# graingertrustplc

annual report and accounts 2005

# theopportunities

## A strong core business with attractive prospects for diversification

With over 12,000 homes, Grainger is the largest quoted residential property owner in the UK. While acquiring, managing and selling these properties is the mainstay of our business, we're increasingly active in other areas such as equity release, regeneration, property development, asset management and housebuilding. We are also expanding into residential development and investment in the newly enlarged EU.

## Property trading

During the year our sales and acquisitions team have sold 913 residential units and purchased 1,254 including the assets purchased through the City North acquisition.

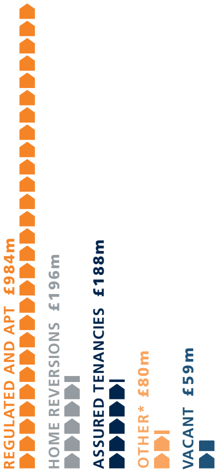
# buyingsellingletting

## Managing our core business while expanding into new forms of ownership

Our core business is owning, managing and trading residential properties that are subject to regulated tenancies. Under this arrangement, the tenant can stay in the property for life and pays us below-market rent. We buy these properties at less than the vacant-possession value to reflect the low yield and the fact that the tenant has lifetime rights of occupation. When the tenant leaves, we can then sell the property into the owner-occupier market.

These properties therefore provide us with two sources of income – rents and trading profits on sale. The size and geographic spread of the portfolio (some 8,000 units across the UK) and the fact that properties are bought and sold over a long period of time help to protect us against the risks of home ownership – particularly short-term or localised falls in prices.

Legislative changes in 1988 meant that no new regulated tenancies could be created after that date. As a result, the overall stock is falling. Although we make every effort to replace the regulated properties that become vacant and are sold, the overall portfolio will decline over time. We are using our existing management and trading skills to engage in other areas of residential ownership such as equity release and market lets. Our market-let portfolio also utilises our skills in refurbishment, lettings and targeted sales in order to maintain performance and protect against the depreciation of the stock.




**Residential property portfolio**

* includes share of joint ventures

## City North

In April 2005 we completed the acquisition of the AIM-listed company, City North Group plc ('CNG'), for £61m. CNG's portfolio consists of around 350 market-rented residential units worth about £90m along with approximately £19m of development assets. All its properties are in Central London. The acquisition helped to lift the value of Grainger's market-rented property to about £200m. This now has the critical mass that offers opportunities to create a fund for third-party investors which is now in the process of being formed.

## Easton Neston

In two separate purchases in April and September 2005, we acquired a substantial part of the Easton Neston Estate in Northamptonshire. The total cost was around £10.25m and the purchase provides a great mix of short and long-term opportunities for Grainger. The estate's 17 cottages and traditional tenanted farm fit well within our core business while the farm buildings and vacant farmland offer excellent potential for residential conversion.

## The Ancient Order of Forresters

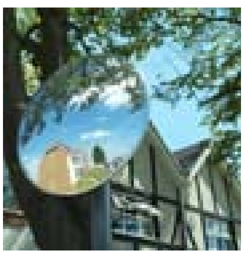
In January 2005 we bought a UK-wide portfolio of 241 houses and flats from The Ancient Order of Forresters Friendly Society (AOFFS) for £17m. A large proportion of these units had been let to regulated tenants and former employees and AOFFS was concerned to protect their interests while reinvesting in commercial property with less management responsibility. As the new owner, Grainger has established a strategy that respects the needs of the long-term tenants.

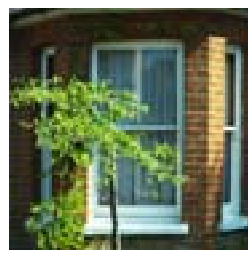
### Help at Hand

Help at Hand are a lifestyle management service who are able to assist with a variety of requests such as local services, party planning or obtaining competitive utility company quotes. We are now offering their services free of charge to our market-let tenants, particularly to help them with the stresses of moving to a new property.

# managingmaintainingrepairing

## Responsive and responsible landlords of all types of residential property





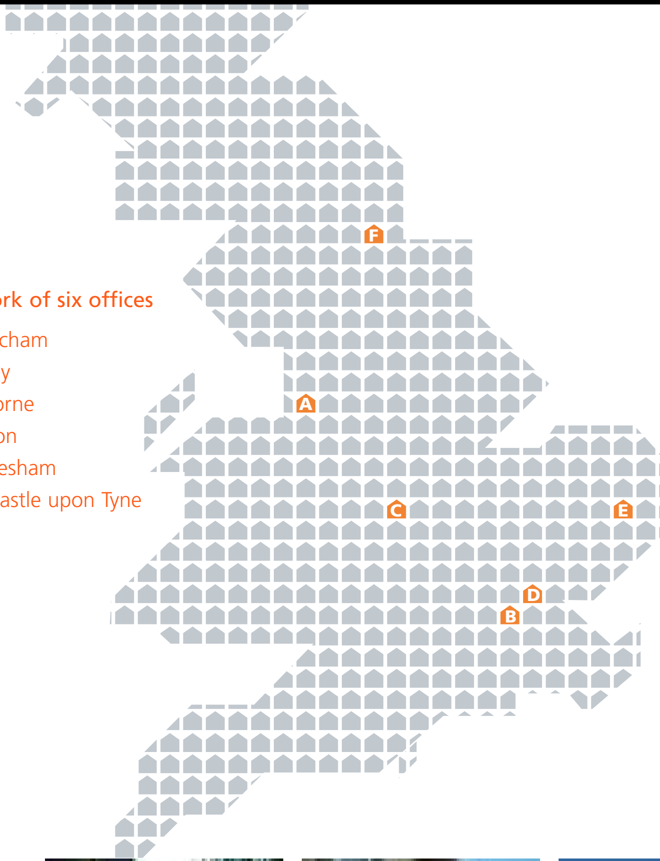
### Tenants Guide

We have developed a comprehensive Tenants Guide that provides clear and easy advice at each stage of their tenancy.

One of Grainger's strengths is the ability to manage property on a large scale. Operating from six offices, our property management teams look after more than 12,000 homes across the UK and they are trained to understand all types of property and tenure.

Property management is a demanding role requiring complex daily decisions. It's important we fulfil our obligations as landlords and give excellent service to our customers while at the same time protecting the value of our assets and enhancing the performance of our portfolio. Our property management professionals are skilled at balancing these demands.

In the past year we've launched a number of initiatives to improve the service to our tenants. We've published a Tenants Guide, became a voluntary member of the Housing



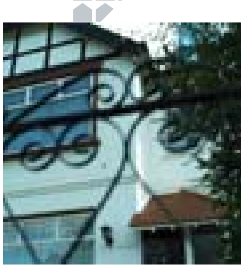
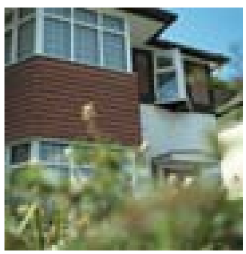

a network of six offices

**A** Altrincham
**B** Putney
**C** Harborne
**D** London
**E** Martlesham
**F** Newcastle upon Tyne

**Tenanted Residential**

Regional investment value summary

**43%** LONDON £636m
**22%** OTHER SOUTH £320m
**20%** MIDLANDS/EAST £299m
**15%** NORTH AND SCOTLAND £218m

Ombudsman and teamed up with Help at Hand to offer an add-on service in lifestyle management. We're also promoting an energy efficiency scheme to help tenants to access funding for central heating and cavity wall and loft insulation.

As well as managing our own property portfolio, we also offer our asset management expertise to third-party partners. These include the Schroders ResPUT residential investment fund and Grainger Geninvest LLP, a joint venture between Grainger and Genesis Housing Group. In each case, we combine the skills of our property management and sales and acquisitions teams to ensure the right strategy and targets for the portfolio and the right blend of refurbishment, sales and new acquisitions to achieve the required performance.

## Protecting our assets

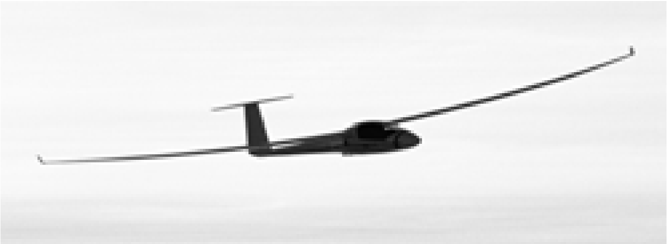
During the year we spent over £13.5m on repairing and maintaining our portfolio. As well as protecting the long-term value of our assets, this investment enhances our reputation as landlords and strengthens our case in bidding for new portfolios.

## Customer protection

Both Bridgewater and Norwich Union are members of Safe Home Income Plans (SHIP), the industry body that has set the highest standards for the equity release market. These standards will be further enhanced by FSA regulation in 2007.

# innovatingspecialisingprotecting

Developing a range of flexible retirement solutions



Home reversion plans are part of the wider equity release market and enable home owners to raise cash from what is usually their most significant asset – their home. They also provide Grainger with long-term exposure to the housing market.

We were delighted to launch The Flexible Reversion Plan a market-leading product which offers for the first time a flexible proposition to potential customers. Under a typical plan, the home owner sells all or part of their property to Grainger in return for either a lump sum or a series of payments. The amount we pay depends on the value of the property, the age of the home owner and the proportion of the home they wish to sell. The householder can then stay in the property, rent free, for the rest of their life or until they decide to leave. At that point, Grainger is able to sell the property and realise its profit.

## Norwich Union

Under a recent agreement with Norwich Union, Grainger pays Norwich Union a fee for selling its home reversion product through its nationwide sales and distribution network. Grainger then acquires the assets of new home reversion customers. It sets the pricing, acquires and manages each property during its occupation, disposes of the asset on vacancy and retains its relevant equity share of the proceeds. This exciting partnership links Grainger with the UK's leading equity release provider and offers attractive opportunities for growth in a potentially very large market.

Grainger acquires home reversion assets through three main sources – the purchase of existing portfolios or home reversion plans from third parties, through our own Bridgewater brand and through our arrangement with Norwich Union.

Home reversion plans are particularly attractive to the elderly who can use the cash to supplement their pensions or to fund improvements in their lifestyle. We expect this market to grow considerably over the next few years.

Because there is no rental income while the householder is in occupation, home reversion is a long-term investment. It therefore makes a good strategic fit with the cashflows generated by the regulated tenancy business.

Bridgewater Equity Release offers Independent Financial Advisers an innovative and flexible reversion proposition, making it a leading provider of the product.

### Building for growth

In the year, the development team brought 294 units to the market for sale, gained planning permission on 438 units, with 1,345 awaiting planning and approximately 1,750 further units for which planning applications will be made.

# building developing regenerating

Using our housing skills in new and imaginative development schemes

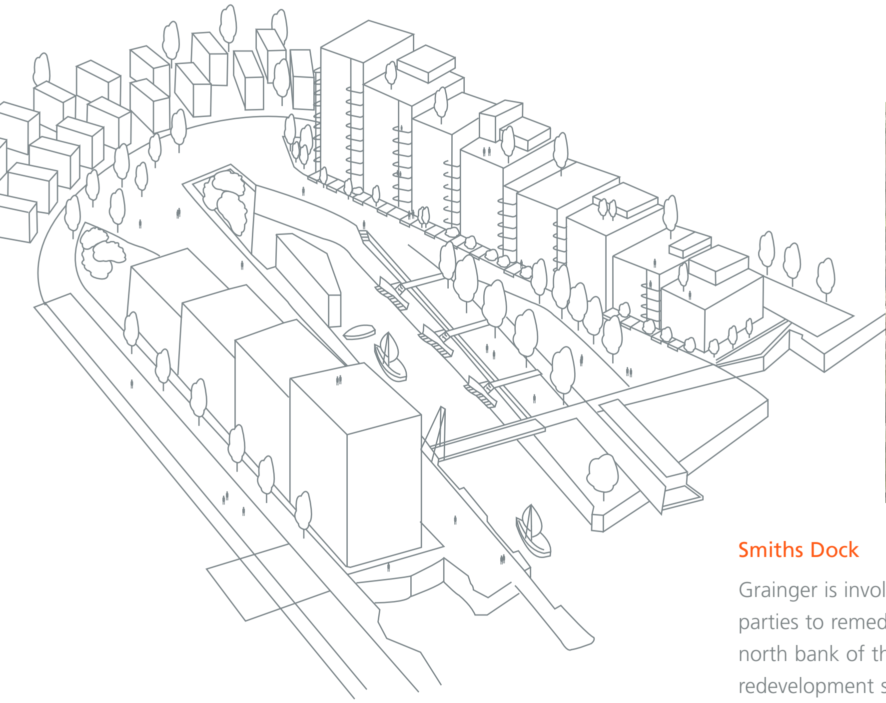
**Latitude, Clapham Common**

Of the 77 residential units for sale above this Tesco store in Clapham, 67 were reserved or exchanged by the year end.

Grainger is keen to maintain its exposure to all sectors of the residential market. One way we do so is through our development and trading division whose interests range from strategic land development to house-building.

The division seeks to create value through changes of use or density or through physical development. Its profits come from three main sources – land and regeneration, residential development and our house-building subsidiary, Grainger Homes.

Land and regeneration activities typically involve buying green or brownfield sites and, over time, obtaining planning permission for residential or mixed-use development.



## Smiths Dock

Grainger is involved in a joint venture with two other parties to remediate this former dry docks site on the north bank of the River Tyne in North Shields. The redevelopment site totals 30 acres and its final use will be a mixture of residential, retail and commercial.

Our major recent land projects have been at Basingstoke and in the north Northumberland Coalfield regeneration area.

Residential development is biased towards the mixed use and London flat market, often using our own assets or entering into partnerships with third parties.

Grainger Homes is a niche house builder operating mainly in the north east of England, developing up to 200 units per annum. We are also using this division to develop assets for our market-rented investment fund.

