

Living

cities

**Annual Report
and Accounts 2012**

Living cities

www.grosvenor.com

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GROSVENOR
Company Number 3219943

Our heritage

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 that 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.

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.

1820s

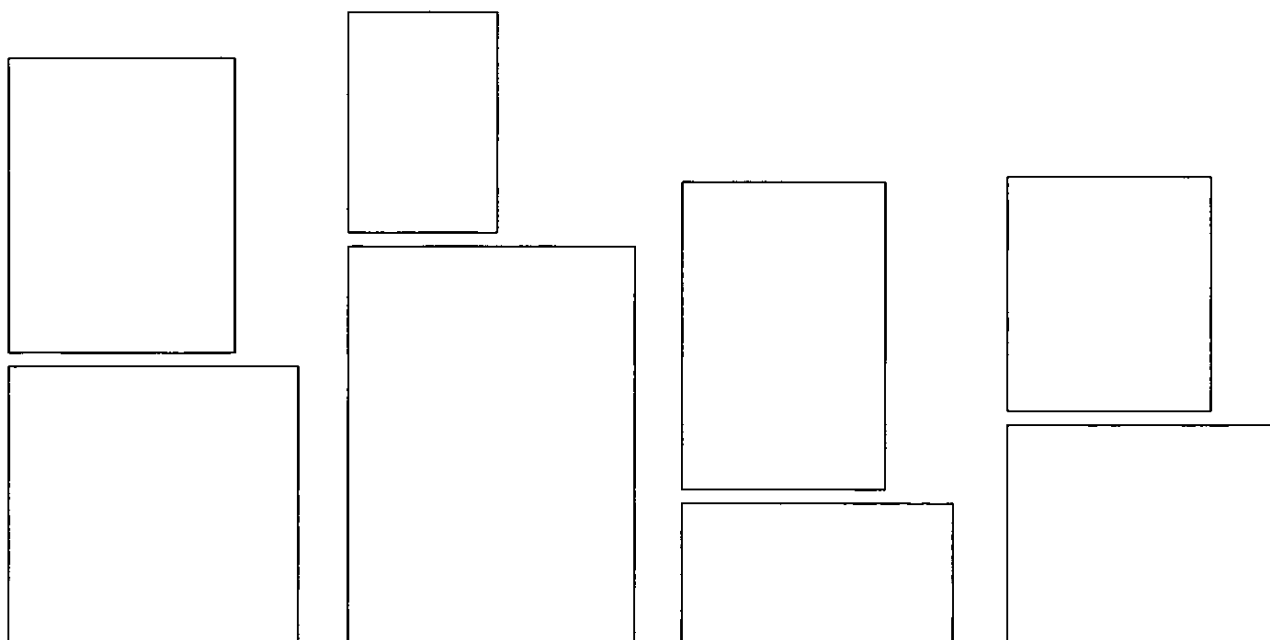
Belgravia, London

'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.

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. Our 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 us gradually into fund management.



Front cover
Rue de la République
Lyon, France
*Jean François Martin

Back cover
Motcomb Street Jubilee Party
Belgravia London, UK
Image courtesy of Fenton Solicitors

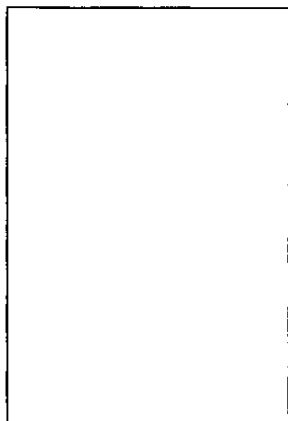
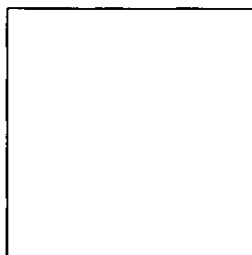
Frequently asked questions about Grosvenor

2000

Corporate structure

Grosvenor's corporate governance has evolved with the maturing of the Group. In April 2000, we adopted a corporate structure as a Group of regional businesses and published our first full Annual Report and Accounts. In 2005 our international fund management business was formalised as a discrete entity. In 2012, we brought all our indirect investments in property together, creating the present tripartite structure of direct proprietary activities, indirect proprietary activities, and fund management. Today, we have 19 offices in 12 countries and assets in a total of 17 countries.

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

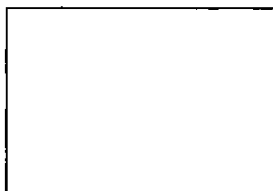


2013

Ownership

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

Further information on the Grosvenor family and the rest of the Grosvenor Estate is available at www.grosvenorestate.com



Q&A

Frequently Asked Questions (see also the Glossary on the back cover flap)

Q What is the difference between 'The Grosvenor Estate', 'Grosvenor Group Limited', and 'Grosvenor's London estate'?

'The Grosvenor Estate' is the term used to represent all the interests of the Grosvenor family headed by the Sixth Duke of Westminster. There are three principal elements to these activities: Grosvenor Group, WheatSheaf Group and The Family Investment Office. Further information can be found at www.grosvenorestate.com

'Grosvenor Group Limited', the subject of this Annual Report and Accounts, is the urban property group, which is the largest business in the portfolio of The Grosvenor Estate.

'Grosvenor's London estate' is the land in Mayfair and Belgravia managed, and in part owned, by Grosvenor Group Limited.

Q Grosvenor is not a listed company and is not required to produce a full Annual Report and Accounts of this sort, so why do it?

We have been sharing financial information with our partners for many decades, in line with our belief in a straightforward, transparent approach to business relationships.

We believe that the right question is not "Why disclose?" but "Why not disclose?" So, in April 1999, we introduced our first formal Annual Report and Accounts and it has continued to evolve ever since. In April 2011 we published our first Environment Review, which is also an annual publication. Both are available online at www.grosvenor.com

Q What do you mean by 'Living cities'?

'Living cities' is our strapline – a shorthand for conveying what the Grosvenor name stands for in the context of urban property.

'Living cities' has a dual meaning. It suggests successful urban environments – places which are healthy, full of vitality, sustainable, such as those which Grosvenor hopes to help create. It also suggests our approach – that we aim to live, eat and breathe cities, having our fingers on their pulse. These two meanings guide what we do and how we do it.

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The Grosvenor story

Interactive PDFs

Annual Report and Accounts 2012
and Environment Review 2012
[www.grosvenor.com/About+Grosvenor/
Report+and+Accounts.htm](http://www.grosvenor.com/About+Grosvenor/Report+and+Accounts.htm)

Living

cities

Grosvenor has been involved in the evolution of one particular city – London – since first acquiring 300 acres of land, in what is now Mayfair and Belgravia, in 1677. Over the last 60 years, we have also owned or managed assets in cities around the globe; our current portfolio covers more than 70 urban centres.

In our decision-making about real estate, we draw on our long institutional memory of what makes for success or failure in urban environments, as well as on the know-how of property specialists currently in businesses around the Group. We use this knowledge to create value for ourselves and for the investors who entrust us with their capital.

Creating value is not only about profitability; it can also be about legacy. Financial success allows us, and our investor partners, to fund activities whose social, environmental and other benefits may only become evident over the long term.

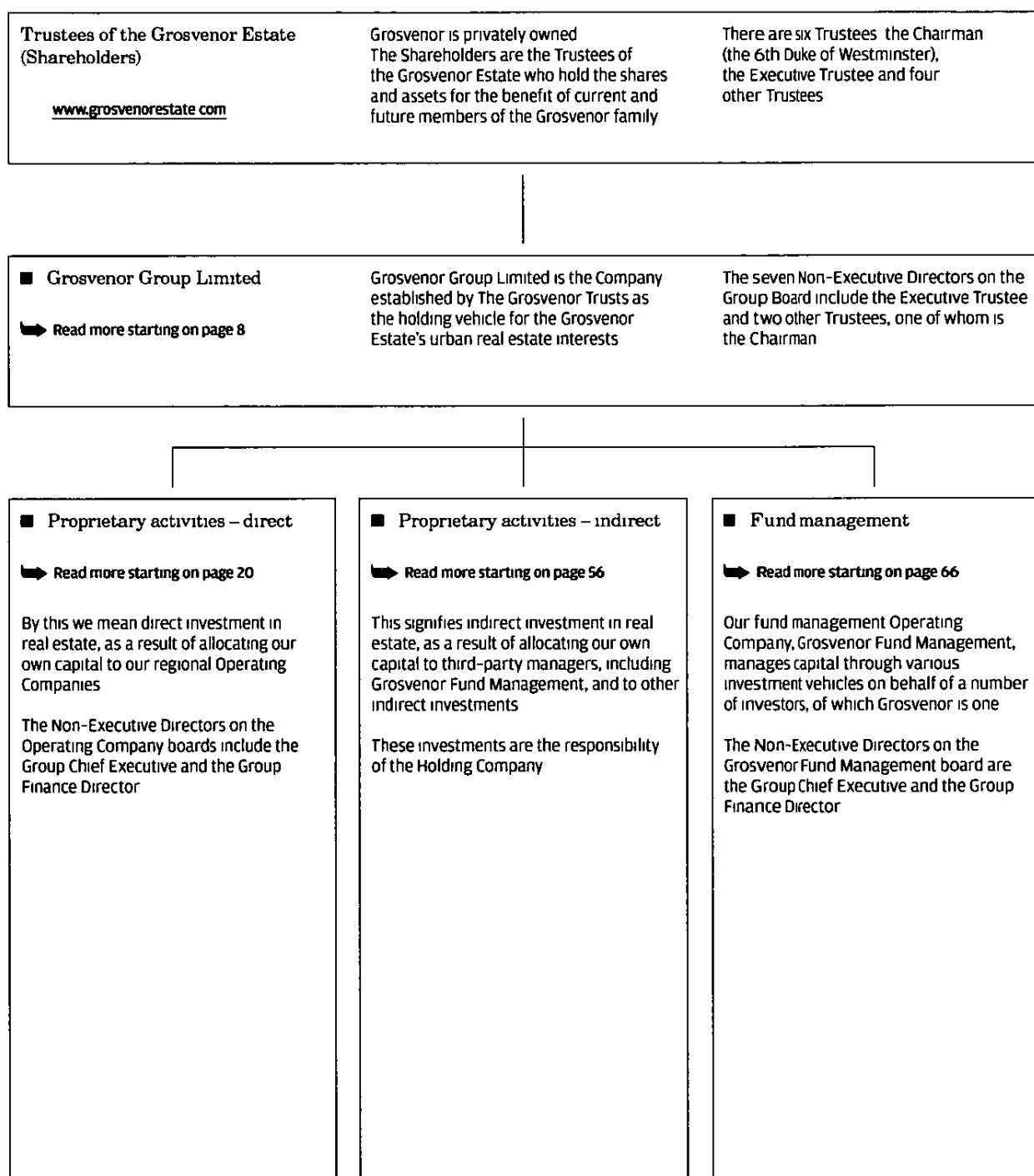
At Grosvenor, we are always trying to improve our understanding of cities and to pinpoint the factors that make them successful.

We use this understanding to determine the allocation of our capital, bearing in mind the financial and business objectives of the Group.

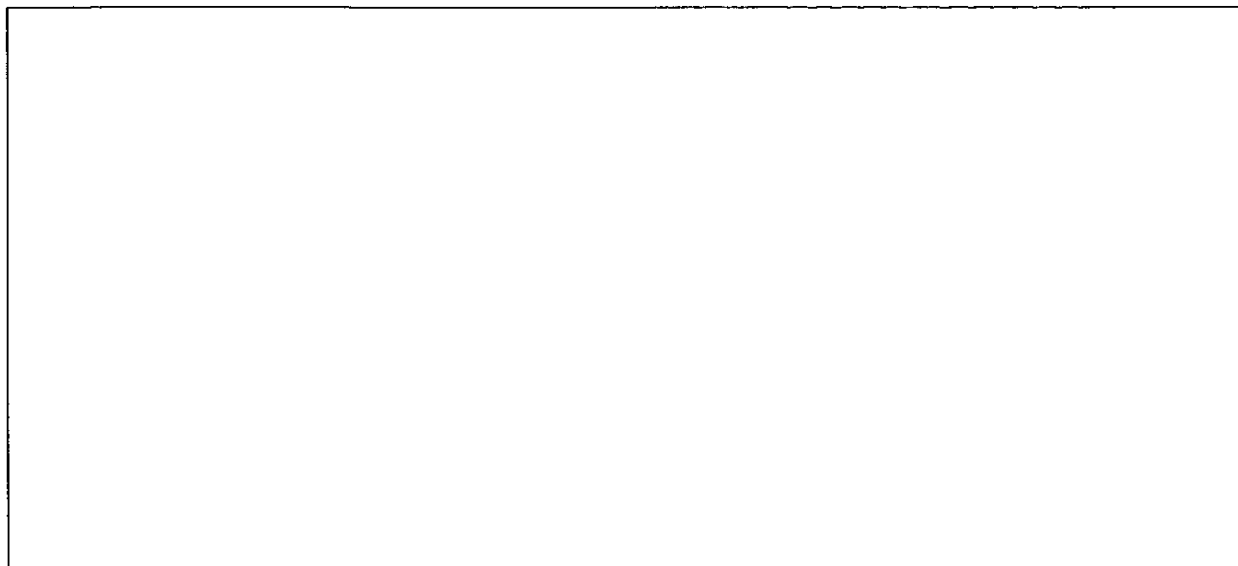
We draw on our history as well as our creativity to find better ways of fostering vitality – and enduring real estate value – in the cities of today and of the future. We want to ensure that our contribution includes architecture, streetscapes and public spaces that future generations will value – places in which people can live happily, work productively and enjoy their leisure time.

In this Annual Report we showcase some of the places with which Grosvenor is associated around the world. We hope you will recognise them as having the qualities we seek to capture with our strapline: ‘Living cities’.

Group structure



Why is a devolved management structure right for Grosvenor? Mark Preston and Andrew Bibby give their views.



The Group Chief Executive's perspective Mark Preston

There are two reasons, one general and one specific to the property sector

All organisations have to decide who is accountable for what and to whom, and all benefit from clarity about the devolution of authority. Our governance structure is straightforward: the Trustees of the Grosvenor Estate delegate responsibility for certain areas of activity to the Group, which is accountable accordingly, and the Group does the same with its Operating Companies, who are likewise accountable to it.

Grosvenor's focus is urban property and we believe that decisions about real estate are best made on the ground, by local people who know their markets – not by a head office in London or indeed anywhere else. So we aim to let our Operating Companies get on with the job of making property investment, development and asset management decisions in line with the strategies they have agreed with us. At Group level we concentrate on allocating our capital between them and our indirect investments portfolio, in line with Group strategy, and on providing any shared services that are best run from the centre.

We are careful to nurture a common understanding of our values, our approach to business and the importance of relationships in achieving our objectives.

An Operating Company Chief Executive's perspective Andrew Bibby, Grosvenor Americas

Devolution is about empowering the right people. The Group's delegation of decision-making authority to the Operating Companies, within explicit documented boundaries, is liberating but it also creates a real sense of responsibility on the ground. On most matters, we are our own masters, where we are not, we know precisely where our authority begins and ends.

We have the freedom, within agreed parameters, to make decisions at the local level, which in the world of property – and I include property fund management – is where it counts. This means immersing ourselves in urban planning issues, city governance, socio-economic development, demographics, culture and markets – and talking with clients and partners to identify and respond to challenges and opportunities.

Our governance structure gives us the best of both worlds: we have our areas of independence, but we also belong to something bigger. Each Operating Company has its own character, but we have a lot in common: we share the same values, we all have the benefit of the Group's 300-year history in property, we can all draw on a very practical understanding of how cities work acquired through the generations, and we can share insights from around the Group. That combination is powerful. It gives us credibility in the outside world and it is really important to our staff.

Group financial highlights

Group		
Shareholders' funds	Revenue profit	Total returns (including currency movement)
£3.1bn	£87.4m	7.2%
2011 £2.9bn	2011 £80.8m	2011 9.0%
<p>Why we measure To report the total value of the Shareholders' investment in the Group</p> <p>Comment Shareholders' funds have continued to rise and now stand at their highest ever level</p>	<p>Why we measure To identify underlying performance, excluding market movements</p> <p>Comment Revenue profit has increased for the fourth successive year. Profit before tax was £354.4m (2011: £315.0m)</p>	<p>Why we measure To show how our property portfolio has performed, including both income and capital returns</p> <p>Comment A strong performance in each of our proprietary operating companies was balanced by challenging conditions in indirect investments.</p>

By Operating Company

Group operational highlights

See Glossary on back cover flap for definitions

www.grosvenor.com

The environment highlights are taken from the Grosvenor Environment Review 2012 which can be downloaded from our website

Group		
Assets under management £12.2bn 2011 £12.5bn Why we measure To monitor the scale of the portfolio of property assets that the Group's management teams are responsible for Comment Increased assets under management in the proprietary Operating Companies were offset by a reduction within Grosvenor Fund Management	Property assets £5.8bn 2011 £5.8bn Why we measure To quantify the Group's financial investment in property assets Comment Property assets have remained stable with valuation gains being offset by currency movements arising from the relative strengthening of Sterling	Development exposure 16.7% 2011 15.7% Why we measure To indicate the level of development activity expressed as a proportion of total property commitments Comment We continued to increase our development activity to take advantage of new opportunities
Occupancy 95.1% 2011 95.0% Why we measure To help us increase revenue/profit, maximising occupancy in our buildings is a key driver Comment Despite challenging letting markets, our occupancy levels continued to rise	Carbon emissions Like-for-like tons of carbon dioxide emitted (tCO ₂ e) 39,592 tCO₂e 2011 40,789 tCO ₂ e Why we measure To monitor our carbon footprint so we can identify ways to improve our environmental performance Comment We have reduced carbon emissions across the directly managed portfolio through improved energy efficiency	Water consumption Like-for-like portfolio (m ³) 647,287m³ 2011 680,931m ³ Why we measure To assess our water consumption so we can identify ways to improve our environmental performance Comment We have reduced water consumption across our directly-managed portfolio through measures such as using low-flow sanitary ware and improving conservation in landscaped areas

Group strategy

Our 'Big Six' priorities

1 Optimising capital planning

We will allocate our Shareholders' capital in three ways: first, to each of the 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 2012

- Allocate additional capital to Asia
- Emphasise importance of the China market
- Maintain a cautious stance with respect to financing and financial capacity

What we did in 2012

- Increased capital allocation to Asia by £20m
- Made our first investment in Beijing, a Grade A office building in Chaoyang
- Increased financial capacity to £865m (2011: £855m)

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 sustainable income in each Operating Company grows year-on-year.

What we said we would do in 2012

- Increase revenue profit further
- Make further acquisitions
- Implement our indirect investment strategy

What we did in 2012

- Increased revenue profit by 8.2% to £87.4m (2011: £80.8m)
- Acquired assets in Canada, China, England, Hong Kong, Japan and the USA
- Completed two new third-party managed investments: 10 Investment LLP and High Street Realty Fund IV

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 2012

- Continue reinvestment in our London estate
- Make further improvements to the public realm
- Grow income from new rental properties on the London estate

What we did in 2012

- Reinvested £94.6m in the London estate
- Improved the public realm around North Audley Street and 50 Grosvenor Hill and began work at Brown Hart Gardens
- Successfully launched new residential apartments in Mayfair including Carlos Place and Green Street

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.

What we said we would do in 2012

- Build on the momentum in Grosvenor Fund management
- Focus on creating value for our clients
- Win new mandates

What we did in 2012

- Launched an office in Stockholm and combined our UK and Continental European operations into one
- Created HREI, a joint venture for real estate investment in Greater China
- Won major mandates in Sweden and France

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 2012

- Enhance the skills of our people
- Promote from within wherever possible
- Invest in career development

What we did in 2012

- Developed a core curriculum for skills training for managers in Grosvenor Britain & Ireland
- Appointed two of the individuals who attended the Grosvenor senior leadership course in 2010 to senior leadership positions
- Hosted a debate for our young business leaders with two other property organisations

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.

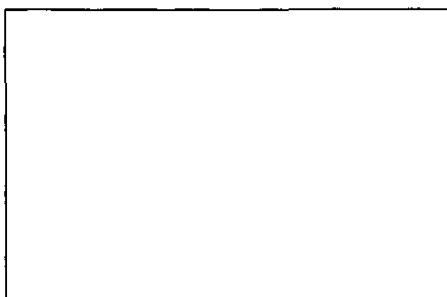
What we said we would do in 2012

- Improve further the quality and coverage of our environmental data
- Develop wider sustainability vision and integrate into Operating Company strategic plans
- Research macro-economic trends which make cities vulnerable

What we did in 2012

- Increased like-for-like portfolio coverage for carbon by 150% and estimated only 5%, mainly for December 2012's energy invoices
- Held workshops throughout the Group and developed a sustainability vision reflected in all 2013 strategic plans
- Reported on the vulnerability of 30 cities to climate change, scarce resources and three other themes

Chairman's statement

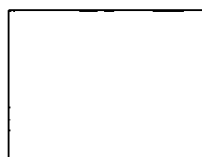
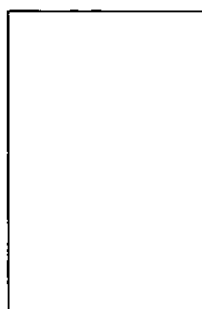
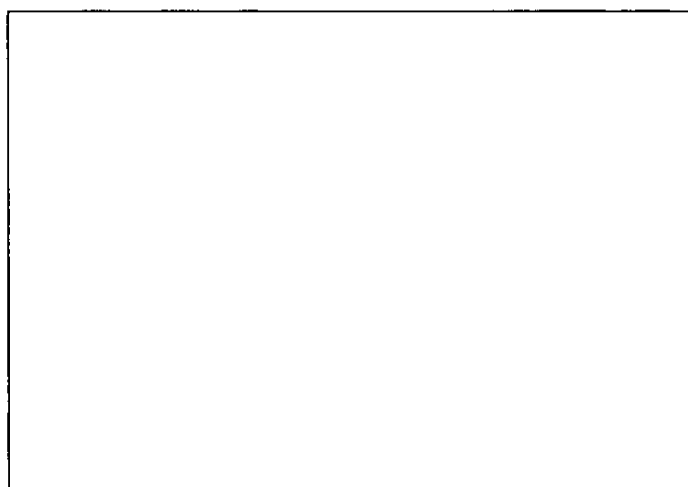


Lesley Knox
Group Chairman

Lesley has been Chairman of the Group since 2011 and Trustee of the Grosvenor Estate for seven years

What are the Group's main objectives?

"We set business and financial objectives. These are to develop an internationally diversified group invested in urban property and to deliver financial results which meet certain requirements. We also require the Group to protect and enhance Grosvenor's reputation – in particular for social responsibility, but also for long-term trustworthiness."



Grosvenor photography competition
Lesley Knox launched an internal competition to find the best photograph of a landmark which conveys the personality – the sense of place – of a vibrant city. We show here the 'Living cities' images that took the first, second and third prizes: Putney Bridge, London, by Caroline Pringle; New York City cab, by Albert Bitici; and Pottinger Street, Central Hong Kong, by Sally Yu. Judging was by Bostock and Pollitt, designers of this Report.

Good progress in 2012

In 2012 we made good progress relative to our business and financial objectives, despite the challenges of global and national markets.

As Mark Preston's report makes clear, we continue to address these objectives through the Group's strategy and its 'Big Six' priorities. Highlights included our joint venture for fund management in Asia, which will open up new opportunities in China, and the significant development projects now underway or planned in the USA, Canada and Japan as well as on the London estate, which remains remarkably resilient to economic weakness in the UK. The theme for this year's Report is more obviously illustrative of our focus on 'Living cities' than in previous years, but we feel this is timely. 'Living cities' encapsulates our aspiration for urban places and our own approach to them, and encompasses our desire to tackle environmental concerns together with wider sustainability.

The Group's performance has held up well against the many pressures of 2012. We increased Shareholders' funds to £3.1bn, grew revenue profit to £87.4m and delivered total returns of 7.2% which were consistent with the upper end of our expectations. We would be fortunate to maintain this through 2013 even allowing for some signs of global economic recovery.

Governance matters

Our Board, with seven Non-Executive Directors and two Executive Directors, continues to provide invaluable insight on key business issues as well as the 'sixth sense' of senior practitioners with complementary expertise. Rod Kent, who retires in June, has challenged views at Grosvenor productively for 12 years, his trenchant comments keeping us alert, we are indebted to him. For the first nine years, Rod also chaired the Grosvenor Britain & Ireland board, bringing to it incisive, careful stewardship. Owen Thomas, who joined the Board in 2011, will resign on 31 March 2013 as a consequence of his appointment as Chief Executive of Boston Properties, Inc., a US REIT, in April.

we thank him for his significant contribution during his short tenure and wish him well in his new role. Jeffrey Weingarten, who joins the Board in September, will bring with him experience gained during his investment management career in the UK and the USA and his knowledge of Grosvenor Fund Management.

The same is true of the boards of our Operating Companies, whose Chairmen are appointed by the Group Board. In Grosvenor Asia Pacific we have benefited from Tim Freshwater's guidance since the birth of our Asian Operating Company; he has been hugely supportive of Grosvenor's growth strategy in Asia and his extensive knowledge of business in the region has been invaluable. Keith Kerr succeeds him in July, following a long career in Asia concluding as Chairman and Chief Executive of Swire Properties Ltd.

Grosvenor in the community

Both we and the public increasingly expect standards of behaviour over and above statutory and regulatory requirements.

This document is more explicit than before about our desire to manage our property portfolios in line with our values. We expect and intend to be part of the communities we operate in for the long term and it follows that we expect to 'pull our weight' as employers, owners and managers of the built environment, good citizens and supporters of charitable causes. The Board takes seriously the task of holding the Group to account in these areas, to ensure that we continue to live up to our responsibilities.

Lesley Knox
Group Chairman
14 March 2013

Chief Executive's review

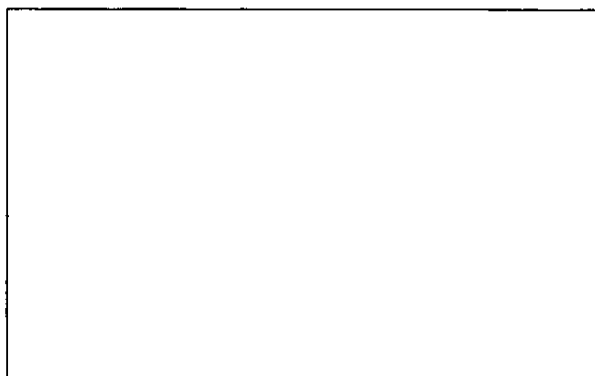


Mark Preston
Group Chief Executive

Mark has held positions in all parts of the Group over the last 23 years. He became Group Chief Executive in 2008.

How does the Group seek to achieve its main objectives?

“We allocate capital carefully between our three distinct areas of business, which each create value and manage risk in complementary ways, and which all share a commitment to our people and to helping create ‘Living cities’. The Group invests directly in property via its regional Operating Companies, indirectly via a centrally-managed team and it manages third-party capital via its international fund management business.”



Multi-family focus in the USA
Grosvenor Americas continues to invest in and develop multi-family housing as a key part of its strategy. Chelsea at Juanita Village (pictured left) in Kirkland, Washington, is one such investment in an apartment community with 196 units in a village setting with a selection of restaurants, shops and water views.

Surviving the global financial crisis

Last year I suggested that 2012 would continue to frustrate our search for clarity on the global economic outlook. The cloud of financial, economic and social pressures remains with us and continues to challenge our businesses.

This environment has nevertheless played to Grosvenor's strengths, as the Group's continuing resilience – not least our financial capacity at year end – makes clear. We consider the Group's results to be at the top end of our expectations, with total returns of 7.2% and revenue profit of £87.4m.

Notable successes include, in the UK, a combination of strong returns from our London estate and the fruits of its investment in transformational change; in the Americas, the progress of development projects contributing to stable results; and in Asia Pacific, successful sales of completed residential developments. Our indirect investments portfolio saw mixed results but diversification balanced lows in Continental Europe with highs in Australia and Brazil. Our fund management business saw a loss, largely the consequence of continued investment in growing the business and also planned sales of assets.

How our markets fared

Our prognosis for international real estate markets is crucial to our decision-making. This year's Annual Report includes

commentaries on the trends in each part of the Group which underlie their respective business strategies.

Some themes emerge, notably the impact of e-commerce on global retail markets, the strength of investor demand for 'prime' assets – especially in the residential market in London's West End, the growing trend towards urban renaissance in truly global cities, rapid urbanisation in Asia, and investors' disinclination to commit to illiquid structures anywhere.

We watch such trends closely, guided by our in-house economists and by insights from our professional advisers and the 16 external Non-Executive Directors around the Group.

Sticking to the Group's objectives

How did Grosvenor respond to the external challenges? We stuck to our long-term strategy and made progress in each of our businesses. We maintained our prudent stance with regard to financing and cashflow headroom. We continued to invest in people and infrastructure for the long term while making some efficiency gains by overhauling processes and organisational structures in both the UK and fund management businesses.

The Group's business and financial objectives are to develop an internationally diversified group invested in urban property, deliver financial results which meet our Shareholders'.

'Real Estate and Globalisation'

In May John Wiley & Co published nearly 100 of our monthly internal property market reports from the last decade, edited by Richard Barkham, Group Research Director who also contributed a retrospective commentary and some predictions for the future. Richard subsequently spoke at conferences in America, Europe, Asia and Australia about patterns in real estate markets and the lessons for investors in real estate from the global financial crisis.

requirements, while enhancing Grosvenor's reputation for social responsibility and for long-term trustworthiness. I address these below, with commentary on our progress.

Diversifying internationally and delivering financial results
Our strategy requires that we allocate capital appropriately between businesses (hence the first of our 'Big Six' priorities, as detailed on page 6 'Optimising capital planning')

We invest some of our capital directly into property via our three 'proprietary' operating companies – at 31 December 2012 roughly £2.9bn or 76% of the total allocation. Grosvenor Britain & Ireland, Grosvenor Americas and Grosvenor Asia Pacific invest in and develop commercial and residential property in accordance with locally-set strategies.

We invest further proprietary capital into property through an indirect investments portfolio which we manage centrally – at 31 December 2012 roughly £0.9bn or 24% of the total allocation. This achieves further diversification by co-investing in funds managed by our fund management business, and by investing in other property or property-related companies.

These proprietary investments address the second and third 'Big Six' priorities: 'Creating value from proprietary capital' and 'Sustaining our core portfolio in London'.

The stand-out achievements in our Operating Companies grew our development pipeline. For example, in Grosvenor Britain & Ireland our plans to improve the area around Brown Hart Gardens in North Mayfair, which include a hotel and further public realm works, in Grosvenor Americas our second Drake apartment building in Calgary, which capitalises on a design and marketing model that has proved popular with young buyers, and in Grosvenor Asia Pacific the planned Monterey Court residential development for Jardine's Lookout in Hong Kong. Development exposure grew to 16.7% (2011: 15.7%), reflecting our determination to reinvest to increase future returns.

On the indirect side, our small investments in industrial logistics property have a larger significance, achieving exposure to a 'new' sector. Along with co-investments in funds, we also remain committed to our significant investment in Sonae

Sierra, a pre-eminent European and Brazilian shopping centre developer, owner and manager, whose operational results continue to impress in the face of a difficult retail environment.

Lastly, we have an international business which invests and manages third-party capital. Grosvenor Fund Management creates value by using its expertise in property investment and property management on behalf of its clients and, in so doing, generates revenues from fees. Delivering performance and exceptional service is its priority. Hence the fourth 'Big Six' priority: 'Creating value from fund management'.

