sole asset:** | | | |
| Grand Arcade | Covered shopping centre | Cambridge, Cambridgeshire | 41,800m$^2$ |

# FUND MANAGEMENT PORTFOLIO CONTINUED

## UK (continued)

| | | | |
|---|---|---|---|
| **Name:** | GROSVENOR RESIDENTIAL INVESTMENT FUND | **Gross asset value:** | £34m |
| **Launch date:** | 2005 | **Number of assets:** | 12 |
| **Sector:** | Residential | **Number of investors:** | 3 |
| **Risk profile:** | Core | | |
| **Representative assets:** | | | |
| Chasewood Park | 13 two-bedroom flats | Harrow, Middlesex | 1,200m² |
| The Levels | 10 one-bedroom; 18 two-bedroom flats | Cambridge, Cambridgeshire | 2,100m² |

| | | | |
|---|---|---|---|
| **Name:** | GROSVENOR LIVERPOOL FUND | **Risk profile:** | Core plus |
| **Launch date:** | 2004 (2004-2008, Development Phase, 2009 onwards Investment Phase) | **Number of assets:** | 1 |
| | | **Number of investors:** | 6 |
| **Sector:** | Mixed-use | | |
| **Sole asset:** | | | |
| Liverpool One | Shopping centre with 160 retailers, 176 apartments | Liverpool, Merseyside | 149,000m² |

## USA

| | | | |
|---|---|---|---|
| **Name:** | SHMAEL US REAL ESTATE FUND | **Gross asset value:** | US$100m (£69m) |
| **Launch date:** | 2005 | **Number of assets:** | 6 |
| **Sector:** | Office | **Number of investors:** | 15 |
| **Risk profile:** | Core plus | | |
| **Representative assets:** | | | |
| Brookhollow Park | Four-storey office building | San Antonio, Texas | 9,600m² |
| 1450 Infinite Drive | Office/R&D building | Louisville, Colorado | 14,400m² |

| | | | |
|---|---|---|---|
| **Name:** | GROSVENOR RESIDENTIAL INVESTMENT PARTNERS | **Gross asset value:** | US$7m (£5m) |
| **Launch date:** | 2007 | **Number of assets:** | 2 |
| **Sector:** | Residential | **Number of investors:** | 5 |
| **Risk profile:** | Opportunistic | | |
| **Representative assets:** | | | |
| Bella Vista | Senior loan on 26-lot sub-division on 73 acres | Harrison Township, New Jersey | 295,400m² |
| Atlanta Loan Portfolio | Senior loan on 32 homes and 126 lots | Atlanta, Georgia | 193,100m² |

| | | | |
|---|---|---|---|
| **Name:** | GROSVENOR INVESTMENT MANAGEMENT US INC. Separate Account Clients | **Risk profile:** | Various |
| | | **Gross asset value:** | US$1,029m (£716m) |
| **Launch:** | 1956 | **Number of assets:** | 34 |
| **Sector:** | Diversified | **Number of investors:** | 8* |
| **Representative assets:** | | | |
| Kingston at Lake Oconee | Development of a master-planned community | Buckhead, Georgia | 4,512,300m² |
| Voorhees Town Center | Mixed-use town centre development | Voorhees, New Jersey | 44,100m² |

*Number of separate accounts.

## Continental Europe

| | | | |
|---|---|---|---|
| **Name:** | GROSVENOR RETAIL EUROPEAN PROPERTY | **Gross asset value:** | €375m (£362m) |
| **Launch date:** | 2004 | **Number of assets:** | 44 |
| **Sector:** | Retail | **Number of investors:** | 8 |
| **Risk profile:** | Core with some value-add | | |
| **Representative assets:** | | | |
| 15-19 Place Gambetta | A four-storey high street property | Bordeaux, France | 5,500m² |
| Rue Jean Monnet | A retail warehouse park with 17 units | Claye-Souilly, France | 16,900m² |

| | | | |
|---|---|---|---|
| **Name:** | GROSVENOR FRENCH RETAIL INVESTMENTS | **Gross asset value:** | €104m (£101m) |
| **Launch date:** | 2006 | **Number of assets:** | 34 |
| **Sector:** | Retail | **Number of investors:** | 9 |
| **Risk profile:** | Core | | |
| **Representative assets:** | | | |
| Zone Commercial du Val du Loire | Nine retail warehouse units | Cosne-sur-Loire, France | 7,000m² |
| 18/20 boulevard Montmartre | One high street retail property comprising nine units | Paris, France | 2,400m² |



## Asia

| | | | |
|---|---|---|---|
| **Name:** | GROSVENOR DIAMOND CAPITAL – STABLE RESIDENTIAL FUND | **Risk profile:** | Core |
| | | **Gross asset value:** | JP¥29bn (£225m) |
| **Launch date:** | 2005 | **Number of assets:** | 21 |
| **Sector:** | Residential | **Number of investors:** | 6 |
| **Representative assets:** | | | |
| Chester Court, Nihonbashi | 104-unit residential building | Tokyo, Japan | 4,900m² |
| Vert Varie Kitasando | 144-unit residential building | Tokyo, Japan | 5,000m² |

| | | | |
|---|---|---|---|
| **Name:** | GROSVENOR CAPITAL ADVISORS PARTNERSHIP | **Gross asset value:** | JP¥23bn (£173m) |
| **Launch date:** | 2004 | **Number of assets:** | 18 |
| **Sector:** | Residential | **Number of investors:** | 6 |
| **Risk profile:** | Value-add/Opportunistic | | |
| **Representative assets:** | | | |
| Takanawa Mayfair Garden | Six-unit residential building | Tokyo, Japan | 1,400m² |
| Chester Court, Ochanomizu | 118-unit residential building | Tokyo, Japan | 3,800m² |

| | | | |
|---|---|---|---|
| **Name:** | GROSVENOR OFFICE RETAIL FUND | **Gross asset value:** | JP¥28bn (£216m) |
| **Launch date:** | 2007 | **Number of assets:** | 12 |
| **Sector:** | Office | **Number of investors:** | 8 |
| **Risk profile:** | Core/Value-add | | |
| **Representative assets:** | | | |
| Nihonbashi Kitajima Building | Five-floor office building | Tokyo, Japan | 1,800m² |
| Joule A Building | 11-floor office building | Tokyo, Japan | 5,000m² |

| | | | |
|---|---|---|---|
| **Name:** | GROSVENOR VEGA – CHINA RETAIL FUND | **Gross asset value:** | US$0m (£0m) |
| **Launch date:** | 2008 | **Number of assets:** | No acquisitions in 2008 |
| **Sector:** | Retail | **Number of investors:** | 7 |
| **Risk profile:** | Value-add | | |
| **Representative assets:** | | | |
| No acquisitions in 2008 | | | |

## International

| | | | |
|---|---|---|---|
| **Name:** | ISPT GROSVENOR INTERNATIONAL PROPERTY TRUST | **Gross asset value:** | A$790m* (£383m) |
| **Launch date:** | 2004 | **Number of assets:** | 7 |
| **Sector:** | Diversified | **Number of investors:** | 7 |
| **Risk profile:** | Core/Core plus | | |
| **Representative assets:** | | | |
| L'Anec Blau | Covered shopping centre over three levels | Barcelona, Spain | 27,800m² |
| Research Tri Center | 10 building industrial portfolio | Durham, North Carolina, USA | 142,500m² |

*Includes A$52m interest in Grosvenor Shopping Centre Fund.

# ACCOUNTS





# CORPORATE GOVERNANCE

**THE COMBINED CODE**

Grosvenor's business approach is based on openness and high levels of accountability, elements that 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. The Board has reviewed all the provisions of the Combined Code issued by the UK Financial Reporting Council in July 2006 and has determined which of those provisions are appropriate in the context of Grosvenor's ownership structure.

**BOARD OF DIRECTORS**

The Board comprises eight full-time Executive Directors and six Non-Executive Directors, among whom three are also Trustees of the Grosvenor Trusts (see page 88). 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 10 meetings during the year.

The biographies of the members of the Board on page 21 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 90.

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, which was last carried out in 2008.

The Board encourages the appointment of Executive Directors to appropriate external posts as this increases their breadth of knowledge and experience. Earnings from all such appointments are returned to the Group.

**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 Lesley Knox, Trustee of the Grosvenor Trusts and also includes the Earl of Home (Chairman) and Domenico Siniscalco (Non-Executive Director). The members bring a wide range of relevant international experience.

The Audit Committee meets at least three times 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 50% of the audit fee are pre-approved by the Audit Committee.

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

**NOMINATIONS COMMITTEE**

The Nominations Committee comprises all 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.

**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 Operating Company management teams. The Britain & Ireland, Americas, Continental Europe, Australia and Asia Operating Companies have local boards, with Independent Non-Executive Chairmen and at least two other Independent Non-Executive Directors, which oversee the regions' operations. These boards form an integral part of the overall internal control process. The Grosvenor Fund Management Board works closely with the Holding Company team to ensure appropriate internal controls are maintained. The relationship between Operating Company boards and the Group Board is clearly defined and is set out in formally approved financial delegation procedures.

In addition to local boards, each Operating Company, together with the Holding Company, is represented on the Group Finance Board, which meets at least twice each year and provides a forum for debating issues of a financial nature that are relevant to the Group as a whole, including the setting of Group policy 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 a staffed 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. A co-sourced approach to internal audit has recently been adopted and will be implemented in 2009.

The Board carried out its annual assessment of internal control for the year 2008 at its meeting in March 2009 by considering reports from management and the Audit Committee and taking account of events since 31 December 2008.

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.

Treasury policies are set out in Note 32 of the Accounts.

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.

**FINANCIAL SERVICES ACTIVITIES**
Grosvenor Investment Management Limited, a wholly owned subsidiary, is authorised and regulated in the UK by the Financial Services Authority for the purposes of undertaking regulated activities.

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 in the USA pursuant to the Investment Advisers Act of 1940, for the purposes of providing real estate related investment advice.

The Japan Branch of Grosvenor Fund Management Japan Limited, a wholly owned subsidiary, provides financial services and products as authorised under its Kanto Local Finance Bureau (Kinsyo) License No. 1956 issued by The Financial Services Agency, the Japanese Government.



# REMUNERATION REPORT

**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, the Britain & Ireland, Americas, Continental Europe, Australia and Asia regions have their own remuneration committees with appropriate responsibility for remuneration matters within those Operating Companies.

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. Grosvenor is committed to improving performance through regular review and continuous learning. Programmes are in place to train and develop suitable individuals for future senior or director 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 may be invited to attend, 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 and Grosvenor Fund Management. The Committee has access to external independent professional advisers as necessary and receives advice on market pay levels and best practice in incentive scheme design.

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 performance-linked elements designed 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-term and long-term rewards and has been designed to provide an alignment of 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 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' stakeholder accounts.

  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.

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 of the Accounts.

The notice period for the termination of the employment of an Executive Director is six months.

Non-Executive Directors representing the Shareholders, with the exception of the Chairman, 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 41 of the Accounts. 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
19 March 2009

# DIRECTORS' REPORT

The Directors present their Annual Report and the Group's audited consolidated financial statements for the year ended 31 December 2008.

**PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**
The Group's principal activities are property investment, development and fund management in Britain & Ireland, North America, Continental Europe, Australia and 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 79, 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, currencies 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 and capitalisation rates. 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.

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 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 Operating Company 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 also 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 for equity allocated to Operating Companies agreed in January 2008, and actual equity allocations at 31 December 2008, were as follows:

| | Percentage of Group equity | |
|---|---|---|
| | Long-term range % | At 31 December 2008 % |
| **Operating Company** | | |
| Britain & Ireland | 40.0–65.0 | 44.8 |
| Americas | 12.5–27.5 | 22.0 |
| Continental Europe | 10.0–22.5 | 20.8 |
| Australia | 2.5–10.0 | 5.4 |
| Asia Pacific | 2.5–20.0 | 5.9 |
| Fund Management | 0–10.0 | 1.1 |

At the Operating Company level, each board reviews its strategy 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 total assets under management is shown on page 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 specific investment and development opportunities. Recognising the importance of this source of capital we established Grosvenor Fund Management four years ago. Working with like-minded investors in property is now a core part of our business.

During 2008 there has been significant deterioration in liquidity in the UK and global capital markets resulting in the reduced availability of external sources of financing. Available funding is priced with higher risk premiums and with more stringent lending conditions attached. The Group expects these conditions to continue for the foreseeable future. Note 32 to the financial statements includes an explanation of the Group's liquidity risk.

**Acquisitions and sales**
When acquiring or selling property the principal risk is in assessing the future income flows in order to determine an appropriate price. 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 that 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.

**Financial risks**
The principal financial risks faced by the Group are liquidity, credit, interest rate and foreign currency risk. Each of these risks is explained in more detail and analysed in Note 32 of the Accounts.

*Tax*
Exposure to tax risk arises in several jurisdictions 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 external tax advisers.

**Health and safety**
The Group is committed to achieving high standards of health and safety throughout the business and aspires 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 reports formally its compliance each year and progress is monitored on a regular basis.

The Group continues to review its reporting of performance information and continues to improve its health and safety information technology system to assist the business. All accidents and cases of ill health are treated seriously. In 2008 each business made good progress in completing their health and safety action plans.

Grosvenor received three enforcement notices from statutory health and safety authorities in 2008. All notices have been complied with and appropriate action has been taken.

Health and safety targets continue to be 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 Grosvenor has management systems in place to cope with workplace and other risks.

### Environment
Grosvenor takes a long-term view of its activities and responsibilities. Environmental considerations are therefore an important factor in 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 and performance;

– 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.

*Management*
A new position of Group Director of Environment and Design took effect from 1 January 2008 – appointed to provide policy and strategy guidance on the environment and design to Grosvenor's Operating Companies internationally, to champion the sharing of best practice in sustainability across all areas of the business and to lead research activity in order to build understanding and knowledge of how responsible interaction with the environment can be directly linked with design and development of buildings, communities and the public realm.

Grosvenor's Environment Vision Statement is:

*"Grosvenor is committed to promoting best practice in all operations to ensure that we manage and create well designed, environmentally sustainable buildings and communities.*

*This should become a fundamental element of our brand and reputation. Through a consistent global approach, we will improve the value and performance of our existing and future assets by promoting sustainable development and reducing our environmental impacts, and that of our portfolio, particularly with respect to climate change."*

*2008 Initiatives*
*Office best practice:*
During 2008 Grosvenor identified best practice principles of responsible environmental management which are now being applied in all Grosvenor offices.

*Carbon footprint:*
Grosvenor undertook a carbon footprint assessment of its offices and business travel. The results and recommendations have informed carbon management programmes in all offices to ensure improvement on current performance. This is the first stage in an exercise which ultimately will extend to include all business operations and supply chains.

*Development best practice:*
Grosvenor has adopted a new development best practice mandate, which establishes the minimum environmental performance acceptable for all new developments.

*Research:*
Grosvenor is the principal sponsor of a three-year research study by the Cambridge Centre of Energy Studies. It focuses on energy in the built environment: future patterns of usage, supply security, legislative barriers, incentives and new technologies.

*Project Case Studies*
At the Operating Company level, we have undertaken a number of projects following Grosvenor's commitment to environmentally sustainable projects:

*400 George Street, Brisbane, Australia:*
In February 2008 the Green Building Council of Australia awarded Grosvenor and our joint venture partners Leighton Properties a Five Star Green Star Certified Rating (Australian Excellence) for 400 George Street (see page 61) a new 43,700m$^2$ office tower in Brisbane. The development is 80% pre-committed and due for completion in late 2009.

Key sustainability initiatives include: an innovative formwork design, saving 40,000m$^2$ of plywood; use of 100% recycled steel for reinforcing, optimisation systems (to save over 700,000 litres of water and 100,000kg of $CO_2$ annually); capture and re-use of air conditioning concentrate to flush toilets, waterless urinals and high efficiency water fittings and fixtures; performance glazing to maximise natural daylight but minimise thermal loading; low volatile organic compound carpets, glues, sealants and paints and the inclusion of 280 bicycle racks and extensive shower/change facilities.



*The RISE, Vancouver, Canada:*
The final phase of The RISE (see page 41), a 28,100m$^2$ mixed-use retail and residential development in Vancouver's uptown business district, was completed in September 2008.

Grosvenor committed to designs and building specifications that conserve energy, water and materials, reduce greenhouse gas emissions and improve indoor air quality. These included the installation of an intensive green roof used by residents as a park and vegetable garden. Modelling indicates that the building will use 31% less energy, 67% less potable water, and will generate 52% lower greenhouse gas emissions.

*11 Grosvenor Crescent Mews, Belgravia, London:*
This refurbishment of an 1870 residential building, completed in June 2008 in line with our strategy of re-investing in our London estate (see page 24), is the oldest property to achieve an 'excellent' Eco homes rating in the UK.

Key sustainability initiatives included: energy savings through improved insulation and secondary glazing; use of low energy lighting and installation of a dual coil hot water cylinder allowing future connection to a renewable energy source; water savings by replacing all sanitary ware with low flow alternatives and installing a water butt and permeable paving.

Where possible, the existing building fabric was retained, with existing floor, roof and wall structures reused. New material selection included sustainably sourced timber for staircase, doors, stud partitions, skirting and floor. Daylight penetration was maximised by a light well, large roof lights and glazed external doors; and cycle storage was provided.

2008 was a pivotal year in which Environment & Design was acknowledged as a strategic priority for Grosvenor. Over the medium term Grosvenor's objective is to deliver the agreed 'Vision' consistently across our operations.

### Reputation and brand
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 these assets by investing appropriately in them, and by identifying potential reputational or brand risks and acting swiftly to mitigate those risks. In 2008 we completed our Group-wide review of our brand, briefed staff on its definition, gave guidance on aligning communications and behaviour with it, and provided detailed brand management guidelines for relevant in-house and consultancy teams. At the same time we introduced a new Group-wide intranet, which facilitates internal knowledge-sharing about Grosvenor and its policies and procedures on these and other matters.

### 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 dependent on the effectiveness of IT systems, including our international communications network, property databases, accounting and treasury systems. We have procedures in place to protect the security and integrity of our data, and we have detailed business continuity plans which we tested on a regular basis. The Business Process Group, which was established in 2006, continues to ensure that the Group benefits from 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 taken through reserves, as a percentage of average property assets (before current year revaluations) plus cash. Revenue (loss)/profit is shown in Note 4.