## The Glasshouse, Putney

On the site of a former office building that was held in our commercial portfolio we are developing 22 residential units of which 14 were reserved or exchanged by the year end.

Our partnership with Schroders ResPUT Fund is now in its fourth year. We have increased our stake and are now due to take on additional responsibilities including strategy and acquisitions.

# expanding investing partnering

## Broadening our horizons through new ventures in the UK and abroad

As we expand, we're seeking to replicate the main characteristics of our UK activities in mainland Europe. To this end, we're looking for long-term exposure to the tenanted residential market, especially in Germany, and for residential development opportunities with particular focus on the new EU countries.

Broadening our horizons also involves collaboration with other parties to make best use of each other's skills, assets or funding. In the year we have entered into joint ventures with local partners in Estonia and Prague for developing residential products. In the tenanted residential market we run the former church commissioners' portfolio as a joint venture with Genesis Housing Group. In management, we provide asset and property management services to the Schroders ResPUT fund in which we also have a 19.5% investment. In equity release, our venture with Norwich Union provides a valuable source of home reversion contracts. In development, we work closely and successfully with local authorities and communities, registered social landlords, landowners and other developers.

## current projects

### Preussag

In October 2005, Grainger agreed to acquire a portfolio of about 1,400 residential units from Preussag Immobilien GmbH for approximately €71.5m (£48.9m). The properties are in the Metro Ruhr area of Germany, mainly in the cities of Recklinghausen, Hamm and Herne. Due to be completed by 31 December 2005, the transaction represents Grainger's entry into the German residential market and will provide a platform for further growth in Continental Europe.

### Grainger Geninvest LLP

In June 2005, Grainger and Genesis Housing Group formed a 50/50 joint venture to acquire a portfolio of 455 residential units (including about 200 regulated tenancies) and 16 shop properties in Maida Vale, Waterloo and Stoke Newington from the church commissioners. The total consideration amounted to £70m. Grainger and Genesis have worked closely together since the acquisition with Grainger providing asset management services and Genesis providing day-to-day property and tenant relationship management. The transaction illustrates our ability to work with other parties to make major acquisitions in the regulated sector.

### Fund management

The acquisition of City North Group plc in April 2005 boosted our portfolio of market-rented residential properties. Now regrouped, this portfolio, approaching £200m, provides an opportunity to create a fund of predominantly market-let properties and offer it to external investors. Plans for the launch are well advanced. The portfolio has a broad range of properties with a stable income and opportunities for reversionary uplift and asset value growth.

## Staff training

Investment in employee development is vital to our growth. In the last year, just over 75% of employees attended formal training courses with 31 people studying for professional qualifications.

# performing achieving developing

## Investing in our future by developing our people

Senior appointments in the year:

1. **Richard Exley**
   Director of Development
2. **Peter Couch**
   Director of Equity Release
3. **Quinton Hill-Lines**
   Director of Corporate Development

The group's expansion has allowed us to make a number of senior appointments during the year. The result is deeper, broader management expertise from which the business will benefit as it develops.

In September 2005 we launched a competency framework to continue our work of aligning employees' needs to the overall objectives of the group. All staff now have an individually tailored development plan to help meet their own goals and aspirations and those of the organisation.

To ensure that our health and safety responsibilities are adequately resourced, we've now appointed a group H&S Manager to maintain and improve our H&S standards and practices.

Having realised last year that our Epsom office could no longer cope with the demands of a growing business, we moved this year into new and modern office space in Putney.



## Embracing technology

We understand the benefits of using up-to-date technology to improve communication with all of our stakeholders.

### 1. website

In 2005 we produced a new website that better reflects our business. It will soon include a marketing tool for all our vacant properties for sale or let.

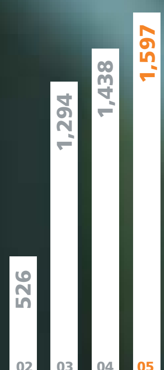
### 2. intranet

A new group-wide intranet site is now central to our knowledge management and internal communication systems. It was developed jointly by employees and has changed the way we and our employees communicate.

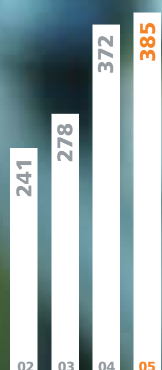
### 3. e-learning

The Balancing Act is an e-learning programme that has been developed for our property management team. It teaches them to think strategically when facing difficult scenarios where decisions need to take into account issues such as profitability, reputation, customer service or legal obligations.

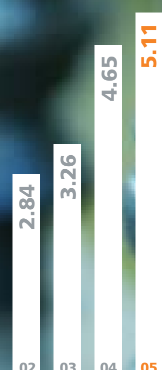
# highlights2005




GROSS PROPERTY ASSETS




NNNAV PER SHARE
(pence)




DIVIDENDS PER SHARE
(pence)

# the results

## Market value of property assets £1.6bn

- Core business operating contribution up by 7.6% to £88.2m
- Grainger NAV up by 2.5% to 492p per share
- First acquisitions on Continental Europe announced
- Sales and distribution agreement with Norwich Union finalised
- £61m takeover of City North Group plc
- Total dividend up to 5.11p per share, an increase of 10%
- Portfolio continues to grow in asset value terms:
  – Vacant possession value now £2.067bn
  – Investment value now £1.507bn
  – Reversionary surplus stands at £560m

# factsfigures

Over the last five years our gross assets have increased from £0.4bn to £1.6bn

## graingerplc

Total market value of property assets

**£1,631m****

Total operating contribution*

**£101m**

Return on shareholders investment

**25.6%**

*profit on ordinary activities before interest and taxation and excluding group administrative expenses

**including share of joint ventures (£34m)

Group operations are defined by the following:

### Performance criteria

Bulk of income comes from trading activities and realisation of reversionary surpluses, so alternatives to yield based valuation measures also presented.

Focus is therefore on net asset value, profit before tax and earnings per share.

Use of NAV, diluted NAV and Grainger NAV which takes account of long-term reversionary surplus in our core portfolios.

At individual project level, performance criteria such as cash generation, internal rate of return, profitability and strategic positioning used.

## tenantedresidential

Market value of property assets by division

**£1,507m****

Proportion of group operating contribution

**87%**

Operating contribution by division

**£88.2m**

Number of properties by division

**12,382**

**including share of joint ventures (£34m)

Within this division, contributions come from two areas of operation:

### Trading

**Regulated (Investment value: £984m)** key features:

- Tenant has security of tenure
- Rents set by rent officer and increases capped at retail price index +5% over two years
- Purchased at discount to vacant possession value and sold on vacancy
- Approximately 9% of the portfolio becomes vacant every year
- No new regulated tenancies being created

Characteristics: Low rental yield, high margin on sales.

## developmentandtrading

Market value of property assets by division

**£124m**

Proportion of group operating contribution

**13%**

Operating contribution by division

**£12.8m**

Within this division, contributions come from three areas of operation:

### Land and regeneration

Key features:

- Translates green and brownfield sites into residential or mixed use developments
- Complex long-term business that can be highly profitable
- Involves negotiations with planners, local communities and councils

Major sites:

Kennel Farm, Basingstoke; West Waterlooville, Hampshire; Widdrington/Hadston, Northumberland.

## Risk review

Major risk relates to state of housing market, linked to interest rates and general economic environment. Risk minimised by:

- Portfolio is geographically widespread, reduces cluster risk
- Portfolio spread across property types and values, reducing exposure to highly fluctuating top-end properties
- Relatively low average value where demand is consistent and strong
- Regulated properties are un-modernised on vacancy so demand tends to be high

Long-term view taken and financial stability enables short-term price fluctuations to be withstood.

## Business review

All activities characterised by cash generation, high trading margins and willingness to take long-term view.

Regulated tenancy market diminishing, but we maintain position by active purchasing.

Review new and expanding business opportunities – home reversions, European investment, development and trading, asset and property management.

At plc level, key criteria is total shareholder return.

**Home reversions (Investment value: £196m)** key features:

- Tenant has security of tenure
- No rental income
- Whole or partial ownership purchased at discount to vacant possession
- Property sold on vacancy
- No maintenance obligation

Characteristics: No rental yield, high sales margin.

**Assured, vacant and others (Investment value: £327m)** key features:

- Market-rented tenancies (£188m)
- Vacants generally for sale (£59m)
- Other, including ground rents, serviced apartments and share of joint ventures (£80m)

Characteristics: Market yield, some margin on sale.

## Rental and management

**Net rental income** Key features:

- Net rental income derived from regulated and assured tenancies after maintenance and management expenditure

**Asset and management fees** Key features:

- Fee based activities remunerated by asset and property management fees

Characteristics: Management skills adapted to provide additional fee income with no capital investment.

## Residential development

Key features:

- Uses group’s asset base, expertise or equity type funding
- Often in partnerships with housing associations, local developers, occupiers and councils

Major sites:

South London Hospital, Clapham; Macaulay Road, Clapham; Hornsey Road/Barnsbury, Islington; Smith Docks, North Shields.

## Grainger Homes

Key features:

- Small scale niche house-building mostly in North East of England
- Produces consistent levels of cash and trading margins

Major sites:

The Kylins, Morpeth; Grangewood, Widdrington.

Robert Dickinson
Chairman

# chairman's statement

I am pleased to report another year of significant progress at Grainger Trust. Whilst we have not benefited from the exceptional market growth that has characterised more recent results, we have concentrated on consolidating our position as the UK's leading quoted residential investor and trader and have worked to meet the strategic objectives we set ourselves 12 months ago.

Our focus remains on Grainger's core business – the acquisition, management and sale on vacancy, of residential regulated tenancies. This business provides us with a unique set of skills, asset base, cash flow and market knowledge that allows us to examine residential-based opportunities that have similar management challenges or return characteristics.

During the year under review we have launched our equity release joint venture programme with Norwich Union, expanded into Europe for the first time with two joint venture developments, acquired a substantial land bank in Hampshire, and commenced work on several mixed-use urban developments.

In addition, we concluded a £61.3m agreed takeover of the central London-based market-rented residential investment company City North Group plc and a £70m joint venture acquisition of a tenanted residential portfolio with Genesis Housing Group, one of the country's leading Registered Social Landlords. We also disposed of our last remaining major commercial property investments through an asset swap.

Since the year end we have exchanged on a €71.5m residential investment portfolio in Germany comprising more than 1,400 units and generating annual income of €4.5m. This acquisition will mark our first key investment purchase within continental Europe and we continue to look for further similar acquisitions where we can bring our deep and extensive knowledge of the sector to generate superior returns for shareholders.

Shareholders will also be aware that we entered into preliminary discussions with Parkdean Holidays to acquire its entire issued share capital. Although these discussions were terminated, they demonstrate our willingness to examine a wide range of less obvious opportunities where we believe we can bring our residential and development skills to deliver long-term reversionary returns.

## Results

Sales of tenanted residential property and net rental income from our core portfolio continue to be the group's main profit drivers. Operating contributions from our core business, increased by 7.6% over the year to £88.2m from £81.9m. This included a contribution of £2.4m from City North. At the pre-tax level, results for the 12 months to 30 September 2005 were impacted by both a more normal contribution from our development and trading division of £12.8m compared with £25.3m we recorded last year and higher interest charges of £49.5m against a pre-exceptional item charge in 2004 of £40.1m, resulting from our successful acquisition programme over the period.

Accordingly, pre-exceptional profits before tax were lower, but in line with expectations at £42.1m compared with £59.6m for the same period a year ago. I am also pleased to report that Grainger's net asset value continues to rise despite the general perception of the residential market.

As shareholders appreciate, we consider the group's net asset position in three ways: net asset value per share ('NAV'), diluted net asset value per share ('NNNAV'), which takes into account contingent tax and the market value of long-term debt and hedging, and the Grainger NAV, which adjusts for the reversionary surplus within our portfolio. Our NAV has grown 2.0% to 558p from 547p, NNNAV has risen 3.5% to 385p from 372p, and the Grainger NAV is up 2.5% to 492p from 480p.

In line with the guidelines we established last year the Board is recommending a final dividend of 3.41p per share which, together with the interim payment of 1.7p per share, will make a total for the year of 5.11p per share, an increase of 10%. If approved, the final dividend will be paid on 8 March 2006 to the shareholders on the register on 17 February 2006.

## Strategy

Long-term exposure to the residential investment market has delivered annual compound growth rates (as measured by the Halifax House Price Index) of 7%, 10.5% and 14.2% over the last 20, 10 and 5 years. There has been a more recent slow down in growth – house prices rose by 3% over the 12 months to the end of September 2005 – and the outlook over the coming 12 months is somewhat uncertain.

Despite contradictory views of the market our own experience is that sales in the first two months of the current financial year have been marginally ahead of the end of September 2005 vacant possession values. We believe that over the course of the current financial year overall house price inflation within our portfolio will be muted.

However our business model is based on long-term investment returns rather than short term gains. Our interests are focused on market sectors where reversionary potential is not entirely dependant on short term market growth, but also on gains secured through tenure or use changes and by gaining planning consent. These opportunities exist both in the UK and within continental Europe.

At the same time we will continue to generate income through our asset and property management skills, particularly when these can be used to help third party investors maximise their returns from the residential market. Also we aim to take full advantage of any market opportunities that may arise where our strong financial base, long-term outlook and experience will enable us to unlock value.

We are pleased that the Chancellor has committed to introducing UK REITs (Real Estate Investment Trusts) in the 2006 Financial Bill. We now hope that the eventual legislation is not overly restrictive and that it will encourage real new investment to the Residential Sector.

## Board

During the course of the year under review Bill Tudor John, former senior partner at Allen & Overy and currently a managing director of Lehman Brothers, joined the board and has taken over the chairmanship of the Remuneration Committee from Robert Hiscox.