We made important progress, in the reach of this business and in the range of its mandates. Our joint venture with Harvest Fund Management, establishing Harvest Real Estate Investments, allows our investor clients to benefit from their in-depth knowledge of China while their clients can access our expertise in international markets. In Europe, Grosvenor Fund Management has made further retail acquisitions in Sweden and gained a new segregated account, acquiring and managing Lyon's main shopping street.

Grosvenor Fund Management decided to close its office in Sydney later in 2013. The Group intends to retain proprietary exposure to the Australian market via its indirect investments strategy.

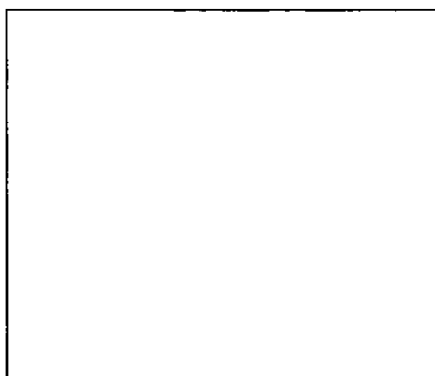
We announced the next stage in the evolution of the senior management team. In June 2013 James Raynor, who joined the business nine years ago, succeeds Jeffrey Weingarten as Chief Executive, in September Jeffrey joins the Group Board as Non-Executive Director. Jeffrey was the architect of the reorganisation of Grosvenor Fund Management and will be an invaluable addition to the Group Board.

Preserving and enhancing our reputation

Diversification and financial and operational performance however, do not by themselves set us apart. To meet the objective of preserving and enhancing our reputation for social responsibility, our activities must be conducted for the long-term benefit not only of our shareholders and the investors in our funds, but also of the communities in which we operate.

The Lady Edwina Grosvenor Award

This award named after the Duke of Westminster's second daughter, is run and funded by The Westminster Foundation and is open to staff from across the Group and the whole of the Grosvenor Estate. It recognises outstanding voluntary charitable work and in 2012 the panel of judges chaired by Lady Edwina, selected Robin Blacklock, from Grosvenor's Edinburgh office as the winner. Robin pictured top left had raised over £100,000 for Changing Faces and The Sick Kids Foundation, while his EuroChampsChallenge – driving to the grounds of every team that has ever won The Champions League and meeting one of the football players who had helped win the trophy – increased their profile. The £5,000 prize is to be allocated to the winner's chosen charities. Robin shared the prize between the same two charities.



Recently we have emphasised helping to create and manage attractive and vibrant cities through the projects we undertake. This document references the 'Living cities' attributes of what we do – 'Living cities' being another 'Big Six' priority.

We progressed important work in settings such as North Audley Street in London's Mayfair, Barton in Oxford, Ambleside in West Vancouver and Liverpool ONE in North West England. We also broadened our interest in managing our environmental impact to encompass wider issues of sustainability (see our Environment Review at www.grosvenor.com). Our continued focus on environmental improvement has resulted in a decrease in carbon emissions of 3% and water usage of 5% for our like-for-like portfolio.

Over our long history, we have sought to be trusted both for the way we do business, namely by striving to be straightforward in business relationships, and through responsible stewardship of high-quality and well-designed property.

A crucial ingredient in achieving our reputational objective is to attract, keep and develop people who not only have the business qualities we need, but also personify Grosvenor values and identify with the concept of 'Living cities'. Hence our last 'Big Six' priority 'Investing in our people'.

We continued to improve skills training by developing a core curriculum, promoted people from our group of younger managers with exceptional potential into more senior roles, and provided new opportunities for our leaders of the future to discuss wider business issues with their peers.

People throughout Grosvenor appreciate our support when they devote time to community activities or help charities with their fundraising, and through philanthropic activity and donations to The Westminster Foundation. We say more about this in the Operating Company reviews and in the Accounts.

Market outlook

In spite of the poor visibility I referred to in my opening remarks, I believe the global economic environment is more likely to improve than deteriorate. Its fiscal challenges are worrying but housing starts and employment trends give reason for optimism in the Americas where we have plans and capital in place to invest and develop in the more vibrant cities. With fears of a Eurozone breakup receding, investor interest is returning to the more prosperous Continental European cities and de-leveraging is underway slowly. The recovery in capital values that should cautiously follow will benefit both Sonae Sierra and our funds active there. Asian economies remain a driving force and our commitment there is based on the favourable long-term trends in China particularly. While we remain convinced of London's strengths long-term, the sustainability of current rates of growth in values of prime property is much less certain.

Grosvenor's future

In 2008, our capital was invested through five proprietary Operating Companies, each of which allocated a small proportion to funds managed by Grosvenor Fund Management.

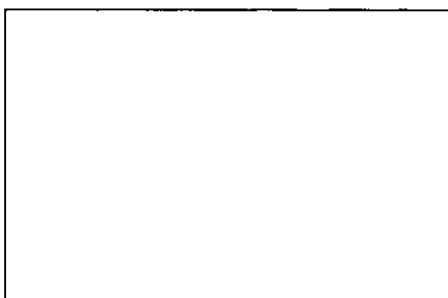
Since then, we have introduced distinct strategies for direct and indirect investments, and have focused the former on three proprietary businesses while centralising our investment in funds as part of our indirect investment activities. Adherence to our strategy will deliver further diversification, continued growth of revenue profit and consistent returns in the long term.

This approach will make us less vulnerable to volatility and more able to meet our financial and business objectives, while ensuring we continue to preserve and enhance our reputation from generation to generation.

I enjoy working with the 525 people around the business to achieve this. It is their endeavours that make it all possible, for which I – and my fellow Directors on boards throughout the Group – remain profoundly grateful.

Mark Preston
Group Chief Executive
14 March 2013

Finance Director's report



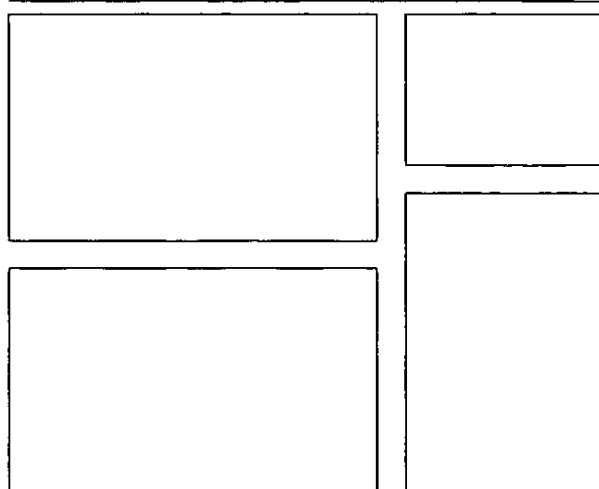
Nicholas Scarles
Group Finance Director

Nick has been with Grosvenor since 2004. He became Group Finance Director in 2006.

How does the Group, with its devolved structure, manage its treasury function?

“Managing a loan portfolio of several billion pounds – with multiple facilities, lenders and currencies – requires a blend of treasury expertise and co-ordination, managed by our co-ordinated treasury function, and local commercial understanding and execution, managed by our local finance teams; all delivered under our relationship-based approach.”

See more online
www.grosvenor.com/financedirector



Grosvenor finance conference
In 2012 Grosvenor held its first conference for managers in the finance team worldwide. Effie Huang (pictured in top left photo, second from left) Assistant Finance Manager for Grosvenor Asia Pacific commented "It is really hard to list everything I learned, but I have started considering the greater meaning of my work – the vision shared with others which will help us add value. I, and other junior staff, may be just a small dot in a big picture but without us the picture would be less complete and not as beautiful as it could be. So now I feel that everyone is important in the Group, no matter how large or small a dot they are."

Performance

2012 was another record year of revenue profit, which increased 8.2% to £87.4m (2011: £80.8m). Profit before tax increased 12.5% to £354.4m (2011: £315.0m) and total return, reflecting the impact of revaluations around the internationally diverse portfolio, was 7.2% (2011: 9.0%). At 31 December 2012 Shareholders' funds increased 7.8% to £3.1bn (2011: £2.9bn) and now stand at their highest ever level.

Earnings

Within revenue profit, which is Grosvenor's measure of operational performance and includes Grosvenor's share of joint ventures, gross rents were maintained at £309.1m (2011: £309.2m) despite the challenging economic conditions. Fees and other income increased 4.0% to £57.0m (2011: £54.8m) a decline in Grosvenor Fund Management fees due to the expiry of funds and separate accounts was balanced by an increase in development fees upon the completion of developments on the London estate. Net financing costs were flat at £81.2m (2011: £81.0m).

Overheads reduced for the third successive year, by 2.8% to £117.1m (2011: £120.5m), reflecting the continued focus on managing costs across the Group's businesses.

Of the proprietary businesses, Grosvenor Britain & Ireland delivered the largest increase in revenue profit, up 132% to £38.1m (2011: £16.4m) due to increases in development fees and trading profits. Grosvenor Americas increased its revenue profit by 5.5% to £13.5m (2011: £12.8m), while Grosvenor Asia Pacific's fell to £9.8m (2011: £12.4m) due to the majority of profits on The Westminster Terrace development being taken in 2011.

In the indirect investments portfolio, revenue profit declined to £49.0m (2011: £59.1m), due to a loss on the sale of the Omega office park in Spain. Sonae Sierra continued to perform well operationally in difficult markets, although provisions made against development projects reduced profits in 2012.

Grosvenor Fund Management experienced a revenue loss of £10.3m (2011: £1.6m loss), due to planned investment in the business and reduced assets under management reflecting sales

of assets as a number of funds approached the end of their life cycles.

Total return

For the third year running Grosvenor Britain & Ireland delivered the highest total return at 13.8% (2011: 16.2%), reflecting the buoyant London West End market as well as improved operational performance largely resulting from their 'Fast Forward' operational review. Grosvenor Americas' total return was 9.5% (2011: 8.9%) and Grosvenor Asia's was 8.7% (2011: 8.0%).

The return from our indirect investments portfolio fell to 1.5% (2011: 3.0%). This comprised 1.0% (2011: 3.0%) from co-investments in funds managed by Grosvenor Fund Management, 0.5% (2011: 2.9%) from Sonae Sierra, reflecting a blend of negative revaluations in Continental Europe offset by positive revaluations in Brazil, and 1.5% (2011: 3.0%) from Grosvenor's other assets in Australia, France and Spain.

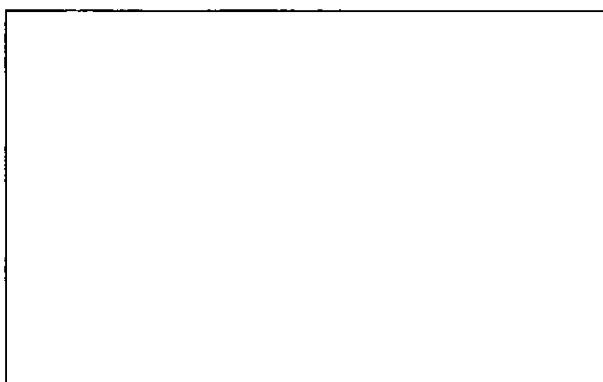
Taxation

The Group operates under a long-established tax policy, approved by the Trustees and Group Board, which reflects the Group's responsibilities to the communities in which we invest.

The 2012 tax charge equates to an effective rate of 24.3%, before the adjustment caused by a reduction in the future rate of UK corporation tax. This reduction is required by accounting standards to be applied to the notional tax (deferred tax) which it is assumed would be paid if all Grosvenor's assets were to be sold at market value. Since Grosvenor's financial statements have previously been required to provide for this deferred tax at a higher rate, the full effect of the rate change on this notional tax is required to be credited to the income statement. The actual tax Grosvenor pays is unaffected by this accounting adjustment.

Operational activity

Grosvenor's assets under management have reduced slightly to £12.2bn (2011: £12.5bn), due the reductions in Grosvenor Fund Management's funds under management, although these reductions were largely offset by valuation increases.



Treasury team

Our co-ordinated treasury function includes two treasury experts (David Peters and Karen Toh pictured left with Nicholas Scarles) to provide expert advice to our Operating Company finance teams as they implement their local debt strategies and arrange local financings – blending professional expertise and local relationships

Grosvenor's share of property assets has remained stable at £5.8bn (2011: £5.8bn), reflecting revaluations of £292m, disposals of £477m, acquisitions of £386m and currency falls of £132m

Portfolio allocation

Grosvenor's diversification objectives are most apparent in the allocation of capital between the proprietary Operating Companies and indirect investment activity. This allocation is determined to deliver a portfolio of investments in regions and cities which are expected to deliver above-average returns over the medium term. Once equity is allocated, the local executive team are empowered to make the best property decisions that only those with local knowledge of their markets can be expected to deliver.

The geographical spread of Grosvenor's economic interests in real estate is shown in the table on page 17. The principal changes since 2011 reflect the relative valuation gains in the UK, North America and Hong Kong compared with declining values in most of Continental Europe. Significant transactions affecting the geographical spread were the sales in UK retail funds, Sonae Sierra assets in Germany and indirect investments in Sydney.

Financial objectives

Part of Grosvenor's financial objective is to deliver, over the long term, financial returns which meet our Shareholders' requirements, and progress against this is outlined in this Annual Report. Unusually amongst international real estate companies, another part of Grosvenor's financial objective is to ensure a level of overall operational risk, an approach to debt and sufficient liquidity which collectively ensure Grosvenor's survival. Ensuring longevity over the long term means embedding the ability to navigate through market and financial crises without significant impairment of value or operating ability.

Operational improvements are covered in the section below. Grosvenor's approach to debt focuses on economic gearing, devolved Operating Company responsibility and diversification of debt and lenders.

Each Operating Company conducts business within economic gearing limits set by the Group which reflect the Group's attitude to risk in the business within a desire to avoid aggregate over-gearing. At a Group level economic gearing decreased to 43.0% (2011: 51.2%), resulting in Grosvenor's resilience – the extent to which all real estate markets must fall at the same time before Grosvenor Holding Company covenants might be a concern – increasing to 61.2%, well beyond our self-imposed margin of safety.

An important element of Grosvenor's devolved structure is that each executive team, board and business is responsible for its own balance sheet and should not rely upon the rest of the Group. Each Operating Company, joint venture, fund and investment in principle should only borrow debt which it can service and repay through its own resources. Consequently there are no Grosvenor Holding Company guarantees of Operating Company, joint venture or fund borrowings, and no cross-Operating Company guarantees of this kind either.

A diversification approach is applied to the duration and type of debt and the nature of lender, while flexibility is retained to take advantage of debt market opportunities. To this end, and following Grosvenor Britain & Ireland's successful US private placement in 2011, a further placement was made in 2012, raising £90m of debt for terms of 10 and 25 years, at rates of 3.38% and 4.97% respectively. As a result of these debt issues and other debt market activity, over the last two years the weighted average duration of Grosvenor's wholly-owned debt increased from 6.1 years to 7.7 years. In addition, recognising that following the global financial crisis and subsequent changes in regulation, banks are unlikely, in the future, to be such active lenders to the real estate sector, in the last two years Grosvenor has increased the proportion of its wholly-owned debt raised in capital markets from 28% to 40%.

Grosvenor's approach to ensuring liquidity centres on both financial capacity and stressed cash flow forecasts.

Financial capacity – the amount of spare cash and undrawn, committed, general-use facilities which are immediately available – is targeted at a level designed to manage a further



downturn and then take advantage of the opportunities which only arise in such circumstances. Financial capacity at 31 December 2012 was £865m (2011: £855m), more than sufficient to meet our objectives.

Each Operating Company is required to meet stringent stressed cash flow conditions which ensure they can survive, using committed resources, at least two years of extremely stressed markets. When aggregated, and Grosvenor Holding Company backup facilities are taken into account, the Group is confident of its liquidity over the near term.

Collectively, these measures provide comfort that Grosvenor's future is assured irrespective of market conditions.

Operational improvements

The increasing professionalisation of the functions which support our core property expertise has continued. A second professional treasurer has joined our co-ordinated treasury function, which now acts as the treasury for all of our UK operations, including the Grosvenor Holding Company, while maintaining its co-ordination and advisory role for Grosvenor's operations elsewhere. Our legal team now comprises four qualified lawyers and is responsible for all of Grosvenor's UK legal matters and for legal governance elsewhere. The IT shared-service team is now responsible for all IT-related matters within Grosvenor. These support functions, once purely advisers, are becoming deciders within their area of expertise.

Within the Operating Companies, Grosvenor Fund Management's decision to combine its UK and Continental European operations will bring improved efficiency. Grosvenor Britain & Ireland entered the final stage of its 'Fast Forward' programme. Elsewhere, the closure of our Sydney office will further reduce overheads, while allowing Grosvenor to maintain an equity interest in Australia through indirect investments.

Looking back over the last five years, the rationalisation of the then five proprietary Operating Companies into three has improved Grosvenor's structural efficiency. The professionalisation of support functions has enabled a more sophisticated approach in specialist areas, while systems changes are ensuring that information is delivered more efficiently to those who can make

best use of it. In summary, we now operate more efficiently, have more specialist individuals and are armed with more relevant information.

Eurozone

Most of Grosvenor's equity investment in the Eurozone is through Sonae Sierra SGPS, the Portugal-headquartered shopping centre developer, owner and manager, in which Grosvenor has joint control and a 38.75% economic interest. Despite all the challenges of southern Europe, the team at Sonae Sierra continue to deliver solid operating results. Nevertheless, retail takings and valuations have fallen, and with no comparable transactions in Spain and Portugal for two years, there is significant valuation uncertainty. In reaching a conclusion on the value of Grosvenor's investment in that company, we have considered both our strategy as a long-term investor and other relevant factors, including the continued strong operating results, the balance between stronger Brazilian and German markets and weaker Romanian and Iberian markets, improving investor sentiment and interest in Iberian property investment and the particular strength of several large dominant assets in Portugal which are not representative of the Portuguese shopping centre sector.

While the challenges in parts of Europe create uncertainty, for Grosvenor the potential to invest with an experienced management team who understand these markets continues to present an attractive medium-term opportunity.

Conclusion

Grosvenor continues to deliver consistent results through a financially flexible, yet prudently constrained, structure. Grosvenor's ample, protective and empowering financial capacity, diversified portfolio and increasing professional expertise ensure our property experts can do what they do best – operate as locals, applying their property skills to improve communities and deliver a good return for investors.

Nicholas Scarles
Group Finance Director
14 March 2013

Grosvenor Group Board of Directors

As at 14 March 2013

Non-Executive Directors

01 Lesley Knox

Position Chairman

Appointed to the Board 2010

Experience Lesley 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.

02 Rod Kent

Appointed to the Board 2000

Experience Rod is currently Chairman of Caledonia Investments plc and Chairman of the Trustees of the Calthorpe Estates. 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 the M&G and Bradford & Bingley boards and the BT Pension Scheme. He has also been a Trustee of both the Esmée Fairbairn and Wellcome Trust charitable trusts.

03 Michael McLintock

Appointed to the Board 2012

Experience Michael is a Trustee of the Grosvenor Estate and 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.

04 Alasdair Morrison

Appointed to the Board 2004

Experience Alasdair is a Senior Advisor to Citigroup Asia Pacific, a member of the HK SAR Financial Services Development Council, and an Independent Non-Executive Director of MTR Corporation Ltd 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.

05 Jeremy Newsom FRICS

Appointed to the Board 1989

Experience Jeremy 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, a Director of Grupo Lar and an Adviser to the Al Futtam Group. 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).

06 Domenico Siniscalco FRB

Appointed to the Board 2008

Experience Domenico 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 Ph.D. in Economics from Cambridge University.

07 Owen Thomas

Appointed to the Board 2011

Experience Owen 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

08 Mark Preston MBE

Position Group Chief Executive

Appointed to the Board 2006

Experience Mark joined Grosvenor in the UK in 1989. Seconded to Hong Kong in 1995, he returned to lead Grosvenor's 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. Mark currently holds two Non-Executive Directorships on the boards of Persimmon Plc and Sonae Sierra SGPS. He is a Trustee of The Westminster Foundation and also a member of the Board of The Association of Foreign Investors in Real Estate, the ULI Greenprint Advisory Board and the (University of) Cambridge Land Economy Advisory Board.

09 Nicholas Scaries FCA ATTORNEY AT LAW

Position Group Finance Director

Appointed to the Board 2006

Experience Nicholas joined Grosvenor in 2004. He was previously at Centrica, Price Waterhouse and Coopers and Lybrand in London, New York and Toronto. 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.

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Grosvenor Group Executive Committee

As at 14 March 2013

01 Mark Preston MRICS

Position Chairman Executive Committee and Group Chief Executive

Experience Mark joined Grosvenor in the UK in 1989. Seconded to Hong Kong in 1995, he returned to lead Grosvenor's 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. Mark currently holds two Non-Executive Directorships on the boards of Persimmon Plc and Sonae Sierra SGPS. He is a Trustee of The Westminster Foundation and also a member of the Board of The Association of Foreign Investors in Real Estate, the ULI Greenprint Advisory Board and the (University of) Cambridge Land Economy Advisory Board.

02 Nicholas Scarles FCA ATTORNEY AT LAW

Position Group Finance Director

Experience Nicholas joined Grosvenor in 2004. He was previously at Centrica, Price Waterhouse and Coopers and Lybrand in London, New York and Toronto. 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.

03 Andrew Bibby

Position Chief Executive Grosvenor Americas

Experience Andrew joined Grosvenor in 1984 and became Chief Executive of Grosvenor Americas in 2009. During this time, he has been involved with the acquisition, development and management of all property types and has worked in Vancouver, Calgary and San Francisco. He is currently a Director of Canadian Western Bank, has served as a past Director of the Real Property Association of Canada and is a former member of the Sauder Business School advisory board.

04 Nicholas Loup

Position Chief Executive Grosvenor Asia Pacific

Experience Nicholas established the operation in Asia Pacific in 1994. He is 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, and a member of the World Economic Forum's Fiscal Sustainability Global Agenda Council.

05 Peter Vernon FRICS

Position Chief Executive Grosvenor Britain & Ireland

Experience Peter joined Grosvenor in 2005 and became Chief Executive of Grosvenor Britain & Ireland in 2008. 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 PricewaterhouseCoopers.

06 Jeffrey Weingarten

Position Chief Executive Grosvenor Fund Management

Experience Jeffrey began his career as a Securities Analyst in 1970. 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.

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Proprietary activities – direct

Grosvenor's *direct* proprietary investment in property encompasses Europe, North America and Asia where we have 241, 66 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 60 years. We have had an office in Vancouver since 1953, in San Francisco since 1977, in Washington, DC 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

Peter Vernon Chief Executive

Peter joined Grosvenor in 2005 following a career in management consultancy

What are you trying to achieve at Grosvenor Britain & Ireland?

“We are on a mission to create inspiring places that help to improve people’s quality of life in London and elsewhere. By doing so we satisfy our customers, our Shareholders and the wider community”

Business objective

Our objective is to create value through our skills in placemaking and design, repositioning locations in ways that change customer perceptions and deliver outperformance for our Shareholders and co-investors

Number of assets by city*

Britain	
A Bournemouth	1
B Cambridge	3
C Crawley	1
D Edinburgh	108
E Glasgow	81
F Liverpool	5
G London	1480
H Oxford	1
Ireland	
I Dublin	2

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

What we said we would do in 2012

- Increase revenue profit
- Improve income generation through new products and greater efficiency in our processes
- Identify new value-adding opportunities to increase our total return
- Secure future profit growth by building our development pipeline on and off the London estate

What we did in 2012

- Increased revenue profit from £16.4m to £38.1m
- Improved income by £5m
- Contributed 2.5% (£63m) to our total return through value-add activities
- Increased development under construction to 89,000m² (gross development value £1.2bn), with a further 30,000m² (gross development value £912m) in the pipeline

2012 summary

Revenue profit

£38.1m

2011 £16.4m

Total return

13.8%

2011 16.2%

Assets under management

£4.8bn

2011 £4.2bn

Grosvenor Square
London, United Kingdom
The second largest square
in London, Grosvenor
Square sits at the heart
of our Mayfair estate

Community spirit

We actively manage the 300 acres of Mayfair and Belgravia that we call our London estate, and our focus on customer needs has helped ensure its continuing pre-eminence. In our role as stewards of the estate, we work hard not only to improve the experience of living, working and relaxing there, but also to maintain a sense of community for residents, businesses and visitors alike. The public spaces and retail streets are key to this: they are as important as the buildings themselves and offer coveted 'community space'.

We work closely with local communities to make the most of these spaces, supporting local street parties, cultural events in the squares and gardens and taking part in the London Garden Squares weekend. Grosvenor Square – the second largest garden square in London – is a particularly significant space, situated amidst Mayfair's leading retail streets. It remains the peaceful heart of the neighbourhood and helps ensure that the area still feels accessible to all.

Summer 2012 events on our London estate

2012 was a momentous year for London: it was the stage for Her Majesty The Queen's Diamond Jubilee, and for the Olympic Games and the Paralympics. These events evoked a remarkable community spirit across the UK and our London estate was no exception.

Opposite

Attendees enjoy one of the many live performances at Summer in the Square – a programme of events in Grosvenor Square to entertain local people and visitors alike during the 2012 Olympics.

To celebrate the Jubilee, our Belgravia retail streets – Motcomb Street, Pimlico Road and Elizabeth Street – put on a packed programme of performances, activities and street parties during the first weekend in June.

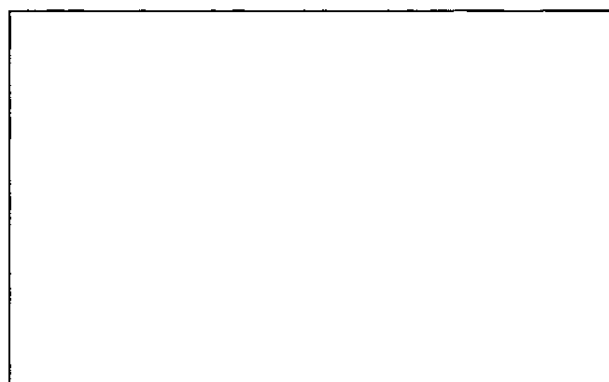
Coinciding with the Olympics, Grosvenor also celebrated 2012 by hosting 'Summer in the Square' – a two-week programme of free cultural performances, games and children's entertainment – in Grosvenor Square in July and August. The event, staffed by Grosvenor volunteers, gave the local community and visitors an 'urban retreat' amidst the hustle and bustle of London's West End.

"Collaboration with the local community is a vital part of what we do on our London estate. This will continue as we work with residents, businesses and other stakeholders to establish new 'neighbourhood forums' and to maintain a cohesive community for the long term."

Giles Clarke Executive Director,
London estate

Grosvenor Britain & Ireland continued

Mayfair, London
Individual development projects on North Audley Street, Duke Street, Brown Hart Gardens and Mount Street are designed, collectively, to create a better Mayfair on our London estate



Reaping the benefits

2012 was an encouraging year, despite an anaemic UK economy. Total return for the year reflects strong growth in the value of Central London real estate. More important are the enduring gains achieved from active management and more efficient operations. We completed our three-year 'Fast Forward' programme, a root and branch upgrade of the way we work (see page 30). This had a very positive impact on our 2012 revenue profit and indeed has brought recurring gains each year since it started. In addition, active management of the portfolio contributed 2.5% (£63m) to our total return this year.

We deployed more of our financial capacity, investing £176m in new assets and development projects to create future revenue streams. During the year we started on site with 23,000m² of new projects, with a further 30,000m² in the pipeline. Our trading projects have done well, despite the slow market, with sales at £119m, roughly triple that of two years ago, enabling us to recycle capital into new investments. Taking advantage of favourable market conditions, we raised £90m through an issue of long-term unsecured loan notes to provide additional funding for investment in our London estate.

Assets under management grew to £4.8bn, while total return decreased to 13.8%.

Grosvenor's London strategy

We have chosen to deploy much of our capital – 90% by portfolio value – in the 300 acres of Mayfair and Belgravia, unique estates in London's West End. These urban neighbourhoods retain their vibrancy and appeal through a mix of owner-occupied homes, rental properties and social housing, as well as office, retail and amenity buildings. They are home to a diverse and thriving community – as was evident during the Jubilee and Olympics celebrations of 2012 (see pages 23 to 25).

The West End has remained resilient in the current economic climate and our own occupancy levels have remained high at 97.8%. London is still seen as a safe haven for capital, with prices strong despite the changes to Stamp Duty Land Tax, those proposed to Capital Gains Tax and the suggested Annual Charge. Our London estate has benefited from this strength but

it is the impact of our active management that is the real test of our performance. We have continued to reinvest our profits in a constant cycle of refurbishment and development projects.

The strategy 'off-estate'

Off the estate, our strategy with the rest of our capital has evolved in recent years to maintain a judicious balance between doing more of what we are best known for, such as city centre residential-led development, and growing other areas of activity to diversify our portfolio.

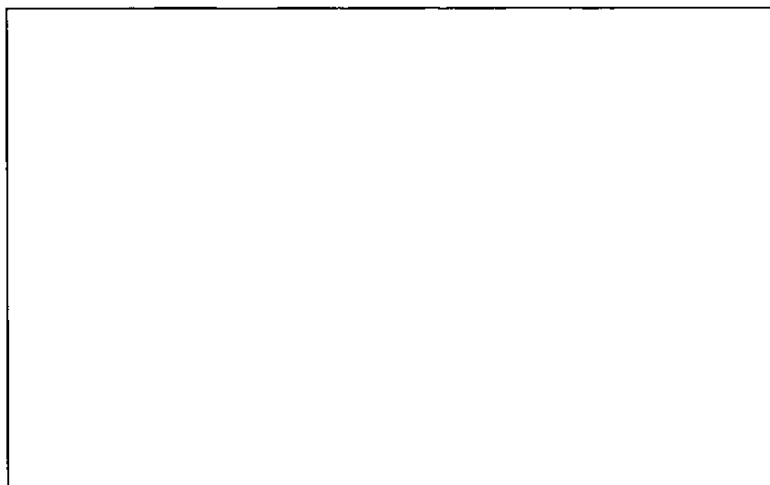
Here, as on the London estate, we aim to create developments that provide our customers with inspiring places to live and work, growing sustainable income or a trading profit for Grosvenor. In an increasingly competitive market our challenge is identifying opportunities that will allow us to create value for our customers and our Shareholders.

Reinvesting in Mayfair and Belgravia

We manage our London estate as an interlocking web of places that we seek to improve for the benefit of the commercial and residential communities that occupy them, as well as those who visit them. For us, the relationship between buildings, the public realm, the diversity of use and amenity and the soft infrastructure that binds communities together is what placemaking and 'Living cities' is all about. Placemaking, as opposed to the management of discrete property assets, is where we focus our attention: our approach is therefore long-term and holistic.

Mayfair continues to be a priority (see above). Following the completion of work to improve hard landscaping in North Audley Street, our focus has been on transforming the raised piazza at Brown Hart Gardens, which will re-open in 2013, and its immediate surroundings, where we are creating the Beaumont, a new luxury boutique hotel. Elsewhere in Mayfair we have been undertaking several developments to regenerate our office portfolio and grow income (see page 29).

In North Belgravia we have significant development activity to trade and to hold, notably at our recent redevelopment of 3-10 Grosvenor Crescent where we sold ten of the 15



Springside, Edinburgh

Fountainbridge in Edinburgh is rich in industrial heritage, but the advent of the 21st century has seen the last of the breweries close and the area evolve. Grosvenor is leading the way with a development at Springside which has already provided over 200 residential units, accommodation for 300 students and an impressive new public square, while also opening a new pedestrian route from Fountainbridge to Haymarket. When complete, Springside will include 600 apartments, student accommodation, office accommodation, amenity retail and – with a favourable planning hearing – a four star hotel.

apartments, and at the site that we manage on behalf of the Grosvenor Trusts, 1-5 Grosvenor Place where, with our partners Derwent London, we appointed Michael Hopkins & Partners as architects (see page 29)

In 2012 we brought forward development starts to maximise the cost advantage from a weak construction market. Some of these are covered in the 'Stories from the year' pages that follow. We also undertook a record number of renovation projects to add value to the London estate, not least by 'retrofitting' properties to improve energy efficiency. Our research shows that customers are increasingly interested in the amount of energy their properties consume and we too are committed to making progress here.

