

Grosvenor Group Limited

Company Number 3219943

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Grosvenor Annual Report and Accounts 2011

Living cities

www.grosvenor.com



GROSVENOR

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

Our future success 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.

2012

Ownership

Grosvenor remains privately owned. The Shareholders – the Trustees of the Grosvenor Estate – hold the shares and assets 'in trust' for the benefit of current and future members of the Grosvenor family. The family is headed by the 6th Duke of Westminster, who is Chairman of the Trustees.

Further information on the Grosvenor family is available at www.grosvenorestate.com

2000

Corporate structure

In April 2000, Grosvenor adopted a corporate structure as a Group with regional businesses and published its first full Annual Report and Accounts. Our international fund management business was formalised in 2005. On 1 January 2012, in a further evolution of our corporate structure with the maturing of the Group, we brought all our indirect investments in property together, creating the present tripartite structure. Today, we have 18 offices in 10 countries and assets in a total of 17 countries.

Further information on Grosvenor is available at www.grosvenor.com

1950s

International expansion

During the second half of the 20th century, Grosvenor began to apply its estate management skills of investment, development and asset management elsewhere in the UK. The business expanded, successively, into the Americas (from the 1950s), Australia (from the 1960s), Asia Pacific (from the early 1990s) and continental Europe (later that decade). Many projects were undertaken in partnership with other investors, leading Grosvenor gradually into fund management.

1820s

Belgravia, London

'Belgravia', which lies south west of Mayfair, was originally part of the 'Five Fields' – open land between Hyde Park and the Thames. The end of the Napoleonic Wars and the conversion of nearby Buckingham House into a palace for George IV prompted the Grosvenors to develop it. In the 1820s, the family's surveyor, together with master builder Thomas Cubitt, oversaw the creation of an elegant estate in the classic Regency style of squares, streets and crescents overlooking private gardens. The vast majority of Cubitt's work survives and almost the whole of Belgravia is included in a statutory Conservation Area, now encompassing housing, commercial and institutional headquarters, retail and, on the periphery, modern offices.

1720s

Mayfair, London

'Mayfair', the northern part of this land, took its name from the fair held here in May until well into the 19th century. In 1720, the family began developing the land into a fashionable residential area, centred on Grosvenor Square. The area's character continued to evolve through subsequent redevelopment. In the 19th century, shops and, later, embassies and diplomatic residences moved in; during the 20th century, it saw the westerly migration of office users from the war-damaged City of London. Today, almost the whole of Mayfair, which now contains a cosmopolitan mix of commercial and residential property, is included in a statutory Conservation Area.

1677

The family and the land

The Grosvenor family history stretches back almost a thousand years, to the time of William the Conqueror. However, the origins of the property business lie in the land in London which came into the family in 1677 with the marriage of Mary Davies and Sir Thomas Grosvenor – 500 acres of swamp, pasture and orchards to the west of the City, of which 300 acres remain with the family today as Grosvenor's London estate.

In this year's report...

The Grosvenor Annual Report and Accounts 2011 is complemented by the Grosvenor Environment Review 2011. Both documents can be downloaded from www.grosvenor.com

The Grosvenor story

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Offices and Glossary

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Front cover

3–10 Grosvenor Crescent, Belgravia, London, England: this is a development of 15 luxury apartments across a Grade II* Listed terrace between Belgrave Square and Hyde Park Corner (see page 27)

Back cover

Bank of Queensland Centre, Brisbane, Australia: through Grosvenor Fund Management we plan to expand our investment partnerships in Australia where our proprietary portfolio includes this well known office building which is 100% occupied and achieved a 4.5 star NABERS Energy Rating in 2011

Group structure

Why has the Group structure changed?

As of 1 January 2011, we modified the Group's structure to reflect more accurately our current areas of activity.

Trustees of the Grosvenor Estate (Shareholders)

Grosvenor is privately owned. The Shareholders are the Trustees of the Grosvenor Estate who hold the shares and assets 'in trust' for the benefit of current and future members of the Grosvenor family.

There are six Trustees: the Chairman (the 6th Duke of Westminster), the Executive Trustee and four other Trustees.

Grosvenor Group Limited

The Company established by The Grosvenor Trusts as the holding vehicle for the Grosvenor Estate's urban real estate interests.

The Non-Executive Directors on the Group Board include the Executive Trustee and two other Trustees.

Proprietary assets – direct

Direct investment in real estate, through the proprietary capital we allocate to our regional Operating Companies.

The Non-Executive Directors on the Operating Company Boards include the Group Chief Executive and the Group Finance Director.

Operating Companies

Grosvenor Britain & Ireland
Grosvenor Americas
Grosvenor Asia Pacific

Proprietary assets – indirect

Indirect investment in real estate, through the proprietary capital we allocate to co-investments in Grosvenor-managed funds and to other indirect investments.

These investment opportunities are the responsibility of the Holding Company.

Investment areas

Investments managed by Grosvenor Fund Management
Investments in other companies and investments managed by third parties

Fund management

Our fund management Operating Company, Grosvenor Fund Management, manages capital through various investment vehicles on behalf of a number of investors, of which Grosvenor is one.

The Non-Executive Directors on the Grosvenor Fund Management Board include the Group Chief Executive and the Group Finance Director.

Areas of activity

UK
USA
Continental Europe
Asia Pacific

Financial highlights

See Glossary on back cover flap for definitions

Group		
Shareholders' funds	Revenue profit	Total returns (including currency movement)
£2,855m	£80.8m	9.0%
2010- £2,649m	2010- £64.2m	2010- 10.9%
<p>Why we measure To report the total value of the shareholders' investment in the Group</p> <p>Comment Shareholders' funds have recovered to the level prior to the global financial crisis</p>	<p>Why we measure To identify underlying performance, excluding market movements</p> <p>Comment Revenue profit has increased in each of our proprietary Operating Companies and is boosted by a strong performance in Sonae Sierra</p>	<p>Why we measure To show how our property portfolio has performed including both income and capital returns</p> <p>Comment Despite challenging market conditions we have delivered strong total returns</p>

By Operating Company

Operational highlights

See Glossary on back cover flap for definitions

The environment highlights are taken from the Grosvenor Environment Review 2011 which can be downloaded from www.grosvenor.com

Group		
Assets under management	Property assets	Development exposure
£12.5bn	£5,840m	15.7%
2010: £10.9bn	2010: £5,460m	2010: 13.8%
Why we measure To monitor the scale of the portfolio of property assets that the Group's management teams are responsible for	Why we measure To quantify the Group's financial investment in property assets	Why we measure To indicate the level of development activity expressed as a proportion of total property commitments
Comment A combination of asset purchases and valuation growth has boosted assets under management to £12.5bn	Comment Net acquisitions and revaluation growth have increased total property assets by 7%	Comment We are gradually increasing our development activity to take advantage of new opportunities
Occupancy	Like-for-like carbon emissions (tCO ₂ e)	Water consumption Like-for like portfolio (m ³)
95.0%	23,570 tCO₂e	500,657m³
2010: 93.5%	2010: 25,809 tCO ₂ e	2010: 542,444m ³
Why we measure To help us increase revenue profit, maximising occupancy in our buildings is a key driver	Why we measure To monitor our carbon footprint so we can identify ways to improve our environmental performance	Why we measure To assess our water consumption so we can identify ways to improve our environmental performance
Comment Despite challenging letting markets, our occupancy levels continue to rise	Comment We have reduced carbon across the directly managed portfolio through increased energy efficiency	Comment We reduced water consumption across our directly-managed portfolio through measures such as using low-flow sanitary ware and improving conservation in landscaped areas.

Chairman's statement

Lesley Knox
Group Chairman

"An effective Board is valuable to Grosvenor, providing independent views of business opportunities and risks, insights into our markets and challenges to our strategies."

The economic and financial climate was again tough in 2011, but Grosvenor has kept its sights firmly fixed on the long term and has performed well. The financial highlights reveal a further increase in Shareholders' funds and in revenue profit, and our second year of strongly positive returns after the two-year dip of 2008–2009. We also saw improvements in our main measures of operational efficiency.

Our continuing financial resilience in the face of uncertainty, as we move into the fifth year following the global financial crisis, reflects the determination and patience with which our executive team pursues Grosvenor's ambition – to develop and co-ordinate a successful internationally diversified property group with a prudent approach to financing growth.

Our Shareholders require a level of return consistent with relevant benchmarks, an assessment of acceptable risk and attention to social responsibility. The strategies employed by the Group – and set out in this Report – are designed to meet these objectives and have proved, both over the cycle and in 2011, to have done so.

Diversification

The principal route to achieving required returns is by diversifying our exposure to property. We do this in relation to geography and sector, and also by investing both directly and indirectly. Last year we changed our structure to reflect our three types of activity.

First, we invest directly in property, via proprietary Operating Companies. Secondly, we invest indirectly via investments in property funds, in property companies and in other ventures. Thirdly, our property fund management Operating Company manages capital for clients (including Grosvenor).

Mark Preston's report highlights the progress made on the key elements of the Group's long-term strategy: capital planning, value creation for ourselves and for our clients, sustaining our London estate, investing in people, and deploying our cities expertise. I am particularly pleased with the attention given to environmental sustainability, which is in keeping with the Trustees' commitment to social responsibility.

The Board's contribution

An effective Board is valuable to Grosvenor, providing independent views on business opportunities and risks, insights into our markets and challenges to our strategies. Its value was evident when we held our September meeting in Beijing and Shanghai, following meetings and site visits exploring the continuing transformation of China's urban fabric.

Three of our Non-Executive Directors are also Trustees of the Grosvenor Estate. One of these, Robin Broadhurst, retired from the Board in December after 11 years of wise counsel, including a six year period as the Chairman of our Remuneration Committee. His successor, Michael McLintock, joined the Board in March 2012, having been appointed as a Trustee in 2008.

Of our four other independent Non-Executive Directors, Owen Thomas joined us in January 2012, bringing expertise in real estate and financial services in the US and Asia.

My thanks go to all our Non-Executive Directors, in our Operating Companies as well as on the Group Board, and to the members of the Group Executive Committee who run the business operations on which Grosvenor's reputation and success depends.

Lesley Knox
Group Chairman
15 March 2012

Chief Executive's review

Mark Preston
Group Chief Executive

For Grosvenor, the last several years have been a time of transition which has involved navigating the global financial crisis and reshaping the Group to position ourselves for the very different world which lies ahead.

Drawing on our experience of past property cycles, we survived the severe 2008–2009 recession in the property market with, briefly, only mildly negative returns; a strong balance sheet; and significant financial capacity, which we are deploying judiciously in future developments and investments.

"The benefits of diversification have continued to serve us well in 2011, as they have since we first ventured abroad in 1953."

Besides reacting to the turbulent external environment, we have been preparing for the future. The decade running up to the global financial crisis was an exceptional period for property returns. We expect the coming decade to be much less hospitable. In this new environment, specialist property skills will be at a premium and we have restructured Grosvenor to ensure that we can take maximum advantage of the opportunities.

This has involved big changes under the 'Fast Forward' programme at our largest proprietary Operating Company, Grosvenor Britain & Ireland, to increase efficiency and our ability to add value to this core business. We have increased the amount of capital and resources we allocate to Asia to reflect its growing role in the world economy. We have reorganised our continental European and Australian operations to shift the focus from proprietary to fund management activity. Finally, we have overhauled Grosvenor Fund Management, the business devoted to creating value for external investors, by bringing in new management and setting ourselves ambitious new targets for growth.

Our 2011 results already show the benefit of some of these changes and the increase in our revenue profit is particularly satisfying. There are still many uncertainties ahead and we retain a conservative approach to financial headroom, but we have nevertheless reinvested in building up a development pipeline suited to emerging trends. We have also launched four new investment vehicles to match our investors' changing requirements. All this has been done with delivery of sustained returns firmly in mind, as you would expect from a group which invests in and manages urban property assets for the long term.

We do not expect 2012 to be the year in which everything becomes clear. In too many markets, current property prices reflect the security and income characteristics of property

as an asset class, rather than the underlying economic fundamentals of those markets – so buying opportunities remain scarce and discipline and patience will continue to be required.

Performance

Our key financial metrics, identified in the highlights on page 4 are as follows. Shareholders' funds, which have increased to £2,855m (2010: £2,649m), revenue profit which has improved to £80.8m (2010: £64.2m), and total returns of 9.0%, against 10.9% in 2010.

We consider these to be strong figures. Assets under management have increased by 15% to £12.5bn (2010: £10.9bn). The figures reflect the success of our Operating Companies, not least in respect of another key operational metric, occupancy rates, which have risen again to 95% across the Group's portfolio.

Also significant is our year end development exposure ratio, as a result of seeking out opportunities to contribute to the 'Living cities' of the future. At 15.7% (2010: 13.8%) this promises the creation of significant value in due course. We continue to invest to ensure we have a pipeline of development projects at the right time in the property cycle, while retaining sufficient financial capacity to satisfy our overall caution.

Strategy

The Group operates and invests in three different business areas, allocating capital to each in accordance with our 'Big Six' strategic priorities (see pages 12 and 13) to achieve the diversification and potential for returns desired by our Shareholders and the opportunities sought by our investor partners and our staff. The table below details this capital allocation and how we are achieving our ambition of international diversification.

	Property assets		Assets under management	
	£m	%	£m	%
Proprietary assets – direct				
Britain & Ireland	2,283	39.1	4,184	33.5
Americas	745	12.7	1,248	10.0
Asia Pacific	385	6.6	628	5.0
Proprietary assets – indirect	2,422	41.5	1,441	11.5
Fund management	5	0.1	5,007	40.0
Total	5,840	100.0	12,508	100.0
Commercial	1,603	27.4	3,543	28.3
Retail	2,584	44.3	5,412	43.3
Residential	1,653	28.3	3,553	28.4
Total	5,840	100.0	12,508	100.0

10 Chief Executive's review

First, our *direct* proprietary exposure. This accounts for the largest proportion of our capital and is carried out by three regional Operating Companies – Grosvenor Britain & Ireland, Grosvenor Americas and Grosvenor Asia Pacific. Using the skills and experience of Grosvenor people in 18 offices, these companies invest directly in investment and development property.

Second, our *indirect* proprietary exposure. This involves entrusting our capital to other management teams whom we rate highly in those sectors and geographies not covered by our direct exposure.

Third, managing capital in our fund management business on behalf of investors who select Grosvenor Fund Management for the strategies and expertise it offers.

The structure of this Annual Report reflects these three business areas under the 'Grosvenor' brand. The Group Executive Committee has an important role in ensuring the connection between Group strategic priorities (the 'Big Six') and Operating Company strategies, and for overseeing operational issues which require co-ordination. (Research projects provide good examples, such as that on the resilience of urban planning models, now underway with the London School of Economics, and that on energy in the built environment with Cambridge University, which concluded in 2011.)

In order to communicate better our progress against our performance objectives, this document makes explicit reference to what we said we would do in 2011 and what we did do in each section. We have adopted a similar approach in our second Environment Review, which records the significant progress we have made on environmental performance as a result of our self-imposed reporting regime.

Early in the year we centralised the responsibility of our co-investment stakes in Grosvenor Fund Management investment vehicles, increasing clarity about the scale of the capital we allocate to co-investment and ensuring a single voice as investor.

In the spring, we announced our decision to achieve our ambitions in Australia by expanding our fund management business there rather than through further direct Grosvenor investment. The transition from proprietary Operating Company to fund management business, effective 1 January 2012, prompted the departure of Rob Kerr, Chief Executive of Grosvenor Australia, after 17 years of loyal service. We thank him for his long dedication to the Group.

The market

The benefits of diversification continued to serve us well in 2011, as they have since we first ventured 'abroad' in 1953, with markets in our chosen cities in Australia, Canada and Brazil holding up particularly well. Central London has been notably resilient too, particularly in the prime residential sector where we have been very active in developing new apartments and houses, such as 3–10 Grosvenor Crescent, Belgravia (see page 25).

There are several distinct trends. The divergence between the 'developed' and 'developing' economies continues to dominate the global picture. There continues to be a significant gap between demand for high quality property which makes up the majority of the Grosvenor portfolio, and that for secondary or tertiary property. There is an equally large gap between the prospects of those potential investors with cash or access to credit and those without. We expect these trends to continue to be features of the market beyond 2012.

While we have husbanded our financial capacity again this year, we have nonetheless moved ahead vigorously with site acquisitions and with progressing development projects in Calgary, Cambridge, Edinburgh, London, Los Gatos, Oxford, Reston, San Francisco, Silver Spring, Vancouver and Washington DC in our proprietary Operating Companies. Such activity plays to the strengths of our teams. It offers prospective returns in line with our requirements, and capitalises on lower construction prices and the limited availability of finance in the market. It also proves the importance of having good relationships with civic authorities: our ability to assemble complex development sites in the Americas such as Ambleside in West Vancouver (see page 37) provides a good example.

In our indirect investments portfolio, while Eurozone difficulties have affected retail sales at shopping centres in our Sonae Sierra investment, the business as a whole, and especially the Brazilian centres, continues to perform well operationally and the quality of its assets has limited valuation falls.

At Grosvenor Fund Management there is a continuing demand from investors for assets which return both attractive income yields relative to other asset classes and a hedge against the inflation most commentators now believe is ahead of us. This has resulted in new investment vehicle launches and acquisitions in the US, Continental Europe and the UK. A few very large sources of equity dominated the market in 2011, including investors from Asia, Canada and the Middle East in particular.

Our long-term commitment to managing such capital, coupled with a cautious, disciplined and carefully researched approach to investment, has enabled us to grow our fund management business significantly in 2011

Commentary on our 'Big Six' priorities

We have made good progress with our strategic priorities, largely achieving what we aimed for – as the table on pages 12 and 13 shows. In summary:

- **Optimising capital planning** We are on target with implementing our plan to allocate additional capital to Asia over the next two years. The importance we attach to China as a market was demonstrated by the Group Board deciding to hold its September meeting in Shanghai and Beijing.
- **Creating value from proprietary capital** On the direct side, revenue profit has increased from £23.3m to £41.6m partly as a result of the 'Fast Forward' performance improvement programme in Grosvenor Britain & Ireland. As for indirect investments, we have detailed, and begun implementing, our strategy.
- **Sustaining our core portfolio in London** We continue to reinvest in our London estate, with a marked increase in development activity. We are also committed to making further improvements to the public realm.
- **Creating value from fund management** There is renewed momentum in Grosvenor Fund Management, following the recent change of leadership. Investors have entrusted further capital to us, with the result that funds under management have grown further, from £3.8bn to £5.0bn.
- **Investing in our people** Examples of successful secondments and transfers between our businesses are increasing internal mobility and offer valuable career opportunities for our staff, whose importance to the business is reflected in the many quotations from them now included in this document.
- **'Living cities'** We are broadening the scope of our focus on the environment to include wider sustainability issues in response to the desire of our Trustees, our Board, and our staff to take Grosvenor's commitment to social responsibility a stage further.

Our 'Big Six' priorities are often interlinked. An exciting example is the research into the scope for affordable housing in China which we are funding, for which we signed an agreement with the China Development Research Foundation during the Board's visit last September (see page 46). This research is relevant to our ambitions to grow in Asia; it is an investment of proprietary capital which will increase our understanding of China's residential markets, it draws on our experience in London of running an extensive mixed-use estate, it deepens our connection with institutions in China with whom our proprietary and fund management businesses deal, it will involve our people, as our research team and property professionals work with our Chinese partners, and it expresses our desire for sustainability.

The year ahead

Our priorities for 2012 are to continue to make acquisitions and manage our portfolio with a view to growth in revenue profit, to maintain a cautious stance with respect to financing and financial capacity, and to focus on creating value for our clients. We also plan to invest further effort and capital in contributing to the development and management of sustainable city communities, and to continue to develop our people professionally.

Conclusion

While I do not expect this to be the last review in which I sound a note of caution about the outlook, I do foresee the Group managing significantly more client capital by the end of 2012 via Grosvenor Fund Management's investment vehicles and in joint ventures undertaken by our proprietary Operating Companies. I also expect the Group to be further diversified, thanks to the ability to invest indirectly as well as directly, and to the growing variety of our co-investments in Grosvenor Fund Management funds. At the same time, I remain confident of solid progress in our proprietary Operating Companies as they create value through development projects and the active management of our investment portfolio.

All this can only be achieved as the result of the efforts of the 545 hard working and dedicated people who are our most important ambassadors in cities around the world. I would like to thank them for devoting their energies to Grosvenor in the same loyal fashion as their predecessors have for more than three centuries.

Mark Preston

Group Chief Executive
15 March 2012

Group strategy: the 'Big Six' priorities

1.

Optimising capital planning

We will allocate our Shareholders' capital in three ways, first, to three regional businesses which invest directly in property, secondly, to co-investment in Grosvenor Fund Management funds, and thirdly, to investments in other property-related businesses, following a strategy to increase our diversification by geography and sector. We will manage our exposure through the cycle and give more capital to Asia, to benefit from its long-term growth prospects.

What we said we would do in 2011

- Make progress towards increasing our capital weighting to Grosvenor Asia Pacific to 9.1%
- Maintain cash position, using conservative cash flow forecasts
- Agree and start implementing our indirect investments strategy

What we did in 2011

- Reallocated £20m capital to Grosvenor Asia Pacific
- Held our cash position – £237m at year end
- Identified several indirect investment opportunities and commenced detailed due diligence on one of them

2.

Creating value from proprietary capital

Our aim is to generate total returns from our proprietary capital that are above our weighted average cost of capital and are attractive relative to industry benchmarks. The revenue profit component of these returns is particularly important and we aim to ensure that revenue profit in each Operating Company grows year-on-year.

What we said we would do in 2011

- Invest in new developments
- Improve service to occupiers
- Grow revenue profit

What we did in 2011

- Increased our development exposure
- Saw net satisfaction among market let customers on our London estate exceeded 80% for the first time
- Grew revenue profit from £64.2m to £80.8m

3.

Sustaining our core portfolio in London

Our aim is to ensure that our London estate in Mayfair and Belgravia – the core of our portfolio – is financially sustainable long-term and maintains its pre-eminence as an urban estate. We will achieve this by reinvesting in its fabric so that it has the right mix of properties, community retail and public spaces, and by serving the needs of occupiers and the people who visit for work or pleasure.

What we said we would do in 2011

- Offer customers a greater range of property and a higher level of service
- Enhance public spaces and improve community retail
- Acquire and develop new sites, particularly residential, to rejuvenate key locations

What we did in 2011

- Began construction of the first five-star hotel to be built on the London estate in the last decade
- Started our third project to improve public spaces, in Mayfair
- Acquired two key sites in Belgravia

4.

Creating value from fund management

Our aim is to deliver attractive risk-adjusted returns (relative to agreed benchmarks) and excellent service to clients seeking to invest in property, thus creating value for them through the management of their capital. This activity will generate revenue from fees paid for our services in managing investment vehicles on behalf of those clients, thereby creating value for our Shareholders and staff.

What we said we would do in 2011

- Install new leadership
- Review business strategy in the light of our ambitions
- Launch new Grosvenor Fund Management investment vehicles

What we did in 2011

- Reinforced the leadership team with new regional directors and senior managers
- Committed again to our international markets and to creating value via sector and region-specific investment vehicles
- Closed four new investment vehicles with a total investment capacity of £1bn

5.

Investing in our people

Our aim is to recruit the best talent, to ensure that our people understand our brand, its values and ethos, and to invest in developing their skills, experience and careers. In doing so, we not only develop them professionally, personally and financially but also equip them to achieve Grosvenor's business and financial objectives.

What we said we would do in 2011

- Encourage staff transfers and secondments between Operating Companies and/or the Grosvenor Holding Company
- Increase staff understanding of management challenges
- Ensure the operational restructuring in Grosvenor Britain & Ireland enables career development

What we did in 2011

- Arranged five staff transfers within the Group
- Hosted a second leadership programme at IMD in Switzerland
- Promoted 13 people into new roles in Grosvenor Britain & Ireland

6.

'Living cities'

Our understanding of cities and urban design and development is at the heart of Grosvenor. We aim continually to improve this understanding for the benefit of occupiers, investors and other stakeholders. Increasingly, our business strategies and investment and development practices will also respond to Grosvenor's long-term ambition in the creation and management of vibrant, sustainable cities which operate within the world's annually renewable resources.

What we said we would do in 2011

- Deliver on our internal emissions targets
- Publish our first Environment Review
- Improve data collection and reporting

What we did in 2011

- Delivered more than our target reduction in carbon emissions
- Published our Environment Review 2010 on our website
- Launched an online environmental database to monitor, benchmark and report our performance

Finance Director's report

Nicholas Scarles
Group Finance Director

"Businesses which thrive over the long term are not those which are good at what they do, but those which are good at getting better"

2011 was probably Grosvenor's peak 'year of transition' in preparation for the new market cycle. We completed implementation of our new management structure, which resulted in three 'direct' operations in our key regions of Europe, the Americas and Asia Pacific; one 'indirect' operation and one fund management operation. Within those operations, we are making good progress with programmes to improve efficiency and effectiveness significantly.

Restocking the pipeline of development opportunities also continues, with a number of new development sites now acquired. At the same time our financial capacity, sufficient to support several years' investments, has been maintained. But this is not just promise for the future: the benefits started to materialise in 2011.

Performance

I am pleased to report, in a year of significant market uncertainties, a 25.9% increase in revenue profit – Grosvenor's measure of underlying performance, which derives from what Grosvenor staff do to create value, rather than from extraneous factors – at £80.8m (2010 £64.2m). Profit before tax was £315.0m (2010 £394.8m) and our total return was 9.0% (2010 10.9%). At 31 December 2011, Shareholders' funds were £2,855m (2010 £2,649m).

Earnings

Within revenue profit, which includes Grosvenor's share of joint ventures, gross rental income increased to £309.2m (2010 £284.0m), due to property acquisitions and strong occupancy levels. Fees and other income decreased to £54.8m (2010 £72.6m), largely due to lower performance fees in Grosvenor Fund Management. Net financing costs decreased by 7.6% to £81.0m (2010 £87.7m), reflecting lower interest rates in 2011 and one-off refinancing costs in 2010.

Overheads reduced slightly to £120.5m (2010 £123.2m). This reflects savings from operational efficiencies and lower performance fees in Grosvenor's fund co-investments, offset by the costs of building teams to meet future growth opportunities and some internal reorganisations.

Our proprietary businesses, which invest directly in property, all generated increased revenue profit on a like-for-like basis compared to 2010. The 2010 profit figures have been adjusted, to take account of the new management structure (under which Grosvenor's investments in Grosvenor Fund Management funds are now managed centrally as indirect investments rather than locally by our regional Operating Companies). Grosvenor Britain & Ireland's revenue profit more than doubled to £16.4m (2010 £8.0m) as a result of trading profits. Grosvenor Americas' increased 68% to £12.8m (2010 £7.6m), principally because of trading losses recognised in 2010, and Grosvenor Asia Pacific's increased 61% to £12.4m (2010 £7.7m), reflecting a full year of returns from investment acquisitions made at the end of 2010.

Revenue profit from indirect investments increased by 27% to £59.1m (2010 £46.4m), comprising an increase in the contribution from Sonae Sierra to £46.0m (2010 £32.9m) and a slight decrease in the contribution from investments managed by Grosvenor Fund Management to £13.1m (2010 £13.5m).

Grosvenor Fund Management incurred a revenue loss of £1.6m (2010 profit of £12.5m) due to lower performance fees in 2011 and also the start of significant investment to build its capability for future growth.

For the second year running, Grosvenor Britain & Ireland delivered, on a like-for-like basis, the highest total return amongst our proprietary businesses, of 16.2% (2010 15.5%), arising principally from value appreciation on the London estate but also from increased value-add activities. Grosvenor Asia Pacific's total return was 8.0% (2010 4.5%), and Grosvenor Americas' was 8.9% (2010 8.4%).

The return from indirect investments was 3.0%. This included Sonae Sierra's total return of 2.9%, reflecting income returns of 4.7% offset by revaluation returns of -1.8%, and the return from investments managed by Grosvenor Fund Management of 2.9%, where income returns were 3.8% and capital returns were -0.9% as a result of retail revaluations in the UK.

Operational activity

Assets under management increased to £12.5bn (2010 £10.9bn), chiefly due to the impact of revaluations during the year and acquisitions in new and existing Grosvenor-managed investment vehicles.

Grosvenor's share of property assets increased by 7.0% to £5.8bn (2010 £5.5bn), principally due to revaluation gains.

Our development exposure measured by our development ratio has been steadily increasing, from a nadir of 13.0% in 2009 to 15.8% at the end of 2011, as we take advantage of opportunities.

Staff numbers, excluding Sonae Sierra, remained steady at 545 (2010 547).

Operational effectiveness

Businesses which thrive over the long term are not those which are good at what they do, but those which are good at getting better.

In Grosvenor Britain & Ireland, the 'Fast Forward' project, involving a complete overhaul of business structures and processes, now in its second year, is already delivering significant results (see page 26). In Grosvenor Asia Pacific a new Chief Operating Officer role has been created to focus on operational efficiency and delivery. I am delighted that William Lo, Grosvenor Asia Pacific's Finance Director for 10 years, has been selected for this role and welcome Chris Ip, as the Operating Company's new Finance Director. Meanwhile, Grosvenor Fund Management, with new leadership, is implementing a more centralised business structure to service investors better and support future growth.

16 Finance Director's report

We have enhanced our legal, treasury and IT teams, to increase further the professionalisation of the functions which support Grosvenor's core property expertise

Portfolio allocation

Diversification is at the heart of Grosvenor's strategy – be it by geography, sector, management, currency, lender, investor, partner or advisor. Each of these contributes towards the robustness and stability of Grosvenor's capital base, measured by Shareholders' funds, which remain, for the fifth year running, within 10% of the 31 December 2010 level.

The table to the left shows Grosvenor's economic exposure to property by country. The principal changes since 2010 relate to acquisitions of retail assets in France, Sweden and China, and sales in Australia. They also reflect valuation movements, with large retail in the UK and southern Continental Europe underperforming relative to the London West End, the Americas and Asia Pacific.

Financing

Grosvenor has maintained its ample financial capacity (wholly-owned spare cash and undrawn committed facilities), which at year end was £855m (2010: £829m), consistent with our policy of ensuring liquidity in the event of any further market crisis while maintaining capacity to invest when opportunities arise.

Following the successful £125m US private placement by Grosvenor Britain & Ireland early in the year, the average maturity of Grosvenor's wholly-owned drawn debt has increased to 12.2 years (2010: 9.5 years). The average maturity for undrawn facilities was maintained at 2.9 years. Year end wholly-owned spare cash of £212m was sufficient to repay all wholly-owned debt maturing over the next five years. Such spare facilities and cash are spread amongst 29 institutions and investment vehicles in eight currencies and 11 countries and comply with strict counterparty limits.

Treasury activity

As well as arranging finance for proprietary activities, Grosvenor also manages an increasing volume of finance and financial market activity on behalf of its joint ventures and Grosvenor Fund Management. Overall, Grosvenor manages £4.3bn of loans (2010: £3.7bn), comprising 125 facilities (2010: 107), in nine currencies with 46 relationship lenders (2010: 39), and in support of this £1.6bn notional principal of derivatives (2010: £1.4bn). 44 financings and refinancings (2010: 36) were undertaken during the year with a value of £1.9bn (2010: £1.1bn). £461m (2010: £434m) of managed facilities mature in 2012.

In 2006, when I became Group Finance Director, Grosvenor managed £2.1bn of facilities under a fully devolved structure in which local finance teams were wholly responsible for local financing. In 2007 we introduced our co-ordinated approach to treasury, establishing specialist professional skills based in London in support of local finance teams, and co-ordinating formally our principal lender relationships which span our Operating Companies. As well as avoiding the inefficiencies of separately managing multiple 'pots' of cash and debt, this co-ordination has enabled us to work more effectively with our principal lenders for the benefit of Grosvenor and its investors, while at the same time ensuring local expertise and management of local property debt-related matters. In parallel we have introduced new treasury systems and have designed our co-ordinated team so it can be scaled up if we need more capacity. Treasury activity has doubled since 2006 and we are positioned well to handle any further increase – in particular to support the growth of Grosvenor Fund Management.