## People

As Grainger expands, it is essential we have the right level of skills and expertise to manage this growth. Although much of this comes from our core of committed and dedicated professional senior executives, in the year we have been able to augment this with a number of external high level appointments. It is pleasing that Grainger is able to attract such highly qualified executives.

## Outlook

The way forward is clear. We will focus on our core regulated business but, recognising that this stock is finite, we will continue to develop into areas that capitalise on our existing skills and economic base and which offer exposure to the residential market. The most significant of these will be equity release, investment in Europe, residential development and residential fund and property management.

Bearing these objectives in mind, together with our solid financial platform and our asset and skills base, we believe we have the framework for continued long-term success.

**Robert Dickinson** Chairman

20 December 2005

Rupert Dickinson
Chief executive

# focusingengagingprogressing

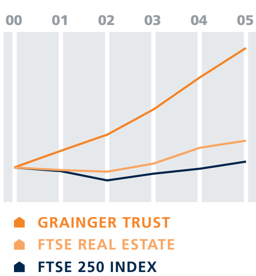
## Chief executive's statement

Last year we set out our objectives for Grainger Trust in our key business areas and we have made significant progress in all of these.

**Tenanted Residential** This is our core business, providing us with a long-term exposure to the residential market and good levels of profit and cash generation. It is based on our large and diverse portfolio – at 30 September 2005 its market value amounted to £1.5bn an increase of 10.8% in the year – and our experience and expertise at managing and trading property and our solid financial underpinning.

Despite sluggish market conditions throughout the last year this division has continued to trade well, generating sales of £133m, only marginally down on 2004's figure of £135m. It has been pleasing that we have achieved these levels without significantly reducing prices on sale. Margins on normal sales in 2005 (i.e when a property is sold on vacancy) were 48.5%; the equivalent figure in 2004 was 48.6%.

In valuation terms, our portfolio has risen in value by 2.6% and the average vacant possession value of our properties at 30 September 2005 stood at £173,000.The reversionary surplus in our portfolio (including our share of joint ventures) is £560m (2004: £536m) or 433p per share.




**Share price performance**
2000 – 2005

This figure represents the difference between what we expect to sell our properties on vacancy for and what we value them at in our market value balance sheet. The difference between the vacant possession value of our residential portfolio and its original cost is £967m (2004: £928m).

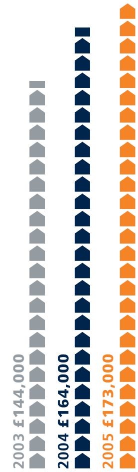
Just as important as annual trading performance and valuation uplifts is our ability to replenish stock levels and to grow businesses offering long-term growth potential.

In our regulated business we have acquired 480 properties for £51m. We have also purchased a highly reversionary portfolio of 455 London flats for £70m from the Church Commissioners in a joint venture with the Genesis Housing Group. We are delighted to have been successful in acquiring this portfolio as well as to be working with Genesis and their property management subsidiary Pathmeads. We see an interesting future for Grainger in working more closely with the Housing Association Sector.

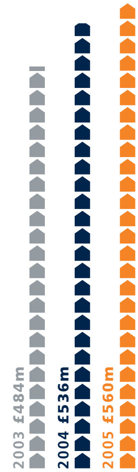
As has been announced previously we entered into an agreement with Norwich Union enabling our home reversion products to be sold through their own in-house advisors and IFA distribution network. Sales through this channel have been slower than anticipated when we announced the initiative in March. This reflects general market conditions in the equity release market and a slower than expected start up, although recent figures for our originations and the home reversion sector in general are more encouraging.

We are building our home reversion portfolio using three routes (Bridgewater, Norwich Union and portfolio acquisitions) and we anticipate being able to increase the total portfolio by at least £50m in the year ahead. As part of this strategy, we have recently launched our own Bridgewater Flexible Reversion Plan, and this has been well received by the market.

We are pleased with the progress we have made in our market-rented and asset and property management businesses. We believe that the key is to ally a good portfolio with excellent property and asset management skills and appropriate financing.




**average sale value of Grainger's properties on vacant possession**




**reversionary surplus**

(the difference between vacant possession value and investment value)

## Chief executive's statement continued

the acquisition of City North gives us close to

**£200m**

market-rented properties

The acquisition of City North Group plc combined with our existing holdings has provided us with a critical mass of market-rented properties – close to £200m as at 30 September 2005. We are now well advanced in preparing a fund structure to attract third party equity into this portfolio. This will enable us to benefit from the rent and reversionary potential in market-rented housing directly as one of the fund participants and indirectly through the receipt of management and performance fees.

Our management expertise is illustrated by the fact that we currently manage our own portfolio of 12,382 properties and a further 1,185 properties for other residential investors. These include Schroders Residential Property Unit Trust (ResPUT) where we have increased our stake and are due to take on further responsibilities including strategy and acquisitions in addition to our asset and property management roles.

**Grainger Europe** Our objective in mainland Europe has been to replicate certain key aspects of the Grainger UK business. Consequently we have been reviewing opportunities in reversionary residential portfolios and development.

Shortly after the year end we announced our first portfolio acquisition – a total of 1,400 properties in the Metro Ruhr of Germany for a consideration of €71.5m (£48.9m). This transaction is due to complete by the end of 2005.

we currently manage our own portfolio of

**12,382 properties**

and a further

**1,185 properties**

for other residential investors

The combination of relatively high rental yields, low borrowing costs and potential for significant gain over time, if the properties are sold to the owner occupier sector, make this an attractive area for us. We are optimistic that this first acquisition will provide a good platform for us to build on.

During the year, we also announced our participation in two development opportunities. Firstly, an 81.6% stake in a mixed residential/retail scheme in Zizkov in Prague, representing an investment of €6.7m (£4.6m) and which we hope to take through the planning process over the next 18 months. Secondly a €2.6m (£1.8m) investment representing a 45.7% stake in an 800 unit proposed residential development in Tallinn, Estonia.

**Development and Trading** Over the last few years we have moved away from pure commercial investment and this process was substantially completed in the year.

We are now focussed on three areas: residential development, primarily mixed use and residential schemes in London and the South East, urban and rural regeneration schemes, including the acquisition of strategic land with development potential, and Grainger Homes, our housebuilding arm based largely in the North East of England.

After the exceptional year ended 2004, when several major schemes came to fruition, the division this year has moved to a more normal level of trading, producing an operating contribution of £12.8m on an asset base at the beginning of the period of £109m.

**Latitude, Clapham Common** have already had

**67 units reserved**

from the 77 unit development

The development of the former South London Hospital in Clapham comprising 77 units has gone well with 67 reserved or exchanged for a value of £20.3m. In April we acquired 520 acres of land at West Waterlooville, Hampshire, which were previously held under option. This has been included in the West of Waterlooville Major Development Area and provisionally allocated 1,550 residential units with a further 1,000 in reserve.

A key element of our progress has been our ability and willingness to work with partners.

At Smiths Dock in North Tyneside we have formed a joint venture with two local landowners to regenerate some 30 acres of waterfront land. We have submitted an application for detailed planning permission for 1,250 units. We have made progress on our schemes with Islington Borough Council having now obtained planning consent for our 208 unit scheme at Hornsey Road and the 141 unit scheme in Barnsbury.

Grainger Homes has continued to develop, completing the sale of 84 units in the year for a total of £11.3m, producing a trading contribution of £3.3m.

**Grainger Homes** has produced a trading contribution of

**£3.3m**

Operationally, therefore, we are pleased with the group's performance in a year in which market conditions have, as expected, proved testing.

People As this group continues to grow and operate in new market areas it is very important to ensure that we have the personnel and management structure in place to maximise the potential of both our existing asset base and new opportunities. This year has been one of continued growth and change and we have made three senior appointments Peter Couch, as director of our Equity Release business, Quinton Hill-Lines as director of Corporate Development and, most recently, Richard Exley who has joined as director of Development and who is charged with moving forward this division.

In addition we have recently introduced a new Senior Management Structure to ensure that each part of our business is run in accordance with our stated strategy and that we take full advantage of the vast range of knowledge and skills we have within the organisation.

**Outlook** We remain very confident in the outlook for Grainger. Our core portfolio is geographically widespread, with a typical value near or below the UK average and is generally unmodernised. These features help sustain demand in times of market fragility. As importantly, the reversionary surplus in the portfolio of over half a billion pounds acts as a potential reservoir for future gains. We will focus on reversionary property for our core portfolio and continue to grow our property and asset management skills so that we can make them more widely available to external investors in the market-rented sector.

We have put in place the products, distribution network and funding capability to support high levels of growth in the home reversion market.

Uncertainty concerning the adequacy of pension provision and the widespread view that house price inflation will be lower in the future should provide the impetus for increased demand. Home reversion products fit well with other related sectors of the market, for example second homes and retirement living and these may present further opportunities for growth.

We look forward to completing our first German acquisition and are reviewing several other opportunities that should help our European operation to become a meaningful part of the group's business.

We have continued to invest in the development division and have several schemes in the pipeline that will produce attractive returns in the short to medium term. We are growing this division and are confident that we can use our understanding of local housing markets and management to ensure attractive returns to our shareholders from a wide range of developments in the residential sector.

In the coming year we will continue to progress in these main areas, whilst exploring new opportunities to exploit our skills and asset base. I am confident that the team we have is well placed to continue at the forefront of residential investment and development in this country and in Europe. We are continuously challenged by new legislation and regulations but we will look at these as opportunities rather than threats.

Rupert Dickinson
Chief executive
20 December 2005

Andrew Cunningham
Deputy chief executive
and finance director

# committing profiting growing

## Operating and financial review

The core tenanted residential business has performed well with an improvement in operating contribution of some 8%. The development and trading division has not benefited from the large one-off sales last year and has returned to more normal levels of profitability.

## Operating review

### Tenanted residential highlights

- Operating contribution* increased by 7.6% to £88.2m
- 913 properties sold for £133m, generating a rise in trading profits and profit on disposal of fixed assets to £61m
- 1,254 residential units purchased for £184m
- Year end portfolio of 12,382 units, investment value £1,507m**, vacant possession value £2,067m**

* Profit on ordinary activities before interest and taxation and excluding group administrative expenses.

** Including share of joint ventures.

## Tenanted residential

### Key performance statistics

| | 2005 No. | 2005 £m | 2004 No. | 2004 £m |
|---|---|---|---|---|
| Properties sold on vacancy | 720 | 109 | 783 | 111 |
| Properties sold with tenants in occupation | 193 | 24 | 248 | 24 |
| Total sales | 913 | 133 | 1,031 | 135 |
| Profits on sale* | | 61 | | 58 |
| Release of negative goodwill on sales | | 6 | | 6 |
| | | 67 | | 64 |
| Net rental income and other income | | 23 | | 20 |
| Direct overhead costs | | (2) | | (2) |
| Trading contribution | | 88 | | 82 |

* including gains on the sale of fixed assets

Trading and rental performance has held up well in the year. The acquisition of City North Group plc contributed £2.4m to the years result. The overall return, which includes the net valuation uplift, has been depressed in comparison to last year by the slowing down in house price inflation. In 2005 the percentage valuation uplift in our portfolio was 2.6%, in 2004 it was 12.4%. After taking account of the elimination of revaluation surpluses realised on sales the valuation movement in the year was £15.8m (2004: £121.3m).

### Geographic distribution of residential portfolio

| | Investment value £m | % of assets |
|---|---|---|
| London | 636 | 43 |
| South East | 237 | 16 |
| South West | 83 | 6 |
| East | 94 | 6 |
| East Midlands | 61 | 4 |
| West Midlands | 134 | 9 |
| Wales | 11 | 1 |
| Yorkshire | 56 | 4 |
| North West | 127 | 9 |
| North East | 23 | 1 |
| Scotland | 11 | 1 |
| | 1,473 | 100 |
| Share of joint ventures | 34 | |
| | 1,507 | |

Although the sales process has been more sluggish this year, as reflected by the number of vacant properties at the year end (423 compared to 356 last year) we have still experienced good levels of demand, helped by the geographic spread and typical low value of individual units. Approximately 59% of our properties by value are in London and the South East, 26% in the Midlands, East, South West and Wales and 15% in the North and Scotland. Less than 22% of our properties by value have vacant possession values in excess of £250,000 – the level at which demand volatility becomes more marked.

### Analysis of residential sales in the year (from stock and fixed assets)

| | No. | Sales proceeds £m | Trading profit/profit on disposal £m |
|---|---|---|---|
| Regulated | 600 | 86 | 43 |
| Assured | 99 | 11 | 2 |
| Vacant | 145 | 24 | 9 |
| Equity Release | 69 | 7 | 4 |
| Other | – | 5 | 3 |
| Total | 913 | 133 | 61 |

The average vacant possession values in our three key portfolios are:

| | £K |
|---|---|
| Regulated | 165 |
| Market rented | 191 |
| Home reversion | 190 |
| Overall (excluding other interests) | 173 |

This compares to the Halifax All House figure at 30 September 2005 of £166,000.

**Range of vacant possession values (excluding other interests and share of joint ventures)**

| | No. of properties | Vacant possession value £m |
|---|---|---|
| >£500k | 71 | 56 |
| £250k – £500k | 1,167 | 385 |
| £175k – £250k | 2,809 | 587 |
| £100k – £175k | 4,943 | 698 |
| <£100k | 3,392 | 257 |
| | 12,382 | 1,983 |

We have continued to grow our portfolio in both number and asset value terms. The vacant possession value (including our share of joint ventures) is £2,067m and the investment value is £1,507m giving us a reversionary surplus of £560m. This is the gain over and above the market value of the properties we would achieve if we sold the properties on vacancy at today's values. The surplus above original cost is £967m.

We have acquired a total of 1,254 units in the year for a cost of £184m (including properties acquired in the City North portfolio).