Improving customer satisfaction continues to be a major focus and, while we recognise that we still have some way to go, our annual MORI survey shows an encouraging increase in satisfaction levels, in particular among our retailers – a group which plays a vital role in the vibrancy of our communities.

"Spending time with customers is vital to understanding what service and products they want from us – building those relationships in the part of Belgravia north of Eaton Square is my priority"

Xavier Peirani Management Surveyor
North Belgravia, London estate

The Supreme Court's decision in October, in *Hosebay v Day*, reassured us that we can continue to invest in the many properties on the estate that were originally built as houses but are now in commercial use, without fear of losing freeholds (and our cumulative investment) through enfranchisement.

Adding value off the estate

We also have high-quality residential development projects to the west, south and north of our London estate, in Chelsea, at Bankside and in Holland Park – all with our partner Native Land. At Chelsea Manor Street, we have successfully started selling off plan (see page 30); at NEO Bankside, we are

now marketing the fourth and final block and the premium apartments, and, together with our joint venture partners, acquired Pavilion D to hold for rental income, while at Campden Hill we are considering the options for the scheme ahead of obtaining vacant possession in September 2013.

Our latest projects in Cambridge progressed well. Sales of the new apartments at Parkside Place vindicate our decision to redesign the scheme we took over from the original development partner and to focus primarily on local buyers rather than international investors. At year end all units had been sold or reserved. Our larger-scale projects at Trumpington Meadows and Abbey Stadium reinforce our commitment to the city (see page 31 for detail on all three projects).

Our joint venture with Oxford City Council at Barton is advancing fast and the first stage of the planning process (the Area Action Plan) for this housing-led development has been approved by the Government Inspector and adopted by Oxford City Council (see page 31).

"After a competitive procurement process, we selected Grosvenor as our investment partner to bring forward a scheme of around 900 houses on our land at Barton. We are delighted to be working with Grosvenor here, as they have embraced the Council's vision of a high quality environment, community cohesion, exemplary design and sustainability"

Jane Winfield Major Projects & Disposals Manager,
Oxford City Council

In Edinburgh, where we have built strong relationships with the civic authorities, we have sold over 90% of the first phase of the apartments – Foundry – at Springside to a variety of owner-occupiers and investors (see above).

The Grouss residential portfolio in Edinburgh and Glasgow continues to perform well, with rising rents and full occupancy.

Our team

We have continued to invest heavily in our team, business processes and IT infrastructure. We have improved the training and development of staff, focusing particularly on our 'Business Principles' – making sure everyone at Grosvenor understands and adopts a values-based approach to doing business (see page 31). We went live with our new finance and property management system. It is increasing efficiency and providing better management information to drive financial performance and better customer service at that all important point where the 'back-office' becomes, for our customers, the public face of Grosvenor.

As part of our values-based approach, we also encourage and support our staff in their commitment to good causes, alongside our support for The Westminster Foundation (see page 30).

Sharing responsibility for the urban fabric

We believe that a vibrant West End is part of what makes London attractive, bringing new residents and businesses to the country, helping to keep the capital 'open for business' internationally as well as contributing to its role as a thriving multi-cultural city enjoyed by its inhabitants and visitors alike.

The skills and expertise that we have been able to develop in this part of the city are applicable to many other residential and mixed-use neighbourhoods. With a nationwide shortage of housing, particularly acute in London (see the commentary from our Head of Research, right) there is a strong commercial, as well as a social, case for deploying such know-how widely, working with local authorities elsewhere in and outside the capital to create the physical conditions for thriving communities. We have done this in places such as Cambridge, Edinburgh, Liverpool and Oxford and we hope there will be the opportunity to do more in the years to come.

Peter Vernon

Chief Executive, Grosvenor Britain & Ireland

Market outlook

Graham Parry Head of Research,
Grosvenor Britain & Ireland

Institutional investment in the private rented sector

Although housing remains a relatively minor asset class for most institutional investors in the UK, the 2012 Montague Review into institutional investment in the UK residential sector has revived interest in the private rented sector.

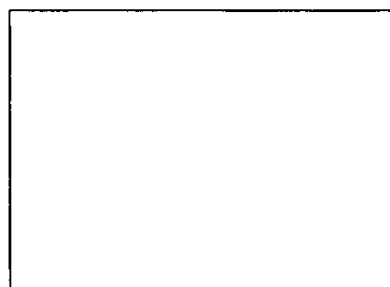
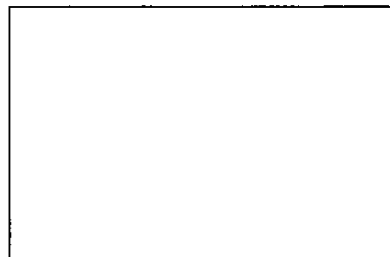
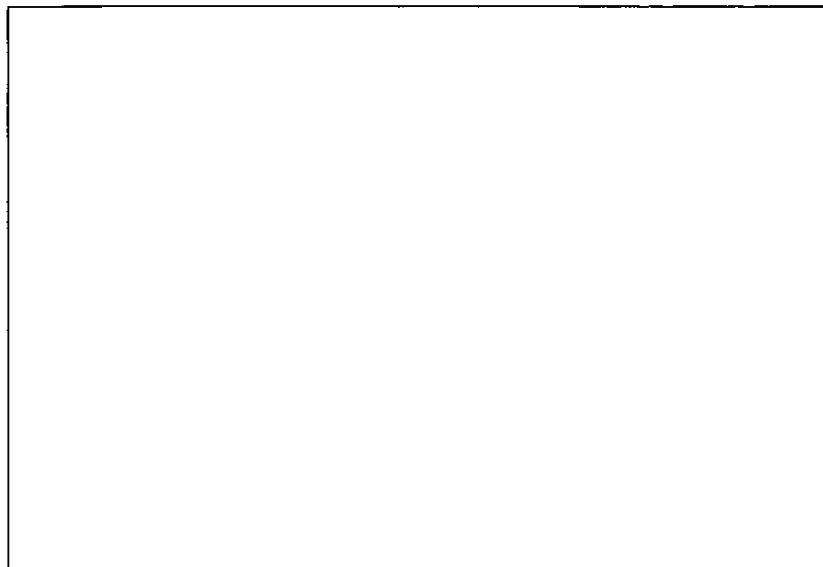
At the heart of the investment case are compelling fundamentals. London suffers from a chronic housing shortage, reflecting rapid household formation and insufficient new housing supply. Housing construction has not kept pace.

The shortage has made housing less affordable. Strong growth in house prices and tougher lending criteria make home ownership impossible for many, particularly in the 25–34 year old group, who increasingly prefer to rent.

The net result has been a pronounced shift towards renting over owning. The private rented sector has doubled its share of the UK housing market over the past 20 years. The opportunity is there for investors to partner with existing residential developers to deliver new private rented housing. Good quality schemes in the right location should be very well placed to capitalise on demand, which explains our interest in this area.

Grosvenor Britain & Ireland

Stories from the year



Fifty Grosvenor Hill, Mayfair: *part of our office pipeline*

Grosvenor Hill lies between Grosvenor Street and Berkeley Square in the heart of the Mayfair Conservation Area. In May, we celebrated the launch of Fifty Grosvenor Hill, a 2,800m² office development with a BREEAM 'Excellent' rating. 'Fifty' aims to mix

the traditional and the modern respecting the buildings that stood on the site for so long, it retains four façades of historic and architectural interest, while a solar-glazed elevation rises from the second floor, hinting at the state-of-the-art interior.

In addition to building this office development, we improved the public realm with new surfacing, trees and public art created by Neal French, commemorating the iconic 1960s

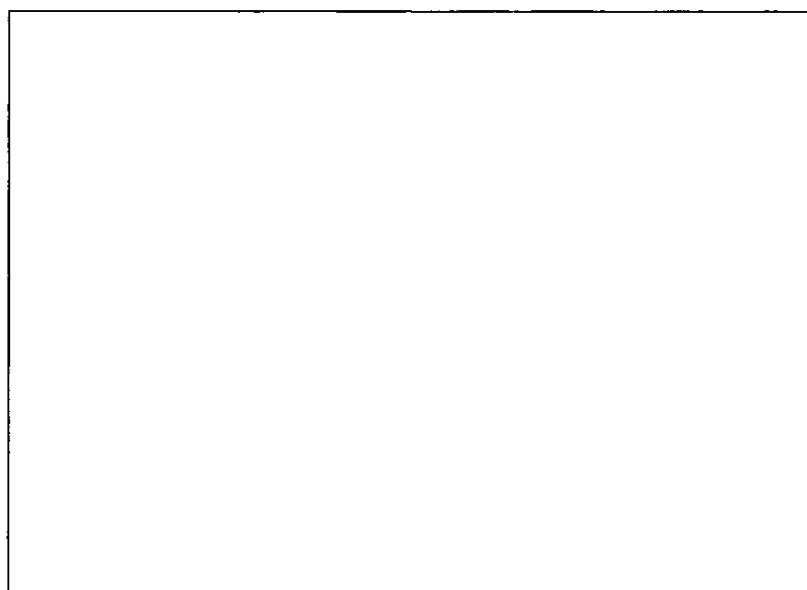
photographer Terence Donovan who had his studio in this discreet enclave.

'Fifty' is just part of the pipeline of new office developments that we are delivering in the West End over the next three years. The next four schemes – three on Grosvenor Street and one on Davies Street – focus on increasing the quality of office space in the area.

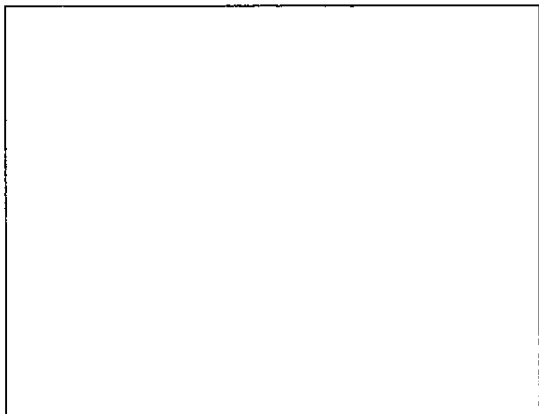
www.fiftygrosvenorhill.com

1–5 Grosvenor Place, Belgravia: *a unique landmark site*

1–5 Grosvenor Place has a commanding position on Hyde Park Corner and is a major development opportunity. On behalf of the Grosvenor Trusts, we are working with our joint venture partner, Derwent London, to replace an office block with an imaginative mixed-use scheme. The current building has unrivalled views of Hyde Park Corner to the north, towards Green Park, Buckingham Palace to the east, and Belgravia to the south and west. Our vision is to deliver a truly exceptional and fully-integrated development that transforms the north-east gateway to Belgravia. Design work will begin in 2013.



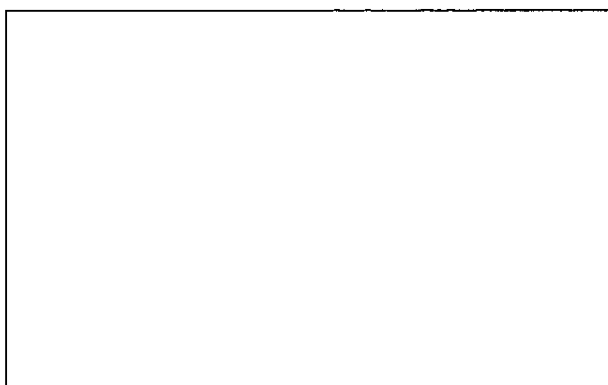
Grosvenor Britain & Ireland Stories from the year continued



'Fast Forward': an award-winning change programme

In 2010 Grosvenor Britain & Ireland launched the 'Fast Forward' performance improvement programme. This sought to upgrade all parts of the business, enabling improved operational performance and faster value creation. The aim has been to improve results for customers, employees and Shareholders. The programme delivered immediate benefits

an increase in revenue profit, value from active management and customer satisfaction. It helped change our culture and has enhanced our ability to continue to innovate, evolve and prosper for the longer term. It also won the 2012 Management Consultancies Association Award for Change Management in the Private Sector.



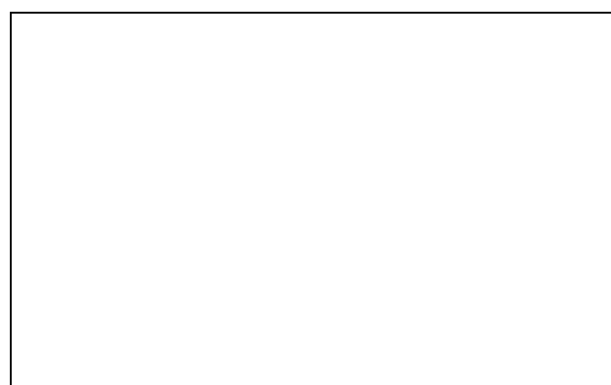
Chelsea Manor Street, Cheyne Terrace: luxury London apartments

Chelsea Manor Street – 25 luxury apartments being developed by Grosvenor in a joint venture with Native Land and Mountcity – offers large, contemporary living space in the heart of London's Chelsea, just off the King's Road.

Unusually, most units have generous roof terraces for relaxing and entertaining. The scheme also includes a private swimming pool and leisure facility, a wine store, a concierge and 24-hour security. We have improved the original scheme to maximise its appeal, notably by relocating the main entrance to Chelsea Manor Street.

Though completion of the property is not scheduled until Summer 2014, seven apartments have already been pre-sold.

This is a computer-generated image.



Grosvenor staff and The Westminster Foundation: philanthropy at work

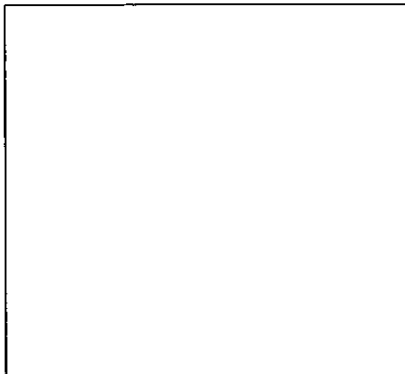
Our London office has an active staff charity committee which complements support from The Westminster Foundation (see Accounts page 89) – to which Grosvenor donated £1.7m in 2012 – with staff fund-raising, volunteering and pro-bono advice. In 2012, this combination supported a number of causes in the UK, including Farms for City Children, Land Aid (the property industry charity) and Stoll (housing and helping veterans).

In addition, in collaboration with the staff charity committee, The Westminster Foundation commissioned New Philanthropy Capital to conduct research into social need within the Borough of Westminster. The findings helped to clarify the Foundation's priorities for giving in London. From 2013 its 'Supporting Communities' programme will help charities which aim substantially to improve community cohesion and tackle isolation.

Grosvenor Britain & Ireland

Stories from the year

continued

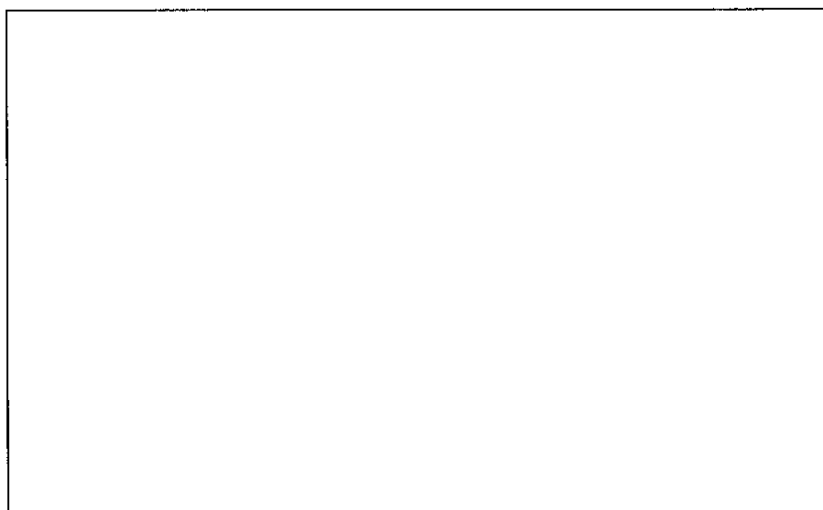


Barton, Oxford: *consulting with the public*

We are working in partnership with Oxford City Council to create state-of-the-art facilities for the community at Barton in Oxford. Design of the masterplan progressed well in 2012 following a series of community engagement programmes, and we are on track to submit a planning application in April 2013.

This provides for much needed housing in three distinctive new areas which will be integrated with neighbouring communities and the wider city, for retail facilities, which will act as a catalyst to improve the area's vitality and viability, for green open spaces, and for a new primary school in the heart of the community. We aim to deliver the first new homes and community facilities in early 2015.

www.bartonoxford.org.uk



Parkside Place, Cambridge: *building on a 30-year track record*

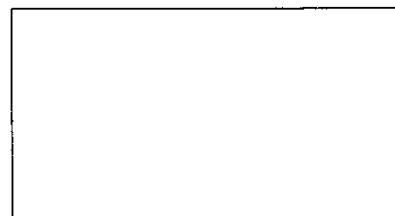
Our knowledge of a city is important to local councils. We know Cambridge very well as a result of 30 years' experience there – including, most significantly, the development of the Grand Arcade shopping centre – and we remain committed to its long-term development.

Our understanding of the area has guided our development of Parkside Place. 99 new high-quality apartments with commanding views over Parker's Piece in a location at the heart of all that Cambridge has to offer – the city's central colleges, parks and main shopping and entertainment areas.

Other Cambridge projects include Trumpington Meadows – a 350-acre project to create a high-quality extension of the southern edge of the city and provide 1,200 homes, Phase 1 of which is now under construction – and the redevelopment of Abbey Stadium with provision of a new stadium for Cambridge United Football Club.

This is a computer-generated image.

www.parkside-place.com



The Business Principles Awards: *influencing the 'how' rather than the 'what'*

How we do business is as important as what business we do. Grosvenor Britain & Ireland reflects this in its 'Business Principles' and, in 2012, held its Business Principles Awards to recognise success in their implementation. Teams were invited to video examples of these principles in everyday practice, the videos were posted on the Group intranet and voted for by staff and a panel of judges. Winners for each category and an overall winner – the Liverpool team above – were presented with their awards at an Oscar-style event hosted by our Chief Executive, and Non-Executive Director, Heather Rabbatts.

"Having been closely involved as the teams developed our Business Principles with feedback from our partners and customers, it is exciting to see staff bring them to life with such pride and enthusiasm."

Heather Rabbatts
Non-Executive Director

Grosvenor Britain & Ireland Board of Directors

As at 14 March 2013

Non-Executive Directors

01 Graham Pimlott FRICS

Position Chairman
Appointed to the board 2009
Experience Graham was a Partner in the law firm Lovells before taking senior roles within BZW and Barclays PLC. He is currently Chairman of Tesco Personal Finance Plc and has held several other non-executive director roles in the past

02 Michael Gradon

Appointed to the board 2007
Experience Michael 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.

03 Heather Rabbatts

Appointed to the board 2009
Experience Heather is a Non-Executive Director of Cross London Rail Links Limited, the Football Association and the Royal Opera House, and has been appointed to the supervisory board of the Foreign and Commonwealth Office. She has just established a media company, Smuggler Entertainment.

04 Mark Preston FRICS

Position Group Chief Executive
Appointed to the board 2006
Experience Mark joined Grosvenor in the UK in 1989. Seconded to Hong Kong in 1995, he returned to lead Grosvenor's 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. Mark currently holds two Non-Executive Directorships on the boards of Persimmon Plc and Sonae Sierra SGPS. He is a Trustee of The Westminster Foundation and also a member of the Board of The Association of Foreign Investors in Real Estate, the ULI Greenprint Advisory Board and the (University of) Cambridge Land Economy Advisory Board.

05 Nicholas Scarles FCA ATTORNEY AT LAW

Position Group Finance Director
Appointed to the board 2006
Experience Nicholas joined Grosvenor in 2004. He was previously at Centrica, Price Waterhouse and Coopers and Lybrand in London, New York and Toronto. 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

06 Peter Vernon FRICS

Position Chief Executive
Appointed to the board 2005
Experience Peter joined Grosvenor in 2005 and became Chief Executive of Grosvenor Britain & Ireland in 2008. 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 PricewaterhouseCoopers.

07 Roger Blundell ACA

Position Finance Director
Appointed to the board 2008
Experience Roger 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.

08 Giles Clarke FRICS

Position Executive Director, London estate
Appointed to the board 2008
Experience Giles joined Grosvenor in 2007 and is responsible for the London estate, including all investment development and property management activity. He is a Non-Executive Director of Realty Insurance and Chairman of the Westminster Property Association.

09 Craig McWilliam FRICS

Position Executive Director, Development
Appointed to the board 2010
Experience Craig joined Grosvenor in 2010 and is responsible for Grosvenor Developments, which includes all of the development activities outside the London estate. He was previously a Managing Director at Fortress Investment Group.

10 Ulrike Schwarz-Runer DOCTOR OF LAWS

Position General Counsel
Appointed to the board 2011
Experience Ulrike Schwarz-Runer joined Grosvenor in 2010 and is responsible for legal governance in relation to the businesses of Grosvenor Group Limited and advises on all of Grosvenor's legal matters in the UK. Ulrike is a Non-Executive Director of the Barclays Pension Fund. Previously she was General Counsel of a sovereign wealth fund and prior to that she was an Executive Director at Goldman Sachs. Ulrike is qualified to practise law in England and Wales, New York and Austria.

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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	27.4	39.9	4.0	5.8	234	691.0	1,080.3
Retail	14.5	15.4	4.9	5.2	91	294.6	583.5
Residential *	23.3	24.8	2.0	2.1	533	1,156.4	1,915.8
	65.2	80.1	3.0	3.7	858	2,142.0	3,579.6

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

Development properties

	Number of properties	Grosvenor share £m	Assets under management £m
Office	4	180.2	370.4
Retail	2	13.8	21.0
Residential	14	212.5	874.0
	20	406.5	1,265.4

Geographic analysis

	Grosvenor share			Assets under management Total £m
	Investment £m	Development £m	Total £m	
London	2,073.3	301.1	2,374.4	4,548.2
Outside London	68.7	105.4	174.1	296.8
	2,142.0	406.5	2,548.5	4,845.0

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 directly 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.

Mayfair

Sector	Office	185
	Retail	81
	Residential	219
Area	717,720m 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 London's second largest garden square, Grosvenor Square, and one of the capital's most fashionable shopping destinations, Mount Street.

North Belgravia

Sector	Office	81
	Retail	23
	Residential	275
Area	316,140m 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.

Eaton Square

Sector	Office	3
	Residential	77
Area	77,245m 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.

South Belgravia

Sector	Office	110
	Retail	133
	Residential	289
Area	255,280m ²	

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

Grosvenor Britain & Ireland

Portfolio

continued

Property	Description	Location	Area m ²	Completion date
Principal development and trading properties – directly owned				
Office				
50 Grosvenor Hill	Prime commercial offices with retained façades	West End, London	2,800	2012
18–20 Grosvenor Street	Part new, part refurbished prime commercial offices	West End, London	5,300	2014
33 Grosvenor Street	Townhouse offices	West End, London	1,600	2015
69 Grosvenor Street	Townhouse offices	West End, London	2,000	2014
Residential				
55–73 Duke Street	16 apartments and 1,500m ² retail	West End, London	5,000	2012
One Park West	Residential apartment block	Liverpool, Merseyside	19,100	2009
Parkside Place	Residential apartment block	Cambridge, Cambridgeshire	11,600	2013
Hotel				
8 Balderton Street	80-bed boutique hotel and restaurant	West End, London	7,900	2014
Development and trading properties – jointly owned/managed on behalf of Grosvenor Trusts				
Office				
29–37 Davies Street	New prime commercial offices and retail	West End, London	4,800	2013
Residential				
Abbey Stadium	Residential development	Cambridge, Cambridgeshire	29,000	2018
Barton	Development land	Oxford, Oxfordshire	364,000	2019
Campden Hill	Luxury apartment block	Holland Park, London	18,000	2016
Chelsea Manor Street	Luxury apartment block	Chelsea, London	9,000	2015
3–10 Grosvenor Crescent	Grade II* Listed apartment building with 15 units	West End, London	7,600	2012
1–5 Grosvenor Place	Mixed-use hotel, commercial and residential	West End, London	36,500	2018
Grouss	Portfolio of just under 200 flats, townhouses and serviced apartments	Edinburgh & Glasgow, Scotland	20,000	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	85,000	2019

Grosvenor Americas

Andrew Bibby Chief Executive

Andrew has held many roles in our North American business since joining Grosvenor in 1984

Why have so many development projects underway at once?

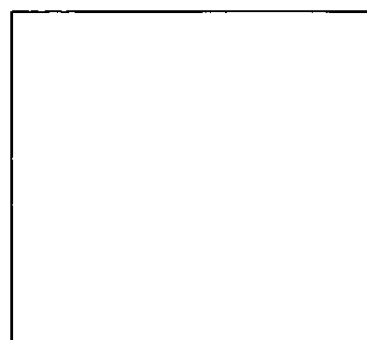
“With development activity subdued since the financial crisis, we are determined to establish positions early in the recovery that provide both cost and first mover advantages. With the economy moving toward recovery, our projects will be in demand.”

Business objective

Our aim is straightforward – through continued focused expansion, to maintain a financially sustainable business and achieve a leading position in a select few geographic and sectoral markets in Canada and the United States of America. We use our knowledge of these cities and all our other skills to ensure that each project provides a creative but practical solution to the ambitions of our stakeholders. Every time we get these essentials right we stimulate the flow of attractive deals with value-creating investment and development opportunities.

Number of assets by city

Canada		
A	Calgary	6
V	Vancouver	6
G	Victoria	1
USA		
D	Chicago	3
E	Los Angeles	2
F	San Francisco	6
G	San Jose	3
H	Seattle	8
I	Washington DC	12



What we said we would do in 2012

- Attract financial partners for our development projects
- Secure planning entitlements to maximise their potential
- Decide when to commit to construction and marketing
- Acquire well-priced, income-producing investments with opportunities for value-add improvement for potential acquisition

What we did in 2012

- Achieved commitments from Alberta Teachers' Retirement Fund Board, Kingswood Capital Corporation, Manitoba Civil Service Superannuation Board and a North American investor
- Won permission on 15 West and made good progress with discussions on Ambleside, Square 701 and the North 40
- Started on site at 15 West and 1645 Pacific Avenue
- Acquired 3023 Hamaker Court and Waterford Place apartments

2012 summary

Revenue profit

C\$21.5m

2011 C\$20.3m

Total return

9.5%

2011 8.9%

Assets under management

C\$2.2bn

2011 C\$2.0bn

Ambleside
West Vancouver, Canada
This signature, mixed-use
development on the waterfront
is in the public process phase

A 60-year collaboration

www.1300ambleside.ca

Ambleside has been a centre of life in the District of West Vancouver for the last century. A combination of its outstanding natural environment and 'West Coast' culture makes it one of Vancouver's most sought-after neighbourhoods.

Grosvenor, an active developer and investor in Greater Vancouver since 1953, now has a rare opportunity to revitalise this waterfront community and shopping district, redeveloping the 1300 block of Marine Drive. The proposed scheme, designed by James Cheng, features two terraced buildings that step from two to eight storeys and will have shops, cafés and restaurants at street level, with residential condominiums and green roofs above. Between the two buildings will be a 650m² glazed pedestrian galleria, open at both ends. A major sculptural installation by West Vancouver artist Douglas Coupland has been proposed to add a significant finishing touch to the development.

Ambleside, West Vancouver, Canada

Engaging effectively with communities helps citizens contribute to decisions that affect the places in which they live, work and play.

Opposite

James Cheng, architect for the Ambleside development, engages members of the West Vancouver community during a public meeting.

After completing the site assembly for the Ambleside project, we asked hundreds of West Vancouver residents of all ages to envision the future of the area. They were clear about what they wanted: an outdoor 'living room' for West Vancouver (more public spaces), a hub for festivals and events, restaurants and shops, commitment to the arts, culture and architectural tradition of the West Coast, and a vibrant Ambleside. Their input informed the re-zoning application that we submitted in October 2012 to the District of West Vancouver.

"We believe the Ambleside scheme shows what our commitment to place-making in key urban sites can deliver. Opportunities such as this are rare. We are grateful to have had extensive discussion with the community in the crucial planning stages; it helped us to show what our belief in 'Living cities' really means."

James Patillo Senior Vice-President
and General Manager, Grosvenor Americas

Grosvenor Americas

continued

Signs of recovery

With the US and Canadian markets continuing a moderate pace of growth and our solid financials – revenue profit was C\$21.5m (2011: C\$20.3m), total return was 9.5% (2011: 8.9%), and assets under management were C\$2.2bn (2011: C\$2.0bn) – we have an unprecedented pipeline of development projects underway. C\$1.3bn development value of projects at various stages. Fuelled in part by proceeds from asset sales completed at the beginning of the downturn, we have 16.5% of our capital allocated to this expanding development pipeline.

Our mantra is ‘Focus’

Our approach is to focus closely on areas in which we excel. We concentrate on cities in which we have a physical presence and, to a limited extent, other cities which we know well. We are also selective about our product types, leading with retail, multi-family residential and mixed-use as our main sectors.

A demanding development pipeline

In the stable economic environment of Vancouver, we are partnering with Manitoba Civil Service Superannuation Board to redevelop Ambleside, a prominent waterfront gateway site (see pages 37 to 39). Additionally, we recently secured a prime development site at Edgemont Village in North Vancouver, where we are studying the feasibility of a large retail-led scheme (see page 42). Nearby, we commenced construction of 15 West with a 115-unit, 18-storey residential and retail tower.

“Grosvenor is one of a handful of developers who are interested in trying different models and connecting to our city’s aspirations. They also want to be a long-term land owner to manage a property after they have developed it. And you know that they will be on your wavelength; you’ll get the quality you’re looking for.”

Larry Beasley, C.M. Former Director of City Planning for the City of Vancouver, British Columbia, Founding Principal, Beasley and Associates

In Calgary, the success of condominium sales at Drake, which is on time and budget for completion in Autumn 2013, has emboldened us to embark on a similar project at the end of the block, Smith (see page 42). With our partner Cressey, we have revived a residential scheme, Avenue, on 15th Avenue at the west end of downtown, that we mothballed during the downturn; we plan to launch sales in Spring 2013. Also on the West Coast, we continue to acquire and sell apartment communities in the Greater Seattle market.

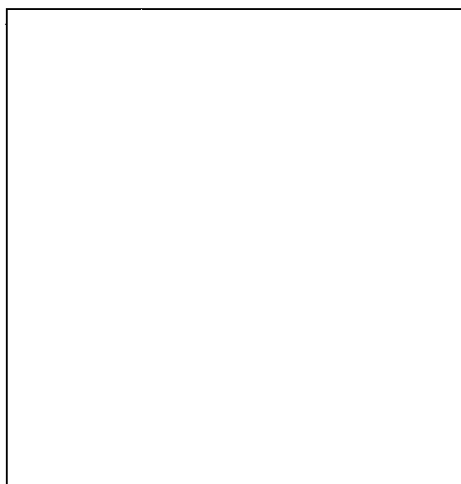
In San Francisco, which enjoys a strong technology-driven economy, we are examining the feasibility of developing a 18,600m² open-concept retail centre at Pleasant Hill after the anchor tenant, Kmart, surrendered its lease; we are moving closer to achieving entitlements for our residential and retail project North 40 in Los Gatos, and we commenced construction of our condominium building at 1645 Pacific Avenue (see page 42).