Ensuring liquidity

Our approach to maintaining liquidity, introduced in 2007, is based upon continuing to meet Grosvenor's commitments, for at least two years, in the face of property and banking market crises in each of our markets and at the same time. Our assumptions are based on a 40% fall in all property values, peak to trough, a market with no freehold asset sales (at any price), no financing or refinancing beyond existing committed lines, no cash remittances from joint ventures, and substantially increased bad debts and voids reflective of severe stress in the occupier market. Our approach is to contemplate, and then cater for, the unimaginable – before it happens.

Preserving the ability to continue to manage for value-creation through a crisis is expensive, but reaps rewards when others are compelled to manage for cash or, when that fails, become managed by others. The approach of the Grosvenor businesses is to remain selective in making new investments, generally focussing on those assets which retain the potential to generate value through the deployment of property skills and which, in the current challenging debt markets, are not easily financed.

Eurozone

Much of Grosvenor's Euro-area investments are held via Sonae Sierra SGPS. We do not know how the Eurozone financial crisis will pan out but, regardless of the outcome, investment in the Euro area will remain part of our strategy. While many foretell a deepening crisis, we should not discount the possibility of the Euro emerging from the

crisis permanently strengthened and robustly structured. Politicians and central bankers have successfully, and repeatedly, refreshed hope: they have bought time to convince voters of the need for the required reforms and remain determined to ensure the Euro's survival. Future historians may even see this as the time which created the Euro as a robust and cohesive currency – a turning point of major European significance.

Grosvenor's approach presupposes neither Euro survival nor Euro break-up, but with Grosvenor's ongoing participation at a level reflective of both our capital allocation objectives and the opportunities which arise. Recognising future exchange rate volatility and the uncertainty over future asset values, we took the opportunity in mid 2011 to forward-sell anticipated Euro denominated cash flows in exchange for Sterling, and have also written off accounting goodwill of £40m, bringing Grosvenor's balance sheet values into line with the values reflected in the underlying entity accounts.

Regulation

The recent crisis demonstrated how self-destructive unrestrained capitalism can be. Reform is necessary, because regulation has been too lax, but the risk is that the pendulum may swing too far and stifle the markets which support economies, or that reform will be rushed, with undesired or unexpected consequences. Two proposals which potentially threaten the property sector are the requirement for EU property funds to post cash collateral in respect of their interest rate hedges, and the pace and manner of implementation of increased international bank capital requirements in respect of property loans.

Conclusion

We are in uncertain and volatile times with potentially overwhelming and conflicting factors pushing real estate values both higher and lower. This will not change in the near future. In this environment, the only approach for Grosvenor is to continue as before – spreading equity diversely, investing in our relationships with partners, investors and lenders, restraining gearing, ensuring operational efficiency and skilled teams, and deploying them on assets where such skills can add value.

Nicholas Scarles

Group Finance Director
15 March 2012

Grosvenor Group Board of Directors

As at 15 March 2012

Non-Executive Directors

1 Lesley Knox (Chairman) joined the Board in 2010. She is a Trustee of The Grosvenor Estate and a Director of both SABMiller plc and Centrica Plc. She qualified as a solicitor and then spent 15 years with Kleinwort Benson (1981–1996), first as a Corporate Finance Director and then as Chief Executive of the institutional asset management business. She moved to the British Linen Bank (1997–1999), latterly as Governor, and then was a founder Director of British Linen Advisers (2000–2003). She has held a variety of non-executive directorships with international and British corporates. She is currently involved with a number of charitable and arts organisations and is the Chairman of the V&A at Dundee.

2 Rod Kent joined the Board in 2000 and is currently a Non-Executive Director of Caledonia Investments plc. Most of his career was spent with Close Brothers Group plc, where he was Managing Director from 1975–2002, then Non-Executive Director and latterly Chairman until 2008. Over the last 20 years, Rod has served as non-executive director on various boards and has been Chairman of M&G, Bradford & Bingley and BT Pension Scheme boards. He has also been a Trustee of both the Esmée Fairbairn and Wellcome Trust charitable trusts.

3 Michael McLintock joined the Board in 2012 and is Chief Executive of M&G. He joined M&G in 1992 as personal assistant to the then Chief Executive and later became Head of the Institutional and International Desks. He was appointed Chief Executive in 1997 and oversaw the sale of M&G to Prudential in 1999. He joined the Board of Prudential in September 2000. Michael was a Non-Executive Director of Close Brothers Group from 2001–2008. Since October 2005 he has been a member of the Finance Committee of the MCC. Before moving to Barings as a corporate financier in 1987, he joined Morgan Grenfell in 1983, where he worked in investment management and corporate finance.

4 Alasdair Morrison joined the Board in 2004. He is a Senior Advisor to Citigroup Asia Pacific and a member of the firm's Business Development Committee, an Independent Non-Executive Director of MTR Corporation Ltd (the Hong Kong Mercantile Exchange and Pacific Basin Shipping Limited). From 2000–2007 he was Chairman of Morgan Stanley Asia, based in Hong Kong. From 2002 to February 2006, he was concurrently Chairman and Chief Executive Officer 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 1994–2000.

5 Jeremy Newsum FRICS is Executive Trustee of the Grosvenor Estate. He was Group Chief Executive from 1989–2008. He is a member of the Council of Imperial College, a member of Cambridge University's Syndicate for the West and North West Cambridge Estates, and a Director of Grupo Lar. Past appointments include Chairman of the Urban Land Institute (2009–2011), President of the British Property Federation (2001–2002) and Director, TR Investment Property Trust (2000–2007).

6 Domenico Siniscalco PhD joined the Board in 2008. He is Vice Chairman, Country Head of Italy, and Head of Government Coverage EMEA for Morgan Stanley. He is also Chairman of Assogestioni (association of Italian asset managers). From 2001–2005, he served in the Italian government as Director General of the Treasury and then Minister of Economy and Finance. He has been Professor of Economics at Torino University since 1990 and has a PhD in Economics from Cambridge University.

7 Owen Thomas joined the Board in January 2012. He is a Chairman of Lehman Brothers Holdings and a former Managing Director and Management Committee member of Morgan Stanley. He was CEO of Morgan Stanley Asia, President of Morgan Stanley Investment Management, Chairman and CEO of Morgan Stanley Real Estate and Chairman of Mitsubishi Morgan Stanley Securities. He is a Director of the University of Virginia Investment Management Company, a Trustee of the Urban Land Institute and the former Chairman of the Pension Real Estate Association.

Executive Directors

8 Mark Preston MSc (Group Chief Executive) joined Grosvenor in the UK in 1989. Seconded to Hong Kong in 1995, he returned to lead our fund management operations in 1997, spent four years in San Francisco from 2002, became Chief Executive of Grosvenor Britain & Ireland in 2006 and Group Chief Executive in 2008. He is a Non-Executive Director of both Sonae Sierra SGPS and Persimmon plc. He is also a member of the Board of The Association of Foreign Investors in Real Estate, the (University of) Cambridge Land Economy Advisory Board and the Eurohypo International Advisory Board.

9 Nicholas Scarles FCA, 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, Member of the Court of Assistants of the Haberdashers' Livery Company and a Non-Executive Director of Sonae Sierra SGPS.

Grosvenor Group Executive Committee

As at 15 March 2012

- 1 Mark Preston** MRECS (Chairman) is Group Chief Executive and joined Grosvenor in the UK in 1989. Seconded to Hong Kong in 1995, he returned to lead our fund management operations in 1997, spent four years in San Francisco from 2002, became Chief Executive of Grosvenor Britain & Ireland in 2006 and Group Chief Executive in 2008. He is a Non-Executive Director of both Sonae Sierra SGPS and Persimmon plc. He is also a member of the Board of The Association of Foreign Investors in Real Estate (the University of) Cambridge Land Economy Advisory Board and the Eurohypo International Advisory Board.
- 2 Nicholas Scarles** FCA 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, Member of the Court of Assistants of the Haberdashers' Livery Company and a Non-Executive Director of Sonae Sierra SGPS.
- 3 Andrew Bibby** (Chief Executive, Grosvenor Americas) joined Grosvenor in 1984. He is a past Director of the Real Property Association of Canada and a past member of the Faculty Advisory Board of the Sauder School of Business at the University of British Columbia.
- 4 Nicholas Loup** (Chief Executive, Grosvenor Asia Pacific) established the operation in Asia Pacific in 1994. He is a Director of Asia Standard, a listed company in Hong Kong, a General Committee member of the British Chamber of Commerce and a Director of the Spinal Cord Injury Fund. He is also Chairman of ANREV, of which he is a founder member, a member of the Asia Pacific Acquisitions Committee of the Tate, and a member of the World Economic Forum's Global Agenda Council on Real Estate.
- 5 Peter Vernon** MRECS (Chief Executive, Grosvenor Britain & Ireland) joined Grosvenor in 2005 to take responsibility for Grosvenor's 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.
- 6 Jeffrey Weingarten** (Chief Executive, Grosvenor Fund Management) began his career as a Securities Analyst at Scheinman, Hochstein & Trotta in 1970, before moving to Wertheim & Co. In 1977, he joined the research division at Goldman Sachs & Co in New York, becoming Director of Research in London in 1987 and General Partner of Goldman Sachs & Co in 1990. From 1991–1995, Jeffrey was the Chief Investment Officer and Managing Director of Goldman Sachs Asset Management International, before returning to International Equity Research as Global Strategist. From 1998–2008, Jeffrey was General Partner and Chief Investment Officer of Buttonwood Capital Partners.

Proprietary assets – direct

Proprietary assets – direct

Grosvenor's *direct* proprietary investment in property encompasses Europe, North America and Asia where we have 242, 63 and 62 people respectively.

We have been managing land in Mayfair and Belgravia since 1677 and from a dedicated London office since 1836. For the past 40 years we have also had assets elsewhere in the UK – hence our office in Edinburgh, opened in 1987.

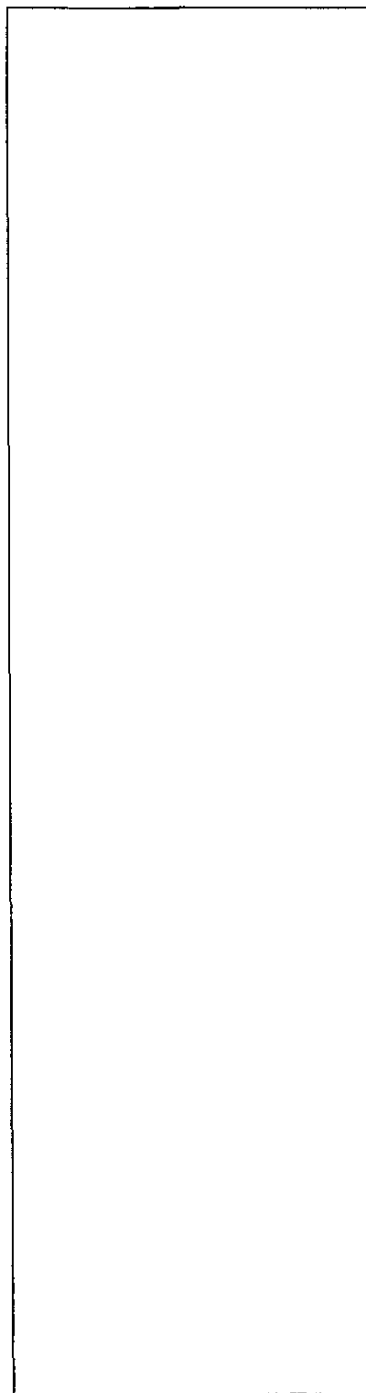
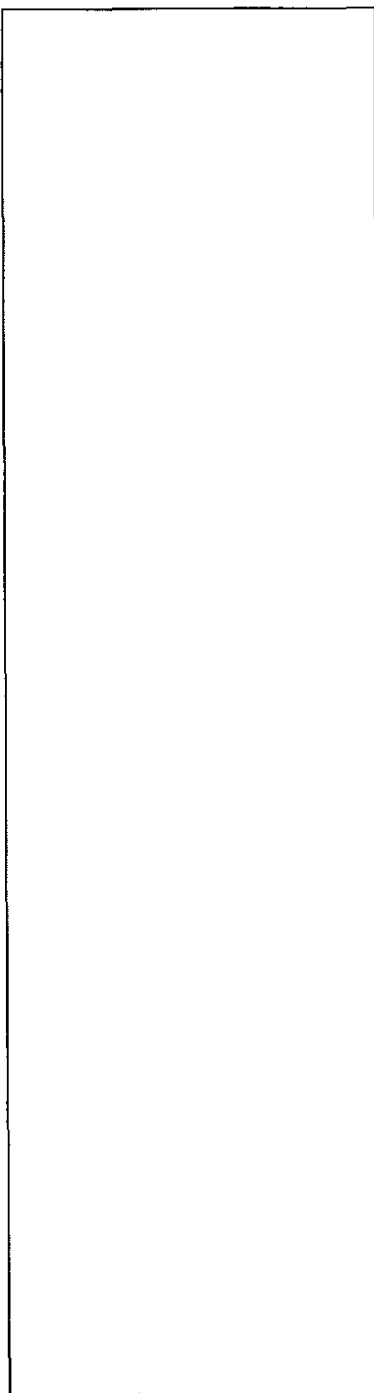
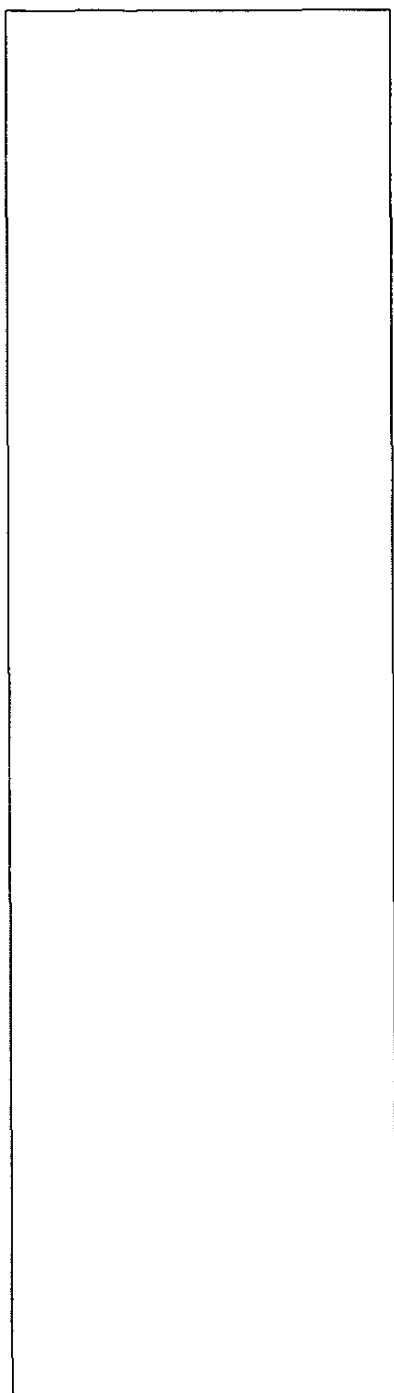
North America was the location of Grosvenor's first international projects we have been active here for nearly 60 years. We have had an office in Vancouver since 1953, in San Francisco since 1977, in Washington since 1988 and in Calgary – with one small gap – since 1997.

Our knowledge of the Asia Pacific market stretches back nearly 20 years and we have had offices in Hong Kong since 1994, in Tokyo since 2001, in Shanghai since 2004 and in Beijing since 2010.

Grosvenor Britain & Ireland
Pages 22 to 33

Grosvenor Americas
Pages 34 to 43

Grosvenor Asia Pacific
Pages 44 to 49



**62 Green Street, Mayfair,
London, England**

We continued to develop our luxury
residential portfolio in Mayfair and
Belgravia in 2011 including nine
contemporary apartments at
62 Green Street

Grosvenor Britain & Ireland

Peter Vernon
Chief Executive

Business objective

Grosvenor Britain & Ireland's aim is constantly to improve the neighbourhoods of our London estate, and to complement this through additional value-creating activity elsewhere with a particular focus on high-end residential and mixed-use. The end user is always in our minds: our long-term success depends on our meeting the needs of residents, businesses and visitors for exceptional places in which to live and work.

What we said we would do in 2011

- Grow our revenue profit
- Grow our pipeline of value-creating development opportunities
- Deliver a total return above our cost of capital

What we did in 2011

- Doubled revenue profit to £16.4m
- Gained control of four significant development opportunities with gross development value of over £600m
- Delivered a total return of 16.2%, above our cost of capital, including £103m of value-add through active management

Highlights

Revenue profit

£16.4m

2010: £8.0m (restated)

Total return

16.2%

2010-15: 5% (restated)

Number of assets by city*

Britain	
A Cambridge	3
B Edinburgh	133
C Glasgow	107
D Liverpool	1
E London	1,514
F Oxford	1
Ireland	
G Dublin	2

*Some assets we hold directly; others we manage on behalf of the Grosvenor Trusts.

24 Proprietary assets – direct Grosvenor Britain & Ireland

2011 was a year of disciplined execution of our strategy with good results. We greatly increased our capacity to create value while significantly improving efficiency and therefore regular income. By delivering a major new development in the heart of our London estate at 3–10 Grosvenor Crescent, we have further enhanced our credentials in luxury residential property.

Commentary on key performance indicators

In a market which continued to be testing, we stuck to our strategy and achieved a total return of 16.2%, slightly ahead of 2010 (15.5%). This includes 5.7% attributable to value-add activity, in addition to market growth. Relative to the total return on the IPD All Property Index of 8.1%, it is a strong performance. Revenue profit increased to £16.4m (2010: £8.0m). Assets under management grew 18.9% to £4.2bn (2010: £3.5bn). We have the financial capacity to invest significantly in the coming years.

Strategic focus

We devote 90% of our capital to the London estate, split between investment and development activity. We concentrate most of our development spend on projects which will grow long-term income – with some trading of larger residential properties.

We allocate 10% of our capital to Grosvenor Developments, which operates outside our London estate and undertakes trading activity, mainly development, to boost our revenue profit.

In both cases we continue to undertake some joint venture projects, to 'stretch' our capital or to work with a partner with complementary expertise.

“Our public realm programme reflects our conviction that places are about more than buildings. The appearance of streets is vital to the long-term success of the neighbourhoods we manage.”

Will Bax
Director, Mayfair

London estate

Our London estate, led by Giles Clarke, is the core investment for Grosvenor Britain & Ireland and for the Group as a whole. Our ambition is to ensure this historic mixed-use portfolio remains financially sustainable over future generations. This depends on continuous careful asset management and well-judged reinvestment.

However, it is important to complement long experience with innovation. We are constantly seeking to revitalise and refresh our locations to serve our customers better. By understanding and anticipating market trends in our re-development programme we can maintain demand for our mature portfolio of prime properties.

Off estate

Grosvenor Developments, led by Craig McWilliam, undertakes projects 'off estate' in London and elsewhere which allow us to recycle capital more quickly. While the focus is on London, there is a spread of activity in terms of scale and complexity, from place-making projects in Edinburgh and Oxford to individual apartment buildings in London and Cambridge.

When creating trading profits, we take a long-term perspective: we care about our legacy in the built environment and our relationship with local stakeholders. We aim to create lasting developments in cities which we either know well already or with which we want to establish an enduring association. In London we focus on high-end residential; elsewhere, on larger scale place-making projects.

Market conditions

The first half of 2011 saw a marked improvement in values in London, which is still seen as a safe haven for international investors, including some new to investment in property as an asset class. Our office, residential and retail portfolios in Mayfair and Belgravia have benefited in line with this trend.

Elsewhere the picture was increasingly muted, a trend exacerbated by the Eurozone crisis and the reluctance of banks to lend, which further depressed trading activity.

“We have a strong and diverse pipeline of development opportunities which will help us add value to our London estate by creating differentiated products and places that meet our customers’ highest expectations”

Ian Morrison
Director,
London Estate Developments

“The redevelopment of 8 Balderton Street takes its cue from its art deco origins. We hope to create, in ‘The Beaumont’, one of London’s most exciting places to stay, and to increase our income from the hotel sector”

Emma Mountford
Senior Development Manager,
London Estate Developments

Our development business has the advantage of strong financial capacity but good opportunities for investment were rare

With London values growing against a backdrop of increasing economic uncertainty, we will continue to be selective in how we invest in new opportunities

Investment and development highlights

Over the year we increased our development pipeline under construction both on and off our London estate, to increase revenue and create value from capital appreciation, raising our development ratio to 25.5% from 18.2% in 2010

At year end the portfolio sector mix was 13% retail, 56% residential and 31% office

London estate

The highlight of the year was the completion of 15 contemporary luxury apartments at **3–10 Grosvenor Crescent**, Belgravia, where we were project and development manager, with a share of profits (see page 27). This project adds to our credentials as a developer of luxury residential accommodation. Three units had been sold or exchanged at year end

In November, on behalf of the Grosvenor Trusts for whom we manage some assets, we reached agreement with Derwent London to re-structure ownership of **1–5 Grosvenor Place**, Belgravia (see page 27), into a 50/50 partnership, in which we will act as development manager on this magnificent site at Hyde Park Corner

Taking advantage of a weak construction market we started on site with our project at 8 Balderton Street (a luxury boutique hotel, The Beaumont), part of our drive to increase income from the hotel sector. Our office development at **29–37 Davies Street** (see page 28) went on site in January 2012. Meanwhile we made good progress on projects we had under construction: **55–73 Duke Street** (retail and residential – see page 28), **62 Green Street** (residential)

with a restaurant at 30 North Audley Street (see pages 22 and 28), and 40–54 Grosvenor Hill (office). Overall, including refurbishments, across the estate we have more than 35 projects on site, bringing around 12,000m² of prime residential stock to the market

Our work on public spaces in **Mount Street**, Mayfair (see page 29), completed in 2010, was complemented in June with the installation of a water feature by Tadao Ando at the junction of Mount Street and Carlos Place

We started work on our third ‘public realm’ project, in nearby North Audley Street, continuing our commitment to upgrading the streets on our estate

Off estate

The most significant transaction off-estate was the acquisition of **Alpha Place**, in Chelsea, London – our fourth luxury residential joint venture with Native Land (see page 29)

We also formed a joint venture with Oxford City Council to plan and deliver a new community at **Barton** in north Oxford – our first in the city (see page 29)

During the year we continued the construction of NEO Bankside, London, our second joint venture with Native Land. 114 of the 217 apartments had been sold or exchanged at year end. The fast-improving location and strong architecture has given the scheme a high profile and good sales results from international buyers and it continued to win awards in 2011. We also took forward our joint venture at Campden Hill in Holland Park, London – achieving planning consent for our revision of the original scheme, which promises to add significant value

Outside London we started on site at Parkside Place, Cambridge, pre-selling 66% of these residential units and entirely covering our construction costs. At Springside, Edinburgh, we acquired the interests of our other partners and now have 100% ownership of the development

26 Proprietary assets – direct Grosvenor Britain & Ireland

“With teams dedicated to each location on our London estate we are now able to focus more on delivering the right service and product for each customer in those locations across all sectors”

Catherine Stevenson
Director,
South Belgravia

Elsewhere, we sold our remaining interests at Preston At Liffey Valley, Dublin together with our partner Aviva, we decided to retain our stake in the shopping centre to benefit from the income it generates

Asset management highlights

London estate

Now managed as four locations (Mayfair, North Belgravia, Eaton Square and South Belgravia) to enable a more focused customer service, our London estate performed well in 2011. Occupancy rates were 98% (2010 98%) and overall satisfaction levels were strong

Some assets we hold directly, others we manage on behalf of the Grosvenor Trusts. For the directly held portfolio, rental income was £60.5m (2010 £55.2m). Revaluation of the London estate (+13.4%, compared to +15.9% in 2010) made a strong contribution to our results. Active management – including refurbishments, change of use and planning consents – contributed £63m (2010 £37m).

Operational developments

Work on operational improvements continues and in 2011 our ‘Fast Forward’ programme delivered a significant improvement in performance. The focus has now moved from our property teams to our financial systems and processes. We chose Yardi as our IT provider for a major investment in new finance and property management systems, which will bring further efficiencies.

Our bond issue in the US private placement market, concluded in April, raised £125m, split between 20 and 30 year maturities at a blended average rate of 5.69%.

“We completed our first development in Cambridge nearly 30 years ago. Our four current projects in the city demonstrate the benefits of our long-term perspective in the physical product we create and in our relationships with local stakeholders.”

Ed Skates
Projects Director
Grosvenor Developments

2012: strategic priorities

Our priorities for 2012 are to increase revenue profit by reducing voids, improving income generation through new products and driving greater efficiency in our processes, to identify new value-adding opportunities to increase our total return, and to secure future profit growth by building our development pipeline on and off the estate.

2012: market outlook

We expect weak economic growth in the short term and believe the Eurozone crisis will continue to damage investor confidence. Against this uncertainty, demand remains strong for London property, especially prime residential, viewed as a ‘safe-haven’ asset and benefiting from the city’s strong international links. The 2012 Olympic Games should also help sentiment and provide an opportunity for London to increase its global profile.

In the medium term the pace of recovery is likely to remain modest, given continuing public sector austerity and private sector deleveraging. However, the current low levels of construction and lack of available finance promise significant development opportunities, albeit limited in number.

Overall, we are confident about the future. Grosvenor Britain & Ireland, which looks to the very long term on the majority of its portfolio, will continue to reinvest in its London estate and in developments elsewhere if the risk-adjusted return seems appropriate. We believe London will remain a vibrant place to live and an attractive destination for international investors, businesses and visitors, provided the city maintains a stable and competitive tax environment, invests in transport infrastructure and maintains open borders.

“3–10 Grosvenor Crescent has attracted great interest from around the world buyers often describe it as an example of Belgravia’s ‘timeless elegance’”

Jonathan Wyatt
Associate Director,
London Estate Developments Team

“1–5 Grosvenor Place is an exciting opportunity to deliver a building appropriate for the gateway to Belgravia. We are delighted to work with Derwent London to unlock its potential to transform the area.”

Mark Curry
Senior Development Manager
London Estate Developments Team

Grosvenor Britain & Ireland Assets under management

Total

£4,184m

Investment

£3,064m

Development

£1,120m

3–10 Grosvenor Crescent, Belgravia

City	London
Country	England
Sector	Residential
Type	Development
Area	7,600m ²
Ownership	Freehold owned by the Grosvenor Trusts

We are project and development manager on this scheme to develop eight town houses as 15 luxury properties with extensive underground parking – the first Grosvenor-led residential development scheme on our London estate since completion of Montrose Place in 2007

1–5 Grosvenor Place, Belgravia

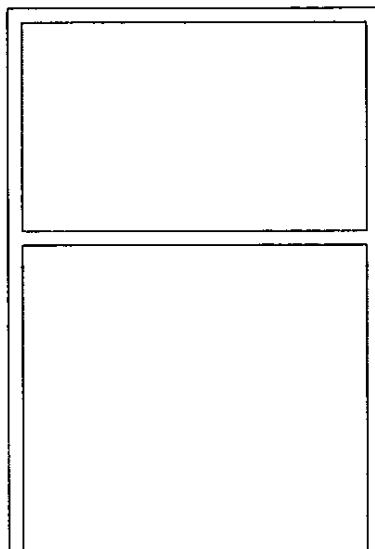
City	London
Country	England
Sector	Mixed-use
Type	Development
Area	15,600m ²
Ownership	Jointly owned

This site – over 1.5 acres overlooking Hyde Park and Green Park – offers scope for redevelopment to create a world-class, sustainable building equal to its remarkable location. We hope it will house a luxury hotel, commercial and residential uses. Subject to receipt of planning consent, the construction could start in 2014.

28 Proprietary assets – direct Grosvenor Britain & Ireland

“Our new building at 29–37 Davies Street will create a timeless yet contemporary building for office and retail use. Traditional materials will ensure it fits with the surrounding area.”

Philip George
Associate Director,
London Estate Developments Team



29–37 Davies Street, Mayfair

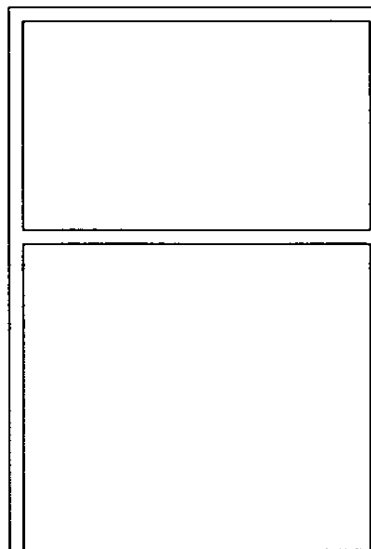
City London
Country England
Sector Office
Type Development
Area 4,800m²
Ownership Jointly owned

29–37 Davies Street – our second joint venture with Stow Capital Partners Ltd – is a prominent corner site in the commercial heart of Mayfair. Our new building, scheduled for completion in 2013, will be constructed and finished to the highest standards expected by commercial occupiers and by the brands we will target for the two ground floor retail units.

This is a computer generated image

“62 Green Street was a technically challenging development but with these triplex penthouses we have brought a new style of property to the Mayfair market.”

Anna Farnes
Senior Development Manager,
London Estate Developments Team



62 Green Street, Mayfair

City London
Country England
Sector Residential-led mixed-use
Type Development
Area 2,100m²
Ownership Wholly owned

Following redevelopment work that returned the facade to its original design, this property now comprises a ground floor restaurant and nine apartments. All the apartments are designed to have a contemporary, spacious feel, all will be part of our 'Market Lets' portfolio. With solar-powered hot water and rainwater harvesting systems, the building has achieved a "Very Good" BREEM EcoHomes rating.

55–73 Duke Street, Mayfair

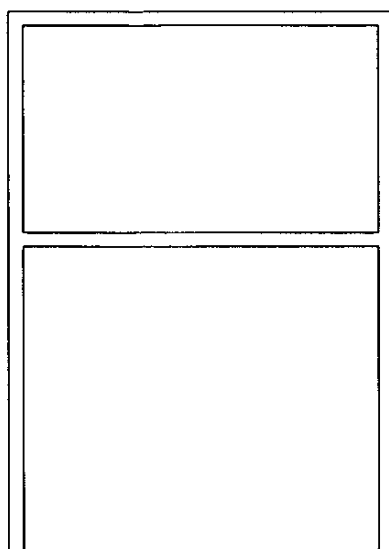
City London
Country England
Sector Residential/Retail
Type Development
Area 5,000m²
Ownership Wholly owned

Close to Oxford Street, this mixed-use development comprises 16 luxury apartments and four retail units. The Grade II Listed Victorian mansion building is being redeveloped to the highest standards and will come to the market in early 2013.

This is a computer generated image

“The acquisition of Alpha Place adds to our growing number of luxury development projects in the capital but outside Mayfair and Belgravia ”

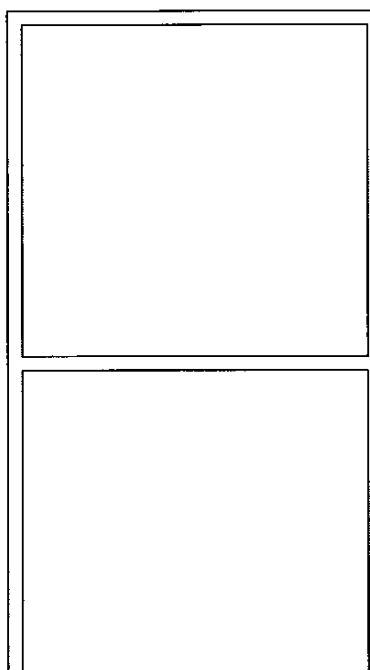
Anthony Gill
Projects Director,
Grosvenor Developments



Mount Street, Mayfair

City London
Country England
Sector Mixed-use
Type Investment
Area 76,900m²
Ownership Wholly owned

The unveiling of a water feature by acclaimed Japanese architect Tadao Ando marked the final completion of the public realm works in Mount Street, which is now established as one of London's premier retail destinations

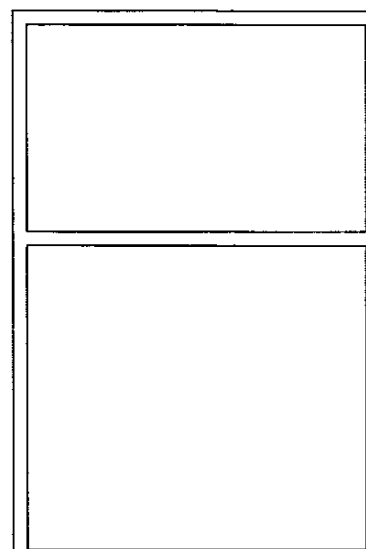


Alpha Place, Chelsea

City London
Country England
Sector Residential
Type Development
Area 9 000m²
Ownership Jointly owned

We acquired this prime 0.8 acre residential site in Chelsea in a three-way joint venture with Native Land and MountCity Investments. The site had an extant planning permission for 25 private, luxury residential units and eight on-site affordable units. We have since modified the planning permission and expect to start on site in summer 2012 with completion in 2015.