**Analysis of acquisitions in the year (excluding joint ventures but including City North)**

| | No. | Cost £m | Vacant possession value £m |
|---|---|---|---|
| Regulated (including APT) | 480 | 51 | 73 |
| Assured | 584 | 110 | 125 |
| Vacant | 30 | 4 | 5 |
| Equity Release | 156 | 18 | 36 |
| Other | 4 | 1 | 3 |
| | 1,254 | 184 | 242 |

During the year we increased our stake in the Schroders Residential Property Unit Trust ('ResPUT') to 19.5%. We provide asset and property management services to this fund and the fee income that we received from this and from other similar services for other customers amounted to £1.1m.

**Analysis of tenanted residential portfolio by tenure**

| | No. of properties | Vacant possession value £m | Investment value £m | % of vacant possession value |
|---|---|---|---|---|
| Regulated | 8,161 | 1,349 | 984 | 73 |
| Assured | 1,102 | 210 | 188 | 90 |
| Vacant | 423 | 65 | 59 | 90 |
| Equity Release | 2,663 | 354 | 196 | 55 |
| Hotel complex – short term lettings | 33 | 5 | 5 | 100 |
| Other interests | – | 41 | 41 | 100 |
| Share of joint ventures | – | 43 | 34 | 79 |
| **30 September 2005** | **12,382** | **2,067** | **1,507** | **73** |
| 30 September 2004 | 12,041 | 1,865 | 1,329 | 71 |

## Operating review continued

### Development and trading highlights

- Acquisition of 520 acres of land at West Waterlooville
- Continued rationalisation of commercial properties
- Sales of 84 units worth £11.3m by Grainger Homes,

## Development and trading

### Key performance statistics

| | 2005 £m | 2004 £m |
|---|---|---|
| Trading profits | 11.7 | 13.5 |
| Profits on sale of fixed assets | 0.5 | 3.5 |
| Net rental income less overheads | – | 0.4 |
| Other income (2004 Pimlico flats) | 0.6 | 7.9 |
| Trading contribution* | 12.8 | 25.3 |

* Profit on ordinary activities before interest and taxation and excluding group administrative expenses.

The results for 2004 included profits achieved on sales of the commercial portfolio, of the last major housing allocated land site at Kennel Farm and receipts relating to the Pimlico development, totalling £22.1m. These were largely one-off transactions and the division has now moved to more normal trading levels.

The movement on revaluation in the year was a deficit of £12.0m (2004: deficit of £3.8m); this represents the net effect of the elimination of revaluation surpluses realised on sales in the year together with the impact of year end valuations.

Major contributions to trading profits in the year have come from Kennel Farm (£3.5m) Grainger Homes (£3.3m) and the sale of Landmark Place, Slough (£2.3m).

Opportunities for future income from Kennel Farm relate primarily to approximately five acres of land currently allocated for business use and the local centre.

During the year Grainger Homes sold 84 units for £11.3m. Much effort has gone into creating a sustainable land bank at this division and over the next three years we hope to achieve average annual sales of up to 200 units.

Other projects in this division are making satisfactory progress and their status is shown in the table below.

### Major development projects

| Project | Description | Status | Income expected from |
|---|---|---|---|
| West Waterlooville | 520 acres of greenfield land in Hampshire | Planning application for 1,550 units due to be submitted in 2006 | 2008 |
| Macaulay Road, Clapham, SW4 | 110,000 sq. ft. mixed use scheme in Clapham | Planning decision expected by mid 2006 | 2008/9 |
| South London Hospital, SW4 | 77 residential units above Tesco store in Clapham | Completion of project due by Spring 2006 | 2006 |
| Hornsey Road, Barnsbury Complex, Islington | Public/private partnership mixed use scheme, 350 residential units, 43,000 sq.ft. Council office and community use | Planning consent granted in October 2005 | 2008/9 |
| Smiths Dock, North Shields | Joint venture to regenerate 30 acres at former dry docks | Planning decision for 1,250 units due early 2006 | 2007 |

# Financial review

## Highlights

- Grainger NAV up 2.5% to 492p per share
- Loan to value ratio 54% (2004: 49%)
- Refinancing in the year to give increased capacity and greater flexibility

### Results

Group profit before interest and tax has fallen from £99.7m to £91.6m. Net residential rents and other income have increased by £3.5m to £23.2m, including £2.4m from City North Group plc, and trading profits on residential sales including negative goodwill released and profits on sale of fixed assets have improved by 4.3% from £64.4m to £67.1m. However, these have been more than offset by a decrease in the contribution from the development and trading division which fell from £25.3m to £12.8m.

### Interest payable

Group pre-exceptional interest has increased from £40.1m to £49.1m. This is a combination of higher average debt levels (up by approximately £100m over the previous year) and higher borrowing costs. The average base rate in 2005 was 4.7% in 2004, 4.1%. This impacted on the proportion of our debt that is variable or is hedged through caps. Our average interest rate in the year was 5.9% (2004: 5.8%).

Interest is covered 1.9 times by profit before interest and tax (2004: 2.5 times). Net cash flow (being all group receipts less expenses and taxation) covered interest 3.8 times (2004: 5.1 times).

### Taxation

Our annual tax charge is significantly affected by FRS19, the accounting standard preventing the provision of deferred tax on revaluation gains when companies are acquired. This serves to increase our effective tax rate above the standard corporation tax rate of 30%. This year, it has been 37.1% (2004: 39.1%).

Major items affecting the tax charge are:

| | £m |
|---|---|
| Group profit before tax | 42.1 |
| Tax at 30% | 12.6 |
| Adjusted for: | |
| Additional tax on the difference between book and tax base costs of trading property sales | 7.4 |
| Negative goodwill (not taxable) | (1.8) |
| Other including adjustments to tax in prior periods | (2.6) |
| Actual tax charge | 15.6 |

### Earnings per share and dividends

Earnings per share before exceptional items have fallen to 21.2p from 29.9p. Dividends have increased by 10% and are covered 4.0 times by profit after taxation but before exceptional items (2004: 6.5 times).

## Financial position

### General

Most of our properties are held as trading stock and are therefore shown in the statutory balance sheet at cost. This does not reflect the true worth of Grainger's assets and therefore we set out in this statement a summary of our net assets with the properties restated to market value.

### Fixed assets

Fixed assets properties in the balance sheet comprise £202.2m tenanted residential and £20.3m development totalling £222.5m (2004: £97.0m, £8.4m and £105.4m respectively). The major change relates to the acquisition of the City North portfolio in the year.

# Financial review continued

### Market value analysis of property assets

| | Held as stock at cost £m | Market value adjustment £m | Market value £m | Fixed assets at valuation £m | Total £m |
|---|---|---|---|---|---|
| Residential | 870 | 401 | 1,271 | 202 | 1,473 |
| Development and trading | 92 | 12 | 104 | 20 | 124 |
| Total | 962 | 413 | 1,375 | 222 | 1,597 |

### Investments and intangible assets

Investments relate to our investment in Schroders ResPUT and in joint ventures and associates. We invested a further £8.4m in the ResPUT this year and now own 19.5% of the units issued. The market value at 30 September 2005 was £18.2m and the cost £15.4m.

Our main joint venture interests are a 33⅓% stake in a limited liability partnership to develop Smiths Dock in North Tyneside of £4.1m including goodwill (2004: £3.3m), a 50% stake in a similar structure with Genesis Housing Group of £8.8m which was established to acquire a portfolio of properties from the Church Commissioners which had a year end value of £72.6m and a 50% stake in a joint venture with Grange (Prescot Street) Limited to develop land at Prescot Street, London, E1 with a value of £5m.

The negative intangible asset of £81.3m (2004: £84.8m) principally reflects goodwill arising on the acquisition of Bromley, the acquisition vehicle used to acquire the BPT group. It is being released to the profit and loss account in line with property sales from that business.

### Trading properties

| | 30 Sept 2005 £m | 30 Sept 2004 £m |
|---|---|---|
| **Statutory balance sheet** | | |
| Tenanted residential | **870** | 843 |
| Development and trading | **92** | 76 |
| | **962** | 919 |
| **Market value balance sheet** | | |
| Tenanted residential | **1,271** | 1,232 |
| Development and trading | **104** | 101 |
| | **1,375** | 1,333 |

The cost of our tenanted residential stock has increased from £843m to £870m, being stock purchases of £85m, capitalised improvement costs of £6m less sales and transfers of £64m. Market value figures have risen to £1,271m from £1,232m. Valuation uplifts account for £48m and this is reduced by the elimination on sale of previously recognised surpluses of £36m. The balance of £27m relates to the net effect of sales, acquisitions and transfers.

The market value of all our tenanted residential property at 30 September 2005 is £1,473m (2004: £1,329m).

The group's development and trading assets held as stock increased in cost terms to £92m and in market terms to £104m (2004: £76m and £101m respectively), the major movements being expenditure on West Waterlooville amounting to £21.5m, net investment at Grainger Homes of £11.4m, and the sale of Landmark Place, Slough which eliminated £20.0m of cost.

The total market value of all of the group's development and trading assets at 30 September 2005 was £123.8m (2004: £109.0m)

Pro forma net assets

| | Statutory balance sheet £m | Market value adjustments £m | Market value balance sheet £m | FRS13 £m | Contingent tax £m | NNNAV balance sheet £m |
|---|---|---|---|---|---|---|
| Properties: | | | | | | |
| Tenanted residential | 1,072 | 401 | 1,473 | – | – | 1,473 |
| Development and trading | 112 | 12 | 124 | – | – | 124 |
| Total properties | 1,184 | 413 | 1,597 | – | – | 1,597 |
| Investment/others assets/cash | 87 | 8 | 95 | – | – | 95 |
| Negative goodwill | (80) | 80 | – | – | – | – |
| Total assets | 1,191 | 501 | 1,692 | – | – | 1,692 |
| Borrowings and creditors | (922) | – | (922) | (18) | – | (940) |
| Net current liabilities | (39) | – | (39) | – | – | (39) |
| Provisions/contingent tax | (6) | (1) | (7) | 7 | (213) | (213) |
| Minority interest | – | (2) | (2) | – | – | (2) |
| Total liabilities | (967) | (3) | (970) | (11) | (213) | (1,194) |
| **Net assets 30 September 2005** | **224** | **498** | **722** | **(11)** | **(213)** | **498** |
| Net assets pence per share | 173 | 385 | 558 | (8) | (165) | 385 |

### Other assets and liabilities

Other net liabilities excluding cash balances and current debt instalments have fallen from £77.0m to £45.4m. Two major items contribute to this. Firstly the acquisition of a major portfolio of equity release properties (£19.5m) and secondly the payment of the final instalment of the purchase price for Deutsche Bank's stake in the Bromley joint venture (£10.0m) – both of these were included in creditors in the September 2004 balance sheet and were paid shortly thereafter.

### Net assets

Net assets at market value have increased from £678m to £722m:

| | Reflected in the accounts £m | Not reflected in the accounts £m | Total £m |
|---|---|---|---|
| Net assets at 1 October 2004 | 178 | 500 | 678 |
| Retained profits | 20 | (6) | 14 |
| Revaluation surpluses: | | | |
| Tenanted residential | 5 | 12 | 17 |
| Development and trading | 1 | (13) | (12) |
| Investments | – | 4 | 4 |
| Goodwill movements | – | 1 | 1 |
| Shares issued on acquisition of City North Group plc | 20 | – | 20 |
| **Net assets at 30 September 2005** | **224** | **498** | **722** |

# Financial review continued

Diluted NAV (or NNNAV) is computed by adjusting NAV for the market value of long-term debt and derivatives and for contingent tax.

These two adjustments amount to 8p and 165p per share respectively (2004: 0p and 174p respectively).

The FRS13 adjustment has increased because of the current low five-year swap rate. At 30 September 2005 this was 4.535%, compared to 5.122% in 2004. This has resulted in some of our hedging instruments moving out of the money.

Contingent tax, which will only crystallise on the realisation of the assets and is therefore payable sometime in the future, has stayed relatively constant because of the low level of movement in the revaluation surplus in the year.

As in previous years we also present Grainger NAV. This reflects our estimate of the present value of the reversionary surplus in our regulated and equity release portfolios. In gross terms this is the difference between what we would achieve on sale of our properties on vacancy and the value attributed to them in the market value balance sheet. We have calculated the after tax present value of that surplus by discounting it back over its expected average period of realisation at the discount rate of 8.6% (our weighted average cost of capital plus a risk premium of 3% (2004: 8.6%). The adjustment increases NNNAV by 107p per share to give Grainger NAV of 492p (2004: 480p).

It should be stressed that this calculation is based on current house prices and assumes no future house price inflation. An annual increase in house prices of 4% would increase the adjustment to 177p and give a Grainger NAV of 562p.

### Cash and Debt

Cash balances at the year end amounted to £53m, representing 3.1% of our total market value gross assets. Of this, £26m (2004:£30m), represents deposits received or acts as security for cash backed loan notes.

Group borrowings have increased from £757m to £921m, including capitalised loan costs of £7m (2004: £7m). These will be written off over the period of the loan. The increase in borrowings has principally arisen from the acquisition of City North Group plc and West Waterlooville.

The total of our net borrowings expressed as a percentage of the market value of our gross property assets ('loan to value ratio') at 30 September 2005 was 54% (2004: 49%) and gearing was 120% (2004: 103%).

### Financing

During the year the group extended its core borrowing facility by £400m to £1,300m and in so doing reduced the blended margin on the facility by seven basis points. At 30 September 2005, the group had headroom in its borrowing capacity of £450m.

### Capital Management

The group finances its operations through a combination of shareholders funds and borrowings with the objective of optimising weighted average cost of capital ('WACC') whilst retaining funding flexibility. At 30 September 2005 our estimate of WACC was 5.58% (2004: 5.64%).