In Washington, DC, we acquired Square 701, a very large riverfront development site from three landowners, with potential for 42,000m² of retail, hotel and 325 residential units; an office site was concurrently sold. We completed the public engagement process at 8415 Fenton Street in Silver Spring, Maryland, where our mixed-use project includes construction of a new church for the vendor on adjacent land. At year-end, our 125-unit apartment block at District on 14th Street (see page 41) was almost complete and under contract for sale to an investor.

Steady improvement in the investment portfolio

Roughly 86% of our portfolio is allocated to income-producing investments that have faced challenges due to the economic climate. We have disposed of some income properties because they did not meet our requirements for rental growth. Because record low interest rates will make it difficult to rely upon further declining capitalisation rates to meet our objectives, we are targeting assets with income-growth potential.

© Manna Dots



District, Washington, DC

District is a mixed-use residential/retail development located in the vibrant 14th Street Corridor of Washington, DC. It features 125 luxury apartments, a fitness centre, roof-top lounge water feature and fire pit and 1 700m² of ground floor retail. A 50/50 partnership with The JBG Companies. District will be delivered in early 2013.

This is a computer-generated image

With intense competition, high prices and short timescales for investigating high-quality assets, it has been difficult to augment our portfolio whilst maintaining our selective stance on acquisitions. Nonetheless, declining construction prices have allowed us to embark on two shopping centre renovation projects, Broadmead Village Shopping Centre in Saanich and Westgate West in San Jose, and to implement our reinvestment plans for our assets at Annacis Business Park in Vancouver, which we have held for 60 years.

We have done well with leasing existing assets: occupancy levels remain high at 92.2% (2011: 95%), despite a major tenant bankruptcy. We have confidence in our portfolio and have the financial strength to withstand the pressure to accept poor terms.

People and community

Working at capacity, it has been important to have people in the right place at the right time. In the past year we have recruited three investment specialists, promoted Don Capobres to lead the Washington, DC development team and increased our research capability.

“Our C\$8.1m renovation of Broadmead Village Shopping Centre includes the transformation of the open-air Galleria into an interactive public realm that will become the heart of the shopping centre and the gathering place for the Broadmead community.”

Alison Miles Cork, Senior Asset Manager,
Grosvenor Americas, Vancouver

With strong local teams, we have close ties to the communities in which we operate. We enjoy our involvement in public events like the ‘Calgary Stampede’ and San Francisco’s ‘Rebuilding Day’ (see page 43), and take pride in the impact of our environmental initiatives. We have four major projects under construction, which were designed with community consultation, and are striving for LEED® certification. Both 251 Post Street in San Francisco, California and Carlyle Gateway I and II in Alexandria, Virginia were awarded LEED® Gold status and Broadmead Village Shopping Centre received BOMA BEST certification (see our Environment Review at www.grosvenor.com).

Looking ahead

We look forward to creating further investment partnerships like the one we formed with Grosvenor Maple Leaf Ventures, L.P. to invest in two northern Virginia office properties, 3023 Hamaker Court (see page 43) and Campus at Sunrise and a Seattle apartment community, Waterford Place (see page 43). Our mezzanine lending programme – which funded loans totalling C\$24m in 2012 – is one more way we are taking advantage of the recovery.

Such collaborations complement the careful preparations we have made on our own account to ensure that we are ready for the upturn.

Andrew Bibby

Chief Executive, Grosvenor Americas

Market outlook

Eileen Marrinan, Director of Research
Grosvenor Americas

Trends in the US housing market

US housing market indicators began improving in mid-2011 and strengthened during 2012. Sales volumes have increased, inventory has dwindled and home prices are registering gains.

Today’s low home prices and historically low interest rates make home ownership very affordable. The average annual mortgage payment represents only 9% of household income, 40% below its long-term average. Government intervention and private enterprise are mitigating the impact of the nation’s ‘shadow inventory’ of vacant and foreclosed homes. Returning demand, driven by increasing household formation and greater housing affordability, suggests a positive outlook for this sector for the next five years.

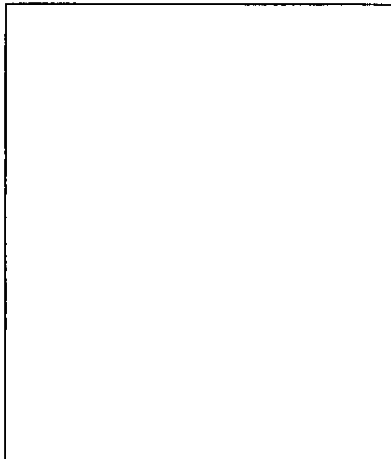
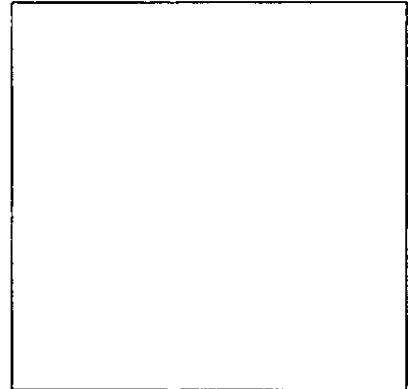
Grosvenor Americas

Stories from the year

Edgemont Village, North Vancouver: *a mixed-use development opportunity*

Development sites in Edgemont Village are rare. An established shopping enclave only 15 minutes from downtown Vancouver, it offers schools, parks and other amenities. While it is a desirable place in which to live, it lacks the high-quality multi-family housing stock which is in strong demand, particularly by people looking to downsize.

In 2012 we entered into a purchase and sale agreement for a one-hectare site in the Village, the largest development site ever assembled in the area. We believe that our proposed mixed-use development – comprising for-sale condominiums and town-homes, retail space anchored by an upgraded, full-service grocery store and new office space – will greatly benefit the community.



Drake and Smith, Calgary: *replicating success*

Drake – a development of 135 residential condominiums over 17 storeys – is located in Calgary's Beltline, an established residential, retail and commercial area. Its popularity shows the desire amongst a young demographic for new, high-end but affordable, energy-efficient homes close to existing shops and restaurants. We used social media to create awareness and, since sales launch, realised 11 sales from our Twitter and Facebook campaigns – 10% of the total at year end, Drake was 80% pre-sold.

The success of Drake has encouraged us to commit to Smith – a near replica at the opposite end of the same block, with 140 units in a similar structure and floor plan. With design work progressing efficiently, we plan to hold our pre-sale launch much earlier than anticipated – in Autumn 2013.

"A quick walk to work, and a quicker one to nightlife, make the location phenomenal. It's at the confluence of 17th Avenue, Downtown, Mission and 1st Street areas. The floor plan, interior details and price sealed the deal."

Jessie Shire
A purchaser at Drake

www.drake17.com

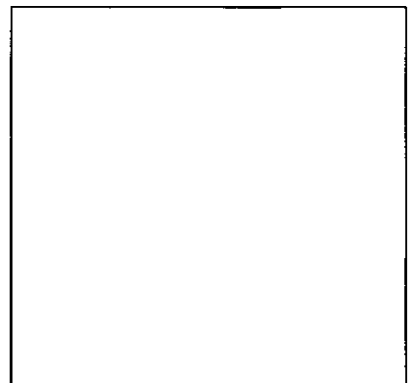
1645 Pacific Avenue, San Francisco: *a creative solution*

In March 2007, Grosvenor offered a mezzanine loan to a San Franciscan developer with whom we had a previous successful relationship. On a site in Pacific Heights, this developer had planned construction of 39 large condominium units and three street-level retail spaces. The scheme was moving forward with entitlements when the global financial crisis challenged its viability. In a mutually beneficial arrangement, we acquired the entitled property and retained the developer as a consultant.

The resulting collaboration will deliver a luxury condominium building in one of the city's most exclusive neighbourhoods. With the condominium market improving and a technology-driven local economy that is leading the US in performance, this project promises favourable returns for both parties while enhancing our reputation as a high-quality, mixed-use residential developer.

This is a computer-generated image.

www.1645pacific.com



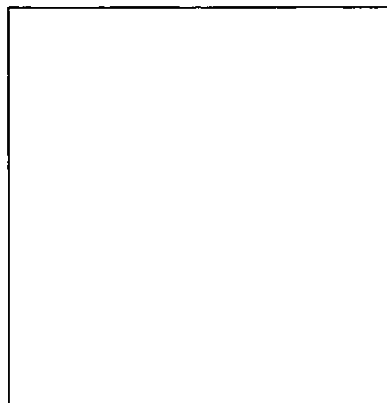
Grosvenor Americas Stories from the year continued

Waterford Place, Seattle: *rural living in an urban setting*

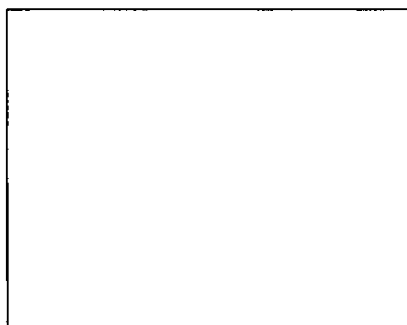
In August 2012 we acquired Waterford Place in Woodinville, Washington, to help meet our strategic objective of building a portfolio of value-add rental properties in the Puget Sound region

This suburb provides easy access to downtown Seattle and the region's largest employment centres, including Microsoft's Redmond headquarters,

the Bothell Technology Corridor and Boeing's Everett aircraft assembly facility. The area also offers hiking and biking on the Burke-Gilman Sammamish trails, summer concerts at local wineries and other recreation. Our seven-hectare property comprises 17 three-storey apartment buildings and a single-storey community clubhouse. We plan a substantial renovation, under the new brand name of Campbell Run, upgrading the community's amenities, clubhouse, landscaping, apartment interiors and signage.



The 'Calgary Stampede' and 'Rebuilding Day': *supporting our communities*



Grosvenor has been active in Calgary since 1997 and maintaining ties with the local community is important to us. We like to sponsor events that many people can enjoy. One such event is an outdoor concert called 'Stampede Roundup', held during the annual Calgary Stampede in July. The concert provides an ideal opportunity to increase our visibility in the Calgary market and our support increases our visibility amongst a wide audience of over one million visitors who come to the rodeo, exhibition and festival.

Working with property-focused charities is another good way of giving back to our local community. 'Rebuilding Together' is a national not-for-profit organisation that helps preserve affordable home ownership and revitalise neighbourhoods in the

USA by providing critical home repairs to low-income homeowners free of charge. In April 2012, six of our San Francisco staff participated in 'Rebuilding Day', a city-wide effort that brings together thousands of volunteers to repair the homes of low-income, disabled or elderly San Francisco residents and renovate schools.

"The 'Rebuilding Day' was an excellent way to get involved and to help people in our community. Our team worked with a local resident to repaint the inside of her house and clean debris from her backyard. It is possible to make a difference in one long day of concerted effort."

Whitney Sylvester
Development Coordinator,
Grosvenor Americas

Hamaker Court, Fairfax: *a rare medical facility*

In July 2012 we acquired a 11,200m² medical office building in the Merrifield area of Fairfax, Virginia. Located at 3023 Hamaker Court, minutes from the new amenity-rich Merrifield Town Center and Dunn Loring Metro station, the property includes a seven-storey car

park and adjacent land entitled for development of a second building with additional parking. The only facility of its kind built in this submarket in the last decade, it has exceptional quality and access, prestigious tenants and proximity to INOVA Fairfax, one of the country's best hospitals. We plan to lease the rest of the space to additional medical practitioners whose specialties complement those of our existing tenants.



Grosvenor Americas Board of Directors

As at 14 March 2013

Non-Executive Directors

01 Brandt C. Louie OAC LL.D. FCA

Position Chairman

Appointed to the board 2010

Experience Brandt is Chairman and Chief Executive Officer 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.

02 James E. Hyman

Appointed to the board 2011

Experience James has more than 25 years of experience in international business leadership. He is currently President and Chief Executive Officer of TestAmerica. Prior to that, he was Chairman, President, Chief Executive Officer and a Director of Cornell Companies. Earlier, he held executive positions in the USA and Europe with FTI, Starwood Hotels & Resorts Worldwide, GE Capital, McKinsey & Company and J.P. Morgan among others. He chairs the non-profit Mega-Cities Project, focused on urban development issues in the world's largest cities.

03 John T. Roberts, Jr

Appointed to the board 2010

Experience John 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 is currently a board member of DuPont Fabros Technology.

04 Mark Preston MRCIS

Position Group Chief Executive

Appointed to the board 2008

Experience Mark joined Grosvenor in the UK in 1989. Seconded to Hong Kong in 1995, he returned to lead Grosvenor's 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. Mark currently holds two Non-Executive Directorships on the boards of Persimmon Plc and Sonae Sierra SGPS. He is a Trustee of The Westminster Foundation and also a member of the Board of The Association of Foreign Investors in Real Estate, the ULI Greenprint Advisory Board and the (University of) Cambridge Land Economy Advisory Board.

05 Nicholas Scartles FCA ATTORNEY AT LAW

Position Group Finance Director

Appointed to the board 2006

Experience Nicholas joined Grosvenor in 2004. He was previously at Centrica, Price Waterhouse and Coopers and Lybrand in London, New York and Toronto. 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

06 Andrew Bibby

Position Chief Executive

Appointed to the board 2009

Experience Andrew joined Grosvenor in 1984 and became Chief Executive of Grosvenor Americas in 2009. During this time, he has been involved with the acquisition, development and management of all property types and has worked in Vancouver, Calgary and San Francisco. He is currently a Director of Canadian Western Bank, has served as a past Director of the Real Property Association of Canada and is a former member of the Sauder Business School advisory board.

07 Rekha Patel CPA

Position Finance Director

Appointed to the board 2003

Experience Rekha 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 on the Board of the Yerba Buena Center for the Arts.

01

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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	12.8	14.3	8.1	9.0	5	158.5	399.9
Retail	31.7	36.1	5.5	6.3	21	574.8	1,053.7
Residential	18.4	19.9	8.0	8.6	8	230.8	278.8
Hotel	2.7	2.7	16.0	16.0	1	16.9	67.7
Industrial	7.7	6.1	5.6	4.4	1	138.4	138.4
	73.3	79.1	6.5	7.1	36	1,119.4	1,938.5

Development properties							
					Number of properties	Grosvenor share C\$m	Assets under management C\$m
Mixed-use					5	82.1	82.1
Residential					6	78.5	142.7
					11	160.6	224.8

Geographic analysis					
	Grosvenor share			Total C\$m	Assets under management C\$m
	Investment C\$m	Development C\$m	Financial assets C\$m		
USA	779.9	77.4	7.1	864.4	1,629.0
Canada	339.5	83.2	13.1	435.8	554.4
	1,119.4	160.6	20.2	1,300.2	2,183.4

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	Everett, WA, USA	13 000
Peloton	150-unit apartment community	Redmond, WA, USA	11,800
Industrial			
Annacis Business Park	Warehouse and distribution park	Delta, BC, Canada	86 000
Mixed-use			
1520 Fourth Street	Ten-storey office building with 2,200m ² retail	Calgary AB Canada	9 900
Chelsea at Juanita Village	Mixed-use storefront retail with 196-unit apartment community above	Kirkland, WA, USA	16,700
Investment properties – jointly owned			
Hotel			
Courtyard by Marriott Chevy Chase	226-room hotel	Chevy Chase, MD USA	10 500
Office			
3023 Hamaker Court	Medical office building with seven-levels of parking	Fairfax VA USA	11 200
The Campus at Sunrise	Three low-rise office buildings	Reston, VA USA	23,600
Carlyle Gateway I & II	Two six-storey office buildings with ground floor retail and parking	Alexandria VA USA	23 200
1701 Pennsylvania Avenue NW	12-storey office building with ground floor retail and parking	Washington, DC, USA	18,000
Retail			
Broadmead Village	Community shopping centre	Saanich, BC, Canada	11 800
Shopping Centre	Community lifestyle centre	Evanston, IL, USA	16,500
Church Street Plaza	Community shopping centre	Calgary, AB, Canada	12,600
Coventry Hills Shopping Center	Community shopping centre	Springfield VA USA	9 800
Frontier Drive Metro Center	Community shopping centre	Chicago, IL, USA	11 700
830 North Michigan Avenue	Six-storey retail building	Beverly Hills CA, USA	1,400
308-310 North Rodeo Drive	Retail building	Wheaton IL USA	23,400
Rice Lake Square	Nine-building community shopping centre		
Residential			
Borgata Apartments	83-unit apartment and town-home community	Renton WA, USA	8,700
Northshore Townhomes	86-unit town-home community	Kenmore, WA USA	11 600
Waterford Place	360-unit apartment community	Woodinville, WA, USA	27,500
West Ridge Park	239-unit apartment community	Seattle WA USA	21,900
Woodcreek Apartment Homes	164-unit apartment community	Lynwood, WA USA	15 500

Grosvenor Americas Portfolio continued

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	Three-building retail portfolio	Washington, DC, USA	4 300	
Friendship Heights properties	Two-building retail portfolio	Washington, DC/ Chevy Chase MD USA	14,400	
High Street	Suburban street-front retail in a mixed-use building	Surrey, BC Canada	1,600	
The RISE	Mixed-use shopping centre development with 92 live-work rental lofts	Vancouver, BC, Canada	26,500	
Woodley Park properties	Three-building 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 the construction phase	Calgary, AB, Canada	10 000	2013
Smith	140-unit, multi-family development in the pre-entitlement phase	Calgary AB Canada	10,500	2016
1645 Pacific Avenue	39-unit, boutique condominium with underground parking	San Francisco, CA, USA	7 400	2014
Mixed-use				
Ambleside	Full-block, waterfront, residential-retail re-zoning in the public-process phase	Vancouver BC Canada	23,800	2016–2018
Fenton Street	250-unit multi-family development with 2,300m ² retail in the pre-entitlement phase	Silver Spring, MD USA	21,800	N/A
North 40	33-acre phased mixed-use village development in the Specific-Plan phase	Los Gatos, CA, USA	74,300	2015–2020
Square 701	325-unit, mixed-use development with 3,000m ² of retail and a 170-key hotel	Washington, DC USA	42,000	2016
Principal development and trading properties – jointly owned				
Residential				
15 West	115-unit, multi-family development in the construction phase	North Vancouver BC Canada	12,300	2014–2015
Mixed-use				
Avenue	319-unit mixed-use development with 200m ² of retail	Calgary, AB, Canada	30 300	2016–2018
District	125-unit, mixed-use development with 1,700m ² of retail	Washington DC USA	11,100	2013
Edgemont Village	90-unit, mixed-use development in the pre-entitlement phase with 6 300m ² of retail	North Vancouver, BC, Canada	15 100	2017

Grosvenor Asia Pacific

Nicholas Loup Chief Executive

Nicholas has had over 20 years with Grosvenor – almost all based in Asia

Why do you put such emphasis on the standards of design?

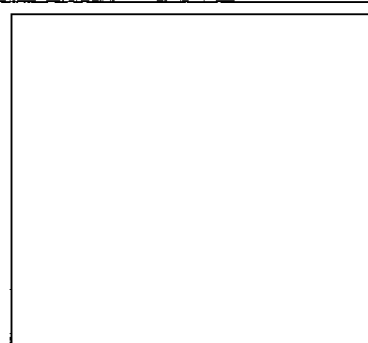
“The aesthetic and functional quality of our buildings is what will set them – and us – apart over the long term. Marrying local expertise with international designers should ensure that our developments remain admired features of the urban landscape for many decades”

Business objective

We are positioning ourselves for the long term in Asia, with three distinct aims. First, we are building a luxury residential brand under the Grosvenor banner, differentiated by the quality and internationalism of its design, secondly, we are growing a diversified portfolio of core investments in this and other sectors through co-investment partnerships, and thirdly, looking further ahead, we are preparing to develop best-in-class buildings in the central business districts of Shanghai and Beijing as high-quality long-term investments, solely or in partnership.

Number of assets by city

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



What we said we would do in 2012

- Invest the capital raised for our residential development partnership

What we did in 2012

- Expanded our programme of residential developments by acquiring Monterey Court, Hong Kong

- Deploy remaining proprietary capital in investment opportunities

- Committed remaining proprietary capital to our first office asset in Beijing – a strategic milestone

2012 summary

Revenue profit

HK\$120.5m

2011 HK\$154.8m

Total return

8.7%

2011 8.0%

Assets under management

HK\$8.5bn

2011 HK\$7.6bn

The Westminster Terrace
Hong Kong, China
Castle Peak Road, running
along the waterfront,
provides quick access
to both Hong Kong
International Airport and
Mainland China

Good design

www.thewestminsterterrace.com

Our approach to developing residential property in Asia is to bring fresh ideas to this market, introducing innovative materials and high-specification finishes which complement local traditions and preferences. We do this by working with a team of trusted, influential consultants who understand how to create very high-quality spaces that are uniquely sensitive to our customers' requirements. This has allowed us to grow a portfolio of award-winning developments across the region, including Grosvenor Place Kamazono-cho, in Tokyo, and Grosvenor Place Repulse Bay and The Westminster Terrace, both in Hong Kong.

The Westminster Terrace, Hong Kong, China

The Westminster Terrace – the most recent example of this approach, completed in 2009 – is a signature residential development, designed in collaboration with the English architect Paul Davis and interior designers Koichiro Ikebuchi and Tara Bernerd, from Japan and England respectively. The scheme provides 59 duplex apartments, including two panoramic units and one penthouse apartment, with unit sizes ranging from 300m² to 550m².

Opposite

The entrance lobby at The Westminster Terrace features interior design by Koichiro Ikebuchi.

Through a design process co-ordinated with all three practices, we were able to make the most of the development's surroundings and we set a benchmark for generous floor plans. The last of the apartments in The Westminster Terrace sold in May 2012, rounding off total sales at 17% above initial estimates – a mark, we believe, of the success of the collaboration between consultants and client.

"Given the marvellous panoramic views available at The Westminster Terrace's site on Castle Peak Road, we decided – amongst other things – to provide unusually large balconies that would allow residents to enjoy their surroundings to the full."

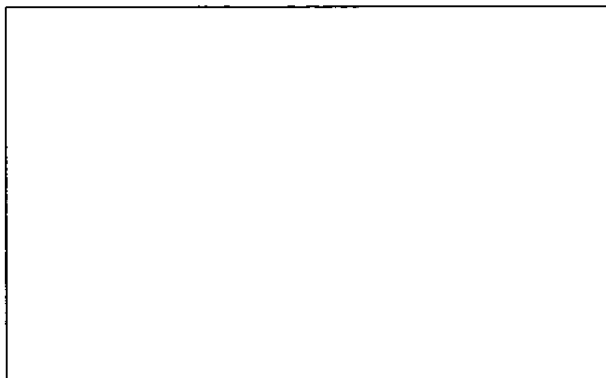
SH Fung Projects Director
Grosvenor Asia Pacific

Grosvenor Asia Pacific continued

Roppongi Arents, Tokyo

Retrofitting at Roppongi Arents, to be completed in Q3 2013, will bring the development up to Grosvenor's international design standards – with good space-planning, modern aesthetics and the highest-quality materials

This is a computer-generated image



Strong markets

In Hong Kong, housing prices remained strong despite government measures to temper price growth. China was more resilient than expected, although credit will remain tight in the property market until the new leadership has time to settle. In Tokyo, improved fundamentals and tight supply will continue to drive housing prices higher, offering further good opportunities to invest. At year end, revenue profit was HK\$120.5m, down on 2011 (HK\$154.8m) due to lower trading profits, total returns increased to 8.7% (2011: 8.0%), assets under management increased to HK\$8.5bn (2011: HK\$7.6bn). Our financial capacity remains sufficient to meet our investment plans.

Playing the long game

We made good strategic advances in 2012, investing in our residential development pipeline in Hong Kong and Japan, which now stands at HK\$820m, representing HK\$5.1bn under management. We invested HK\$245m in residential investment properties in Japan. All this will help us improve long-term revenue and trading profit. We are increasing our development ratio towards 13% in 2016; currently it stands at 9.2%.

Growing into a leading residential development brand

We sold the remaining 13 units at The Westminster Terrace (see pages 49 to 51), Hong Kong, significantly exceeding our budget.

The acquisition of Monterey Court at Jardine's Lookout with our partners Asia Standard and Couture Homes provides a development opportunity to exceed the standards and scale of The Westminster Terrace at a superb residential site on Hong Kong Island (see page 53).

"It is vital to create homes that not only catch the eye but are also practical to live in. With Monterey Court – our fourth residential development in Asia with Grosvenor – we hope again to achieve this balance."

Paul Davis Founder, Paul Davis & Partners

In Tokyo we signed an agreement to acquire Park Habio Azabu Tower, a 99-unit, high-rise apartment building to be a value-added residential project.

Creating and nurturing enduring investments

We committed to the acquisition of nine floors of China Merchants Tower, a Grade A office building in Chaoyang, Beijing, and our first substantial investment in the office sector in China.

We acquired The Mark Minami Azabu, an 11-unit luxury residential building built in 2008 in Tokyo. A wholly-owned asset, it should contribute significantly to our recurring income.

Refurbishment at Roppongi Arents, Tokyo will improve a key common area and a first selection of units (see above).

Our investment at PCCW Tower, Island East, Hong Kong, remained at 100% occupancy. In Japan, Nazaka Cuidaore in Osaka and Shinsen in Tokyo also performed strongly, at 99.8% and 100% respectively. Overall the occupancy figure was 95.5% (2011: 97%).

We sold the penultimate unit at Grosvenor Place, Lakeville Regency, in Shanghai, and Yoshiyasu Kanda in Tokyo, releasing HK\$240m for our development and investment programme.

Integrated operations across three markets

Our able Chairman Tim Freshwater will hand over in July to his successor Keith Kerr (see page 9). We are grateful for Tim's good counsel over many years.

Yu Yang joined the Executive Directors on our board in November, an important recognition of the quality of our locally-based expertise. Koshiro Hiroi's remit has been extended to Managing Director, Development, across the region to facilitate sharing of know-how.

We are seeing the benefits of further investment in our management team to ensure integration and consistent rigour across our expanding operations. Our professional probity is particularly important, not only to Grosvenor but also to our partners and staff, who value training in matters such as business ethics.

Grosvenor Asia Pacific

Stories from the year

The China Development Forum: *global debating*

Lesley Knox and Nick Loup attended the 9th China Development Forum, held at the Diaoyutai State Guesthouse in Beijing, in March 2012. Lesley was a speaker at a session on the dilemmas facing the property market in China and possible solutions, and was one of a select group of international delegates greeted by Premier Wen Jiabao in person. The Forum brings together senior ministers and officials from China with senior leaders from top multi-national corporations, prominent academics, scholars and leaders of major NGOs, to discuss the wider issues around China's future development.

Collaboration with leading institutions

We were invited to join the annual China Development Forum for the first time (see right). Together with a group of Fortune 500 companies, we are contributing to a report on sustainable urbanisation to be submitted to the new leadership at the 2013 Forum.

We continue our support of the China Development Research Foundation. A report on their research into sustainable affordable housing on the mainland was published in March 2013.

Our involvement with the World Economic Forum and with ANREV, the Asian association for investors in non-listed real estate vehicles, continues.

Nick Loup

Chief Executive, Grosvenor Asia Pacific

Market outlook

Harry Tan Head of Research
Grosvenor Asia Pacific

Asia's megacities are centred on China

The world's urban landscape is changing and Asia will be at the epicentre of a decisive shift from West to East in the coming decades. By 2050, about 63% of the world's population will be living in cities, 35% of them in the East.

Many of tomorrow's economic success stories will arise from Asia's cities. In China, new transport infrastructure, including 14 new intra-urban metro systems in the pipeline, will open up new areas of land for development. Rapid urbanisation will increase household and wealth growth, strengthening demand for housing. Grosvenor's strategy of contributing to urban development by providing environmentally-sound, high-quality residences is well-founded.

Monterey Court, Hong Kong: *building partnerships*

Partnerships remain a key part of our strategy in Asia. Our joint investment with Couture Homes Limited and Asia Standard International in Monterey Court is the latest reminder of the gains from working with like-minded and capable partners. It continues our fruitful relationship with Asia Standard, with whom this will be our third residential development, it also marks the beginning of our partnership with Couture Homes, who share Grosvenor's passion for crafting special residences for buyers. The prize in 2017 should be a truly iconic building on Hong Kong's skyline.

Grosvenor Asia Pacific Board of Directors

As at 14 March 2013

Non-Executive Directors

01 Tim Freshwater

Position Chairman

Appointed to the board 2005

Experience Tim is currently an Advisory Director of Goldman Sachs having been Vice Chairman there from 2005–2012. Prior to that he was Chairman of Jardine Fleming following 29 years with Slaughter and May. Tim is a Director of several listed companies including Swire Pacific and Hong Kong Exchanges and Clearing Limited and is a Director of the Community Chest of Hong Kong.

02 Kensuke Hotta

Appointed to the board 2008

Experience Kensuke 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.

03 Michael Lee

Appointed to the board 2008

Experience Michael 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.

04 Norman Lyle OBE

Appointed to the board 2008

Experience Norman is a Non-Executive Director of Standard Chartered Bank (Hong Kong) Ltd and Mshereb 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.

05 Mark Preston MBE

Position Group Chief Executive

Appointed to the board 2008

Experience Mark joined Grosvenor in the UK in 1989. Seconded to Hong Kong in 1995 he returned to lead Grosvenor's fund management operations in 1997. He spent four years in San Francisco from 2002 became Chief Executive of Grosvenor Britain & Ireland in 2006 and Group Chief Executive in 2008. Mark currently holds two Non-Executive Directorships on the boards of Persimmon Plc and Sonae Sierra SGPS. He is a Trustee of The Westminster Foundation and also a member of the Board of The Association of Foreign Investors in Real Estate the ULI Greenprint Advisory Board and the (University of) Cambridge Land Economy Advisory Board.

06 Nicholas Scarles FCA ATTORNEY AT LAW

Position Group Finance Director

Appointed to the board 2007

Experience Nicholas joined Grosvenor in 2004. He was previously at Centrica Price Waterhouse and Coopers and Lybrand in London New York and Toronto. 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

07 Nicholas Loup

Position Chief Executive

Appointed to the board 1998

Experience Nicholas established the operation in Asia Pacific in 1994. He is 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 and a member of the World Economic Forum's Fiscal Sustainability Global Agenda Council.

08 William Lo FCCA CFA

Position Chief Operating Officer

Appointed to the board 2002

Experience William joined Grosvenor in 2002 as Finance Director. He was appointed Chief Operating Officer in March 2012 responsible for driving performance and operational efficiencies across 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.

09 Christopher Ip

Position Finance Director

Appointed to the board 2012

Experience Christopher 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

Position Managing Director Development (Asia Pacific) Chief Representative Japan

Appointed to the board 2011

Experience Koshiro joined Grosvenor in 2001 as Chief Representative and led the growth of the business in Japan. Before joining Grosvenor he worked for American private fund Lone Star Group and Japanese developer Tokyo Tatemono.

11 Yu Yang

Position Managing Director Investment (Greater China)

Appointed to the board 2012

Experience Yu Yang joined Grosvenor in 2004 as Chief Representative for China building up Shanghai operations and spearheading the company's investment activities in China. Before joining Grosvenor Yang worked at First China Property Group an opportunistic fund managed by Macquarie Bank.

