

CORPORATE GOVERNANCE

THE COMBINED CODE

Grosvenor's business approach is based on openness and high levels of accountability, elements which are essential not only for the conduct of our own business but particularly for the operation of our third party arrangements, whether in fund management, joint ventures or other partnerships. As a consequence, Grosvenor's approach to corporate governance follows best practice recommended by the Financial Reporting Council under the heading of the "Combined Code", even though that code applies only to publicly quoted companies. After consultation with the Group's auditors, the Board has reviewed all the provisions of the Combined Code issued by the UK Financial Reporting Council in July 2003 and has determined which of those provisions are appropriate in the context of Grosvenor's ownership structure.

BOARD OF DIRECTORS

The Board comprises six full time Executive Directors and seven Non-Executive Directors, amongst whom four are also Trustees of the Grosvenor Trusts (see page 62). The composition of the Board is designed to ensure effective management and control of the Group, provide complete and timely information to the shareholders as well as proper representation of the shareholders' interests.

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

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

The Board and its committees held ten meetings during the year, with majority attendance at all meetings. The Group's Operating Companies have their own boards, each with Non-Executive Directors who are independent from the management team; each Operating Company is required to hold at least four board meetings each year.

The biographies of the members of the Board on pages 16 and 17 demonstrate a range of experience and professional background to bring independent judgement on issues of strategy, performance, resources (including key appointments) and standards of conduct. A Statement of the Directors' Responsibilities in respect of the accounts is set out on page 64.

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

The Board undertakes a regular evaluation of its own performance.

The Board encourages the appointment of Executive Directors to appropriate external posts as this increases the breadth of knowledge and experience of Directors. Earnings from all such appointments are returned to the Group. Trustees of the Grosvenor Trusts receive no fees from the Company.

AUDIT COMMITTEE

The Board has a well established Audit Committee, which provides independent scrutiny of the Group's affairs. The Audit Committee is chaired by Lord George and includes two other Non-Executive Directors. The members bring both a wide range of relevant international experience and an appreciation of the long term interests of the shareholders.

The Audit Committee meets at least twice a year with the auditors and is attended by invitation by the Group Chief Executive, Group Finance Director and other senior personnel as appropriate. It is responsible for reviewing a wide range of financial matters including the annual financial statements and accompanying reports, Group audit arrangements, accounting policies, internal control and the actions and procedures involved in the management of risk throughout the Group.

The Audit Committee reviews annually the independence of the auditors. Auditor objectivity is ensured through a variety of procedures including rotation of audit partners. Any non-audit fees received by the auditors in excess of fifty per cent of the audit fee are pre-approved by the Audit Committee.

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

NOMINATIONS COMMITTEE

The Nominations Committee comprises all of the Non-Executive Directors. The Committee meets at least once a year and is attended, by invitation, by the Group Chief Executive and other senior personnel as appropriate. It is responsible for reviewing the structure of the Board, giving consideration to succession planning and for making recommendations to the Board with regard to any changes. It is also responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.

RELATIONS WITH SHAREHOLDERS AND LENDERS

Given the private ownership of the Group, the requirements of the Combined Code to communicate with institutional shareholders are not relevant. All the principal shareholders are represented on the Board and all shareholders receive a monthly report. The Annual Report and Accounts is widely distributed and the Group's policy is to maintain close contact during each financial year with bondholders and other lenders at Group and Operating Company levels.

CORPORATE GOVERNANCE

INTERNAL CONTROL

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. This is designed to manage rather than eliminate the risk of not achieving business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board considers that there is a continuous process for identifying, evaluating and managing significant risks faced by the Group in the course of its business, which has been in place throughout the year and up to the date of approval of the Annual Report and Accounts. This process is regularly reviewed by the Audit Committee and the Board and is consistent with the internal control guidance for Directors in the Combined Code.

A key part of the system of internal control is the delegation of management responsibility for all the Group's property investment, development and fund management activities together with supporting financial functions to regional management teams. The Britain & Ireland, Americas and Continental Europe regions have local boards, with Non-Executive Chairmen and at least two other Non-Executive Directors, which oversee the regions' operations. These boards form an integral part of the overall internal control process. Local boards for the Australia Asia Pacific region and Grosvenor Fund Management work closely with the Holding Company team to ensure appropriate internal controls are maintained. The relationship between regional boards and the Group Board is clearly defined and is set out in formally approved financial delegation procedures.

In addition to local boards, each region and Grosvenor Fund Management, together with the Holding Company, is represented on the Group Finance Board, which meets at least two times each year and provides a forum for debating issues of a financial nature which are relevant to the Group as a whole, including the setting of Group policy, development of systems and risk management.

In view of the relatively small number of staff and the interaction of local boards, including the Group Finance Board, the Grosvenor Group Board has been satisfied that an internal audit function has not been required. The need for this additional control is reviewed by the Board on a regular basis and a framework for internal audit, risk management and better practice reviews has been adopted by the audit committee.

The Board carried out its annual assessment of internal control for the year 2006 at its meeting in March 2007 by considering reports from management and the Audit Committee and taking account of events since 31 December 2006.

Risk management is a regular agenda item for all parts of the business with the emphasis on continuous improvement. Specific financial and other controls can be summarised under the following headings:

OPERATING AND HOLDING COMPANY CONTROLS

Key controls over major business risks include reviews against performance indicators and exception reporting. Each team makes regular assessments of its exposure to major financial, operational and strategy risks and the extent to which these are controlled.

FINANCIAL INFORMATION

The Group and each Operating Company have comprehensive systems for reporting financial results. Financial results are reviewed on a quarterly basis (consistent with the pattern of income receipts in the majority of the Group's operations) with comparisons against budget and prior periods together with a forecast for the full financial year and the potential variances to that forecast. Each year a detailed operational budget and a five year financial plan is prepared. Treasury reporting is reviewed on a monthly basis, with further reporting each quarter.

TREASURY POLICIES

Treasury policies, approved by the Board, are:

- except for Holding Company operations, to raise all debt at Operating Company level and operate a decentralised treasury management structure. In November 2006 the Board approved a co-ordinated Group approach to treasury;
- 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 cashflow 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 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.

FINANCIAL SERVICES AUTHORITY (FSA)

Grosvenor Investment Management Limited, a wholly owned subsidiary, is authorised and regulated by the FSA for the purposes of undertaking regulated property advisory investment activities. All transactions with managed funds are separately accounted for under a full client accounting regime.

Grosvenor Australia Nominees Pty Limited, a wholly owned subsidiary, provides financial services and products to wholesale clients as authorised under its Australian Financial Services Licence No. 302153 issued by the Australian Securities and Investments Commission.

Grosvenor Investment Management US Inc, a wholly owned subsidiary, is a registered investment adviser pursuant to the Investment Advisers Act of 1940, for the purposes of providing real estate related investment advice.