The group does not take trading positions in financial instruments but holds them to minimise the risk of exposure to fluctuating interest rates. The majority of our debt is subject to protective swaps, caps or collars or is maintained at fixed rates of interest. At 30 September 2005, £657m or 76% of the group's net debt was either fixed to termination, or for over one year, or was protected by financial instruments (2004: 71%).

A combination of interest rate swaps and financial caps is used to provide a degree of certainty over future interest rate costs whilst enabling the group to take advantage of favourable short term rates. At 30 September 2005 the group held £347m of swap contracts at an average pre margin rate of 5.4% maturing between 2006 and 2014 (2004: £223m @ 5.4%). There were also financial caps in place of £265m at an average capped rate of 6.1% expiring between 2006 and 2009 (2004: £233m @ 6.1%).

The effect of the fair value adjustment of marking the group's fixed rate debt and derivatives to current market rates ('FRS13 adjustments') would be to produce a notional 'liability' after tax of £10.6m or 8p per share (2004: 0p). This adjustment represents approximately 1.1% of group borrowings at 30 September 2005 and will not be recognised in the accounts under current pre-IFRS rules until the position matures or is terminated.

A summary of our gross borrowings is:

| | Principal £m | Interest rate % | Terminating |
|---|---|---|---|
| Fixed to termination | 45 | 6.3 | 2006-32 |
| Hedged by swap contracts | 347 | 6.3 | 2006-14 |
| Hedged by financial caps | 265 | 5.6 | 2006-09 |
| Variable/fixed under one year | 264 | 5.4 | 2006-14 |
| Total debt | 921 | 5.9 | |
| Less: cash | (53) | | |
| Net debt | 868 | | |

The group also maintains a range of borrowing maturities to enable it to balance continuity of funding with flexibility. At 30 September 2005 the average duration of the group debt was 5.1 years (2004: 6.4 years).

### International Financial Reporting Standards (IFRS)

IFRS are mandatory for the main UK listed companies for accounting periods ending on or after 31 December 2005 and so will affect Grainger's financial statements for the first time next year. As with most property companies, we expect the main changes will arise in the areas of deferred taxation, financial instruments, valuation movements and treatment of goodwill. In particular, the FRS13 adjustment and part of the contingent tax adjustment we currently make to NAV to arrive at NNNAV will form a part of the statutory balance sheet. The difference between NAV and NNNAV will therefore represent the contingent tax on the uplift of trading properties from book value to market value. We anticipate that, along with other companies with significant investment property assets, our income and expenditure account will become more volatile as valuation surpluses and deficits will be recognised therein. In line with other FTSE companies, we will announce the restatement of prior year figures and the qualitative impacts on our accounts prior to our half year in March 2006.

It is likely that the introduction of IFRS will have an impact on our disclosed net asset value. In common with many property companies, our borrowing powers, as set out in our Articles of Association, are based upon a multiple of our adjusted net asset value. For this reason we are seeking to amend the multiple in our Articles of Association at our Annual General Meeting to be held on 2 March 2006.

**Andrew Cunningham**
Deputy chief executive and finance director

20 December 2005

Prince William

Grainger were a main sponsor of The Tall Ships Races in July.

# corporatesocialresponsibility

We seek to conduct our business in a socially responsible manner at all times

Calendar girls

We raised over £10,000 for Shelter by producing and selling a 'Calendar girls' calendar.

In 2005, we commissioned a comprehensive external review to ensure that our CSR strategy continues to address those issues that bear most relevance to our unique business.

Our strategic advisers, have conducted a review of our key impact areas and undertook structured interviews with a wide range of stakeholders. This has resulted in a reformulation of our CSR policy statement and long-term CSR objectives to better reflect the most significant economic, social and environmental issues for our business.

## CSR Policy statement

Grainger Trust plc is the UK's largest quoted residential property investor owning over 12,000 units. As such, we manage residential and commercial space as well as undertaking residential and mixed use developments. We recognise that our activities can have an adverse impact on the natural environment through the consumption of resources and the generation of waste and pollution, and we seek to reduce this as far as possible. We also strive to address the economic and social impacts that we have in relation to our key stakeholders, including investors, employees, tenants and customers, local communities and suppliers.

We view compliance with relevant environmental and social legislation as a minimum standard, and seek to perform in line with good practice standards of relevance to our industry. Our goal is to continually improve our economic, environmental and social performance, which we achieve by setting meaningful objectives and targets, and reviewing these on a regular basis. We believe that transparency and accountability should underpin our CSR commitments, so we will report publicly on our management and performance in this area. We are also committed to engaging into dialogue with our stakeholders, and enabling them to influence our approach to CSR.

This policy was last reviewed and updated in October 2005. It is accompanied by a set of strategic CSR objectives, which reflect our most significant areas of responsibility.

**Rupert Dickinson** Chief executive officer

20 December 2005

## CSR objectives

The implementation of the company's CSR policy will achieve the following strategic objectives:

- Encourage staff to contribute to, and share in, the success of the company through their own ideas and ongoing professional development, whilst supporting them to maintain a healthy balance between home and work commitments.
- Ensure that we treat our tenants and customers fairly, and that we are responsive to their needs.
- Reduce our direct adverse environmental impacts, and help and encourage our tenants and customers to do the same in respect of the properties they occupy.
- Seek to understand the needs of the communities within which we operate, and positively contribute to their well-being.
- Safeguard the health, safety and welfare of our employees, tenants, contractors, visitors, clients and the general public, where they may be affected by our activities.
- Engage proactively with prioritised suppliers to ensure that they meet with our specified economic, social and environmental standards.
- Maintain high standards of business conduct, and secure long-term sustainable returns for our investors.

Here we describe our approach to these objectives, including current progress and our targets for the year ahead.

## Encourage staff to contribute to, and share in, the success of the company through their own ideas and ongoing professional development, whilst supporting them to maintain a healthy balance between home and work commitments.

We recognise that the people we employ are more valuable than the assets which we own. Our corporate culture is one of celebrating success, and encouraging entrepreneurialism, allowing employees the freedom to use their initiative whilst giving them the support they need to grow and develop in their careers.

We take all necessary steps to ensure that our people management practises are effective and fair and processes are designed to ensure that we do not discriminate. We have comprehensive equal opportunities and harassment policies, and we will continue to work in the coming year to embed these across our business.

Staff remuneration is regularly reviewed and was compared during 2005 against independent industry benchmarks. We offer staff an extensive range of benefits including private medical, pension, share saving schemes and generous maternity benefits. It is important to the Grainger management team that all employees feel valued and supported for the role which they play in the company's success.

Grainger has a dedicated HR Development Manager who carries out an annual training needs analysis across the group. This ensures that our training programmes effectively meet the needs of individuals and teams within the business. We offer work placements to students and staff can apply for sponsorship to study for professional qualifications and other educational programmes. Over the last year, 31 employees undertook professional education. Overall, the average annual number of training days per employee is three, an investment of £671 per head. We continually evaluate the effectiveness of training provided, and during 2005, 87% of staff felt their performance had improved as a result of training.

We encourage a healthy balance between work and other commitments and have frequent staff social activities. We are open to requests for flexible working which enabled over half of our part-time workers (8%) to alter their working pattern to suit both their needs and those of the business.

Our current staff turnover rate is 10.4% per annum with 30% of employees having five or more years' service. Our current male to female ratio is 4:5, with women holding 23.5% of senior management positions and 16% of the technical or professional positions.

**Targets 2006**

- Continue to develop and embed our intranet, Source, into the business.
- Participate in the Times 100 Best Companies to Work For 2006 survey and use the resulting information to identify areas for improvement in employee satisfaction as measured in the subsequent year's survey.

Training and development

Housing Ombudsman Service Member

**Housing Ombudsman Service**

We are pleased to have become a voluntary member of the Housing Ombudsman Service. We are only the second private landlord to have joined the scheme which is obligatory to Housing Associations.

**The Tenants Guide**

## Ensure that we treat our tenants and customers fairly, and that we are responsive to their needs.

As a large residential landlord, our tenants play a pivotal role in our success. We seek to deliver high standards of service by being responsive to our tenants' needs. Our credit control team are able to provide information and advice should our tenants find themselves in financial difficulties with their rent. We recognise the diversity across our tenant base and have introduced a variety of payment methods (including direct debits, swipe cards at Post Offices and cheques) for their improved convenience.

To acknowledge that we may not always be able to resolve differences of opinion with our customers we have joined the Housing Ombudsman scheme which provides an independent forum for dispute resolution at no cost to our tenants.

Our equity release customers are reassured by our membership of Safe Home Income Plans (SHIP) which provides a code of practice which members must adhere to.

As a responsible landlord we try to ensure that repairs are carried out promptly and thoroughly. Our dedicated Repair Line enables tenants to directly contact a member of the property management team to report any maintenance issue whilst also providing emergency cover when our offices are closed. Our long-term approach and regular property visits enable us to build relationships with tenants and to develop strategies that enhance the value of our assets, while improving the quality of housing stock.

**Targets 2006**

- Roll out the 'Warm Front' initiative to all eligible regulated tenants in UK.
- Launch Tenants Guide packs for our regulated and ground rent tenants in the UK, including a Tenants' Charter.
- Monitor our performance against KPIs including the percentage of rent collected, market-let void periods, number of formal complaints and analysis of tenant exit interviews.
- Extend the tailor-made e-learning training programme to all property managers to help them in making decisions that balance business needs with those of tenants.

## Reduce our direct adverse environmental impacts, and help and encourage our tenants and customers to do the same in respect of the properties they occupy.

We recognise that people's homes are fundamental components of a sustainable community and we are committed to ensuring that our developments and services contribute to social well-being. Our growing portfolio of developments provides a significant opportunity to integrate these values and we aim to exploit the full potential of contemporary design to embed sustainability principles into new neighbourhoods.

This involves undertaking Environmental Impact Assessments (EIAs), remediation works for regeneration projects, incorporating green spaces on brownfield land development, and often exceeding UK Building Regulations on environmental standards achieved such as water and energy efficiency.

We can not always quantify the environmental impact of our core housing stock due to its age and construction. Energy efficiency and waste management issues are determined by our tenants' own activities and willingness to implement environmental good practice. However, we try to engage with our tenants to encourage them to employ more efficient practices.

### Case Study: Warm Front Initiative

Under the Warm Front Initiative, a significant proportion of our tenants may be entitled to Government grants to fund improved heating and insulation within their homes. We were keen to introduce our tenants to the scheme, and offer our assistance in applying for the grants. Following a positive response to an initial group of tenants, we plan to roll this out across our regulated portfolio.

To further support this initiative, we will help certain tenants who are not eligible for assistance under the scheme. This is one way in which we do help our tenants to improve their quality of life by tackling fuel poverty, improving energy efficiency and simultaneously increasing the value of our properties.

Where properties have been sold and we retain some management responsibilities, we liaise with local planning authorities to provide recycling services where schemes exist.

Equally we encourage staff to adopt environmentally friendly practices by providing office waste recycling schemes where possible, and by purchasing environmentally preferable stationery and products.

**Targets 2006**

- Develop and launch an environmental policy statement for our development activities, and distribute this widely internally and to external stakeholders.
- Provide guidance to prospective purchasers to assist them in managing their homes efficiently and reducing their environmental footprint.
- Undertake a cost benefit analysis of achieving an EcoHomes rating of Good or Very Good on all of our new development projects.
- Identify meaningful measures of our environmental performance and monitor our performance against these.

Environmental impact

## Corporate social responsibility continued


Supporting Shelter

Supporting Open House

### Seek to understand the needs of the communities within which we operate, and positively contribute to their well-being.

We have introduced several initiatives to ensure we act as a responsible corporate citizen.

Since 2004, Shelter has been our Charity of the Year in recognition of the synergy between our business and their charitable objectives. In 2005, we raised £30,764 through a series of imaginative initiatives and the involvement of over 180 Grainger staff.

We also continue to support Open House through a range of activities, including the co-sponsoring of 'Archikids' Explorers Pack available free to children during the open house weekend. We will continue to support Open House in 2006.

*'The marvelous support of Grainger Trust has enabled thousands of young people to encounter exemplary architecture through Junior Open House Awards and the ArchiKids Explorer Packs. Both have a common theme – they encourage innovative ideas, nurture young people's creativity and enable them to contemplate the future development of London's built environment.*

*Grainger Trust is a forward-looking sponsor who has been a delight to work with. The hands-on contributions of staff during the Open House London Annual Event were a testament to the Grainger Trust's commitment to enriching the city and its communities.*

*We look forward to continuing this fruitful relationship.'*

**Victoria Thornton**, founding director

We have raised a total of £47,000 for various Charities including Comic Relief, Macmillan Cancer Relief and Land Aid.

In the North East we participate in the Newcastle Employment Bond, sponsored by business and community leaders, which has helped to create several hundred jobs and assist many people into work.

We also sponsored the Tall Ships Races when they visited Newcastle Gateshead quayside in July. Our sponsorship activities also enabled youngsters from a Northumberland community group to have a private tour of the Prince William.

Our residential properties are geographically scattered, however, where we own a number of properties within one neighbourhood, we aim to participate in local events and community forums.

We recognise that our development activities can have an impact on local residents and other stakeholders. We use a variety of methods to invite their feedback and address any potential conflicts before they arise. Incorporating their views into our proposals significantly enhances the prospective success of our planning applications, and contributes to creating a more sustainable community.

Case Study: Regeneration Model for Smiths Dock Given Public View

A model of our proposals for a new urban village on the Smiths Dock area in North Shields was put on public display in North Shields Library for over three weeks. We presented our proposals to a number of resident groups from the local area at meetings.

*'The feedback we received from our meeting with the local resident groups last week was very informative and has helped us to further formulate our plans. Overall they were very positive towards our proposals!'*

Ann Johnson, Land and Regeneration manager at Grainger

Smiths Dock

During construction, we seek minimum disruption to the community. We generally operate the Considerate Constructor Scheme and liaise closely with community representatives and local residents. We have a prompt and transparent approach when dealing with any issues or concerns.