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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	123.3	141.2	4.1	4.7	2	2,979.4	2,979.4
Retail	18.6	18.6	5.9	5.9	1	313.8	627.5
Residential	63.6	67.5	6.0	6.3	4	1,065.2	1,865.3
	205.5	227.3	4.7	5.2	7	4,358.4	5,472.2

Development and trading properties

	Number of properties	Grosvenor share HK\$m	Assets under management HK\$m
Residential	2	447.6	3,000.9

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	2,810.0	294.8	39.2	3,144.0	4,322.1
China	542.2	—	—	542.2	542.2
Japan	1,006.2	152.8	—	1,159.0	3,648.0
	4,358.4	447.6	39.2	4,845.2	8,512.3

Property	Description	Location	Area m ²	Completion date
Investment properties – directly owned				
Office				
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	One unit in a luxury residential apartment building in Jingan	Shanghai, China	970	
The Mark Minami Azabu	Residential property in Minato-Ku	Tokyo, Japan	3,600	
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 Kamazono-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
Monterey Court	Residential development in Jardine's lookout	Hong Kong, China	5,400	2017

Proprietary activities – indirect

Grosvenor invests *indirectly* in property in two ways.

We currently have co-investments in 23 investment vehicles managed by Grosvenor Fund Management – five in the UK, four in the US, six in Continental Europe, six in Asia Pacific and two international funds.

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 our holding: we now control 50% of the company.

Our indirect portfolio is managed centrally by a small team in the Grosvenor Holding Company led by Chris Taite, Group Investment Director, based in our London office.

Indirect investments

Mark Preston Group Chief Executive

Since 2011 Grosvenor's indirect investments have been managed centrally. Mark chairs the Group Investment Committee.

Why is it so important for Grosvenor to co-invest in Grosvenor Fund Management's investment vehicles?

"The spread of investments assists in the pursuit of our diversification objective. Also, by putting Grosvenor capital to work alongside other investors in Grosvenor Fund Management's funds, we aim to reassure investors that Grosvenor's interests are aligned with theirs."

Business objective

The Group's objective, through indirect investments in property, is to diversify its property portfolio further and achieve strong risk-adjusted returns by exposure to sectors, countries, investment types and management teams which its direct property investments do not provide. We achieve this by investing in funds, clubs and other investment vehicles run by Grosvenor Fund Management, and by investing with specialist third-parties.

Number of investments by country

A Australia	2
B Brazil*	1
C China	1
D Continental Europe	7
E Japan	3
F UK	6
G USA	5
International	2

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

What we said we would do in 2012

- Seek new investment opportunities with Grosvenor Fund Management

- Look for further investment opportunities with third-parties

- Strengthen evaluation of our performance as investment manager internally and against benchmarks

What we did in 2012

- Through Grosvenor Fund Management
 - invested in a global real estate equity fund,
 - invested in a new Swedish shopping centre, and
 - committed to invest in core real estate in the USA
- Invested with specialist third parties
 - 10 Investment LLP (UK industrial), and
 - High Street Realty Fund IV, (US industrial and logistics)
- Developed historic performance analysis at individual and portfolio investment level, facilitating benchmark analysis

2012 summary

Revenue profit

£49.0m

2011: £59.1m

Total return

1.5%

2011: 3.0%

Equity invested

£747.5m

2011: £841.0m

Energy Parkway
Baltimore, Maryland, USA
An acquisition made by
High Street Equity Advisors

Connecting cities

Through the indirect element in our proprietary portfolio, we seek to invest in sectors and geographies in which our proprietary operating companies do not have broad in-house capability. As in other parts of the Grosvenor Group, we focus on cities, taking careful account of what makes them successful over the long term.

2012 saw the Group make its first foray into a real estate sector that is vital to sustainable city growth – logistics. Urban centres are constantly vying for business and need continuously to increase their competitiveness; better logistics help achieve this by improving connectivity – enabling businesses and individuals to get their goods and services to market quicker, more reliably and at lower cost.

Investment in the industrial and logistics sector with High Street Equity Advisors

As the pace of globalisation and urbanisation increases, the demand for good logistics from both individual and business customers grows more intense, making it a thriving real estate market. To gain exposure to it, we took an indirect investment position in a specialist fund with High Street Equity Advisors, based in Boston, USA. The founding Directors of High Street average more than 33 years of real estate experience. Since the company was formed in 2002, it has acquired over 1,500,000m² of industrial and logistics property at a total cost in excess of US\$900m. With a team of 20 highly focused regional and sector specialists, they are able to use their extensive knowledge of local markets to understand both tenant and investor demand.

Opposite

2012 saw us diversify into the logistics sector – investing in property that helps people get their goods more efficiently.

“We take great pride in having Grosvenor as partner and investor, and hope that through execution, performance and communication we will earn the opportunity to expand our relationship over time.”

Bob Chagares President and Chief Investment Officer
High Street Equity Advisors

Indirect investments continued

A difficult year for investment returns

In 2012, the return to Grosvenor from our indirect investment in property fell, largely attributable to our exposure to European retail. The portfolio contributed £49.0m in revenue profit (2011: £59.1m), and a 1.5% total return (2011: 3.0%).

This performance is disappointing but it should be put in the context of the current low point in the property cycle together with the overall weakness of the world economy. On the positive side, the composition of our indirect portfolio evolved to increase the Group's exposure to countries such as Brazil and Sweden, sectors such as industrial, and new third-party investment vehicles such as *zo* Investment LLP and High Street Realty Fund IV (see pages 59 to 61), all of which have enhanced the indirect portfolio's longer-term performance prospects and diversification. We also continue to benefit from the centralisation of all our indirect investments into a single portfolio: globally aggregated information provides greater transparency, visibility and consistency in managing and evaluating overall performance.

A strategy for diversification

The Group has a strategic allocation of 26% of its capital to indirect investment in property, to help achieve its desired diversification of investment returns. Our strategy for our indirect portfolio is to focus on two types of investment vehicle: those managed by Grosvenor Fund Management, and those run by specialist third-parties. Together, these activities complement the direct property investments made through Grosvenor's proprietary Operating Companies.

Investing through Grosvenor Fund Management

We took the important strategic decision to establish a separate investment vehicle for global real estate equities. This global real estate equity fund commenced trading in October 2012 and has made a very promising start.

We also made a strategic investment in a new Swedish shopping centre with the existing investors in the Grosvenor European Retail Partnership (see page 73), a commitment to invest in core real estate in the USA, and are looking forward to the possibilities offered by Grosvenor Fund Management's joint

venture with Harvest Fund Management for funds in Greater China (see page 74).

In total these fund and club investments amount to £286m of equity which delivered a total return of 1.0% in 2012, reflecting the difficult investment conditions in UK retail markets on the one hand, compensated by strong returns in our office investments on the other.

The Group is also a client of Grosvenor Fund Management in respect of separate accounts totalling £187m of equity for assets in Australia and in Continental Europe. The Australian investments are by far the largest part of this portfolio, and delivered a total return of 15.3% in 2012.

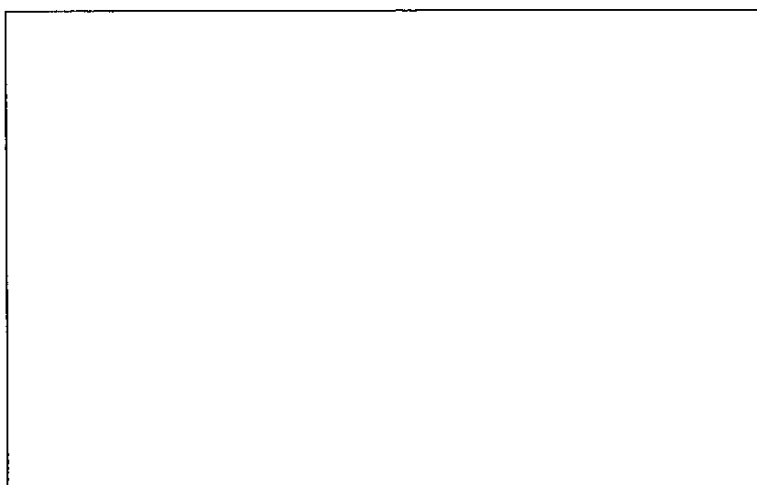
Investing through Sonae Sierra

Our investment in this very experienced retail developer and manager remains an important contributor to our overall diversification strategy. Given the high quality and dominance of the shopping centres in its portfolio in Continental Europe, we believe it will continue to perform relatively well despite the ongoing challenges in the consumer economies of these countries, while its exposure in Brazil is becoming increasingly important.

"We managed to keep global occupancy rates relatively stable at 96%, with global rents increasing by 0.3%, as a result of our attentive property management and in spite of sharper falls in average consumer sales figures in Europe."

Fernando Guedes de Oliveira Chief Executive,
Sonae Sierra

Sonae Sierra performed well given the travails of the economy in its heartland of southern Europe. Occupancy held up and revenue profits before trading losses remained at 2011 levels. Returns were impacted, however, by valuation falls and trading provisions, resulting in a total return for the year of 0.5%. It opened two new shopping centres – in Italy (Le Terrazze in La Spezia in March, a 50/50 joint venture with ING Real Estate) and Brazil (Uberlândia Shopping – see right). It delivered strong growth in management services to third-parties – with 27 new



Uberlândia Shopping, Brazil
This shopping centre opened in March 2012. With 201 shops, 21 restaurants, a hypermarket and five cinemas, its unveiling has created 2,000 jobs in the Triângulo Mineiro region. Sonae Sierra has been rewarded with 92% occupancy at year end. Tenants sales over the year were R\$183.2m from 4,000,000 visitors.

contracts including seven instructions in Algeria for the first time, through Sierra Cevital, jointly-owned with an Algerian group, and nine further instructions in Morocco, for the new EMEA Sierra Services division. It also continued its policy of recycling capital, with four sales during the year (Shopping Penha, Tivoli Shopping and Patio Brasil Shopping in Brazil, and Munster Arkaden in Germany) and three projects now at advanced stages of construction (Boulevard Londrina Shopping and Passeio das Aguas in Brazil and Hofgarten Solingen in Germany).

New investments in property or property-related companies

In April 2012 we made our first new investment in a third-party manager with the creation of *io* Investment LLP, managed by *io* Asset Management, which is buying multi-tenanted industrial estates and small business parks throughout the UK. It has an initial £35m to invest and at year end it had already made three investments totalling £9.7m.

*“John Sims and I were delighted to have launched *io* Investment LLP in partnership with Grosvenor. John’s untimely death in January is a great sadness, but the team and I remain committed to deliver on the ambitions we shared with him. With a number of new acquisitions in the pipeline, we aim to be fully invested during 2013.”*

Angus Scott-Brown Partner, *io* Investment LLP

In November we complemented this with an investment in a third party US east coast industrial and logistics fund, High Street Realty Fund IV. This fund focuses on existing industrial and logistics properties in the eastern half of the USA, investing in assets with recurring income and strong current cash yields.

Evaluation of results

We measure our success as an indirect investment manager in terms of delivery against both internal targets and external benchmarks. As we continue to improve our measurement and benchmark analysis, the strengths and weaknesses of our investment performance become more evident. Similarly, our growing exposure to specialist third-parties enables us to emulate market best practice as it evolves.

Market outlook

Maurizio Grilli Group Senior Research Analyst

Slow progress in Europe

The Outright Monetary Transactions programme has brought stability to a situation where Greece/Italy/Portugal/Spain were in danger of losing market funding, by establishing the European Central Bank as the lender of last resort to Eurozone countries. However, while the programme has significantly improved financial market conditions, the extent of its impact on the real economy is unclear. Reduced uncertainty will improve household and corporate confidence. Moreover, banks should increasingly loosen their lending standards and reduce interest rates on new loans to the private sector. Progress will be slow. By contrast, the policy of austerity adopted by Eurozone governments has driven unemployment across the continent to record levels. Youth unemployment is over 55% in Greece and Spain. The inevitable consequence is a significant increase in poverty and hardship.

In an uncertain economic and political environment, investors in Europe will remain risk-averse. They will focus on good-quality defensive assets. Our research shows that wealth, the presence of high-growth sectors alongside good public services and tight supply explains the resilience of property values in some European cities. Grosvenor’s expertise in urban investment will be an advantage in securing out-performance in this market.

Proprietary activities – indirect

Portfolio

Portfolio		Property assets £m	Equity £m
By category	Managed by Grosvenor Fund Management	841.1	473.8
	Sonae Sierra	1,242.2	264.3
	Managed by other third-parties	8.4	9.4
		2,091.7	747.5
By sector	Office	418.1	267.8
	Retail	1,572.7	406.0
	Residential	46.7	35.6
	Mixed-use	43.1	27.0
	Industrial	8.4	9.4
	Other	2.7	1.7
		2,091.7	747.5
By region	Australia	239.9	166.8
	Brazil	243.4	99.4
	Canada	2.1	–
	China	22.7	7.1
	Continental Europe	1,158.3	240.9
	Japan	40.2	16.9
	UK	334.8	192.3
	USA	50.3	24.1
		2,091.7	747.5
By activity	Investment	2,054.2	729.6
	Development	37.5	17.9
		2,091.7	747.5
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			

Proprietary activities – indirect Portfolio continued

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 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
Global Equities Fund	International	Diversified
Omega II	Continental Europe	Office
Investments managed by third-parties		
Sonae Sierra	Continental Europe	Retail
10 Investment	UK	Industrial
High Street Realty Fund IV	USA	Industrial

Fund management

Grosvenor has been working in partnerships 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 and a high level of client service. Operating from 11 offices in the United States of America, Europe and Asia, we employ 117 professionals with local knowledge and skills to execute our strategic investment decisions and create value for our investors.

We have 67 investor partners in 26 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.

Grosvenor Fund Management

Jeffrey Weingarten Chief Executive

Jeffrey joins the Group Board in September. James Raynor will succeed him as Grosvenor Fund Management Chief Executive.

Why is the launch of your China joint venture of such strategic significance?

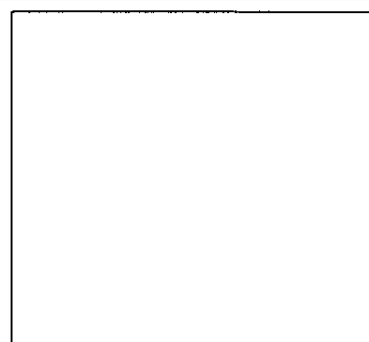
“Harvest Real Estate Investments is a dedicated real estate fund management business providing investors with exciting opportunities to invest in Greater China’s emerging real estate industry.”

Business objective

Grosvenor Fund Management’s objective is to create value for our investors, Shareholders and staff. We are a client-focused business with over 50 years’ experience of working in partnership and believe in delivering strong performance and superior service. We treat our investors as long-term partners and combine our history with a desire to innovate. We are real estate specialists and have highly-skilled staff with expertise in their local markets. We provide a long-term view of investment while always seeking to maximise short-term opportunities in order to enhance returns.

Number of assets by region

A Asia Pacific	42
E Europe	128
U USA	23



What we said we would do in 2012

- Explore new investment opportunities in Japan, Australia, Europe and the USA

- Research a global real estate securities product

What we did in 2012

- Created our joint venture with Harvest Fund Management for real estate investment in Greater China
- Acquired and began managing the Burlöv Shopping Centre, Malmö, for the Grosvenor European Retail Partnership
- Acquired and began managing a portfolio on the Rue de la République, Lyon, for a client
- Established a global real estate equity fund

2012 summary

Assets under management

£4.1bn

2011: £5.0bn

Revenue profit

£(10.3)m

2011: £(1.6)m

Disposals made

£703.0m

2011: £137.0m

Acquisitions made

£391.0m

2011: £762.0m

Rue de la Republique
Lyon, France
This 1km pedestrianised
street provides outstanding
retail, office and living
space in the heart of Lyon

Creating opportunities

Grosvenor Fund Management's strategy is to offer our clients a range of opportunities to invest in property, in locations in which we have experienced local teams. In line with this, in December 2012 we completed the acquisition of a 30-property portfolio in the historic heart of Lyon for a segregated account.

Lyon is France's 'second city' and accounts for 10% of the country's gross domestic product. The 62,000m² majority retail portfolio is located in a protected city centre retail parade on the Rue de la République

From London to Liverpool to Lyon

To create value for our client in the Lyon portfolio, we will build on our established expertise in estate management

This expertise derives not only from Grosvenor's experience on our London estate, which we have managed for over 300 years, but also from Liverpool ONE, 149,000m² of retail and leisure space which Grosvenor developed and now manages. Liverpool ONE moved Liverpool up the UK retail rankings from 17th to 5th, a position it has maintained

"We will be drawing on our experience in managing town-centre real estate around the world in order to bring something new to this exceptional portfolio and create value for our client."

Giles Wintle Managing Director,
Grosvenor Fund Management, Europe

Opposite

The Rue de la République is the prime destination for retailers wishing to be in Lyon

Grosvenor Fund Management continued

Testing times in which to grow a business

The challenging economic conditions, combined with funds reaching the end of their life cycles, fed through to our performance as a business. Assets under management dipped to £4.1bn (2011: £5bn) due to planned asset sales and lower than expected investment volumes. Revenue profit decreased to a loss of £10.3m due to continued investment to enhance our future capabilities – including launching our joint venture in China, establishing a global real estate equity fund and growing our US team – and to reduced fee income.

Investment activity

We continue to listen closely to our clients and provide them with appropriate products and structures to achieve their investment objectives in our core markets.

A highpoint of the year was a major strategic move with the launch of our joint venture with Harvest Fund Management, China's second largest asset management group, and a management team led by Rong Ren, well known for his experience in Chinese real estate fund management (see page 74).

In Continental European retail, despite the challenging capital raising and investment markets, we acquired the Burlov shopping centre in Malmö, Sweden, for Grosvenor European Retail Partnership, extending our relationship with our existing investor partners (see page 73). We also acquired a €330m portfolio of 30 buildings on the Rue de la République in Lyon, France (see pages 69–71), which we will manage on behalf of our client. Both deals were examples of our teams on the ground showing real insight into their market and of the trust we have gained as an investment adviser.

“The attention we pay to developing long-term investment strategies and the focus we give to creating specialist teams to deliver them has led to a number of successes, notably in European retail, which we expect to deliver real value for our clients.”

James Raynor Chief Investment Officer,
Grosvenor Fund Management

In the UK our new business focus remains on the retail and London office markets. In the USA we continued the evolution of our urban investment theme, looking at core city centre real estate and how best to execute this type of opportunity.

Building on Grosvenor's prior experience in real estate equities, we established a separate investment vehicle with Grosvenor's capital for global real estate equities (see page 74).

Portfolio management highlights

Maintaining strong relationships with our tenants has never been more important given the challenging economic environment. Our teams' efforts were rewarded with consistently strong occupancy levels across our portfolio. Highlights included the Grosvenor Liverpool Fund (100%) – see pages 74 and 75 – and Grosvenor French Retail Investments (98%).

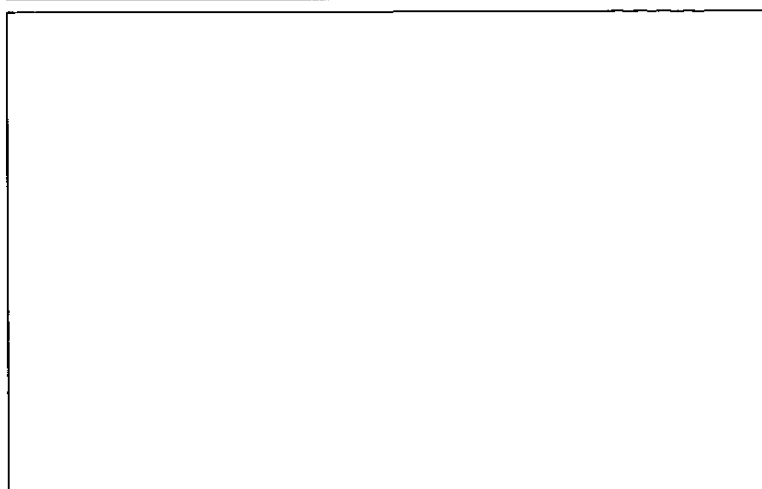
Selling assets in order to return capital to investors is an important discipline and we exited £703m of investments in 2012 where we had delivered our business plan or the fund had reached the end of its agreed life-cycle.

We continue to work closely with our 28 relationship banks and were pleased to arrange £328m of new or refinanced debt in the course of the year – a significant achievement as the overall deleveraging of real estate markets continues.

Investors express growing interest in the impact that sustainability has on investment returns, as tenants and occupiers alike become more demanding of the buildings they occupy. We were one of the first fund managers to join the Global Real Estate Sustainability Benchmark and participate in their annual benchmarking survey (see our Environment Review at www.grosvenor.com).

Operational developments

We officially opened our new office in Stockholm in May 2012 to support our continued expansion in this market (see page 75) and we took the decision to close our Sydney office later in 2013.



Burlöv, Malmö

In November 2012 we acquired the Burlöv shopping centre for Grosvenor European Retail Partnership, confirming the partnership's long-term commitment to the Swedish property market. This 42,000m² asset has a strong tenant base with more than 70 retailers providing a diverse and secure income stream for our clients.

In January 2013, we consolidated our UK and Continental European operations into one, led by Giles Wintle as Managing Director for Europe. At the same time, to emphasise the importance of a long-term approach to new investment products and sustainability, we created a new role of Managing Director for Corporate Development, taken by Mervyn Howard.

We have established working groups to monitor the raft of new regulations affecting the fund management industry, notably the Alternative Investment Fund Manager Directive in Europe, and to ensure we proactively implement any necessary enhancements to our business.

We are active members in a range of industry bodies, supporting transparency and increased governance for both investors and managers.

Satisfying clients

We ended the year managing 26 investment vehicles for a total of 67 clients, taking account of existing investment vehicles reaching the end of their life and new partnerships commencing.

"It has been a pleasure to see how Grosvenor Fund Management built up the retail portfolio in Europe and now how successfully they execute the disposal of the assets in line with the fund strategy."

Niels Hesseldahl Senior Consultant,
Sampension

The strength of our relationships with investors is fundamental to the success of our business. This year, to complement the anecdotal feedback which comes from clients, Non-Executive Directors of our funds and at events such as our investor seminar, we commissioned our first independent client survey. It gave structured feedback about our performance and service overall, most of it positive (see page 75).

We are grateful yet never complacent with the trust our clients place with us and look forward to continuing to expand existing and new relationships to create value for our investors, Shareholders and staff. James Raynor, who succeeds me as Chief Executive in June, has championed these relationships for nearly a decade with Grosvenor Fund Management and is ideally placed to take the business forward.

Jeffrey Weingarten

Chief Executive, Grosvenor Fund Management

Market outlook

Richard Barkham Group Research Director
and Director Grosvenor Fund Management

Safe havens grab capital flows in 2012

Real estate capital flows are driven by GDP growth. The 10% fall in global transaction volumes during 2012 reflects the weakening of the global economy over the year. However, global transaction volumes hit US \$770bn in 2012 (up from \$400bn in 2009), reminding us that the year saw a reasonable property level of market activity. Data from Real Capital Analytics shows that investors from Asia accounted for 20% of cross-border real estate acquisitions in 2012, up from 5% in 2007. This increase reflects wealth from tax revenues, pension savings and growing confidence. Asian investors and others have focused on offices in the largest and most liquid property markets, such as London and New York. 'Safe haven' capital flows have boosted London's property values in recent years.

Another trend is the emergence of sovereign wealth funds as global real estate players. Real estate, because of its low volatility and duration, is a very suitable asset class for these organisations which invest their countries' wealth for the long term.

Grosvenor Fund Management

Stories from the year

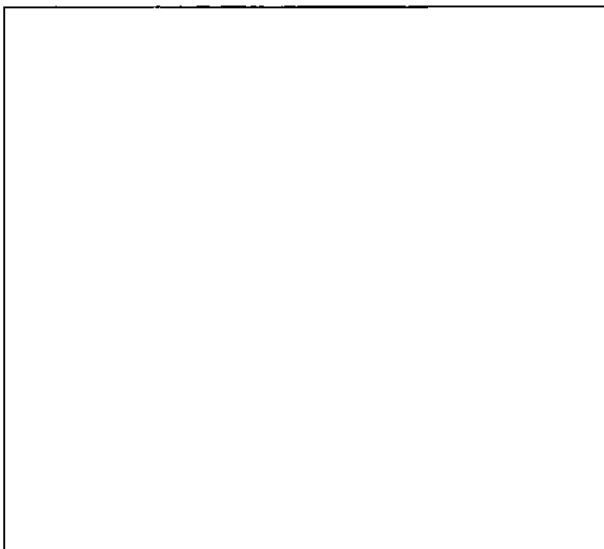
China: *innovation in a dynamic market*

Harvest Real Estate Investments (HREI) brings together Grosvenor's long history of investing in international real estate and managing fiduciary relationships with the experience of Harvest Alternative Investments Group, a subsidiary of Harvest Fund Management, China's second largest asset manager

"We are extremely pleased to have formed this joint venture with Grosvenor. The HREI management team has an enviable track record in the China real estate market and is passionate about delivering results for all our investors."

Dr Henry Zhao

Chief Executive Officer, Harvest Fund Management

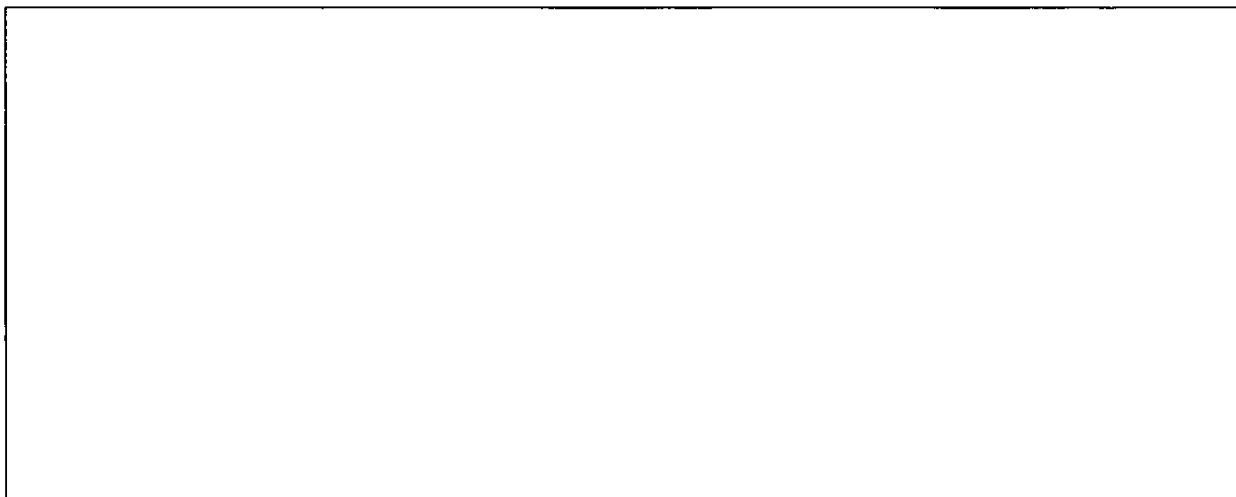


Real estate equities: *liquid real estate*

"In September, building on our prior experience in real estate equities, we established a global real estate equity fund with Grosvenor capital. The fund is designed to provide Grosvenor with the opportunity to access some of the highest-quality real estate around the world whilst maintaining a high level of liquidity with some downside protection. The fund offers the Group access to an investment vehicle that combines our top-down real estate research with bottom-up stock-picking and portfolio construction skills."

Matthew Norris

Portfolio Director, Grosvenor Fund Management



Grosvenor Fund Management

Stories from the year

continued

Stockholm: *our first office in Scandinavia*

When we launched our Stockholm office in May, Anneli Jansson (pictured right in Vasby Centrum, one of four shopping centres in our Swedish portfolio), our Country Manager in Sweden, said “The fundamentals of the Swedish market appeal to us and our partners. Opening an office here underlines our long-term commitment to the region.”

The local knowledge we are providing makes it easier to identify new opportunities in the region and thus to create value for our investor partners. We are complementing such know-how with relevant expertise from elsewhere. Sarah Greenaway, Asset Manager, seconded from our London office to the growing team explains “It is great to share experiences from our long-established UK presence and fantastic to have this opportunity to broaden my own know-how.”



Client-focused: *what it means in practice*

Our clients are our priority. We seek to provide them with superior service, attractive risk-adjusted returns, insightful information and new investment opportunities, and at the heart of our approach to our client relationships is the principle of compatibility and alignment of interest.

Take two examples from 2012. First, our client seminar in London. 27 investors joined us for discussions on issues ranging from sustainability to the growth of financial services in China.

Second, our client survey undertaken for us by Property Funds Research. This provided valuable feedback on our products and services, helping us to identify areas for improvement as well as what our clients enjoy about working with us.

“32 investors gave feedback. The results show appreciation for our integrity, reporting and transparency, also a desire for greater clarity on strategy, further specialisation and more proactivity. Our recent European retail transactions, where our specialist teams proactively sourced and acquired off-market deals, are examples of us acting on this feedback.”

James O'Neill
Director Capital Markets,
Grosvenor Fund Management

Liverpool ONE: *a milestone year*

In November 2012, Harvey Nichols opened its ‘Beauty Bazaar’ concept store (pictured left) in Liverpool ONE – a world first. The arrival of the 2,000m² store is a testament to Liverpool ONE’s success.

This was another highlight in a great year for the retail centre, managed by Grosvenor Fund Management. In August, Liverpool ONE received its 100,000,000th visitor, in September, eight new brands took over 6,500m² of space, taking South John Street, Paradise Street and Peter’s Lane to 100% occupancy, and at year end footfall exceeded 26 million for the first time, with stores trading on average 26% ahead of their UK average.

“Beauty Bazaar, Harvey Nichols, is the first one-stop destination for all things beauty. This truly unique space, spread across three floors, houses the very best brands in the market, alongside the very latest services that ensure grooming of the highest level, all within the convenience of a single space. We are very proud to have launched this ‘world first’ concept at Liverpool ONE, given the city’s reputation for beauty.”

Daniela Rinaldi
Harvey Nichols Group Concessions and Beauty Director

www.liverpool-one.com

Grosvenor Fund Management Board of Directors

As at 14 March 2013

Non-Executive Directors

01 Mark Preston MRICS

Position Chairman Grosvenor Fund Management and Group Chief Executive
Appointed to the board 2008

Experience Mark joined Grosvenor in the UK in 1989. Seconded to Hong Kong in 1995, he returned to lead Grosvenor's 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. Mark currently holds two Non-Executive Directorships on the boards of Persimmon Plc and Sonae Sierra SGPS. He is a Trustee of The Westminster Foundation and also a member of the Board of The Association of Foreign Investors in Real Estate, the ULI Greenprint Advisory Board and the (University of) Cambridge Land Economy Advisory Board.

02 Nicholas Scarles FCA ATTORNEY AT LAW

Position Group Finance Director
Appointed to the board 2005

Experience Nicholas joined Grosvenor in 2004. He was previously at Centrica, Price Waterhouse and Coopers and Lybrand in London, New York and Toronto. 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.

03 Richard Barkham MRICS

Position Group Research Director
Appointed to the board 2011

Experience Richard joined Grosvenor in 2000 as Research Director for Grosvenor Britain & Ireland. He was appointed Group Research Director in 2006, responsible for risk analysis, long-range forecasts and capital allocation. In 2011 he was appointed to the Board of Grosvenor Fund Management and has responsibility for economic analysis, strategic development and the development of new funds.

Executive Directors

04 Jeffrey Weingarten

Position Chief Executive
Appointed to the board 2010

Experience Jeffrey began his career as a Securities Analyst in 1970. 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.

05 James Raynor

Position Chief Investment Officer
Appointed to the board 2005

Experience James 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, having previously run our Capital Markets & Continental European businesses. He sits on the INREV Training & Education Committee and the ULI French Council.

06 Robert Davis

Position Chief Operating Officer
Appointed to the board 2006

Experience Robert 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.