This is a computer generated image



Barton

City Oxford
Country England
Sector Residential-led mixed-use
Type Development
Area 364,000m²
(whole site area)
Ownership Jointly owned

An opportunity to provide an extension to the city with more private and social housing, this is a major project to deliver up to 1,000 new homes in a large-scale development west of Barton. We look forward to collaborating with our partners Oxford City Council who selected us, and with local resident groups, to ensure that the project attracts new life to the area while still meeting the wants and needs of the existing community. Construction is due to start in 2014.

Grosvenor Britain & Ireland Board of Directors

As at 15 March 2012

Non-Executive Directors

- 1 Graham Pimlott** (Chairman) joined the Board in 2009. He was a Partner at Lovells before taking senior roles within BZW and Barclays PLC. He is the Chairman of Tesco Personal Finance plc and has held several non-executive director roles in the past.
- 2 Michael Gradon** joined the Board in 2007. He is the Senior Independent Director of Modern Water plc, a Non-Executive Director of AerCap Holdings NV and Exclusive Hotels, and is on The Committee of Management of the All England Lawn Tennis Club and Wimbledon Tennis Championships. He was previously a Main Board Director at P&O.
- 3 Heather Rabbatts** joined the Board in 2009. She is a Non-Executive Director of Cross London Rail Links Ltd and is on the Board of several non-profit organisations including the Royal Opera House. She was recently appointed as a Non-Executive Director to the Board of the Football Association. She has previously held several Board positions in commercial, not-for-profit and government organisations.

- 4 Mark Preston** MRICS (Group Chief Executive) joined Grosvenor in the UK in 1989. Seconded to Hong Kong in 1995, he returned to lead our fund management operations in 1997, spent four years in San Francisco from 2002, became Chief Executive of Grosvenor Britain & Ireland in 2006 and Group Chief Executive in 2008. He is a Non-Executive Director of both Sonae Sierra SGPS and Persimmon plc. He is also a member of the Board of The Association of Foreign Investors in Real Estate, the (University of) Cambridge Land Economy Advisory Board and the Eurohypo International Advisory Board.

- 5 Nicholas Scaries** FEA 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, Member of the Court of Assistants of the Haberdashers' Livery Company and a Non-Executive Director of Sonae Sierra SGPS.

Executive Directors

- 6 Peter Vernon** MRICS (Chief Executive) joined Grosvenor in 2005 to take responsibility for Grosvenor's 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.

- 7 Roger Blundell** ACA (Finance Director) joined Grosvenor in 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.

- 8 Giles Clarke** MRICS (Executive Director London Estate) joined Grosvenor in 2007. He is responsible for the London estate including all investment, development and property management activity. He was previously at The Crown Estate where he was Director of Investment & Asset Management.

- 9 Craig McWilliam** MRICS (Executive Director Grosvenor Developments) joined Grosvenor in 2010. He was previously Managing Director at Fortress Investment Group with responsibility for real estate in the company's European private equity business. Previously he worked at Chesterton, UBS and Rodamco.

- 10 Ulrike Schwarz-Runer** DOCTOR OF LAWS (General Counsel) joined Grosvenor in 2010 and advises Grosvenor Britain & Ireland, Grosvenor Fund Management, Grosvenor Group and the Grosvenor Trusts. She was previously General Counsel of a sovereign wealth fund and prior to that Executive Director at Goldman Sachs. She is a Non-Executive Director of the Barclays Pension Fund. She is qualified to practise law in England & Wales, New York and Austria.

Grosvenor Britain & Ireland Portfolio

Investment properties

	Passing rent £m	ERV £m	Running yield %	Reversionary yield %	Number of properties	Grosvenor share £m	Assets under management £m
Office	27.8	36.9	4.1	5.4	244	680.0	962.7
Retail	14.1	15.5	5.5	6.0	101	257.3	480.4
Residential*	22.4	23.4	2.3	2.4	594	976.0	1,621.0
	64.3	75.8	3.4	4.0	939	1,913.3	3,064.1

*The majority of the residential portfolio is ground rented and because of this it has a low average yield. The average yield on the rackrented portfolio is 4.4%.

Development properties

	Number of properties	Grosvenor share £m	Assets under management £m
Office	3	10.6	47.0
Retail	1	47.2	120.2
Residential	13	312.2	953.1
	17	370.0	1,120.3

Geographic analysis

	Grosvenor share			Assets under management Total £m
	Investment £m	Development £m	Total £m	
London	1,829.3	266.6	2,095.9	3,829.1
Outside London	84.0	103.4	187.4	355.3
	1,913.3	370.0	2,283.3	4,184.4

32 Proprietary assets – direct Grosvenor Britain & Ireland

Portfolio
Continued

Grosvenor Britain & Ireland manages a portfolio of assets across 300 acres of Mayfair and Belgravia, some parts of which are owned by the Grosvenor Trusts. The portfolio comprises more than 1,500 retail, residential and commercial properties, managed through four location teams. A summary of the London Estate investment portfolio is set out below. In addition, Grosvenor Britain & Ireland manages a small portfolio of investment properties outside the London Estate.

Development activity is managed by the London Estate team (for projects in Mayfair and Belgravia) and by the Grosvenor Developments team (for all projects outside the London Estate). A summary of principal development projects is presented opposite.

1 Mayfair

Sector	Office	188 offices
	Retail	84 units
	Residential	224 units
Area	7,911,000m ²	

With a mix of commercial and residential properties, Mayfair is home to some of the world's leading hotels and restaurants. The location includes one of London's largest garden squares, Grosvenor Square, and one of the capital's most fashionable shopping destinations, Mount Street.

2 North Belgravia

Sector	Office	86 offices
	Retail	24 units
	Residential	280 units
Area	3,682,000m ²	

Just north of Eaton Square, this location is centred around Belgrave Square. To the west, lies Motcomb Street, a discreet enclave of high-end retailers and fine restaurants. Grosvenor Crescent, with the new residential development at 3-10, runs off the east end of Belgrave Square.

3 Eaton Square

Sector	Office	2 offices
	Residential	77 units
Area	839,000m ²	

At the heart of Belgravia, 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 stucco-fronted terraces.

4 South Belgravia

Sector	Office	110 offices
	Retail	122 units
	Residential	314 units
Area	2,943,000m ²	

This location is home to two retail destinations, Elizabeth Street and Pimlico Road, as well as quiet residential streets. To the south, Buckingham Palace Road and Grosvenor Gardens contain contemporary and period office buildings.

Property	Description	Location	Area m ²	Completion date
Principal development and trading properties – directly owned				
Office				
40–54 Grosvenor Hill	Prime commercial offices with retained facades	West End London	2 800	2012
18–20 Grosvenor Street	Part new part refurbished prime commercial offices	West End, London	5 600	2013
Residential				
55–73 Duke Street	16 apartments and 1,500m ² retail	West End London	5,000	2012
52 Green Street	Five residential apartments	West End, London	600	2012
62 Green Street	Nine apartments and a 500m ² restaurant	West End London	2,100	2012
One Park West	Residential apartment block	Liverpool, Merseyside	19 100	2009
Parkside Place	Residential apartment block with 99 units	Cambridge, Cambridgeshire	11 600	2012
Hotel				
8 Balderton Street	80-bed boutique hotel and restaurant	West End London	5,800	2012
Development and trading properties – jointly owned				
Office				
29–37 Davies Street	New prime commercial offices and retail	West End London	4 800	2013
Residential				
Alpha Place	Luxury apartment block	Chelsea, London	9,000	2015
Barton	Development land	Oxford, Oxfordshire	364,000	2018
Campden Hill	Luxury apartment block	Holland Park London	18 000	2016
3–10 Grosvenor Crescent	Grade II* Listed apartment building with 15 units	West End London	7 600	2011
1–5 Grosvenor Place	Mixed-use hotel commercial and residential	West End London	15 600	2017
Grouss	Portfolio of 240 flats townhouses and serviced apartments	Edinburgh & Glasgow, Scotland	33 100	2010
NEO Bankside	Luxury apartment block	Central London	38,000	2010–2012
Trumpington Meadows	Development land	Cambridge Cambridgeshire	240,000	2016
Mixed-use				
Springside	Mixed-use, city-centre scheme	Edinburgh Scotland	83 200	2015

The RISE, Vancouver, BC, Canada

The RISE, with both retail and residential components is 100% leased as a result of diligent asset management

Grosvenor Americas

Andrew Bibby
Chief Executive

Business objective

Grosvenor Americas' aim is to achieve a leading position in a selection of geographic and sectoral markets in Canada and the United States, thus continuing the focused expansion of the business. By increasing brand recognition and deepening our knowledge base we facilitate the flow of attractive deals upon which value-creating investment and development activity depends.

What we said we would do in 2011

- Attract partners for new investments
- Buy investment and development assets with scope to add value whether by virtue of temporary or anticipated market weakness, repositioning, intensification of use, change in use, or redevelopment
- Stay close to tenants to maintain occupancy levels

What we did in 2011

- Agreed mandates and made initial investment with two new partners
- Acquired control of two development sites
- Delivered occupancy levels of 94.5%

Highlights

Revenue profit

C\$20.3m

2010: C\$12.1m (restated)

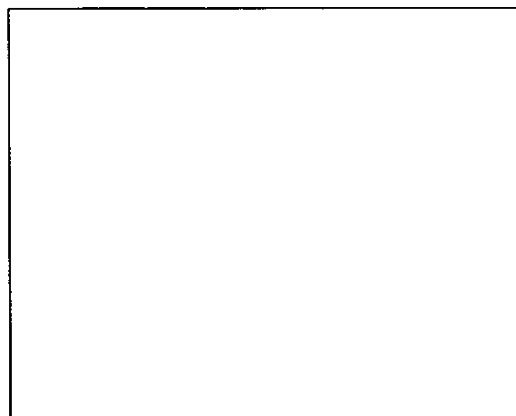
Total return

8.9%

2010: 8.4% (restated)

Number of assets by city

Canada		
A	Calgary	5
B	Vancouver	5
C	Victoria	1
USA		
D	Chicago	3
E	Los Angeles	2
F	San Francisco	5
G	San Jose	4
H	Seattle	9
I	Washington, DC	11



The uncertain economic and financial climate in 2011 made it a year for stabilising the portfolio and adding to it selectively. We performed solidly despite the odds and have a substantial development pipeline with which to attract partners and generate revenue and trading income in the future.

Commentary on key performance indicators

Our financial performance remained stable. Total returns were 8.9% (2010: 8.4%), maintaining the significant improvement seen since 2009 despite the net decrease in the size of our portfolio over that period. Revenue profit was C\$20.3m (2010: C\$12.1m) reflecting increased returns from our mezzanine lending programme. Assets under management increased to C\$2.0bn compared with C\$1.7bn in 2010. Our financial capacity is strong, allowing scope for repeated reinvestment when the time is right.

Strategic focus

Our strategy is to focus on urban centres with the greatest potential for growth. These cities have strong economic foundations, in services rather than manufacturing, good transportation, and expanding, well-educated populations. The 'Emerging Trends in Real Estate®' 2012 report from the Urban Land Institute vindicated our geographic choices in the rankings: our primary markets came 1st in the US (Washington, DC), 3rd in the US (San Francisco), 2nd in Canada (Vancouver) and 3rd in Canada (Calgary), while our secondary markets of Seattle, Los Angeles and Chicago came in 6th, 9th and 21st respectively.

We have specialist capabilities in several sectors, namely retail, residential, industrial, office and hotel expertise – the mix varies from city to city. We have made a strategic decision to put more emphasis on residential property, particularly at the high end of the market.

Long term we aim to have 20% of our capital in development activities and 80% in income-producing investments. Joint ventures on individual projects are important to us as a way of sharing and diversifying risk. We work hard to align expectations and to build the trust required for efficient and effective partnerships.

We have a similar long-term approach to relationships in our mezzanine lending programme. We focus on

"Our team is currently very active, having acquired prime development sites in all of our major markets. With new projects underway, we are able to expand responsibilities and encourage innovation."

Ryan Boechner
Chief Development Officer

experienced developers who can withstand changing conditions in the operating environment. We continue to bring co-investment partners into our mezzanine lending programme for specific projects.

Market conditions

The nation's economic expansion was unusually pressured in 2011 – most notably by spiking commodity prices, global supply chain disruption, serial financial market turmoil due to the Eurozone's sovereign debt problems, Congressional brinkmanship, and the September downgrade of the US's AAA credit rating. In response, the US economy grew weakly in the first half of the year and progressively strengthened during the second half.

Thus far, both the economy and banking system in the USA continue to recover from the recession. Employment has been rising, inflation has been decreasing and both consumer and business confidence are improving. Economists now assign only one in four odds that the US economy will suffer a 'double-dip' recession in 2012.

The Canadian economy remained remarkably strong. It was impacted by several exogenous shocks in early 2011, both directly and via its close links with the US economy. Internal growth and renewed strength in its major trading partner will support steady, moderate expansion.

From a market fundamentals standpoint, our four primary real estate sectors in the US have stabilised and – with the exception of retail – registered several quarters of improvement.

Canadian commercial real estate markets continued to benefit from economic growth and rising employment levels. All major property types are experiencing improvement.

Investment and development highlights

In this climate, there have been more development than investment opportunities.

We made six significant acquisitions. We executed an option to acquire a two-acre site at 8415 Fenton Street, Silver Spring, Maryland, which we will take through the entitlement process in 2012, to create a mixed-use rental apartment and retail building – expanding our areas of expertise. We acquired two residential assets: a 38-unit, multi-family site on Pacific Avenue in San Francisco (see page 38), which will constitute the first residential development project for our team in the city, and Borgata Apartments, an 83-unit rental community in Renton, Washington, in our fourth joint venture with Mosaic Homes.

“Over my 10 years with Grosvenor Americas, I’ve worked in three vibrant markets – Vancouver, Washington, DC and Calgary – where I’ve witnessed first-hand our commitment to developing high-quality urban projects”

Michael Ward
Vice President, Development

In the commercial sector, we bought a 9,900m² office property with additional land for development, at 1520 Fourth Street, Calgary, and the 12-acre Campus at Sunrise in Reston, Virginia – our first investment with two new institutional investors

We continued to sell properties that do not fit our current strategy for example, our South Point Village development site in the Vancouver suburb of Surrey, BC, and a further part of our investment portfolio in Old Town Alexandria, VA

We moved to the next stage on several projects. At the **Ambleside** site on Marine Drive in West Vancouver (see page 38), we worked closely with the civic authorities with a view to completing the site assembly and zoning in 2012. The development is a significant component of the revitalisation of the civic heart of West Vancouver

In July, we started construction of our 135-unit residential development Drake, in Calgary, taking advantage of low construction costs, and continued our pre-sales programme, reaching 53% at the year end

Other projects passed significant milestones. **15 West** in North Vancouver (see page 39) received unanimous local council support for its zoning, and the marketing presentation centre opened in November, at **District**, 14th Street, Washington, DC, we started on site (see page 39), and at our North 40 mixed-use development site in Los Gatos, CA, our option structure and strong relationship with the property owner is allowing us to effectively work with the community to refine the vision for this premier Silicon Valley location

During the year our exposure to development increased slightly to 10.5% (2010: 7%)

Asset management highlights

Our selection of properties in, predominantly, urban areas has been borne out by the speed with which we have been able to re-let where necessary. The re-leasing of premises previously occupied by Borders Books provides telling examples. Occupancy rates have therefore remained high at just below 95% (2010: 94%)

In suburban Chicago, we completed a major upgrade to **Rice Lake Square** (see page 39), a grocery-anchored shopping centre that we acquired in 2004. The extensive refurbishment adds architectural interest, and major site improvements improve customer accessibility

Our award-winning mixed-use development in Vancouver, **The RISE** (see page 34), achieved 100% leased status in 2011 and added landscaping accolades to its list of awards, which included a prestigious Global Award for Excellence in 2009 from The Urban Land Institute

Operational developments

We were pleased to welcome James E. Hyman to the Board in February

We continue to offer both younger and older staff the chance of working in new markets. Michael Ward moved from Washington, DC, to Calgary. Jonathan Carr moved from San Francisco to a new role in Washington, DC, and Mark Darley, who has managed our Washington office for almost six years, returns to San Francisco early in 2012, creating an opportunity for Don Capobres to move from the West to the East Coast. Following Andrew Galbraith’s move to Grosvenor Fund Management, we merged our investment and portfolio management teams and promoted Michael Beattie to Chief Investment Officer. Sebastien Hyst moved to Grosvenor Fund Management and was succeeded as Vice President, Finance and Operations by Graham Drexel who rejoined Grosvenor Americas in October. Emma Yendole was promoted to Vice President, Reporting and Compliance. We also recruited a new Director of Research. Eileen Mannan

We broadened our banking relationships by partnering with three new financial institutions for the purpose of refinancing loans. We refinanced four additional loans with existing partners in the financial sector

2012: strategic priorities

We have three priorities for 2012. First, to attract financial partners for our development projects. Second, to secure the planning entitlements that would allow us to maximise the potential of those projects. Third, to decide when to commit to their construction and marketing. We will continue to monitor closely the pricing of income properties that we might acquire in line with our strategy

2012: market outlook

Although there is construction activity in all our markets, it is generally at significantly lower levels than before the downturn. This means we are more likely to be able to start projects at the optimum moment, early in the next property cycle

38 Proprietary assets – direct Grosvenor Americas

"1645 Pacific Avenue sits between the grand old residences of Pacific Heights and Nob Hill, yet benefits from the vibrant retailing at Russian Hill. Our design is inspired by the timeless and elegant living associated with these classic San Francisco neighbourhoods"

Steve O Connell
Development Manager

Grosvenor Americas Assets under management

Total

C\$1,975m

Investment

C\$1,833m

Development

C\$142m

1645 Pacific Avenue

City	San Francisco
Country	USA
Sector	Mixed-use residential and retail
Type	Development
Area	4 800m ²
Ownership	Wholly owned

1645 Pacific Avenue is a well-located condominium project in the vibrant and supply-constrained northern waterfront area of San Francisco with excellent urban amenities within walking distance. The LEED® development will offer views of the Golden Gate Bridge and San Francisco Bay.

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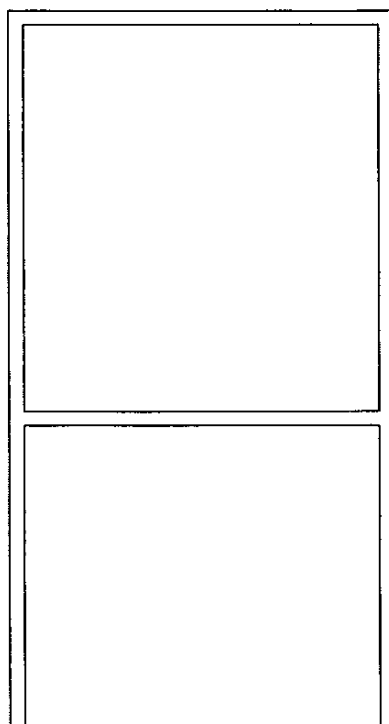
Ambleside

City	West Vancouver
Country	Canada
Sector	Mixed-use residential and retail
Type	Development
Area	25 000m ²
Ownership	Wholly owned

We purchased all the private land for this waterfront site in off-market transactions and are negotiating with the District of West Vancouver to acquire additional adjoining properties to complete the full-block assembly. During 2011, we involved the public in a co-design process to inform a comprehensive plan for this block, which will serve as the gateway to West Vancouver and the Ambleside neighbourhood. We expect to submit a re-zoning application in June 2012.

“At 15 West, we recognised an opportunity to develop an environmentally friendly building in an area rich in amenities. In support of our commitment to ‘Living cities’ we have included green roofs, community gardens, a centralised heating plan, and an energy-efficient building envelope in our design.”

Michael Mortensen
Senior Development Manager



15 West

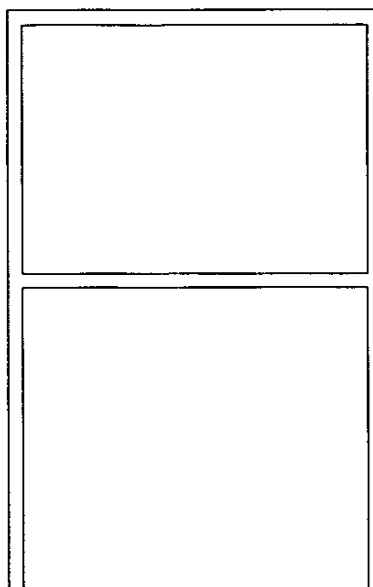
City North Vancouver
Country Canada
Sector Mixed-use residential and retail
Type Development
Area 12,200m²
Ownership Jointly owned

With our development partner Citimark, we have re-zoned this site for 120 condominium residences and 700m² of retail space with transport routes nearby. The project includes green design, green roofs and energy conservation measures, density transfers from an adjacent site, and a density bonus for dedicating five apartments to a non-profit organisation that helps individuals with disabilities to live independently.

This is a computer generated image

“With District, we have tried to create a project that complements the diversity and energy of the surrounding area. The 14th Street corridor is one of the most exciting urban neighbourhoods in the nation’s capital.”

Jonathan Carr
Development Manager

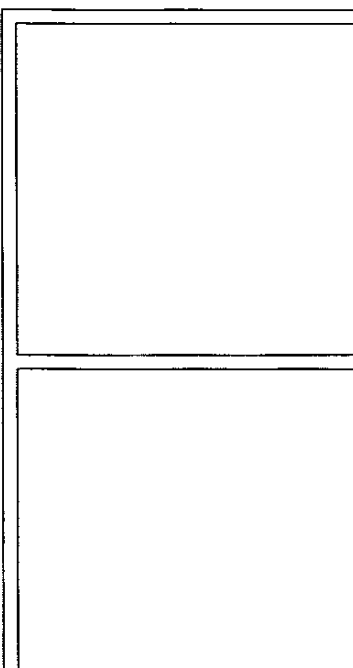


District

City Washington, DC
Country USA
Sector Mixed-use residential and retail
Type Development
Area 11,100m²
Ownership Jointly owned

District is a mixed-use residential/retail development in the vibrant 14th Street neighbourhood of Washington, DC. The project will feature six residential levels containing 125 apartments, a fitness centre, a roof-top lounge and 1,800m² of ground floor retail space. It is due to be completed in October 2012.

This is a computer generated image



Rice Lake Square

City Wheaton
Country USA
Sector Retail
Type Investment
Area 23,400m²
Ownership Jointly owned

The makeover of Rice Lake Square was substantially completed in October 2011, on time and below the approved budget. By enhancing the façade and undertaking extensive site work, the retail centre was transformed into a shopping destination that offers an outstanding opportunity for national and regional retailers.

Grosvenor Americas Board of Directors

As at 15 March 2012

Non-Executive Directors

1 Brandt C. Louie DBC LL.D FCA (Chairman) was appointed Chairman of the Grosvenor Americas Board in March 2010. He is Chairman and CEO of H.Y. Louie Co. Limited and Chairman of the Board for London Drugs Ltd. He is Chancellor Emeritus of Simon Fraser University and serves as a board member, officer or trustee of numerous organisations including Royal Bank of Canada, IGA Canada, World Economic Forum, Duke University Medical Center, Duke Heart Center, Vancouver Community College, Vancouver Board of Trade, Fraser Institute and Harvard University's John F. Kennedy School of Government.

2 James E. Hyman was appointed to the Board in February 2011. He has more than 25 years of experience in international business leadership. He is currently President and CEO of TestAmerica. Prior to that, he was Chairman, President, CEO and a Director of Cornell Companies. Earlier, he held executive positions in the US and Europe with FTI, Starwood Hotels & Resorts Worldwide, GE Capital, McKinsey & Company and JP Morgan among others. He chairs the non-profit Mega-Cities Project, focused on urban development issues in the world's largest cities.

3 John T. Roberts, Jr. was appointed to the Board in October 2010. Mr Roberts has more than 25 years of experience in the commercial real estate industry, having served most recently as President of AMB Capital Partners. Before that, he served as Senior Vice President and Director of Capital Markets for AMB Property Corporation. Earlier in his career, he held positions at Ameritech Pension Trust in Chicago, Richard Ellis Inc. and LJ Hooker International Realty. He currently is a Board member of DuPont Fabros Technology.

4 Mark Preston WRICS (Group Chief Executive) joined Grosvenor in the UK in 1989. Seconded to Hong Kong in 1995, he returned to lead our fund management operations in 1997, spent four years in San Francisco from 2002, became Chief Executive of Grosvenor Britain & Ireland in 2006 and Group Chief Executive in 2008. He is a Non-Executive Director of both Sonae Sierra SGPS and Persimmon plc. He is also a member of the Board of The Association of Foreign Investors in Real Estate, the (University of) Cambridge Land Economy Advisory Board and the Eurohypo International Advisory Board.

5 Nicholas Scarles FCA 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, Member of the Court of Assistants of the Haberdashers' Livery Company and a Non-Executive Director of Sonae Sierra SGPS.

Executive Directors

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

7 Rekha Patel CFA (Finance Director) joined Grosvenor in 2003 following 12 years with the real estate investment arm of GIC Real Estate, the Singaporean sovereign wealth fund. She is a member of Commercial Real Estate Women and a Director of the Yerba Buena Center for the Arts.

Grosvenor Americas Portfolio

Investment properties

	Passing rent C\$m	ERV C\$m	Running yield %	Reversionary yield %	Number of properties	Grosvenor share C\$m	Assets under management C\$m
Office	13.0	13.4	8.1	8.3	4	161.0	346.7
Retail	34.1	40.3	6.0	7.1	23	571.1	1,069.9
Residential	15.6	17.4	7.8	8.7	9	200.0	220.7
Hotel	2.7	2.7	17.2	17.2	1	15.8	63.0
Industrial	7.4	7.8	5.6	5.9	1	132.5	132.5
	72.8	81.6	6.7	7.6	38	1,080.4	1,832.8

Development properties

	Number of properties	Grosvenor share C\$m	Assets under management C\$m
Mixed-use	5	55.4	70.5
Residential	3	28.7	57.7
	8	84.1	128.2

Geographic analysis

	Grosvenor share				Assets under management C\$m
	Investment C\$m	Development C\$m	Financial assets C\$m	Total C\$m	
USA	762.8	25.5	7.1	795.4	1,482.0
Canada	317.6	58.6	7.2	383.4	493.3
	1,080.4	84.1	14.3	1,178.8	1,975.3

42 Proprietary assets – direct Grosvenor Americas

Portfolio
Continued

Property	Description	Location	Area m ²
Investment properties – directly owned			
Retail			
DVC Plaza	Community shopping centre	Pleasant Hill CA USA	18 100
Hamilton Marketplace	Grocery-anchored community shopping centre	Novato, CA, USA	8,400
La Colonnade	Three-storey, mixed-use building with retail and office space	Beverly Hills, CA, USA	2,300
Los Gatos Village Square	Two-storey grocery-anchored community shopping centre with retail and shopping space	Los Gatos, CA, USA	4,300
Venator Building	Urban retail building	Calgary AB Canada	2 500
Westgate West	Community shopping centre	San Jose, CA, USA	21,700
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
Industrial			
Annacis Business Park	Warehouse and distribution park	Vancouver BC Canada	86 000
Mixed-use			
1520 Fourth Street	Ten-storey office building with 2 200m ² retail	Calgary, AB, Canada	9,900
Investment properties – jointly owned			
Hotel			
Courtyard by Marriott Chevy Chase	226-room hotel	Chevy Chase, MD, USA	7,000
Office			
Carlyle Gateway I & II	Two six-storey office buildings with ground floor retail and parking	Alexandria, VA, USA	23,200
1701 Pennsylvania Avenue N W	12-storey office building with ground floor retail and parking	Washington DC USA	18,000
Retail			
Broadmead Village Shopping Center	Community shopping centre	Saanich BC, Canada	11 800
Campus at Sunrise	Three low-rise office buildings	Reston, VA USA	23 600
Church Street Plaza	Community lifestyle centre	Evanston, IL, USA	16,500
Coventry Hills Shopping Center	Community shopping centre	Calgary, AB Canada	12 600
Frontier Drive Metro Center	Community shopping centre	Springfield VA USA	9,800
High Street	Suburban street-front retail building	Surrey, BC Canada	1 600
830 North Michigan Avenue	Six-storey urban retail building	Chicago, IL, USA	11,700
308-310 North Rodeo Drive	Urban retail building	Beverly Hills CA, USA	1,400
Rice Lake Square	Nine-building community shopping centre	Wheaton, IL, USA	23,400
WestTech Village Corner	Community shopping centre	Silver Spring, MD, USA	3,800
Residential			
Ascent	90-unit apartment community	Kirkland WA USA	7,000
Borgata Apartments	83-unit apartment community	Renton WA, USA	8 700
Northshore Townhouses	86-unit apartment community	Kenmore, WA USA	11 600
Sancerre	140-unit apartment community	Kirkland WA USA	10 500
West Ridge Apartment Homes	239-unit apartment community	Seattle, WA USA	21 900
Woodcreek Apartment Homes	164-unit apartment community	Lynwood WA USA	15,500

Property	Description	Location	Area m ²	
Investment properties – jointly owned (continued)				
Mixed-use				
180 Post Street	Three-storey mixed-use building with retail and office space	San Francisco, CA, USA	2,700	
185 Post Street	Six-storey mixed-use building with retail and office space	San Francisco, CA, USA	1,900	
251 Post Street	Six-storey mixed-use building with retail and office space	San Francisco, CA, USA	3,100	
Dupont Circle properties	Six-building urban retail portfolio	Washington DC, USA	9,000	
Friendship Heights properties	Three-building urban retail portfolio	Washington DC/ Chevy Chase, MD, USA	24,800	
The RISE	Mixed-use shopping centre development with 92 live-work rental lofts	Vancouver, BC, Canada	26 400	
Woodley Park properties	Three-building urban retail portfolio	Washington DC USA	5 100	
Property	Description	Location	Area m ²	Completion date
Principal development and trading properties – wholly owned				
Residential				
Drake	135-unit, multi-family development in pre-sales phase	Calgary, AB, Canada	10,000	2013
1645 Pacific Avenue	38-unit luxury condominium with underground parking	San Francisco CA USA	4 800	2014
Mixed-use				
Ambleside	Full waterfront block residential-retail re-zoning in the public process phase	Vancouver BC, Canada	25,000	2015–2017
Fenton Street	256-unit, multi-family development with 2 500m ² retail in the pre-entitlement phase	Silver Spring, MD, USA	21,800	Not determined
North 40	32.5-acre phased mixed-use village development in the Specific Plan phase	Los Gatos CA, USA	100 000	2014–2020
Principal development and trading properties – jointly owned				
Residential				
15 West	115-unit, multi-family development in pre-sale phase	North Vancouver BC Canada	12,200	2014–2015
Mixed-use				
5th Avenue	319-unit multi-family development featuring two high-rise towers	Calgary, AB, Canada	30,300	Not determined
District	125-unit mixed-use development with 1,800m ² of retail	Washington DC, USA	11 100	2012

Roppongi Arents, Tokyo, Japan

With the Roppongi Arents acquisition, we maintain our strategy of luxury residential investment and development in Asia's leading cities

Grosvenor Asia Pacific

Nicholas Loup
Chief Executive

Business objective

Grosvenor Asia Pacific's aim is three-fold: first, to build a luxury residential brand under the Grosvenor banner, differentiated by the quality and internationalism of its design; secondly, to grow a diversified portfolio of core investments in this and other sectors through co-investment partnerships; and thirdly, to identify prime central business district development opportunities in Shanghai and Beijing, creating high-quality, long-term investments.