We also try to ensure that our development activities bring associated economic benefits to local communities through regeneration and employment. We will typically employ local labour on development projects, whether or not this is a formal requirement under Section 106 planning agreements.

Case Study: Hornsey Road Baths and Barnsbury Complex

In Islington, London, we have carried out a consultation with the local Council and local communities, since submitting our detailed planning application in January 2005. We are working closely with our Guinness Trust to ensure that this mixed use and tenure scheme is sustainable.

Our proposals include 351 residential units of which 35% are affordable, a new council office, a theatre and a Sure Start nursery. We were delighted to build a new climbing wall for the local Montem School and contribute towards a new community facility for local young people.

Hornsey Road Baths

**Targets 2006**

- Launch a payroll giving scheme to take advantage of the Government's cash incentives for small and medium-sized enterprises (SMEs).
- Introduce participation in the Considerate Constructor scheme as a standard contractual requirement for construction companies employed on all new development projects.
- Pilot a best practice community consultation technique (e.g. Enquiry by Design or Planning for Real) for one of our regeneration projects.

Health and Safety

## Safeguard the health, safety and welfare of our employees, and where possible that of our tenants, contractors, visitors, clients and the general public.

Health and Safety (herafter H&S) is an essential part of our business operation and it is our responsibility to achieve the highest standards for our staff and those relevant stakeholders. In recognition of this, during 2005 we appointed a H&S Manager to ensure consistent standards across our activities. He is a key member of our H&S committee, chaired by the deputy chief executive and made up of representatives from each division of the business.

In the coming year, we will continue to review our approach to H&S, including training, to ensure it is customised to the specific requirements of our different business areas.

It is essential that our large contractor and supplier base have adequate H&S policies and procedures and that high standards are being maintained. We have developed and issued H&S guidance to all our managing agents and property managers. Given the growth of our development activities, we recognise the particular H&S risks on construction sites. Our intention is to move beyond the review and approval of contractors' H&S policies to monitoring the standards achieved on all of our projects.

We are delighted to report that there were no reportable RIDDOR major injuries involving staff in 2005 and no fatalities on Grainger Homes or Grainger development sites during 2005.

**Targets 2006**

- Undertake a comprehensive review of H&S risks across the different divisions.
- Review and update the H&S guidance issued to managing agents.
- Provide H&S training to all managers in the development division and all property managers.

## Engage proactively with prioritised suppliers to ensure that they meet with our specified economic, social and environmental standards.

We recognise that a number of our suppliers will have an indirect impact on our CSR performance, particularly on our development projects. We consider track record, technical expertise, and business management. However, we also consider H&S and environmental performance, due to the risks these can present on-site. In the year ahead we have more work to do in specifying and monitoring the CSR standards of our suppliers.

Within tenanted residential, the majority of our suppliers are local small-works building and maintenance contractors who have earned our trust through their reliable and speedy response. Prior to appointment, such suppliers are asked to provide necessary documentation, including an adequate H&S policy. Given their size and number, it is particularly challenging to monitor all suppliers consistently for their social and environmental credentials, but this has been targeted for improvement next year.

We receive approximately 5,000 invoices per year, paid on average 30 days after receipt. We have centralised our purchase ledger activities and we are considering the introduction of an electronic invoice tracking and approval system.

**Targets 2006**

- Introduce a new electronic system for the approval and tracking of invoices.
- Launch an approved supplier database for tenanted residential repairs and refurbishments to assist in tracking their CSR performance.
- Identify a set of CSR standards to be included in the standard contracts for construction companies appointed on major new development projects.

## Maintain high standards of business conduct, and secure long-term sustainable returns for our investors.

We strive to meet our investors' expectations regarding corporate governance practices, and continue to make diligent progress towards compliance with the revised Combined Code (2003). All business risks such as reputational, environmental and health and safety are formally evaluated within a risk review matrix according to likelihood of occurrence and potential impact. The audit committee meet quarterly to formulate the company's response to all significant risks.

We keep investors well informed of our strategy through regular meetings, presentations and property tours in order to provide them with a clear understanding of our business.

It is essential that our business is well run, and that staff operate professionally and with integrity at all times. The company's policies and practice guidelines encompass the standards to which we expect all our staff to adhere.

**Targets 2006**

- Develop and launch a Code of Conduct for staff incorporating updated confidential whistle-blowing procedures.
- Develop a policy and training on Money Laundering.

# board members

We have the resources for us to continue as a consistently successful long-term business




1 2 3 4

1 **Robert Dickinson** C.B.E., D.L. Chairman, chairman of Nomination Committee Aged 71, Solicitor

Appointed a director of the company in 1961, and chairman in 1992. Chairman of AON Minet Pension Trust.

2 **Rupert Dickinson** M.R.I.C.S. Chief executive Aged 46, Chartered Surveyor

Joined the company in 1992 from Richard Ellis (now Insignia Richard Ellis). Appointed a director of the company in 1994. Appointed chief executive in October 2002.

3 **Andrew Cunningham** F.C.A. Deputy chief executive and finance director Aged 49, Chartered Accountant.

Joined Deloitte Haskins and Sells in London in 1978 and worked in their Nairobi and Bristol offices before being made a partner in Newcastle in 1989. Appointed a director of the company in December 1996. Appointed deputy chief executive in December 2002.




5 6 7 8

Non-executive directors

4 **Stephen Dickinson** F.C.A. Deputy chairman, member of Nomination Committee Aged 71, Chartered Accountant

In practice in British Virgin Islands 1963-1974. Appointed managing director of the company in 1974. Upon retiring as managing director in October 2002, became deputy chairman. British Virgin Islands representative on United Kingdom Overseas Territories Association 1993-2004.

5 **Robert Hiscox** M.A., A.C.I.I. Member of Nomination and Remuneration Committees Aged 62

Appointed a director of the company in March 2002. Chairman of Hiscox plc. Deputy chairman of Lloyd's 1993 to 1995.

6 **John Barnsley** F.C.A. Chairman of Audit Committee, Member of Remuneration Committee Aged 57, Chartered Accountant.

Appointed a director of the company in February 2002. Non-executive director of Northern Investors Company plc and American Appraisal Associates LLP. Chairman KCS plc 2005. Until December 2001 was a Senior Partner at PricewaterhouseCoopers.

7 **Robin Broadhurst** C.B.E., F.R.I.C.S. Senior independent non-executive director, member of Nomination and Audit Committees Aged 59

Appointed a director of the company in February 2004. Previously European chairman of Jones Lang La Salle. Trustee and director of the Grosvenor Estate, a senior advisor to Credit Suisse First Boston, property consultant to Sir Robert McAlpine Limited, member of the Prince's Council for the Duchy of Cornwall and director of the British Library.

8 **Bill Tudor John** M.A. Chairman of Remuneration Committee, member of Audit Committee Aged 61

Appointed a director of the company in February 2005. Currently a managing director of Lehman Brothers, previously a partner at Allen & Overy LLP for 29 years, serving as senior partner for six years. Also deputy chairman of the Portman Building Society and deputy chairman of the Bank of England Financial Markets Law Committee. An associate fellow of Downing College, Cambridge.

# Corporate governance report

Grainger is, and always has been, committed to high standards of corporate governance. The board believes that good corporate governance is achieved through the way that it acts, and does not necessarily automatically follow from 'ticking boxes'. Where the group departs from the Combined Code 2003 ('the Code'), this has been an active decision taken by the board that the provision is not in the best interests of the group.

As required by the Listing Rules, a statement of how the principles of the Code are applied is given below, along with our formal compliance statement and explanations where the code has not been applied. The main part of this report should be read in conjunction with the individual statements made by the board committees which follow.

### Board Conduct

The board meets regularly, at least four times each year, for the consideration of strategy and to monitor and evaluate the group's performance and prospects. This brings together a wealth and depth of experience ranging from the cautious to the entrepreneurial, suitable to the effective management of the group.

The table below shows the attendance by each director at the board meetings held during the year. Biographical details are given on pages 44 and 45.

| Director | Dec '04 | Jan '05 | Feb '05 | Jun '05 | Sep '05 |
|---|---|---|---|---|---|
| Robert Dickinson | ✓ | ✓ | ✓ | ✓ | ✓ |
| Stephen Dickinson | ✓ | ✓ | ✓ | ✓ | ✓ |
| Rupert Dickinson | ✓ | ✓ | ✓ | ✓ | ✓ |
| Andrew Cunningham | ✓ | ✓ | ✓ | ✓ | ✓ |
| Robin Broadhurst | ✓ | ✓ | ✓ | ✓ | ✓ |
| Robert Hiscox | ✓ | ✓ | ✓ | ✓ | ✓ |
| John Barnsley | ✓ | ✓ | ✓ | ✓ | ✓ |
| Bill Tudor John* | n/a | n/a | n/a | ✓ | ✓ |
| Robin Herbert** | ✓ | ✓ | ✓ | n/a | n/a |
| Nichola Pease** | ✓ | ✓ | ✓ | n/a | n/a |

* appointed after February 05 board meeting
** resigned at February 05 board meeting

In June each year, the board meets for two days to receive presentations from senior management and discuss strategy at length. This ensures that non-executives fully understand and are able to impact the strategy of the group in bringing their respective experiences' to bear.

There is a formal schedule of matters reserved for the Board's Attention which includes:

- Setting the overall strategy
- Approving major transactions
- Setting debt/gearing limits and associated hedging strategy
- Accounting policies

Other tasks which require main board director attention are delegated to the board's committees or to the executives. Committee membership and chairmanship is therefore of the utmost importance to ensure each committee has the necessary skills to properly discharge its duties.

Relevant financial and non-financial information is supplied to directors in a timely manner before each board/committee meeting. Any ad hoc request for information from a director is dealt with as a high priority. The directors have direct access to the services of the company secretary, who reports to the chairman regarding matters of corporate governance. The appointment and removal of the company secretary is a matter for the board as a whole. Procedures also exist for directors to take independent professional advice as required, at the group's expense.

### Roles

Grainger employs a relatively small board, which consisted at the year end of the chairman, deputy chairman, two executives and four non-executive directors. Each non-executive is therefore required to participate in two committees of the board and Robin Broadhurst was appointed the senior independent director on the retirement of Robin Herbert in February 2005.

The roles of chairman and chief executive are very distinct, and a written division of their respective responsibilities has been reviewed and approved by the board as a whole. In brief, the principal differentiating factors are:

| Chairman | Chief executive |
|---|---|
| Reports to the board | Reports to the chairman |
| Only the CEO and company secretary report to him | All executive management report to him, directly or indirectly |
| Responsible for running the board | Responsible for running the business |
| Guardian of the board's decision making | Responsible for implementing the board's decisions |

## Independence

The independence of the non-executive directors is the principal potentially contentious corporate governance issue. The board does not consider that the criteria set out in section A.3.1 of the Combined Code should be taken as automatic failure of a director to be independent. It is their fundamental belief that directors should be assessed robustly as individuals, taking into account their own unique experiences, reputations and competencies along with their mindfulness and willingness to contribute to decisions of the board on the basis of those.

The board itself is in the best position to assess this, given their knowledge and experience of working with the individuals themselves as professionals. The board has therefore, after diligent and careful consideration, assessed the independence of the non-executives as follows:

| Director | Board's determination | Explanatory notes |
|---|---|---|
| **Robert Dickinson**<br>Chairman | Not independent | • close family ties<br>• more than nine years'service |
| **Stephen Dickinson**<br>Deputy Chairman | Not independent | • close family ties<br>• more than nine years' service<br>• previously managing director<br>• part-time executive responsibilities<br>• participation in all employee share schemes |
| **Robin Broadhurst** | Independent | • although previously European chairman at Jones Lang LaSalle, this firm no longer values any of Grainger's properties, so there is no material business relationship under A.3.1<br>• regarded as independent by search consultants used for his appointment |
| **Robert Hiscox** | Independent | • although a trustee for an Estate containing a material shareholding, the board is of the opinion that this position does not interfere with or influence his character or judgement in any way. As chairman of Hiscox plc, and past deputy chairman of Lloyd's, Mr Hiscox brings extensive skills and experience in his own right, which can only be beneficial to Grainger's board |

## Corporate governance report continued

| Director (continued) | Board's determination | Explanatory notes |
|---|---|---|
| **John Barnsley** | Independent | • John Barnsley was not connected with any service provided to Grainger in the period to December 2001, whilst he was a partner at PwC, the group's current auditors. From December 2004, the customary 'three-year period' had in any event elapsed. Mr Barnsley has no continuing personal interests with PwC.<br>• Grainger was as new to Mr Barnsley as Mr Barnsley was to Grainger on appointment |
| **Bill Tudor John**<br>(appointed 24 February 2005) | Independent | • no A.3.1 criteria relevant |
| **Robin Herbert**<br>(resigned 24 February 2005) | Independent | • the board does not consider length of service, on its own,to affect the independence of its directors. Mr Herbert's length of service was considered an asset by fellow directors as he continued to keep apace with the changes and unpredicted growth of Grainger and contribute to all debates with a fresh mind, taking each decision in turn. |
| **Nichola Pease**<br>(resigned 24 February 2005) | Independent | • no A.3.1 criteria relevant. |

The board therefore concluded that it included five independent non-executive directors up until 24 February 2005 and four thereafter, maintaining a majority of independent non-executive directors through the year under review.

### Retirement by Rotation and Re-election

Although board members have been required to stand for re-election at intervals of no more than three years for several years now, the board believes it is important to maintain stability and continuity for longer periods. Principally this is due to the long-term nature of the group's core businesses. The process of purchasing land, negotiating planning and then subsequent development to sale can amount to many years' hard work, where continuity of leadership is a real asset. The board in fact considers itself fortunate to have retained the services of several long-standing directors for extended periods. Along with those directors retiring by rotation, the chairman and deputy chairman will stand for re-election again this year, having passed the age of 70 and having been directors of the company for more than nine years. Their experience of the long-term residential market is invaluable to the group and, whilst they are willing and able, the board considers itself fortunate to benefit from their continued services.