Our achievement against these indicators is set out in the Finance Director's report on pages 16 to 19. We employ suitable key performance indicators throughout the Group to help achieve ambitious goals and our philosophy of continuous improvement.

## RESULTS AND DIVIDENDS
The results for the year are set out in the consolidated income statement on page 92. Loss for the year was £476.0m (2007 – £427.9m profit). Dividends paid during the year amounted to £13.0m (2007 – £10.7m). Subsequent to the year end a dividend of £9.6m (2007 – £8.1m) was proposed, but in accordance with International Financial Reporting Standards (IFRS) has not been provided in these financial statements.

**GOING CONCERN**

The Group's business activities, together with the factors likely to affect its future development, performance and financial position, are set out in the review section on pages 1 to 79 and the principal risks and uncertainties faced by the Group are described in the Directors' report. In addition Note 32 to the financial statements includes an explanation of the Group's policies and processes for managing its financial and capital risks, details of its financial instruments and the exposure to interest rates, credit and liquidity risk, including financial convenant risk arising from potential further falls in property values.

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

Based on the Operating Company and Group cash flow projections, taking account of the potential for further valuation falls and borrowing facilities that expire during the projection period, the Group is satisfied that it has sufficient headroom from its committed borrowing facilities to support the funding requirements of those projections.

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

**DIRECTORS**

Details of the Directors of the Company and their biographies are given on pages 20 and 21. All Directors served throughout the year with the exception of those set out below.

Domenico Siniscalco (appointed 12 June 2008)

Peter Vernon (appointed 1 July 2008)

Nicholas Loup (appointed 22 July 2008)

Robert Kerr (appointed 24 July 2008)

Andrew Bibby (appointed 1 January 2009)

The following Directors resigned during the year:

Tony Wyand (resigned 13 November 2008)

William (Bill) Abelmann (resigned 31 December 2008)

**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 2008 | **At 31 December 2008** | At 1 January 2008 | **At 31 December 2008** | At 1 January 2008 | **At 31 December 2008** |
| **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 2008.

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

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



**CHARITABLE AND POLITICAL DONATIONS**

Charitable contributions during the year amounted to £1.7m (2007 – £2.0m). £1.6m was donated to the Westminster Foundation (2007 – £1.6m), which supports a wide range of charitable causes. No political contributions were made during the year (2007 – £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 2008 represented seven days' purchases (2007 – five 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 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.

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

a) in so far as the Directors are aware, 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
19 March 2009

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 (IFRS) as adopted by the European Union. The financial statements are required by law to be properly prepared in accordance with IFRS as adopted by the European Union and 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 IFRS. 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 IFRS 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors at the date of the Annual Report, whose names are set out on page 21, confirms that to the best of their knowledge:

- the Group and parent company accounts, prepared in accordance with applicable UK law and in conformity with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report (which comprises the Directors' report and the Business Review) includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 19 March 2009 and is signed on its behalf by:

**The Earl of Home**

# CORPORATE ADVISERS AND BANKERS

| | |
|---|---|
| **Auditors:** | Deloitte LLP |
| **Tax advisers:** | KPMG LLP |
| **Principal valuers:** | DTZ Debenham Tie Leung, Cushman & Wakefield |
| **Solicitors:** | Boodle Hatfield, Slaughter & 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 2008, 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 41. 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. The information given in the Directors' report includes that specific information that is cross-referenced from the principal activities and Business Review section of the Directors' report.

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 judgements 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 IFRS as adopted by the European Union, of the state of the Group's and the Parent Company's affairs as at 31 December 2008, and of the Group's loss 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 LLP**
Chartered Accountants and Registered Auditors
London, United Kingdom
19 March 2009

# CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2008

| | Note | 2008 £m | 2007 £m |
|---|---|---|---|
| **Total revenue** | 3 | **273.1** | 453.3 |
| Gross rental income | 5 | **120.6** | 106.4 |
| Property outgoings | 6 | **(52.3)** | (45.0) |
| **Net rental income** | | **68.3** | 61.4 |
| Other income | 7 | **37.0** | 45.7 |
| Administrative expenses | 8 | **(82.7)** | (81.5) |
| Net loss on trading and development properties | 12 | **(106.6)** | (35.4) |
| Net (losses)/gains on other investments | 13 | **(12.0)** | 12.6 |
| Net (losses)/gains on revaluation and sale of investment property | 14 | **(267.7)** | 413.9 |
| Share of (loss)/profit from joint ventures and associates | 22 | **(209.7)** | 120.0 |
| **(Loss)/profit from operations including share of joint ventures and associates** | | **(573.4)** | 536.7 |
| Dividend income | 15 | **2.2** | 1.3 |
| Financial income | 15 | **16.1** | 27.6 |
| Financial expenses | 15 | **(40.5)** | (43.3) |
| Fair value adjustments | 15 | **1.7** | 1.7 |
| **Net financing costs** | 15 | **(20.5)** | (12.7) |
| **(Loss)/profit before tax** | | **(593.9)** | 524.0 |
| Current tax | 16 | **0.3** | (47.1) |
| Deferred tax | 16 | **117.6** | (49.0) |
| **(Loss)/profit for the year** | 39 | **(476.0)** | 427.9 |
| **Attributable to:** | | | |
| Equity holders of the parent | 39 | **(456.9)** | 405.5 |
| Minority interests | 39 | **(19.1)** | 22.4 |
| **(Loss)/profit for the year** | 39 | **(476.0)** | 427.9 |



# BALANCE SHEETS
as at 31 December 2008

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2008 £m | 2007 £m | 2008 £m | 2007 £m |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Investment property | 18 | **2,751.1** | 2,841.7 | **–** | – |
| Investment property under development | 19 | **34.7** | 79.9 | **–** | – |
| Other property, plant and equipment | 20 | **32.8** | 52.5 | **–** | – |
| Investments in subsidiaries | 21 | **–** | – | **1,358.4** | 1,358.4 |
| Investments in joint ventures and associates | 22 | **1,093.3** | 1,156.0 | **–** | – |
| Other financial assets | 25 | **46.6** | 55.4 | **–** | – |
| Intangible assets | 26 | **6.1** | 5.0 | **–** | – |
| Employee benefits | 10 | **–** | 3.5 | **–** | – |
| Deferred tax assets | 27 | **94.9** | 63.6 | **–** | – |
| **Total non-current assets** | | **4,059.5** | 4,257.6 | **1,358.4** | 1,358.4 |
| **Current assets** | | | | | |
| Trading properties | 28 | **164.2** | 147.1 | **–** | – |
| Trade and other receivables | 29 | **198.2** | 163.2 | **299.6** | 135.5 |
| Other financial assets | 25 | **11.9** | 8.6 | **–** | – |
| Income tax receivable | | **14.6** | 22.8 | **–** | – |
| Cash and cash equivalents | 30 | **91.5** | 323.6 | **–** | – |
| **Total current assets** | | **480.4** | 665.3 | **299.6** | 135.5 |
| **TOTAL ASSETS** | | **4,539.9** | 4,922.9 | **1,658.0** | 1,493.9 |
| **LIABILITIES** | | | | | |
| **Non-current liabilities** | | | | | |
| Interest-bearing loans and borrowings | 31 | **(706.5)** | (558.5) | **–** | – |
| Trade and other payables | 33 | **(147.4)** | (167.4) | **–** | – |
| Employee benefits | 10 | **(29.5)** | (12.7) | **–** | – |
| Deferred tax liabilities | 27 | **(519.3)** | (604.4) | **–** | – |
| **Total non-current liabilities** | | **(1,402.7)** | (1,343.0) | **–** | – |
| **Current liabilities** | | | | | |
| Overdrafts | 30 | **(1.3)** | (0.3) | **–** | – |
| Interest-bearing loans and borrowings | 31 | **(78.1)** | (112.6) | **–** | – |
| Trade and other payables | 33 | **(160.2)** | (194.6) | **–** | (25.3) |
| Income tax payable | | **(6.8)** | (28.7) | **–** | – |
| Provisions | 34 | **(54.3)** | (180.2) | **–** | – |
| **Total current liabilities** | | **(300.7)** | (516.4) | **–** | (25.3) |
| **TOTAL LIABILITIES** | | **(1,703.4)** | (1,859.4) | **–** | (25.3) |
| **NET ASSETS** | | **2,836.5** | 3,063.5 | **1,658.0** | 1,468.6 |
| **Equity** | | | | | |
| Share capital | 38 | **56.8** | 56.8 | **56.8** | 56.8 |
| Share premium | 39 | **173.1** | 173.1 | **28.3** | 28.3 |
| Reserves | 39 | **557.1** | 314.0 | **1,272.7** | 1,272.7 |
| Retained earnings | 39 | **1,863.3** | 2,344.5 | **300.2** | 110.8 |
| **Shareholders' funds** | 39 | **2,650.3** | 2,888.4 | **1,658.0** | 1,468.6 |
| Minority interests | 39 | **186.2** | 175.1 | **–** | – |
| **TOTAL EQUITY** | 39 | **2,836.5** | 3,063.5 | **1,658.0** | 1,468.6 |

Approved by the Board on 19 March 2009 and signed on behalf of the Board

**The Earl of Home** (Chairman)

**Nicholas Scarles** (Group Finance Director)

# CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the year ended 31 December 2008

| | 2008 £m | 2007 £m |
|---|---|---|
| Foreign exchange translation differences | 346.2 | 106.1 |
| Revaluation of investment property under development – Group | (3.1) | 13.9 |
| – joint ventures | (10.1) | 14.2 |
| – associates | (21.2) | (9.3) |
| Revaluation of other property, plant and equipment | (21.2) | 9.8 |
| Change in fair value of equity shares available for sale | (6.9) | 1.8 |
| Fair value adjustments on swaps | (23.6) | (0.3) |
| Fair value adjustments transferred to income statement | (1.2) | (3.3) |
| Deferred tax recognised in reserves | 30.9 | (1.8) |
| Actuarial (losses)/gains on defined benefit pension schemes | (20.8) | 4.4 |
| **Net gain recognised directly in equity** | 269.0 | 135.5 |
| **(Loss)/profit for the year** | (476.0) | 427.9 |
| **Total recognised income and expense for the year** | (207.0) | 563.4 |
| **Attributable to:** | | |
| Equity holders of the parent | (225.1) | 521.7 |
| Minority interest | 18.1 | 41.7 |
| | (207.0) | 563.4 |

A consolidated statement of changes in equity is given in the reconciliation of share capital and reserves on page 133. The Company's equity increased during the year as a result of dividends received from subsidiaries for the year of £202.4m (2007 – £50.9m) and reduced as a result of dividends paid to Shareholders of £13.0m (2007 – £10.7m) and shares redeemed of £nil (2007 – £40.5m).



# CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2008

| | Note | 2008 £m | 2007 £m |
|---|---|---|---|
| **Operating activities** | | | |
| Operating loss before changes in working capital and provisions | 40(a) | (82.1) | (6.8) |
| Decrease in trade and other receivables | | 34.3 | 1.4 |
| Decrease/(increase) in trading properties | | 50.4 | (69.5) |
| (Decrease)/increase in trade and other payables | | (34.7) | 50.9 |
| Decrease in employee benefits | | (4.4) | (4.4) |
| (Decrease)/increase in provisions | | (198.5) | 21.4 |
| **Cash flow from operations** | | (235.0) | (7.0) |
| Interest paid | | (48.3) | (45.1) |
| Income taxes paid | | (23.1) | (38.4) |
| Interest received | | 13.1 | 25.7 |
| **Net cash flows from operating activities** | | (293.3) | (64.8) |
| **Investing activities** | | | |
| Proceeds from sale of investment property | | 118.9 | 189.3 |
| Acquisition of investment property | | (17.2) | (206.8) |
| Development of investment property | | (53.8) | (31.1) |
| Proceeds from sale of other property, plant and equipment | | 0.1 | 0.8 |
| Acquisition of other property, plant and equipment | | (2.5) | (2.1) |
| Proceeds from sale of other financial assets | | 7.1 | 21.9 |
| Acquisition of other financial assets | | (5.3) | (14.7) |
| Net cash flow from/(to) joint ventures and associates | | 15.0 | (27.1) |
| Proceeds from sale of joint ventures and associates | | – | 60.0 |
| Acquisition of joint ventures and associates | | (30.3) | – |
| Dividends received | | 2.2 | 1.3 |
| **Net cash flows from investing activities** | | 34.2 | (8.5) |
| **Financing activities** | | | |
| Proceeds from additional borrowings | | 198.6 | 47.9 |
| Repayment of borrowings | | (168.1) | (64.4) |
| Shares redeemed | | – | (15.2) |
| Minority shares issued by subsidiaries | | 0.5 | – |
| Dividends paid | | (21.9) | (26.2) |
| **Net cash flows from financing activities** | | 9.1 | (57.9) |
| **Net decrease in cash and cash equivalents** | | (250.0) | (131.2) |
| Cash and cash equivalents at 1 January | | 323.3 | 450.8 |
| Effect of exchange rate fluctuation on cash held | | 16.9 | 3.7 |
| **Cash and cash equivalents at 31 December** | 30 | 90.2 | 323.3 |

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 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 Accounts have been prepared on a going concern basis as described in the going concern section of the Directors' report on page 88. The principal accounting policies adopted are set out below. 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 its subsidiary undertakings.

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

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

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

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

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

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

**(D) INVESTMENT PROPERTY**
Investment properties, including freehold and long leasehold properties, are those which are held either to earn rental income or for capital appreciation or both. Investment properties 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.

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.



## 1 ACCOUNTING POLICIES CONTINUED

**(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.

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

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

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

**(I) TRADE AND OTHER RECEIVABLES**
Trade and other receivables are stated at cost less any impairment.

**(J) CASH AND CASH EQUIVALENTS**
Cash and cash equivalents comprise cash balances and call deposits. Cash equivalents are short-term, 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) DERIVATIVE FINANCIAL INSTRUMENTS**
Derivative financial instruments utilised by the Group are interest rate and property derivative swaps and caps and forward exchange contracts against known transactions. The Group does not enter into derivative contracts for solely speculative purposes. Instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the Group in line with its risk management policies. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the contracts.

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

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.

**1 ACCOUNTS POLICIES** CONTINUED

**(L) TRADE AND OTHER PAYABLES**
Trade and other payables are stated at cost.

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

**(N) EMPLOYEE BENEFITS**
Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

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

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

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

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

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

**(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 determining 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.



**1 ACCOUNTING POLICIES** CONTINUED

**(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 Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures:

– IFRIC 11, IFRS 2: Group and Treasury Share Transactions

– IFRIC 12, Service Concession Arrangements

– IFRIC 14, IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

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

– IFRS 1 and IAS 27: Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate (amendments)

– IFRS 8, Operating Segments

– IAS 1, Presentation of Financial Statements (revised)

– IAS 23, Borrowing Costs (revised)

– IFRIC 15, Agreements for the Construction of Real Estate

The Directors anticipate that the adoption of these standards and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

A number of other standards and interpretations, not listed here, have been issued but are not yet effective for which the Group currently has no activities within the scope of these pronouncements.

**(U) SIGNIFICANT JUDGEMENTS AND KEY ESTIMATES**
**i) Property valuations**
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.

Trading properties are carried at the lower of cost and net realisable value. Net realisable value requires judgement in estimating the future net realisable proceeds and costs to complete for each trading property.

A key source of evidence for property valuations should be recent comparable market transactions. As a result of the recent challenges in financial markets and the consequential impact on conditions in property markets, there has been limited comparable transactional evidence to support the valuations. Consequently, there is a greater than usual degree of uncertainty in respect of the figures reported by our valuers. However, the Group has a diverse property portfolio spread across many sectors and countries, which mitigates the impact of this uncertainty.

**ii) Development provisions**
The provision for losses on the Liverpool One project is based on a detailed review of construction and letting progress, an estimate of the remaining costs to complete the project and its investment value at completion.

**iii) Leases**
Classification of leases between finance leases and operating leases requires a judgement to be made regarding the extent to which the risks and rewards of ownership are transferred to the lessee.

