

# FINANCIAL OVERVIEW

## SUMMARY

- Revenue profit (profit before exceptional items and tax) has increased to £54.2m (2002 – £53.5m); profit before tax is up by £30.9m to £91.7m (2002 – £60.8m)
- The residential market in the UK remains strong and continues to account for the majority of investment property disposal profits, at £22.9m out of a total of £40.3m. A further £9.5m of disposal profits arose from London offices and £6.9m from disposals in Europe.
- Another strong performance from the Group's European joint ventures and trade investments delivered profits increasing by £5.1m to £24.6m (2002 – £19.5m)
- Asian markets stabilised: in 2002 we wrote down Asian investments by £17.3m, compared to only £0.4m this year.
- In 2003 provisions of £3.5m were made against certain office developments and a £3m provision was made for payments under a guarantee given to the Deva Group in 1999.
- The total revaluation uplift for the Group's properties and joint ventures was £49m (2002 – £44m), reflecting strong retail growth, a continuing rise in residential values but weaker office markets.
- Total assets under management increased to £6.1bn, of which £3.3bn relates to Grosvenor's proprietary assets (including developments at completed cost) and £2.8bn is managed on behalf of third parties.
- The committed development programme is £0.8bn (£1.7bn including developments we are managing for our partners).

## EARNINGS

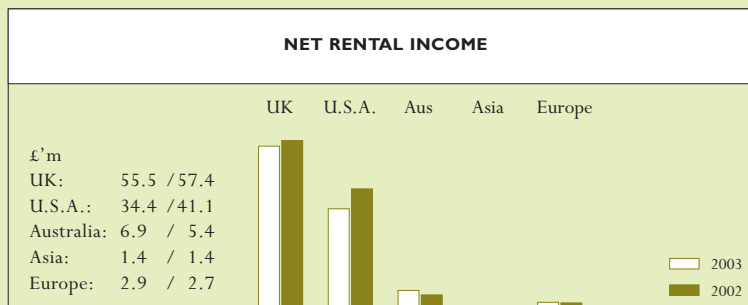
	2003 £m	2002 £m
Net rental income and fees	<b>101.1</b>	108.0
Development profit	<b>6.5</b>	2.6
Administrative expenses	<b>(38.5)</b>	(35.5)
	<b>69.1</b>	75.1
Joint ventures and trade investments	<b>24.6</b>	19.5
Interest	<b>(39.5)</b>	(41.1)
	<b>54.2</b>	53.5
Revenue profit	<b>40.3</b>	25.8
Investment property sales	<b>3.7</b>	–
Trade investment sales		
	<b>98.2</b>	79.3
Exceptional charges	<b>(6.5)</b>	(18.5)
	<b>91.7</b>	60.8
Profit before tax	<b>(31.4)</b>	(16.3)
Tax		
	<b>60.3</b>	44.5
Profit after tax		

The Group's total return on property assets in 2003, taking account of the movement in share price of our listed property investments, foreign exchange impact and goodwill, was 7.5% (2002 – 5.4%). The return for 2003 included a net revaluation uplift of £49m (£44m in 2002). In 2002, the return was reduced by write downs of £18.5m; in 2003 write downs were £6.5m. Revenue return, which excludes disposal profits and revaluation gains, was 3.8% (2002 - 4.0%), reflecting the low income yield achieved on the highly reversionary properties on the London Estate. Over the past five years Enterprise Value Added, which represents the value added above the Group's weighted average cost of capital, is a total of £142m.

## NET RENTAL INCOME

Net rental income fell to £101.1m in 2003 from £108.0m in 2002.

There was a slight fall in the UK but the most significant reduction arose in North America. The US dollar has declined in value by approximately 10% during 2003, with a corresponding impact on income from the U.S.A. portfolio, accounting for £2.2m of the fall in net rental income. There were also some significant asset sales in North America, with the proceeds from those sales not yet re-invested.