07 Alexia Gottschalch

Position Managing Director, USA
Appointed to the board 2011

Experience Alexia joined Grosvenor in 2011 and was appointed Managing Director of our US fund management business and Head of Capital Markets in the US. Prior to joining Grosvenor she held senior management positions at Independence Capital Partners, Cheswold Real Estate Investment Management, Prudential Real Estate Investors and Tishman Speyer.

08 Mervyn Howard

Position Managing Director
Corporate Development
Appointed to the board 2005

Experience Mervyn 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. He was responsible for Grosvenor Fund Management's UK business prior to moving to his current international corporate development role.

09 Giles Wintle

Position Managing Director, Europe
Appointed to the board 2011

Experience Giles 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.

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Grosvenor Fund Management Portfolio

Assets under management

	Number of investment vehicles	Total £m	Gross asset value			
			Office £m	Retail £m	Residential £m	Other £m
Asia Pacific	5*	1 008.2	524.0	219.3	260.7	4.2
Europe	13*	2 764.7	493.1	2 251.6	20	–
USA	6*	322.1	157.0	70.3	34.8	60.0
International	2	included above				
Total	26	4,095.0	1,174.1	2,541.2	315.5	64.2

*includes separate account clients

Asia Pacific

Name GROSVENOR CAPITAL ADVISERS PARTNERSHIP

Launch date: 2004

Gross asset value. JP¥13bn (£95m)

Sector: Residential

Number of assets: 10

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¥23bn (£166m)

Sector Residential

Number of assets: 17

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 (£161m)

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\$569m (£363m)

Sector Office

Number of assets: 2

Risk profile- Various

Number of investors: 1

Two modern, energy-efficient office buildings in Brisbane are actively managed by Grosvenor Fund Management.

Grosvenor Fund Management Portfolio continued

Europe			
Name GROSVENOR EUROPEAN RETAIL PARTNERSHIP			
Launch date	2011	Gross asset value:	€547m (£443m)
Sector	Retail	Number of assets	7
Risk profile	Core	Number of investors	3
Grosvenor European Retail Partnership was created as a club vehicle to acquire a portfolio of urban shopping centres in dynamic cities in France and Sweden			
Name GROSVENOR FRENCH RETAIL INVESTMENTS			
Launch date	2006	Gross asset value:	€349m (£283m)
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 HEXAGONE PARTNERSHIP			
Launch date	2006	Gross asset value:	€147m (£119m)
Sector	Office	Number of assets	3
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 GROSVENOR RETAIL EUROPEAN PROPERTIES			
Launch date	2004	Gross asset value	€194m (£158m)
Sector	Retail	Number of assets	24
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 SEGREGATED AND SEPARATE ACCOUNT CLIENTS – CONTINENTAL EUROPE			
Launch date	Various	Gross asset value:	€408m (£332m)
Sector	Diversified	Number of assets	34
Risk profile	Various	Number of investors	3*
*Number of separate account clients			
Assets in Paris, Madrid and Lyon actively managed to create maximum value for our clients			

Grosvenor Fund Management Portfolio continued

Europe

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, attracts more than 25 million visitors a year and reached 100% occupancy in 2012.

Name: GROSVENOR LONDON OFFICE FUND

Launch date:	1999	Gross asset value:	£343m
Sector:	Office	Number of assets:	3
Risk profile:	Core	Number of investors:	4

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 OFFICE LONDON PARTNERSHIP

Launch date:	2011	Gross asset value:	£0m
Sector:	Office	Number of assets:	0
Risk profile:	Value-add	Number of investors:	2

This club deal was created in 2011 to invest in value-add assets in London's West End and Midtown office markets.

Name: GROSVENOR RESIDENTIAL INVESTMENT FUND

Launch date:	2005	Gross asset value:	£20m
Sector:	Residential	Number of assets:	6
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	Number of assets:	3
Sector:	Retail	Number of investors:	16
Risk profile:	Core		

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: SEGREGATED ACCOUNT CLIENT – UK

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

We actively manage a UK shopping centre on behalf of a major bank.

Grosvenor Fund Management Portfolio

continued

USA

Name: GROSVENOR RESIDENTIAL INVESTMENT PARTNERS

Launch date	2007	Gross asset value:	US\$57m (£35m)
Sector:	Residential	Number of assets	12
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\$199m (£123m)
Sector	Diversified	Number of assets	4
Risk profile	Various	Number of investors:	3*

*Number of separate accounts

In the USA we manage separate account mandates on behalf of US, European and Middle Eastern clients.

Name: SHMAEL US REAL ESTATE FUND

Launch date:	2005	Gross asset value	US\$84m (£52m)
Sector	Office	Number of assets:	5
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 is fully invested in five properties.

Name: US HEALTHCARE VENTURE

Launch date:	2011	Gross asset value:	US\$88m (£54m)
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.

Grosvenor Fund Management Portfolio continued

International

Name: GROSVENOR GLOBAL EQUITY FUND

Launch date: 2012

Number of investors 1

Sector: Diversified

Risk profile Core

The fund is designed to provide Grosvenor with the opportunity to access some of the highest quality real estate securities around the world whilst maintaining a high level of liquidity

Name: ISPT GROSVENOR INTERNATIONAL PROPERTY TRUST (IGIPT)

Launch date 2004

Gross asset value: A\$163m (£104m)

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

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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 companies with a premium listing. 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 last reviewed each of the provisions of the Combined Code issued by the UK Financial Reporting Council in June 2012 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 and a further review is currently underway.

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	7/8	9/9	8/9	9/9	9/9

COMMITTEES OF THE BOARD

Audit Committee

The Audit Committee comprises:

- Michael McIntock (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 controls and the actions and procedures involved in the management of risk throughout the Group. The Audit Committee reviews annually the scope of the external auditor's work and fees. It also considers the auditor's independence which is ensured through a variety of procedures including regular rotation of audit partners. Any non-audit fees received by the auditor in excess of 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 except in March 2012 when one member was absent.

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.

Corporate governance continued

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 85

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 Companies' operations. These boards form an integral part of the overall internal control process. The relationship between Operating Company boards and the Group Board is clearly defined and is set out in formally approved 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 2012 at its meeting in March 2013 by considering reports from management and the Audit Committee and taking account of events since 31 December 2012.

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, Jeremy Newsum (Chairman), Alasdair Morrison and Michael McLintock. Two members are independent Non-Executive Directors while Jeremy Newsum does not meet this definition under the Combined Code. The Chairman, Group Chief Executive and Group Human Resources Director are invited to attend meetings, unless their own remuneration is being discussed. The Remuneration Committee met three times during the year, with full attendance at each meeting except in June 2012 when one member was absent.

The Committee is directly responsible for 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 the design of bonus schemes.

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 activity of the Group, as well as the long-term nature of the business, are all important factors. The policy is to provide competitive pay, benefits and incentive opportunities as appropriate within local markets.

The remuneration of Executive Directors and senior staff includes a blend of fixed salary and bonus opportunities designed to provide an alignment of interests between employees and Shareholders. The elements are:

- Basic salary and benefits: Salaries are reviewed annually or on promotion.
- Bonus schemes are designed to link total pay to both individual and company performance. Bonuses relating to company performance are determined by achievement compared with the cost of capital, revenue profit and other business performance indicators. The incentive arrangements are designed to reward out-performance, linked to the achievement of team and individual performance targets. Long-term awards measure performance over a three year period, but 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 arrangements.
- Outside the UK, pensions are provided from schemes in 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 Shareholders. 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 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 is such as to impair the independence of the Directors.

Jeremy Newsum

Chairman of the Remuneration Committee

14 March 2013

Directors' report

The Directors present their Annual Report and the Group's audited consolidated financial statements for the year ended 31 December 2012

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 53, which is incorporated into this report by reference.

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

RISKS AND UNCERTAINTIES

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 2012, were as follows:

	Percentage of Group equity	
	Long-term range %	At 31 December 2012 %
Britain & Ireland	35.0–60.0	53.8
Americas	10.0–25.0	14.9
Asia Pacific	5.0–20.0	7.4
Indirect Investments	20.0–30.0	23.7
Fund Management	0.0–10.0	0.2

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 11.

Directors' report

continued

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.

One of the Group's objectives 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.

All accidents and cases of ill health are treated seriously. In 2012 Grosvenor had no reportable incidents to statutory authorities for its employees. 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 2012.

Each business sets itself annual targets in order to achieve their board objectives and follow the international standard OHSAS18001. These include verifying that workplace and other risks are being controlled and mitigated where necessary.

Environment

The Group's environmental management activities are set out in a separate Environment Review, referred to on page 5.

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, a European RICS graduate qualifying programme 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 continues to ensure that the Group benefits from the efficient delivery of Group-wide process and system changes.

Directors' report

continued

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 92. Profit for the year was £308.1m (2011: £245.9m). Dividends paid during the year amounted to £nil (2011: £nil).

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 Fund Management 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.

Grosvenor Fund Management Japan Limited, a wholly owned subsidiary, provides financial services and products under its Kanto Local Finance Bureau (Kinsyo) License No. 1956 issued by The Financial Services Agency, the Japanese Government and real estate investment advice as authorised under its Discretionary Real Estate Investment Advisory Business License No. Sogo 63 issued by the Ministry of Land, Infrastructure, Transport and Tourism. It is also authorised to transact real estate business under its Real Estate Transaction Business License No. Tokyo Governor (2) 87514 issued by the Tokyo Metropolitan 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 53 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 Michael McLintock who was appointed on 1 March 2012.

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 2012	At 31 December 2012	At 1 January 2012	At 31 December 2012	At 1 January 2012	At 31 December 2012	At 1 January 2012	At 31 December 2012
Non-beneficial								
Lesley M S Knox	1,640,580	1,640,580	13,124,639	13,124,639	1,640,580	1,640,580	23,689,975	13,156,560
Michael McLintock	—	5,453,726	—	43,629,809	—	5,453,726	—	43,735,919
Jeremy H M Newsum	4,290,433	4,290,433	34,323,463	34,323,463	4,290,433	4,290,433	61,953,852	34,406,940

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

continued

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

Each of the Grosvenor Operating Companies contributes a percentage of its equity to charity each year. Grosvenor Britain & Ireland, Grosvenor Asia Pacific and Grosvenor Fund Management channel their giving via The Westminster Foundation (WF) which is a grant-making foundation representing the charitable interests of the Duke of Westminster, the Grosvenor family and the Grosvenor Estate. In 2012, charitable contributions amounted to £2.1m (2011: £1.8m) of which £1.7m (2011: £1.5m) was donated via the Westminster Foundation.

Each of the proprietary Operating Companies has a staff charity committee and these have a dual role: first, to recommend to the WF Trustees those charities in their local communities that they wish to receive support and second, to help organise staff fund-raising activities, volunteering and pro-bono support to charities selected by the employees. WF also matches the fund-raising efforts of individual members of staff for registered charities of their own choosing up to £1,000 per person in any year. In addition, Grosvenor Britain & Ireland supports Give As You Earn up to £1,200 per employee; in 2012 this amounted to £38,000. In 2012 the WF Trustees conducted a review of their grant-making strategy. As a result of the review no new grants were made but £2.9m of ongoing support was given to UK registered charities including the Capital Community Foundation, Combat Stress, the Community Foundation for Cheshire, The Community Foundation for Merseyside (via the Grosvenor Liverpool Fund), CRISIS, the National Memorial Arboretum and numerous small charities. In addition, grants were made outside the UK, including Chi Heng Foundation (Asia), Children's Hospital of Philadelphia (USA), Habitat et Humanisme Federation (Continental Europe).

Following their strategy review, from 2013 the primary focus of the WF Trustees' grant making will be on youth homelessness and supporting communities – specifically projects that help to build community cohesion and tackle isolation in both urban and rural environments. These two categories are within a broader theme of alleviating poverty and the Trustees may turn their attention to other aspects in coming years.

In South Belgravia, a portfolio of approximately 22,000 sq ft of office space accommodates over 30 charities in small office units. This portfolio is managed by the Grosvenor Britain & Ireland South Belgravia team and each charity receives a contribution from WF towards its rent, typically of 50%, which is funded directly by the Group. In 2012 this totalled £0.3m. These charities tell us that they find the central location very helpful because of its proximity to Victoria Station, national and local government and, for many of them, their clients.

No political donations were made during the year (2011: £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 2012 represented 27 days' purchases (2011: 26 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.

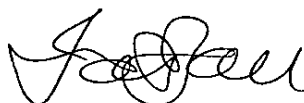
Each person who is a Director at the date of approval of this report confirms that:

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

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

Judith Ball
Company Secretary
14 March 2013

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. 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 require 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and 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 14 March 2013 and is signed on its behalf by

Lesley Knox
Chairman

Corporate advisers and bankers

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

Independent auditor's report

to the members of Grosvenor Group Limited

We have audited the financial statements of Grosvenor Group Limited (the 'Group') for the year ended 31 December 2012 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 2012 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

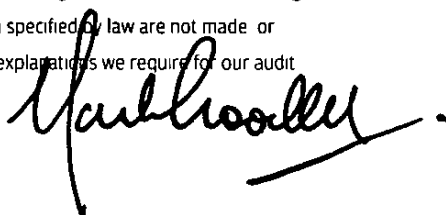
In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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
14 March 2013



Consolidated income statement

for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Total revenue	5	266.9	195.2
Gross rental income	6	135.6	126.9
Property outgoings	7	(51.4)	(40.0)
Net rental income		84.2	86.9
Other income	8	38.7	40.7
Administrative expenses	9	(89.3)	(89.8)
Net losses on trading properties	13	(13.7)	(12.5)
Net gains/(losses) on other investments	14	0.9	(7.1)
Net gains on revaluation and sale of investment property	15	312.7	324.4
Impairment of goodwill	24	—	(0.7)
Share of profit from joint ventures	22	58.5	25.0
Gain from operations including share of joint ventures		392.0	366.9
Dividend income	16	—	0.1
Financial income	16	5.8	9.1
Financial expenses	16	(44.9)	(49.9)
Fair value adjustments	16	1.5	(1.2)
Net financing costs	16	(37.6)	(51.9)
Profit before tax		354.4	315.0
Current tax expense	17	(17.8)	(14.7)
Deferred tax expense	17	(28.5)	(54.4)
Profit for the year	37	308.1	245.9
Attributable to			
Equity holders of the parent	37	312.6	250.8
Non-controlling interests	37	(4.5)	(4.9)
Profit for the year	37	308.1	245.9

Revenue Profit is shown in Note 4

Consolidated statement of comprehensive income

for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Profit for the year	37	308.1	245.9
Revaluation of property, plant and equipment	37	3.6	3.8
Available for sale financial assets			
Losses arising during the period - Group	37	(1.8)	(1.1)
Losses arising during the period - Joint Ventures	37	—	(2.6)
Fair value adjustments on swaps			
Gains/(losses) arising during the period - Group	37	1.7	0.5
Gains/(losses) arising during the period - Joint Ventures	37	3.4	(1.0)
Exchange differences on translation of foreign operations	37	(68.3)	(5.7)
Actuarial gains/(losses) on defined benefit pension schemes	37	3.1	(12.4)
Tax relating to other comprehensive income	37	(2.6)	(1.1)
Other comprehensive expense		(60.9)	(19.6)
Total comprehensive income for the period		247.2	226.3
Attributable to:			
Equity holders of the parent		259.2	236.4
Non-controlling interests		(12.0)	(10.1)
		247.2	226.3

The Company's equity increased during the year as a result of dividends received from subsidiaries for the year of £nil (2011: £nil) and reduced as a result of dividends paid to Shareholders of £nil (2011: £nil)

Consolidated statement of changes in equity

for the year ended 31 December 2012

	Attributable to equity holders of the parent							Non controlling interest £m	Total equity £m
	Share capital £m	Share premium £m	Translation reserve £m	Other reserve £m	Fair value reserve £m	Revaluation reserve £m	Retained earnings £m		
Balance at 1 January 2011	164.9	28.3	386.6	103.9	(14.0)	9.7	1,969.9	126.6	2,775.9
Changes in equity for 2011									
Profit for the year	—	—	—	—	—	—	250.8	(4.9)	245.9
Other comprehensive (expense)/income	—	—	(0.7)	(0.7)	(4.4)	3.0	(11.6)	(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)
Other movements in joint ventures	—	—	—	—	—	—	(4.5)	(1.2)	(5.7)
Balance at 31 December 2011	139.0	28.3	385.9	129.1	(18.4)	12.7	2,178.7	107.8	2,963.1
Changes in equity for 2012									
Profit for the year	—	—	—	—	—	—	312.6	(4.5)	308.1
Other comprehensive (expense)/income	—	—	(60.5)	4.0	(1.8)	3.3	1.6	(7.5)	(60.9)
Dividends	—	—	—	—	—	—	(0.5)	(8.4)	(8.9)
Transfers between reserves	—	—	(4.3)	(0.4)	—	—	4.7	—	—
Non-controlling shares issued by subsidiaries	—	—	—	—	—	—	—	0.6	0.6
Non-controlling shares acquired by subsidiaries	—	—	—	—	—	—	—	(2.7)	(2.7)
Redemption of Preference Shares	(36.5)	—	—	36.5	—	—	(36.5)	—	(36.5)
Other movements in joint ventures	—	—	—	—	—	—	—	1.1	1.1
Balance at 31 December 2012	102.5	28.3	321.1	169.2	(20.2)	16.0	2,460.6	86.4	3,163.9

The only change in the Company's equity is the redemption of Preference Shares of £36.5m as shown in the Company's statement of changes in equity presented in Note 37(b)

Balance sheets

as at 31 December 2012

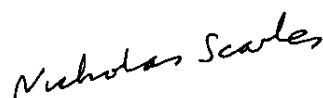
		Group		Company	
	Note	2012 £m	2011 £m	2012 £m	2011 £m
ASSETS					
Non-current assets					
Investment property	19	3,061 0	2,812 7	—	—
Other property, plant and equipment	20	48 6	40 6	—	—
Investments in subsidiaries	21	—	—	1,358.4	1,358 4
Investments in joint ventures	22	1,003 9	1,074 8	—	—
Other financial assets	23	51 5	36 9	—	—
Intangible assets	24	4 0	4 1	—	—
Deferred tax assets	25	103 3	103 4	—	—
Total non-current assets		4,272 3	4,072 5	1,358.4	1 358 4
Current assets					
Trading properties	26	294 8	245 2	—	—
Trade and other receivables	27	200 3	158 5	137.9	174 4
Other financial assets	23	9.8	3 2	—	—
Income tax receivable		5 6	12 0	—	—
Cash and cash equivalents	28	238 4	237 5	—	—
Total current assets		748 9	656 4	137 9	174 4
TOTAL ASSETS		5,021 2	4 728 9	1,496.3	1 532 8
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings	29	(769 4)	(776 8)	—	—
Trade and other payables	31	(228 6)	(204 3)	—	—
Employee benefits	11	(34 2)	(37 2)	—	—
Deferred tax liabilities	25	(600 1)	(576 4)	—	—
Total non-current liabilities		(1,632 3)	(1,594 7)	—	—
Current liabilities					
Overdrafts	28	—	(0 1)	—	—
Interest-bearing loans and borrowings	29	(49 5)	(28 6)	—	—
Trade and other payables	31	(153 9)	(123 3)	—	—
Income tax payable		(17 7)	(15 7)	—	—
Provisions	32	(3 9)	(3 4)	—	—
Total current liabilities		(225 0)	(171 1)	—	—
TOTAL LIABILITIES		(1,857 3)	(1 765 8)	—	—
NET ASSETS		3,163 9	2,963 1	1,496 3	1,532 8
Equity					
Share capital	36	102 5	139 0	102 5	139 0
Share premium	37	28 3	28 3	28 3	28 3
Reserves	37	486 1	509 3	1,227.0	1,190 5
Retained earnings	37	2,460 6	2 178 7	138.5	175 0
Shareholders' funds	37	3,077 5	2,855 3	1,496 3	1,532 8
Non-controlling interests	37	86 4	107 8	—	—
TOTAL EQUITY	37	3,163 9	2,963 1	1,496 3	1 532 8

Approved by the Board and authorised for issue on 14 March 2013 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 2012

	Note	2012 £m	2011 £m
Operating activities			
Operating profit before changes in working capital and provisions	38(a)	19 6	29 6
Increase in trade and other receivables		(23 3)	(4 3)
Increase in trading properties		(49.0)	(108 3)
Increase in trade and other payables		55 0	1 4
Decrease in employee benefits		(0 2)	(12 2)
Increase/(decrease) in provisions		0 5	(0 1)
Cash flow from operations		2 6	(93 9)
Interest paid		(50 5)	(52 6)
Income taxes (paid)/received		(18 4)	8 7
Interest received		5 8	9 8
Net cash flows from operating activities		(60 5)	(128 0)
Investing activities			
Proceeds from sale of investment property		111 8	171 1
Acquisition of investment property		(38.2)	(69 2)
Development of investment and development property		(38.2)	(33 3)
Proceeds from sale of other property, plant and equipment		0 8	0 1
Acquisition of other property, plant and equipment		(7 5)	(3 4)
Proceeds from sale of other financial assets		2 9	7 7
Acquisition of other financial assets		(11.7)	(8 9)
Net cash flow from joint ventures		31.9	(1 4)
Proceeds from sale of joint ventures		96 4	11 6
Acquisition of joint ventures		(60 2)	(22 3)
Dividends received		–	0 1
Net cash flows from investing activities		88.0	52 1
Financing activities			
Proceeds from additional borrowings		82 5	148 3
Repayment of borrowings		(56 2)	(72 6)
Non-controlling shares issued by subsidiaries		0 6	0 3
Non-controlling shares acquired by subsidiaries		(2.7)	(1 6)
Redemption of preference shares		(36.5)	(25 9)
Dividends paid		(8 9)	(6 2)
Net cash flows from financing activities		(21.2)	42 3
Net decrease in cash and cash equivalents		6 3	(33 6)
Cash and cash equivalents at 1 January		237 5	269 3
Effect of exchange rate fluctuation on cash held		(5.4)	1 8
Cash and cash equivalents at 31 December	28	238 4	237 5

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

Notes to the financial statements

1 Accounting policies

(A) BASIS OF PREPARATION

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

The financial statements are prepared on the historical cost basis, except for the revaluation of investment and development properties, certain financial assets and derivatives and deferred tax thereon. The Accounts have been prepared on a going concern basis as described in the going concern section of the Directors' report on page 88. The principal accounting policies adopted are set out below. The Company has elected under section 230 of the Companies Act 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 with in the income statement. On consolidation, the results of overseas companies are translated into Sterling at the average exchange rate for the period and their assets and liabilities are translated into Sterling at the exchange rate ruling at the balance sheet date. Exchange differences arising from the translation of foreign operations and of related hedges, are taken to the translation reserve. They are released into the income statement upon disposal.

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

(D) INVESTMENT PROPERTY

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

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

When the Group begins to redevelop an existing investment property 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.

Notes to the financial statements

continued

1 Accounting policies continued

(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 33.3% per annum, except for freehold property occupied by the Group which is depreciated where material over its expected useful life.

(G) OTHER FINANCIAL ASSETS

Financial assets available for sale are stated at fair value which is determined by reference to an active market and any resultant gain or loss is recognised in the fair value reserve. Where the Group has the positive intent and ability to hold a financial asset to maturity it is stated at amortised cost less impairment losses. Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted on an active market are classified as loans and receivables. Loans and receivables are included at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Financial assets are assessed for indicators of impairment at each balance sheet date. Mezzanine loan investments comprise a loan principal which attracts a rate of interest and is accounted for as loans and 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.

Notes to the financial statements

continued

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. Where tax liabilities arising on the sale of property are able to be deferred against the cost of new property, a deferred tax liability is provided, to recognise that tax may be payable should the new property be sold in the future.

Notes to the financial statements

continued

1 Accounting policies continued

(R) INCOME TAX (continued)

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

(S) GOVERNMENT GRANTS

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

(T) ADOPTION OF STANDARDS

The 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.

- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets
- Amendments to IFRS 7 Financial Instruments Disclosures – Transfers of Financial Assets

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

- Amendments to IFRS 7 Offsetting Financial Assets and Financial Liabilities
- 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
- 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
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities
- Annual Improvements to IFRSs 2009–2011 Cycle

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.

Notes to the financial statements

continued

1 Accounting policies continued

(U) SIGNIFICANT JUDGEMENTS AND KEY ESTIMATES (continued)

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

vii) Eurozone

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.

In reaching a conclusion on the value of Grosvenor's investment in Sonae Sierra SGPS, we have considered both our strategy as a long term investor and other relevant considerations, including the continued strong operating results, the balance between stronger Brazilian and German markets and weaker Romanian and Iberian markets, improving investor sentiment and interest in Iberian property investment and the particular strength of several large dominant assets in Portugal which are not representative of the Portuguese shopping centre sector.

2 Foreign currency

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	
	2012 £1	2011 £1	2012 £1	2011 £1
US Dollars	1.59	1.60	1.63	1.55
Canadian Dollars	1.59	1.58	1.62	1.58
Euros	1.23	1.15	1.23	1.20
Australian Dollars	1.53	1.55	1.57	1.52
Hong Kong Dollars	12.31	12.43	12.60	12.07
Chinese Renminbi	10.01	10.33	10.13	9.78
Japanese Yen	127.28	127.04	140.55	119.57
Swedish Krona	10.71	10.52	10.57	10.65

Notes to the financial statements

continued

3 Segmental analysis

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. Not allocated represents the Group Holding Company and consolidation adjustments. The accounting policies of the reportable segments are consistent with the Group accounting policies detailed in Note 1.

2012

	Proprietary assets – Direct			Proprietary assets – Indirect				Total £m
	Britain & Ireland £m	Americas £m	Asia Pacific £m	Managed by Grosvenor Fund Management £m	Sonae Sierra £m	Grosvenor Fund Management £m	Not allocated £m	
Income statement								
Gross rental income	74.8	30.2	5.9	24.7	–	–	–	135.6
Property outgoings (excluding major refurbishments)	(25.3)	(6.9)	(2.1)	(4.7)	–	–	–	(39.0)
Net rental income	49.5	23.3	3.8	20.0	–	–	–	96.6
Fees and other income/(expenses)	11.5	3.9	1.0	1.2	–	23.8	(2.7)	38.7
Net gains/(losses) on trading properties	3.4	1.3	–	(18.4)	–	–	–	(13.7)
Administrative expenses	(15.3)	(14.8)	(12.1)	(5.9)	–	(33.2)	(8.0)	(89.3)
Net financing costs	(22.9)	(7.2)	(1.3)	(5.5)	–	–	(2.0)	(38.9)
Revenue profit/(loss) of joint ventures (Note 22)	11.9	7.0	18.4	20.2	37.4	(0.9)	–	94.0
Group revenue profit/(loss)	38.1	13.5	9.8	11.6	37.4	(10.3)	(12.7)	87.4
Net gains on revaluation and sale of investment properties	265.3	35.9	1.5	10.0	–	–	–	312.7
Major refurbishment costs	(12.4)	–	–	–	–	–	–	(12.4)
Net gains/(losses) on other investments	–	–	1.0	–	–	(0.1)	–	0.9
Derivative fair value adjustments	–	(0.7)	(1.5)	–	–	–	3.5	1.3
Other (losses)/gains of joint ventures (Note 22)	(0.2)	14.1	25.5	(16.2)	(51.7)	–	(0.3)	(28.8)
Profit/(loss) before tax	290.8	62.8	36.3	5.4	(14.3)	(10.4)	(9.5)	361.1
Tax and non-controlling interests in joint ventures	–	(0.3)	(2.7)	0.9	(4.6)	–	–	(6.7)
Profit before tax reported in the income statement	290.8	62.5	33.6	6.3	(18.9)	(10.4)	(9.5)	354.4
Tax expense	(24.2)	(18.8)	0.7	(6.1)	(0.1)	1.2	1.0	(46.3)
Profit after tax reported in the income statement	266.6	43.7	34.3	0.2	(19.0)	(9.2)	(8.5)	308.1

Notes to the financial statements

continued

3 Segmental analysis continued

2012

	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	2 142 0	691 7	345 9	791 1	1 151 0	3 7	–	5,125.4
Investment property under development	92 8	–	–	–	91 2	–	–	184.0
Trading property	313 8	99 2	35 5	37 5	–	–	–	486.0
Other financial assets	–	12 4	3 1	20 8	–	0 5	–	36 8
Total property assets	2 548 6	803 3	384 5	849 4	1,242 2	4 2	–	5,832.2
Net debt	(340 4)	(216 9)	(113 8)	(341 5)	(503 2)	24 2	(92 0)	(1,583 6)
Deferred tax	(386 7)	(80 5)	(9 1)	(40 9)	(189 5)	2 8	3 2	(700.7)
Other net (liabilities)/assets	(174 3)	(26 0)	7 0	(50 8)	(199 4)	(24 1)	83 6	(384.0)
Net assets	1,647 2	479 9	268 6	416 2	350 1	7 1	(5 2)	3,163.9
Investment property additions	48 5	20 6	20 8	12 1	33 5	–	–	135.5

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		
Income statement								
Gross rental income	71 0	27 4	5 5	23 0	–	–	–	126 9
Property outgoings (excluding major refurbishments)	(21 4)	(6 8)	(2 2)	(5 4)	–	–	–	(35 8)
Net rental income	49 6	20 6	3 3	17 6	–	–	–	91 1
Fees and other income/(expenses)	4 3	5 4	1 6	1 6	0 2	28 1	(0 5)	40 7
Net losses on trading properties	(6 0)	(0 2)	–	(6 3)	–	–	–	(12 5)
Administrative expenses	(12 1)	(14 7)	(10 7)	(8 4)	–	(29 8)	(14 1)	(89 8)
Net financing (costs)/income	(25 5)	(3 3)	(1 1)	(7 7)	–	0 1	(1 5)	(39 0)
Revenue profit/(loss) of joint ventures (Note 22)	6 1	5 0	19 3	16 3	45 8	–	(2 2)	90 3
Group revenue profit/(loss)	16 4	12 8	12 4	13 1	46 0	(1 6)	(18 3)	80 8
Net gains on revaluation and sale of investment properties	285 6	29 8	2 5	6 5	–	–	–	324 4
Major refurbishment costs	(4 2)	–	–	–	–	–	–	(4 2)
Net losses on other investments	(5 1)	–	0 2	–	–	(0 1)	(2 1)	(7 1)
Impairment of goodwill	–	–	–	(0 7)	–	–	–	(0 7)
Derivative fair value adjustments	–	(5 6)	0 5	(1 4)	–	–	(6 4)	(12 9)
Other gains/(losses) of joint ventures (Note 22)	–	12 4	19 1	(10 3)	(60 7)	–	–	(39 5)
Profit/(loss) before tax	292 7	49 4	34 7	7 2	(14 7)	(1 7)	(26 8)	340 8
Tax and non-controlling interests in joint ventures	–	–	(2 6)	(2 2)	(21 0)	–	–	(25 8)
Profit before tax reported in the income statement	292 7	49 4	32 1	5 0	(35 7)	(1 7)	(26 8)	315 0
Tax expense	(46 4)	(24 1)	(1 6)	(3 0)	–	(0 9)	6 9	(69 1)
Profit after tax reported in the income statement	246 3	25 3	30 5	2 0	(35.7)	(2 6)	(199)	(245 9)

Notes to the financial statements

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3 Segmental analysis continued

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		
Balance sheet (proportional basis)								
Investment property	1,913.4	682.7	355.0	891.4	1,311.3	4.9	–	5,158.7
Investment property under development	83.2	–	–	–	119.0	–	–	202.2
Trading property	286.8	53.1	25.7	86.6	–	–	–	452.2
Other financial assets	–	9.0	4.6	12.6	–	0.3	–	26.5
Total property assets	2,283.4	744.8	385.3	990.6	1,430.3	5.2	–	5,839.6
Net debt	(414.1)	(187.4)	(160.6)	(441.1)	(623.7)	28.5	(0.2)	(1,798.6)
Deferred tax	(363.2)	(68.3)	(12.5)	(36.6)	(206.1)	1.7	4.9	(680.1)
Other net (liabilities)/assets	(211.8)	(21.4)	28.4	(0.4)	(196.7)	(21.9)	26.0	(397.8)
Net assets	1,294.3	467.7	240.6	512.5	403.8	13.5	30.7	2,963.1
Investment property additions	57.3	65.7	1.1	87.7	114.2	0.4	–	326.4

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.