Where operating lease premiums are received in exchange for the grant of a long leasehold interest that is classified as an operating lease, 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 balance sheet assets and liabilities and the expected annual charge in respect of defined benefit pension plans are 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 cash flows of overseas companies were as follows:

| | Average rate 2008 £1 | Average rate 2007 £1 | Year end rate 2008 £1 | Year end rate 2007 £1 |
|---|---|---|---|---|
| US Dollars | **1.85** | 2.00 | **1.44** | 1.99 |
| Canadian Dollars | **1.96** | 2.15 | **1.77** | 1.96 |
| Euros | **1.26** | 1.46 | **1.03** | 1.36 |
| Australian Dollars | **2.18** | 2.39 | **2.06** | 2.27 |
| Hong Kong Dollars | **14.42** | 15.62 | **11.14** | 15.52 |
| Chinese Renminbi | **12.90** | 15.21 | **9.81** | 14.54 |
| Japanese Yen | **192.45** | 235.50 | **130.33** | 222.38 |

## 3 SEGMENTAL ANALYSIS

### 2008

| Geographical segments* | Britain & Ireland £m | Americas £m | Continental Europe £m | Australia £m | Asia Pacific £m | Fund Management £m | Consolidated £m |
|---|---|---|---|---|---|---|---|
| **Income statement** | | | | | | | |
| Income from external customers | | | | | | | |
| Rental income | 72.0 | 27.9 | 3.1 | 15.5 | 2.1 | – | **120.6** |
| Income from trading and development properties | 62.3 | 43.8 | – | 3.9 | – | – | **110.0** |
| Service charge income | 4.0 | – | 0.3 | 1.1 | 0.1 | – | **5.5** |
| Other income | 6.6 | 6.5 | 3.6 | 0.3 | 0.2 | 19.8 | **37.0** |
| **Total revenue** | 144.9 | 78.2 | 7.0 | 20.8 | 2.4 | 19.8 | **273.1** |
| Net rental and other income less administrative expenses | 11.2 | 12.2 | (2.5) | 8.1 | (5.5) | (0.9) | **22.6** |
| (Losses)/gains from trading and development properties | (116.7) | 8.3 | (0.4) | 2.2 | – | – | **(106.6)** |
| Loss on other investments | (5.1) | (0.7) | – | – | (5.7) | (0.5) | **(12.0)** |
| Net losses on revaluation and sale of investment property | (208.0) | (1.0) | (1.0) | (47.5) | (10.2) | – | **(267.7)** |
| Share of loss from joint ventures and associates | (116.0) | (7.5) | (68.8) | (1.7) | (15.2) | (0.5) | **(209.7)** |
| Net financing (costs)/income | (18.6) | (5.2) | 3.2 | (5.2) | 4.6 | 0.7 | **(20.5)** |
| **(Loss)/profit before tax** | (453.2) | 6.1 | (69.5) | (44.1) | (32.0) | (1.2) | **(593.9)** |
| Current tax | 9.6 | (8.6) | (0.1) | (0.6) | (0.1) | 0.1 | **0.3** |
| Deferred tax | 92.4 | 11.9 | 0.2 | 11.0 | 2.4 | (0.3) | **117.6** |
| **(Loss)/profit for the year** | (351.2) | 9.4 | (69.4) | (33.7) | (29.7) | (1.4) | **(476.0)** |
| **Balance sheet** | | | | | | | |
| Segment assets – Investments in joint ventures and associates | 239.0 | 186.2 | 594.5 | 15.2 | 55.7 | 2.7 | **1,093.3** |
| – Other | 1,973.8 | 719.2 | 155.7 | 252.6 | 194.1 | 41.7 | **3,337.1** |
| | 2,212.8 | 905.4 | 750.2 | 267.8 | 249.8 | 44.4 | **4,430.4** |
| Segment liabilities | (713.6) | (246.9) | (60.1) | (93.5) | (47.7) | (15.5) | **(1,177.3)** |
| Segment net tax liabilities | (279.3) | (109.2) | (12.7) | (12.2) | (0.8) | (2.4) | **(416.6)** |
| **Net assets** | 1,219.9 | 549.3 | 677.4 | 162.1 | 201.3 | 26.5 | **2,836.5** |
| Capital expenditure | 111.6 | 79.7 | 0.8 | 1.6 | 9.1 | – | **202.8** |
| Depreciation and amortisation of segment assets | 1.5 | 0.2 | 0.2 | 0.1 | 0.1 | 0.5 | **2.6** |

*The business is organised across six Operating Companies, five of which are geographical regions. Grosvenor Fund Management operates across all regions and is therefore presented separately. Holding Company activity is included in Britain & Ireland.



## 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 | 140.9 | 117.9 | 19.8 | (5.5) | **273.1** |
| (Loss)/profit for the period | (314.8) | (172.1) | (0.6) | 11.5 | **(476.0)** |
| Segment assets | 3,851.0 | 432.9 | 47.4 | 99.1 | **4,430.4** |
| Capital expenditure | 84.4 | 118.4 | – | – | **202.8** |

### 2007

| Geographical segments* | Britain & Ireland £m | Americas £m | Continental Europe £m | Australia £m | Asia Pacific £m | Fund Management £m | Consolidated £m |
|---|---|---|---|---|---|---|---|
| **Income statement** | | | | | | | |
| Income from external customers | | | | | | | |
| Rental income | 66.7 | 21.7 | 2.7 | 14.3 | 1.0 | – | 106.4 |
| Income from trading and development properties | 283.0 | 1.2 | – | 9.8 | – | – | 294.0 |
| Service charge income | 5.6 | – | 0.5 | 0.8 | 0.3 | – | 7.2 |
| Other income | 9.1 | 10.9 | 2.4 | 0.3 | 2.4 | 20.6 | 45.7 |
| **Total revenue** | 364.4 | 33.8 | 5.6 | 25.2 | 3.7 | 20.6 | 453.3 |
| Net rental and other income less administrative expenses | 12.4 | 10.1 | (0.7) | 6.7 | (2.2) | (0.7) | 25.6 |
| (Losses)/gains from trading and development properties | (37.4) | (0.3) | – | 2.3 | – | – | (35.4) |
| Gains on other investments | 1.0 | – | – | – | 11.6 | – | 12.6 |
| Net gains on revaluation and sale of investment property | 308.1 | 54.7 | 1.7 | 40.7 | 8.7 | – | 413.9 |
| Share of profit from joint ventures and associates | 23.5 | 17.8 | 74.3 | 1.5 | 2.9 | – | 120.0 |
| Net financing (costs)/income | (13.3) | 4.4 | 2.1 | (4.6) | (2.6) | 1.3 | (12.7) |
| **Profit before tax** | 294.3 | 86.7 | 77.4 | 46.6 | 18.4 | 0.6 | 524.0 |
| Current tax | (34.5) | (8.2) | (1.1) | (2.3) | (0.2) | (0.8) | (47.1) |
| Deferred tax | (25.4) | (11.3) | (0.6) | (10.4) | (1.6) | 0.3 | (49.0) |
| **Profit for the year** | 234.4 | 67.2 | 75.7 | 33.9 | 16.6 | 0.1 | 427.9 |
| **Balance sheet** | | | | | | | |
| Segment assets – Investments in joint ventures and associates | 398.7 | 139.8 | 567.6 | 14.2 | 33.1 | 2.6 | 1,156.0 |
| – Other | 2,443.2 | 591.2 | 158.8 | 282.1 | 137.1 | 68.1 | 3,680.5 |
| | 2,841.9 | 731.0 | 726.4 | 296.3 | 170.2 | 70.7 | 4,836.5 |
| Segment liabilities | (858.0) | (154.1) | (44.0) | (89.2) | (54.6) | (26.4) | (1,226.3) |
| Segment net tax liabilities | (398.7) | (102.6) | (11.6) | (27.1) | (2.8) | (3.9) | (546.7) |
| **Net assets** | 1,585.2 | 474.3 | 670.8 | 180.0 | 112.8 | 40.4 | 3,063.5 |
| Capital expenditure | 155.0 | 102.3 | – | 0.3 | 64.2 | – | 321.8 |
| Depreciation and amortisation of segment assets | 1.9 | 0.2 | 0.1 | – | – | 0.6 | 2.8 |

*The business is organised across six Operating Companies, five of which are geographical regions. Grosvenor Fund Management operates across all regions and is therefore presented separately. Holding Company activity is included in Britain & Ireland.

| Business segments | Property investment £m | Property development £m | Fund and joint venture management £m | Unallocated £m | Consolidated £m |
|---|---|---|---|---|---|
| Income from external customers | 126.9 | 305.8 | 20.6 | – | 453.3 |
| Profit/(loss) for the period | 495.8 | 15.5 | 0.1 | (83.5) | 427.9 |
| Segment assets | 3,924.0 | 573.7 | 73.8 | 265.0 | 4,836.5 |
| Capital expenditure | 218.0 | 103.8 | – | – | 321.8 |

## 4 REVENUE (LOSS)/PROFIT

The Group uses revenue profit as its primary measure of underlying operating performance. The calculation of revenue profit and its reconciliation to profit before tax is set out below.

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | 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 | 120.6 | 156.7 | 277.3 | 106.4 | 123.1 | 229.5 |
| Property outgoings (excluding major refurbishments) | (38.4) | (30.9) | (69.3) | (35.0) | (24.8) | (59.8) |
| Net rental income (before major refurbishments) | 82.2 | 125.8 | 208.0 | 71.4 | 98.3 | 169.7 |
| Fees and other income | 37.0 | 14.3 | 51.3 | 45.7 | 13.6 | 59.3 |
| Profit/(loss) on trading and development properties excluding Liverpool One | 12.3 | (22.3) | (10.0) | 4.1 | 37.9 | 42.0 |
| Administrative expenses | (82.7) | (38.3) | (121.0) | (81.5) | (31.7) | (113.2) |
| Net financing costs (excluding derivative fair value adjustments) | (22.6) | (60.8) | (83.4) | (10.7) | (34.2) | (44.9) |
| Adjusted revenue profit | 26.2 | 18.7 | 44.9 | 29.0 | 83.9 | 112.9 |
| Liverpool One trading loss | (118.9) | (2.7) | (121.6) | (39.5) | – | (39.5) |
| Revenue (loss)/profit | (92.7) | 16.0 | (76.7) | (10.5) | 83.9 | 73.4 |
| Reconciliation of revenue profit to profit before tax: | | | | | | |
| Revenue (loss)/profit | (92.7) | 16.0 | (76.7) | (10.5) | 83.9 | 73.4 |
| Joint ventures and associates: | | | | | | |
| – Revenue profit | – | (16.0) | (16.0) | – | (83.9) | (83.9) |
| – Equity accounted (loss)/profit | – | (209.7) | (209.7) | – | 120.0 | 120.0 |
| Net (losses)/gains on revaluation and sale of investment properties | (267.7) | – | (267.7) | 413.9 | – | 413.9 |
| Major refurbishment costs | (13.9) | – | (13.9) | (10.0) | – | (10.0) |
| Net (losses)/gains on other investments | (12.0) | – | (12.0) | 12.6 | – | 12.6 |
| Derivative fair value adjustments | 2.1 | – | 2.1 | (2.0) | – | (2.0) |
| (Loss)/profit before tax | (384.2) | (209.7) | (593.9) | 404.0 | 120.0 | 524.0 |

## 5 GROSS RENTAL INCOME

| | 2008 £m | 2007 £m |
|---|---|---|
| Gross lease payments receivable | 117.9 | 104.8 |
| Amortisation of capitalised lease incentives | 0.9 | (0.5) |
| Amortisation of deferred lease premiums | 1.8 | 2.1 |
| | 120.6 | 106.4 |

Investment properties are leased out under operating leases. The majority of operating lease terms fall in the range between six months and 40 years. Certain investment properties on the London estate are leased out on longer-term ground-rent based leases for periods of up to 945 years.

Total contingent rents included in gross rental income amounted to £0.1m (2007 – £0.2m).

## 6 PROPERTY OUTGOINGS

| | 2008 £m | 2007 £m |
|---|---|---|
| Service charge income | 5.5 | 7.2 |
| Service charge expenses | (5.5) | (8.1) |
| Net service charge expenses | – | (0.9) |
| Other property operating expenses | (52.3) | (44.1) |
| Total net property outgoings | (52.3) | (45.0) |

Included within property operating expenses are major refurbishment costs of £13.9m (2007 – £10.0m). Operating expenses associated with unlet properties totalled £1.4m (2007 – £1.0m).

## 7 OTHER INCOME

| | 2008 £m | 2007 £m |
|---|---|---|
| Fund management and asset management fees | 28.4 | 26.9 |
| Project management fees | 5.3 | 8.1 |
| Other income | 3.3 | 10.7 |
| | 37.0 | 45.7 |

## 8 ADMINISTRATIVE EXPENSES

| | 2008 £m | 2007 £m |
|---|---|---|
| Staff costs | 52.8 | 51.7 |
| Office costs | 13.8 | 11.5 |
| Auditors' remuneration – audit services | 1.2 | 0.9 |
| – other services | 0.1 | – |
| Other professional fees | 7.8 | 8.5 |
| Other administrative expenses | 7.0 | 8.9 |
| | 82.7 | 81.5 |

All of the Group's Operating Companies were audited by Deloitte. £0.5m (2007 – £0.5m) of the total audit fee is estimated to relate to the audit of the Group and £0.7m (2007 – £0.4m) 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 2008 totalled £1.7m (2007 – £1.4m).

## 9 EMPLOYEE INFORMATION

| | 2008 £m | 2007 £m |
|---|---|---|
| **Staff costs** | | |
| Wages and salaries | **52.1** | 56.3 |
| Social security contributions | **5.0** | 4.2 |
| Other staff costs | **6.6** | 5.4 |
| **Pension costs** | | |
| Contributions to defined contribution plans | **2.5** | 1.7 |
| Net cost of defined benefit plans | **4.0** | 3.7 |
| | **70.2** | 71.3 |
| Included in: | | |
| Administrative expenses | **52.8** | 51.7 |
| Property operating expenses | **7.8** | 9.0 |
| Development costs | **9.6** | 10.6 |
| | **70.2** | 71.3 |
| **Average number of employees by activity** | | |
| Property investment | **157** | 155 |
| Property development | **118** | 116 |
| Fund management | **143** | 103 |
| Management and administration | **202** | 198 |
| Shopping centre and property management | **2** | 12 |
| | **622** | 584 |
| **Average number of employees by geographic region** | | |
| Britain & Ireland | **378** | 365 |
| Americas | **101** | 103 |
| Continental Europe | **50** | 50 |
| Australia | **25** | 24 |
| Asia Pacific | **68** | 42 |
| | **622** | 584 |

The Company employs no staff (2007 – nil).



## 10 RETIREMENT BENEFIT SCHEMES

**DEFINED BENEFIT SCHEMES**

The Group operates defined benefit pension schemes in Britain & Ireland, the USA, Canada and Australia as explained on page 83. Benefits in the scheme in Canada were frozen with effect from 31 December 2007.

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.

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 2005 |
| USA | 31 December 2008 |
| Canada | 31 December 2007 |
| Australia | 1 July 2006 |

All the valuations have been updated to 31 December 2008 where appropriate. The triennial valuation of the Britain & Ireland scheme as at 31 December 2008 is in the course of being completed. The results of these valuations together with the key assumptions used are set out below.

In addition to the defined benefit schemes set out above, the Group operates unfunded defined benefit schemes in 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 £2.5m (2007 – £1.7m).

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

| | 2008 £m | 2007 £m |
|---|---|---|
| Current service cost | **4.4** | 5.3 |
| Past service cost | **0.2** | – |
| Interest cost | **6.7** | 5.8 |
| Expected return on scheme assets | **(7.3)** | (6.6) |
| Curtailment | **–** | (0.8) |
| | **4.0** | 3.7 |

**10 RETIREMENT BENEFIT SCHEMES** CONTINUED

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

| | 2008 £m | 2007 £m |
|---|---|---|
| Present value of unfunded obligations | (11.9) | (8.7) |
| Present value of funded obligations | (109.0) | (105.1) |
| Present value of total defined benefit obligations | (120.9) | (113.8) |
| Fair value of scheme assets | 91.4 | 104.6 |
| Defined benefit pension deficit | (29.5) | (9.2) |
| Included in the balance sheet under: | | |
| Non-current assets | – | 3.5 |
| Non-current liabilities | (29.5) | (12.7) |
| | (29.5) | (9.2) |
| The net deficit arises in the following regions: | | |
| Britain & Ireland – scheme surplus | – | 3.5 |
| Britain & Ireland – scheme deficit | (12.4) | (4.2) |
| USA | (11.1) | (4.7) |
| Canada | (2.2) | (2.8) |
| Australia | (3.8) | (1.0) |
| | (29.5) | (9.2) |

**Movements in the present value of defined benefit obligations are:**

| | 2008 £m | 2007 £m |
|---|---|---|
| At 1 January | 113.8 | 111.1 |
| Current service cost | 4.4 | 5.3 |
| Past service cost | 0.2 | – |
| Interest cost | 6.7 | 5.8 |
| Actuarial gains | (7.2) | (5.6) |
| Benefits paid | (4.8) | (4.8) |
| Curtailment | – | (0.8) |
| Exchange movements | 7.8 | 2.8 |
| At 31 December | 120.9 | 113.8 |

**Analysis of the scheme liabilities:**

| | 2008 £m | 2007 £m |
|---|---|---|
| Britain & Ireland | 76.3 | 77.8 |
| USA | 20.1 | 12.6 |
| Canada | 18.3 | 20.0 |
| Australia | 6.2 | 3.4 |
| At 31 December | 120.9 | 113.8 |



**10 RETIREMENT BENEFIT SCHEMES** CONTINUED

**Movements in fair value of scheme assets were:**

| | 2008 £m | 2007 £m |
|---|---|---|
| At 1 January | 104.6 | 95.3 |
| Expected return on plan assets | 7.3 | 6.6 |
| Actuarial losses | (27.9) | (1.2) |
| Contributions by the employer | 7.2 | 6.2 |
| Benefits paid | (4.3) | (4.8) |
| Exchange movements | 4.5 | 2.5 |
| At 31 December | 91.4 | 104.6 |

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

**2008**

| | Equities | | Bonds | | Other | | Total |
|---|---|---|---|---|---|---|---|
| | % | £m | % | £m | % | £m | £m |
| Britain & Ireland | 7.4 | 56.4 | 3.6 | 6.4 | 3.8 | 1.1 | 63.9 |
| USA | 9.5 | 6.6 | 5.4 | 2.3 | 3.5 | 0.1 | 9.0 |
| Canada | 8.5 | 6.6 | 4.8 | 4.3 | 2.2 | 5.2 | 16.1 |
| Australia | 8.7 | 1.5 | 6.7 | 0.5 | 6.7 | 0.4 | 2.4 |
| | | 71.1 | | 13.5 | | 6.8 | 91.4 |

2007

| | Equities | | Bonds | | Other | | Total |
|---|---|---|---|---|---|---|---|
| | % | £m | % | £m | % | £m | £m |
| Britain & Ireland | 7.6 | 67.9 | 4.4 | 8.0 | 4.4 | 1.1 | 77.0 |
| USA | 9.7 | 5.3 | 6.0 | 2.3 | 4.2 | 0.3 | 7.9 |
| Canada | 8.3 | 8.5 | 4.7 | 4.5 | 3.3 | 4.3 | 17.3 |
| Australia | 10.6 | 1.3 | 6.6 | 0.5 | 5.7 | 0.6 | 2.4 |
| | | 83.0 | | 15.3 | | 6.3 | 104.6 |