What we said we would do in 2011

- Identify a first project for our multi-region residential development partnership with a sovereign wealth fund
- Grow our portfolio of investment properties as a significant proportion of revenue
- Continue to build brand recognition for our luxury residential developments

What we did in 2011

- Completed acquisition of Roppongi Arents – the first project for our residential development partnership
- Effectively paced our core investment programme in Japan and China, given market conditions
- Sold the penthouse at The Westminster Terrace, Hong Kong, for a market-leading price

Highlights

Revenue profit

HK\$154.8m

2010: HK\$92.6m (restated)

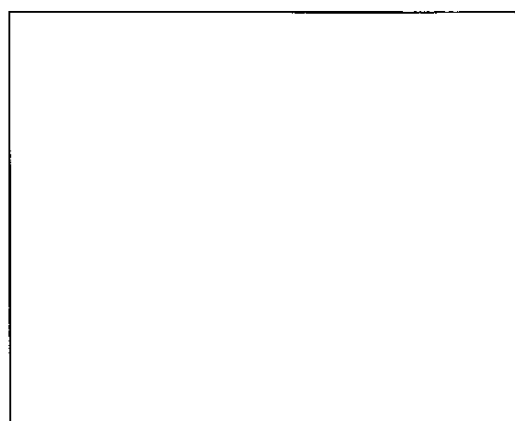
Total return

8.0%

2010: 4.5% (restated)

Number of assets by city

China	
A Hong Kong	2
B Shanghai	2
Japan	
C Osaka	1
D Tokyo	4



46 Proprietary assets – direct Grosvenor Asia Pacific

2011 exceeded our expectations for performance. We are investing again in the Japanese market and are well placed to take advantage of opportunities in China and Hong Kong.

Commentary on key performance indicators

Revenue profit was HK\$154.8m, up 67% on 2010 (HK\$92.6m). Total returns increased significantly to 8.0% (2010: 4.5%). Assets under management increased to HK\$7,573m (2010: HK\$5,647m) with strong capital growth registered at PCCW Tower, Hong Kong. We have the financial capacity to meet our investment plans.

Strategic focus

Our strategy is to grow revenue profits through expanding our core investment portfolio in office and retail, partly through joint ventures, and to increase our trading profits through development partnerships, primarily in the luxury residential sector.

We expect to increase our allocation to value-add and development activities from 5% to 13% over 2012–2016, in order to increase the frequency and scale of trading profits.

Over the year our share of the Group's total capital allocation increased from 6.8% to 7.2%.

Market conditions

Conditions in our markets have been broadly as expected. Despite negative growth at -0.9% for 2011, Japan began a gradual property market recovery following the March 2011 earthquake and tsunami. In China, where growth in gross domestic product declined to a still very respectable 9.2% for the year, the government squeeze on credit led to pressure on the residential market. Hong Kong, in step with Beijing policy and with 5% growth for 2011, saw transaction volumes fall, especially at the high end.

Investment and development highlights

The most significant change in our portfolio was the acquisition of **Roppongi Arents**, Tokyo (see pages 44 and 47). This is the first project for the multi-region partnership we committed to in 2010, to develop high-end residential

properties around the Pacific Rim, the deal was made in a joint venture with two private Hong Kong investors and a sovereign wealth fund, and takes our development pipeline to HK\$1,988m.

In January, we sold the Penthouse at **The Westminster Terrace**, Hong Kong (see page 47), for HK\$162.8m, the highest price for an apartment in the New Territories.

Asset management highlights

Our 50% interest in PCCW Tower, Island East, Hong Kong, which we acquired in 2010, continued to perform well. Managed by our partners, Swire Properties, it has delivered above target rental and ended the year 100% let.

In China, our apartment building at Chester Court, Gubei, Shanghai, also performed strongly, being 99% let at 31 December 2011.

Overall occupancy levels in Asia Pacific were 97% (2010: 91%).

Operational developments

We strengthened our senior management team by appointing William Lo to the newly created role of Chief Operating Officer and Christopher Ip as his successor as Finance Director (joining our Board in March 2012). Junho Lee joined us in January 2012 as Business Development Director.

We completed an agreement with the China Development Research Foundation to sponsor a research project into the provision of sustainable low income housing in China, the country plans to build 36 million low cost homes by 2015 – the largest social housing project of its kind (see Chief Executive Review, page 11).

2012: strategic priorities

Our focus in 2012 will be on investing the capital raised for our residential development partnership and deploying remaining proprietary capital in investment opportunities.

2012: market outlook

From a cyclical standpoint, 2011 was a good year to start investing again in Tokyo, we expect the cycle to come into focus again in China and Hong Kong during 2012, where medium-term fundamentals are robust.

Grosvenor Asia Pacific
Assets under management

Total

HK\$7,573m

Investment

HK\$5,585m

Development

HK\$1,988m

Roppongi Arents

City	Tokyo
Country	Japan
Sector	Residential
Type	Development
Area	21,700m ²
Ownership	Jointly owned

Our investment in Roppongi Arents in October 2011 contributes to a significant shift in the overall balance of our portfolio, which is now less weighted to the office sector. The property in a quiet, green area next to the Roppongi Hills redevelopment, comprises 99 luxury units. We plan to add value through the quality of our design and finishes as well as through energetic asset management.

“We believe we made the Roppongi Arents acquisition at the right point in the economic and property cycle – the point at which the medium-term outlook began to improve.”

Koshuro Hiroo
Managing Director
Chief Representative Japan

The Westminster Terrace

City	Hong Kong
Country	China
Sector	Residential
Type	Development
Area	16,300m ²
Ownership	Jointly owned

The Westminster Terrace, our joint venture with Asia Standard International Group Limited, remains one of the prime luxury residences in Hong Kong's New Territories. During a difficult year in the high end property market, the quality of the product offering led to the sale of 10 units with a combined value of HK\$532.3m. 13 of the 59 units remained as at 31 December 2011, and the completion of two new show flats at the end of the year ensured a strong start to sales in 2012.

Grosvenor Asia Pacific Board of Directors

As at 15 March 2012

Non-Executive Directors

1 Tim Freshwater (Chairman) joined the Board in July 2008. He is Vice Chairman of Goldman Sachs Asia. From 2001–2004, he was Chairman of Investment Banking in Asia, and was Chairman of Jardine Fleming prior to that. Previously, he spent 29 years with Slaughter and May. Tim is a director of several listed companies, including Swire Pacific, and is a Director of the Community Chest of Hong Kong.

2 Kensuke Hotta was appointed to the Board in November 2008. He is currently Chairman of Greenhill & Co. Japan Ltd, and previously served as Chairman of Morgan Stanley Japan, from 2001–2007. 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 a director or adviser for various institutions, universities and foundations.

3 Michael Lee joined the Board in July 2008. He is Managing Director of MAP Capital Ltd, as well as an independent Non-Executive Director of Chen Hsong Holdings Ltd, Hong Kong Exchanges and Clearing Ltd and Trinity Ltd. He was Managing Director of Hysan Development Company Ltd from 2003–2007 and was appointed to the Board of Hysan as a Non-Executive Director in January 2010.

4 Norman Lyle was appointed to the Board in November 2008. He is a Non-Executive Director of Standard Chartered Bank (Hong Kong) Ltd and Msheireb Properties. 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.

5 Mark Preston WRCS (Group Chief Executive) joined Grosvenor in the UK in 1989. Seconded to Hong Kong in 1995, he returned to lead our fund management operations in 1997, spent four years in San Francisco from 2002, became Chief Executive of Grosvenor Britain & Ireland in 2006 and Group Chief Executive in 2008. He is a Non-Executive Director of both Sonae Sierra SGPS and Persimmon plc. He is also a member of the Board of The Association of Foreign Investors in Real Estate, the (University of) Cambridge Land Economy Advisory Board and the Eurohypo International Advisory Board.

6 Nicholas Scartles FCA 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, Member of the Court of Assistants of the Haberdashers' Livery Company and a Non-Executive Director of Sonae Sierra SGPS.

Executive Directors

7 Nicholas Loup (Chief Executive) established the operation in Asia Pacific in 1994. He is a Director of Asia Standard, a listed company in Hong Kong, a General Committee member of the British Chamber of Commerce and a Director of the Spinal Cord Injury Fund. He is also Chairman of ANREV, of which he is a founder member, a member of the Asia Pacific Acquisitions Committee of the Tate, and a member of the World Economic Forum's Global Agenda Council on Real Estate.

8 William Lo FCCA CFA (Chief Operating Officer) joined Grosvenor in 2002 as Finance Director responsible for driving performance and operational efficiencies of Grosvenor Asia Pacific. Before joining Grosvenor, he worked for 11 years with AIA Capital Corporation as Finance Director for the region, and six years with Coopers and Lybrand in Hong Kong.

9 Christopher Ip (Finance Director) joined Grosvenor in March 2012 after seven years with the Jardine Matheson Group, where he was Finance Director of several companies. He was Executive Director of Hopewell Highway Infrastructure between 2003 and 2005 and prior to that was in the mergers and acquisitions divisions of Morgan Stanley and Deutsche Bank in Hong Kong.

10 Koshiro Hiroi (Managing Director, Chief Representative Japan) joined Grosvenor in 2001 as Chief Representative and led the growth of the business in Japan. He joined the Board of Grosvenor Asia Pacific in January 2011. Before joining Grosvenor, he worked for American private fund Lone Star Group and Tokyo Tatemono.

Grosvenor Asia Pacific Portfolio

Investment properties

	Passing rent HK\$m	ERV HK\$m	Running yield %	Reversionary yield %	Number of properties	Grosvenor share HK\$m	Assets under management HK\$m
Office	136.1	130.7	4.6	4.4	3	2,980.5	2,980.5
Retail	18.7	20.4	5.4	5.9	1	348.8	697.5
Residential	47.7	54.3	5.0	5.7	3	955.7	1,851.8
	202.5	205.4	4.7	4.8	7	4,285.0	5,529.8

Development and trading properties

	Number of properties	Grosvenor share HK\$m	Assets under management HK\$m
Residential	2	309.8	1,987.9

Geographic analysis

	Grosvenor share				Assets under management Total HK\$m
	Investment HK\$m	Development HK\$m	Financial assets HK\$m	Total HK\$m	
Hong Kong	2,495.0	138.8	55.5	2,689.3	2,828.1
China	657.0	—	—	657.0	657.0
Japan	1,133.0	171.0	—	1,304.0	4,088.1
	4,285.0	309.8	55.5	4,650.3	7,573.2

Property	Description	Location	Area m ²	Completion date
Investment properties – directly owned				
Office				
Yoshiyasu Kanda Building	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 in Gubei	Shanghai, China	13,800	
Grosvenor Place at Lakeville Regency	Three units in a luxury residential apartment building in Jingan	Shanghai, China	970	
Investment properties – jointly owned				
Office				
PCCW Tower	Office building in Quarry Bay	Hong Kong, China	57,600	
Retail				
Nakaza Cuidaore Building	Retail property in Chuo-ku	Osaka, Japan	8,700	
Residential				
Grosvenor Place, Kamizono-cho	Residential development in Shibuya-ku	Tokyo, Japan	18,100	
Development and trading properties – jointly owned				
Residential				
Roppongi Arents	Residential property in Minato-ku	Tokyo, Japan	21,700	2003
The Westminster Terrace	Residential development in Yan Kam Tau	Hong Kong, China	16,300	2009

Proprietary assets – indirect

Proprietary assets – indirect

Grosvenor invests *indirectly* in property in a number of ways.

We have been a co-investor in Grosvenor investment partnerships and funds since 1976. We currently have co-investments in 19 investment vehicles managed by Grosvenor Fund Management – six in the UK, four in the US, four in Continental Europe, four in Asia and one international fund.

We also have indirect investments in property, managed by third parties. Our largest indirect investment is our shareholding in Sonae Sierra, a shopping centre specialist whose sector focus and geographical reach complements our own. We first invested in Sonae Sierra in 1996 and since then have twice increased that holding: we now control 50% of the company.

Our indirect portfolio is managed centrally by a small team in the Grosvenor Holding Company based in our London office.

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**Shopping Metropole, São
Bernardo do Campo, Brazil**

In 2011 Sonae Sierra expanded and
refurbished this 31 year old shopping
centre, which is one of 10 it has
in Brazil

Indirect investments

Business objective

There are two aims for our indirect investment activity

We seek to align Grosvenor's interests with those of the other investors in investment vehicles managed by Grosvenor Fund Management. Co-investment in these investment vehicles is fundamental to our approach to this part of our business, reflecting our commitment to long-term partnership

We also help Grosvenor diversify its overall portfolio, thereby improving the Group's risk-adjusted returns. We achieve this by investing in investment vehicles run by Grosvenor Fund Management as well as other real estate opportunities run by third party managers. This portfolio complements the direct property investments through Grosvenor's proprietary Operating Companies and gives us exposure to sectors, countries and investment types which those businesses do not provide

What we said we would do in 2011

- Centralise the management of our co-investments in Grosvenor funds
- Clarify capital available and the criteria for our co-investment in Grosvenor funds
- Articulate an indirect investments strategy

What we did in 2011

- Established a central team and governance structure for managing our global portfolio of indirect investments
- Agreed policy for the scale of and parameters for our co-investment in Grosvenor funds
- Formulated our indirect investments strategy and began its implementation

Highlights

Revenue profit

£59.1m

2010: £46.4m

Total return

3.0%

2010: 6.5%

Number of investments by region

A Australia	3
B Brazil*	1
C China	1
D Continental Europe	7
E Japan	3
F UK	6
G USA	4
International	1

*Exposure to Brazil is through the investment in Sonae Sierra which is also in Continental Europe.

54 Proprietary assets – indirect

2011 was a good inaugural year for our newly aggregated indirect investment portfolio, which totals £817.2m of equity invested. It delivered positive returns across uncertain markets, with a strong contribution from income, balancing more capital-dependent returns produced elsewhere within the Group.

Commentary on key performance indicators

The portfolio delivered a total return of 3.0% in 2011, with an underlying income return of 4.1% offset by capital reductions of 1.1%. This compares with a global REIT index return of -5.1% for the same period.

Office and residential investments performed comparatively well during the year, but capital growth in these investments was more than offset by challenging conditions, particularly in the UK and in southern Europe.

Revenue profit was £59.1m for the year, with £46.0m contributed by Sonae Sierra and £13.1m by investments managed by Grosvenor Fund Management.

Strategic focus

The Group Board agreed our indirect investment strategy in June 2011, with 26% of Group equity (adjusted for deferred tax) allocated to this area.

Investments managed by Grosvenor Fund Management

Our co-investment in Grosvenor investment vehicles reassures other investors that Grosvenor's interests are aligned with their own – a principle we regard as fundamental. Furthermore, it gives us indirect investment exposure outside that which is accessible through our direct proprietary businesses.

“We have 24 investments with a share of assets across 14 different countries, giving us a great breadth of real estate exposure”

Chris Tate
Group Investment Director

As a single Grosvenor Fund Management client with a single aggregated co-investment portfolio, we can better instil two important internal disciplines: first, of centralising responsibility for this part of our global indirect investment portfolio in much the same way as do the other investors that we sit alongside; and second, of dispassionately appraising each co-investment, and judging Grosvenor Fund Management's success in preserving and adding value to existing investments as our service provider.

The Group has several historic investments and joint ventures in Continental Europe and Australia, where we no longer have proprietary Operating Companies. These assets are presently held in our indirect investment portfolio. We outsource their management to Grosvenor Fund Management as separate accounts.

Investments in other companies and investments managed by third parties

Our strategy for further indirect investment in real estate is to target growth opportunities that are not available to us directly through our proprietary Operating Companies. We currently achieve this through our 38.7% (50% controlled) investment in Sonae Sierra, and plan to expand this portfolio with new investments managed by other third parties.

Market conditions

The relatively high yield of our indirect investment portfolio positions it well given our caution about the market outlook. Together with the more stable core investments, which continue to deliver solid income through difficult economic times, the unusual market conditions are creating interesting investment opportunities on which we can capitalise.

Investment highlights

Investments managed by Grosvenor Fund Management

At year end, £504.9m of Grosvenor equity was held in 19 investment vehicles, managed by Grosvenor Fund Management.

“In tandem with our work on global cities and the fast-evolving retail landscape, we are keen to understand opportunities for growth in the logistics sector”

Graham Parry
Grosvenor Britain & Ireland
Research Director

“Centralising our fund co-investments enables us to manage this global portfolio of investments more effectively, and positions us well to support the future growth of Grosvenor Fund Management”

Tim Budden
Group Investments Finance Director

During the year, we committed capital to three new investment vehicles US Healthcare Venture, Grosvenor Office London Partnership, and Grosvenor European Retail Partnership (see page 62). We also approved in principle co-investments in a number of new investment vehicles planned for 2012, for which Grosvenor Fund Management is now seeking other investor commitments.

Investments in other companies and investments managed by third parties

At year end, £312.3m was invested in Sonae Sierra, which has shopping centre investments and developments covering six Continental European countries as well as almost a third of its equity in Brazil.

During 2011, Sonae Sierra completed the Initial Public Offering of Sonae Sierra Brazil, sold two Spanish shopping centres and, through the Sierra Fund, became the sole owner of a third, commenced construction at two new Brazilian shopping centres, announced a development joint venture with MAB in Germany, and significantly expanded its third party development and management business, including new agreements in Algeria, Croatia and Morocco.

Portfolio changes

There was little overall movement in the geographic and sector make-up of the portfolio. The largest sector exposure is to retail, making up 60.4% of total equity, this is down from 62.7% at the beginning of the year, reflecting the net valuation falls felt in this sector across the UK and Continental Europe. Office investments represent 31.4% of the portfolio with the balance of 8.2% allocated to residential, mixed-use and other investments.

The valuation falls in southern European retail have had the effect of reducing our overall exposure to Continental Europe from 31.9% to 30.5%. By contrast, in the UK, relatively stronger office and residential markets provided a balance to the performance of the retail portfolio, with

the result that the UK's share of the total portfolio remained steady at 28.0%. After Continental Europe and the UK, the three Australian office assets represent the next largest equity exposure within the portfolio at 20.0%, followed by Brazil at 15.1%.

Elsewhere, equity has increased in the USA, China and Japan, through a combination of asset performance and acquisitions.

Operational developments

We introduced a new management reporting process for our indirect investments portfolio from the first quarter.

We agreed the terms of reference for our Group Investment Committee, which is responsible for indirect investment decisions. It comprises the Group Chief Executive, Mark Preston, the Group Finance Director, Nick Scarles, the Grosvenor Britain & Ireland Research Director, Graham Parry, and, where appropriate, the Chief Executive of the proprietary Operating Company of the relevant region. Investment recommendations to the Committee and day-to-day decision-making are the responsibility of Chris Taite, who was appointed Group Investment Director on 1 January 2011.

2012. strategic priorities

In 2012, we will seek new investment opportunities with Grosvenor Fund Management and with specialist third-party management teams in order to increase diversification and returns within our indirect investment portfolio. We will also continue to improve our benchmarking and the way we evaluate our own performance as an investment manager.

Proprietary assets – indirect Portfolio

Portfolio		Property assets £m	Equity £m
By category	Managed by Grosvenor Fund Management	990.5	504.9
	Sonae Sierra	1,430.3	312.3
		2,420.8	817.2
By sector	Office	471.9	264.3
	Retail	1,877.7	508.3
	Residential	68.9	46.8
	Other	2.3	21.6
	Unallocated*	–	(23.8)
		2,420.8	817.2
By region	Australia	252.8	166.8
	Brazil	243.5	125.4
	China	21.0	7.6
	Continental Europe	1,384.1	253.3
	Japan	52.2	22.1
	UK	416.4	232.5
	USA	50.8	24.0
	Unallocated*	–	(14.5)
		2,420.8	817.2
By activity	Investment	2,215.2	808.2
	Development	205.6	32.8
	Unallocated*	–	(23.8)
		2,420.8	817.2

*Unallocated equity represents loans from the Holding Company that are not allocated to a specific sector, region or activity.

Property assets represent the Group's share of properties as included in the consolidated financial statements, including assets attributable to minority interests. Equity represents the Group's economic interest in investments.

Investments

	Location	Sector
Investments managed by Grosvenor Fund Management		
Funds		
Grosvenor Capital Advisors Partnership	Japan	Residential
Grosvenor Diamond Capital – Stable Residential Fund	Japan	Residential
Grosvenor Festival Place Fund	UK	Retail
Grosvenor French Retail Investments	Continental Europe	Retail
Grosvenor Liverpool Fund	UK	Mixed-use
Grosvenor London Office Fund	UK	Office
Grosvenor Office Retail Fund	Japan	Office & Retail
Grosvenor Residential Investment Fund	UK	Residential
Grosvenor Residential Investment Partners	USA	Residential
Grosvenor Retail European Properties	Continental Europe	Retail
Grosvenor Shopping Centre Fund	UK	Retail
Grosvenor Vega – China Retail Fund	China	Retail
ISPT Grosvenor International Property Trust	International	Diversified
Shmael US Real Estate Fund	USA	Office
Clubs		
Grosvenor European Retail Partnership	Continental Europe	Retail
Grosvenor Hexagone Partnership	Continental Europe	Office
Grosvenor Office Limited Partnership	UK	Office
Paris Antiques Market	Continental Europe	Retail
US Healthcare Venture	USA	Healthcare
Separate accounts		
Bank of Queensland Centre Brisbane	Australia	Office
Confidential mandate	USA	Office & Retail
400 George Street, Brisbane	Australia	Office
Omega II	Continental Europe	Office
60 Station Street Parramatta, Sydney	Australia	Office
Investments managed by third parties		
Sonae Sierra	Continental Europe	Retail

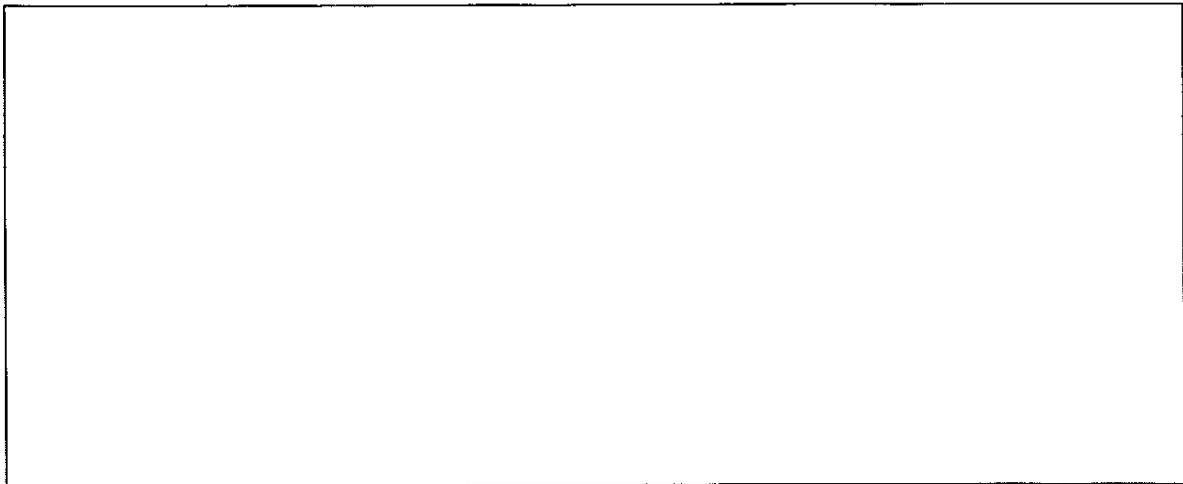
Fund management

Fund management

Grosvenor has been working in partnership for over 50 years. We launched our first fund in 1976 and formally established Grosvenor Fund Management in 2005.

Grosvenor Fund Management offers a range of sector and region-specific property investment vehicles which aim to deliver attractive, risk-adjusted returns. Operating from offices in Australia, China, France, Italy, Japan, Luxembourg, Spain, Sweden, the UK and the US, we employ 133 professionals with local knowledge and skills to execute our strategic investment decisions and create value for our investors.

We have 69 investor partners in 28 property funds, club deals and separate accounts. Aligning our interests with our partners and building long-term investor relationships is of paramount importance to us.



Bålsta Centrum, Bålsta, Sweden

We think the fundamentals of the Swedish market are appealing and in 2011, in partnership with two other investors, we acquired three shopping centres in the Stockholm region and a prime supermarket in Helsingborg

Grosvenor Fund Management

Jeffrey Weingarten
Chief Executive

Business objective

Grosvenor Fund Management's objective is to create value for our investors, Shareholders and staff. We do this by holding firm to the things that make us distinctive. We are a client-focused business with over 50 years' experience of working in partnership, and believe in delivering performance and superior service. We are a private company which treats investors as enduring partners, and a real estate specialist which combines history with a desire to innovate. We believe in having highly skilled staff with expertise in their local markets and we offer a long-term view of investment, yet we always seek to maximise short-term opportunities.

What we said we would do in 2011

- Launch four new investment vehicles
- Invest committed but un-invested capital
- Manage our portfolio actively

What we did in 2011

- Closed four new investment vehicles
- Invested £762m of capital
- Won the IPD UK Property Investment House of the Year award

Highlights

Property acquisitions

£762m

2010: £230m

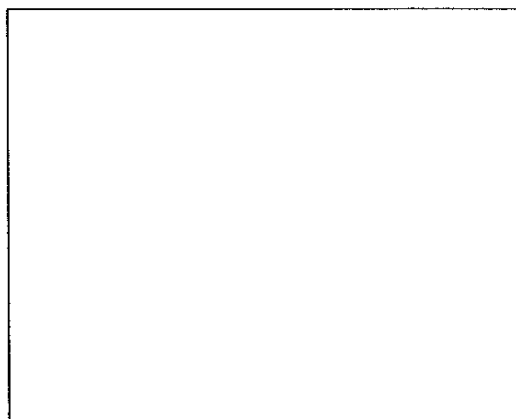
Funds under management

£5.0bn

2010: £3.8bn

Number of assets by region

A Asia Pacific	48
B Continental Europe	81
C UK	18
D USA	77



62 Fund management Grosvenor Fund Management

"We are very excited to continue investing with Grosvenor Fund Management to expand our portfolio into the US healthcare sector"

Mr Ali O Al-Ghannam
Head of the International
Real Estate Department,
Kuwait Finance House

"We have a long standing investor relationship with Grosvenor, which is based upon a foundation of quality fund management expertise, but also shared corporate values, integrity, trust and a strong reputation in the property arena"

Richard Topps
Group Head of Property
NFI Mutual Insurance
Society Limited

Economic uncertainty continued throughout 2011 and real estate markets were consequently subdued. However, such conditions play to our strengths and, despite the adverse markets, values were enhanced in our portfolio and we established four new investment vehicles.

Commentary on performance

We judge our performance by the satisfaction of our 69 clients with the risk-adjusted returns that we deliver to them. We were delighted to receive the IPD award for UK Property Investment House of the Year, the second time Grosvenor Fund Management has won this award in three years.

Funds under management grew from £3.8bn in 2010 to £5.0bn in 2011 as our local teams sourced and acquired attractive investment opportunities in their markets, investing over £762m of capital during the year, on behalf of existing and new clients. We also expanded into Australia following Group's decision to achieve exposure to this market through co-investment rather than proprietary activity from January 2012 (see Chief Executive's review, page 10).

In 2011 we also closed four new investment vehicles with a combined future investment capacity of over £1bn.

We made a revenue loss of £1.6m (2010 profit of £12.5m) due to a reduced level of performance fees compared to 2010 and significant investment in the future capability of the business. We are continuing to make further investment in our infrastructure which will probably depress revenue profit again in 2012.

Strategic focus

Traditionally our business comprised funds and separate accounts for individual clients, and we continue to see the long-term opportunities for such vehicles. However, 2011 saw increased appetite from institutional investors for smaller club-style vehicles with tighter governance structures and increased investor control, and we have continued to expand our product range to meet these and other needs of our partners.

Market conditions

2011 was a challenging year for real estate fund managers to raise capital. The number of new funds launched globally was at the lowest level since 2003, according to Preqin research.

In property markets, new money continued to flow into the prime end of specific asset classes, such as the London office market, that are seen as a safe haven. Demand was generally lower for assets in secondary and tertiary markets.

It was also a year of increased regulatory focus, with the continuing development of AIFMD, Solvency II and Basel III in Europe and the Dodd Frank Act in the US. The private equity, hedge fund and real estate fund management industries, with which we are actively involved, are already responding with tighter systems, policies and procedures and Grosvenor Fund Management has been proactively updating compliance procedures across our business.

Portfolio highlights

In Continental European retail we launched, with Bouwinvest and a North American investor, the €403m Grosvenor European Retail Partnership, acquiring a portfolio of six shopping centres in Sweden and France (see page 60).

In the US, we agreed a US\$600m Shariah-compliant partnership with the Kuwait Finance House to invest in medical offices and patient residential facilities – US Healthcare Venture. We also acquired the first asset for the partnership (see page 64).

In London offices, we agreed a £200m equity joint venture with the Canada Pension Plan Investment Board to invest in value add opportunities in the West End and Midtown.

Elsewhere in the UK, we won an asset management mandate to manage a shopping centre on behalf of a major bank – an area of business which we believe has potential to grow.

We completed the investment programmes for Grosvenor Residential Investment Partners (in the USA), Grosvenor French Retail Investments and Grosvenor Vega – China Retail Fund (see page 65).

We extended the life of Grosvenor London Office Fund and Grosvenor Capital Advisors Partnership (Japanese residential property).

"We expect Grosvenor Fund Management, as a best-in-class joint venture partner, to deliver on a London West End-oriented investment strategy. We believe in Grosvenor Fund Management's asset sourcing capabilities and strong active management expertise."

Wenzel Hoberg
Managing Director and Head of
Real Estate Investments – Europe,
Canada Pension Plan Investment Board

"At Bouwinvest we partner with trustworthy, knowledgeable real estate professionals and organisations with an institutional and sustainable long-term investment perspective. In Grosvenor we found such a partner."

Stephen Tross
Director International Investments,
Bouwinvest

Asset management highlights

Our average occupancy rates for 2011 were above 90% across our entire portfolio, indeed in the UK, Grosvenor Shopping Centre Fund, Grosvenor Festival Place Fund and Grosvenor Liverpool Fund, occupancy was above 95% throughout the year. This compares well with other UK shopping centres where the average occupancy stood at 93% in 2011.

Occupancy in Grosvenor Office Retail Fund in Japan is much improved as a result of significant progress at the Joule A office building, which is now 100% leased (see page 65). Elsewhere, we attracted some exceptional new tenants, including Samsung and BP to the Omega office park, Madrid, Spain. We also made significant progress at 60 Station Street, Parramatta, Sydney, for which we assumed responsibility at the year end, where pre-lettings of 80% augur well for completion of this office development in autumn 2012.

We continue to manage our debt capital actively, with the overarching goal of remaining conservative when it comes to the use of leverage. We refinanced or agreed 15 new debt facilities totalling £1.091m during 2011 through continued close liaison with the 13 banking partners they involved.

In May, Liverpool ONE, developed by Grosvenor in 2008 and now managed by Grosvenor Fund Management, was named 'Best-of-the-Best' at the International Council of Shopping Centers' (ICSC) Vision, Innovation, Value and Achievement Awards in Las Vegas (see page 64).

Operational developments

2011 saw a significant evolution of our senior management team.

On 17 March, Jeffrey Weingarten succeeded Stuart Beevor as Chief Executive and James Raynor and Robert Davis were promoted to their new roles of Chief Investment Officer and Chief Operating Officer respectively.

In the US, we moved from a single Managing Director to a joint role. Andrew Galbraith, who transferred from Grosvenor Americas, and Alexia Gottschalch, both joined the Board in December. In Continental Europe we recruited Giles Wintle as Managing Director, he joined the Board in December. In the UK, Richard Barkham, Group Research Director, joined the Board in April 2011. In Asia Pacific, Morgan Laughlin, who joined the Board in January 2011, took on additional responsibility for Australia.

Early in 2012 we opened an office in Stockholm, to support our first investments in Sweden.

2012: strategic priorities

We continually communicate with our investors and analyse real estate markets around the world through our local property and research teams. We are exploring new investment opportunities in four of our markets, including Tokyo offices and residential, Australian offices, European retail and an open-ended core fund in the USA. In addition, we are researching global real estate securities products (to address investors' desire for a liquid, diversified and absolute-return style of exposure to property).

In existing and new vehicles we seek to provide our investors with attractive risk-adjusted returns, by continually reviewing our portfolio to optimise income and maintaining the important discipline of selling to realise profits in line with our investment strategies.

