

Continental Europe...

Neil Jones
Managing Director

“Retail remains our favourite asset class accounting for 84% of our capital employed at the end of the year and, once again, it drove our strong overall returns. We continued with a programme of sales, predominantly in our office portfolio, taking advantage of strong investment demand and attractive pricing, in a still stagnant occupier market.”

2003

SAW THE CONTINUED PURSUIT OF OUR 'PROFIT COMES FROM OUR PEOPLE' STRATEGY WITH ITS UNDERLYING FOCUS ON 'CAPITAL AND CUSTOMERS':

deploying our capital in 'property with potential'; and building our service offer to our customers and partners.



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In France, one of the most important changes in the law for listed property companies in recent years was introduced.

The tax transparent Société d'Investissement Immobilier Côté (SIIC) status joins France with the Netherlands and Belgium, who already have such vehicles. While free cash-flow now becomes an even more important value driver, historically such vehicles have tended to trade at close to net asset value, easing the possibility of raising additional equity capital to fund growth. This change had a positive impact on our investment in Société Foncière Lyonnaise.



Our investment approach combines a top down, with a bottom up process. We integrate our conclusions from macro-economic research, the property cycle and analysis of investment market trends with a rigorous practical assessment of the region's real estate markets and our skills base, to determine our investment strategy. France, Spain and Italy are our preferred markets and we service these from our offices in Paris and Luxembourg, and our joint venture office in Madrid. Retail continues to be our preferred sector while we maintain a pause in activity in the office sector, for the time being.

2003 was primarily a year of sales, generating liquidity and preparing for the future. We continued to reduce our exposure to the office sector, disposing of 12 office buildings in Brussels, Paris, Madrid and Barcelona, for a total property value of some €400m, of which six were from our Spanish joint venture, Lar Grosvenor. The remainder were from our pan-European office joint venture, Grosvenor European Prime Properties (GEPP), which largely completed its liquidation strategy. GEPP was established in 1996 and during its life owned 11 office properties across Europe's major business centres and achieved strong returns. One property remains in Milan.

In July we sold a 5% shareholding in Hermanos Revilla, a private Spanish office investment company. This was our first investment in continental Europe, made in 1996. It benefited from the strong rise in office rental values seen in the Madrid market over the last seven years and the convergence of capitalisation rates resulting from Spain's entry into the European Monetary Union.

Lar Grosvenor, our 50/50 Spanish joint venture, had a strong and very active year. Total sales of office properties under management amounted to over €280m and despite the weak office market, occupiers were secured for 7,500 m² (807,000 sq ft) of the portfolio including lettings to Ernst & Young at Sarría Forum in Barcelona and Royal Bank of Scotland at Serrano 49 in Madrid.

Following nearly a year of researching the market, Lar Grosvenor made its first investments in the industrial sector with the acquisition of two development projects in strategically located suburbs of Madrid. In addition, a joint venture with UK industrial specialist, IO Group, was established to develop activity further in this sector.

Our activities in the retail sector were enhanced through investment and development. A new property was acquired, the recently completed Centro Comercial L'Aljub, a 45,000 m² (484,000 sq ft) shopping centre in Elche. The joint venture now has four operating shopping centres in its investment portfolio and is undertaking the development of a further five shopping centres located throughout Spain.

Sonae Imobiliária, a European shopping centre development and management specialist in which we have a 33% shareholding, launched the SIERRA shopping centre fund, raising €540m of equity capital commitments from U.S., French and Dutch investors. The funding of Sonae's future shopping centre development programme was thus assured, while in addition, €150m of the company's capital was distributed to its shareholders. Sonae retains a 50.1% interest in the fund and undertakes all management operations. The launch of SIERRA marks the successful culmination of the strategy established by Sonae SGPS and Grosvenor, the company's two shareholders, in 2001, beginning with the de-listing of Sonae Imobiliária from the Lisbon stock exchange at the end of that year.

In fund management, we have been managing capital for third parties on the continent since 1997 and in August, Wellcome Trust joined the Government of Singapore Investment Corporation in investing in our European umbrella fund, Grosvenor First European Property Investments (GFEPI). This fund holds all our investments on the continent and has gross assets of €1,390m. Net assets grew by 12.3% to €500m during the year. Reflecting our confidence in the retail market we plan to launch a new fund in 2004 focusing primarily on high street retail and retail warehousing in France and Spain. The first investments have already been secured in the provincial towns of France.

“We continue to monitor the evolving dynamics of the office sector in the major Eurozone markets with a view to increasing investment once we feel that recovery is secured.”

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PORTFOLIO OVERVIEW

At the end of 2003, Grosvenor had €1,390m of gross property assets under management, including the following underlying investments:

Lar Grosvenor, our Spanish joint venture has over €900m of gross property assets under management including the development portfolio. The investment portfolio includes shopping centres Madrid Sur 25,000 m² (269,000 sq ft) in the Madrid suburbs, Parque Principado 75,000 m² (807,000 sq ft) in Oviedo, Urbil 30,000 m² (323,000 sq ft) in San Sebastian and Centro Comercial L'Aljub, 45,000 m² (484,000 sq ft) in Elche.

During 2003 the joint venture won a tender to develop a 55,000 m² (595,000 sq ft) scheme in the Cornella suburb of Barcelona; and made a commitment to develop three further schemes, in alliance with the Eroski group, in Caixacente, Orense and Mieres. An agreement was reached with Canadian investor, Ivanhoé, to jointly develop the 90,500 m² (975,000 sq ft) Caraba scheme, in the Madrid suburb of Carabanchel.