**10 RETIREMENT BENEFIT SCHEMES** CONTINUED

**The key assumptions used in each scheme were:**

| | 2008 | 2007 |
|---|---|---|
| **Discount rate** | | |
| Britain & Ireland | **6.2%** | 5.8% |
| USA | **6.0%** | 6.5% |
| Canada | **7.3%** | 5.5% |
| Australia | **3.6%** | 5.4% |
| **Expected return on scheme assets** | | |
| Britain & Ireland | **7.0%** | 7.2% |
| USA | **7.8%** | 8.3% |
| Canada | **4.9%** | 5.0% |
| Australia | **6.5%** | 6.5% |
| **Expected rate of salary increases** | | |
| Britain & Ireland | **6.3%** | 6.6% |
| USA | **n/a** | 5.0% |
| Canada | **4.5%** | 4.5% |
| Australia | **4.0%** | 4.5% |
| **Expected rate of future pension increases** | | |
| Britain & Ireland | **2.9%** | 3.3% |
| USA | **3.0%** | 3.0% |
| Canada | **3.0%** | 3.0% |
| Australia | **1.9%** | 1.9% |
| **Inflation** | | |
| Britain & Ireland | **2.9%** | 3.3% |
| USA | **3.0%** | 3.0% |
| Canada | **3.0%** | 3.0% |
| Australia | **2.5%** | 2.5% |

| | Male | | Female | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| **Life expectancy of a 65-year-old today** | | | | |
| Britain & Ireland | **25.0** | 22.6 | **26.6** | 24.9 |
| USA | **19.4** | 19.4 | **21.6** | 21.6 |
| Canada | **18.5** | 18.5 | **21.1** | 21.1 |
| Australia | **21.3** | 21.3 | **24.1** | 24.1 |
| **Life expectancy of a 65-year-old in 20 years** | | | | |
| Britain & Ireland | **28.2** | 23.8 | **28.5** | 25.9 |
| USA | **19.4** | 19.4 | **21.6** | 21.6 |
| Canada | **18.5** | 18.5 | **21.1** | 21.1 |
| Australia | **23.3** | 23.3 | **26.1** | 26.1 |



**10 RETIREMENT BENEFIT SCHEMES** CONTINUED

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

| | Total defined benefit obligation £m | Approximate charge in 2009 £m |
|---|---|---|
| Based on the assumptions above | 120.9 | 4.9 |
| Approximate impact of: | | |
| Increase in discount rate by 0.25% | (5.1) | (0.3) |
| Increase in inflation rate by 0.25% | 5.2 | 0.6 |
| Increase in life expectancy by one year at 65 | 3.2 | 0.3 |
| Increase in return on assets by 0.25% | – | (0.3) |

The history of experience gains and losses is as follows:

| | 2008 £m | 2007 £m | 2006 £m | 2005 £m | 2004 £m |
|---|---|---|---|---|---|
| Present value of defined benefit obligation | **(120.9)** | (113.8) | (111.1) | (124.1) | (93.6) |
| Fair value of scheme assets | **91.4** | 104.6 | 95.3 | 96.3 | 76.5 |
| Deficit in the schemes | **(29.5)** | (9.2) | (15.8) | (27.8) | (17.1) |
| Experience adjustments on plan assets: | | | | | |
| Amount of (loss)/gain | **(27.7)** | (1.2) | 4.9 | 8.0 | 3.3 |
| Percentage of plan assets | **30.3%** | 1.1% | 5.1% | 8.3% | 4.3% |
| Experience adjustments on plan liabilities | | | | | |
| Amount of gain/(loss) | **7.2** | 5.6 | 5.5 | (19.3) | (6.8) |
| Percentage of the present value of scheme liabilities | **6.0%** | 4.9% | 5.0% | 15.6% | 7.3% |

**11 DIRECTORS' REMUNERATION DETAILS**

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Aggregate remuneration: | | |
| Emoluments | **3,030** | 2,309 |
| Performance-related bonus | **640** | 1,074 |
| Long-term incentive scheme | **2,299** | – |
| | **5,969** | 3,383 |

The total amounts payable under long-term incentive schemes comprise all amounts to which Directors became unconditionally entitled during the year including aggregate amounts that vest as a consequence of Directors retiring.

The amounts above include for the highest paid Director emoluments of £364,000 (2007 – £536,000), performance related bonus of £142,000 (2007 – £235,000) and long-term incentive plans of £1,717,000 (2007 – £nil).

Retirement benefits are accruing to seven Directors under defined benefit schemes sponsored by Group companies, two of whom are members of a scheme which combines defined benefit and money purchase benefits. The total annual accrued pension under the defined benefit pension schemes was £514,000 (2007 – £522,000) and for the highest paid Director was £324,000 (2007 – £219,000). Total contributions in respect of money purchase pension benefits were £220,000 (2007 – £68,000) and for the highest paid Director were £21,000 (2007 – £nil).

## 12 NET LOSS ON TRADING AND DEVELOPMENT PROPERTIES

| | 2008 £m | 2007 £m |
|---|---|---|
| Development income | **25.2** | 253.4 |
| Development costs | **(119.7)** | (312.4) |
| Proceeds from sale of trading properties | **84.8** | 40.6 |
| Carrying value of trading properties sold | **(54.0)** | (17.0) |
| Provision for impairment of trading properties | **(39.7)** | – |
| Provision for impairment of development properties | **(3.2)** | – |
| | **(106.6)** | (35.4) |

The carrying value of trading properties sold includes £1.2m of capitalised interest (2007 – £nil). The loss on trading and development properties includes £118.9m (2007 – £39.5m) in respect of the Liverpool One project. Provisions for impairment of trading and development properties have been made as a result of the fall in property valuations which are not expected to be recovered within the expected time-frame form the realisation of the properties concerned.

## 13 NET (LOSSES)/GAINS ON OTHER INVESTMENTS AND JOINT VENTURES

| | 2008 £m | 2007 £m |
|---|---|---|
| Impairment of equity shares | **(5.6)** | – |
| Provision for impairment of joint ventures | **(5.0)** | – |
| Amounts written off mezzanine loans | **(0.7)** | – |
| Amounts written off other financial assets | **(0.7)** | – |
| Profit on disposal of trade investments | **–** | 6.4 |
| Profit on disposal of joint ventures | **–** | 6.2 |
| | **(12.0)** | 12.6 |

## 14 NET (LOSSES)/GAINS ON REVALUATION AND SALE OF INVESTMENT PROPERTY

| | 2008 £m | 2007 £m |
|---|---|---|
| Valuation gains on investment property | **61.1** | 376.0 |
| Valuation losses on investment property | **(391.3)** | (5.0) |
| Valuation (losses)/gains on redevelopment properties | **(0.7)** | 1.8 |
| Net valuation (losses)/gains on investment property | **(330.9)** | 372.8 |
| Profit on disposal of investment property | **63.2** | 41.1 |
| | **(267.7)** | 413.9 |

## 15 NET FINANCING COSTS

| | 2008 £m | 2007 £m |
|---|---|---|
| **Dividend income** | **2.2** | 1.3 |
| Interest income | **14.5** | 22.3 |
| Other financial income | **1.6** | 5.3 |
| **Financial income** | **16.1** | 27.6 |
| Gross interest expense (including dividends on preference shares) | **(47.9)** | (45.8) |
| Interest capitalised | **10.1** | 3.2 |
| Commitment and other financing costs | **(2.7)** | (0.7) |
| **Financial expenses** | **(40.5)** | (43.3) |
| Fair value adjustments of interest rate swaps | **2.5** | (2.6) |
| Fair value adjustments of other derivatives | **(0.5)** | 0.2 |
| Profit on property derivatives | **0.1** | 0.4 |
| Derivative fair value adjustments | **2.1** | (2.0) |
| Fair value adjustments of embedded derivatives | **(0.4)** | 3.7 |
| **Total fair value adjustments** | **1.7** | 1.7 |
| **Net financing costs** | **(20.5)** | (12.7) |

The average rate of interest capitalised in the year was 7.1% (2007 – 6.7%).

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

## 16 INCOME TAX EXPENSE

**Recognised in the income statement**

| | 2008 £m | 2007 £m |
|---|---|---|
| **Current tax (credit)/expense** | | |
| UK corporation tax at 28.5% (2007 – 30%) | **(11.5)** | 31.1 |
| Overseas tax | **8.1** | 12.0 |
| Adjustment for prior years | **3.1** | 4.0 |
| | **(0.3)** | 47.1 |
| **Deferred tax (credit)/expense** | | |
| Origination and reversal of temporary differences | **(110.1)** | 80.9 |
| Reduction in tax rate | **–** | (33.4) |
| Benefit of tax losses recognised | **–** | – |
| Adjustment for prior years | **(7.5)** | 1.5 |
| | **(117.6)** | 49.0 |
| **Total income tax expense in the income statement** | **(117.9)** | 96.1 |

## 16 INCOME TAX EXPENSE CONTINUED

| Deferred tax recognised directly in equity | Note | 2008 £m | 2007 £m |
|---|---|---|---|
| Recognised in equity – Group | 27 | **(28.5)** | (1.6) |
| Recognised in equity – joint ventures and associates | | **(2.4)** | 3.4 |
| Total income tax expense recognised directly in equity | | **(30.9)** | 1.8 |
| **Reconciliation of effective tax rate** | | | |
| (Loss)/profit before taxation | | **(593.9)** | 524.0 |
| Less: share of loss/(profit) of joint ventures and associates | | **209.7** | (120.0) |
| Add: (loss)/profit of joint ventures where the tax charge is directly attributable to the Group | | **(110.8)** | 30.2 |
| **Adjusted Group (loss)/profit before taxation** | | **(495.0)** | 434.2 |
| Tax on adjusted Group profit at standard UK corporation tax rate of 28.5% (2007 – 30%) | | **(141.1)** | 130.3 |
| Higher tax rates on overseas earnings | | **(0.4)** | 3.8 |
| Expenses not deductible for tax purposes | | **17.6** | 7.2 |
| Other items attracting no tax relief or liability | | **0.2** | (23.2) |
| Other timing differences | | **11.0** | 5.9 |
| Reduction in tax rate | | **(0.9)** | (33.4) |
| Adjustments in respect of prior years | | **(4.3)** | 5.5 |
| **Total income tax expense in the income statement** | | **(117.9)** | 96.1 |
| Effective tax rate based on adjusted Group profit | | **23.8%** | 22.1% |

The reduction in the main rate of UK corporate tax from 30% to 28.5% was effective from 1 April 2008 with the tax payable in respect of accounting periods spanning that date calculated by apportioning the Company's taxable profits on a time basis.

## 17 PROPERTY ASSETS

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

| | | Note | 2008 £m | 2007 £m |
|---|---|---|---|---|
| Investment property | – Group | 18 | **2,751.1** | 2,841.7 |
| | – Share of joint ventures | 23 | **2,612.6** | 2,278.4 |
| | – Share of associates | 24 | **124.4** | – |
| Investment property under development | – Group | 19 | **34.7** | 79.9 |
| | – Share of joint ventures | 23 | **163.4** | 206.1 |
| | – Share of associates | 24 | **–** | 161.9 |
| Trading properties | – Group | 28 | **164.2** | 147.1 |
| | – Share of joint ventures | 23 | **274.9** | 187.5 |
| Other financial assets* | – Group | 25 | **47.5** | 60.7 |
| **Total property assets** | | | **6,172.8** | 5,963.3 |

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



## 18 INVESTMENT PROPERTY

| | Completed property | | | Redevelopment projects | | | |
|---|---|---|---|---|---|---|---|
| | Freehold £m | Leasehold £m | Total £m | Freehold £m | Leasehold £m | Total £m | **Total £m** |
| **At 1 January 2007** | 675.0 | 1,578.4 | 2,253.4 | 11.0 | – | 11.0 | **2,264.4** |
| Acquisitions | 67.9 | 149.7 | 217.6 | – | – | – | **217.6** |
| Costs capitalised | 2.9 | 9.4 | 12.3 | – | – | – | **12.3** |
| Disposals | (73.4) | (45.0) | (118.4) | (10.8) | – | (10.8) | **(129.2)** |
| Revaluation gains | 95.0 | 276.0 | 371.0 | – | 1.8 | 1.8 | **372.8** |
| Release of deferred costs | 0.2 | 1.1 | 1.3 | – | – | – | **1.3** |
| Depreciation of short leasehold properties | – | (0.3) | (0.3) | – | – | – | **(0.3)** |
| Transfer to/(from) redevelopment projects | – | (4.9) | (4.9) | – | 4.9 | 4.9 | **–** |
| Transfer from investment properties under development | 28.9 | 4.9 | 33.8 | – | – | – | **33.8** |
| Transfer to trading properties | 5.4 | – | 5.4 | – | – | – | **5.4** |
| Transfer from joint ventures | 9.8 | – | 9.8 | – | – | – | **9.8** |
| Exchange movements | 51.2 | 2.8 | 54.0 | (0.2) | – | (0.2) | **53.8** |
| **At 31 December 2007** | 862.9 | 1,972.1 | 2,835.0 | – | 6.7 | 6.7 | **2,841.7** |
| Acquisitions | 26.4 | 13.4 | 39.8 | – | – | – | **39.8** |
| Costs capitalised | 5.9 | 19.9 | 25.8 | – | 5.8 | 5.8 | **31.6** |
| Disposals | (17.0) | (64.9) | (81.9) | – | – | – | **(81.9)** |
| Revaluation losses | (80.4) | (249.8) | (330.2) | – | (0.7) | (0.7) | **(330.9)** |
| Release of deferred costs | (1.0) | 0.8 | (0.2) | – | – | – | **(0.2)** |
| Depreciation of short leasehold properties | – | (0.5) | (0.5) | – | – | – | **(0.5)** |
| Transfer from/(to) redevelopment projects | – | 3.7 | 3.7 | – | (3.7) | (3.7) | **–** |
| Transfer from investment properties under development | 77.7 | – | 77.7 | – | – | – | **77.7** |
| Transfer from trading properties | 3.0 | – | 3.0 | – | – | – | **3.0** |
| Transfer from leasehold to freehold | 7.0 | (7.0) | – | – | – | – | **–** |
| Transfer to finance lease receivable | – | (6.9) | (6.9) | – | – | – | **(6.9)** |
| Exchange movements | 139.5 | 38.2 | 177.7 | – | – | – | **177.7** |
| **At 31 December 2008** | 1,024.0 | 1,719.0 | 2,743.0 | – | 8.1 | 8.1 | **2,751.1** |

Investment properties were valued at 31 December 2008 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. Certain of the Group's valuers have noted that, in accordance with their valuation standards, a key source of evidence for property valuations should be recent comparable market transactions. As a result of the recent challenges in financial markets and the consequential impact on conditions in property markets, there has been limited comparable transactional evidence to support the valuations. Consequently, there is a greater than usual degree of uncertainty in respect of the figures reported by our valuers. Valuations were performed as follows:

| | | | £m |
|---|---|---|---|
| Britain & Ireland | Freehold | DTZ Debenham Tie Leung, Chartered Surveyors | 129.5 |
| | Long Leasehold | DTZ Debenham Tie Leung, Chartered Surveyors | 1,617.8 |
| Americas | Freehold | Cushman & Wakefield Le Page, Chartered Surveyors | 613.0 |
| Continental Europe | Freehold | Cushman & Wakefield, Chartered Surveyors | 47.1 |
| | Freehold | Directors' valuation | 0.4 |
| Australia | Freehold | Colliers International Consultancy & Valuation | 212.0 |
| Asia Pacific | Freehold | Tanizawa SOGO Appraisal Co Ltd | 22.0 |
| | Long Leasehold | Asset Research and Development Inc. | 17.0 |
| | Long Leasehold | Savills Valuation & Professional Services Limited | 92.3 |
| | | | 2,751.1 |

The historical cost of the Group's investment properties was £1,466.5m (2007 – £1,252.7m).

At 31 December 2008, investment properties with a carrying amount of £1,332.1m were pledged as security for bank loans (2007 – £1,388.7m).

Included in the above are investment properties available for sale of £263m.

### 19 INVESTMENT PROPERTY UNDER DEVELOPMENT

| | Freehold £m | Leasehold £m | Total £m |
|---|---|---|---|
| **At 1 January 2007** | 74.6 | 11.0 | **85.6** |
| Acquisitions | 27.9 | 9.9 | **37.8** |
| Costs capitalised | 5.7 | – | **5.7** |
| Disposals | (24.8) | – | **(24.8)** |
| Revaluation gains/(losses) | 14.5 | (0.6) | **13.9** |
| Transfer to investment properties | (28.9) | (4.9) | **(33.8)** |
| Transfer from/(to) trading properties | 0.8 | (12.5) | **(11.7)** |
| Exchange movements | 7.2 | – | **7.2** |
| **At 31 December 2007** | 77.0 | 2.9 | **79.9** |
| Acquisitions | 13.7 | – | **13.7** |
| Costs capitalised | 9.5 | – | **9.5** |
| Revaluation losses | (3.1) | – | **(3.1)** |
| Provision for impairment | (0.3) | (2.9) | **(3.2)** |
| Transfer to investment properties | (77.7) | – | **(77.7)** |
| Exchange movements | 15.6 | – | **15.6** |
| **At 31 December 2008** | 34.7 | – | **34.7** |

Investment properties under development were valued at 31 December 2008 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 | DTZ Debenham Tie Leung, Chartered Surveyors | **6.1** |
| Americas | Freehold | Cushman & Wakefield Le Page, Chartered Surveyors | **27.8** |
| Continental Europe | Freehold | Directors' valuation | **0.8** |
| | | | **34.7** |

The historical cost of the Group's investment property under development was £24.5m (2007 – £21.5m).

At 31 December 2008, investment property under development with a carrying amount of £27.8m was pledged as security for bank loans (2007 – £47.6m).

The carrying value of investment property under development includes capitalised interest of £0.7m (2007 – £2.8m).