Recruiting, developing and retaining the best staff remains of paramount importance to us, giving our investors access to highly skilled professionals in each of our local markets.

2012: market outlook

The global economic picture remains quite fragile. On average, we expect yields to move out gently in some regions over 2012 and 2013, due to weaker rental growth, the pressures of declining liquidity and volatile sentiment.

However we believe that for experienced managers with specialist local teams there will be attractive buying opportunities in selected markets. As always, we encourage our investors to consider the long-term attributes of real estate, including its ability to protect against the impact of inflation. In this way, we look forward to continuing to create value for our investors, Shareholders and staff.

64 Fund management Grosvenor Fund Management

Fund management
Funds under management

2005

£2.0bn

2007

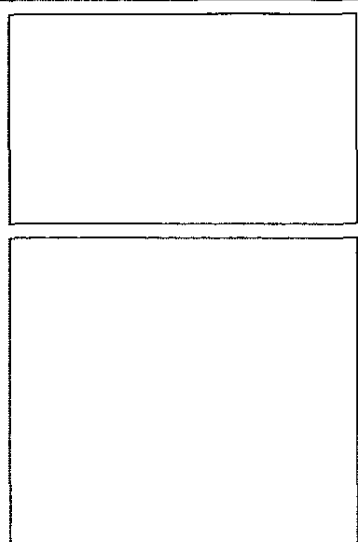
£3.1bn

2009

£3.6bn

2011

£5.0bn

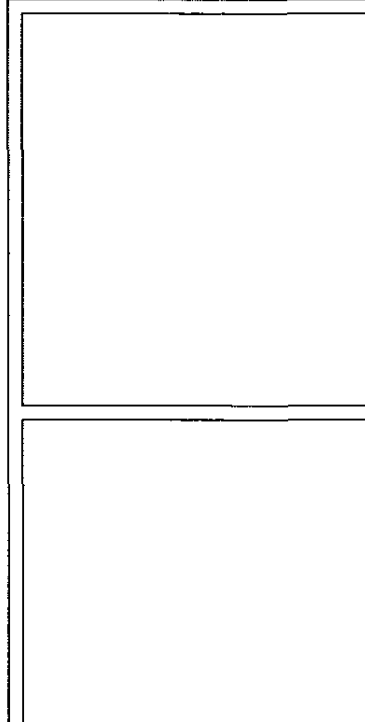
Edgehill Retirement
Community

City Stamford, Connecticut
Country USA
Sector Senior housing
Area 38,255m²
Ownership US Healthcare Venture

Edgehill is a 95% occupied, 266-unit retirement community located in Fairfield County, Connecticut. It consists of 207 'independent living' apartments, 20 'assisted living' apartments and 60 skilled nursing beds in a total of 39 units.

"Edgehill Retirement Community is an excellent anchor for the US Healthcare venture portfolio, which will ultimately consist of high-quality medical office buildings and senior living facilities in select US cities."

Eric Cannon
 Director Acquisitions, USA



Lord Street

City Liverpool
Country UK
Sector Mixed-use
Area 5,200m²
Ownership Grosvenor Liverpool Fund

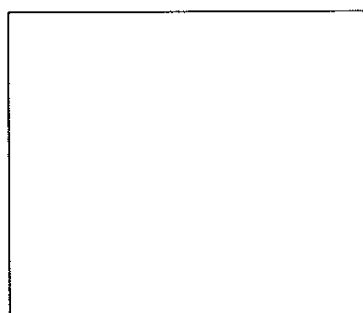
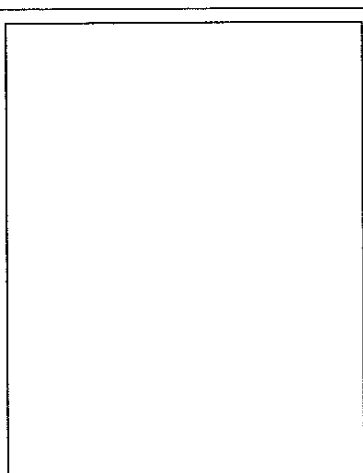
We acquired this site on a key axis in the centre of the city to provide further frontage on a thoroughfare already benefiting from the additional footfall generated by our neighbouring Liverpool ONE scheme.

“Last year, Japan endured one of the most challenging years in recent history. We have worked hard to ensure that our high quality portfolio can take advantage of the predicted growth in this real estate market.”

Zachary McAfee
Senior Investment Manager, Japan

“In 2011, across our portfolio of 77 retail assets in Continental Europe, we maintained occupancy at 97.5% – maximising income for our investors.”

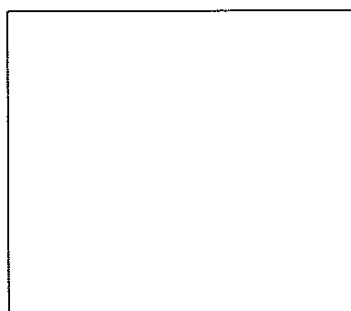
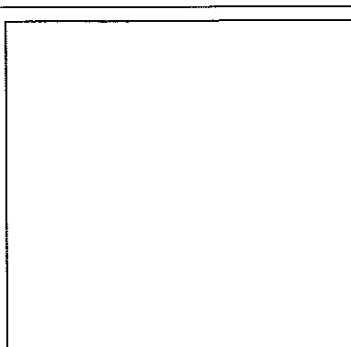
Sara Lucas
Head of Portfolio Management,
Continental Europe



Joule A

City Tokyo
Country Japan
Sector Mixed-use
Area 9,900m²
Ownership Grosvenor Office Retail Fund

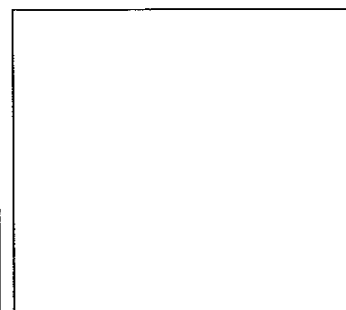
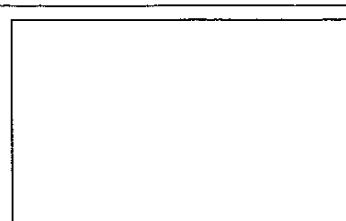
The Joule A building is located in Central Tokyo, next to a subway station in the vibrant neighbourhood of Azabu-Juban. Since acquiring the asset in December 2007, we have managed a comprehensive refurbishment of the building and it is now 100% let.



Rue Serpenoise

City Metz
Country France
Sector Retail
Area 11,000m²
Ownership Grosvenor French Retail Investments

This is a core high street asset, situated in one of the leading retail streets in France. Recently refurbished and fully leased to Printemps department store and two Zara units, it provides very strong income flow in a prime location.



Parkside Plaza

City Shanghai
Country China
Sector Retail
Area 126,000m²
Ownership Grosvenor Vega – China Retail Fund

Phase one of Parkside Plaza opened in December 2011 and footfall is high. Tenants now include Tesco, H&M, Uniqlo, Mango, Esprit and Swatch. The second and final phase opens in April 2012.

Grosvenor Fund Management Board of Directors

As at 15 March 2012

Non-Executive Directors

- 1 Mark Preston** WRICS (Chairman) is the Group's Chief Executive. He joined Grosvenor in the UK in 1989. Seconded to Hong Kong in 1995 he returned to lead our fund management operations in 1997, spent four years in San Francisco from 2002, became Chief Executive of Grosvenor Britain & Ireland in 2006 and Group Chief Executive in 2008. He is a Non-Executive Director of both Sonae Sierra SGPS and Persimmon plc. He is also a member of the Board of The Association of Foreign Investors in Real Estate, the (University of) Cambridge Land Economy Advisory Board and the Eurohypo International Advisory Board.
- 2 Nicholas Scarles** FEA 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. Member of the Court of Assistants of the Haberdashers' Livery Company and a Non-Executive Director of Sonae Sierra SGPS.
- 3 Richard Barkham** WRICS (Group Research Director) joined Grosvenor in 2000. His first post was Research Director for Grosvenor Britain & Ireland. He was appointed Group Research Director in 2006 and in 2011 he was appointed to the Board of Grosvenor Fund Management.

Executive Directors

- 4 Jeffrey Weingarten** (Chief Executive) began his career as a Securities Analyst at Sheinman, Hochstein & Trotta in 1970, before moving to Wertheim & Co. In 1977 he joined the research division at Goldman Sachs & Co in New York, becoming Director of Research in London in 1987 and General Partner of Goldman Sachs & Co in 1990. From 1991–1995 Jeffrey was the Chief Investment Officer and Managing Director of Goldman Sachs Asset Management International, before returning to International Equity Research as Global Strategist. From 1998–2008 Jeffrey was General Partner and Chief Investment Officer of Buttonwood Capital Partners.
- 5 James Raynor** (Chief Investment Officer) joined Grosvenor in 2004 from The Royal Bank of Scotland in Paris, where he was Senior Director of European Real Estate. He was promoted to his present role at Grosvenor in March 2011. He sits on the INREV Training & Education Committee and the ULI French Council.
- 6 Robert Davis** (Chief Operating Officer) 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. He was promoted to his present role at Grosvenor in March 2011, retaining his previous role of Finance Director.
- 7 Andrew Galbraith** (Managing Director, USA) joined Grosvenor in 1990 and moved to his current role as joint Managing Director and Head of Investments in November 2011. He has held various positions over the past 20 years with Grosvenor in London, San Francisco and Washington, DC. He is a member of ULI and NAREIM.
- 8 Alexia Gottschalch** (Managing Director, USA) joined Grosvenor Fund Management in April 2011. In November 2011 Alexia was appointed joint Managing Director and Head of Capital Markets and Client Services in the US. Prior to joining Grosvenor, she was a member of senior management at Independence Capital Partners, Cheswold Real Estate Investment Management, Prudential Real Estate Investors, Trishman, Speyer, ING and Deutsche Bank.
- 9 Mervyn Howard** (Managing 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.
- 10 Morgan Laughlin** (Managing Director, Asia Pacific) joined Grosvenor in January 2011. He was previously Managing Director, Head of Real Estate Finance, Asia Pacific, at RBS. Prior to joining RBS in 2006, Morgan headed Deutsche Bank LaSalle Investment Management.
- 11 Giles Wintle** (Managing Director, Continental Europe) joined Grosvenor in September 2011 from GIC Real Estate, where he oversaw investment activity in France, Italy, Nordics, CEE and Russia. He previously worked for BNP Paribas Corporate and Investment Banking in Paris and Jones Lang LaSalle in London and Paris.

Grosvenor Fund Management Portfolio

Funds under management

	Number of investment vehicles	Total £m	Gross asset value			
			Office £m	Retail £m	Residential £m	Other £m
Asia Pacific	5*	1 204.3	636.1	226.2	342.0	—
Continental Europe	5*	1,101.6	196.2	905.4	—	—
UK	7	1 847.9	418.9	1 390.3	38.7	—
USA	10*	852.7	683.8	74.6	47.6	46.7
International	1	—	included above			
Total	28	5 006.5	1,935.0	2 596.5	428.3	46.7

*Includes separate account clients

Asia Pacific

Name: GROSVENOR CAPITAL ADVISERS PARTNERSHIP

Launch date	2004	Gross asset value:	JP¥15bn (£130m)
Sector	Residential	Number of assets	13
Risk profile	Value-add	Number of investors:	6

Grosvenor Capital Advisers Partnership is focused on opportunistic investment in residential assets in the greater metropolitan areas of Tokyo and Osaka which both benefit from cyclical upturns. Returns are enhanced through a value-add approach.

Name: GROSVENOR DIAMOND CAPITAL – STABLE RESIDENTIAL FUND

Launch date:	2005	Gross asset value	JP¥25bn (£213m)
Sector:	Residential	Number of assets	20
Risk profile	Core	Number of investors	6

Grosvenor Diamond Capital – Stable Residential Fund is focused on high quality, well managed residential properties with stable recurring income. 90% of assets are in Tokyo with the remaining 10% in other major Japanese cities.

Name: GROSVENOR OFFICE RETAIL FUND

Launch date:	2007	Gross asset value	JP¥22bn (£192m)
Sector:	Office and retail	Number of assets:	12
Risk profile	Core and Value-add	Number of investors	8

Grosvenor Office Retail Fund focuses on Grade B/C office and retail properties, primarily in Tokyo and Osaka. Returns are enhanced through both a stable income and value-add approach.

Name: GROSVENOR VEGA – CHINA RETAIL FUND

Launch date:	2008	Number of assets:	1
Sector:	Retail	Number of investors:	7
Risk profile	Value-add		

Grosvenor Vega-China Retail Fund owns and actively manages the Parkside Plaza shopping centre in Shanghai.

Name: SEPARATE ACCOUNT CLIENT – AUSTRALIA

Launch date:	2011	Gross asset value:	A\$673m (£444m)
Sector	Office	Number of assets	3
Risk profile	Various	Number of investors	1

Two modern energy-efficient office buildings in Brisbane and one new office development in Parramatta, Sydney, now managed by Grosvenor Fund Management from our Sydney office.

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Portfolio
Continued**Continental Europe****Name:** GROSVENOR EUROPEAN RETAIL PARTNERSHIP

Launch date	2011	Gross asset value	€403m (£337m)
Sector	Retail	Number of assets	6
Risk profile	Core	Number of investors	3

Grosvenor European Retail Partnership was created as a club vehicle to acquire a portfolio of 121,000m² of urban shopping centres in dynamic cities in France and Sweden

Name: GROSVENOR FRENCH RETAIL INVESTMENTS

Launch date	2006	Gross asset value	€344m (£288m)
Sector	Retail	Number of assets	45
Risk profile	Core	Number of investors	9

Grosvenor French Retail Investments is focused on creating a balanced income-producing portfolio of high quality high street and retail warehousing properties in France. It has established a well diversified portfolio located within the strongest French urban areas

Name: GROSVENOR RETAIL EUROPEAN PROPERTIES

Launch date	2004	Gross asset value	€219m (£183m)
Sector	Retail	Number of assets	26
Risk profile	Core	Number of investors	8

Grosvenor Retail European Properties has built up a diverse portfolio of high quality retail properties located within robust cities in Continental Europe. The fund provides a mixed risk profile of secure income-producing assets along with core plus opportunities through the properties' repositioning

Name: GROSVENOR HEXAGONE PARTNERSHIP

Launch date	2006	Gross asset value	€159m (£133m)
Sector	Office	Number of assets	2
Risk profile	Core plus	Number of investors	2

Grosvenor Hexagone Partnership is a tactical office club created to take advantage of the attractive investment opportunities in select Continental European office markets

Name: SEPARATE ACCOUNT CLIENT – CONTINENTAL EUROPE

Launch date	2009	Gross asset value	€123m (£103m)
Sector	Diversified	Number of assets	2
Risk profile	Various	Number of investors	1

Two assets in Paris and Madrid actively managed to create maximum value for our client

UK**Name:** GROSVENOR FESTIVAL PLACE FUND

Launch date: 1999	Number of assets: 1
Sector: Retail	Number of investors: 3
Risk profile: Core	

Grosvenor Festival Place Fund was established in 1999 to manage the Festival Place retail development in Basingstoke, which was completed by Grosvenor in 2002

Name: GROSVENOR LIVERPOOL FUND

Launch date: 2004	Number of assets: 1
Sector: Retail	Number of investors: 6
Risk profile: Core	

Grosvenor Liverpool Fund was established in 2004 to finance the regeneration of and investment in the 42-acre Paradise Street area in Liverpool. Now branded Liverpool ONE, the scheme has won more than 65 awards since completion and attracts more than 25 million visitors a year.

Name: GROSVENOR LONDON OFFICE FUND

Launch date: 1999	Gross asset value: £419m
Sector: Office	Number of assets: 4
Risk profile: Core	Number of investors: 5

Grosvenor London Office Fund invests in large, high quality office buildings in central London, providing secure and stable income to a club of investors.

Name: GROSVENOR RESIDENTIAL INVESTMENT FUND

Launch date: 2005	Gross asset value: £38.7m
Sector: Residential	Number of assets: 9
Risk profile: Core	Number of investors: 3

Grosvenor Residential Investment Fund was established in 2005 to invest in residential properties in clearly researched and defined clusters of cities and towns situated throughout the UK.

Name: GROSVENOR SHOPPING CENTRE FUND

Launch date: 1998	Gross asset value: £314m
Sector: Retail	Number of assets: 3
Risk profile: Core	Number of investors: 16

Grosvenor Shopping Centre Fund was established in 1998. It owns and actively manages a portfolio of three shopping centres in medium-sized towns in the UK, which are dominant in their catchment areas.

Name: GROSVENOR OFFICE LONDON PARTNERSHIP

Launch date: 2011	Gross asset value: £0m
Sector: Office	Number of assets: No acquisitions completed
Risk profile: Value-add	Number of investors: 2

This club deal was created in 2011 in partnership with Canada Pension Plan Investment Board to invest in value-add assets in London's West End and Midtown office markets.

Name: SEPARATE ACCOUNT CLIENT – UK

Launch date: 2011	Number of assets: 1
Sector: Retail	Number of investors: 1
Risk Profile: Core plus	

We commenced a mandate on behalf of a major bank to manage a UK shopping centre.

70 Fund management Grosvenor Fund Management

Portfolio
Continued

USA

Name: SHMAEL US REAL ESTATE FUND

Launch date	2005	Gross asset value	US\$96m (£61.5m)
Sector	Office	Number of assets	6
Risk profile	Core plus	Number of investors	15

The Shmael US Real Estate Fund is a closed-end fund, the focus of which was to invest in Class A and B+ office buildings in the USA. The fund closed in 2005 and is now fully invested in six properties.

Name: US HEALTHCARE VENTURE

Launch date	2011	Gross asset value:	US\$73m (£46.7m)
Sector	Healthcare	Number of assets	1
Risk profile:	Core	Number of investors	2

US Healthcare Venture LLC is a partnership with Kuwait Finance House to invest in healthcare-related real estate in the USA. The partnership will invest in the acquisition and development of senior living communities and medical office buildings.

Name: GROSVENOR RESIDENTIAL INVESTMENT PARTNERS

Launch date	2007	Gross asset value	US\$74m (£47.6m)
Sector	Residential	Number of assets	16
Risk profile	Debt	Number of investors:	5

Grosvenor Residential Investment Partners is a closed-end fund focused on the USA for-sale residential market. The fund closed in 2007 and is now fully invested, having provided participating senior and mezzanine loans to 16 projects throughout the USA.

Name: SEPARATE ACCOUNTS CLIENTS – USA

Launch	Various	Gross asset value	US\$998m (£642m)
Sector	Diversified	Number of assets:	50
Risk profile	Various	Number of investors:	7*

*Number of separate accounts

In the USA, we manage seven long-standing separate account mandates on behalf of leading US, European and Middle Eastern clients.

International**Name:** ISPT GROSVENOR INTERNATIONAL PROPERTY TRUST (IGIPT)**Launch date:** 2004 **Gross asset value:** A\$174m (£115m)**Sector:** Mixed-use **Number of assets:** 4**Risk profile:** Core **Number of investors:** 7

IGIPT was established to provide a balance of secure income flow and long term growth potential by investing in institutional grade property outside Australia and New Zealand

Accounts

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Corporate governance

THE COMBINED CODE

Grosvenor's business approach is based on openness and high levels of accountability, and the Board'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. As a privately-owned Group with its Shareholders represented on the Board, certain provisions of the Combined Code are not relevant to Grosvenor. The Board has reviewed each of the provisions of the Combined Code issued by the UK Financial Reporting Council in June 2010 and has determined which of those provisions are appropriate in the context of Grosvenor's ownership structure.

BOARD OF DIRECTORS

Structure of the Board

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

Biographies of the members of the Board are set out on page 18.

Board effectiveness

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

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

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

The Board undertakes a regular evaluation of its own performance. The last review was in November 2011.

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.

The Board held five meetings during the year, with the following attendance by Directors:

	January	March	June	September	November
Number of Directors attending	8/8	7/8	8/8	8/8	8/8

COMMITTEES OF THE BOARD

Audit Committee

The Audit Committee comprises:

- Michael McLintock (Chairman)
- Lesley Knox
- Domenico Siniscalco

The Audit Committee is responsible for reviewing a wide range of financial matters, including the annual financial statements and accompanying reports, Group internal and external audit arrangements, accounting policies, internal control and the actions and procedures involved in the management of risk throughout the Group. The Audit Committee reviews annually the scope of the external auditor's work and their fees. It also considers the auditor's independence which is ensured through a variety of procedures including regular rotation of audit partners. Any non-audit fees received by the auditor in excess of 50% of the audit fee are pre-approved by the Audit Committee.

The Audit Committee meets at least three times a year with the auditor and is attended by invitation by the Group Chief Executive, Group Finance Director and other senior personnel as appropriate. The Audit Committee met three times during the year, with full attendance at each meeting.

The Britain & Ireland, Americas, Asia Pacific and Grosvenor Fund Management 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 when necessary and is attended, by invitation, by the Group Chief Executive and other senior personnel as appropriate. It is responsible for reviewing the structure of the Board, 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.

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Remuneration Committee

The Group Remuneration Committee comprises

- Jeremy Newsum (Chairman)
- Alasdair Morrison
- Michael McLintock

A description of the Remuneration Committee's responsibilities is included in the Remuneration Report on page 75

GROUP EXECUTIVE COMMITTEE

The Group Executive Committee comprises the Group Chief Executive, the Group Finance Director and the Chief Executives of each of the Proprietary Operating Companies and Grosvenor Fund Management. It meets three times a year and is responsible for co-ordinating the implementation of Group Strategy. Biographies of the members of the Group Executive Committee are set out on page 19.

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 the Group's property investment, development and fund management activities, together with supporting functions, to Operating Company management teams. The Group's Operating Companies have local boards, with independent Non-Executive Directors, which oversee the Operating Company's operations. These boards form an integral part of the overall internal control process. The relationship between Operating Company boards and the Group Board is clearly defined and is set out in formally approved financial delegation procedures. The membership of each Operating Company board is set out in the relevant Operating Company's section of the business review.

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

In addition to local boards, each Operating Company, together with 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 Group financial policy and risk management.

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

The Board carried out its annual assessment of internal control for the year 2011 at its meeting in March 2012 by considering reports from management and the Audit Committee and taking account of events since 31 December 2011.

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.

Remuneration report

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

Consistent with the delegation of management responsibility to Operating Company Boards the Britain & Ireland Americas and Asia Pacific regions and the Grosvenor Fund Management business have their own remuneration committees with appropriate responsibility for remuneration matters within those Operating Companies. The Group Remuneration Committee takes an independent overview of the various Operating Companies remuneration and HR policies and practice, providing Group-wide guidelines and frameworks.

During the year, the Group Remuneration Committee comprised three members, Robin Broadhurst (Chairman), Alasdair Morrison and Jeremy Newsum. Two of the Committee are independent Non-Executive Directors while Jeremy Newsum does not meet this definition under the Combined Code. We feel that the Committee benefits from the experience and skills of Mr Newsum and his status as non-independent does not adversely influence the overall independence of the Committee.

The Committee 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 Remuneration Committee met three times during the year with full attendance at two of the three meetings and two out of three directors attending the third meeting. As of 31 December 2011 Robin Broadhurst retired as Chairman and Jeremy Newsum was appointed Chairman effective 1 January 2012.

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. 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.

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 between 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.
- 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 cost of capital, revenue profit targets and 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 (closed as at 31 December 2011), Canada (now closed to new participants) and the USA (frozen). Further details of the Group's pension schemes are given in Note 11 to 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 2006 are set out in Note 12 to the Accounts. Representatives of the Shareholders participate directly in setting Directors' remuneration.

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, received 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 in relation to those roles.

Transactions between the Group and the Shareholders are disclosed in Note 39 to the Accounts. Certain Company Directors are Trustees of Grosvenor Trusts. Trustees of the Grosvenor Pension Plan 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 Directors.

Jeremy Newsum

Chairman of the Remuneration Committee (appointed 1 January 2012)

15 March 2012

Directors' report

The Directors present their Annual Report and the Group's audited consolidated financial statements for the year ended 31 December 2011

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

The review of the business in accordance with the requirements of section 417 of the Companies Act 2006 (the 'Business Review') can be found in the review section on pages 1 to 71, 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

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

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

Market risk

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

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 development activity, where market conditions may affect leasing terms and capitalisation rates. The Group commits to development projects only after taking careful account of the market outlook. Development exposures are frequently reduced by working in joint ventures.

The Group is able to make use of property derivatives as a further mechanism for managing 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 Indirect Investments and the devolution of property decision-making authority to local boards.

The allocation of equity to Operating Companies and Indirect Investments 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 for the desired relative weighting of capital to each Operating Company and Indirect Investments 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 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 (adjusted for deferred tax) allocated to Operating Companies and Indirect Investments, together with actual equity allocations at 31 December 2011, were as follows:

	Percentage of Group equity	
	Long-term range %	At 31 December 2011 %
Britain & Ireland	35.0-60.0	48.6
Americas	10.0-25.0	15.5
Asia Pacific	5.0-20.0	7.2
Indirect Investments	20.0-30.0	28.3
Fund Management	0.0-10.0	0.4

At the Operating Company and Indirect Investments level, each board (the Group Investment Committee in the case of Indirect Investments) 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 property assets and assets under management is shown on page 9.

Property risks**Investment properties**

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

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

Developments

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

Capital raising

The Group has no plans to seek further equity capital through the issue of new shares. Capital for investment is available from retained earnings. The Group's preference for working with partners and fund management investors provides access to capital beyond its own resources, for specific investment and development opportunities. Working with like-minded investors in property is a core part of the Group's business.

Acquisitions and sales

When acquiring or selling property the principal risk is in assessing the future income flows in order to determine an appropriate price. The timing of property transactions is managed as part of the 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 and tax risks

The principal financial risks faced by the Group are liquidity, credit, interest rate and foreign currency risk. Each of these risks is explained in more detail and analysed in Note 30 to the Accounts.

Exposure to tax risk arises across a large number of tax jurisdictions. In addition to different tax filing requirements in each territory there is also exposure to the impact of future changes in tax legislation. These risks are managed by an in-house team which works 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 reviews and 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 its health and safety information technology system to assist the business. All accidents and cases of ill health are treated seriously. In 2011 Grosvenor had no reportable incidents to statutory authorities. Each business made good progress in completing its health and safety action plan.

Grosvenor received no enforcement notices from statutory health and safety authorities in 2011.

Each business sets itself annual targets in order to achieve their board objectives. These include verifying that workplace and other risks are being controlled and mitigated where necessary.

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Environment

This year the Annual Report references our second stand alone Environment Review (see pages 1 and 5), reviewing our environmental management activities

Reputation and brand

The professional reputation of the individuals and businesses within the Group is an important intangible asset as is the Grosvenor brand. The Group seeks to manage these assets by investing appropriately in them, and by identifying potential reputational or brand risks and acting swiftly to mitigate those risks. All staff are briefed on the definition of the Group's brand and are advised on how to align communications and behaviour with it and detailed brand management guidelines are provided for relevant in-house and consultancy teams

People

The Group takes considerable care in recruiting, retaining and developing Grosvenor people. A graduate qualifying programme in the UK and a range of development opportunities exist. Succession planning is overseen by remuneration committees. Compensation is regularly benchmarked against the market and the Group rewards loyalty, excellence and effort.

Information technology

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

Grosvenor takes a long-term view so is less interested in year-on-year comparisons and is more concerned with the overall trend in performance.

The Group monitors total return on property assets and growth in revenue profit. Total return is calculated on a proportional basis, including the appropriate share of joint ventures and associates. Revenue profit is shown in Note 4. Total return and revenue profit are defined in the glossary.

Achievement against these indicators is set out in the Finance Director's report on pages 14 to 17. Appropriate key performance indicators are employed throughout the Group to help achieve ambitious goals and a philosophy of continuous improvement.

RESULTS AND DIVIDENDS

The results for the year are set out in the consolidated income statement on page 82. Profit for the year was £245.9m (2010: £316.8m). Dividends paid during the year amounted to £nil (2010: £11.6m).

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, is authorised to provide financial services and products to wholesale clients 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, is authorised to provide financial services and products under its Kanto Local Finance Bureau (Kinsyo) License No. 1956 issued by The Financial Services Agency, the Japanese Government.

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 71 and the principal risks and uncertainties faced by the Group are described in the Directors' report. In addition, Note 30 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.

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

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

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

DIRECTORS

Details of the Directors of the Company and their biographies are given on page 18. All Directors served throughout the year except for Owen Thomas who was appointed on 1 January 2012. Robin Broadhurst resigned on 31 December 2011.

DIRECTORS' INTERESTS IN SECURITIES

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

	Ordinary Shares		Non-Voting Ordinary Shares		A Preference Shares		B Preference Shares	
	At 1 January 2011	At 31 December 2011	At 1 January 2011	At 31 December 2011	At 1 January 2011	At 31 December 2011	At 1 January 2011	At 31 December 2011
Non-beneficial								
Jeremy H M Newsum	4 290 433	4,290,433	34 323 463	34,323,463	4 290 433	4,290,433	81,518,227	61,953,852
Robin S Broadhurst	4,052,363	4,052,363	32,418,904	32,418,904	4 052,363	4,052,363	76 994 897	58,516,122
Lesley M S Knox	1 640 580	1,640,580	13,124 639	13,124,639	1 640,580	1,640,580	31 171,020	23,689,975

The non-beneficial interests above represent the shares owned by the respective Directors in their capacity as Trustees of the Grosvenor Trusts. Robin Broadhurst retired as at 31 December 2011 and his non-beneficial interests ceased as at that date. Michael McIntock was appointed to the Board on 1 March 2012 and his non-beneficial interests as at that date were: 5,453,726 Ordinary Shares, 43,629,809 Non-Voting Ordinary Shares, 5,453,726 'A' Preference Shares and 78,751,804 'B' Preference Shares.

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.

DIRECTORS' INDEMNITY

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

CHARITABLE AND POLITICAL DONATIONS

Charitable contributions during the year amounted to £1.8m (2010: £1.7m). £1.5m was donated to the Westminster Foundation (2010: £1.4m), the grant making foundation for the Grosvenor family and business interests. As a registered charity, the Westminster Foundation focuses on social care and education, military welfare, and environment and conservation, and also provides subsidised office accommodation on Grosvenor's London estate to over 30 registered charities.

Staff are encouraged to undertake their own fundraising for charities by the active promotion of Give As You Earn within the UK, as well as by the matched funding of employees' charitable fundraising across all our Operating Companies. The Group is developing a policy on pro-bono activity to reflect the widespread involvement of staff in giving time and expertise to support their communities in other ways.

No political donations were made during the year (2010: £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 2011 represented thirteen days' purchases (2010: eleven 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 and place considerable value on informing them on matters affecting them as employees. Each part of the Group maintains employee relations appropriate to its own particular needs and environment.