The joint venture also owns one office development and two industrial developments, all located in the Madrid suburbs.

Sonae Imobiliária manages a total of 1.56m m² (16.8m sq ft) of GLA accounting for 5,405 lease contracts in 42 shopping centres and several shopping centre galleries, in which it owns stakes in 28. Total visitors to its managed centres in 2003 were 382 million people. Total assets under management are €3,500m of which Sonae Imobiliária's share is €2,765m.

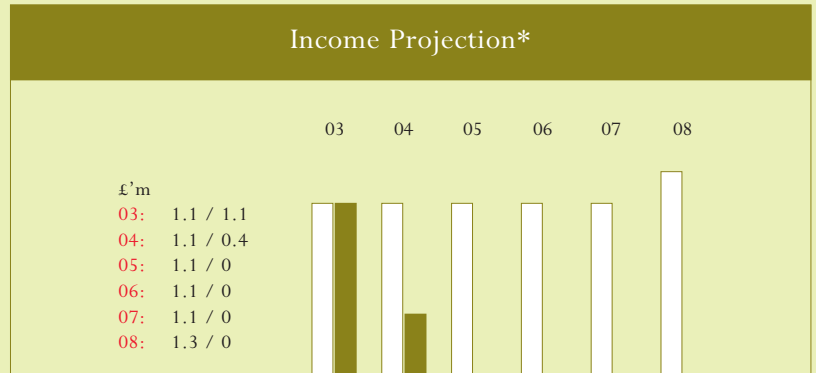
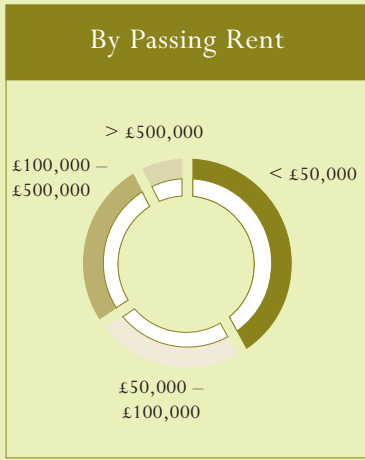
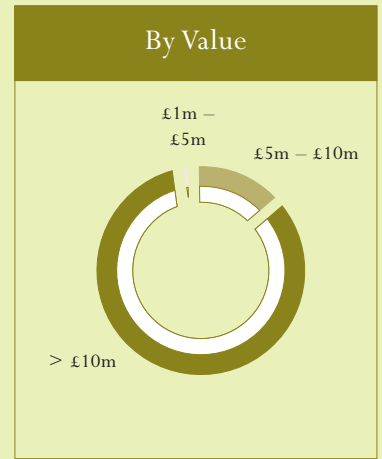
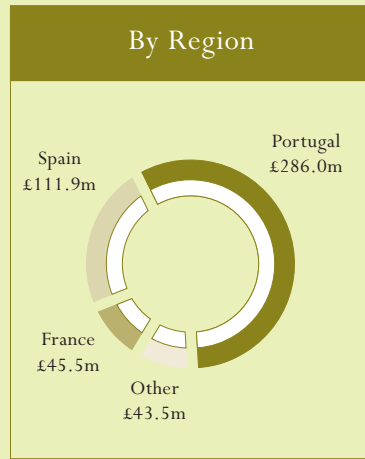
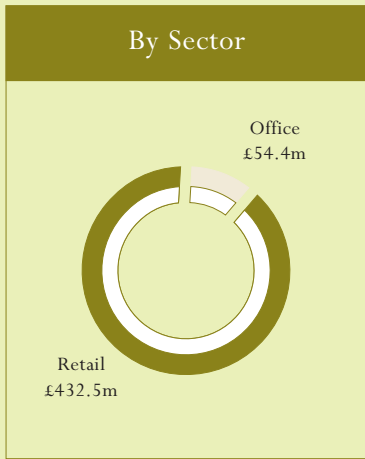
Sonae Imobiliária's development programme continues apace, focusing primarily on the Eurozone countries of Spain, Portugal, Italy, Greece and Germany. 2003 saw the opening of three schemes and one extension totalling 61,200 sq m of GLA. Total GLA under construction amounts to 292,000 m² (3,146,000 sq ft) in eight new schemes and one extension, of which six will be opened in 2004. A further 495,000 m² (5,329,000 sq ft), in 11 schemes, is in the pre-construction development phase.

One office investment property is held in Milan and we have committed to acquiring a town centre retail investment property in Bordeaux.

The businesses we invest in and operate continued to win industry awards and accreditations in 2003.

Sonae Imobiliária was awarded the Procos "Prix European" as developer and investor and the ICSC Marketing Award B2B. Today Sonae Imobiliária has collected more international shopping centre awards than any other international company and is credited with seven ICSC-Europe awards, two ICSC-Las Vegas awards, seven ICSC-Marketing awards, three MIPIM awards and two Procos Awards. Lar Grosvenor has two ISO accreditations (9001 & 14001) and a UNE certification for its activities in developing shopping centres and offices. It has also received three national awards on two office developments, Serrano 55 and Crisalis, in Madrid.

	Number No.	Value £'m	Passing rent £'m	ERV £'m	Average yield %
Direct properties					
Office	1	17.1	1.1	1.4	6.4
Joint venture properties					
Retail	28	424.3	30.0	30.0	7.1
	29	441.4	31.1	31.4	7.0
Trade investments (cost)	1	45.5			
Total	30	486.9			



Projection assuming expiring leases are re-let at market rent
 Projection assuming expiring leases are not renewed or re-let

* direct properties only