### 20 OTHER PROPERTY, PLANT AND EQUIPMENT

**2008**

| | Land and buildings £m | Leasehold improvements £m | Computer and IT equipment £m | Fixtures, fittings and motor vehicles £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2008 | 47.7 | 5.7 | 5.7 | 4.9 | **64.0** |
| Additions | – | 0.5 | 1.0 | 1.0 | **2.5** |
| Disposals | – | – | (0.4) | (0.3) | **(0.7)** |
| Revaluation losses | (21.2) | – | – | – | **(21.2)** |
| Exchange movements | – | 0.5 | 0.1 | 0.6 | **1.2** |
| At 31 December 2008 | 26.5 | 6.7 | 6.4 | 6.2 | **45.8** |
| **Depreciation** | | | | | |
| At 1 January 2008 | (0.1) | (4.8) | (3.8) | (2.8) | **(11.5)** |
| Depreciation charge for the year | – | (0.4) | (0.7) | (0.5) | **(1.6)** |
| Disposals | – | – | 0.3 | 0.2 | **0.5** |
| Exchange movements | – | (0.2) | (0.1) | (0.1) | **(0.4)** |
| At 31 December 2008 | (0.1) | (5.4) | (4.3) | (3.2) | **(13.0)** |
| **Carrying amount** | | | | | |
| At 1 January 2008 | 47.6 | 0.9 | 1.9 | 2.1 | **52.5** |
| At 31 December 2008 | 26.4 | 1.3 | 2.1 | 3.0 | **32.8** |

2007

| | Land and buildings £m | Leasehold improvements £m | Computer and IT equipment £m | Fixtures, fittings and motor vehicles £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2007 | 37.9 | 5.6 | 5.0 | 4.5 | 53.0 |
| Additions | – | 0.2 | 1.5 | 0.6 | 2.3 |
| Disposals | – | (0.1) | (0.8) | (0.2) | (1.1) |
| Revaluation gains | 9.8 | – | – | – | 9.8 |
| At 31 December 2007 | 47.7 | 5.7 | 5.7 | 4.9 | 64.0 |
| **Depreciation** | | | | | |
| At 1 January 2007 | (0.1) | (4.2) | (3.2) | (2.4) | (9.9) |
| Depreciation charge for the year | – | (0.7) | (0.7) | (0.5) | (1.9) |
| Disposals | – | 0.1 | 0.1 | 0.1 | 0.3 |
| At 31 December 2007 | (0.1) | (4.8) | (3.8) | (2.8) | (11.5) |
| **Carrying amount** | | | | | |
| At 1 January 2007 | 37.8 | 1.4 | 1.8 | 2.1 | 43.1 |
| At 31 December 2007 | 47.6 | 0.9 | 1.9 | 2.1 | 52.5 |

Land and buildings are freehold and were valued at 31 December 2008 by DTZ Debenham Tie Leung, 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 2008 was £12.9m (2007 – £13.6m).

The carrying value of freehold land and buildings includes capitalised interest of £nil (2007 – £0.1m).

At 31 December 2008, land and buildings with a carrying value of £25.9m were pledged as security for bank loans (2007 – £46.9m).

## 21 INVESTMENTS IN SUBSIDIARIES

### Company

| | Shares at cost £m |
|---|---|
| At 1 January 2008 and 31 December 2008 | **1,358.4** |

At 31 December 2008, the Group had the following principal investments in subsidiaries:

**INTERMEDIATE HOLDING COMPANIES**
Grosvenor Estate Holdings*¥
Grosvenor Limited
Grosvenor Americas Limited (Canada)
Grosvenor Americas USA Inc. (USA)
Grosvenor International SA (Luxembourg)ø
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 Asia Pacific Limited (Hong Kong)
Grosvenor Fund Management Limited

**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
Grosvenor Investment Management US Inc. (USA)

**FINANCING**
Grosvenor Group Finance Company*
Grosvenor UK Finance Plc

*Unlimited company

¥100% of preference shares are also owned

øOrdinary and non-voting preference shares are wholly owned. All of the floating rate guaranteed class B voting preferred redeemable shares, which carry approximately 36% of the total voting rights, are publicly held.

†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 AND ASSOCIATES

| | Note | 2008 £m | 2007 £m |
|---|---|---|---|
| Share of (loss)/profit: | | | |
| Joint ventures | 23 | **(187.6)** | 114.2 |
| Associates | 24 | **(22.1)** | 5.8 |
| | | **(209.7)** | 120.0 |
| Share of assets and liabilities: | | | |
| Joint ventures | 23 | **1,064.9** | 1,083.5 |
| Associates | 24 | **28.4** | 72.5 |
| | | **1,093.3** | 1,156.0 |

## 23 INVESTMENTS IN JOINT VENTURES

### 2008

| | Britain & Ireland £m | Americas £m | Continental Europe £m | Australia £m | Asia Pacific £m | Total £m |
|---|---|---|---|---|---|---|
| **Share of profit from joint ventures:** | | | | | | |
| Gross rental income | 28.6 | 13.1 | 106.0 | 1.4 | 3.6 | **152.7** |
| Net rental and other income less administrative expenses | 20.4 | 8.4 | 67.2 | 1.1 | 1.5 | **98.6** |
| Gains/losses from trading and development properties | 1.1 | – | (21.7) | (1.6) | – | **(22.2)** |
| Net losses on revaluation and sale of investment property | (103.0) | (11.8) | (113.9) | (1.5) | (16.3) | **(246.5)** |
| Financial income | 0.1 | 0.1 | 15.9 | – | – | **16.1** |
| Financial expenses | (13.0) | (3.3) | (55.1) | (0.5) | (2.0) | **(73.9)** |
| Other financial costs | – | (0.7) | (3.1) | – | – | **(3.8)** |
| Loss before tax | (94.4) | (7.3) | (110.7) | (2.5) | (16.8) | **(231.7)** |
| Current tax | – | – | (9.8) | – | – | **(9.8)** |
| Deferred tax | – | (0.1) | 19.1 | 0.7 | 1.4 | **21.1** |
| Minority interest | – | – | 32.7 | – | 0.1 | **32.8** |
| | (94.4) | (7.4) | (68.7) | (1.8) | (15.3) | **(187.6)** |
| **Share of assets and liabilities:** | | | | | | |
| Non-current assets | | | | | | |
| – Investment properties | 394.0 | 268.8 | 1,769.9 | 20.0 | 159.9 | **2,612.6** |
| – Investment properties under development | 2.8 | – | 160.6 | – | – | **163.4** |
| – Other | – | – | 90.5 | – | – | **90.5** |
| Current assets | | | | | | |
| – Cash | 13.7 | 2.1 | 75.3 | 0.5 | 18.8 | **110.4** |
| – Trading properties | 85.0 | – | 114.0 | 4.4 | 71.5 | **274.9** |
| – Other | 4.1 | 1.7 | 203.2 | 0.6 | 23.2 | **232.8** |
| Non-current liabilities | (3.0) | (54.6) | (1,511.6) | (3.3) | (102.0) | **(1,674.5)** |
| Current liabilities | (283.2) | (31.8) | (352.7) | (7.0) | (115.6) | **(790.3)** |
| Net assets | 213.4 | 186.2 | 549.2 | 15.2 | 55.8 | **1,019.8** |
| Goodwill | – | – | 45.1 | – | – | **45.1** |
| | 213.4 | 186.2 | 594.3 | 15.2 | 55.8 | **1,064.9** |
| Borrowings included in liabilities | (251.8) | (81.4) | (1,128.4) | (6.8) | (131.6) | **(1,600.0)** |

**23 INVESTMENTS IN JOINT VENTURES** CONTINUED

2007

| | Britain & Ireland £m | Americas £m | Continental Europe £m | Australia £m | Asia Pacific £m | Total £m |
|---|---|---|---|---|---|---|
| **Share of profit from joint ventures:** | | | | | | |
| Gross rental income | 25.8 | 12.5 | 80.7 | 1.5 | 2.6 | 123.1 |
| Net rental and other income less administrative expenses | 19.5 | 8.5 | 50.7 | 0.9 | 0.7 | 80.3 |
| Income from trading and development properties | 24.3 | – | 13.6 | – | – | 37.9 |
| Net (losses)/gains on revaluation and sale of investment property | (20.1) | 13.1 | 98.0 | 2.1 | 2.5 | 95.6 |
| Financial income | 0.6 | 0.1 | 12.2 | – | 0.2 | 13.1 |
| Financial expenses | (11.1) | (2.9) | (31.1) | (0.3) | (0.8) | (46.2) |
| Other financial income/(costs) | 0.1 | (1.0) | (1.2) | – | – | (2.1) |
| Profit before tax | 13.3 | 17.8 | 142.2 | 2.7 | 2.6 | 178.6 |
| Current tax | 4.4 | – | (7.5) | (0.1) | – | (3.2) |
| Deferred tax | – | – | (31.4) | (1.0) | 0.3 | (32.1) |
| Minority interest | – | – | (29.1) | – | – | (29.1) |
| | 17.7 | 17.8 | 74.2 | 1.6 | 2.9 | 114.2 |
| **Share of assets and liabilities:** | | | | | | |
| Non-current assets | | | | | | |
| – Investment properties | 446.2 | 201.5 | 1,549.0 | 19.5 | 62.2 | 2,278.4 |
| – Investment properties under development | 45.7 | – | 160.4 | – | – | 206.1 |
| – Other | 11.0 | – | 55.5 | – | – | 66.5 |
| Current assets | | | | | | |
| – Cash | 15.1 | 1.6 | 31.7 | 0.2 | 9.2 | 57.8 |
| – Trading properties | 57.5 | – | 90.4 | 2.9 | 36.7 | 187.5 |
| – Other | 18.4 | 1.4 | 182.7 | 0.2 | 7.9 | 210.6 |
| Non-current liabilities | (228.0) | (61.0) | (1,258.9) | (8.3) | (61.9) | (1,618.1) |
| Current liabilities | (37.1) | (3.7) | (277.4) | (0.4) | (21.0) | (339.6) |
| Net assets | 328.8 | 139.8 | 533.4 | 14.1 | 33.1 | 1,049.2 |
| Goodwill | – | – | 34.3 | – | – | 34.3 |
| | 328.8 | 139.8 | 567.7 | 14.1 | 33.1 | 1,083.5 |
| Borrowings included in liabilities (non-recourse to the Group) | (228.0) | (61.0) | (845.8) | (5.2) | (60.5) | (1,200.5) |

Minor changes have been made to the comparative figures in order to assist with comparability.



**23 INVESTMENTS IN JOINT VENTURES** CONTINUED

At 31 December 2008, 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% | 52.7 |
| Grosvenor London Office Fund | Property investment | England and Wales | 24.2% | 59.3 |
| Grosvenor Festival Place Fund | Property investment | England and Wales | 40.9% | 34.3 |
| Grosvenor Residential Investment Fund | Property investment | England and Wales | 29.4% | 10.0 |
| Grand Arcade Partnership | Property development | England and Wales | 20% | 30.6 |
| GC Bankside LLP | Property development | England and Wales | 50% | 6.6 |
| Barkhill Limited | Property development | Republic of Ireland | 50% | 12.8 |
| **Americas** | | | | |
| Joint ventures with BBCAF Inc | Property investment | United States of America | 50%/25% | 148.7 |
| Joint ventures with the Getty Family Trust | Property investment | United States of America | 50% | 11.6 |
| GEMOA Inc | Property investment | United States of America | 20% | 12.8 |
| Art Hill Management | Property investment | United States of America | 48.9% | 9.7 |
| Joint ventures with Rockwood | Property investment | United States of America | 33% | 3.3 |
| **Continental Europe*** | | | | |
| Sonae Sierra SGPS SA | Property investment and development | Portugal | 50% | 571.9 |
| Joint ventures with Grupo Lar | Property investment and development | The Netherlands | 50% | 20.1 |
| **Australia** | | | | |
| Fieldglen II | Property investment | Australia | 50% | 10.3 |
| Hassall Street | Property development | Australia | 50% | 4.9 |
| **Asia Pacific** | | | | |
| YK Japan Residential Fund | Property investment | Japan | 33.7%/18.8% | 17.3 |
| Tokutei Mokuteki Kaisha | Property investment | Japan | 50% | 13.9 |
| Grosvenor Park Partners Limited | Property development | Cayman Islands | 20% | 8.6 |

*The investments in joint ventures in Continental Europe are controlled by Grosvenor First European Property Investments SA (GFEPI), which is 67.5% owned by the Group. The effective interest above includes the interests 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 UK limited partnerships. 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.

## 24 ASSOCIATES

| | 2008 £m | 2007 £m |
|---|---|---|
| **Share of (loss)/profit from associates:** | | |
| Loss before tax | **(22.1)** | (0.1) |
| Deferred tax | **–** | 5.9 |
| (Loss)/profit after tax | **(22.1)** | 5.8 |
| **Share of assets and liabilities:** | | |
| Investment properties | **124.4** | – |
| Investment properties under development | **–** | 161.9 |
| Other assets | **17.2** | 1.0 |
| Liabilities | **(113.2)** | (90.4) |
| Net assets | **28.4** | 72.5 |
| Borrowings included in liabilities | **(109.3)** | (90.1) |

The investment in associates comprises the Group's effective 23.5% interest in the Grosvenor Liverpool Fund, which is involved in property development and is incorporated in England and Wales. Loss before tax includes revaluation losses of £22.5m (2007 – £nil).

## 25 OTHER FINANCIAL ASSETS

| | 2008 £m | 2007 £m |
|---|---|---|
| **Non-current assets** | | |
| Equity shares | **30.5** | 34.4 |
| Finance lease receivables | **6.9** | – |
| Mezzanine loans | **4.6** | 17.1 |
| Other financial assets | **4.6** | 3.9 |
| | **46.6** | 55.4 |
| **Current assets** | | |
| Mezzanine loans | **11.9** | 8.6 |

Included in the above are property related financial assets of £47.5m (2007 – £60.7m).

Principal financial assets at 31 December 2008:

**Equity shares**

| | Principal activities | Country of incorporation | Effective interest |
|---|---|---|---|
| Asia Standard International Group Limited | Property investment and development (listed on the Hong Kong Stock Exchange) | Hong Kong | 4.1% |
| ISPT Grosvenor International Property Trust | Property investment vehicle | Australia | 9.9% |
| Shmael U.S. Real Estate Fund | Property investment vehicle | USA | 10.0% |

**Finance lease receivables**

| | 2008 £m | 2007 £m |
|---|---|---|
| Finance lease receivable | **5.5** | – |
| Unguaranteed residual value | **1.4** | – |
| | **6.9** | – |

Finance lease receivables in respect of rents on leasehold properties are receivable as follows:

| | Minimum lease payments £m | Unearned finance income £m | Principal £m |
|---|---|---|---|
| Less than one year | 0.6 | 0.6 | – |
| Between one and five years | 2.5 | 2.5 | – |
| More than five years | 89.2 | 83.7 | 5.5 |
| | 92.3 | 86.8 | 5.5 |



## 25 OTHER FINANCIAL ASSETS CONTINUED

**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.

## 26 INTANGIBLE ASSETS

**2008**

| | Goodwill £m | Other intangible assets £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2008 | 7.6 | 2.1 | **9.7** |
| Exchange movements | 2.4 | 0.8 | **3.2** |
| At 31 December 2008 | 10.0 | 2.9 | **12.9** |
| **Amortisation/impairment** | | | |
| At 1 January 2008 | (3.5) | (1.2) | **(4.7)** |
| Amortisation | – | (0.5) | **(0.5)** |
| Exchange movements | (1.0) | (0.6) | **(1.6)** |
| At 31 December 2008 | (4.5) | (2.3) | **(6.8)** |
| **Carrying amount** | | | |
| At 1 January 2008 | 4.1 | 0.9 | **5.0** |
| At 31 December 2008 | 5.5 | 0.6 | **6.1** |

2007

| | Goodwill £m | Other intangible assets £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2007 | 7.3 | 1.7 | 9.0 |
| Acquisitions | – | 0.4 | 0.4 |
| Exchange | 0.3 | – | 0.3 |
| At 31 December 2007 | 7.6 | 2.1 | 9.7 |
| **Amortisation/impairment** | | | |
| At 1 January 2007 | (3.5) | (0.6) | (4.1) |
| Amortisation | – | (0.6) | (0.6) |
| At 31 December 2007 | (3.5) | (1.2) | (4.7) |
| **Carrying amount** | | | |
| At 1 January 2007 | 3.8 | 1.1 | 4.9 |
| At 31 December 2007 | 4.1 | 0.9 | 5.0 |

## 27 DEFERRED TAX ASSETS AND LIABILITIES

### RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

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

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Assets £m | Liabilities £m | Net £m | Assets £m | Liabilities £m | Net £m |
| Investment property – contingent gains | 36.4 | (497.0) | (460.6) | 1.9 | (575.9) | (574.0) |
| Investment property – deferred gains | 36.1 | – | 36.1 | 44.5 | – | 44.5 |
| Other property, plant and equipment | 0.1 | (10.6) | (10.5) | – | (10.3) | (10.3) |
| Other financial assets | 0.9 | (0.9) | – | 0.8 | (1.6) | (0.8) |
| Interest-bearing loans and borrowings | 5.4 | (1.0) | 4.4 | 0.5 | (0.7) | (0.2) |
| Employee benefits | 8.8 | (2.3) | 6.5 | 7.6 | (1.6) | 6.0 |
| Provisions | 1.0 | – | 1.0 | 1.0 | (7.0) | (6.0) |
| Other items | 0.3 | (7.5) | (7.2) | 2.9 | (7.3) | (4.4) |
| Tax value and loss carry-forwards recognised | 5.9 | – | 5.9 | 4.4 | – | 4.4 |
| Tax assets/(liabilities) | 94.9 | (519.3) | (424.4) | 63.6 | (604.4) | (540.8) |

At 31 December 2008, 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. At 31 December 2008 the total of such gains was £479m (2007 – £428m) and the potential tax effect £136m (2007 – £122m). Tax relief on losses that would arise on the disposal of investments are recognised as deferred tax assets rather than set against the deferred tax liability recognising that such relief may arise at a different time to the liability. The majority of the tax losses are available to be carried forward indefinitely.

**Unrecognised deferred tax assets**

| | 2008 £m | 2007 £m |
|---|---|---|
| Tax losses | 10.7 | 1.0 |

**Movement in temporary differences during the year**

| | Balance at 1 January 2008 £m | Recognised in Income £m | Recognised in Equity £m | Exchange movement £m | Balance at 31 December 2008 £m |
|---|---|---|---|---|---|
| Investment property – contingent gains | (574.0) | 130.2 | 16.8 | (33.6) | (460.6) |
| Investment property – deferred gains | 44.5 | (8.4) | – | – | 36.1 |
| Other property, plant and equipment | (10.3) | (0.2) | – | – | (10.5) |
| Other financial assets | (0.8) | 0.7 | – | 0.1 | – |
| Interest-bearing loans and borrowings | (0.2) | (1.1) | 5.0 | 0.7 | 4.4 |
| Employee benefits | 6.0 | (6.2) | 6.7 | – | 6.5 |
| Provisions | (6.0) | 7.0 | – | – | 1.0 |
| Other items | (4.4) | (2.7) | – | (0.1) | (7.2) |
| Tax value and loss carry-forwards recognised | 4.4 | (1.7) | – | 3.2 | 5.9 |
| | (540.8) | 117.6 | 28.5 | (29.7) | (424.4) |

## 28 TRADING PROPERTIES

| | 2008 £m | 2007 £m |
|---|---|---|
| At 1 January | 147.1 | 48.7 |
| Additions | 106.4 | 100.1 |
| Capitalised interest | 3.4 | 2.0 |
| Disposals | (54.0) | (17.0) |
| Provision for impairment | (39.7) | – |
| Transfer to investment properties | (3.0) | (5.4) |
| Transfer from investment property under development | – | 11.7 |
| Exchange movements | 5.3 | 7.0 |
| Other | (1.3) | – |
| At 31 December | 164.2 | 147.1 |

At 31 December 2008, trading properties with a carrying amount of £31.4m were pledged as security for bank loans (2007 – £11.1m).