### Induction, Evaluation and Training

During the year, the induction and evaluation processes were both formalised and comprised the following key elements:

| | |
|---|---|
| **Induction:** | • Two 'manuals' of information, delivered separately, containing all board standing policies and procedures, latest risk assessments, market consensus information, committee composition, glossary of industry terms etc.<br>• Meetings with executives and senior management, where presentations were delivered to cover all business areas.<br>• An invitation to join the next available tour of examples of the group's properties. |

| | |
|---|---|
| Evaluation: | • A questionnaire was completed by board members, whereby possible characteristics of a board were rated depending upon whether Grainger's board would always, never or sometimes act in a particular way. This part of the process resulted in an effective self-assessment of the board as a whole.<br>• The chairman formally interviewed each director, with an agenda of items covering board, committee and individual director evaluation. Results of the individual meetings are held only by the chairman and company secretary so that directors are encouraged to be open and free with their views. Particular topics for discussion were tabled due to their importance to Grainger either currently or in the near future.<br>• The non-executives, led by Robin Broadhurst (the senior independent director) met to evaluate the chairman. They assessed the leadership capabilities of the chairman against commonly accepted attributes of an effective chairman, taking into account the views of the executives.<br>• Feedback was discussed by the board as a whole. There were no comments regarding individuals required to be made, which would have been made directly by the chairman to the individual concerned.<br>• As a result, the board decided that its main priority should be to spend more time discussing strategy. This was not to be to the detriment of its monitoring role, so additional informal strategy discussions have begun to take place. Ultimately, decisions will still be made at formal board meetings.<br>• No other significant areas for development were highlighted, although some interesting matters were raised prompting further debate. |

Should the need for any further training be identified, this would be provided to directors on appointment or thereafter.

The board is provided with technical updates relating to the property industry and the listed company regime, as appropriate.

## Relations with Shareholders and Potential Investors

The chief executive and deputy chief executive/finance director meet regularly with institutional shareholders and analysts. In addition to the usual meetings after results announcements, ad hoc meetings are arranged to continue dialogue throughout the year. In particular, during the year under review, the group's chief executive and deputy chief executive/finance director have, between them, conducted over 80 meetings with shareholders, potential investors and analysts. Further, the executives, senior management and the group's broker conducted two property tours during the year predominantly for shareholders. Feedback gathered by the group's broker and financial PR agent following such meetings and presentations is always presented to the board as a whole and the board is briefed on the views of major shareholders. Non-executive directors are available for meetings with the same, although there have been no requests for such meetings in the year under review, or since the year end.

The annual general meeting is the primary route for communication with smaller/private shareholders, although the group's website also includes a specific Investor Relations section and has been significantly developed in the current year. All directors attend the annual general meeting, and the chairmen of all committees are available to answer questions. The notice of meeting and annual report and accounts are sent out at least 20 working days before the meeting. Separate votes are held for each proposed resolution, including the approval of the remuneration committee report, and a proxy count is given in each case after the voting on a show of hands. At the Annual General Meeting in February 2005, Grainger introduced a 'vote withheld' category, in line with best practice. Shareholders were also able to lodge their votes through the CREST system.

## Internal Control

The group has a cyclical process for identifying, assessing and managing its significant risks, which has been in place for the full year under review and in the period up to the date of approval of these financial statements. The process is designed to enable the board to be confident that such risks are mitigated, or controlled as far as possible. It should be noted however that no system can eliminate the risk of

## Corporate governance report continued

failure to achieve business objectives entirely and can only provide reasonable and not absolute assurance against material misstatement or loss. The audit committee is delegated the task of reviewing all identified risks, with the absolute key risks retained for full board review. Risks and controls are reviewed to ensure effective management of appropriate strategic, financial, operational and compliance issues. The audit committee also reviews the half year and full year financial statements and holds discussions with the group's auditors. In addition, the group has an internal audit function which performs relevant reviews as part of a programme approved by the audit committee. The committee considers any issues or risks arising therefrom in order that appropriate actions can be undertaken for their satisfactory resolution. The Internal Audit Manager has a direct reporting line to the chairman of the audit committee.

An annual budget is produced, together with longer term projections, which are presented to the board for approval. At each meeting the board discusses progress against the budget and monitors any variances. Where applicable, revisions are made to expected outturn against which further progress can be monitored.

The board also discusses in detail the projected financial impact of major proposed acquisitions and disposals, including their financing. All such proposed substantial investments are considered by all directors. Where meetings are required between board meetings and a full complement of directors cannot be achieved, an executive committee of directors considers the necessary formalities. The board is also responsible for the discussion and approval of the group's treasury strategy, including mitigation against changes in interest rates.

### Going Concern

After making enquiries, including the review of future anticipated cash flows and banking covenants, the directors have a reasonable expectation that the group and company have adequate resources to continue in existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

### Compliance Statement

Independence of non-executive directors is explained in detail above. In the board's view it is their assessment of independence which determines compliance with the Code and therefore no non-compliance on grounds of independence has been recorded.

Except as noted below, the board considers that it has complied with the Code during the year ended 30 September 2005:

A.1.3 No formal meetings were held by the chairman with the non-executives, without the executives present. The board decided however at its September 2005 meeting that although not anticipated to be of significant value this could not be seen to be against the best interests of the company and have resolved to hold at least one such meeting during the next financial year.

B.1.6 As explained in detail in the Directors' Remuneration Report, Rupert Dickinson and Andrew Cunningham currently hold service contracts with notice periods in excess of one year. The notice periods are being reduced from two years to one year on a straight line basis over a period of five years from 1 October 2002. At the date of this report the notice period outstanding stood at approximately 16 months.

### Report of the Nomination Committee

The nomination committee consists of the chairman and two non-executive directors. The committee last met in September 2004 and the attendance of individual directors together with their dates of service on the committee are shown below:

| | Sep '04 |
|---|---|
| **Robert Dickinson**<br>Chairman | ✓ |
| **Robert Hiscox**<br>Member | ✓ |
| **Robin Broadhurst**<br>Member (appointed 24 Feb 2005) | n/a |
| **Robin Herbert**<br>Member (resigned 24 Feb 2005) | ✓ |
| **Nichola Pease**<br>Member (resigned 24 Feb 2005) | ✓ |

The terms of reference of the nomination committee are available on the group's website and principally relate to filling vacancies on the board, whether arising through resignation, retirement or desired expansion and also consideration of succession planning.

The committee has appointed Spencer Stuart, specialist search agents, in order to make any independent non-executive appointments. The nomination committee first discuss with the board the desirable background and experience of any new non-executive, and then approach the agency with this information.

The nomination committee is also responsible for reviewing the desirability of the continuation of service of directors required to retire by rotation. In this regard each of the directors required to retire by rotation this year has continued to demonstrate full, capable and committed participation in setting and monitoring strategy for the group. Details of those directors standing for re-election in the March 2006 annual general meeting are given in the Annual General Meeting circular to be sent out with copies of the Annual Report and Accounts. Biographies of directors are given on pages 44 and 45. During the year, all matters relating to the work of the nomination committee were discussed by the full board and therefore no separate meetings were held.

### Report of the Audit Committee

The audit committee meets four times each year, ahead of each board meeting, reporting any relevant matters to the board where fit. Attendance of the individual directors and dates of service on the committee are shown below. In the opinion of the directors, the audit committee comprised three independent non-executive directors throughout the period, and Mr Barnsley has the particular recent, relevant financial experience required by the Code.

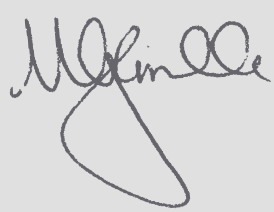
| | Nov '04 | Feb '05 | May '05 | Sep '05 |
|---|---|---|---|---|
| **John Barnsley**<br>Chairman | ✓ | ✓ | ✓ | ✓ |
| **Robin Broadhurst**<br>Member | ✓ | ✗* | ✓ | ✓ |
| **Bill Tudor John**<br>Member (appointed 24 Feb 2005) | n/a | n/a | ✓ | ✓ |
| **Robin Herbert**<br>Member (resigned 24 Feb 2005) | ✓ | ✓ | n/a | n/a |

* Due to unforeseen circumstances the meeting date had to be changed and Mr Broadhurst was unable to attend. Mr Broadhurst received the committee papers as normal, and discussed his views with Mr Barnsley prior to the meeting.

The audit committee adheres to particularly strict and detailed terms of reference, which are available for inspection on the group's website. In addition to the work described within the 'Internal Control' section of the main report above, the audit committee is also responsible for reviewing the independence of the external auditor, which includes the approval of any non-audit service fees above a relatively nominal level. The audit committee is responsible for making recommendations to the board in connection with the appointment of the external auditor and the level of the audit fee.

The deputy chief executive/finance director and external audit partner as well as other senior management are invited to attend meetings of the committee. Once each year the audit committee meet with management without the auditors present and also with the auditors without management present.

By order of the board



**Marie Glanville**
Company Secretary
20 December 2005

# Report of the remuneration committee

This report meets the disclosure requirements of the Companies Act and the Listing Rules and in accordance with usual practice will be put to shareholders for approval at the Annual General Meeting.

PricewaterhouseCoopers LLP have audited the directors' remuneration, pensions, share option and long-term incentive schemes sections of this report ('the auditable part').

## The Remuneration Committee

The composition and attendance of the individual directors at the three remuneration committee meetings held during the year were as follows:

| | Dec '04 | Jun '05 | Sep '05 |
|---|---|---|---|
| **Robert Hiscox** | | | |
| Member | ✓ | ✗ | ✗ |
| Chairman (24 Feb 2005 – 15 Sept 2005) | n/a | ✓ | ✓ |
| **John Barnsley** | | | |
| Member | ✓ | ✓ | ✓ |
| **Bill Tudor John** | | | |
| Member (appointed 24 Feb 2005) | n/a | ✓ | ✓ |
| Chairman (appointed 15 Sept 2005) | n/a | n/a | n/a |
| **Nichola Pease** | | | |
| Chairman (resigned 24 Feb 2005) | ✓ | n/a | n/a |

In the opinion of the directors the committee therefore comprised three independent non-executives throughout the year. Certain shareholder pressure groups raised concerns that Mr Hiscox, as trustee of an estate containing a material shareholding, should not be regarded as independent. Although this is robustly not the view of Grainger's board, it reluctantly accepted that Mr Hiscox should remain as a member only. The board appointed Mr Tudor John as chairman of the committee, at the end of its 15 September meeting.

The committee appointed and received advice during the year from New Bridge Street Consultants LLP ('NBSC') regarding the competitiveness of overall packages for the executive directors and on the group's incentive schemes. NBSC also provided updates on Grainger's performance in relation to the long-term incentive schemes.

Over the last three years, the committee has also received advice from Mercers, in particular in relation to the design of the long-term incentive plan, which was approved by shareholders in March 2002. The committee continue to keep the terms of this scheme in particular under review given the seemingly constantly changing 'best practice' guidelines. The first award made under the current rules of this scheme will vest in January 2006.

The Committee has also received advice from the group's HR Manager, who was invited to attend remuneration committee meetings when appropriate.

The committee's terms of reference are available on the group's website.

## Remuneration Policy

Grainger's remuneration policy is designed to attract, motivate and retain high calibre individuals to enable the group to operate strategically for the continued benefit of shareholders, over the long term. In order to operate this policy, the Remuneration Committee receives information on remuneration packages awarded to directors in comparable organisations and aims to ensure that the rewards paid by Grainger are competitive.

The policy is also designed to align the directors' interests with those of shareholders. This is principally achieved through the use of share-based incentives and by encouraging executive directors to maintain a reasonable shareholding in the group. Details of executive directors' shareholdings are shown on page 59. Share awards are generally satisfied by the acquisition of shares in the market, so are not dilutive to shareholders. Share options are satisfied by the issue of new share capital.

Remuneration packages include salary, bonus and defined contribution pension elements as well as long-term share incentive and option schemes. Usual benefits are also afforded.

No executive director is involved in the determination of their own remuneration. Fees of the non-executive directors, which are set partly under consideration of their committee responsibilities, are determined by the Board as a whole.

The salaries and bonuses of Senior management are determined by the executive directors and reviewed by the remuneration committee. Senior management also participate in the long-term incentive scheme described below and the level of their participation is included in the tables on page 54. Usual benefits are also afforded to these individuals.

Service Contracts

| | Contract date | Unexpired term* | Notice period |
|---|---|---|---|
| Rupert Dickinson | 19 July 1996 | No fixed term | 16 months |
| Andrew Cunningham | 26 July 2000 | No fixed term | 16 months |
| Robert Dickinson | 17 July 1998 | 10 months | None |
| Stephen Dickinson | 28 February 2000 | 5 months | None |
| Robin Broadhurst | 26 February 2004 | 5 months | None |
| John Barnsley | 27 February 2003 | 5 months | None |
| Robert Hiscox | 6 March 2002 | 5 months | None |
| Bill Tudor John | 24 February 2005 | 5 months | None |

* Calculated as at 30 September 2005 and rounded to the nearest whole month.

As noted previously, Rupert Dickinson and Andrew Cunningham each hold service contracts with notice periods decreasing on a straight line basis from two years to one year, over a period of five years which began on 1 October 2002. At the date of this report therefore the notice periods have been reduced to approximately 16 months. Their contracts were dated 19 July 1996 and 26 July 2000 respectively. Sean Slade held a contract with a twelve month notice period, which was dated 22 January 2002.

Apart from salary and benefits in relation to the notice period described above, there are no other terms in any of the directors' contracts which would give rise to compensation payable for early termination, or any other liability of the company.