AUDITOR

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

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

- in so far as the Director is aware, there is no relevant audit information of which the auditor is unaware, and
- the Director has taken all reasonable steps that he/she ought to have taken to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Judith Ball
Company Secretary
15 March 2012

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 laws and regulations

Company law requires the Directors to prepare financial statements for each financial year. The Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the European Union. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standards requires that the Directors

- properly select and apply accounting policies
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, 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 are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and
2. the management report, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

This responsibility statement was approved by the Board of Directors on 15 March 2012 and is signed on its behalf by

Lesley Knox
Chairman

Corporate advisers and bankers

Auditor	Deloitte LLP
Tax advisers	KPMG LLP
Principal valuers	DTZ Debenham Tie Leung, Cushman & Wakefield, Jones Lang LaSalle
Solicitors	Boodle Hatfield, Slaughter and May
Lead bankers	The Royal Bank of Scotland Group plc
Actuaries	Lane Clark & Peacock LLP

Independent auditor's report

to the members of Grosvenor Group Limited

We have audited the financial statements of Grosvenor Group Limited (the Group) for the year ended 31 December 2011 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated and parent company balance sheets, the consolidated statement of cash flows, and the related Notes 1 to 39. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2011 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

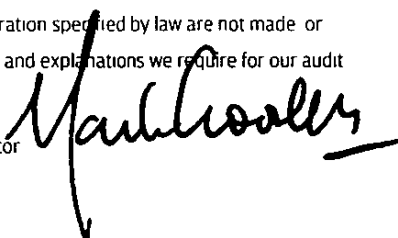
In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Mark Goodey (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
15 March 2012



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Consolidated income statement

for the year ended 31 December 2011

	Note	2011 £m	2010 £m
Total revenue	5	195.2	214.7
Gross rental income	6	126.9	114.8
Property outgoings	7	(40.0)	(41.1)
Net rental income		86.9	73.7
Other income	8	40.7	54.0
Administrative expenses	9	(89.8)	(86.2)
Net losses on trading properties	13	(12.5)	(5.7)
Net losses on other investments	14	(7.1)	(1.5)
Net gains on revaluation and sale of investment property	15	324.4	292.4
Impairment of goodwill	24	(0.7)	–
Share of profit from joint ventures	22	25.0	103.7
Gain from operations including share of joint ventures		366.9	430.4
Dividend income	16	0.1	0.4
Financial income	16	9.1	10.1
Financial expenses	16	(49.9)	(47.4)
Fair value adjustments	16	(11.2)	1.3
Net financing costs	16	(51.9)	(35.6)
Profit before tax		315.0	394.8
Current tax expense	17	(14.7)	(1.5)
Deferred tax expense	17	(54.4)	(76.5)
Profit for the year	37	245.9	316.8
Attributable to			
Equity holders of the parent	37	250.8	311.7
Non-controlling interests	37	(4.9)	5.1
Profit for the year	37	245.9	316.8

Consolidated statement of comprehensive income

for the year ended 31 December 2011

	Note	2011 £m	2010 £m
Profit for the year	37	245.9	316.8
Revaluation of property, plant and equipment	37	3.8	3.6
Available for sale financial assets			
(Losses)/gains arising during the period	37	(3.7)	1.5
Fair value adjustments on swaps			
(Losses)/gains arising during the period	37	(0.5)	1.8
Exchange differences on translation of foreign operations	37	(5.7)	69.7
Actuarial losses on defined benefit pension schemes	37	(12.4)	(0.6)
Tax relating to other comprehensive income	37	(1.1)	(4.1)
Other comprehensive (expense)/income		(19.6)	71.9
Total comprehensive income for the period		226.3	388.7
Attributable to:			
Equity holders of the parent		236.4	384.3
Non-controlling interests		(10.1)	4.4
		226.3	388.7

The Company's equity increased during the year as a result of dividends received from subsidiaries for the year of £nil (2010: £21.1m) and reduced as a result of dividends paid to Shareholders of £nil (2010: £11.6m)

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Attributable to equity holders of the parent							Non controlling interest	Total equity	
	Share capital £m	Share premium £m	Translation reserve £m	Other reserve £m	Fair value reserve £m	Revaluation reserve £m	Retained earnings £m	Total £m	£m	£m
Balance at 1 January 2010	278.5	28.3	316.0	(12.1)	(15.4)	7.0	1,784.5	2,386.8	156.5	2,543.3
Changes in equity for 2010										
Profit for the year	—	—	—	—	—	—	311.7	311.7	5.1	316.8
Other comprehensive income/(expense)	—	—	69.9	2.3	1.4	2.7	(3.7)	72.6	(0.7)	71.9
Dividends	—	—	—	—	—	—	(11.6)	(11.6)	(0.9)	(12.5)
Transfer between reserves	—	—	0.7	0.1	—	—	2.6	3.4	(3.4)	—
Non-controlling shares issued										
by subsidiaries	—	—	—	—	—	—	—	—	2.4	2.4
Non-controlling shares acquired										
by subsidiaries	—	—	—	—	—	—	—	—	(32.4)	(32.4)
Redemption of Preference Shares	(113.6)	—	—	113.6	—	—	(113.6)	(113.6)	—	(113.6)
Balance at 31 December 2010	164.9	28.3	386.6	103.9	(14.0)	9.7	1,969.9	2,649.3	126.6	2,775.9
Changes in equity for 2011										
Profit for the year	—	—	—	—	—	—	250.8	250.8	(4.9)	245.9
Other comprehensive (expense)/income	—	—	(0.7)	(0.7)	(4.4)	3.0	(11.6)	(14.4)	(5.2)	(19.6)
Dividends	—	—	—	—	—	—	—	—	(6.2)	(6.2)
Non-controlling shares issued										
by subsidiaries	—	—	—	—	—	—	—	—	0.3	0.3
Non-controlling shares acquired										
by subsidiaries	—	—	—	—	—	—	—	—	(1.6)	(1.6)
Redemption of Preference Shares	(25.9)	—	—	25.9	—	—	(25.9)	(25.9)	—	(25.9)
Other movements in joint ventures	—	—	—	—	—	—	(4.5)	(4.5)	(1.2)	(5.7)
Balance at 31 December 2011	139.0	28.3	385.9	129.1	(18.4)	12.7	2,181.7	2,855.3	107.8	2,963.1

The Company's statement of changes in equity is as presented in Note 37(b)

84 Accounts Balance sheets

Balance sheets

as at 31 December 2011

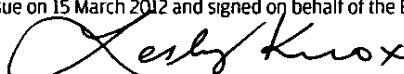
		Group		Company	
	Note	2011 £m	2010 £m	2011 £m	2010 £m
ASSETS					
Non-current assets					
Investment property	19	2,812.7	2,525.9	—	—
Other property, plant and equipment	20	40.6	35.6	—	—
Investments in subsidiaries	21	—	—	1,358.4	1,358.4
Investments in joint ventures	22	1,074.8	1,063.3	—	—
Other financial assets	23	36.9	42.6	—	—
Intangible assets	24	4.1	4.9	—	—
Deferred tax assets	25	103.4	103.9	—	—
Total non-current assets		4,072.5	3,776.2	1,358.4	1,358.4
Current assets					
Trading properties	26	245.2	138.7	—	—
Trade and other receivables	27	158.5	156.9	174.4	200.3
Other financial assets	23	3.2	0.5	—	—
Income tax receivable		12.0	36.1	—	—
Cash and cash equivalents	28	237.5	269.4	—	—
Total current assets		656.4	601.6	174.4	200.3
TOTAL ASSETS		4,728.9	4,377.8	1,532.8	1,558.7
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings	29	(776.8)	(613.8)	—	—
Trade and other payables	31	(204.3)	(165.0)	—	—
Employee benefits	11	(37.2)	(37.1)	—	—
Deferred tax liabilities	25	(576.4)	(522.1)	—	—
Total non-current liabilities		(1,594.7)	(1,338.0)	—	—
Current liabilities					
Overdrafts	28	(0.1)	(0.1)	—	—
Interest-bearing loans and borrowings	29	(28.6)	(124.8)	—	—
Trade and other payables	31	(123.3)	(123.1)	—	—
Income tax payable		(15.7)	(12.4)	—	—
Provisions	32	(3.4)	(3.5)	—	—
Total current liabilities		(171.1)	(263.9)	—	—
TOTAL LIABILITIES		(1,765.8)	(1,601.9)	—	—
NET ASSETS		2,963.1	2,775.9	1,532.8	1,558.7
Equity					
Share capital	36	139.0	164.9	139.0	164.9
Share premium	37	28.3	28.3	28.3	28.3
Reserves	37	509.3	486.2	1,190.5	1,164.6
Retained earnings	37	2,178.7	1,969.9	175.0	200.9
Shareholders' funds	37	2,855.3	2,649.3	1,532.8	1,558.7
Non-controlling interests	37	107.8	126.6	—	—
TOTAL EQUITY	37	2,963.1	2,775.9	1,532.8	1,558.7

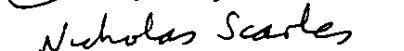
Approved by the Board and authorised for issue on 15 March 2012 and signed on behalf of the Board

Lesley Knox (Chairman)

Nicholas Scarles (Group Finance Director)

Company registration number 3219943





Consolidated statement of cash flows

for the year ended 31 December 2011

	Note	2011 £m	2010 £m
Operating activities			
Operating profit before changes in working capital and provisions	38(a)	29.6	36.3
Increase in trade and other receivables		(4.3)	(41.1)
(Increase)/decrease in trading properties		(108.3)	4.3
Increase/(decrease) in trade and other payables		1.4	(0.8)
Decrease in employee benefits		(12.2)	(1.5)
Decrease in provisions		(0.1)	(7.1)
Cash flow from operations		(93.9)	(9.9)
Interest paid		(52.6)	(49.1)
Income taxes received/(paid)		8.7	(63.6)
Interest received		9.8	10.2
Net cash flows from operating activities		(128.0)	(112.4)
Investing activities			
Proceeds from sale of investment property		171.1	208.0
Acquisition of investment property		(69.2)	(93.4)
Development of investment and development property		(33.3)	(13.2)
Proceeds from sale of other property, plant and equipment		0.1	—
Acquisition of other property, plant and equipment		(3.4)	(0.4)
Proceeds from sale of other financial assets		7.7	6.1
Acquisition of other financial assets		(8.9)	(1.5)
Net cash flow from joint ventures		(1.4)	80.0
Proceeds from sale of joint ventures		11.6	18.6
Acquisition of joint ventures		(22.3)	(125.1)
Dividends received		0.1	0.4
Net cash flows from investing activities		52.1	79.5
Financing activities			
Proceeds from additional borrowings		148.3	71.9
Repayment of borrowings		(72.6)	(129.9)
Non-controlling shares issued by subsidiaries		0.3	2.4
Non-controlling shares acquired by subsidiaries		(1.6)	(32.4)
Redemption of preference shares		(25.9)	(113.6)
Dividends paid		(6.2)	(12.5)
Net cash flows from financing activities		42.3	(214.1)
Net decrease in cash and cash equivalents		(33.6)	(247.0)
Cash and cash equivalents at 1 January		269.3	505.2
Effect of exchange rate fluctuation on cash held		1.8	11.1
Cash and cash equivalents at 31 December	28	237.5	269.3

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 78. The principal accounting policies adopted are set out below. The Company has elected under section 230 of the Companies Act 2006 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 within the income statement. On consolidation, the results of overseas companies are translated into Sterling at the average exchange rate for the period and their assets and liabilities are translated into Sterling at the exchange rate ruling at the balance sheet date. Exchange differences arising from the translation of foreign operations and of related hedges are taken to the translation reserve. They are released into the income statement upon disposal.

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

(D) INVESTMENT PROPERTY

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

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

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

(E) LEASES

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.

1 Accounting policies

(E) LEASES (continued)

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.

(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% 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 receivables, and a profit participation element which is treated as an embedded derivative and classified as held for trading. The embedded derivative is held at fair value determined by reference to a prudent estimate of the profit participation that will be ultimately receivable, discounted where material. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the investment have been adversely affected.

(H) TRADING PROPERTIES

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

(I) TRADE AND OTHER RECEIVABLES

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

(J) CASH AND CASH EQUIVALENTS

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

(K) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments utilised by the Group are interest rate 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.

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

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

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

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

(L) TRADE AND OTHER PAYABLES

Trade and other payables are stated at cost.

88 Accounts Notes to the financial statements**1 Accounting policies continued****(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 the 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 adopted the following new and amended IFRS and IFRIC interpretations during the year. Their adoption did not have any material effect on the financial performance or position of the Group.

- Amendment to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)
- IAS 24 Related Party Disclosures (as revised in 2009)
- Amendments to IFRS 3 Business Combinations
- Amendments to IAS 32 Classification of Rights Issues
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

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

- Amendments to IFRS 7 Disclosures – Transfers of Financial Assets
- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income
- Amendments to IAS 12 Deferred Tax – Recovery of Underlying Assets
- IAS 19 (as revised in 2011) Employee Benefits
- IAS 27 (as revised in 2011) Separate Financial Statements
- IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures

The Directors anticipate that the adoption of these standards and interpretations is unlikely to have a material impact on the financial statements of the Group in the period of initial application.

(U) SIGNIFICANT JUDGEMENTS AND KEY ESTIMATES

i) Property valuations

Investment properties are carried at 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.

ii) Development provisions

Provisions for losses on developments are based on estimates arising from a detailed review of the remaining costs to complete each project and 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) Performance fees

Recognition of performance fees receivable from funds requires estimates to be made regarding the performance of funds over the duration of the performance period and, where performance is measured against relative benchmarks that have not yet been published, estimates of the expected benchmark returns.

v) 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 11.

vi) Taxation

The Group applies judgement in the application of taxation regulations and makes estimates in calculating current income tax and deferred tax assets and liabilities, including the likely availability of future taxable profits against which deferred tax assets can be utilised.

(U) SIGNIFICANT JUDGEMENTS AND KEY ESTIMATES (continued)

The Group has economic interests both directly and through entities within the Eurozone. The value and income streams from these investments may be impacted by the outcome of the economic and political uncertainty in the Euro area. As a result of limited comparable transactional evidence in certain Eurozone markets, there is a greater than usual degree of uncertainty in respect of the figures reported by our valuers in those markets.

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

	Average rate		Year end rate	
	2011 £1	2010 £1	2011 £1	2010 £1
US Dollars	1.60	1.55	1.55	1.57
Canadian Dollars	1.58	1.59	1.58	1.56
Euros	1.15	1.16	1.20	1.17
Australian Dollars	1.55	1.67	1.52	1.53
Hong Kong Dollars	12.43	12.02	12.07	12.17
Chinese Renminbi	10.33	10.47	9.78	10.32
Japanese Yen	127.04	136.18	119.57	126.98
Swedish Krona	10.52	-	10.65	-

The Group's reportable segments are the three regional Operating Companies, Indirect Investments and Grosvenor Fund Management. These operating segments reflect the components of the Group that are regularly reviewed by the Group Chief Executive to allocate resources and assess performance. The accounting policies of the reportable segments are consistent with the Group accounting policies detailed in Note 1.

2011

[illegible]

2011

[illegible]

92 Accounts Notes to the financial statements

3 Segmental analysis continued

2010 (restated)

	Proprietary assets – Direct			Proprietary assets – Indirect			Not allocated £m	Total £m
	Britain & Ireland £m	Americas £m	Asia Pacific £m	Managed by Grosvenor Fund Management £m	Sonae Sierra £m	Grosvenor Fund Management £m		
Balance sheet (proportional basis)								
Investment property	1 709.8	589.2	322.0	911.6	1 398.2	4.4	–	4 935.2
Investment property under development	61.0	–	–	–	87.2	–	–	148.2
Trading property	213.6	40.1	19.1	72.7	–	–	–	345.5
Other financial assets	–	4.5	6.2	4.7	–	15.7	–	31.1
Total property assets	1,984.4	633.8	347.3	989.0	1,485.4	20.1	–	5 460.0
Net debt	(389.1)	(102.7)	(148.4)	(436.0)	(683.4)	15.9	(3.9)	(1,747.6)
Deferred tax	(320.4)	(49.1)	(10.9)	(32.0)	(217.4)	2.8	12.8	(614.2)
Other net (liabilities)/assets	(180.7)	(17.0)	16.5	(36.3)	(116.0)	(6.8)	18.0	(322.3)
Net assets	1 094.2	465.0	204.5	484.7	468.6	32.0	26.9	2 775.9
Investment property additions	77.6	28.8	185.1	18.5	27.6	–	–	337.6

4 Revenue 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.

	2011			2010		
	Group £m	Share of joint ventures £m	Total £m	Group £m	Share of joint ventures £m	Total £m
Gross rental income	126.9	182.3	309.2	114.8	169.2	284.0
Property outgoings (excluding major refurbishments)	(35.8)	(48.3)	(84.1)	(35.0)	(42.7)	(77.7)
Net rental income (before major refurbishments)	91.1	134.0	225.1	79.8	126.5	206.3
Fees and other income	40.7	14.1	54.8	54.0	18.6	72.6
(Loss)/profit on trading properties	(12.5)	14.9	2.4	(5.7)	1.9	(3.8)
Administrative expenses	(89.8)	(30.7)	(120.5)	(86.2)	(37.0)	(123.2)
Net financing costs (excluding derivative fair value adjustments)	(39.0)	(42.0)	(81.0)	(36.4)	(51.3)	(87.7)
Revenue profit	(9.5)	90.3	80.8	5.5	58.7	64.2
Reconciliation of revenue profit to profit before tax						
Revenue (loss)/profit	(9.5)	90.3	80.8	5.5	58.7	64.2
Joint ventures						
– Revenue profit	–	(90.3)	(90.3)	–	(58.7)	(58.7)
– Equity accounted profit	–	25.0	25.0	–	103.7	103.7
Net gains on revaluation and sale of investment properties	324.4	–	324.4	292.4	–	292.4
Major refurbishment costs	(4.2)	–	(4.2)	(6.1)	–	(6.1)
Net losses on other investments	(7.1)	–	(7.1)	(1.5)	–	(1.5)
Impairment of goodwill	(0.7)	–	(0.7)	–	–	–
Derivative fair value adjustments	(12.9)	–	(12.9)	0.8	–	0.8
Profit before tax	290.0	25.0	315.0	291.1	103.7	394.8

5 Revenue

	2011 £m	2010 £m
Rental income	126.9	114.8
Income from trading and development properties	20.1	36.2
Service charge income	7.5	9.7
Other income	40.7	54.0
	195.2	214.7

6 Gross rental income

	2011 £m	2010 £m
Gross lease payments receivable	125.7	113.0
Amortisation of capitalised lease incentives	(1.4)	(0.1)
Amortisation of deferred lease premiums	2.6	1.9
	126.9	114.8

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

Total contingent rents included in gross rental income amounted to £0.1m (2010: £0.1m).

7 Property outgoings

	2011 £m	2010 £m
Service charge income	7.5	9.7
Service charge expenses	(8.1)	(10.2)
Net service charge expenses	(0.6)	(0.5)
Major refurbishment costs	(4.2)	(6.1)
Other property operating expenses	(35.2)	(34.5)
Total net property outgoings	(40.0)	(41.1)

Operating expenses associated with unlet properties totalled £1.6m (2010: £2.3m).

8 Other income

	2011 £m	2010 £m
Fund management and asset management fees	33.7	47.5
Project management fees	3.0	2.9
Other income	4.0	3.6
	40.7	54.0

9 Administrative expenses

	2011 £m	2010 £m
Staff costs	60.6	60.3
Office costs	14.6	13.9
Auditor's remuneration – audit services	1.3	1.2
– other services	0.4	0.1
Other professional fees	12.6	10.7
Other administrative expenses	0.3	–
	89.8	86.2

All of the Group's Operating Companies were audited by Deloitte LLP and other member firms of Deloitte Touche Tohmatsu Limited. £0.5m (2010: £0.5m) of the total audit fee is estimated to relate to the audit of the Group and £0.8m (2010: £0.7m) to the audit of the Group's subsidiaries. The Company's audit fees (£0.1m) were borne by another Group company (2010: £0.1m). Amounts paid to other accountancy firms in 2011 totalled £1.8m (2010: £1.9m).

94 Accounts Notes to the financial statements**10 Employee information**

	2011 £m	2010 £m
Staff costs		
Wages and salaries	56.3	57.8
Social security contributions	3.9	5.5
Other staff costs	11.2	5.3
Pension costs		
Contributions to defined contribution plans	3.1	2.9
Net cost of defined benefit plans (Note 11)	2.6	5.9
	77.1	77.4
Included in		
Administrative expenses	60.6	60.3
Property operating expenses	7.8	8.5
Development costs	8.7	8.6
	77.1	77.4

Employee numbers

	At end of year		Average	
	2011 Number	2010 Number	2011 Number	2010 Number
Britain & Ireland	242	245	244	263
Americas	63	62	63	60
Asia Pacific	62	44	53	43
Fund Management	133	135	134	135
Indirect*	2	17	9	17
Holding Company and shared services	43	44	43	44
	545	547	546	562

*Indirect staff in 2010 represents the 17 staff in Australia. The staff in Australia were transferred to Grosvenor Fund Management during the year.
The Company employs nil staff (2010: nil)

11 Retirement benefit schemes**DEFINED CONTRIBUTION SCHEMES**

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

The total cost of defined contribution pension schemes charged to the income statement was £3.1m (2010: £2.9m).

DEFINED BENEFIT SCHEMES

The Group operates defined benefit pension schemes in Britain & Ireland, the USA, Canada and Australia as explained on page 75. Benefits in the scheme in USA were frozen in 2007 and the scheme in Canada was closed to new entrants in 2008. The scheme in Australia was closed as at 31 December 2011.

The defined benefit schemes are funded and are administered by independent and employer related 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, scheme assets and cost of this scheme, based on the proportion of the accrued liabilities that relate to the Group's employees.

Actuarial valuations were last carried out at the following dates:

Britain & Ireland	31 December 2008 (see below)
USA	31 December 2009
Canada	31 December 2010
Australia	30 June 2008

11 Retirement benefit schemes continued

All the valuations have been updated to 31 December 2011. The triennial valuation of the Britain & Ireland scheme as at 31 December 2011 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.

The Group has agreed with the Trustees of the Britain & Ireland scheme to make contributions, in addition to payments in respect of the continuing accrual of benefits, of £3.7m per annum until 2018 to fund the scheme deficit. The level of contributions will be reviewed following the next triennial valuation due as at 31 December 2011.

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

	2011 £m	2010 £m
Current service cost	5.2	5.1
Interest cost	9.2	8.8
Expected return on scheme assets	(8.8)	(8.0)
Settlements and curtailments	(3.0)	–
	2.6	5.9

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

	2011 £m	2010 £m
Present value of unfunded obligations	(15.2)	(13.3)
Present value of funded obligations	(162.6)	(158.2)
Present value of total defined benefit obligations	(177.8)	(171.5)
Fair value of scheme assets	140.6	134.4
Defined benefit pension deficit	(37.2)	(37.1)
The net deficit arises in the following regions:		
Britain & Ireland	(15.2)	(18.6)
USA	(14.0)	(10.2)
Canada	(8.0)	(5.8)
Australia	–	(2.5)
	(37.2)	(37.1)

Movements in the present value of defined benefit obligations are:

	2011 £m	2010 £m
At 1 January	171.5	152.4
Current service cost	5.2	5.1
Past service cost	0.1	–
Interest cost	9.2	8.8
Settlements and curtailments	(3.0)	–
Actuarial losses	2.3	7.1
Benefits paid	(7.2)	(5.4)
Exchange movements	(0.3)	3.5
At 31 December	177.8	171.5

Analysis of the scheme liabilities.

	2011 £m	2010 £m
Britain & Ireland	120.6	117.6
USA	23.7	20.3
Canada	29.8	26.7
Australia	3.7	6.9
At 31 December	177.8	171.5

96 Accounts Notes to the financial statements

11 Retirement benefit schemes continued

Movements in fair value of scheme assets were

	2011 £m	2010 £m
At 1 January	134.4	115.2
Expected return on scheme assets	8.8	8.0
Actuarial (losses)/gains	(10.1)	6.5
Contributions by the employer	14.9	7.4
Benefits paid	(7.1)	(5.3)
Exchange movements	(0.3)	2.6
At 31 December	140.6	134.4

Analysis of the scheme assets and the expected rates of return

2011

	Equities		Bonds		Other		Total £m
	%	£m	%	£m	%	£m	
Britain & Ireland	6.8	82.4	3.7	21.4	3.0	1.6	105.4
USA	9.2	7.1	5.0	2.3	3.4	0.3	9.7
Canada	8.3	8.7	3.0	5.8	2.0	7.3	21.8
Australia	n/a	—	n/a	—	n/a	3.7	3.7
		98.2		29.5		12.9	140.6

2010

	Equities		Bonds		Other		Total £m
	%	£m	%	£m	%	£m	
Britain & Ireland	7.2	77.7	4.6	20.1	4.2	1.2	99.0
USA	9.2	7.7	5.1	2.3	3.5	0.1	10.1
Canada	8.5	8.7	3.6	6.0	2.2	6.2	20.9
Australia	8.2	2.9	5.2	0.9	6.3	0.6	4.4
		97.0		29.3		8.1	134.4

11 Retirement benefit schemes continued

2011

	Britain & Ireland	USA	Canada	Australia
Discount rate	4.8%	4.3%	4.5%	4.3%
Expected return on scheme assets	6.2%	7.0%	4.4%	n/a
Expected rate of salary increase	4.8%	n/a	3.5%	n/a
Expected rate of future pension increase	3.3%	3.0%	3.2%	n/a
Inflation	3.3%	3.0%	2.3%	n/a

2010

	Britain & Ireland	USA	Canada	Australia
Discount rate	5.4%	5.4%	5.5%	5.0%
Expected return on scheme assets	6.8%	7.0%	4.7%	6.5%
Expected rate of salary increase	6.6%	n/a	3.5%	4.0%
Expected rate of future pension increase	3.5%	3.0%	2.5%	2.0%
Inflation	3.5%	3.0%	2.5%	2.5%

	Male		Female	
	2011	2010	2011	2010
Life expectancy of a 65-year-old today				
Britain & Ireland	25.7	25.3	27.0	26.8
USA	19.1	19.0	21.0	20.9
Canada	19.6	19.5	22.0	22.0
Australia	n/a	22.2	n/a	25.0
Life expectancy of a 65-year-old in 20 years				
Britain & Ireland	28.0	28.5	29.0	28.7
USA	19.1	19.0	21.0	20.9
Canada	21.1	21.0	22.8	22.8
Australia	n/a	23.4	n/a	26.2

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 2012 £m
Based on the assumptions above	177.8	5.4
Approximate impact of		
Increase in discount rate by 0.25%	(8.1)	(0.4)
Increase in inflation rate by 0.25%	7.8	0.8
Increase in life expectancy by one year at 65	5.0	0.4
Increase in return on assets by 0.25%	—	(0.4)

The history of experience gains and losses is as follows

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of defined benefit obligation	(177.8)	(171.5)	(152.4)	(120.9)	(113.8)
Fair value of scheme assets	140.6	134.4	115.2	91.4	104.6
Deficit in the schemes	(37.2)	(37.1)	(37.2)	(29.5)	(9.2)
Experience adjustments on scheme assets					
Amount of (loss)/gain	(10.1)	6.5	13.7	(27.9)	(1.2)
Percentage of scheme assets	7.2%	4.8%	11.9%	30.5%	1.1%
Experience adjustments on scheme liabilities					
Amount of gain/(loss)	0.7	(7.1)	(25.7)	7.2	5.6
Percentage of the present value of scheme liabilities	0.4%	4.1%	16.9%	6.0%	4.9%

98 Accounts Notes to the financial statements**12 Directors' remuneration details**

	2011 £000	2010 £000
Aggregate remuneration		
Emoluments	1,230	2,867
Performance-related bonus	365	1,609
Long-term incentive scheme	275	1,053
	1,870	5,529

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 vested as a consequence of Directors retiring

The amounts above include for the highest paid Director emoluments of £631,000 (2010: £598,000), performance-related bonus of £223,000 (2010: £247,000) and long-term incentive plans of £130,000 (2010: £84,000)

Retirement benefits accrue to two Directors under defined benefit schemes sponsored by Group companies, both of whom are members of a scheme that combines defined benefit and money purchase benefits. The total annual accrued pension under the defined benefit pension schemes was £51,000 (2010: £476,000) and for the highest paid Director was £47,000 (2010: £43,000). Total contributions in respect of money purchase pension benefits were £51,000 (2010: £258,000) and for the highest paid Director were £nil (2010: £nil).

13 Net losses on trading properties

	2011 £m	2010 £m
Development costs	(10.8)	(11.0)
Proceeds from sale of trading properties	20.0	33.0
Carrying value of trading properties sold	(15.1)	(29.3)
Provision for impairment of trading properties	(6.7)	(2.0)
Reversal of provision for impairment of trading properties	–	3.4
Uplift on trading properties completed and transferred to investment property	0.1	0.2
	(12.5)	(5.7)

The carrying value of trading properties sold includes £nil of capitalised interest (2010: £nil)

14 Net losses on other investments

	2011 £m	2010 £m
Loss on disposal of interests in joint ventures	(5.5)	(1.5)
Impairment of joint ventures	(2.6)	–
Gain on disposal of other fixed assets	1.0	–
	(7.1)	(1.5)

15 Net gains on revaluation and sale of investment property

	2011 £m	2010 £m
Valuation gains on investment property	267.1	256.7
Valuation losses on investment property	(6.7)	(16.0)
Valuation (losses)/gains on redevelopment properties	(0.9)	12.5
Net valuation gains on investment property	259.5	253.2
Profit on disposal of investment property	64.9	39.2
	324.4	292.4

16 Net financing costs

	2011 £m	2010 £m
Dividend income	0.1	0.4
Interest income	5.4	8.6
Other financial income	3.7	1.5
Financial income	9.1	10.1
Gross interest expense (including dividends on preference shares)	(47.2)	(41.6)
Interest capitalised	3.2	0.2
Commitment and other financing costs	(5.9)	(6.0)
Financial expenses	(49.9)	(47.4)
Fair value adjustments of interest rate swaps and foreign exchange contracts	(12.9)	0.9
Loss on property derivatives	—	(0.1)
Derivative fair value adjustments	(12.9)	0.8
Fair value adjustments of embedded derivatives	1.7	0.5
Total fair value adjustments	(11.2)	1.3
Net financing costs	(51.9)	(35.6)

The average rate of interest capitalised in the year was 7.0% (2010: 6.5%)

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.

17 Income tax expense

Recognised in the income statement

	2011 £m	2010 £m
Current tax expense		
UK corporation tax at 26.5% (2010: 28.0%)	7.7	4.6
Overseas tax	6.2	6.7
Adjustment for prior years	0.8	(9.8)
	14.7	1.5
Deferred tax expense		
Origination and reversal of temporary differences	56.7	77.2
Benefit of tax losses recognised	(0.5)	(0.4)
Adjustment for prior years	(1.8)	(0.3)
	54.4	76.5
Total income tax expenses in the income statement	69.1	78.0

100 Accounts Notes to the financial statements

17 Income tax expense continued

	2011 £m	2010 £m
Deferred tax recognised in other comprehensive income		
Revaluation of property plant and equipment	0.8	0.9
Fair value adjustments on financial instruments treated as cash flow hedges	0.4	–
Fair value adjustments on available for sale financial assets	0.7	0.1
Actuarial gains on defined benefit pension schemes	(2.7)	(0.1)
Foreign exchange movements	1.9	3.2
Total income tax recognised in other comprehensive income	1.1	4.1
Reconciliation of effective tax rate		
Profit before taxation	315.0	394.8
Less: share of profit of joint ventures	(25.0)	(103.7)
Add: profit of joint ventures where the tax charge is directly attributable to the Group	21.4	87.2
Adjusted Group profit before taxation	311.4	378.3
Tax credit on adjusted Group profit at standard UK corporation tax rate of 26.5% (2010: 28.0%)	82.5	105.9
Higher tax rates on overseas earnings	6.0	8.3
Expenses not deductible for tax purposes	5.5	6.1
Other items attracting no tax relief or liability	2.0	(22.3)
Other timing differences	2.5	2.6
Reduction in tax rate	(28.4)	(12.5)
Adjustments in respect of prior years	(1.0)	(10.1)
Total income tax expense in the income statement	69.1	78.0
Effective tax rate based on adjusted Group profit	22.2%	20.6%

FACTORS AFFECTING FUTURE TAX CHARGES

The Budget on 23 March 2011 announced that the UK corporate tax rate would decrease from 28% to 26% from 1 April 2011 (rather than 27% as previously enacted in 2010). The Finance Act 2011 enacted a further reduction to 25% from 1 April 2012.

A current tax rate of 26.5% has been applied to the year ended 31 December 2011. In the UK, a deferred tax rate of 25% has been applied to opening balances and movements in deferred tax in the year ended 31 December 2011.

Subsequent annual rate reductions will require the restatement of deferred tax balances and this is likely to reduce the effective tax rate of the Group when compared to the statutory tax rate. In 2011 the restatement of deferred tax balances has reduced the effective tax rate of the Group from 31.3% to 22.2% (2010: 23.9% to 20.6%) and the overall impact of the rate change is a reduction in the tax charge of £28.4m (2010: £12.5m).