## 29 TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 £m | 2007 £m | 2008 £m | 2007 £m |
| Trade receivables | 21.0 | 20.5 | – | – |
| Receivables due from subsidiaries | – | – | 299.6 | 135.5 |
| Receivables due from joint ventures | 139.2 | 91.2 | – | – |
| Other receivables | 15.1 | 36.4 | – | – |
| Prepayments | 22.9 | 15.1 | – | – |
| | 198.2 | 163.2 | 299.6 | 135.5 |

Included in the above are receivables due after more than one year totalling £42.6m (2007 – £33.8m).

## 30 CASH AND CASH EQUIVALENTS

| | 2008 £m | 2007 £m |
|---|---|---|
| Bank balances | 55.2 | 74.4 |
| Cash deposits | 36.3 | 249.2 |
| Cash and cash equivalents | 91.5 | 323.6 |
| Bank overdrafts | (1.3) | (0.3) |
| Cash and cash equivalents in the statement of cash flows | 90.2 | 323.3 |

The amount of cash and cash equivalents not available for use by the Group totals £11.1m (2007 – £154.3m), of which £1.6m (2007 – £133.5m) has been pledged as collateral, principally in respect of future development costs.

## 31 INTEREST-BEARING LOANS AND BORROWINGS

| | 2008 £m | 2007 £m |
|---|---|---|
| Non-current liabilities | | |
| Secured bank loans | 339.5 | 239.7 |
| Unsecured bank loans | 67.6 | 54.8 |
| Secured bond issues | 202.4 | 202.5 |
| Unsecured bond issues | 53.5 | 53.2 |
| Finance lease liabilities | 1.4 | 1.4 |
| Loan from joint ventures | 8.1 | 6.9 |
| Preference shares | 34.0 | – |
| | 706.5 | 558.5 |
| Current liabilities | | |
| Current portion of secured bank loans | 50.8 | 87.3 |
| Current portion of unsecured bank loans | 15.0 | – |
| Current portion on unsecured bond issues | – | 14.7 |
| Current portion of loan from joint ventures | 12.3 | 10.6 |
| | 78.1 | 112.6 |

The bank loans and secured bonds are secured over investment properties and investment properties under development with a carrying value of £1,359.9m (2007 – £1,436.3m), land and buildings with a carrying value of £25.9m (2007 – £46.9m) and trading properties with a carrying value of £31.4m (2007 – £11.1m). Included in secured bond issues is £2.4m (2007 – £2.5m) of net un-amortised premium. The preference shares are issued by a subsidiary undertaking (see Note 21).

### FINANCE LEASE LIABILITIES

Finance lease liabilities are payable as follows:

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Minimum lease payments £m | Interest £m | Principal £m | Minimum lease payments £m | Interest £m | Principal £m |
| Less than one year | 0.3 | 0.3 | – | 0.3 | 0.3 | – |
| Between one and five years | 1.2 | 1.2 | – | 1.2 | 1.2 | – |
| More than five years | 74.1 | 72.7 | 1.4 | 74.4 | 73.0 | 1.4 |
| | 75.6 | 74.2 | 1.4 | 75.9 | 74.5 | 1.4 |

## 32 FINANCIAL INSTRUMENTS

### CAPITAL RISK MANAGEMENT

The capital structure of the Group comprises debt, which includes the borrowings disclosed in Note 31; cash and cash equivalents disclosed in Note 30; and equity, comprising issued share capital, reserves and retained earnings as disclosed in Notes 38 and 39.

The Group manages its capital to optimise the allocation of equity between the Operating Companies and to enable them to meet their short, medium and long-term targets. Internal gearing and interest cover limits are set for the Group and each Operating Company. Group gearing at the year end is 26.2% (2007 – 12.0%).

**Categories of financial instruments and their fair values**

**2008**

| | Loans and receivables £m | Held for trading £m | Available-for-sale securities £m | Financial assets at amortised cost £m | **Total carrying amount £m** | **Fair value £m** |
|---|---|---|---|---|---|---|
| **Financial assets:** | | | | | | |
| Equity shares | – | – | 30.5 | – | **30.5** | **30.5** |
| Finance lease receivable | 6.9 | – | – | – | **6.9** | **10.8** |
| Mezzanine loan investments | 14.5 | 2.0 | – | – | **16.5** | **16.5** |
| Other financial assets | – | – | 4.6 | – | **4.6** | **4.6** |
| Trade and other receivables | 139.2 | – | – | 36.1 | **175.3** | **175.3** |
| Cash and cash equivalents | – | – | – | 91.5 | **91.5** | **91.5** |
| **Total financial assets** | 160.6 | 2.0 | 35.1 | 127.6 | **325.3** | **329.2** |

| | Financial liabilities at amortised cost £m | **Total carrying amount £m** | **Fair value £m** |
|---|---|---|---|
| **Financial liabilities:** | | | |
| Bank overdrafts | (1.3) | **(1.3)** | **(1.3)** |
| Fixed rate loans | | | |
| Sterling secured mortgage 2034 | (50.0) | **(50.0)** | **(63.4)** |
| Sterling secured bond 2026 | (202.4) | **(202.4)** | **(174.3)** |
| Sterling unsecured bond 2019 | (52.5) | **(52.5)** | **(44.0)** |
| US Dollars | (35.6) | **(35.6)** | **(29.7)** |
| Canadian Dollars | (70.1) | **(70.1)** | **(69.4)** |
| Euros | (0.9) | **(0.9)** | **(0.9)** |
| Japanese Yen | (14.4) | **(14.4)** | **(14.2)** |
| Total fixed rate loans | (425.9) | **(425.9)** | **(395.9)** |
| Floating rate loans | | | |
| Sterling | (85.0) | **(85.0)** | **(85.0)** |
| US Dollars | (96.2) | **(96.2)** | **(96.2)** |
| Canadian Dollars | (8.9) | **(8.9)** | **(8.9)** |
| Euros | (24.9) | **(24.9)** | **(24.9)** |
| Australian Dollars | (82.4) | **(82.4)** | **(82.4)** |
| Chinese Renminbi | (1.0) | **(1.0)** | **(1.0)** |
| Total floating rate loans | (298.4) | **(298.4)** | **(298.4)** |
| Finance lease liabilities | (1.4) | **(1.4)** | **(2.5)** |
| Loans from joint ventures | (20.4) | **(20.4)** | **(20.4)** |
| Preference shares | (34.0) | **(34.0)** | **(34.0)** |
| Trade and other payables | (119.2) | **(119.2)** | **(119.2)** |
| **Total financial liabilities** | (900.6) | **(900.6)** | **(871.7)** |



## 32 FINANCIAL INSTRUMENTS CONTINUED

| | Held for trading £m | **Total carrying amount £m** | **Fair value £m** |
|---|---|---|---|
| **Interest rate swaps** | | | |
| US Dollars | (5.2) | **(5.2)** | **(5.2)** |
| Euros | (0.5) | **(0.5)** | **(0.5)** |
| Australian Dollars | (1.1) | **(1.1)** | **(1.1)** |
| Chinese Renminbi | 2.3 | **2.3** | **2.3** |
| **Total interest rate swaps** | (4.5) | **(4.5)** | **(4.5)** |

2007

| | Loans and receivables £m | Held for trading £m | Available-for-sale securities £m | Financial assets at amortised cost £m | Total carrying amount £m | Fair value £m |
|---|---|---|---|---|---|---|
| **Financial assets:** | | | | | | |
| Equity shares | – | – | 34.4 | – | 34.4 | 34.4 |
| Mezzanine loan investments | 22.0 | 3.7 | – | – | 25.7 | 25.7 |
| Other financial assets | – | – | 3.9 | – | 3.9 | 3.9 |
| Trade and other receivables | 91.2 | – | – | 56.9 | 148.1 | 148.1 |
| Cash and cash equivalents | – | – | – | 323.6 | 323.6 | 323.6 |
| **Total financial assets** | 113.2 | 3.7 | 38.3 | 380.5 | 535.7 | 535.7 |

| | Financial liabilities at amortised cost £m | Total carrying amount £m | Fair value £m |
|---|---|---|---|
| **Financial liabilities:** | | | |
| Bank overdrafts | (0.3) | (0.3) | (0.3) |
| Fixed rate loans | | | |
| Sterling secured mortgage 2034 | (50.0) | (50.0) | (80.8) |
| Sterling secured bond 2026 | (202.5) | (202.5) | (218.8) |
| Sterling unsecured bond 2019 | (52.5) | (52.5) | (57.9) |
| Other Sterling unsecured loan | (15.0) | (15.0) | (15.7) |
| US Dollars | (42.3) | (42.3) | (41.4) |
| Canadian Dollars | (47.8) | (47.8) | (46.9) |
| Euros | (0.7) | (0.7) | (0.7) |
| Japanese Yen | (8.4) | (8.4) | (8.4) |
| Total fixed rate loans | (419.2) | (419.2) | (470.6) |
| Floating rate loans | | | |
| Sterling | (55.0) | (55.0) | (55.0) |
| US Dollars | (42.1) | (42.1) | (42.1) |
| Canadian Dollars | (24.1) | (24.1) | (24.1) |
| Euros | (33.4) | (33.4) | (33.4) |
| Australian Dollars | (76.1) | (76.1) | (76.1) |
| Total floating rate loans | (230.7) | (230.7) | (230.7) |
| Finance lease liabilities | (1.4) | (1.4) | (2.5) |
| Loans from joint ventures | (17.5) | (17.5) | (17.5) |
| Trade and other payables | (131.2) | (131.2) | (131.2) |
| **Total financial liabilities** | (800.3) | (800.3) | (852.8) |

## 32 **FINANCIAL INSTRUMENTS** CONTINUED

| | Held for trading £m | Total carrying amount £m | Fair value £m |
|---|---|---|---|
| **Interest rate swaps** | | | |
| US Dollars | (0.3) | (0.3) | (0.3) |
| Euros | 0.7 | 0.7 | 0.7 |
| Australian Dollars | 0.9 | 0.9 | 0.9 |
| Chinese Renminbi | (3.6) | (3.6) | (3.6) |
| **Total interest rate swaps** | (2.3) | (2.3) | (2.3) |

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

– Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

– The fair value of non-derivative financial assets and liabilities with standard terms and conditions and traded on active markets is determined with reference to quoted market prices.

– The fair value of other non-derivative financial assets and liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

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

– to fully manage wholly owned treasury operations in a co-ordinated manner; debt for joint ventures and funds is raised at joint venture and fund level but is managed within the co-ordinated approach;

– to ensure sufficient committed loan facilities to support anticipated business requirements as they arise;

– to ensure that the Group's debt can be supported from maintainable cash flow through clear internal guidelines;

– to manage interest rate exposure with a combination of fixed rate debt and interest rate swaps so that a minimum of 60% of borrowings are at fixed interest rates 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 including derivatives are either governed by specific delegations to Operating Company boards or have prior Board approval. The Group does not enter into any treasury positions for purely speculative purposes. Detailed treasury reports are produced on a monthly basis with consolidated treasury risk reports presented to the Shareholders and the Board. Risks include market risk (interest rates, currency and pricing), credit risk and liquidity risk.

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



## 32 **FINANCIAL INSTRUMENTS** CONTINUED

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

**2008**

| | Effective interest rate % | Floating interest rate £m | Fixed interest rate | | | Non-interest bearing £m | **Total £m** |
|---|---|---|---|---|---|---|---|
| | | | < 1 year £m | 1-5 years £m | > 5 years £m | | |
| **Financial assets:** | | | | | | | |
| Equity shares | – | – | – | – | – | 30.5 | **30.5** |
| Finance lease receivables | 12.6 | – | – | – | 6.9 | – | **6.9** |
| Mezzanine loan investments | 10.0 | – | 11.9 | 4.6 | – | – | **16.5** |
| Other financial assets | 5.0 | – | 0.1 | 0.5 | 0.5 | 3.5 | **4.6** |
| Trade and other receivables | 5.5 | 51.3 | – | – | – | 124.0 | **175.3** |
| Cash and cash equivalents | 2.7 | 78.2 | 5.7 | – | – | 7.6 | **91.5** |
| **Total financial assets** | | 129.5 | 17.7 | 5.1 | 7.4 | 165.6 | **325.3** |
| **Financial liabilities:** | | | | | | | |
| Bank overdrafts | 3.9 | (1.3) | – | – | – | – | **(1.3)** |
| Fixed rate loans | | | | | | | |
| Sterling secured mortgage 2034 | 10.4 | – | – | – | (50.0) | – | **(50.0)** |
| Sterling secured bond 2026 | 6.4 | – | – | – | (202.4) | – | **(202.4)** |
| Sterling unsecured bond 2019 | 8.4 | – | – | – | (52.5) | – | **(52.5)** |
| US Dollars | 5.7 | – | (0.2) | (1.7) | (33.7) | – | **(35.6)** |
| Canadian Dollars | 5.7 | – | (3.4) | – | (66.7) | – | **(70.1)** |
| Euros | 6.0 | – | – | – | (0.9) | – | **(0.9)** |
| Japanese Yen | 2.8 | – | (14.4) | – | – | – | **(14.4)** |
| Total fixed rate loans | | – | (18.0) | (1.7) | (406.2) | – | **(425.9)** |
| Floating rate loans fixed through interest rate swaps | | | | | | | |
| US Dollars | 5.1 | – | – | (63.6) | – | – | **(63.6)** |
| Euros | 4.3 | – | – | – | (25.4) | – | **(25.4)** |
| Australian Dollars | 7.1 | – | (13.9) | (45.4) | – | – | **(59.3)** |
| Chinese Renminbi | 3.2 | – | – | 2.3 | – | – | **2.3** |
| Total floating rate loans fixed through interest rate swaps | | – | (13.9) | (106.7) | (25.4) | – | **(146.0)** |
| Floating rate loans | | | | | | | |
| Sterling | 6.4 | (85.0) | – | – | – | – | **(85.0)** |
| US Dollars | 3.5 | (37.8) | – | – | – | – | **(37.8)** |
| Canadian Dollars | 3.8 | (8.9) | – | – | – | – | **(8.9)** |
| Australian Dollars | 6.2 | (24.2) | – | – | – | – | **(24.2)** |
| Chinese Renminbi | 6.3 | (1.0) | – | – | – | – | **(1.0)** |
| Total floating rate loans | | (156.9) | – | – | – | – | **(156.9)** |
| Finance lease liabilities | 11.0 | – | – | – | (1.4) | – | **(1.4)** |
| Loans from joint ventures | – | – | – | – | – | (20.4) | **(20.4)** |
| Preference shares | 5.1 | (34.0) | – | – | – | – | **(34.0)** |
| Trade and other payables | 6.0 | (12.4) | – | – | – | (106.8) | **(119.2)** |
| **Total financial liabilities** | | (204.6) | (31.9) | (108.4) | (433.0) | (127.2) | **(905.1)** |

The total average cost of debt for the year ended 31 December 2008 was 6.5% (2007 – 6.8%).

32 **FINANCIAL INSTRUMENTS** CONTINUED

2007

| | Effective interest rate % | Floating interest rate £m | Fixed interest rate < 1 year £m | Fixed interest rate 1-5 years £m | Fixed interest rate > 5 years £m | Non-interest bearing £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Financial assets:** | | | | | | | |
| Equity shares | – | – | – | – | – | 34.4 | 34.4 |
| Mezzanine loan investments | 10.0 | – | 8.3 | 13.7 | – | 3.7 | 25.7 |
| Other financial assets | 5.0 | – | 0.3 | 0.5 | 0.3 | 2.8 | 3.9 |
| Trade and other receivables | 5.0 | 35.3 | – | – | – | 112.8 | 148.1 |
| Cash and cash equivalents | 5.1 | 323.6 | – | – | – | – | 323.6 |
| **Total financial assets** | | 358.9 | 8.6 | 14.2 | 0.3 | 153.7 | 535.7 |
| **Financial liabilities:** | | | | | | | |
| Bank overdrafts | 6.5 | (0.3) | – | – | – | – | (0.3) |
| 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 unsecured loan | 11.0 | – | (15.0) | – | – | – | (15.0) |
| US Dollars | 5.9 | – | – | (16.1) | (26.2) | – | (42.3) |
| Euros | 6.0 | – | – | – | (0.7) | – | (0.7) |
| Canadian Dollars | 5.5 | – | (9.8) | (3.2) | (34.8) | – | (47.8) |
| Japanese Yen | 2.8 | – | – | (8.4) | – | – | (8.4) |
| Total fixed rate loans | | – | (24.8) | (27.7) | (366.7) | – | (419.2) |
| Floating rate loans fixed through interest rate swaps | | | | | | | |
| US Dollars | 6.8 | – | (37.6) | (4.8) | – | – | (42.4) |
| Euros | 4.3 | – | – | (18.0) | – | – | (18.0) |
| Australian Dollars | 6.8 | – | – | (40.0) | – | – | (40.0) |
| Chinese Renminbi | 3.0 | – | – | (3.6) | – | – | (3.6) |
| Total floating rate loans fixed through interest rate swaps | | – | (37.6) | (66.4) | – | – | (104.0) |
| Floating rate loans | | | | | | | |
| Sterling | 7.0 | (55.0) | – | – | – | – | (55.0) |
| Canadian Dollars | 6.1 | (24.1) | – | – | – | – | (24.1) |
| Euros | 5.0 | (14.7) | – | – | – | – | (14.7) |
| Australian Dollars | 8.1 | (35.2) | – | – | – | – | (35.2) |
| Total floating rate loans | | (129.0) | – | – | – | – | (129.0) |
| Finance lease liabilities | 11.0 | – | – | – | (1.4) | – | (1.4) |
| Loans from joint ventures | 5.1 | (1.2) | – | – | – | (16.3) | (17.5) |
| Trade and other payables | – | – | – | – | – | (131.2) | (131.2) |
| **Total financial liabilities** | | (130.5) | (62.4) | (94.1) | (368.1) | (147.5) | (802.6) |



32 **FINANCIAL INSTRUMENTS** CONTINUED

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

If interest rates had been 0.5% higher and all other variables were held constant, the impact on the Group's equity would be:

| | 2008 £m | 2007 £m |
|---|---|---|
| (Decrease)/Increase in results for the year – interest charge | **(0.5)** | 0.9 |
| – mark to market of interest rate swaps | **2.7** | 0.9 |
| – tax charge | **(0.8)** | (0.5) |
| Total increase in profit and equity | **1.4** | 1.3 |

Similarly, if interest rates had been 0.5% lower, then Group profit and equity would have decreased by £1.4m (2007 – £1.3m).