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## JOINT VENTURES AND OTHER INVESTMENTS – PROFITS UP BY £5.1M

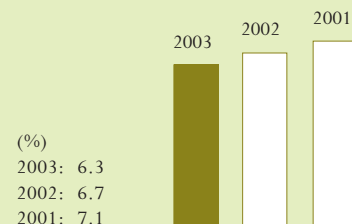
Profits from joint ventures related to the Group's 33% investment in Sonae Imobiliária SGPS, the Portuguese based shopping centre developer, owner and fund manager; and Lar Grosvenor B.V., the Group's 50% Spanish joint venture. Revenue profit from joint ventures increased by £4.6m to £22.3m. Including disposal profits, the Group's share of joint ventures' profit after tax increased by £5.9m to £14.2m. During 2003 Sonae Imobiliária SGPS launched the European Retail Real Estate Asset Fund ("SIERRA") transferring the majority of its mature assets into the Fund. Sonae Imobiliária SGPS have retained a 50.1% interest in the Fund, and the cash generated will be used to finance the ongoing development programme.

## AVERAGE COST OF DEBT FALLS TO 6.3%

The Group's average cost of debt continues to fall, reflecting lower average interest rates in all of our regions.

The lower cost of debt, together with reduced debt levels over the year have resulted in net interest for the Group falling from £35.1m in 2002 to £31.8m in 2003. Including the Group's share of joint ventures, interest has fallen from £41.1m to £39.5m.

## AVERAGE COST OF DEBT



## PROFITS ON DISPOSALS OF £44.0M

Disposals of the Group's investment properties generated profits of £33.2m, and our share of joint ventures' disposal profits was £7.1m. We also sold the 5% trade investment in Hermanos Revilla, a Spanish development and investment company, realising a profit of £3.7m on the Group's stake which was carried at a cost of £5.8m.

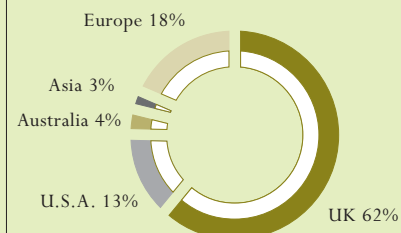
£32.8m of the Group's disposal profits arose in the UK which almost entirely related to lease premiums on the London Estate. In North America, we made some significant sales in 2003, at values close to the carrying value in the 2002 accounts. In Continental Europe, we sold all but one of the properties that were previously held in the Grosvenor European Prime Properties Fund. Total cash generated from disposals in 2003 amounted to £183.6m.

## NET ASSETS INCREASE TO £2.0BN

The Group's net assets (before deduction of minority interests) increased by £143m during 2003, of which £109m arose from profits and the revaluation uplift. A new investor was brought into our European business, with the issue of £33m new shares, and movements in exchange rates resulted in a £19m gain. With 38% of the Group's net assets exposed to currencies other than Sterling, exchange rate fluctuation has a significant impact on net assets, which is the Group's policy not to hedge in view of our long term commitment to those regions. In 2003 the Euro, Canadian Dollar and Australian Dollar all strengthened against the Pound, but these gains were largely offset by a weakening US Dollar and Hong Kong Dollar.

An interim dividend of £2.3m was paid during the year and a final dividend of £14.6m has been proposed (out of distributable profits in 2003 of £55.9m): a total of £16.9m. Dividends have historically been at a low level; with an average of 0.4% of equity paid out over the past five years; this compares with an average return over the same period of 9.8%.

## NET ASSETS BY REGION



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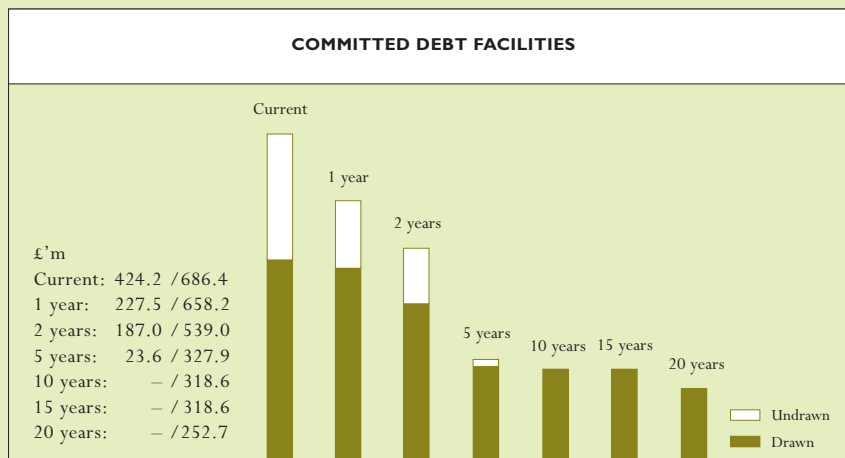
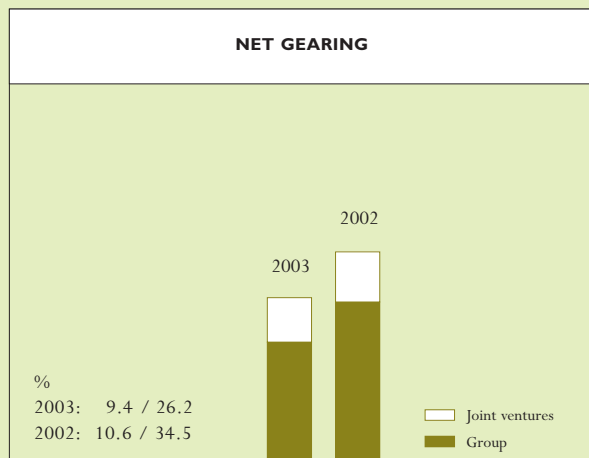
## NET ASSETS INCREASE TO £2.0BN (continued)