18 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	2011 £m	2010 £m
Investment property			
– Group	19	2,729.5	2,464.9
– Share of joint ventures	22	2,429.2	2,470.3
Investment properties under development			
– Group	19	83.2	61.0
– Share of joint ventures	22	119.0	87.2
Trading properties			
– Group	26	245.2	138.7
– Share of joint ventures	22	207.0	206.8
Other financial assets*			
– Group	23	26.5	31.1
Total property assets		5,839.6	5,460.0

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

19 Investment property

	Completed property			Under development			Total £m
	Freehold £m	Leasehold £m	Total £m	Freehold £m	Leasehold £m	Total £m	
At 1 January 2010	722.1	1,553.4	2,275.5	3.6	–	3.6	2,279.1
Acquisitions	29.6	63.4	93.0	0.1	1.7	1.8	94.8
Costs capitalised	2.6	4.4	7.0	0.1	5.8	5.9	12.9
Disposals	(51.0)	(120.4)	(171.4)	–	–	–	(171.4)
Revaluation gains	17.8	220.2	238.0	–	12.5	12.5	250.5
Release of deferred costs	(1.0)	0.8	(0.2)	–	–	–	(0.2)
Depreciation of short leasehold properties	–	(0.8)	(0.8)	–	–	–	(0.8)
Transfer from/(to) redevelopment projects	0.2	(37.4)	(37.2)	(0.2)	37.4	37.2	–
Transfer to trading properties	(2.8)	–	(2.8)	–	–	–	(2.8)
Exchange movements	58.5	5.3	63.8	–	–	–	63.8
At 31 December 2010	776.0	1,688.9	2,464.9	3.6	57.4	61.0	2,525.9
Acquisitions	50.6	24.6	75.2	0.1	–	0.1	75.3
Costs capitalised	1.4	6.7	8.1	–	24.8	24.8	32.9
Disposals	(40.1)	(44.9)	(85.0)	–	–	–	(85.0)
Revaluation gains	30.8	228.4	259.2	(0.9)	–	(0.9)	258.3
Release of deferred costs	(1.6)	(0.1)	(1.7)	–	–	–	(1.7)
Transfer from/(to) redevelopment projects	1.8	–	1.8	(1.8)	–	(1.8)	–
Transfer from trading properties	1.7	–	1.7	–	–	–	1.7
Exchange movements	1.5	3.8	5.3	–	–	–	5.3
At 31 December 2011	822.1	1,907.4	2,729.5	1.0	82.2	83.2	2,812.7

Investment properties were valued at 31 December 2011 by independent external valuers on the basis of market value in accordance with generally accepted international valuation standards. Valuations were performed as follows:

			£m
Britain & Ireland	Freehold	DTZ Debenham Tie Leung, Chartered Surveyors	77.2
	Long leasehold	DTZ Debenham Tie Leung, Chartered Surveyors	1,919.4
Americas	Freehold	Cushman & Wakefield Le Page, Chartered Surveyors	252.5
	Freehold	Altus Group Research valuation and advisory	200.7
Asia Pacific	Freehold	Tanizawa SOGO Appraisal Co Ltd	24.4
	Long leasehold	Daiwa Real Estate Appraisal Co Ltd	15.8
	Long leasehold	Savills Valuation & Professional Services Limited	54.4
Indirect Investments	Freehold	Cushman & Wakefield, Chartered Surveyors	39.1
	Freehold	Jones Lang LaSalle, Chartered Surveyors	229.2
			2,812.7

The historical cost of the Group's investment properties was £1,161.1m (2010: £1,184.2m).

At 31 December 2011, investment properties with a carrying amount of £1,467.4m were pledged as security for bank loans (2010: £1,306.8m).

Included in the above are investment properties available for sale of £11.2m (2010: £9.6m).

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20 Other property, plant and equipment

2011

	Land and buildings £m	Leasehold improvements £m	Computer and IT equipment £m	Fixtures, fittings and motor vehicles £m	Total £m
Cost					
At 1 January 2011	28.9	6.8	5.5	9.0	50.2
Additions	–	0.2	2.6	0.9	3.7
Disposals	–	(0.6)	(0.4)	(0.5)	(1.5)
Revaluation gains	3.8	–	–	–	3.8
At 31 December 2011	32.7	6.4	7.7	9.4	56.2
Depreciation					
At 1 January 2011	(0.1)	(6.0)	(4.3)	(4.2)	(14.6)
Depreciation charge for the year	–	(0.3)	(0.6)	(1.4)	(2.3)
Disposals	–	0.5	0.4	0.4	1.3
At 31 December 2011	(0.1)	(5.8)	(4.5)	(5.2)	(15.6)
Carrying amount					
At 1 January 2011	28.8	0.8	1.2	4.8	35.6
At 31 December 2011	32.6	0.6	3.2	4.2	40.6

2010

	Land and buildings £m	Leasehold improvements £m	Computer and IT equipment £m	Fixtures, fittings and motor vehicles £m	Total £m
Cost					
At 1 January 2010	25.3	6.6	6.5	8.9	47.3
Additions	–	0.1	0.2	0.1	0.4
Disposals	–	–	(1.3)	(0.1)	(1.4)
Revaluation gains	3.6	–	–	–	3.6
Exchange movements	–	0.1	0.1	0.1	0.3
At 31 December 2010	28.9	6.8	5.5	9.0	50.2
Depreciation					
At 1 January 2010	(0.1)	(5.6)	(4.9)	(3.6)	(14.2)
Depreciation charge for the year	–	(0.3)	(0.7)	(0.6)	(1.6)
Disposals	–	–	1.3	0.1	1.4
Exchange movements	–	(0.1)	–	(0.1)	(0.2)
At 31 December 2010	(0.1)	(6.0)	(4.3)	(4.2)	(14.6)
Carrying amount					
At 1 January 2010	25.2	1.0	1.6	5.3	33.1
At 31 December 2010	28.8	0.8	1.2	4.8	35.6

Land and buildings are freehold and were valued at 31 December 2011 by independent valuers DTZ Debenham Tie Leung, Chartered Surveyors on the basis of 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 2011 was £13.6m (2010: £13.6m).

The carrying value of freehold land and buildings includes capitalised interest of £nil (2010: £nil).

At 31 December 2011, land and buildings with a carrying value of £nil were pledged as security for bank loans (2010: £28.3m).

21 Investments in subsidiaries

Company

	Shares at cost £m
At 1 January 2011 and 31 December 2011	1,358.4

At 31 December 2011, 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)*
 Grosvenor International Investments SARL (Luxembourg)
 Grosvenor Continental Europe Holdings SA (Luxembourg)
 Grosvenor First European Property Investments SA (Luxembourg)†
 Grosvenor Asia Pacific Limited (Hong Kong)
 Grosvenor Australia Investments Pty Limited (Australia)

FINANCING

Grosvenor Group Finance Company*
 Grosvenor UK Finance Plc

PROPERTY INVESTMENT

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

PROPERTY DEVELOPMENT

Grosvenor Developments Limited
 Liverpool PSDA Limited

FUND MANAGEMENT

Grosvenor Fund Management Limited
 Grosvenor Fund Management UK Limited
 Grosvenor International Fund Management Limited
 Grosvenor Investment Management Limited
 Grosvenor Fund Management (USA) Inc (USA)
 Grosvenor Fund Management (CE) SA (France)
 Grosvenor Fund Management Hong Kong Limited (Hong Kong)
 Grosvenor Japan Limited (Japan)
 Grosvenor Fund Management Australia Pty Limited (Australia)

*Unlimited company

**100% of preference shares are also owned

*Ordinary 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.

†77.5% 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 represent the Group's material subsidiary undertakings. A full list of all subsidiary undertakings is available on request.

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22 Investments in joint ventures

2011

	Proprietary assets – Direct			Proprietary assets – Indirect			Not allocated £m	Total £m
	Britain & Ireland £m	Americas £m	Asia Pacific £m	Managed by Grosvenor Fund Management £m	Sonae Sierra £m	Grosvenor Fund Management £m		
Share of profit from joint ventures								
Gross rental income	1 0	16 2	13 0	41 4	110 5	0 2	–	182.3
Property outgoings	(0 5)	(5 4)	(2 8)	(10 2)	(29 3)	(0 1)	–	(48.3)
Net rental income	0 5	10 8	10 2	31 2	81 2	0 1	–	134 0
Fees and other (expenses)/income	–	(1 1)	0 1	0 4	14 7	–	–	14 1
Net gain/(losses) on trading properties	6 7	(0 1)	11 6	0 9	(4 2)	–	–	14 9
Administrative expenses	–	(0 2)	(0 5)	(3 6)	(24 1)	(0 1)	(2 2)	(30.7)
Net financing costs	(1 1)	(4 4)	(2 1)	(12 6)	(21 8)	–	–	(42.0)
Revenue profit/(loss)	6 1	5 0	19 3	16.3	45 8	–	(2 2)	90 3
Net gains/(losses) on revaluation and sale of investment properties	–	12 6	19 1	(8 5)	(20 2)	–	–	3.0
Net gains on other investments	–	–	–	0 1	–	–	–	0.1
Impairment of goodwill	–	–	–	(0 4)	(40 5)	–	–	(40 9)
Derivative fair value adjustments	–	(0 2)	–	(1 5)	–	–	–	(1.7)
Profit/(loss) before tax	6 1	17 4	38 4	6 0	(14 9)	–	(2 2)	50.8
Current tax	–	–	(2 2)	(4 7)	(9 2)	–	–	(16 1)
Deferred tax	–	–	(0 4)	2 6	(1 2)	–	–	1.0
Non-controlling interest	–	–	–	(0 1)	(10 6)	–	–	(10.7)
	6 1	17 4	35 8	3 8	(35 9)	–	(2 2)	25.0
Share of assets and liabilities								
Non-current assets								
– investment properties	–	229 5	260 4	623 1	1,311 3	4 9	–	2,429.2
– investment properties under development	–	–	–	–	119 0	–	–	119.0
– other	0 1	–	–	18 9	49 1	(0 3)	–	67 8
Current assets								
– cash	5 9	3 1	20 8	32 3	64 7	0 8	–	127 6
– trading properties	147 8	9 9	25 7	23 6	–	–	–	207.0
– other	8 1	1 3	19 4	7 4	67 7	–	–	103 9
Non-current liabilities	(17 3)	(84 4)	(139 6)	(361 2)	(1 125 3)	(2 7)	–	(1,730.5)
Current liabilities	(102 1)	(4 9)	(7 8)	(40 9)	(93 2)	(0 4)	0 1	(249.2)
Net assets	42 5	154 5	178 9	303 2	393 3	2 3	0 1	1,074 8
Borrowings included in liabilities	(84 1)	(84 8)	(137 3)	(360 4)	(689 0)	(2 6)	–	(1,358.2)

Goodwill arising on the acquisition of part of the investment in Sonae Sierra has been reviewed for impairment. As a consequence of this review an impairment for the full amount of the goodwill has been recognised.

22 Investments in joint ventures continued

2010 (restated)

	Proprietary assets – Direct			Proprietary assets – Indirect				
	Britain & Ireland £m	Americas £m	Asia Pacific £m	Managed by Grosvenor Fund Management £m	Sonae Sierra £m	Grosvenor Fund Management £m	Not allocated £m	Total £m
Share of profit from joint ventures								
Gross rental income	0.3	175	4.6	47.2	99.5	0.1	–	169.2
Property outgoings	(0.3)	(6.0)	(2.0)	(10.1)	(24.2)	(0.1)	–	(42.7)
Net rental income	–	11.5	2.6	37.1	75.3	–	–	126.5
Fees and other income	–	–	–	–	18.4	0.2	–	18.6
Net gains/(losses) on trading properties	0.3	–	14.6	–	(13.0)	–	–	1.9
Administrative expenses	(0.1)	(1.6)	(0.8)	(5.5)	(23.9)	–	(5.1)	(37.0)
Net financing costs	(1.3)	(4.1)	(1.3)	(20.7)	(23.9)	–	–	(51.3)
Revenue (loss)/profit	(1.1)	5.8	15.1	10.9	32.9	0.2	(5.1)	58.7
Net gains/(losses) on revaluation and sale of investment properties	–	14.0	2.8	70.4	14.1	(0.1)	–	101.2
Net losses on other investments	0.1	–	(1.7)	(0.1)	(0.2)	–	–	(1.9)
Derivative fair value adjustments	–	0.7	–	(1.7)	–	–	–	(1.0)
Profit/(loss) before tax	(1.0)	20.5	16.2	79.5	46.8	0.1	(5.1)	157.0
Current tax	–	(0.2)	(2.2)	(0.4)	(9.6)	–	–	(12.4)
Deferred tax	–	–	(0.1)	(2.1)	(21.8)	–	–	(24.0)
Non-controlling interest	–	–	–	–	(16.9)	–	–	(16.9)
	(1.0)	20.3	13.9	77.0	(1.5)	0.1	(5.1)	103.7
Share of assets and liabilities								
Non-current assets								
– investment properties	–	195.0	235.3	637.4	1,398.2	4.4	–	2,470.3
– investment properties under development	–	–	–	–	87.2	–	–	87.2
– other	0.2	–	–	2.9	61.8	–	–	64.9
Current assets								
– cash	3.5	1.7	17.7	44.5	24.5	0.8	–	92.7
– trading properties	175.2	6.7	19.1	5.8	–	–	–	206.8
– other	2.0	1.4	18.4	8.4	70.4	0.1	–	100.7
Non-current liabilities	(117.2)	(60.1)	(109.9)	(132.0)	(1,110.4)	(2.4)	–	(1,532.0)
Current liabilities	(30.1)	(13.3)	(40.3)	(282.0)	(103.0)	(0.9)	2.3	(467.3)
Net assets	33.6	131.4	140.3	285.0	428.7	2.0	2.3	1,023.3
Goodwill	–	–	–	–	40.0	–	–	40.0
	33.6	131.4	140.3	285.0	468.7	2.0	2.3	1,063.3
Borrowings included in liabilities	(108.9)	(70.4)	(107.4)	(374.2)	(707.9)	(2.2)	–	(1,371.0)

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22 Investments in joint ventures continued

At 31 December 2011 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				
GC Bankside LLP	Property development	England and Wales	50.0%	15.7
GC Campden Hill LLP	Property development	England and Wales	50.0%	10.8
Barkhill Limited	Property development	Republic of Ireland	50.0%	6.3
The Grouss Residential Investment Partnership	Property development	Scotland	31.8%	9.5
Alpha Place Developments LLP	Property development	England and Wales	33.0%	3.9
Trumpington Meadows Land Company Ltd	Property development	England and Wales	50.0%	(3.7)
Americas				
Joint ventures with BBCAF Inc	Property investment	United States of America	50.0%/25.0%	121.1
Joint ventures with the Getty Family Trust	Property investment	United States of America	50.0%	6.2
Art Hill Management	Property investment	United States of America	48.9%	6.9
Joint ventures with Rockwood	Property investment	United States of America	33.0%	2.0
Joint ventures with Maple Leaf	Property investment	United States of America	51.0%	12.0
Joint ventures with JBC Companies	Property development	United States of America	50.0%	6.4
Asia Pacific				
Seatonmere Limited	Property investment	Hong Kong	50.0%	141.2
Paramount Shine Limited	Property development	Hong Kong	50.0%	13.2
GT3 Tokutei Mokutei Kaisyu	Property investment	Japan	50.0%	6.0
Grosvenor Park Partners	Property development	Cayman Islands	50.0%	11.9
Chengdong Investment Corporation	Property development	China	10.0%	6.6
Indirect Investments				
Grosvenor Shopping Centre Fund	Property investment	England and Wales	23.4%	51.2
Grosvenor London Office Fund	Property investment	England and Wales	24.2%	75.2
Grosvenor Festival Place Fund	Property investment	England and Wales	26.2%	29.8
Grosvenor Residential Investment Fund	Property investment	England and Wales	50.0%	19.5
Grosvenor Liverpool Fund	Property investment	England and Wales	19.6%	56.8
GEMOA Inc	Property investment	United States of America	20.0%	13.1
Shmael US Real Estate Fund	Property investment	United States of America	10.0%	1.4
Grosvenor Residential Investment Partners	Property investment	United States of America	25.0%	10.2
US Healthcare Venture	Property investment	United States of America	5.0%	1.2
Grosvenor Vega – China Retail Fund	Property investment	China	7.0%	7.6
Grosvenor Diamond Capital – Stable Residential Fund	Property investment	Japan	4.0%	1.4
Grosvenor Capital Advisors Partnership	Property investment	Japan	33.7%/18.8%	15.6
Grosvenor Office Retail Fund	Property investment	Japan	7.6%	4.9
Hassall Street Trust	Property development	Australia	50.0%	13.0
Sonae Sierra SGPS SA	Property investment and development	Portugal	50.0%	393.3

*Certain investments in joint ventures in Continental Europe are controlled by Grosvenor First European Property Investments SA (GFEPi) which is 77.5% owned by the Group. The effective interest above includes the interests of the non-controlling 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.

23 Other financial assets

	2011 £m	2010 £m
Non-current assets		
Equity shares	17.5	26.6
Finance lease receivables	6.9	6.9
Mezzanine loans	7.5	4.0
Other financial assets	5.0	5.1
	36.9	42.6
Current assets		
Mezzanine loans	3.2	0.5

Included in the above are property related financial assets of £26.5m (2010: £31.1m)

Principal financial assets at 31 December 2011

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%

Finance lease receivables

	2011 £m	2010 £m
Finance lease receivable	5.5	5.5
Unguaranteed residual value	1.4	1.4
	6.9	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	0.7	0.7	–
Between one and five years	2.8	2.8	–
More than five years	92.8	87.3	5.5
	96.3	90.8	5.5

MEZZANINE LOANS

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

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24 Intangible assets

2011

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1 January 2011	8.9	1.7	10.6
Exchange movements	(0.3)	–	(0.3)
At 31 December 2011	8.6	1.7	10.3
Amortisation/impairment			
At 1 January 2011	(4.0)	(1.7)	(5.7)
Impairment	(0.7)	–	(0.7)
Exchange movements	0.2	–	0.2
At 31 December 2011	(4.5)	(1.7)	(6.2)
Carrying amount			
At 1 January 2011	4.9	–	4.9
At 31 December 2011	4.1	–	4.1

2010

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1 January 2010	9.2	2.6	11.8
Disposals	–	(1.0)	(1.0)
Exchange movements	(0.3)	0.1	(0.2)
At 31 December 2010	8.9	1.7	10.6
Amortisation/impairment			
At 1 January 2010	(4.2)	(2.6)	(6.8)
Disposals	–	1.0	1.0
Exchange movements	0.2	(0.1)	0.1
At 31 December 2010	(4.0)	(1.7)	(5.7)
Carrying amount			
At 1 January 2010	5.0	–	5.0
At 31 December 2010	4.9	–	4.9

25 Deferred tax assets and liabilities

RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following items

	2011			2010		
	Assets £m	Liabilities £m	Net £m	Assets £m	Liabilities £m	Net £m
Investment property – contingent gains	26.9	(552.6)	(525.7)	22.3	(499.1)	(476.8)
Investment property – deferred gains	46.8	–	46.8	44.9	–	44.9
Other property plant and equipment	0.1	(11.9)	(11.8)	0.2	(12.0)	(11.8)
Other financial assets	0.4	(0.5)	(0.1)	2.6	(0.6)	2.0
Interest-bearing loans and borrowings	5.9	(0.9)	5.0	3.7	(1.2)	2.5
Employee benefits	16.0	(3.8)	12.2	15.3	(3.5)	11.8
Provisions	1.0	–	1.0	0.3	–	0.3
Other items	5.5	(6.7)	(1.2)	6.3	(5.7)	0.6
Tax value and loss carry-forwards recognised	0.8	–	0.8	8.3	–	8.3
Tax assets/(liabilities)	103.4	(576.4)	(473.0)	103.9	(522.1)	(418.2)

At 31 December 2011 no deferred tax was provided in respect of unremitted earnings of overseas 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 2011 the total of these temporary differences was £416.2m (2010: £434.9m) and the potential tax effect £25.8m (2010: £21.7m). The temporary differences at 31 December 2011 represent only the unremitted earnings of those overseas subsidiaries where remittance of those earnings would still result in a tax liability principally as a result of dividend withholding taxes levied by the overseas tax jurisdictions in which these subsidiaries operate.

Unrecognised deferred tax assets

	2011 £m	2010 £m
Tax losses	38.5	30.5

Movement in temporary differences during the year

	Balance at 1 January 2011 £m	Recognised in income £m	Recognised in equity £m	Exchange movement £m	Balance at 31 December 2011 £m
Investment property – contingent gains	(476.8)	(47.2)	(0.8)	(0.9)	(525.7)
Investment property – deferred gains	44.9	2.0	–	(0.1)	46.8
Other property plant and equipment	(11.8)	–	–	–	(11.8)
Other financial assets	2.0	(1.4)	(0.7)	–	(0.1)
Interest-bearing loans and borrowings	2.5	2.9	(0.4)	–	5.0
Employee benefits	11.8	(2.3)	2.7	–	12.2
Provisions	0.3	0.7	–	–	1.0
Other items	0.6	(1.7)	–	(0.1)	(1.2)
Tax value and loss carry-forwards recognised	8.3	(7.4)	–	(0.1)	0.8
	(418.2)	(54.4)	0.8	(1.2)	(473.0)

26 Trading properties

	2011 £m	2010 £m
At 1 January	138.7	142.3
Additions	119.0	21.8
Capitalised interest	1.6	–
Disposals	(15.1)	(29.3)
Provision for impairment	(6.7)	(2.0)
Reversal of provision for impairment	–	3.4
Transfer (to)/from investment properties	(1.7)	2.8
Transfer from joint ventures	11.4	–
Exchange movements	(2.0)	(0.3)
At 31 December	245.2	138.7

At 31 December 2011 trading properties with a carrying amount of £51.6m were pledged as security for bank loans (2010: £51.2m).

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27 Trade and other receivables

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Trade receivables	20.8	16.7	—	—
Receivables due from subsidiaries	—	—	174.4	200.3
Receivables due from joint ventures	67.8	70.2	—	—
Other receivables	61.3	56.7	—	—
Prepayments	4.3	9.4	—	—
Accrued income	4.3	3.9	—	—
	158.5	156.9	174.4	200.3

Included in the above are receivables due after more than one year totalling £0.1m (2010: £0.2m)

28 Cash and cash equivalents

	2011 £m	2010 £m
Bank balances	69.4	114.8
Cash deposits	168.1	154.6
Cash and cash equivalents	237.5	269.4
Bank overdrafts	(0.1)	(0.1)
Cash and cash equivalents in the statement of cash flows	237.4	269.3

The amount of cash and cash equivalents not available for use by the Group totals £26.5m (2010: £32.1m) of which £1.2m (2010: £20.5m) has been pledged as collateral

29 Interest-bearing loans and borrowings

	2011 £m	2010 £m
Non-current liabilities		
Secured bank loans	314.5	263.4
Unsecured bank loans	50.1	62.9
Secured bond issues	202.1	202.2
Unsecured bond issues	177.5	52.6
Finance lease liabilities	1.4	1.4
Loan from non-controlling interests in subsidiaries	1.4	0.9
Preference shares	29.8	30.4
	776.8	613.8
Current liabilities		
Current portion of secured bank loans	26.5	63.7
Current portion of unsecured bank loans	—	59.8
Current portion of currency swaps	2.1	1.3
	28.6	124.8

The bank loans and secured bonds are secured over investment properties with a carrying value of £1,467.4m (2010: £1,306.8m) land and buildings with a carrying value of £nil (2010: £28.3m) and trading properties with a carrying value of £51.6m (2010: £51.2m). Included in secured bond issues is £2.2m (2010: £2.4m) 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

	2011			2010		
	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	72.7	71.3	1.4	73.1	71.7	1.4
	74.2	72.8	1.4	74.6	73.2	1.4

30 Financial instruments

CAPITAL RISK MANAGEMENT

The capital structure of the Group comprises debt which includes the borrowings disclosed in Note 29, cash and cash equivalents disclosed in Note 28 and equity comprising issued share capital, reserves and retained earnings as disclosed in Notes 36 and 37

The Group manages its capital to optimise the allocation of equity between the Operating Companies and Indirect Investments and to enable them to meet their short medium and long-term targets. Internal gearing and interest cover limits are set for the Group and each Operating Company. Group gearing at the year end is 19.9% (2010: 17.7%).

Categories of financial instruments and their fair values

2011

	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	–	–	17.5	–	17.5	17.5
Finance lease receivable	6.9	–	–	–	6.9	9.4
Mezzanine loan investments	9.0	1.7	–	–	10.7	10.7
Other financial assets	–	–	5.0	–	5.0	5.0
Trade and other receivables	67.8	–	–	82.1	149.9	149.9
Income tax receivable	–	–	–	12.0	12.0	12.0
Cash and cash equivalents	–	–	–	237.5	237.5	237.5
Total financial assets	83.7	1.7	22.5	331.6	439.5	442.0
				Financial liabilities at amortised cost £m	Total carrying amount £m	Fair value £m
Financial liabilities:						
Overdraft				(0.1)	(0.1)	(0.1)
Fixed rate loans						
Sterling secured mortgage 2034				(50.0)	(50.0)	(80.8)
Sterling secured bond 2026				(202.1)	(202.1)	(233.0)
Sterling unsecured bond 2031				(92.9)	(92.9)	(84.6)
Sterling unsecured bond 2041				(30.0)	(30.0)	(27.4)
Sterling unsecured bond 2019				(52.5)	(52.5)	(65.5)
Sterling fixed rate				(2.7)	(2.7)	(2.7)
US Dollars				(49.1)	(49.1)	(52.9)
Canadian Dollars				(38.3)	(38.3)	(43.0)
Total fixed rate loans				(517.6)	(517.6)	(589.9)
Floating rate loans						
Sterling				(5.4)	(5.4)	(5.4)
US Dollars				(87.9)	(87.9)	(87.9)
Canadian Dollars				(2.4)	(2.4)	(2.4)
Hong Kong Dollars				(6.5)	(6.5)	(6.5)
Japanese Yen				(13.2)	(13.2)	(13.2)
Euros				(65.4)	(65.4)	(65.4)
Australian Dollars				(63.3)	(63.3)	(63.3)
Total floating rate loans				(244.1)	(244.1)	(244.1)
Finance lease liabilities				(1.4)	(1.4)	(1.4)
Loans from non-controlling interests in subsidiaries				(1.4)	(1.4)	(1.4)
Preference shares				(29.8)	(29.8)	(29.8)
Income tax payable				(15.7)	(15.7)	(15.7)
Trade and other payables				(79.1)	(79.1)	(79.1)
Total financial liabilities				(889.2)	(889.2)	(961.5)

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30 Financial instruments continued

2011

	Held for trading £m	Total carrying amount £m	Fair value £m
Derivatives			
Interest rate swaps			
US Dollars	(7.1)	(7.1)	(7.1)
Japanese Yen	(0.1)	(0.1)	(0.1)
Euros	(0.6)	(0.6)	(0.6)
Australian Dollars	(1.2)	(1.2)	(1.2)
Total interest rate swaps	(9.0)	(9.0)	(9.0)
Currency swaps			
US Dollars	(2.2)	(2.2)	(2.2)
Hong Kong Dollars	(0.5)	(0.5)	(0.5)
Japanese Yen	(1.0)	(1.0)	(1.0)
Chinese Renminbi/US Dollars	(1.9)	(1.9)	(1.9)
Euros	4.1	4.1	4.1
Australian Dollars	(0.6)	(0.6)	(0.6)
Total currency swaps	(2.1)	(2.1)	(2.1)
Total derivatives	(11.1)	(11.1)	(11.1)

Currency swaps are against Sterling unless stated otherwise

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

	2011			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Available-for-sale financial assets				
Equity shares	4.6	12.9	—	17.5
Other	5.0	—	—	5.0
Financial assets held for trading				
Mezzanine loan investments	—	—	1.7	1.7
Derivatives	—	4.1	—	4.1
Total financial assets	9.6	17.0	1.7	28.3
Financial liabilities held for trading				
Derivatives	—	(15.2)	—	(15.2)
Total financial liabilities	—	(15.2)	—	(15.2)

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

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

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

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

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

30 Financial instruments continued

2010

	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	–	–	26.6	–	26.6	26.6
Finance lease receivable	6.9	–	–	–	6.9	9.7
Mezzanine loan investments	4.0	0.5	–	–	4.5	4.5
Other financial assets	–	–	5.1	–	5.1	5.1
Trade and other receivables	70.2	–	–	73.4	143.6	143.6
Income tax receivable	–	–	–	36.1	36.1	36.1
Cash and cash equivalents	–	–	–	269.4	269.4	269.4
Total financial assets	81.1	0.5	31.7	378.9	492.2	495.0

	Financial liabilities at amortised cost £m	Total carrying amount £m	Fair value £m
Financial liabilities:			
Overdraft	(0.1)	(0.1)	(0.1)
Fixed rate loans			
Sterling secured mortgage 2034	(50.0)	(50.0)	(65.7)
Sterling secured bond 2026	(202.2)	(202.2)	(188.5)
Sterling unsecured bond 2019	(52.5)	(52.5)	(55.5)
Sterling fixed rate	(0.7)	(0.7)	(0.7)
US Dollars	(32.4)	(32.4)	(34.0)
Canadian Dollars	(39.8)	(39.8)	(41.9)
Total fixed rate loans	(377.6)	(377.6)	(386.3)
Floating rate loans			
Sterling	(59.0)	(59.0)	(59.0)
US Dollars	(92.4)	(92.4)	(92.4)
Canadian Dollars	(1.9)	(1.9)	(1.9)
Hong Kong Dollars	(18.1)	(18.1)	(18.1)
Japanese Yen	(12.3)	(12.3)	(12.3)
Euros	(69.4)	(69.4)	(69.4)
Australian Dollars	(55.9)	(55.9)	(55.9)
Total floating rate loans	(309.0)	(309.0)	(309.0)
Finance lease liabilities	(1.4)	(1.4)	(1.4)
Loans from non-controlling interests in subsidiaries	(0.9)	(0.9)	(0.9)
Preference shares	(30.4)	(30.4)	(30.4)
Income tax payable	(12.4)	(12.4)	(12.4)
Trade and other payables	(65.0)	(65.0)	(65.0)
Total financial liabilities	(796.8)	(796.8)	(805.5)

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30 Financial instruments continued

2010

	Held for trading £m	Total carrying amount £m	Fair value £m
Derivatives			
Interest rate swaps			
US Dollars	(3.8)	(3.8)	(3.8)
Japanese Yen	(0.1)	(0.1)	(0.1)
Chinese Renminbi	(1.9)	(1.9)	(1.9)
Euros	(1.0)	(1.0)	(1.0)
Australian Dollars	0.2	0.2	0.2
Total interest rate swaps	(6.6)	(6.6)	(6.6)
Currency swaps			
US Dollars	(2.4)	(2.4)	(2.4)
Hong Kong Dollars	(0.8)	(0.8)	(0.8)
Japanese Yen	(5.0)	(5.0)	(5.0)
Chinese Renminbi/US Dollars	(4.3)	(4.3)	(4.3)
Euros	(0.2)	(0.2)	(0.2)
Total currency swaps	(12.7)	(12.7)	(12.7)
Total derivatives	(19.3)	(19.3)	(19.3)

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

	2010			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available-for-sale financial assets				
Equity shares	6.2	20.4	–	26.6
Other	5.1	–	–	5.1
Financial assets held for trading				
Mezzanine loan investments	–	–	0.5	0.5
Derivatives	–	0.2	–	0.2
Total financial assets	11.3	20.6	0.5	32.4
Financial liabilities held for trading				
Derivatives	–	(19.5)	–	(19.5)
Total financial liabilities	–	(19.5)	–	(19.5)

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

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

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

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 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.

30 Financial instruments continued

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.