The Group's sensitivity to interest rates has decreased during the year mainly due to lower levels of cash deposits.

**FOREIGN CURRENCY RISK**
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.

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

**EQUITY PRICE RISK**
The Group is exposed to equity price risks arising from its equity investments disclosed in Note 25. Equity investments designated as available for sale are held for strategic rather than trading purposes.

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

If equity prices had been 10% higher/lower other equity reserves would increase/decrease by £3.0m (2007 – increase/decrease by £3.4m) as a result of changes in fair value of available for sale shares.

The Group's sensitivity to equity prices has not changed significantly from the prior year.

**CREDIT RISK**
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is exposed to credit risk in respect of its surplus cash deposits, trade receivables, mezzanine loan investments and loans to joint ventures.

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

At the year end deposits were invested as follows:

**Standard & Poor's credit rating of institution**

| | Total deposits at 31 December 2008 £m | Total deposits at 31 December 2007 £m |
|---|---|---|
| AAA | **22.4** | 14.9 |
| AA+ | **7.4** | 15.7 |
| AA | **12.8** | 275.5 |
| AA- | **25.1** | 9.6 |
| A+ | **19.3** | 3.4 |
| A | **2.6** | – |
| Other | **1.9** | 4.5 |
| | **91.5** | 323.6 |

## 32 FINANCIAL INSTRUMENTS CONTINUED

Trade receivables consist of amounts due from a large number of tenants, spread across diverse industries and geographical areas. Credit checks are carried out before commencement of tenancies and before entering joint venture partnership agreements and ongoing credit evaluation seeks to ensure any receivables are provided for as required. Trade receivables are small relative to turnover and therefore do not present a significant risk to the Group. Trade receivables at the year end totalled £21.0m of which £11.0m was outstanding at 28 February 2009.

Mezzanine loans represent loans to developers on which Grosvenor earns interest and a share of the development profit. Grosvenor makes loans to established developers with a track record of stable performance and carries out due diligence before committing funds. Grosvenor receives a second charge on the development property and in the majority of loans has a guarantee regarding the principal and interest.

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

**LIQUIDITY RISK**

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 sufficient cash is available to meet operating plans, cash flow projections are maintained at Operating Company level and are reviewed by the Group on a monthly basis. In addition to facilities at Operating Company and project level, committed borrowing facilities are maintained in the Holding Company at levels deemed appropriate by the Group Board.

During 2008, there has been a significant deterioration in liquidity in the UK and global capital markets resulting in the reduced availability of external sources of financing, which has been a significant factor in falling property values in the UK and globally. Available funding is generally priced with higher risk premiums and with more stringent lending conditions attached. The Group expects such conditions to continue for the foreseeable future and is actively managing its cash resources and facilities via realising value through higher asset sales than asset purchases, cost control, and pro-active renewal of borrowing facilities.

At 31 December 2008, the Group had the following drawn and undrawn committed borrowing facilities available:

| | Drawn facilities | | Undrawn facilities | |
|---|---|---|---|---|
| | **2008 £m** | 2007 £m | **2008 £m** | 2007 £m |
| Expiring in less than 1 year | **65.8** | 101.9 | **96.4** | 52.6 |
| Expiring from 1 to 2 years | **16.4** | 90.6 | **79.7** | 110.0 |
| Expiring from 2 to 5 years | **199.8** | 94.8 | **337.3** | 250.0 |
| Expiring after more than 5 years | **446.8** | 364.9 | **–** | 25.0 |
| Total | **728.8** | 652.2 | **513.4** | 437.6 |

Minor changes have been made to the comparative figures in order to assist with comparability.

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

The Group also monitors its resilience to potential falls in property market values. Resilience is defined as the extent to which the Group's property interests could fall in value before Grosvenor Group financial covenants are breached, assuming no property sales or debt repayments.

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

**2008**

| | Fixed rate loans £m | Floating rate loans £m | Finance lease liabilities £m | Loans from joint ventures £m | **Total £m** |
|---|---|---|---|---|---|
| Due within 1 year | 46.6 | 66.2 | 0.3 | 12.3 | **125.4** |
| From 1 to 2 years | 28.5 | 24.9 | 0.3 | – | **53.7** |
| From 2 to 3 years | 28.5 | 137.8 | 0.3 | – | **166.6** |
| From 3 to 4 years | 28.5 | 5.3 | 0.3 | – | **34.1** |
| From 4 to 5 years | 28.5 | 115.5 | 0.3 | – | **144.3** |
| After 5 years | 722.9 | 18.2 | 74.1 | 8.1 | **823.3** |
| | 883.5 | 367.9 | 75.6 | 20.4 | **1,347.4** |
| Effect of discount/financing rates | (457.6) | (35.5) | (74.2) | – | **(567.3)** |
| At 31 December 2008 | 425.9 | 332.4 | 1.4 | 20.4 | **780.1** |



## 32 FINANCIAL INSTRUMENTS CONTINUED

2007

| | Fixed rate loans £m | Floating rate loans £m | Finance lease liabilities £m | Loans from joint ventures £m | Total £m |
|---|---|---|---|---|---|
| Due within 1 year | 54.1 | 68.3 | 0.3 | 0.5 | 123.2 |
| From 1 to 2 years | 38.7 | 71.9 | 0.3 | 10.2 | 121.1 |
| From 2 to 3 years | 26.9 | 5.6 | 0.3 | – | 32.8 |
| From 3 to 4 years | 42.7 | 64.5 | 0.3 | – | 107.5 |
| From 4 to 5 years | 25.9 | 2.5 | 0.3 | – | 28.7 |
| After 5 years | 696.9 | 64.4 | 74.4 | 6.9 | 842.6 |
| | 885.2 | 277.2 | 75.9 | 17.6 | 1,255.9 |
| Effect of discount/financing rates | (466.0) | (46.5) | (74.5) | (0.1) | (587.1) |
| At 31 December 2007 | 419.2 | 230.7 | 1.4 | 17.5 | 668.8 |

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

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **Payable £m** | **Receivable £m** | Payable £m | Receivable £m |
| Due within 1 year | **(7.0)** | **3.6** | (3.8) | 4.5 |
| From 1 to 2 years | **(4.5)** | **2.4** | (2.4) | 2.8 |
| From 2 to 3 years | **(4.3)** | **3.2** | (0.9) | 1.0 |
| From 3 to 4 years | **(3.7)** | **2.8** | (0.8) | 1.0 |
| From 4 to 5 years | **(1.3)** | **0.9** | (0.7) | 0.9 |
| After 5 years | **–** | **–** | (0.2) | 0.2 |
| | **(20.8)** | **12.9** | (8.8) | 10.4 |

## 33 TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 £m** | 2007 £m | **2008 £m** | 2007 £m |
| **Current liabilities** | | | | |
| Trade payables | **24.2** | 12.2 | **–** | – |
| Payables due to joint ventures | **12.4** | 11.0 | **–** | – |
| Other payables | **63.4** | 96.4 | **–** | 25.3 |
| Accrued expenses | **59.1** | 74.4 | **–** | – |
| Deferred income | **1.1** | 0.6 | **–** | – |
| | **160.2** | 194.6 | **–** | 25.3 |
| **Non-current liabilities** | | | | |
| Deferred income | **128.2** | 155.8 | **–** | – |
| Other payables | **19.2** | 11.6 | **–** | – |
| | **147.4** | 167.4 | **–** | – |

Deferred income includes £127.6m in respect of deferred lease premium profits (2007 – £155.7m).

## 34 PROVISIONS

**Development loss provision**

| | **2008 £m** | 2007 £m |
|---|---|---|
| At 1 January | **180.2** | 158.8 |
| Recognised in the year | **85.4** | 39.5 |
| Utilised in the year | **(211.3)** | (18.1) |
| At 31 December | **54.3** | 180.2 |

The development loss provision is in respect of the forecast loss on the Liverpool One project. The liabilities are expected to crystallise in 2009.

## 35 OPERATING LEASE COMMITMENTS

**LEASES AS LESSEE**

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

| | 2008 £m | 2007 £m |
|---|---|---|
| Land and buildings | **5.9** | 5.1 |
| | **5.9** | 5.1 |

Non-cancellable operating lease rentals are payable as follows:

| | 2008 £m | 2007 £m |
|---|---|---|
| Less than one year | **6.2** | 5.6 |
| Between one and five years | **21.9** | 19.6 |
| More than five years | **5.3** | 8.5 |
| | **33.4** | 33.7 |

**LEASES AS LESSOR**

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

| | 2008 £m | 2007 £m |
|---|---|---|
| Less than one year | **133.4** | 103.7 |
| Between one and five years | **393.3** | 316.7 |
| More than five years | **1,180.8** | 1,445.4 |
| | **1,707.5** | 1,865.8 |

## 36 CAPITAL COMMITMENTS

| | 2008 £m | 2007 £m |
|---|---|---|
| Investment properties contracted but not provided | **265.8** | 26.9 |
| Development properties contracted but not provided | **57.7** | 88.3 |
| | **323.5** | 115.2 |

Included in the above is Grosvenor's share of joint venture and associate capital commitments of £177.3m (2007 – £nil).

## 37 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 (2007 – £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.

## 38 SHARE CAPITAL

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Number of shares | £m | Number of shares | £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 |



## 38 SHARE CAPITAL CONTINUED

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Number of shares | £m | Number of shares | £m |
| Allocated, called up and fully paid | | | | |
| Ordinary shares of £1 | **5,684,877** | **5.7** | 5,684,877 | 5.7 |
| Non-voting ordinary shares of £1 | **45,479,016** | **45.4** | 45,479,016 | 45.4 |
| 12% non-cumulative irredeemable preference shares of £1 | **5,684,877** | **5.7** | 5,684,877 | 5.7 |
| | **56,848,770** | **56.8** | 56,848,770 | 56.8 |

**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.

## 39 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 2007** | 60.8 | 173.1 | (34.4) | 111.1 | 4.1 | 129.4 | 1,973.8 | **2,417.9** | 148.9 | **2,566.8** |
| Profit for the year | – | – | – | – | – | – | 405.5 | **405.5** | 22.4 | **427.9** |
| Revaluation movement | – | – | – | – | – | 23.9 | – | **23.9** | 4.7 | **28.6** |
| Fair value adjustments | – | – | – | (0.7) | 1.8 | – | – | **1.1** | 0.4 | **1.5** |
| Transferred to income statement | – | – | – | – | (3.3) | – | – | **(3.3)** | – | **(3.3)** |
| Deferred tax | – | – | – | 0.3 | – | 0.2 | (1.2) | **(0.7)** | (1.1) | **(1.8)** |
| Pension actuarial gains | – | – | – | – | – | – | 4.4 | **4.4** | – | **4.4** |
| Dividends to Shareholders | – | – | – | – | – | – | (10.7) | **(10.7)** | (15.5) | **(26.2)** |
| Transfer between reserves | – | – | – | – | – | (13.2) | 13.2 | **–** | – | **–** |
| Shares redeemed | (4.0) | – | – | 4.0 | – | – | (40.5) | **(40.5)** | – | **(40.5)** |
| Exchange | – | – | 90.8 | – | – | – | – | **90.8** | 15.3 | **106.1** |
| **At 31 December 2007** | 56.8 | 173.1 | 56.4 | 114.7 | 2.6 | 140.3 | 2,344.5 | **2,888.4** | 175.1 | **3,063.5** |
| Loss for the year | – | – | – | – | – | – | (456.9) | **(456.9)** | (19.1) | **(476.0)** |
| Revaluation movement | – | – | – | – | – | (52.7) | – | **(52.7)** | (2.9) | **(55.6)** |
| Fair value adjustments | – | – | – | (20.6) | (6.9) | – | – | **(27.5)** | (3.0) | **(30.5)** |
| Transferred to income statement | – | – | – | – | (1.2) | – | – | **(1.2)** | – | **(1.2)** |
| Deferred tax | – | – | – | 4.1 | – | 19.1 | 6.8 | **30.0** | 0.9 | **30.9** |
| Pension actuarial losses | – | – | – | – | – | – | (20.8) | **(20.8)** | – | **(20.8)** |
| Dividends to Shareholders | – | – | – | – | – | – | (13.0) | **(13.0)** | (8.9) | **(21.9)** |
| Transfer between reserves | – | – | 2.1 | – | – | (4.8) | 2.7 | **–** | – | **–** |
| Minority shares issued by subsidiaries | – | – | – | – | – | – | – | **–** | 1.9 | **1.9** |
| Exchange | – | – | 304.0 | – | – | – | – | **304.0** | 42.2 | **346.2** |
| **At 31 December 2008** | 56.8 | 173.1 | 362.5 | 98.2 | (5.5) | 101.9 | 1,863.3 | **2,650.3** | 186.2 | **2,836.5** |

Other reserves primarily comprise exchange gains and losses recognised by the Group prior to the adoption of IFRS accounting standards, interest rate hedging gains and losses of £14.3m and capital redemption reserve of £4.0m.

## 39 RECONCILIATION OF SHARE CAPITAL AND RESERVES CONTINUED

### (b) Company

| | Share capital £m | Share premium £m | Merger capital reserve £m | Capital redemption reserve £m | Profit and loss account £m | Total equity £m |
|---|---|---|---|---|---|---|
| **At 1 January 2007** | 60.8 | 28.3 | 1,268.7 | – | 111.1 | **1,468.9** |
| Retained profit for the year | – | – | – | – | 50.9 | **50.9** |
| Dividends to Shareholders | – | – | – | – | (10.7) | **(10.7)** |
| Shares redeemed | (4.0) | – | – | 4.0 | (40.5) | **(40.5)** |
| **At 31 December 2007** | 56.8 | 28.3 | 1,268.7 | 4.0 | 110.8 | **1,468.6** |
| Retained profit for the year | – | – | – | – | 202.4 | **202.4** |
| Dividends to Shareholders | – | – | – | – | (13.0) | **(13.0)** |
| **At 31 December 2008** | 56.8 | 28.3 | 1,268.7 | 4.0 | 300.2 | **1,658.0** |

**DIVIDENDS**

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

| | £m |
|---|---|
| Dividends on ordinary shares | **8.9** |
| Dividends on preference shares | **0.7** |
| | **9.6** |

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

## 40 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

| | 2008 £m | 2007 £m |
|---|---|---|
| Operating activities | | |
| (Loss)/profit from operations including share of joint ventures | **(573.4)** | 536.7 |
| Adjustments for | | |
| Depreciation | **2.1** | 2.2 |
| Foreign exchange losses | **0.3** | 1.8 |
| Amortisation of capitalised lease incentives | **1.8** | 1.1 |
| Amortisation of deferred lease premiums | **(1.8)** | (2.1) |
| Recognition of income from operating lease incentives | **(1.0)** | (0.6) |
| (Loss)/gain on sale on other investments | **12.0** | (12.6) |
| Net (losses)/gains on revaluation and sale of investment property | **267.7** | (413.9) |
| Share of (loss)/profit of joint ventures and associates | **209.7** | (120.0) |
| Amortisation of other intangible assets | **0.5** | 0.6 |
| Operating loss before changes in working capital and provisions | **(82.1)** | (6.8) |

## 40 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS CONTINUED

### (b) Analysis of net debt

| | 1 January 2008 £m | Cash flow £m | Other non-cash movements £m | Exchange movements £m | 31 December 2008 £m |
|---|---|---|---|---|---|
| Cash at bank and in hand | 74.4 | (30.8) | – | 11.6 | **55.2** |
| Short-term deposits and short-term liquid investments | 249.2 | (218.3) | – | 5.4 | **36.3** |
| Bank overdraft | (0.3) | (0.9) | – | (0.1) | **(1.3)** |
| Cash and cash equivalents | 323.3 | (250.0) | – | 16.9 | **90.2** |
| Borrowings due within one year | (112.6) | 57.4 | – | (22.9) | **(78.1)** |
| Borrowings due after more than one year | (558.5) | (87.9) | (17.9) | (42.2) | **(706.5)** |
| Total borrowings | (671.1) | (30.5) | (17.9) | (65.1) | **(784.6)** |
| Net debt | (347.8) | (280.5) | (17.9) | (48.2) | **(694.4)** |

Other non-cash movements include £15.7m transfer of debt on conversion from mezzanine loans to investment properties and £2.0m of fair value adjustments on interest rate swaps.

## 41 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 £1.2m (2007 – £1.2m) in arm's length rentals to Grosvenor Trusts and received £0.3m (2007 – £0.3m) in arm's 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 £5.9m (2007 – £5.7m). At the year end the balance due to certain members of the Grosvenor Family and Grosvenor Trusts was £0.2m (2007 – £0.3m) in relation to these services. These services mainly relate to the Group's management of the Belgravia Estate.

In 2008, the Group arranged insurance cover on normal commercial terms through a related company. Aggregate premiums paid in the year were £7.3m (2007 – £5.6m).

In 2008, the Group sold development rights of £nil (2007 – £12.3m) in arm's length agreements to joint ventures and associates.

In 2008, the Group received development management income of £2.9m (2007 – £0.6m) in arm's length arrangements from Grosvenor Trusts, and
£1.9m (2007 – £4.0m) from joint ventures and associates. At year end £0.1m (2007 – £0.1m) was due from Grosvenor Trusts.