The Group's portfolio of investment properties reduced by £28.6m, after a number of significant disposals in 2003. The revaluation resulted in an uplift of £31.7m. In Britain and Ireland, the upward trend in residential and retail values continued, with particularly strong growth in shopping centres outside London. Office values continued to fall. In Australia and North America, values generally increased across all sectors, with the exception of Silicon Valley in California where markets continue to be affected by the significant supply of surplus property. In Hong Kong, values were relatively stable, with residential slightly up and offices slightly down; Japanese residential values increased.

In Continental Europe, our share of joint ventures' net assets increased by £47.8m, reflecting a strong revaluation uplift, especially from Sonae Imobiliária's shopping centres. A proportion of the cash generated by Sonae Imobiliária's launch of the SIERRA Fund was returned to shareholders towards the end of 2003, with £34.8m being paid back to the Group.

## NET GEARING DOWN TO 26.2%

Total net debt for the Group fell by £121.4m during 2003; a result of cash generated from sales, return of capital from joint ventures and cash received from new investors awaiting investment. Gross debt at the end of 2003 was £687.6m and cash (including short term deposits) amounted to £204.0m. These amounts include the Group's share of debt and cash in jointly controlled investment vehicles where there is limited scope to offset surplus cash against debt. Including our partners' share, the Group is responsible for managing total debt of £910m and cash of £251m. Including the Group's share of joint venture net debt, gearing would increase to 35.6% (2002 – 45.1%).

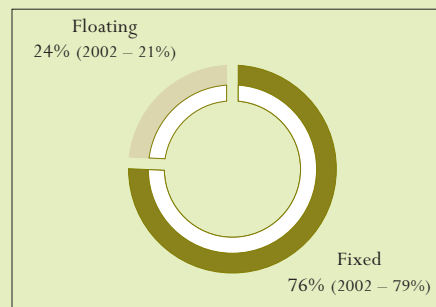
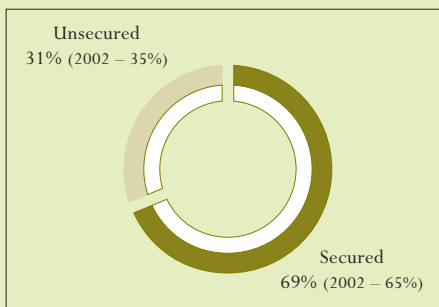


In addition to the total debt drawn of £687.6m, the Group has undrawn committed bank facilities of £424.1m. If all these facilities were drawn gearing would increase to 49%. The average life of committed debt facilities (drawn and undrawn) is 8.7 years (2002 – 9.1 years).

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**TOTAL DEBT £687.6M**

The profile of the Group's debt remains similar to 2002 and is illustrated below. Average debt utilisation during 2003 was £740m.



Foreign currency borrowings amounting to £268.0m were drawn at the end of 2003 (2002 – £323.4m), all held by overseas subsidiaries.

## CASHFLOW

Cash generated from operations after debt service was £29.6m, down from £35.9m in 2002 due to lower operating profit. Net sales of properties in 2003 generated £30.3m, together with the proceeds of trade investment sales (£9.5m), the capital repayment from joint ventures (£34.8m) and the proceeds of new shares issued to minorities in our European business (£33.4m), net debt reduced by £114.2m.

## CURRENCY ANALYSIS OF DEBT