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

2011

	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	—	—	—	—	—	17.5	17.5
Finance lease receivables	13.3	—	—	—	6.9	—	6.9
Mezzanine loan investments	9.2	—	1.5	7.5	—	1.7	10.7
Other financial assets	8.1	5.0	—	—	—	—	5.0
Trade and other receivables	4.3	36.7	28.6	—	—	84.6	149.9
Income tax receivable	—	—	—	—	—	12.0	12.0
Cash and cash equivalents	1.1	196.0	38.0	—	—	3.5	237.5
Total financial assets		237.7	68.1	7.5	6.9	119.3	439.5
Financial liabilities							
Bank overdrafts	0.6	(0.1)	—	—	—	—	(0.1)
Fixed rate loans							
Sterling secured mortgage 2034	10.4	—	—	—	(50.0)	—	(50.0)
Sterling secured bond 2026	6.5	—	—	—	(202.1)	—	(202.1)
Sterling unsecured bond 2041	6.1	—	—	—	(30.0)	—	(30.0)
Sterling unsecured bond 2031	5.6	—	—	—	(92.9)	—	(92.9)
Sterling unsecured bond 2019	8.4	—	—	—	(52.5)	—	(52.5)
Sterling fixed rate	6.0	—	—	(2.7)	—	—	(2.7)
US Dollars	9.3	—	(0.5)	(31.6)	(17.0)	—	(49.1)
Canadian Dollars	6.1	—	(1.0)	(14.4)	(22.9)	—	(38.3)
Total fixed rate loans		—	(1.5)	(48.7)	(467.4)	—	(517.6)
Floating rate loans fixed through interest rate swaps							
US Dollars	2.8	—	0.2	(54.6)	(6.2)	—	(60.6)
Japanese Yen	3.1	—	(13.3)	—	—	—	(13.3)
Euro	2.1	—	—	(19.9)	—	—	(19.9)
Australian Dollars	5.8	—	—	(64.5)	—	—	(64.5)
Total floating rate loans fixed through interest rate swaps		—	(13.1)	(139.0)	(6.2)	—	(158.3)
Floating rate loans							
Sterling floating rate	3.2	(5.4)	—	—	—	—	(5.4)
US Dollars floating rate	3.1	(34.4)	—	—	—	—	(34.4)
Canadian Dollars floating rate	4.0	(2.4)	—	—	—	—	(2.4)
Hong Kong Dollars floating rate	2.1	(6.5)	—	—	—	—	(6.5)
Euro floating rate	3.6	(46.1)	—	—	—	—	(46.1)
Total floating rate loans		(94.8)	—	—	—	—	(94.8)
Currency swaps	—	—	—	—	—	(2.1)	(2.1)
Finance lease liabilities	12.7	—	—	—	(1.4)	—	(1.4)
Loans from non-controlling interests in subsidiaries	6.0	—	—	(0.8)	(0.6)	—	(1.4)
Preference Shares	1.5	(29.8)	—	—	—	—	(29.8)
Income tax payable	—	—	—	—	—	(15.7)	(15.7)
Trade and other payables	—	—	—	—	—	(79.1)	(79.1)
Total financial liabilities		(124.7)	(14.6)	(188.5)	(475.6)	(96.9)	(900.3)

The total average cost of debt for the year ended 31 December 2011 was 6.0% (2010: 5.5%).

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30 Financial instruments continued

2010

	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	—	—	—	—	—	26.6	26.6
Finance lease receivables	12.6	—	—	—	6.9	—	6.9
Mezzanine loan investments	9.0	—	—	4.0	—	0.5	4.5
Other financial assets	6.3	5.1	—	—	—	—	5.1
Trade and other receivables	4.4	33.7	12.8	—	18.1	79.0	143.6
Income tax receivable	—	—	—	—	—	36.1	36.1
Cash and cash equivalents	1.2	237.3	29.2	—	—	2.9	269.4
Total financial assets		276.1	42.0	4.0	25.0	145.1	492.2
Financial liabilities							
Bank overdrafts	0.5	(0.1)	—	—	—	—	(0.1)
Fixed rate loans							
Sterling secured mortgage 2034	10.4	—	—	—	(50.0)	—	(50.0)
Sterling secured bond 2026	6.5	—	—	—	(202.2)	—	(202.2)
Sterling unsecured bond 2019	8.4	—	—	—	(52.5)	—	(52.5)
Sterling fixed rate	6.0	—	—	(0.7)	—	—	(0.7)
US Dollars	5.6	—	(0.5)	(1.6)	(30.3)	—	(32.4)
Canadian Dollars	6.1	—	(0.9)	(10.1)	(28.8)	—	(39.8)
Total fixed rate loans		—	(1.4)	(12.4)	(363.8)	—	(377.6)
Floating rate loans fixed through interest rate swaps							
US Dollars	6.1	—	(5.7)	0.3	(51.4)	—	(56.8)
Japanese Yen	3.1	—	—	(12.4)	—	—	(12.4)
Chinese Renminbi	3.3	—	—	(1.9)	—	—	(1.9)
Euros	3.4	—	—	(40.3)	—	—	(40.3)
Australian Dollars	5.8	—	(20.0)	(20.0)	(10.2)	—	(50.2)
Total floating rate loans fixed through interest rate swaps		—	(25.7)	(74.3)	(61.6)	—	(161.6)
Floating rate loans							
Sterling	0.9	(59.0)	—	—	—	—	(59.0)
US Dollars	2.9	(39.4)	—	—	—	—	(39.4)
Canadian Dollars	4.0	(1.9)	—	—	—	—	(1.9)
Hong Kong Dollars	1.4	(18.1)	—	—	—	—	(18.1)
Euros	1.5	(30.1)	—	—	—	—	(30.1)
Australian Dollars	4.8	(5.5)	—	—	—	—	(5.5)
Total floating rate loans		(154.0)	—	—	—	—	(154.0)
Currency swaps	—	—	—	—	—	(12.7)	(12.7)
Finance lease liabilities	—	—	—	—	(1.4)	—	(1.4)
Loans from non-controlling interest in subsidiaries	6.0	—	—	—	(0.9)	—	(0.9)
Preference shares	1.7	(30.4)	—	—	—	—	(30.4)
Income tax payable	—	—	—	—	—	(12.4)	(12.4)
Trade and other payables	—	—	—	—	—	(65.0)	(65.0)
Total financial liabilities		(184.5)	(27.1)	(86.7)	(427.7)	(90.1)	(816.1)

30 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:

	2011 £m	2010 £m
Increase/(decrease) in results for the year – interest charge	0.7	0.2
– mark to market of interest rate swaps	2.5	2.1
– tax charge	(0.9)	(0.6)
Total increase in profit and equity	2.3	1.7

Similarly, if interest rates had been 0.5% lower, then Group profit and equity would have increased by £2.3m (2010: £1.7m). The Group's sensitivity to interest rates has decreased during the year mainly due to lower levels of cash deposits.

As part of the Group's interest rate risk management, interest rate swaps exchanging floating for fixed interest with a notional principal of £287.9m (2010: £336.2m) and a fair value liability of £14.4m (2010: £13.9m) were designated for cashflow hedge accounting at 31 December 2011. These hedges were highly effective during the year.

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 23. 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 £1.8m (2010: increase/decrease by £2.7m) 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 and in money market funds with credit ratings at or above a specified level. Limits are set to restrict the total amount of funds that can be deposited with any single counterparty.

At the year end deposits were invested as follows:

Standard & Poor's credit rating of institution

	Total deposits at 31 December	
	2011 £m	2010 £m
AAA	52.1	50.8
AA+	–	–
AA	0.5	97.6
AA-	109.2	67.2
A+	32.3	25.6
A	5.8	23.2
A-	37.6	4.5
Other	–	0.5
	237.5	269.4

118 Accounts Notes to the financial statements**30 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 continuing credit evaluation seeks to ensure any receivables are provided for as required. Trade receivables are small relative to turnover and therefore do not present a significant risk to the Group. Trade receivables at the year end totalled £20.8m of which £3.0m was outstanding at 1 March 2012.

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. In the majority of loans Grosvenor receives a second charge on the development property and 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.

At 31 December 2011, the Group had the following drawn and undrawn committed borrowing facilities available:

	Drawn facilities		Undrawn facilities	
	2011 £m	2010 £m	2011 £m	2010 £m
Expiring in less than one year	22.2	62.9	92.4	108.7
Expiring from one to two years	116.7	49.3	197.7	84.6
Expiring from two to five years	185.5	256.6	386.2	403.9
Expiring after more than five years	476.2	354.9	51.3	—
Total	800.6	723.7	727.6	597.2

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

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

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

2011

	Fixed rate loans £m	Floating rate loans £m	Finance lease liabilities £m	Loans from non-controlling interests £m	Other £m	Total £m
Due within one year	34.7	31.0	0.3	—	75.9	141.9
From one to two years	34.7	111.1	0.3	—	18.9	165.0
From two to three years	42.0	18.8	0.3	—	—	61.1
From three to four years	73.9	102.9	0.3	—	—	177.1
From four to five years	32.1	13.4	0.3	0.8	—	46.6
After five years	822.3	6.0	72.7	0.6	—	901.6
	1,039.7	283.2	74.2	1.4	94.8	1,493.3

2010

	Fixed rate loans £m	Floating rate loans £m	Finance lease liabilities £m	Loans from non-controlling interests £m	Other £m	Total £m
Due within one year	26.9	52.3	0.3	—	77.0	156.5
From one to two years	26.9	40.5	0.3	—	0.4	68.1
From two to three years	26.9	142.6	0.3	—	—	169.8
From three to four years	34.5	15.3	0.3	—	—	50.1
From four to five years	63.9	69.6	0.3	—	—	133.8
After five years	582.1	5.5	73.1	0.9	—	661.6
	761.2	325.8	74.6	0.9	77.4	1,239.9

30 Financial instruments continued

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

	2011		2010	
	Payable £m	Receivable £m	Payable £m	Receivable £m
Due within one year	(7.5)	3.3	(6.0)	3.3
From one to two years	(6.0)	2.4	(4.9)	2.6
From two to three years	(5.0)	2.2	(3.4)	2.5
From three to four years	(4.4)	2.3	(2.4)	2.3
From four to five years	(3.3)	1.8	(1.1)	1.1
After five years	(10.2)	7.4	—	—
	(36.4)	19.4	(17.8)	11.8

31 Trade and other payables

	Group	
	2011 £m	2010 £m
Current liabilities		
Trade payables	13.3	15.1
Payables due to joint ventures	0.2	—
Other payables	46.7	49.5
Accrued expenses	58.7	54.4
Deferred income	4.4	4.1
	123.3	123.1
Non-current liabilities		
Payables due to joint ventures	18.8	—
Other payables	0.1	0.4
Deferred income	185.4	164.6
	204.3	165.0

Deferred income includes £187.3m in respect of deferred lease premium profits (2010: £166.6m)

32 Provisions

Development loss provision

	2011 £m	2010 £m
At 1 January	3.5	10.6
Recognised in the year	—	1.1
Utilised in the year	(0.1)	(8.2)
At 31 December	3.4	3.5

120 Accounts Notes to the financial statements**33 Operating lease commitments****LEASES AS LESSEE**

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

	2011 £m	2010 £m
Land and buildings	5.0	5.4

Non-cancellable operating lease rentals are payable as follows

	2011 £m	2010 £m
Less than one year	6.1	6.1
Between one and five years	10.6	11.1
More than five years	1.1	1.4
	17.8	18.6

LEASES AS LESSOR

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

	2011 £m	2010 £m
Less than one year	105.6	114.9
Between one and five years	241.1	347.2
More than five years	1,335.4	1,138.9
	1,682.1	1,601.0

34 Capital commitments

	2011 £m	2010 £m
Investment properties contracted but not provided	83.4	42.2
Development properties contracted but not provided	120.3	160.9
	203.7	203.1

Included in the above is Grosvenor's share of joint venture and associate capital commitments of £58.3m (2010: £138.4m)

35 Contingent liabilities

In connection with the demerger of Wheatheaf Investments Limited (formerly Deva Group Limited) in 1999 the Company has provided guarantees up to a maximum of £8.8m (2010: £13.2m)

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

36 Share capital

	2011		2010	
	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	45.5	45,479,016	45.5
A Preference Shares of £1	5,684,877	5.7	5,684,877	5.7
B Preference Shares of £1	82,089,624	82.1	108,012,663	108.0
	138,938,394	139.0	164,861,433	164.9

RIGHTS OF CLASSES OF SHARES

Profits determined by the Directors as available for distribution are to be applied first in paying a fixed non-cumulative dividend of 12% per annum on the amounts paid up on the A Preference Shares, secondly in paying a floating coupon on the amounts paid up or deemed paid up on the C Preference Shares. The balance of profits available for distribution are 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 B Preference Shares are not entitled to a distribution of profits. No C Preference Shares have been issued.

On a return of the Company's assets to Shareholders the assets are to be applied first in repaying to the holders of the A Preference Shares the amounts paid up on their shares, secondly repaying to the holders of the B Preference Shares the amounts paid up on their shares and thirdly repaying the holders of the C Preference Shares the amounts paid up or deemed paid up on their shares. The balance of the assets is payable to the holders of the ordinary shares and non-voting ordinary shares in proportion to the amounts paid up on their shares up to an amount of £10bn. Thereafter the balance of assets is payable to the holders of the B Preference Shares, C Preference Shares, ordinary shares and non-voting ordinary shares in proportion to the amounts paid up on their shares.

Holders of the B 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.

37 Reconciliation of share capital and reserves

(a) Group

	Share capital £m	Share premium £m	Translation reserve £m	Other reserve £m	Fair value reserve £m	Revaluation reserve £m	Retained earnings £m	Total £m	Non-controlling interest £m	Total equity £m
At 1 January 2010	278.5	28.3	316.0	(12.1)	(15.4)	7.0	1,784.5	2,386.8	156.5	2,543.3
Profit for the year	—	—	—	—	—	—	311.7	311.7	5.1	316.8
Revaluation movement	—	—	—	—	—	3.6	—	3.6	—	3.6
Fair value adjustments	—	—	—	2.3	1.5	—	—	3.8	(0.5)	3.3
Deferred tax	—	—	—	—	(0.1)	(0.9)	(3.1)	(4.1)	—	(4.1)
Pension actuarial losses	—	—	—	—	—	—	(0.6)	(0.6)	—	(0.6)
Dividends	—	—	—	—	—	—	(11.6)	(11.6)	(0.9)	(12.5)
Non-controlling shares issued by subsidiaries	—	—	—	—	—	—	—	—	2.4	2.4
Non-controlling shares acquired by subsidiaries	—	—	—	—	—	—	—	—	(32.4)	(32.4)
Transfer between reserves	—	—	0.7	0.1	—	—	2.6	3.4	(3.4)	—
Redemption of Preference Shares	(113.6)	—	—	113.6	—	—	(113.6)	(113.6)	—	(113.6)
Exchange	—	—	69.9	—	—	—	—	69.9	(0.2)	69.7
At 31 December 2010	164.9	28.3	386.6	103.9	(14.0)	9.7	1,969.9	2,649.3	126.6	2,775.9
Profit for the year	—	—	—	—	—	—	250.8	250.8	(4.9)	245.9
Revaluation movement	—	—	—	—	—	3.8	—	3.8	—	3.8
Fair value adjustments	—	—	—	(0.3)	(3.7)	—	—	(4.0)	(0.2)	(4.2)
Deferred tax	—	—	—	(0.4)	(0.7)	(0.8)	0.8	(1.1)	—	(1.1)
Pension actuarial losses	—	—	—	—	—	—	(12.4)	(12.4)	—	(12.4)
Dividends	—	—	—	—	—	—	—	—	(6.2)	(6.2)
Non-controlling shares issued by subsidiaries	—	—	—	—	—	—	—	—	0.3	0.3
Non-controlling shares acquired by subsidiaries	—	—	—	—	—	—	—	—	(1.6)	(1.6)
Redemption of Preference Shares	(25.9)	—	—	25.9	—	—	(25.9)	(25.9)	—	(25.9)
Exchange	—	—	(0.7)	—	—	—	—	(0.7)	(5.0)	(5.7)
Other movements in joint ventures	—	—	—	—	—	—	(4.5)	(4.5)	(1.2)	(5.7)
At 31 December 2011	139.0	28.3	385.9	129.1	(18.4)	12.7	2,178.7	2,855.3	107.8	2,963.1

Other reserves comprise net interest rate hedging losses of £14.4m and capital redemption reserve of £143.5m.

122 Accounts Notes to the financial statements

37 Reconciliation of share capital and reserves continued

(b) Company

	Share capital £m	Share premium £m	Merger capital reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 January 2010	278.5	28.3	1,047.0	4.0	305.0	1,662.8
Retained profit for the year	—	—	—	—	21.1	21.1
Dividends to Shareholders	—	—	—	—	(11.6)	(11.6)
Redemption of Preference Shares	(113.6)	—	—	113.6	(113.6)	(113.6)
At 31 December 2010	164.9	28.3	1,047.0	117.6	200.9	1,558.7
Redemption of Preference Shares	(25.9)	—	—	25.9	(25.9)	(25.9)
At 31 December 2011	139.0	28.3	1,047.0	143.5	175.0	1,532.8

38 Notes to the consolidated statement of cash flows

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

	2011 £m	2010 £m
Operating activities		
Profit from operations including share of profit from joint ventures	366.9	430.4
Adjustments for		
Depreciation	2.3	2.4
Amortisation of capitalised lease incentives	1.4	2.4
Amortisation of deferred lease premiums	(2.6)	(1.9)
Recognition of income from operating lease incentives	0.3	(2.2)
Net losses on other investments	7.1	1.5
Net gains on revaluation and sale of investment property	(324.4)	(292.4)
Share of profit of joint ventures	(25.0)	(103.7)
Impairment of goodwill	0.7	—
Foreign exchange	3.0	—
Uplift on trading properties completed and transferred to investment property	(0.1)	(0.2)
Operating profit before changes in working capital and provisions	29.6	36.3

(b) Analysis of net debt

	1 January 2011 £m	Cash flow £m	Other non-cash movements £m	Exchange movements £m	31 December 2011 £m
Cash at bank and in hand	114.8	(44.4)	—	(1.0)	69.4
Short-term deposits and short-term liquid investments	154.6	10.8	—	2.7	168.1
Bank overdraft	(0.1)	—	—	—	(0.1)
Cash and cash equivalents	269.3	(33.6)	—	1.7	237.4
Borrowings due within one year	(124.8)	99.6	(3.2)	(0.2)	(28.6)
Borrowings due after more than one year	(613.8)	(175.3)	11.8	0.5	(776.8)
Total borrowings	(738.6)	(75.7)	8.6	0.3	(805.4)
Net debt	(469.3)	(109.3)	8.6	2.0	568.0

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

39 Related party transactions

Grosvenor Group Limited is wholly owned by Trusts and members of the Grosvenor Family headed by the 6th Duke of Westminster. During 2011 the Group entered into the following transactions with the Grosvenor Trusts and members of the Grosvenor Family

	2011 £m	2010 £m
Rent and service charge income	0.3	0.1
Rent and service charge expenses	(1.0)	(0.9)
Development management fees	0.8	0.6
Management and administration fees	14.8	13.0

During 2011 the Group entered into the following transactions with other related parties

	2011 £m	2010 £m
Development and asset management fees received from joint ventures	28.2	34.2
Other fees received from joint ventures	2.9	2.2
Other fees paid to joint ventures	(0.3)	–
Insurance premiums payable to a related company	(4.8)	(5.4)

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

	2011 £m	2010 £m
Grosvenor Trusts	–	(0.1)
Amounts due from joint ventures	69.9	71.0
Amounts due to joint ventures	(1.4)	(0.9)
Amounts due to a related company	(19.1)	(5.5)

As explained in Note 35 the Company has provided guarantees up to a maximum of £8.8m to WheatSheaf Investments Limited, which is owned by the Grosvenor Trusts

Total compensation paid to key management personnel during the year was £7.1m (2010: £5.9m) including short-term benefits of £3.9m (2010: £4.5m) post employment benefits of £0.2m (2010: £0.3m) long-term employee benefits of £1.4m (2010: £1.1m) and compensation for loss of office of £1.6m (2010: £nil)

124 Accounts Consolidated income statement presented in US Dollars**Consolidated income statement presented in US Dollars**

for the year ended 31 December 2011

	2011 US\$m	2010 US\$m
Total revenue	311.6	332.2
Gross rental income	202.6	177.6
Property outgoings	(63.9)	(63.6)
Net rental income	138.7	114.0
Other income	65.0	83.5
Administrative expenses	(143.4)	(133.4)
Net losses on trading properties	(20.0)	(8.8)
Net losses on other investments	(11.3)	(2.3)
Net gains on revaluation and sale of investment property	517.9	452.4
Impairment of goodwill	(1.1)	–
Share of profit of joint ventures	40.0	160.4
Gain from operations including share of joint ventures	585.8	665.8
Dividend income	0.2	0.6
Financial income	14.5	15.6
Financial expenses	(79.7)	(73.3)
Fair value adjustments	(17.9)	2.0
Net financing costs	(82.9)	(55.1)
Profit before tax	502.9	610.7
Current tax expense	(23.5)	(2.3)
Deferred tax expense	(86.8)	(118.4)
Profit for the year	392.6	490.0
Attributable to:		
Equity holders of the parent	400.4	482.2
Non-controlling interest	(7.8)	7.8
Profit for the year	392.6	490.0

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

Consolidated balance sheet presented in US Dollars

as at 31 December 2011

	Group	
	2011 US\$m	2010 US\$m
ASSETS		
Non-current assets		
Investment property	4,371.2	3,954.8
Other property, plant and equipment	63.1	55.7
Investments in joint ventures	1,670.3	1,664.8
Other financial assets	57.3	66.7
Intangible assets	6.4	7.7
Deferred tax assets	160.7	162.7
Total non-current assets	6,329.0	5,912.4
Current assets		
Trading properties	381.1	217.2
Trade and other receivables	246.4	245.7
Other financial assets	5.0	0.8
Income tax receivable	18.6	56.5
Cash and cash equivalents	369.1	421.8
Total current assets	1,020.2	942.0
TOTAL ASSETS	7,349.2	6,854.4
LIABILITIES		
Non-current liabilities		
Interest-bearing loans and borrowings	(1,207.2)	(961.0)
Trade and other payables	(317.5)	(258.4)
Employee benefits	(57.8)	(58.1)
Deferred tax liabilities	(895.8)	(817.5)
Total non-current liabilities	(2,478.3)	(2,095.0)
Current liabilities		
Overdrafts	(0.2)	(0.2)
Interest-bearing loans and borrowings	(44.4)	(195.4)
Trade and other payables	(191.6)	(192.7)
Income tax payable	(24.4)	(19.4)
Provisions	(5.3)	(5.5)
Total current liabilities	(265.9)	(413.2)
TOTAL LIABILITIES	(2,744.2)	(2,508.2)
NET ASSETS	4,605.0	4,346.2
Equity		
Issued capital	216.0	258.2
Share premium	44.0	44.3
Reserves	791.5	761.2
Retained earnings	3,386.0	3,084.3
Shareholders' funds	4,437.5	4,148.0
Non-controlling interest	167.5	198.2
TOTAL EQUITY	4,605.0	4,346.2

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 2011

	2011 €m	2010 €m
Total revenue	224.8	249.4
Gross rental income	146.2	133.3
Property outgoings	(46.1)	(47.7)
Net rental income	100.1	85.6
Other income	46.9	62.7
Administrative expenses	(103.4)	(100.1)
Net losses on trading properties	(14.4)	(6.6)
Net losses on other investments	(8.2)	(1.7)
Net gains on revaluation and sale of investment property	373.6	339.6
Impairment of goodwill	(0.8)	–
Share of profit of joint ventures	28.8	120.4
Gain from operations including share of joint ventures	422.6	499.9
Dividend income	0.1	0.5
Financial income	10.5	11.7
Financial expenses	(57.5)	(55.1)
Fair value adjustments	(12.9)	1.5
Net financing costs	(59.8)	(41.4)
Profit before tax	362.8	458.5
Current tax expense	(16.9)	(1.7)
Deferred tax expense	(62.7)	(88.8)
Profit for the year	283.2	368.0
Attributable to		
Equity holders of the parent	288.8	362.1
Non-controlling interest	(5.6)	5.9
Profit for the year	283.2	368.0

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

Consolidated balance sheet presented in Euros

as at 31 December 2011

	Group	
	2011 €m	2010 €m
ASSETS		
Non-current assets		
Investment property	3,367.4	2 948 0
Other property plant and equipment	48 6	41 5
Investments in joint ventures	1,286.8	1 241 0
Other financial assets	44.2	49 7
Intangible assets	4.9	5 7
Deferred tax assets	123 8	121 3
Total non-current assets	4,875 7	4 407 2
Current assets		
Trading properties	293.6	161 9
Trade and other receivables	189 7	183 1
Other financial assets	3 8	0 6
Income tax receivable	14.4	42 1
Cash and cash equivalents	284 3	314 4
Total current assets	785 8	702 1
TOTAL ASSETS	5,661.5	5 109 3
LIABILITIES		
Non-current liabilities		
Interest-bearing loans and borrowings	(930.0)	(716 4)
Trade and other payables	(244.6)	(192 6)
Employee benefits	(44.5)	(43 3)
Deferred tax liabilities	(690 1)	(609 3)
Total non-current liabilities	(1,909 2)	(1 561 6)
Current liabilities		
Overdrafts	(0 1)	(0 1)
Interest-bearing loans and borrowings	(34 2)	(145 7)
Trade and other payables	(147 6)	(143 6)
Income tax payable	(18 9)	(14 5)
Provisions	(4 1)	(4 1)
Total current liabilities	(204 9)	(308 0)
TOTAL LIABILITIES	(2,114.1)	(1 869 6)
NET ASSETS	3,547 4	3 239 7
Equity		
Issued capital	166 4	192 5
Share premium	33 9	33 0
Reserves	609 8	567 4
Retained earnings	2,608 2	2 299 1
Shareholders' funds	3,418.3	3,092 0
Non-controlling interest	129.1	147 7
TOTAL EQUITY	3,547 4	3,239 7

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

128 Accounts Five-year summary

Five-year summary

Income statement

	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m
Net rental and other income	107.1	105.3	122.5	127.7	127.6
Administrative expenses	(81.5)	(82.7)	(84.5)	(86.2)	(89.8)
Net losses on trading properties	(35.4)	(106.6)	(1.4)	(5.7)	(12.5)
Net gains/(losses) on other investments	12.6	(12.0)	(12.8)	(1.5)	(7.1)
Net gains/(losses) on revaluation and sale of investment properties	413.9	(267.7)	(87.6)	292.4	324.4
Impairment of goodwill	—	—	—	—	(0.7)
Share of profit/(loss) from joint ventures	120.0	(209.7)	(134.4)	103.7	25.0
Profit/(loss) before net financing costs and tax	536.7	(573.4)	(198.2)	430.4	366.9
Net financing costs	(12.7)	(20.5)	(37.6)	(35.6)	(51.9)
Profit/(loss) before tax	524.0	(593.9)	(235.8)	394.8	315.0

Balance sheet

	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m
Total property assets including share of joint ventures	5,963.3	6,172.8	5,221.9	5,460.0	5,839.6
Investment property	2,921.6	2,785.8	2,279.1	2,525.9	2,812.7
Investment in joint ventures	1,156.0	1,093.3	859.6	1,063.3	1,074.8
Other financial assets	55.4	46.6	38.7	42.6	36.9
Other non-current assets	124.6	133.8	133.4	144.4	148.1
	4,257.6	4,059.5	3,310.8	3,776.2	4,072.5
Trading properties	147.1	164.2	142.3	138.7	245.2
Cash and cash equivalents	323.6	91.5	505.2	269.4	237.5
Other net current (liabilities)/assets	(28.7)	57.7	(22.3)	54.5	31.3
	442.0	313.4	625.2	462.6	514.0
Borrowings (including current)	(671.4)	(785.9)	(775.4)	(738.7)	(805.5)
Deferred tax	(604.4)	(519.3)	(431.5)	(522.1)	(576.4)
Other non-current liabilities	(360.3)	(231.2)	(185.8)	(202.1)	(241.5)
	(1,636.1)	(1,536.4)	(1,392.7)	(1,462.9)	(1,623.4)
Net assets	3,063.5	2,836.5	2,543.3	2,775.9	2,963.1
Share capital and share premium	229.9	229.9	306.8	193.2	167.3
Reserves	2,658.5	2,420.4	2,080.0	2,456.1	2,688.0
	2,888.4	2,650.3	2,386.8	2,649.3	2,855.3
Non-controlling interest	175.1	186.2	156.5	126.6	107.8
Total equity	3,063.5	2,836.5	2,543.3	2,775.9	2,963.1

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Glossary

Area All figures given are for the gross area	Ground-rented Property where the freeholder grants a long lease to the tenant usually in exchange for an up-front premium (for the major part of the value) and a lower ground rent payment for the duration of the lease	Pre-let A lease signed with a tenant prior to the completion of a development.
Assets under management The total investment in property assets managed by the Group including the future costs of committed developments.	Group Grosvenor Group Limited and its subsidiary undertakings	Property assets Investments in property and property-related instruments – comprises investment properties, development properties, trading properties, mezzanine loans and equity investments in property companies
Co-investment Where Grosvenor invests equity in joint venture or fund vehicles alongside third-parties	Head lease The lease for an investment property under which the Group is a lessee	Property derivative Financial instruments whose price is derived by reference to a property returns index.
Condominium A form of real property where a specified part of real estate (usually a multi-family property) is individually owned while use of and access to common facilities are controlled by an association of owners.	Holding Company Grosvenor Group Limited	Proportional The total of the Group's wholly-owned and its share of jointly-owned property assets or net debt
Core* A fund which is considered to be a low-risk fund that invests in stabilised income-producing assets.	IFRS International Financial Reporting Standard(s)	Proprietary Relating to Grosvenor's share of investments in property assets. Proprietary assets are direct or indirect. See structure diagram on page 3.
Core plus* A fund that invests in a core-style asset but adopts a more aggressive management style	Indirect investments Proprietary investments managed by Grosvenor Fund Management or third party managers.	Rack-rented Referring to property that is rented out at full market rent
Currency Financial information is presented in Sterling, with the exception of the Proprietary assets – direct reports on pages 20–71 where it is presented in the principal currency of the respective Operating Company	Interest rate swap A contractual agreement with a counterparty (usually a bank) to exchange an interest obligation for an alternative interest obligation for a predetermined period of time (usually used to convert floating rate interest obligation to fixed rate obligations)	Resilience The extent to which market values of property assets, on a proportional basis can fall before Group financial covenants are breached
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.	Investment property A property that is held for the purposes of earning rental income or for capital appreciation or both	Revenue profit Profit before tax excluding profits on the sale of investment properties, gains or losses on other non-current investments, revaluation movements, major refurbishment costs and derivative fair value adjustments. See also Note 4 to the financial statements
Development pipeline The development programme including proposed projects that are not yet committed but are likely to proceed	Joint venture An entity in which the Group invests and which it jointly controls with the other investors	Reversionary yield The anticipated yield to which running yield will rise (or fall) once the rent reaches ERV* calculated as ERV as a percentage of the value of investment properties
Development property A property that is being developed for future use as an investment property	London estate Grosvenor's portfolio of office retail and residential properties in the Mayfair and Belgravia areas of London's West End	Running yield Passing rent as a percentage of the value of investment properties.
Economic property interest Grosvenor's equity interest in properties (or debt) after deducting the share attributable to minority investors.	Mark to market adjustment An accounting adjustment to adjust the book value of an asset or liability to its market value	Separate account client A private real estate portfolio managed by Grosvenor Fund Management on behalf of a third-party
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	Market value Market value is the amount for which an interest in an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. For investment properties it is determined by independent external valuers	Third-party The non-Grosvenor share of investments managed by Grosvenor
Finance lease A lease that transfers substantially all the risks and rewards of ownership from the lessor to the lessee	Mezzanine lending Lending to property developers that is subordinated to senior lending in return for a profit share in the completed development	Total return Total return on property assets is revenue profit before financial expenses but after major refurbishments, plus the net gain on revaluation and sale of investment properties and other investments and including fair value adjustments and exchange movements recognised in reserves, as a percentage of average property assets (before current year revaluations) and cash. Joint ventures and associates are treated proportionally for the purposes of this calculation.
Financial capacity Wholly-owned unrestricted cash and undrawn committed facilities.	Occupancy rate Occupancy rates given in the Review section are the average occupancy by floor area for the relevant year	Trading property Property held as a current asset in the balance sheet that is being developed with a view to subsequent resale
Funds under management The total value of properties managed by Grosvenor	Operating Companies Grosvenor's regional investment and development businesses and Grosvenor Fund Management	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
Future development commitment The expected costs to complete the development programme to which we are committed	Passing rent The annual rental income receivable which may be more or less than the ERV	
Gearing Total short- and long-term borrowings including bank overdrafts less cash and cash deposits as a percentage of Shareholders' funds.	Performance fees Fees that are payable in the event that the performance of the underlying investment exceeds a predetermined benchmark.	
Gross rental income Total income from rents of the Group's properties.		
Grosvenor-managed A property or other investment that is managed by the Group		

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