	2012			2011		
	Group £m	Share of joint ventures (Note 22) £m	Total £m	Group £m	Share of joint ventures (Note 22) £m	Total £m
Gross rental income	135.6	173.5	309.1	126.9	182.3	309.2
Property outgoings (excluding major refurbishments)	(39.0)	(46.0)	(85.0)	(35.8)	(48.3)	(84.1)
Net rental income (before major refurbishments)	96.6	127.5	224.1	91.1	134.0	225.1
Fees and other income	38.7	18.3	57.0	40.7	14.1	54.8
(Loss)/profit on trading properties	(13.7)	18.3	4.6	(12.5)	14.9	2.4
Administrative expenses	(89.3)	(27.8)	(117.1)	(89.8)	(30.7)	(120.5)
Net financing costs (excluding derivative fair value adjustments)	(38.9)	(42.3)	(81.2)	(39.0)	(42.0)	(81.0)
Revenue (loss)/profit	(6.6)	94.0	87.4	(9.5)	90.3	80.8
Reconciliation of revenue profit to profit before tax						
Revenue (loss)/profit	(6.6)	94.0	87.4	(9.5)	90.3	80.8
Joint ventures						
– Revenue profit	–	(94.0)	(94.0)	–	(90.3)	(90.3)
– Equity accounted profit	–	58.5	58.5	–	25.0	25.0
Net gains on revaluation and sale of investment properties	312.7	–	312.7	324.4	–	324.4
Major refurbishment costs	(12.4)	–	(12.4)	(4.2)	–	(4.2)
Net gains/(losses) on other investments	0.9	–	0.9	(7.1)	–	(7.1)
Impairment of goodwill	–	–	–	(0.7)	–	(0.7)
Derivative fair value adjustments	1.3	–	1.3	(12.9)	–	(12.9)
Profit before tax	295.9	58.5	354.4	290.0	25.0	315.0

Notes to the financial statements

continued

5 Revenue

	2012 £m	2011 £m
Rental income	135.6	126.9
Income from trading and development properties	78.9	20.1
Service charge income	13.7	7.5
Other income	38.7	40.7
	266.9	195.2

6 Gross rental income

	2012 £m	2013 £m
Gross lease payments receivable	132.4	125.7
Amortisation of lease incentives	0.9	(1.4)
Amortisation of deferred lease premiums	2.3	2.6
	135.6	126.9

Investment properties are leased out under operating leases. The majority of operating lease terms fall in the range between six months and 20 years. Total contingent rents included in gross rental income amounted to £nil (2011: £0.1m).

7 Property outgoings

	2012 £m	2011 £m
Service charge income	13.7	7.5
Service charge expenses	(14.4)	(8.1)
Net service charge expenses	(0.7)	(0.6)
Major refurbishment costs	(12.4)	(4.2)
Other property operating expenses	(38.3)	(35.2)
Total net property outgoings	(51.4)	(40.0)

Operating expenses associated with unlet properties totalled £1.4m (2011: £1.6m).

8 Other income

	2012 £m	2011 £m
Fund management and asset management fees	26.4	33.7
Project management fees	2.3	3.0
Other income	10.0	4.0
	38.7	40.7

Notes to the financial statements

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9 Administrative expenses

	2012 £m	2011 £m
Staff costs	61.6	60.6
Office costs	16.3	14.6
Auditor's remuneration – audit services	1.3	1.3
– other services	0.5	0.4
Other professional fees	11.9	12.6
Allocation of costs to Grosvenor Trusts	(16.0)	(15.8)
Other administrative expenses	13.7	16.1
	89.3	89.8

All of the Group's Operating Companies were audited by Deloitte LLP and other member firms of Deloitte Touche Tohmatsu Limited £0.5m (2011 £0.5m) of the total audit fee is estimated to relate to the audit of the Group and £0.8m (2011 £0.8m) to the audit of the Group's subsidiaries. The Company's audit fees (£0.1m) were borne by another Group company (2011 £0.1m). Amounts paid to other accountancy firms in 2012 totalled £1.5m (2011 £1.8m).

10 Employee information

	2012 £m	2011 £m
Staff costs		
Wages and salaries	59.4	56.3
Social security contributions	4.7	3.9
Other staff costs	5.9	11.2
Pension costs		
Contributions to defined contribution plans	2.6	3.1
Net cost of defined benefit plans (Note 11)	4.8	2.6
	77.4	77.1
Included in:		
Administrative expenses	61.6	60.6
Property operating expenses	9.8	7.8
Development costs	6.0	8.7
	77.4	77.1

Employee numbers

	At end of year		Average	
	2012 Number	2011 Number	2012 Number	2011 Number
Britain & Ireland	241	242	241	244
Americas	66	63	65	63
Asia Pacific	62	62	62	53
Fund Management	117	133	125	134
Indirect	2	2	2	9
Holding Company and shared services	44	43	43	43
	532	545	538	546

The Company employs nil staff (2011 nil)

Notes to the financial statements

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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 £2.6m (2011: £3.1m).

DEFINED BENEFIT SCHEMES

The Group operates defined benefit pension schemes in Britain & Ireland, the USA and Canada. Benefits in the scheme in the 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, at which point it had £3.7m of scheme liabilities and £3.7m of scheme assets (comprised of other assets). The discount rate applied to the scheme in Australia as at 31 December 2011 was 4.3%.

The defined benefit schemes are funded and are administered by member and employer nominated 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. Changes in the Group's proportionate share of the assets and liabilities of this scheme arising during the year are treated as actuarial gains and losses.

Actuarial valuations were last carried out at the following dates:

Britain & Ireland	31 December 2011
USA	31 December 2012
Canada	31 December 2010

All the valuations have been updated to 31 December 2012. 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 £3.2m per annum from 2013 until 2018 to fund the scheme deficit. The level of contributions will be reviewed following the next triennial valuation due as at 31 December 2014.

With effect from 1 January 2013 the Group will adopt the amendments to IAS 19 Employee Benefits. One of the consequences will be that the interest expense in respect of the defined benefit pension schemes will be calculated on the net deficit, rather than separate income and expense amounts for the scheme assets and liabilities. Accordingly, there is no need for an assumption for the return on scheme assets at 31 December 2012.

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

	2012 £m	2011 £m
Current service cost	4.8	5.2
Interest cost	7.5	9.2
Expected return on scheme assets	(7.4)	(8.8)
Settlements and curtailments	(0.1)	(3.0)
	4.8	2.6

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

	2012 £m	2011 £m
Present value of unfunded obligations	(15.7)	(15.2)
Present value of funded obligations	(157.0)	(162.6)
Present value of total defined benefit obligations	(172.7)	(177.8)
Fair value of scheme assets	138.5	140.6
Defined benefit pension deficit	(34.2)	(37.2)
The net deficit arises in the following regions:		
Britain & Ireland	(13.2)	(15.2)
USA	(12.1)	(14.0)
Canada	(8.9)	(8.0)
	(34.2)	(37.2)

Notes to the financial statements

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11 Retirement benefit schemes continued

Movements in the present value of defined benefit obligations are:

	2012 £m	2011 £m
At 1 January	177.8	171.5
Current service cost	4.8	5.2
Past service cost	—	0.1
Interest cost	7.5	9.2
Settlements and curtailments	(0.1)	(3.0)
Actuarial (gains)/losses	(6.1)	2.3
Benefits paid	(9.4)	(7.2)
Exchange movements	(1.8)	(0.3)
At 31 December	172.7	177.8

Analysis of the scheme liabilities:

	2012 £m	2011 £m
Britain & Ireland	119.7	120.6
USA	22.5	23.7
Canada	30.5	29.8
At 31 December	172.7	174.1

Movements in fair value of scheme assets were:

	2012 £m	2011 £m
At 1 January	140.6	134.4
Expected return on scheme assets	7.4	8.8
Actuarial losses	(3.0)	(10.1)
Contributions by the employer	3.7	14.9
Benefits paid	(9.3)	(7.1)
Exchange movements	(0.9)	(0.3)
At 31 December	138.5	140.6

Analysis of the scheme assets and the expected rates of return

2012

	Equities £m	Bonds £m	Other £m	Total £m
Britain & Ireland	84.5	20.5	1.4	106.4
USA	7.8	2.6	—	10.4
Canada	8.4	5.9	7.4	21.7
	100.7	29.0	8.8	138.5

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
		98.2		29.5		9.2	136.9

Notes to the financial statements

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11 Retirement benefit schemes continued

2012

	Britain & Ireland	USA	Canada
Discount rate	4.5%	3.8%	4.3%
Expected rate of salary increase	4.7%	n/a	3.5%
Expected rate of future pension increase	3.2%	2.5%	3.3%
Inflation	3.2%	2.5%	2.3%

2011

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

	Male		Female	
	2012	2011	2012	2011
Life expectancy of a 65-year-old today				
Britain & Ireland	25.8	25.7	27.2	27.0
USA	19.2	19.1	21.0	21.0
Canada	19.7	19.6	22.1	22.0
Life expectancy of a 65-year-old in 20 years				
Britain & Ireland	28.1	28.0	29.1	29.0
USA	19.1	19.1	21.0	21.0
Canada	21.2	21.1	22.9	22.8

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 2013 £m
Based on the assumptions above	172.7	6.6
Approximate impact of		
Increase in discount rate by 0.25%	(7.9)	(0.8)
Increase in inflation rate by 0.25%	7.8	0.7
Increase in life expectancy by one year at 65	5.1	0.3

The history of experience gains and losses is as follows

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of defined benefit obligation	(172.7)	(177.8)	(171.5)	(152.4)	(120.9)
Fair value of scheme assets	138.5	140.6	134.4	115.2	91.4
Deficit in the schemes	(34.2)	(37.2)	(37.1)	(37.2)	(29.5)
Experience adjustments on scheme assets					
Amount of (loss)/gain	(3.0)	(10.1)	6.5	13.7	(27.9)
Percentage of scheme assets	2.2%	7.2%	4.8%	11.9%	30.5%
Experience adjustments on scheme liabilities					
Amount of gain/(loss)	6.1	0.7	(7.1)	(25.7)	7.2
Percentage of the present value of scheme liabilities	3.5%	0.4%	4.1%	16.9%	6.0%

Notes to the financial statements

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12 Directors' remuneration details

	2012 £000	2011 £000
Aggregate remuneration		
Emoluments	1,229	1,230
Performance-related bonus	545	365
Long-term incentive scheme	363	275
	2,137	1,870

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 £545,000 (2011: £631,000), performance-related bonus of £345,000 (2011: £223,000) and long-term incentive plans of £226,000 (2011: £130,000)

Retirement benefits accrued to two Directors. The highest paid Director accrued benefits under the defined benefit scheme and an unfunded defined benefit scheme. The other Director accrued benefits under an arrangement combining defined benefit and money purchase benefits until April 2012 when he became a deferred member of the defined benefit scheme. The total annual accrued pension under the defined benefit pension schemes was £61,000 (2011: £51,000) and for the highest paid Director was £57,000 (2011: £47,000). Total contributions in respect of money purchase pension benefits were £9,000 (2011: £51,000) and for the highest paid Director were £nil (2011: £nil).

13 Net losses on trading properties

	2012 £m	2011 £m
Development costs	(10.0)	(10.8)
Proceeds from sale of trading properties	78.9	20.0
Carrying value of trading properties sold	(76.9)	(15.1)
Provision for impairment of trading properties	(5.7)	(6.7)
Uplift on trading properties completed and transferred to investment property	—	0.1
	(13.7)	(12.5)

The carrying value of trading properties sold includes £1.1m of capitalised interest (2011: £nil).

14 Net gains/(losses) on other investments

	2012 £m	2011 £m
Loss on disposal of interests in joint ventures	—	(5.5)
Impairment of joint ventures	—	(2.6)
Gain on disposal of other fixed assets	0.9	1.0
	0.9	(7.1)

15 Net gains on revaluation and sale of investment property

	2012 £m	2011 £m
Valuation gains on investment property	299.1	267.1
Valuation losses on investment property	(14.0)	(6.7)
Valuation losses on redevelopment properties	—	(0.9)
Net valuation gains on investment property	285.1	259.5
Profit on disposal of investment property	27.6	64.9
	312.7	324.4

Notes to the financial statements

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16 Net financing costs

	2012 £m	2011 £m
Dividend income	—	0.1
Interest income	4.0	5.4
Other financial income	1.8	3.7
Financial income	5.8	9.1
Gross interest expense (including dividends on preference shares)	(47.0)	(47.2)
Interest capitalised	7.6	3.2
Commitment and other financing costs	(5.5)	(5.9)
Financial expenses	(44.9)	(49.9)
Fair value adjustments of interest rate swaps and foreign exchange contracts	1.3	(12.9)
Fair value adjustments of embedded derivatives	0.2	1.7
Total fair value adjustments	1.5	(11.2)
Net financing costs	(37.6)	(51.9)

The average rate of interest capitalised in the year was 6.9% (2011: 7.0%)

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

	2012 £m	2011 £m
Current tax expense		
UK corporation tax at 24.5% (2011: 26.5%)	11.1	7.7
Overseas tax	13.8	6.2
Adjustment for prior years	(7.1)	0.8
	17.8	14.7
Deferred tax expense		
Origination and reversal of temporary differences	28.3	56.7
Benefit of tax gains/(losses) recognised	0.1	(0.5)
Adjustment for prior years	0.1	(1.8)
	28.5	54.4
Total income tax expenses in the income statement	46.3	69.1

Notes to the financial statements

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17 Income tax expense continued

Deferred tax recognised in other comprehensive income

	2012 £m	2011 £m
Revaluation of property plant and equipment	0.3	0.8
Fair value adjustments on financial instruments treated as cash flow hedges	0.8	0.4
Fair value adjustments on available for sale financial assets	—	0.7
Actuarial gains/(losses) on defined benefit pension schemes	1.5	(2.7)
Foreign exchange movements	—	1.9
Total income tax recognised in other comprehensive income	2.6	1.1
Reconciliation of effective tax rate		
Profit before taxation	354.4	315.0
Less: share of profit of joint ventures	(58.5)	(25.0)
Add: profit of joint ventures where the tax charge is directly attributable to the Group	28.0	21.4
Adjusted Group profit before taxation	323.9	311.4
Tax on adjusted Group profit at standard UK corporation tax rate of 24.5% (2011: 26.5%)	79.4	82.5
Higher tax rates on overseas earnings	12.6	6.0
Expenses not deductible for tax purposes	4.8	5.5
Other items attracting no tax relief or liability	(7.9)	2.0
Other timing differences	(3.0)	2.5
Reduction in tax rate	(32.5)	(28.4)
Adjustments in respect of over provision in prior years	(7.1)	(1.0)
Total income tax expense in the income statement	46.3	69.1
Effective tax rate based on adjusted Group profit	14.3%	22.2%
Effective tax rate excluding the rate change impact on deferred tax	24.3%	31.3%

FACTORS AFFECTING FUTURE TAX CHARGES

The Budget on 21 March 2012 announced that the UK corporate tax rate would decrease from 26% to 24% from 1 April 2012 (rather than 25% as previously enacted in 2011). The Finance Act 2012 enacted a further reduction to 23% from 1 April 2013.

A current tax rate of 24.5% (2011: 26.5%) has been applied to the year ended 31 December 2012. In the UK, a deferred tax rate of 23% (2011: 25%) has been applied to opening balances and movements in deferred tax in the year ended 31 December 2012.

Subsequent annual rate reductions (such as the recent Autumn Statement which announced the UK corporation tax rate will reduce from 23% to 21% from 1 April 2014) 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 2012 the restatement of deferred tax balances has reduced the effective tax rate of the Group from 24.3% to 14.3% (2011: 31.3% to 22.2%) and the overall impact of the rate change is a reduction in the tax charge of £32.5m (2011: £28.4m).

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	2012 £m	2011 £m
Investment property	— Group	19	2,968.2
	— Share of joint ventures	22	2,157.2
Investment properties under development	— Group	19	92.8
	— Share of joint ventures	22	91.2
Trading properties	— Group	26	294.8
	— Share of joint ventures	22	191.2
Other financial assets*	— Group	23	36.8
Total property assets		5,832.2	5,839.6

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

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19 Investment property

	Completed property			Under development			Total £m
	Freehold £m	Leasehold £m	Total £m	Freehold £m	Leasehold £m	Total £m	
At 1 January 2011	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 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	10	82.2	92.2	2,812.7
Acquisitions	23.8	14.4	38.2	—	—	—	38.2
Costs capitalised	3.6	12.3	15.9	—	25.0	25.0	40.9
Disposals	(24.7)	(59.4)	(84.1)	—	—	—	(84.1)
Revaluation gains	42.9	243.3	286.2	—	—	—	286.2
Transfer from redevelopment projects	—	15.3	15.3	—	(15.3)	(15.3)	—
Transfer from trading properties	0.1	—	0.1	—	—	—	0.1
Exchange movements	(28.8)	(4.1)	(32.9)	—	(0.1)	(0.1)	(33.0)
At 31 December 2012	839.0	2,129.2	2,968.2	10	91.8	101.8	3,061.0

Investment properties were valued at 31 December 2012 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 Chartered Surveyors		6.2
	Freehold	CB Richard Ellis Chartered Surveyors		64.0
	Long leasehold	DTZ Debenham Tie Leung, Chartered Surveyors		2,164.5
Americas	Freehold	Cushman & Wakefield Le Page Chartered Surveyors		266.9
	Freehold	Altus Group Research valuation and advisory		209.8
Asia Pacific	Freehold	Tanizawa SOGO Appraisal Co Ltd		20.3
	Long leasehold	Daiwa Real Estate Appraisal Co Ltd		13.4
	Long leasehold	Savills Valuation & Professional Services Limited		43.1
Indirect Investments	Freehold	Jones Lang LaSalle Chartered Surveyors		113.1
	Freehold	Directors' valuation		125.1
	Freehold	Cushman & Wakefield, Chartered Surveyors		34.6
				3,061.0

The historical cost of the Group's investment properties was £1,247.2m (2011: £1,161.1m).

At 31 December 2012, investment properties with a carrying amount of £1,590.2m were pledged as security for bank loans (2011: £1,467.4m).

Included in the above are investment properties available for sale of £170.5m (2011: £11.2m).

Notes to the financial statements

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20 Other property, plant and equipment

2012

	Land and buildings £m	Leasehold improvements £m	Computer and IT equipment £m	Fixtures, fittings and motor vehicles £m	Total £m
Cost					
At 1 January 2012	32.7	6.4	7.7	9.4	56.2
Additions	–	0.2	6.3	0.9	7.4
Disposals	(0.7)	–	(0.3)	(0.4)	(1.4)
Revaluation gains	3.6	–	–	–	3.6
At 31 December 2012	35.6	6.6	13.7	9.9	65.8
Depreciation					
At 1 January 2012	(0.1)	(5.8)	(4.5)	(5.2)	(15.6)
Depreciation charge for the year	–	(0.3)	(0.7)	(1.0)	(2.0)
Disposals	–	–	0.3	0.1	0.4
At 31 December 2012	(0.1)	(6.1)	(4.9)	(6.1)	(17.2)
Carrying amount					
At 1 January 2012	32.6	0.6	3.2	4.2	40.6
At 31 December 2012	35.5	0.5	8.8	3.8	48.6

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

Land and buildings are freehold and were valued at 31 December 2012 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 2012 was £12.5m (2011: £13.6m)

The carrying value of freehold land and buildings includes capitalised interest of £nil (2011: £nil)

At 31 December 2012 land and buildings with a carrying value of £nil were pledged as security for bank loans (2011: £nil)

Notes to the financial statements

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21 Investments in subsidiaries

Company

	Shares at cost £m
At 1 January 2012 and 31 December 2012	1,358.4

At 31 December 2012 the Group had the following principal investments in subsidiaries

INTERMEDIATE HOLDING COMPANIES

Grosvenor Estate Holdings**
 Grosvenor Investments UK Ltd
 Grosvenor Fund Management Limited
 Grosvenor Limited
 Grosvenor Americas Corporation (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

REGULATED ENTITIES

Grosvenor Australia Nominees Pty Limited (Australia)
 Grosvenor Fund Management Inc (US)
 Grosvenor Fund Management Japan Ltd (Japan)
 Grosvenor Investment Management Ltd

*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.

Notes to the financial statements

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22 Investments in joint ventures

2012

	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	0.8	175	149	375	102.6	0.2	–	173.5
Property outgoings	(0.5)	(6.0)	(3.1)	(10.2)	(26.1)	(0.1)	–	(46.0)
Net rental income	0.3	11.5	11.8	27.3	76.5	0.1	–	127.5
Fees and other income/(expenses)	0.3	–	–	(0.5)	18.6	(0.1)	–	18.3
Net gain/(losses) on trading properties	13.0	(0.1)	9.4	9.0	(13.0)	–	–	18.3
Administrative expenses	(0.2)	(0.2)	(0.3)	(3.7)	(22.6)	(0.8)	–	(27.8)
Net financing costs	(1.5)	(4.2)	(2.5)	(11.9)	(22.1)	(0.1)	–	(42.3)
Revenue profit/(loss)	11.9	7.0	18.4	20.2	37.4	(0.9)	–	94.0
Net gains/(losses) on revaluation and sale of investment properties	–	14.1	25.5	(15.0)	(51.7)	–	–	(27.1)
Net losses on other investments	(0.1)	–	–	(0.4)	–	–	(0.3)	(0.8)
Impairment of goodwill	–	–	–	(0.9)	–	–	–	(0.9)
Derivative fair value adjustments	(0.1)	–	–	0.1	–	–	–	–
Profit/(loss) before tax	11.7	21.1	43.9	4.0	(14.3)	(0.9)	(0.3)	65.2
Current tax	–	(0.3)	(2.3)	(2.3)	(9.0)	–	–	(13.9)
Deferred tax	–	–	(0.4)	3.1	4.9	–	–	7.6
Non-controlling interest	–	–	–	0.1	(0.5)	–	–	(0.4)
	11.7	20.8	41.2	4.9	(18.9)	(0.9)	(0.3)	58.5
Share of assets and liabilities								
Non-current assets								
– investment properties	–	215.0	269.1	518.4	1,151.0	3.7	–	2,157.2
– investment properties under development	–	–	–	–	91.2	–	–	91.2
– other	0.2	–	–	1.0	54.3	0.1	–	55.6
Current assets								
– cash	6.9	2.5	14.4	31.3	101.9	4.2	–	161.2
– trading properties	131.0	17.6	35.5	7.1	–	–	–	191.2
– other	11.1	0.8	31.2	11.2	65.0	1.0	–	120.3
Non-current liabilities	(43.8)	(62.4)	(139.7)	(278.3)	(945.8)	(2.2)	–	(1,472.2)
Current liabilities	(37.2)	(19.9)	(22.0)	(44.3)	(176.4)	(0.8)	–	(300.6)
Net assets	68.2	153.6	188.5	246.4	341.2	6.0	–	1,003.9
Borrowings included in liabilities	(43.4)	(78.0)	(137.1)	(288.5)	(615.2)	(2.1)	–	(1,164.3)

Included in Sonae Sierra are investment properties and investment properties under development of £765m to which the uncertainty explained in Note 1(u)(vii) relate. Net gains/(losses) on revaluation and sale of investment properties in Sonae Sierra comprises gains of £25.9m and losses of £77.6m.

Notes to the financial statements

continued

22 Investments in joint ventures continued

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)

Notes to the financial statements

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22 Investments in joint ventures continued

At 31 December 2012 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%	29.3
GC Campden Hill LLP	Property development	England and Wales	50.0%	10.8
Barkhill Limited	Property development	Republic of Ireland	50.0%	5.8
The Grouss Residential Investment Partnership	Property development	Scotland	31.8%	7.6
Alpha Place Developments LLP	Property development	England and Wales	33.0%	14.9
Americas				
Joint ventures with BBCAF Inc	Property investment	United States of America	50.0%/25.0%	118.7
Joint ventures with the Getty Family Trust	Property investment	United States of America	50.0%	7.1
Art Hill Management	Property investment	United States of America	48.9%	5.9
Joint ventures with Maple Leaf	Property investment	United States of America	51.0%	15.6
Joint ventures with JBC Companies	Property development	United States of America	50.0%	6.1
Asia Pacific				
Seatonmere Limited	Property investment	Hong Kong	50.0%	165.6
Paramount Shine Limited	Property development	Hong Kong	50.0%	0.9
GT3 Tokutei Mokutei Kaisya	Property investment	Japan	50.0%	5.9
Grosvenor Park Partners	Property development	Cayman Islands	50.0%	10.1
Grosvenor Residential Development Partnership	Property development	China	10.0%	6.0
Indirect Investments				
Grosvenor Shopping Centre Fund	Property investment	England and Wales	23.4%	27.2
Grosvenor London Office Fund	Property investment	England and Wales	24.2%	83.0
Grosvenor Residential Investment Fund	Property investment	England and Wales	50.0%	13.3
Grosvenor Liverpool Fund	Property investment	England and Wales	19.6%	60.1
GEMOA Inc	Property investment	United States of America	20.0%	12.7
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%	9.2
US Healthcare Venture	Property investment	United States of America	5.0%	1.7
Grosvenor Vega – China Retail Fund	Property investment	China	7.0%	7.1
Grosvenor Diamond Capital – Stable Residential Fund	Property investment	Japan	4.0%	1.3
Grosvenor Capital Advisors Partnership	Property investment	Japan	33.7%/18.8%	11.6
Grosvenor Office Retail Fund	Property investment	Japan	7.6%	3.8
zo Investments Limited	Property investment	England and Wales	90.1%	8.1
Sonae Sierra SGPS SA	Property investment and development	Portugal	50.0%*	341.2

*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 (Accounts) Regulations 2008, which dispenses with the requirement for those partnerships to file accounts with Companies House.

Notes to the financial statements

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23 Other financial assets

	2012 £m	2011 £m
Non-current assets		
Equity shares	13.2	17.5
Finance lease receivables	6.1	6.9
Mezzanine loans	9.2	7.5
Other financial assets	16.5	5.0
Non-current portion of currency swaps	6.5	—
	51.5	36.9
Current assets		
Mezzanine loans	3.2	3.2
Current portion of currency swaps	6.6	—
	9.8	3.2

Included in the above are property related financial assets of £36.8m (2011: £26.5m)

Principal financial assets at 31 December 2012

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	2.3%
ISPT Grosvenor International Property Trust	Property investment vehicle	Australia	9.9%

Finance lease receivables

	2012 £m	2011 £m
Finance lease receivable	5.4	5.5
Unguaranteed residual value	0.7	1.4
	6.1	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	90.9	85.5	5.4
	94.4	89.0	5.4

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.

Notes to the financial statements

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24 Intangible assets

2012

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1 January 2012	8.6	1.7	10.3
Exchange movements	(0.2)	(0.1)	(0.3)
At 31 December 2012	8.4	1.6	10.0
Amortisation/impairment			
At 1 January 2012	(4.5)	(1.7)	(6.2)
Exchange movements	0.1	0.1	0.2
At 31 December 2012	(4.4)	(1.6)	(6.0)
Carrying amount			
At 1 January 2012	4.1	—	4.1
At 31 December 2012	4.0	—	4.0

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

Notes to the financial statements

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25 Deferred tax assets and liabilities

RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following items

	2012			2011		
	Assets £m	Liabilities £m	Net £m	Assets £m	Liabilities £m	Net £m
Investment property – contingent gains	16.3	(452.6)	(436.3)	26.9	(552.6)	(525.7)
Investment property – deferred gains	52.6	(122.9)	(70.3)	46.8	–	46.8
Other property, plant and equipment	0.1	(9.4)	(9.3)	0.1	(11.9)	(11.8)
Other financial assets	–	(0.1)	(0.1)	0.4	(0.5)	(0.1)
Interest-bearing loans and borrowings	5.8	(1.3)	4.5	5.9	(0.9)	5.0
Employee benefits	16.5	(5.6)	10.9	16.0	(3.8)	12.2
Provisions	1.5	–	1.5	1.0	–	1.0
Other items	7.1	(8.2)	(1.1)	5.5	(6.7)	(1.2)
Tax value and loss carry-forwards recognised	3.4	–	3.4	0.8	–	0.8
Tax assets/(liabilities)	103.3	(600.1)	(496.8)	103.4	(576.4)	(473.0)

At 31 December 2012, 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 2012 the total of these temporary differences was £435.8m (2011: £416.2m) and the potential tax effect £25.9m (2011: £25.8m). The temporary differences at 31 December 2012 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

	2012 £m	2011 £m
Tax losses	47.2	38.5

Movement in temporary differences during the year

	Balance at 1 January 2012 £m	Recognised in income £m	Recognised in equity £m	Exchange movement £m	Disposals £m	Balance at 31 December 2012 £m
Investment property – contingent gains	(525.7)	86.2	(0.3)	0.6	2.9	(436.3)
Investment property – deferred gains	46.8	(121.4)	–	4.3	–	(70.3)
Other property, plant and equipment	(11.8)	2.5	–	–	–	(9.3)
Other financial assets	(0.1)	–	–	–	–	(0.1)
Interest-bearing loans and borrowings	5.0	0.5	(0.8)	(0.2)	–	4.5
Employee benefits	12.2	0.3	(1.5)	(0.1)	–	10.9
Provisions	1.0	0.5	–	–	–	1.5
Other items	(1.2)	0.3	–	(0.2)	–	(1.1)
Tax value and loss carry-forwards recognised	0.8	2.6	–	–	–	3.4
	(473.0)	(28.5)	(2.6)	4.4	2.9	(496.8)

Notes to the financial statements

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26 Trading properties

	2012 £m	2011 £m
At 1 January	245.2	138.7
Additions	131.6	119.0
Capitalised interest	4.3	1.6
Disposals	(76.9)	(15.1)
Provision for impairment	(5.7)	(6.7)
Transfer to investment properties	(0.1)	(1.7)
Transfer from joint ventures	—	11.4
Exchange movements	(3.6)	(2.0)
At 31 December	294.8	245.2

At 31 December 2012 trading properties with a carrying amount of £41.2m were pledged as security for bank loans (2011: £51.6m)

27 Trade and other receivables

	Group		Company	
	2012 £m	2011 £m	2012 £m	2011 £m
Trade receivables	29.8	20.8	—	—
Receivables due from subsidiaries	—	—	137.9	174.4
Receivables due from joint ventures	80.6	67.8	—	—
Other receivables	65.1	61.3	—	—
Prepayments	5.4	4.3	—	—
Accrued income	19.4	4.3	—	—
	200.3	158.5	137.9	174.4

Included in the above are receivables due after more than one year totalling £3.6m (2011: £0.1m)

28 Cash and cash equivalents

	2012 £m	2011 £m
Bank balances	115.5	69.4
Cash deposits	122.9	168.1
Cash and cash equivalents	238.4	237.5
Bank overdrafts	—	(0.1)
Cash and cash equivalents in the statement of cash flows	238.4	237.4

The amount of cash and cash equivalents not available for use by the Group totals £80.7m (2011: £26.5m) of which £nil (2011: £1.2m) has been pledged as collateral

Notes to the financial statements

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29 Interest-bearing loans and borrowings

	2012 £m	2011 £m
Non-current liabilities		
Secured bank loans	243.5	314.5
Unsecured bank loans	51.0	50.1
Secured bond issues	202.0	202.1
Unsecured bond issues	267.5	177.5
Finance lease liabilities	1.3	1.4
Loan from non-controlling interests in subsidiaries	4.1	1.4
Preference shares	—	29.8
	769.4	776.8
Current liabilities		
Current portion of secured bank loans	20.2	26.5
Current portion of unsecured bank loans	0.2	—
Current portion of currency swaps	—	2.1
Preference shares	29.1	—
	49.5	28.6

The bank loans and secured bonds are secured over investment properties with a carrying value of £1,590.2m (2011 £1,467.4m) land and buildings with a carrying value of £nil (2011 £nil) and trading properties with a carrying value of £41.2m (2011 £51.6m). Included in secured bond issues is £2.0m (2011 £2.2m) 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

	2012			2011		
	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	1.3	1.3	—	1.2	1.2	—
More than five years	73.9	72.6	1.3	72.7	71.3	1.4
	75.5	74.2	1.3	74.2	72.8	1.4

Notes to the financial statements

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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 18.4% (2011: 19.9%).