At 31 December 2008, the Group owed £nil (2007 – £1.2m) to Sonae Sierra SGPS SA and £nil to Barkhill Ltd (2007 – £9.0m), both joint ventures.

As explained in Note 37 the Company has provided guarantees up to a maximum of £22m (2007 – £22m) to the Deva Group Limited, which is owned by Grosvenor Trusts.

# CONSOLIDATED INCOME STATEMENT PRESENTED IN US DOLLARS
**for the year ended 31 December 2008**

| | 2008 US$m | 2007 US$m |
|---|---|---|
| **Total revenue** | **505.8** | 907.7 |
| Gross rental income | **223.4** | 213.1 |
| Property outgoings | **(96.9)** | (90.1) |
| **Net rental income** | **126.5** | 123.0 |
| Net other income | **68.5** | 91.5 |
| Administrative expenses | **(153.2)** | (163.2) |
| Net loss on trading and development properties | **(197.4)** | (70.9) |
| Net (losses)/gains on other investments | **(22.2)** | 25.2 |
| Net (losses)/gains on revaluation and sale of investment property | **(495.8)** | 828.8 |
| Share of (loss)/profit of joint ventures and associates | **(388.4)** | 240.3 |
| **(Loss)/profit from operations including share of joint ventures and associates** | **(1,062.0)** | 1,074.7 |
| Dividend income | **4.1** | 2.6 |
| Financial income | **29.8** | 55.3 |
| Financial expenses | **(75.0)** | (86.7) |
| Fair value adjustments | **3.1** | 3.4 |
| **Net financing costs** | **(38.0)** | (25.4) |
| **(Loss)/profit before tax** | **(1,100)** | 1,049.3 |
| Current tax | **0.6** | (94.3) |
| Deferred tax | **217.8** | (98.1) |
| **(Loss)/profit for the year** | **(881.6)** | 856.9 |
| **Attributable to:** | | |
| Equity holders of the parent | **(846.2)** | 812.0 |
| Minority interest | **(35.4)** | 44.9 |
| **(Loss)/profit for the year** | **(881.6)** | 856.9 |

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 2008**

| | Group | |
|---|---|---|
| | 2008 US$m | 2007 US$m |
| **ASSETS** | | |
| **Non-current assets** | | |
| Investment property | **3,955.5** | 5,656.7 |
| Investment property under development | **49.9** | 159.0 |
| Other property, plant and equipment | **47.2** | 104.5 |
| Investments in joint ventures and associates | **1,571.9** | 2,301.1 |
| Other financial assets | **67.0** | 110.3 |
| Intangible assets | **8.8** | 10.0 |
| Pension surplus | **–** | 7.0 |
| Deferred tax assets | **136.4** | 126.6 |
| **Total non-current assets** | **5,836.7** | 8,475.2 |
| **Current assets** | | |
| Trading properties | **236.1** | 292.8 |
| Trade and other receivables | **285.0** | 324.8 |
| Other financial assets | **17.1** | 17.1 |
| Income tax receivable | **21.0** | 45.4 |
| Cash and cash equivalents | **131.6** | 644.2 |
| **Total current assets** | **690.8** | 1,324.3 |
| **TOTAL ASSETS** | **6,527.5** | 9,799.5 |
| **LIABILITIES** | | |
| **Non-current liabilities** | | |
| Interest-bearing loans and borrowings | **(1,015.8)** | (1,111.8) |
| Trade and other payables | **(211.9)** | (333.2) |
| Employee benefits | **(42.4)** | (25.3) |
| Deferred tax liabilities | **(746.6)** | (1,203.1) |
| **Total non-current liabilities** | **(2,016.7)** | (2,673.4) |
| **Current liabilities** | | |
| Overdrafts | **(1.9)** | (0.6) |
| Interest-bearing loans and borrowings | **(112.3)** | (224.1) |
| Trade and other payables | **(230.3)** | (387.4) |
| Income tax payable | **(9.8)** | (57.1) |
| Provisions | **(78.1)** | (358.7) |
| **Total current liabilities** | **(432.4)** | (1,027.9) |
| **TOTAL LIABILITIES** | **(2,449.1)** | (3,701.3) |
| **NET ASSETS** | **4,078.4** | 6,098.2 |
| **Equity** | | |
| Issued capital | **81.7** | 113.1 |
| Share premium | **248.9** | 344.6 |
| Reserves | **801.2** | 625.0 |
| Retained earnings | **2,678.9** | 4,667.0 |
| **Shareholders' funds** | **3,810.7** | 5,749.7 |
| Minority interest | **267.7** | 348.5 |
| **TOTAL EQUITY** | **4,078.4** | 6,098.2 |

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 2008

| | 2008 €m | 2007 €m |
|---|---|---|
| **Total revenue** | **343.9** | 661.2 |
| Gross rental income | **151.9** | 155.2 |
| Property outgoings | **(65.9)** | (65.6) |
| **Net rental income** | **86.0** | 89.6 |
| Other income | **46.6** | 66.7 |
| Administrative expenses | **(104.1)** | (118.9) |
| Net loss on trading and development properties | **(134.2)** | (51.6) |
| Net (losses)/gains on other investments | **(15.1)** | 18.4 |
| Net (losses)/gains on revaluation and sale of investment property | **(337.1)** | 603.7 |
| Share of (loss)/profit of joint ventures and associates | **(264.1)** | 175.0 |
| **(Loss)/profit from operations including share of joint ventures and associates** | **(722.0)** | 782.9 |
| Dividend income | **2.8** | 1.9 |
| Financial income | **20.3** | 40.3 |
| Financial expenses | **(51.0)** | (63.2) |
| Fair value adjustments | **2.1** | 2.5 |
| **Net financing costs** | **(25.8)** | (18.5) |
| **(Loss)/profit before tax** | **(747.8)** | 764.4 |
| Current tax | **0.4** | (68.7) |
| Deferred tax | **148.1** | (71.5) |
| **(Loss)/profit for the year** | **(599.3)** | 624.2 |
| **Attributable to:** | | |
| Equity holders of the parent | **(575.3)** | 591.5 |
| Minority interest | **(24.0)** | 32.7 |
| **(Loss)/profit for the year** | **(599.3)** | 624.2 |

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 2008

| | Group | |
|---|---|---|
| | 2008 €m | 2007 €m |
| **ASSETS** | | |
| **Non-current assets** | | |
| Investment property | **2,845.7** | 3,869.0 |
| Investment property under development | **35.9** | 108.8 |
| Other property, plant and equipment | **33.9** | 71.4 |
| Investments in joint ventures and associates | **1,130.9** | 1,573.9 |
| Other financial assets | **48.2** | 75.4 |
| Intangible assets | **6.3** | 6.8 |
| Pension surplus | **–** | 4.8 |
| Deferred tax assets | **98.2** | 86.6 |
| **Total non-current assets** | **4,199.1** | 5,796.7 |
| **Current assets** | | |
| Trading properties | **169.8** | 200.3 |
| Trade and other receivables | **205.0** | 222.2 |
| Other financial assets | **12.3** | 11.7 |
| Income tax receivable | **15.1** | 31.0 |
| Cash and cash equivalents | **94.6** | 440.6 |
| **Total current assets** | **496.8** | 905.8 |
| **TOTAL ASSETS** | **4,695.9** | 6,702.5 |
| **LIABILITIES** | | |
| Non-current liabilities | | |
| Interest-bearing loans and borrowings | **(730.8)** | (760.4) |
| Trade and other payables | **(152.5)** | (227.9) |
| Employee benefits | **(30.5)** | (17.3) |
| Deferred tax liabilities | **(537.2)** | (822.9) |
| **Total non-current liabilities** | **(1,451.0)** | (1,828.5) |
| **Current liabilities** | | |
| Overdrafts | **(1.3)** | (0.4) |
| Interest-bearing loans and borrowings | **(80.8)** | (153.3) |
| Trade and other payables | **(165.7)** | (265.0) |
| Income tax payable | **(7.0)** | (39.1) |
| Provisions | **(56.2)** | (245.3) |
| **Total current liabilities** | **(311.0)** | (703.1) |
| **TOTAL LIABILITIES** | **(1,762.0)** | (2,531.6) |
| **NET ASSETS** | **2,933.9** | 4,170.9 |
| **Equity** | | |
| Issued capital | **58.8** | 77.3 |
| Share premium | **179.1** | 235.7 |
| Reserves | **576.1** | 427.5 |
| Retained earnings | **1,927.3** | 3,192.0 |
| Shareholders' funds | **2,741.3** | 3,932.5 |
| Minority interest | **192.6** | 238.4 |
| **TOTAL EQUITY** | **2,933.9** | 4,170.9 |

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

# FIVE-YEAR SUMMARY

### INCOME STATEMENT

| | 2004 £m | 2005 £m | 2006 £m | 2007 £m | **2008 £m** |
|---|---|---|---|---|---|
| Net rental and other income | 61.7 | 80.8 | 118.1 | 107.1 | **105.3** |
| Administrative expenses | (46.7) | (53.3) | (75.8) | (81.5) | **(82.7)** |
| Profit/(loss) on trading and development properties | 9.6 | (7.3) | (176.6) | (35.4) | **(106.6)** |
| Gains/(losses) on other investments | 22.9 | – | 0.3 | 12.6 | **(12.0)** |
| Net gains/(losses) on revaluation and sale of investment properties | 198.8 | 246.8 | 518.7 | 413.9 | **(267.7)** |
| Impairment of goodwill | – | (3.3) | (0.2) | – | **–** |
| Share of profit/(loss) from joint ventures and associates | 123.8 | 121.6 | 145.0 | 120.0 | **(209.7)** |
| Profit/(loss) before net financing costs and tax | 370.1 | 385.3 | 529.5 | 536.7 | **(573.4)** |
| Net financing costs | (28.0) | (17.2) | (20.8) | (12.7) | **(20.5)** |
| Profit/(loss) before tax | 342.1 | 368.1 | 508.7 | 524.0 | **(593.9)** |

### BALANCE SHEET

| | 2004 £m | 2005 £m | 2006 £m | 2007 £m | **2008 £m** |
|---|---|---|---|---|---|
| Total property assets including share of joint ventures and associates | 3,237.3 | 3,727.7 | 4,592.4 | 5,963.3 | **6,172.8** |
| Investment property (including under development) | 1,809.1 | 2,007.4 | 2,350.0 | 2,921.6 | **2,785.8** |
| Investment in joint ventures and associates | 694.6 | 819.4 | 1,050.1 | 1,156.0 | **1,093.3** |
| Other financial assets | 58.3 | 71.0 | 50.0 | 55.4 | **46.6** |
| Other non-current assets | 100.1 | 132.7 | 113.8 | 124.6 | **133.8** |
| | 2,662.1 | 3,030.5 | 3,563.9 | 4,257.6 | **4,059.5** |
| Trading properties | 44.1 | 34.5 | 48.7 | 147.1 | **164.2** |
| Cash and cash equivalents | 264.2 | 385.5 | 455.4 | 323.6 | **91.5** |
| Other net current assets/(liabilities) | 1.4 | (34.2) | 42.7 | (28.7) | **57.7** |
| | 309.7 | 385.8 | 546.8 | 442.0 | **313.4** |
| Borrowings (including current) | (614.5) | (575.4) | (659.5) | (671.4) | **(785.9)** |
| Deferred tax | (317.9) | (450.6) | (555.2) | (604.4) | **(519.3)** |
| Other non-current liabilities | (130.1) | (203.8) | (329.2) | (360.3) | **(231.2)** |
| | (1,062.5) | (1,229.8) | (1,543.9) | (1,636.1) | **(1,536.4)** |
| **Net assets** | 1,909.3 | 2,186.5 | 2,566.8 | 3,063.5 | **2,836.5** |
| Share capital and share premium | 233.9 | 233.9 | 233.9 | 229.9 | **229.9** |
| Reserves | 1,561.4 | 1,857.7 | 2,184.0 | 2,658.5 | **2,420.4** |
| | 1,795.3 | 2,091.6 | 2,417.9 | 2,888.4 | **2,650.3** |
| Minority interest | 114.0 | 94.9 | 148.9 | 175.1 | **186.2** |
| **Total equity** | 1,909.3 | 2,186.5 | 2,566.8 | 3,063.5 | **2,836.5** |



# GROSVENOR OFFICES

**Grosvenor Group**
**London**
The Grosvenor Office
70 Grosvenor Street
London
W1K 3JP
England
Tel: + 44 (0) 20 7408 0988
Fax: + 44 (0) 20 7629 9115

**Britain & Ireland**
**Edinburgh**
22 Alva Street
Edinburgh
EH2 4PV
Scotland
Tel: + 44 (0) 131 225 5775
Fax: + 44 (0) 131 225 1995

**Liverpool**
1st Floor
76-78 Lord Street
Liverpool
L2 1TL
England
Tel: + 44 (0) 151 471 5020
Fax: + 44 (0) 151 471 5049

**London**
70 Grosvenor Street
London (as above)

**Americas**
**Calgary**
The Watermark Tower
Suite 1920
530-8th Avenue SW
Calgary
Alberta
T2P 3S8
Canada
Tel: +1 403 699 9822
Fax: + 1 403 699 9833

**Philadelphia**
Two Liberty Place
50 S. 16th Street
Suite 2600
Philadelphia PA 19102
USA
Tel: +1 215 575 3700
Fax: +1 215 575 3701

**San Francisco**
Suite 2500
One California Street
San Francisco
California 94111
USA
Tel: + 1 415 434 0175
Fax: + 1 415 434 2742

**Vancouver**
2000 The Grosvenor Building
1040 West Georgia Street
Vancouver
British Columbia
V6E 4H1
Canada
Tel: + 1 604 683 1141
Fax: + 1 604 684 5041

**Washington, DC**
Suite 1050
1701 Pennsylvania Avenue, NW
Washington, DC 20006
USA
Tel: + 1 202 293 1235
Fax: + 1 202 785 2632

**Continental Europe**
**Luxembourg**
46a, avenue John F Kennedy
1855 Luxembourg
Luxembourg
Tel: + 352 2600 52 13
Fax: + 352 2600 58 03

**Madrid**
Plaza de Colon 2
Torre 2 Planta 7
28046 Madrid
Spain
Tel: + 34 (0)91 292 08 90
Fax: + 34 (0)91 292 08 91

**Milan**
Corso Garibaldi 86
20121 Milano
Italy
Tel: + 39 (0)2 43 912 517
Fax: + 39 (0)2 43 912 531

**Paris**
5th Floor
69 Boulevard Haussmann
75008 Paris
France
Tel: + 33 (0) 1 44 51 75 00
Fax: + 33 (0) 1 44 51 75 01

**Australia**
**Brisbane**
Level 24
12 Creek Street
Brisbane
Queensland 4000
Australia
Tel: + 61 (0)7 3009 7799
Fax: + 61 (0)7 3220 1833

**Sydney**
Level 38, Citigroup Centre
2 Park Street, Sydney
New South Wales 2000
Australia
Tel: + 61 (0)2 8268 7333
Fax: + 61 (0)2 8268 7330

**Asia Pacific**
**Hong Kong**
3505-09 Jardine House
1 Connaught Place
Central
Hong Kong
Tel: + 852 2956 1989
Fax: + 852 2956 1889

**Shanghai**
Unit 906 Platinum
No. 233 Taicang Road
Shanghai 200021
China
Tel: + 86 21 5306 3322
Fax: + 86 21 5382 3431

**Tokyo**
24th Floor
ARK Mori Building
1-12-32 Akasaka
Minato-Ku
Tokyo 107-6024
Japan
Tel: + 81 (0) 3 5575 5300
Fax: + 81 (0) 3 5575 5301

**Fund Management**
Liverpool
London
Luxembourg
Madrid
Milan
Paris
Philadelphia
Shanghai
Tokyo

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# GLOSSARY

**Adjusted revenue profit**
Revenue profit adjusted to exclude the trading loss on the Liverpool One project.

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

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

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

**Core***
A fund which invests predominantly in mature sectors and countries and generates a high proportion of return through income.

**Core plus***
A fund which may invest in any country or property type and delivers returns from a balance of income return and capital appreciation. Return will come through adding value to the property through active asset management such as a re-letting, re-positioning and redevelopment.

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

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

**Economic interest**
Grosvenor's equity interest in properties (or debt) after deducting the share attributable to minority investors.

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

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

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

**Funds under management**
The total value of properties managed by Grosvenor Fund Management.

**Future development commitment**
The expected costs to complete the development programme to which we are committed.

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

**Green Star ratings**
An environmental rating system used in Australia.

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

*Definitions abbreviated from definitions used by INREV (the European Association for Investors in Non-listed Real Estate Vehicles).

**Grosvenor-managed**
A property or other investment that is managed by the Group.

**Grosvenor Group**
Grosvenor Group Limited and its wholly owned subsidiaries.

**Group**
Grosvenor Group Limited and its subsidiary undertakings.

**Head lease**
The lease for an investment property under which the Group is a lessee.

**Holding Company**
Grosvenor Group Limited.

**IFRS**
International Financial Reporting Standard(s).

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

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

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

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

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

**Mezzanine lending**
Lending to property developers that is subordinated to senior lending in return for a profit share in the completed development.

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

**Operating Companies**
Grosvenor's five regional investment and development businesses and Grosvenor Fund Management.

**Opportunity fund***
A fund which typically uses high leverage, has a high exposure to development or other forms of active asset management, and will deliver returns primarily in the form of capital appreciation.

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

**Performance fees**
Fees that are payable in the event that the performance of the underlying investment exceeds a pre-determined benchmark.

**Pre-let**
A lease signed with a tenant prior to the completion of a development.

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

**Property derivative**
Financial instruments whose price is derived by reference to a property returns index.

**Proprietary**
Relating to Grosvenor's share of investments in property assets.

**Rack-rented**
Referring to property that is rented out at full market rent.

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

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

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

**Separate account client**
A private real estate portfolio managed by Grosvenor Fund Management on behalf of a third-party.

**Third-party**
The non-Grosvenor share of investments managed by Grosvenor.

**Topped out**
The point at which a building's structure is completed, sometimes celebrated with a 'topping out' ceremony.

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

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

**Weighted average cost of capital**
The weighted average cost of debt and the notional cost of equity. Used as a benchmark for total return performance.