Categories of financial instruments and their fair values

2012

	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	–	–	13.2	–	13.2	13.2
Finance lease receivable	6.1	–	–	–	6.1	9.4
Mezzanine loans (current and non-current)	12.2	0.2	–	–	12.4	12.4
Other financial assets	–	–	16.5	–	16.5	16.5
Trade and other receivables	80.6	–	–	94.9	175.5	175.5
Tax receivable	–	–	–	5.6	5.6	5.6
Cash and cash equivalents	–	–	–	238.4	238.4	238.4
Total financial assets	98.9	0.2	29.7	338.9	467.7	471.0

	Financial liabilities at amortised cost £m	Total carrying amount £m	Fair value £m
Financial liabilities			
Bank overdrafts	–	–	–
Fixed rate loans			
Sterling unsecured bond 2019	(52.5)	(52.5)	(65.2)
Sterling unsecured bond 2022	(60.1)	(60.1)	(50.8)
Sterling secured bond 2026	(202.0)	(202.0)	(234.4)
Sterling unsecured bond 2031	(95.5)	(95.5)	(84.7)
Sterling secured mortgage 2034	(50.0)	(50.0)	(50.0)
Sterling unsecured bond 2037	(30.1)	(30.1)	(25.6)
Sterling unsecured bond 2041	(30.6)	(30.6)	(26.9)
US Dollars	(46.5)	(46.5)	(50.5)
Canadian Dollars	(36.5)	(36.5)	(40.4)
Japanese Yen	(8.4)	(8.4)	(8.4)
Total fixed rate loans	(612.2)	(612.2)	(636.9)
Floating rate loans			
US Dollars	(84.0)	(84.0)	(84.0)
Canadian Dollars	(3.3)	(3.3)	(3.3)
Euros	(39.5)	(39.5)	(39.5)
Australian Dollars	(35.5)	(35.5)	(35.5)
Total floating rate loans	(162.3)	(162.3)	(162.3)
Finance lease liabilities	(1.3)	(1.3)	(1.3)
Loans from non-controlling interests in subsidiaries	(4.1)	(4.1)	(4.1)
Preference shares	(29.1)	(29.1)	(29.1)
Tax payable	(17.7)	(17.7)	(17.7)
Trade and other payables	(110.7)	(110.7)	(110.7)
Total financial liabilities	(937.4)	(937.4)	(962.1)

Notes to the financial statements

continued

30 Financial instruments continued

2012

	Held for trading £m	Total carrying amount £m	Fair value £m
Derivatives			
Interest rate swaps			
US Dollars	(7.0)	(7.0)	(7.0)
Hong Kong Dollars	(1.5)	(1.5)	(1.5)
Euros	(0.2)	(0.2)	(0.2)
Australian Dollars	(1.2)	(1.2)	(1.2)
Total interest rate swaps	(9.9)	(9.9)	(9.9)
Currency swaps			
US Dollars	0.2	0.2	0.2
Japanese Yen	1.8	1.8	1.8
Euros	10.5	10.5	10.5
Australian Dollars	0.6	0.6	0.6
Total currency swaps	13.1	13.1	13.1
Total derivatives	3.2	3.2	3.2

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

	2012			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Available-for-sale financial assets				
Equity shares	3.1	10.1	—	13.2
Other	15.2	1.3	—	16.5
Financial assets held for trading				
Mezzanine loan investments	—	—	0.2	0.2
Derivatives	—	13.1	—	13.1
Total financial assets	18.3	24.5	0.2	43.0
Financial liabilities held for trading				
Derivatives	—	(9.9)	—	(9.9)
Total financial liabilities	—	(9.9)	—	(9.9)

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

Notes to the financial statements

continued

30 Financial instruments continued

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	–	–	175	–	175	175
Finance lease receivable	69	–	–	–	69	94
Mezzanine loan investments	90	17	–	–	107	107
Other financial assets	–	–	50	–	50	50
Trade and other receivables	678	–	–	821	1499	1499
Income tax receivable	–	–	–	120	120	120
Cash and cash equivalents	–	–	–	2375	2375	2375
Total financial assets	837	17	225	3316	4395	4420

	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)

Notes to the financial statements

continued

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

Notes to the financial statements

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30 Financial instruments continued

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.

Notes to the financial statements

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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.

2012

	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	—	—	—	—	—	13.2	13.2
Finance lease receivable	10.1	—	—	—	6.1	—	6.1
Mezzanine loans (current and non-current)	8.2	—	3.2	9.2	—	—	12.4
Other financial assets	5.1	5.0	—	0.1	0.1	11.3	16.5
Trade and other receivables (excluding prepayments and accrued income)	7.1	11.6	—	—	12.6	151.3	175.5
Tax receivable	—	—	—	—	—	5.6	5.6
Cash and cash equivalents	0.7	126.9	62.5	—	—	49.0	238.4
Total financial assets		143.5	65.7	9.3	18.8	230.4	467.7
Financial liabilities.							
Fixed rate loans							
Sterling unsecured bond 2019	8.4	—	—	—	(52.5)	—	(52.5)
Sterling unsecured bond 2022	3.4	—	—	—	(60.1)	—	(60.1)
Sterling secured bond 2026	6.5	—	—	—	(202.0)	—	(202.0)
Sterling unsecured bond 2031	5.6	—	—	—	(95.5)	—	(95.5)
Sterling secured mortgage 2034	10.4	—	—	—	(50.0)	—	(50.0)
Sterling unsecured bond 2037	5.0	—	—	—	(30.1)	—	(30.1)
Sterling unsecured bond 2041	6.1	—	—	—	(30.6)	—	(30.6)
US Dollars fixed rate	10.2	—	(0.5)	(30.3)	(15.7)	—	(46.5)
Canadian Dollars fixed rate	6.1	—	(1.0)	(13.8)	(21.7)	—	(36.5)
Japanese Yen fixed rate	1.7	—	—	—	(8.4)	—	(8.4)
Total fixed rate loans		—	(1.5)	(44.1)	(566.6)	—	(612.2)
Floating rate loans fixed through interest rate swaps							
US Dollars	2.7	—	(0.2)	(52.3)	(5.8)	—	(58.3)
Hong Kong Dollars	0.6	—	(1.5)	—	—	—	(1.5)
Euro	4.8	—	—	(175)	—	—	(17.5)
Australian Dollars	4.1	—	(13.7)	(23.0)	—	—	(36.7)
Total floating rate loans fixed through interest rate swaps		—	(15.4)	(92.8)	(5.8)	—	(114.0)
Floating rate loans							
US Dollars floating rate	3.1	(32.7)	—	—	—	—	(32.7)
Canadian Dollars floating rate	3.4	(3.3)	—	—	—	—	(3.3)
Euro floating rate	2.8	(22.2)	—	—	—	—	(22.2)
Total floating rate loans		(58.2)	—	—	—	—	(58.2)
Currency swaps	—	—	6.6	6.5	—	—	13.1
Finance lease liabilities	11.2	—	—	—	(1.3)	—	(1.3)
Loan from joint ventures	—	—	—	—	—	(4.1)	(4.1)
Preference Shares	0.6	(29.1)	—	—	—	—	(29.1)
Tax payable	n/a	—	—	—	—	(17.7)	(17.7)
Trade and other payables (excluding deferred income and accrued expenses)	n/a	—	—	—	—	(110.7)	(110.7)
Total financial liabilities		(87.3)	(10.3)	(130.4)	(573.7)	(132.5)	(934.2)

The total average cost of debt for the year ended 31 December 2012 was 6.13% (2011: 6.03%).

Notes to the financial statements

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30 Financial instruments continued

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	—	—	—	—	—	175	175
Finance lease receivables	13.3	—	—	—	6.9	—	6.9
Mezzanine loan investments	9.2	—	1.5	75	—	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	75	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)

Notes to the financial statements

continued

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:

	2012 £m	2011 £m
Increase/(decrease) in results for the year – interest charge	0.8	0.7
– mark to market of interest rate swaps	3.4	2.5
– tax charge	(1.0)	(0.9)
Total increase in profit and equity	3.2	2.3

Similarly, if interest rates had been 0.5% lower, then Group profit and equity would have increased by £3.6m (2011: £2.3m).

As part of the Group's interest rate risk management, interest rate swaps exchanging floating for fixed interest with a notional principal of £70.7m (2011: £287.9m) and a fair value liability of £7.0m (2011: £14.4m) were designated for cashflow hedge accounting at 31 December 2012. 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 £2.5m (2011: increase/decrease by £1.8m) 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 cash and cash equivalents at 31 December	
	2012 £m	2011 £m
AAA	89.1	52.1
AA+	–	–
AA	–	0.5
AA-	69.8	109.2
A+	23.3	32.3
A	26.0	5.8
A-	29.4	37.6
Other	0.8	–
	238.4	237.5

Notes to the financial statements

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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 £29.8m of which £13.3m was outstanding at 1 March 2013.

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 2012, the Group had the following drawn and undrawn committed borrowing facilities available:

	Drawn facilities		Undrawn facilities	
	2012 £m	2011 £m	2012 £m	2011 £m
Expiring in less than one year	82.5	22.2	198.3	92.4
Expiring from one to two years	22.0	116.7	—	197.7
Expiring from two to five years	144.4	185.5	525.1	386.2
Expiring after more than five years	564.6	476.2	—	51.3
Total	813.5	800.6	723.4	727.6

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:

2012

	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	40.4	92.5	0.3	—	128.4	261.6
From one to two years	46.1	16.4	0.3	—	—	62.8
From two to three years	71.9	78.2	0.3	—	—	150.4
From three to four years	36.5	17.6	0.3	—	—	54.4
From four to five years	44.8	0.1	0.3	—	—	45.2
After five years	912.9	5.6	74.0	4.1	—	996.6
	1,152.6	210.4	75.5	4.1	128.4	1,571.0

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

Notes to the financial statements

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30 Financial instruments continued

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

	2012		2011	
	Payable £m	Receivable £m	Payable £m	Receivable £m
Due within one year	(6.0)	1.7	(7.5)	3.3
From one to two years	(3.6)	0.9	(6.0)	2.4
From two to three years	(3.0)	0.9	(5.0)	2.2
From three to four years	(2.2)	0.8	(4.4)	2.3
From four to five years	(1.9)	0.9	(3.3)	1.8
After five years	(3.5)	2.2	(10.2)	7.4
	(20.2)	7.4	(36.4)	19.4

31 Trade and other payables

	Group	
	2012 £m	2011 £m
Current liabilities		
Trade payables	15.5	13.3
Payables due to joint ventures	1.2	0.2
Other payables	66.2	46.7
Accrued expenses	50.3	58.7
Deferred income	20.7	4.4
	153.9	123.3
Non-current liabilities		
Payables due to joint ventures	27.8	18.8
Other payables	—	0.1
Deferred income	200.8	185.4
	228.6	204.3

Deferred income includes £203.4m in respect of deferred lease premium profits (2011: £187.3m)

32 Provisions

Development loss provision

	2012 £m	2011 £m
At 1 January	3.4	3.5
Recognised in the year	1.9	—
Utilised in the year	(1.4)	(0.1)
At 31 December	3.9	3.4

Notes to the financial statements

continued

33 Operating lease commitments

LEASES AS LESSEE

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

	2012 £m	2011 £m
Land and buildings	5.2	5.0

Non-cancellable operating lease rentals are payable as follows

	2012 £m	2011 £m
Less than one year	6.1	6.1
Between one and five years	6.6	10.6
More than five years	3.1	1.1
	15.8	17.8

LEASES AS LESSOR

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

	2012 £m	2011 £m
Less than one year	91.8	105.6
Between one and five years	249.4	241.1
More than five years	1,023.8	1,335.4
	1,365.0	1,682.1

34 Capital commitments

	2012 £m	2011 £m
Investment properties contracted but not provided	58.2	83.4
Development properties contracted but not provided	150.4	120.3
	208.6	203.7

Included in the above is Grosvenor's share of joint venture and associate capital commitments of £83.9m (2011: £58.3m)

35 Contingent liabilities

In connection with the demerger of WheatSheaf Investments Limited (formerly Deva Group Limited) in 1999 the Company has provided guarantees up to a maximum of £4.4m (2011: £8.8m)

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

Notes to the financial statements

continued

36 Share capital

	2012		2011	
	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	45,589,624	45.6	82,089,624	82.1
	102,438,394	102.5	138,938,394	139.0

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 and 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.

Notes to the financial statements

continued

37 Reconciliation of share capital and reserves

(a) Group

	Share capital £m	Share premium £m	Translation reserve £m	Other reserves £m	Fair value reserve £m	Revaluation reserve £m	Retained earnings £m	Total £m	Non controlling interest £m	Total equity £m
At 1 January 2011	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)
Balance 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
Profit for the year	—	—	—	—	—	—	312.6	312.6	(4.5)	308.1
Revaluation movement	—	—	—	—	—	3.6	—	3.6	—	3.6
Fair value adjustments	—	—	—	4.8	(1.8)	—	—	3.0	0.3	3.3
Deferred tax	—	—	—	(0.8)	—	(0.3)	(1.5)	(2.6)	—	(2.6)
Pension actuarial losses	—	—	—	—	—	—	3.1	3.1	—	3.1
Dividends	—	—	—	—	—	—	(0.5)	(0.5)	(8.4)	(8.9)
Transfer between reserves	—	—	(4.3)	(0.4)	—	—	4.7	—	—	—
Non-controlling shares issued by subsidiaries	—	—	—	—	—	—	—	—	0.6	0.6
Non-controlling shares acquired by subsidiaries	—	—	—	—	—	—	—	—	(2.7)	(2.7)
Redemption of Preference Shares	(36.5)	—	—	36.5	—	—	(36.5)	(36.5)	—	(36.5)
Exchange	—	—	(60.5)	—	—	—	—	(60.5)	(7.8)	(68.3)
Other movements in joint ventures	—	—	—	—	—	—	—	—	1.1	1.1
At 31 December 2012	102.5	28.3	321.1	169.2	(20.2)	16.0	2,460.6	3,077.5	86.4	3,163.9

Other reserves comprise net interest rate hedging losses of £11.0m and capital redemption reserve of £180.2m

Notes to the financial statements

continued

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 2011	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
Redemption of Preference Shares	(36.5)	—	—	36.5	(36.5)	(36.5)
At 31 December 2012	102.5	28.3	1,047.0	180.0	138.5	1,496.3

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

	2012 £m	2011 £m
Operating activities		
Profit from operations including share of profit from joint ventures	392.0	366.9
Adjustments for:		
Depreciation	2.0	2.3
Amortisation of capitalised lease incentives	(0.9)	1.4
Amortisation of deferred lease premiums	(2.3)	(2.6)
Recognition of income from operating lease incentives	0.9	0.3
Net losses on other investments	(0.9)	7.1
Net gains on revaluation and sale of investment property	(312.7)	(324.4)
Share of profit of joint ventures	(58.5)	(25.0)
Impairment of goodwill	—	0.7
Foreign exchange	—	3.0
Uplift on trading properties completed and transferred to investment property	—	(0.1)
Operating profit before changes in working capital and provisions	19.6	29.6

(b) Analysis of net debt

	1 January 2012 £m	Cash flow £m	Other non-cash movements £m	Exchange movements £m	31 December 2012 £m
Cash at bank and in hand	69.4	48.6	—	(2.5)	115.5
Short-term deposits and short-term liquid investments	168.1	(42.4)	—	(2.8)	122.9
Bank overdraft	(0.1)	0.1	—	—	—
Cash and cash equivalents	237.4	6.3	—	(5.3)	238.4
Borrowings due within one year	(28.6)	4.3	(26.6)	1.4	(49.5)
Borrowings due after more than one year	(776.8)	(30.6)	26.0	12.0	(769.4)
Total borrowings	(805.4)	(26.3)	(0.6)	13.4	(818.9)
Net debt	(568.0)	(20.0)	(0.6)	8.1	(580.5)

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

Notes to the financial statements

continued

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 2012 the Group entered into the following transactions with the Grosvenor Trusts and members of the Grosvenor Family

	2012 £m	2011 £m
Rent and service charge income	0.3	0.3
Rent and service charge expenses	(1.5)	(1.0)
Development management fees	1.6	0.8
Management and administration fees	15.8	14.8

During 2012 the Group entered into the following transactions with other related parties

	2012 £m	2011 £m
Development and asset management fees received from joint ventures	18.7	28.2
Other fees received from joint ventures	2.4	2.9
Other fees paid to joint ventures	(0.8)	(0.3)
Insurance premiums payable to a related company	(13.7)	(4.8)

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

	2012 £m	2011 £m
Amounts due from joint ventures	75.0	69.9
Amounts due to joint ventures	(4.1)	(1.4)
Amounts due to a related company	(0.2)	(19.1)

As explained in Note 35 the Company has provided guarantees up to a maximum of £4.4m to WheatSheaf Investments Limited, which is owned by the Grosvenor Trusts. In 2012 £36.5 (2011 £25.9m) was paid by Grosvenor Estate Holdings, a subsidiary of the Company, to shareholders of the Company in order to redeem preference shares of the Company. At the year end the Company had a balance receivable from Grosvenor Estate Holdings of £137.9m (2011 £174.4m).

Total compensation paid to key management personnel during the year was £5.0m (2011 £7.1m), including short-term benefits of £4.2m (2011 £3.9m), post employment benefits of £0.1m (2011 £0.2m), long-term employee benefits of £0.7m (2011 £1.4m) and compensation for loss of office of £nil (2011 £1.6m).

Consolidated income statement presented in US Dollars

for the year ended 31 December 2012

	2012 US\$m	2011 US\$m
Total revenue	423.5	311.6
Gross rental income	215.2	202.6
Property outgoings	(81.6)	(63.9)
Net rental income	133.6	138.7
Other income	61.4	65.0
Administrative expenses	(141.7)	(143.4)
Net losses on trading properties	(21.7)	(20.0)
Net losses on other investments	1.4	(11.3)
Net gains on revaluation and sale of investment property	496.2	517.9
Impairment of goodwill	—	(1.1)
Share of profit of joint ventures	92.8	40.0
Gain from operations including share of joint ventures	622.0	585.8
Dividend income	—	0.2
Financial income	9.2	14.5
Financial expenses	(71.2)	(79.7)
Fair value adjustments	2.4	(17.9)
Net financing costs	(59.6)	(82.9)
Profit before tax	562.4	502.9
Current tax expense	(28.3)	(23.5)
Deferred tax expense	(45.2)	(86.8)
Profit for the year	488.9	392.6
Attributable to		
Equity holders of the parent	496.0	400.4
Non-controlling interest	(7.1)	(7.8)
Profit for the year	488.9	392.6

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 2012

	Group	
	2012 US\$m	2011 US\$m
ASSETS		
Non-current assets		
Investment property	4,975.7	4,371.2
Other property, plant and equipment	79.0	63.1
Investments in joint ventures	1,631.8	1,670.3
Other financial assets	83.7	57.3
Intangible assets	6.5	6.4
Deferred tax assets	167.9	160.7
Total non-current assets	6,944.6	6,329.0
Current assets		
Trading properties	479.2	381.1
Trade and other receivables	325.6	246.4
Other financial assets	15.9	5.0
Income tax receivable	9.1	18.6
Cash and cash equivalents	387.5	369.1
Total current assets	1,217.3	1,020.2
TOTAL ASSETS	8,161.9	7,349.2
LIABILITIES		
Non-current liabilities		
Interest-bearing loans and borrowings	(1,250.6)	(1,207.2)
Trade and other payables	(371.6)	(317.5)
Employee benefits	(55.6)	(57.8)
Deferred tax liabilities	(975.5)	(895.8)
Total non-current liabilities	(2,653.3)	(2,478.3)
Current liabilities		
Overdrafts	—	(0.2)
Interest-bearing loans and borrowings	(80.5)	(44.4)
Trade and other payables	(250.1)	(191.6)
Income tax payable	(28.8)	(24.4)
Provisions	(6.3)	(5.3)
Total current liabilities	(365.7)	(265.9)
TOTAL LIABILITIES	(3,019.0)	(2,744.2)
NET ASSETS	5,142.9	4,605.0
Equity		
Issued capital	166.6	216.0
Share premium	46.0	44.0
Reserves	790.2	791.5
Retained earnings	3,999.7	3,386.0
Shareholders' funds	5,002.5	4,437.5
Non-controlling interest	140.4	167.5
TOTAL EQUITY	5,142.9	4,605.0

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 2012

	2012 €m	2011 €m
Total revenue	328 4	224 8
Gross rental income	166 8	146 2
Property outgoings	(63.2)	(46 1)
Net rental income	103 6	100 1
Other income	47 6	46 9
Administrative expenses	(109.9)	(103 4)
Net losses on trading properties	(16 9)	(14 4)
Net losses on other investments	1.1	(8 2)
Net gains on revaluation and sale of investment property	384 8	373 6
Impairment of goodwill	—	(0 8)
Share of profit of joint ventures	72 0	28 8
Gain from operations including share of joint ventures	482 3	422 6
Dividend income	—	0 1
Financial income	7 1	10 5
Financial expenses	(55 2)	(57 5)
Fair value adjustments	1.9	(12 9)
Net financing costs	(46 2)	(59 8)
Profit before tax	436 1	362 8
Current tax expense	(21 9)	(16 9)
Deferred tax expense	(35.0)	(62 7)
Profit for the year	379 2	283 2
Attributable to:		
Equity holders of the parent	384 7	288 8
Non-controlling interest	(5.5)	(5 6)
Profit for the year	379 2	283 2

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

Consolidated balance sheet presented in Euros

as at 31 December 2012

	Group	
	2012 €m	2011 €m
ASSETS		
Non-current assets		
Investment property	3,774.2	3,367.4
Other property, plant and equipment	60.0	48.6
Investments in joint ventures	1,237.8	1,286.8
Other financial assets	63.5	44.2
Intangible assets	4.9	4.9
Deferred tax assets	127.4	123.8
Total non-current assets	5,267.8	4,875.7
Current assets		
Trading properties	363.5	293.6
Trade and other receivables	247.0	189.7
Other financial assets	12.1	3.8
Income tax receivable	6.9	14.4
Cash and cash equivalents	293.9	284.3
Total current assets	923.4	785.8
TOTAL ASSETS	6,191.2	5,661.5
LIABILITIES		
Non-current liabilities		
Interest-bearing loans and borrowings	(948.7)	(930.0)
Trade and other payables	(281.9)	(244.6)
Employee benefits	(42.2)	(44.5)
Deferred tax liabilities	(739.9)	(690.1)
Total non-current liabilities	(2,012.7)	(1,909.2)
Current liabilities		
Overdrafts	—	(0.1)
Interest-bearing loans and borrowings	(61.0)	(34.2)
Trade and other payables	(189.8)	(147.6)
Income tax payable	(21.8)	(18.9)
Provisions	(4.8)	(4.1)
Total current liabilities	(277.4)	(204.9)
TOTAL LIABILITIES	(2,290.1)	(2,114.1)
NET ASSETS	3,901.1	3,547.4
Equity		
Issued capital	126.4	166.4
Share premium	34.9	33.9
Reserves	599.4	609.8
Retained earnings	3,033.9	2,608.2
Shareholders' funds	3,794.6	3,418.3
Non-controlling interest	106.5	129.1
TOTAL EQUITY	3,901.1	3,547.4

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

Ten-year summary

Income statement

	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m
Net rental income	101.1	51.3	50.9	65.2	61.4	68.3	87.4	73.7	86.9	84.2
Other income		10.4	29.9	52.9	45.7	37.0	35.1	54.0	40.7	38.7
Administrative expenses	(41.5)	(46.7)	(53.3)	(75.8)	(81.5)	(82.7)	(84.5)	(86.2)	(89.8)	(89.3)
Net gains/(losses) on trading properties	6.5	9.6	(7.3)	(176.6)	(35.4)	(106.6)	(1.4)	(5.7)	(12.5)	(13.7)
Net gains/(losses) on other investments	3.3	22.9	—	0.3	12.6	(12.0)	(12.8)	(1.5)	(7.1)	0.9
Net gains/(losses) on revaluation and sale of investment properties	37.2	198.8	246.8	518.7	413.9	(267.7)	(87.6)	292.4	324.4	312.7
Impairment of goodwill	—	—	(3.3)	(0.2)	—	—	—	—	(0.7)	—
Share of profit/(loss) from joint ventures	22.3	123.8	121.6	145.0	120.0	(209.7)	(134.4)	103.7	25.0	58.5
Profit/(loss) before net financing costs and tax	128.9	370.1	385.3	529.5	536.7	(573.4)	(198.2)	430.4	366.9	392.0
Net financing costs	(37.2)	(28.0)	(17.2)	(20.8)	(12.7)	(20.5)	(37.6)	(35.6)	(51.9)	(37.6)
Profit/(loss) before tax	91.7	342.1	368.1	508.7	524.0	(593.9)	(235.8)	394.8	315.0	354.4
Revenue profit	—	43.5	46.6	(107.9)	73.4	(76.7)	62.2	64.2	80.8	87.4

Balance sheet

	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m
Total property assets including share of joint ventures	2,728.8	3,237.3	3,727.7	4,592.4	5,963.3	6,172.8	5,221.9	5,460.0	5,839.6	5,832.2
Investment property	2,050.5	1,809.1	2,007.4	2,350.0	2,921.6	2,785.8	2,279.1	2,525.9	2,812.7	3,061.0
Investment in joint ventures	222.4	694.6	819.4	1,050.1	1,156.0	1,093.3	859.6	1,063.3	1,074.8	1,003.9
Other financial assets	85.6	58.3	71.0	50.0	55.4	46.6	38.7	42.6	36.9	51.5
Other non-current assets	23.9	100.1	132.7	113.8	124.6	133.8	133.4	144.4	148.1	155.9
	2,382.4	2,662.1	3,030.5	3,563.9	4,257.6	4,059.5	3,310.8	3,776.2	4,072.5	4,272.3
Trading properties	94.4	44.1	34.5	48.7	147.1	164.2	142.3	138.7	245.2	294.8
Cash and cash equivalents	204.0	264.2	385.5	455.4	323.6	91.5	505.2	269.4	237.5	238.4
Other net current (liabilities)/assets	8.4	1.4	(34.2)	42.7	(28.7)	57.7	(22.3)	54.5	31.3	40.2
	306.8	309.7	385.8	546.8	442.0	313.4	625.2	462.6	514.0	573.4
Borrowings (including current)	(687.6)	(614.5)	(575.4)	(659.5)	(671.4)	(785.9)	(775.4)	(738.7)	(805.5)	(818.9)
Deferred tax	(31.5)	(317.9)	(450.6)	(555.2)	(604.4)	(519.3)	(431.5)	(522.1)	(576.4)	(600.1)
Other non-current liabilities	(7.9)	(130.1)	(203.8)	(329.2)	(360.3)	(231.2)	(185.8)	(202.1)	(241.5)	(262.8)
	(727.0)	(1,062.5)	(1,229.8)	(1,543.9)	(1,636.1)	(1,536.4)	(1,392.7)	(1,462.9)	(1,623.4)	(1,681.8)
Net Assets	1,962.2	1,909.3	2,186.5	2,566.8	3,063.5	2,836.5	2,543.3	2,775.9	2,963.1	3,163.9
Share capital and share premium	233.9	233.9	233.9	233.9	229.9	229.9	306.8	193.2	167.3	130.8
Reserves	1,614.5	1,561.4	1,857.7	2,184.0	2,658.5	2,420.4	2,080.0	2,456.1	2,688.0	2,946.7
Shareholders' funds	1,848.4	1,795.3	2,091.6	2,417.9	2,888.4	2,650.3	2,386.8	2,649.3	2,855.3	3,077.5
Non-controlling interest	113.8	114.0	94.9	148.9	175.1	186.2	156.5	126.6	107.8	86.4
Total equity	1,962.2	1,909.3	2,186.5	2,566.8	3,063.5	2,836.5	2,543.3	2,775.9	2,963.1	3,163.9

International Financial Reporting Standards were adopted with effect from 1 January 2004. Figures for 2003 are presented under UK GAAP. Revenue profit was reported on a statutory basis from 2004.

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Glossary

Area All figures given are for the gross area	Grosvenor-managed A property or other investment that is managed by the Group	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	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	Property assets Investments in property and property-related instruments – comprises investment properties development properties trading properties, mezzanine loans and equity investments in property companies
BREEM Building Research Establishment Environmental Assessment Method for buildings	Group Grosvenor Group Limited and its subsidiary undertakings	Property derivative Financial instruments whose price is derived by reference to a property returns index
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	Proportional The total of the Group's wholly-owned and its share of jointly-owned property assets or net debt
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	Proprietary Relating to Grosvenor's share of investments in property assets. Proprietary assets are direct or indirect see structure diagram on page 2
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)	Rack-rented Referring to property that is rented out at full market rent
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	Resilience The extent to which market values of property assets on a proportional basis can fall before Group financial covenants are breached
Currency Financial information is presented in Sterling, with the exception of the Proprietary assets – direct reports on pages 22–55, 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)	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 exposure 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	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 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	Running yield Passing rent as a percentage of the value of investment properties
Development property A property that is being developed for future use as an investment property	LEED® Leadership in Energy and Environmental Design a programme that provides third-party verification of green buildings.	Separate account client A private real estate portfolio managed by Grosvenor Fund Management on behalf of a third-party
Economic property interest Grosvenor's equity interest in properties (or debt) after deducting the share attributable to minority investors	London estate Grosvenor's portfolio of office retail and residential properties in the Mayfair and Belgravia areas of London's West End	Third-party The non-Grosvenor share of investments managed by Grosvenor
ERV (estimated rental value) The estimated market rental value of the total lettable space in a property calculated by the Group's valuers. This will usually be different from the rent being paid	Mark to market adjustment An accounting adjustment to adjust the book value of an asset or liability to its market value	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
Finance lease A lease that transfers substantially all the risks and rewards of ownership from the lessor to the lessee	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	Trading property Property held as a current asset in the balance sheet that is being developed with a view to subsequent resale
Financial capacity Wholly-owned unrestricted cash and undrawn committed facilities	Mezzanine lending Lending to property developers that is subordinated to senior lending in return for a profit share in the completed development	Value-add Above-market increase in value as a result of active management (e.g. change of use or refurbishment)
Funds under management The total value of properties managed by Grosvenor	Occupancy rate Occupancy rates given in the Review section are the average occupancy by floor area for the relevant year	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	Operating Companies Grosvenor's regional investment and development businesses and Grosvenor Fund Management	
Gearing Total short- and long-term borrowings including bank overdrafts less cash and cash deposits, as a percentage of Shareholders' funds.	Passing rent The annual rental income receivable which may be more or less than the ERV	
Gross rental income Total income from rents from the Group's properties	Performance fees Fees that are payable in the event that the performance of the underlying investment exceeds a predetermined benchmark	

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