No executive director holds a non-executive directorship outside of the group.

Each non-executive director has specific terms of reference. Their letters of appointment state an initial one-year period, with a continuation subject to review at that time. The letters of appointment contain no entitlement to compensation for early termination.

## Non-Performance Related Remuneration

### Basic Salaries and Benefits

Basic salaries are reviewed by the remuneration committee annually. Uplifts are by reference to cost of living, responsibilities and market rates, as for all employees and are performed at the same time of year. Executive directors and the deputy chairman, Stephen Dickinson, who has part-time executive responsibilities, specifically including land and regeneration, along with other senior members of staff, received a fully expensed company car, or a car allowance. Along with all members of staff, executive directors also benefit from private medical and life insurances.

The chairman's and non-executive directors' fees are reviewed on a biennial basis by the whole board.

### Pensions

The group contributes 15% of basic salary to the money purchase pension schemes of Rupert Dickinson and Andrew Cunningham, and contributed 10% to that of Sean Slade. No other elements of remuneration are pensionable.

### Share schemes open to all Employees

Executive directors, and Stephen Dickinson, deputy chairman, are eligible to participate in two share schemes which are open to all employees with relevant service, subject to the rules of the schemes.

The first is a Save as you Earn scheme (SAYE), and the second a Share Incentive Plan (SIP). Both are Inland Revenue approved and therefore subject to the limits prescribed.

Amounts relating to directors' participation in the SIP and share options under the SAYE scheme are shown on pages 56 and 57.

## Performance Related Remuneration

A significant element of executive directors' and senior management's potential remuneration is performance related. The combination of short and long-term incentives attempt to align the interests of executives and senior management with the interests of shareholders, and to reward significant outperformance of budgeted expectations.

Non-executive directors do not receive performance related remuneration.

# Report of the remuneration committee continued

## Annual Discretionary Bonus

Each year the remuneration committee considers the award of a bonus to the executive directors, which is at their ultimate discretion. The chief and deputy chief executives, Rupert Dickinson and Andrew Cunningham participate in an arrangement introduced in 2003 whereby the provisional bonus is calculated over a three-year period, by reference to the enhancement of the triple net asset value of Grainger, relative to a theoretical market comparator. The comparator movement is calculated with regard to the Nationwide and Halifax house price indices and also interest rates – using five-year swap rates. Bonuses remain capped at 150% of salary which would only be achieved under exceptional performance conditions. Subject always to the Committee's discretion, one third of the calculated amount is approved for payment and the provisional balance is taken into account over the next two years. The award payable for the year ended 30 September 2005 represents 63% of salary for that year (2004: 61%).

## Long-term Incentives

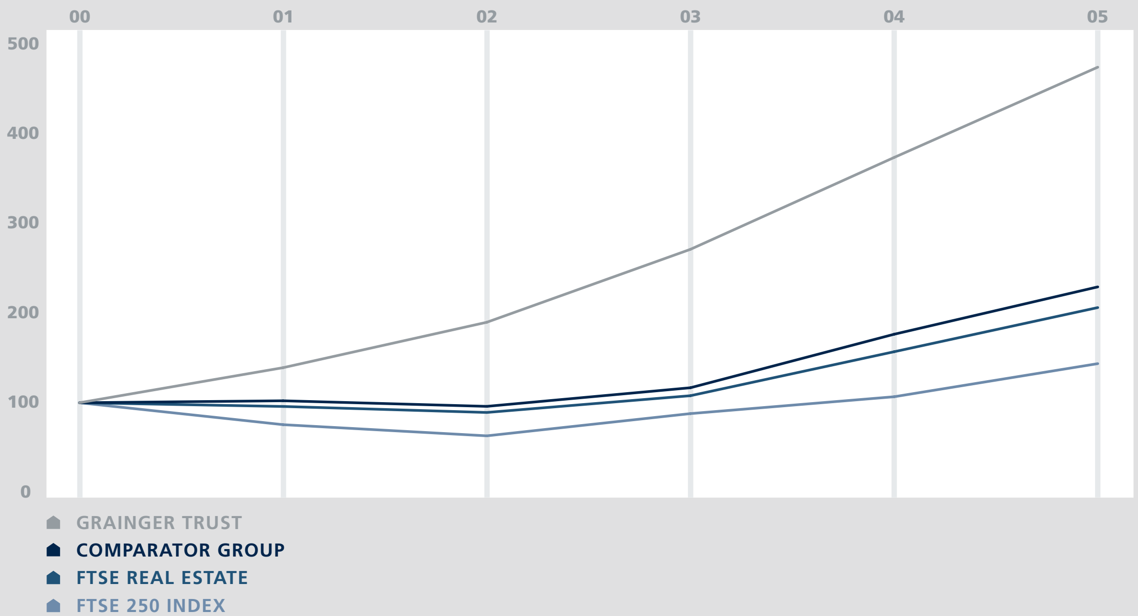
Grainger's policy in relation to long-term incentive schemes has evolved over time to more closely align the long-term interests of executives and senior management with those of shareholders, to reward sustained performance over a number of financial years and to encourage the executives to grow their shareholdings.

Executive directors and senior management are eligible to receive annual conditional awards of shares worth up to 50% of salary under the Long-Term Incentive Scheme and of share options up to a maximum of 125% of salary under the Executive Share Option Scheme. The awards under both schemes become unconditional provided challenging performance criteria are satisfied over a single three-year performance period following grant. The criteria for all awards granted since March 2002 have been based on Total Shareholder Return (TSR) – dependent upon where Grainger's TSR lies with respect to a pre-determined comparator group as follows:

| Comparator Companies: | Performance Condition | Vesting of Option |
|---|---|---|
| Brixton plc | | |
| Capital and Regional plc | If Grainger's TSR is equal to or greater than the | |
| CLS Holdings plc | upper quartile TSR of the comparator companies | 100% |
| Daejan Holdings plc | | |
| Derwent Valley Holdings plc | If Grainger's TSR is above the median but below the | |
| Freeport plc | upper quartile TSR of the comparator companies | Pro-rata vesting |
| Great Portland Estates plc | | |
| London Merchant Securities plc | If Grainger's TSR is equal to the median TSR of the | |
| Minerva plc | comparator companies | 40% |
| Mountview Estates plc | | |
| Pillar Property plc | If Grainger's TSR is below the median TSR of the | |
| (until it was de-listed on 29 July 2005) | comparator companies | 0% |
| Quintain Estates and Development plc | | |
| Shaftesbury plc | | |
| The Unite Group plc | | |

As shown in the table above, no award vests unless Grainger's TSR is higher than the median TSR of the comparator group.

Total shareholder return graph




These performance criteria are believed to be stretching, but realistic and reward executives if Grainger's return to shareholders outperforms this group of companies operating in broadly similar markets.

The graph above shows TSR (based upon share price growth with dividends reinvested) for Grainger, compared to the comparator group, the FTSE 250 and the FTSE Real Estate Index. These comparators have been chosen on the basis that they are the markets within which Grainger operates.

The original comparator group was established in 2002 with fourteen companies, two of which have since been taken over. To maintain a reasonable size for the group and to prevent it having to be regularly modified for such changes, the Remuneration Committee has decided that it should be expanded with effect from the awards to be made in January 2006 and that the following will be included:

| | |
|---|---|
| Workspace Group plc | Warner Estate Holdings plc |
| Big Yellow Group plc | A & J Mucklow Group plc |
| Mapeley Limited | St Modwen Properties plc |
| | Helical Bar plc |

## Report of the remuneration committee continued

The following parts of the remuneration committee report have been audited.

### Directors' Remuneration

| Chairman, deputy chairman and executive directors | Robert Dickinson £'000 | Stephen Dickinson £'000 | Rupert Dickinson £'000 | Andrew Cunning-ham £'000 | Sean Slade £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Non-performance related remuneration** | | | | | | |
| Salary and fees | 108 | 142 | 420 | 315 | 13 | 998 |
| Taxable benefits | – | 17 | 21 | 16 | 2 | 56 |
| Share incentive plan | – | 6 | 6 | 6 | 1 | 19 |
| Compensation for loss of office | – | – | – | – | 221 | 221 |
| Ex-gratia payment | – | – | – | – | 30 | 30 |
| **Total non-performance related remuneration** | 108 | 165 | 447 | 337 | 267 | 1,324 |
| **Performance related remuneration** | | | | | | |
| Annual discretionary bonus | – | – | 267 | 198 | – | 465 |
| **Total Performance related remuneration** | – | – | 267 | 198 | – | 465 |
| **Total Remuneration for the year ended 30 September 2005** | **108** | **165** | **714** | **535** | **267** | **1,789** |
| Total Remuneration for the year ended 30 September 2004 | 90 | 146 | 678 | 506 | 215 | 1,635 |
| **Pension contributions into money purchase schemes** | | | | | | |
| **Year ended 30 September 2005** | **–** | **–** | **63** | **47** | **2** | **112** |
| Year ended 30 September 2004 | – | – | 60 | 45 | 16 | 121 |

| Non- executive directors | Robin Broadhurst £'000 | John Barnsley £'000 | Robert Hiscox £'000 | John Ward £'000 | Bill Tudor John £'000 | Robin Herbert £'000 | Nichola Pease £'000 | Total £'000 | **Total 2005 £'000** |
|---|---|---|---|---|---|---|---|---|---|
| **Non-performance related remuneration** | | | | | | | | | |
| Salary and fees | 34 | 38 | 34 | – | 18 | 15 | 15 | 154 | **1,152** |
| Taxable benefits | – | – | – | – | – | – | – | – | **56** |
| Share incentive plan | – | – | – | – | – | – | – | – | **19** |
| Compensation for loss of office | – | – | – | – | – | – | – | – | **221** |
| Ex-gratia payment | – | – | – | – | – | – | – | – | **30** |
| **Total non-performance related remuneration** | 34 | 38 | 34 | – | 18 | 15 | 15 | 154 | **1,478** |
| **Performance related remuneration** | | | | | | | | | |
| Annual discretionary bonus | – | – | – | – | – | – | – | – | **465** |
| **Total Performance related remuneration** | – | – | – | – | – | – | – | – | **465** |
| **Total Remuneration for the year ended 30 September 2005** | **34** | **38** | **34** | **–** | **18** | **15** | **15** | **154** | **1,943** |
| Total Remuneration for the year ended 30 September 2004 | 15 | 28 | 25 | 12 | – | 30 | 30 | 140 | **1,775** |

Taxable benefits for Stephen Dickinson, Rupert Dickinson, Andrew Cunningham and Sean Slade relate to car benefit and private medical insurance. In addition, Stephen Dickinson and Rupert Dickinson received a taxable fuel benefit.

On 24 February 2005, Bill Tudor John was appointed as a director. This followed Robin Herbert's and Nichola Pease's resignations of the same date. In the previous year, Robin Broadhurst was appointed on 26 February 2004, following John Ward's resignation of the same date. Sean Slade resigned from the board on 12 November 2004.

### Directors' Share Options

| *5p ordinary shares (thousands)* | | Stephen Dickinson | | Rupert Dickinson | | Andrew Cunningham | | Sean Slade | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Dates Exercisable | Exercise price 5p shares | **30 Sep 2005** | 30 Sep 2004 | **30 Sep 2005** | 30 Sep 2004 | **30 Sep 2005** | 30 Sep 2004 | **30 Sep 2005** | 30 Sep 2004 | **30 Sep 2005** | 30 Sep 2004 |
| **Non-performance related** (available to all staff) | | | | | | | | | | | |
| SAYE scheme | | | | | | | | | | | |
| 8 Aug 07 – 8 Feb 08 | 163.6p | **–** | – | **10** | 10 | **10** | 10 | **–** | 10 | **20** | 30 |
| 1 Sep 08 – 1 Mar 09 | 186.46p | **9** | 9 | **–** | – | **–** | – | **–** | – | **9** | 9 |
| **Performance related** (conditional awards) | | | | | | | | | | | |
| Inland Revenue Approved Executive Share Option Scheme | | | | | | | | | | | |
| 19 Jul 99 – 19 Jul 06 | 58.4p | **–** | – | **–** | – | **–** | – | **–** | 51 | **–** | 51 |
| 23 Dec 99 – 23 Dec 06 | 68.5p | **–** | – | **–** | – | **44** | 44 | **–** | – | **44** | 44 |
| Long-Term Incentive Scheme | | | | | | | | | | | |
| 9 Jul 00 – 9 Jul 07 | 53.42p | **–** | – | **64** | 64 | **37** | 37 | **–** | 39 | **101** | 140 |
| 24 Jan 06 – 24 Jan 13 | 191.8p | **–** | – | **196** | 196 | **143** | 143 | **38** | 98 | **377** | 437 |
| 12 Jan 07 – 12 Jan 14 | 326.4p | **–** | – | **153** | 153 | **115** | 115 | **–** | 61 | **268** | 329 |
| 11 Jan 08 – 11 Jan 15 | 381.8p | **–** | – | **138*** | – | **103*** | – | **–** | – | **241*** | – |
| | | **9** | 9 | **561** | 423 | **452** | 349 | **38** | 259 | **1,060** | 1,040 |

* Share options granted in the year.

Note that the each 25p Ordinary Share was split into five 5p ordinary shares in February 2005. All share options shown above are based on 5p ordinary shares including the comparatives which have been restated accordingly.

The market price of the company's shares at the end of the financial year was £4.56, and the range during the year was £3.18 to £4.57 (as adjusted for the share split in February 2005).

The current long-term incentive scheme replaced the old Executive Share Option Scheme, however some options granted under this scheme are still in existence and are disclosed above. Exercise is conditional upon a growth in earnings per share in excess of the retail price index over a period of three consecutive years during the period of the option.

# Report of the remuneration committee continued

## Directors' Share Awards

| *5p ordinary shares (thousands)* | Award date | Earliest vesting date | Rupert Dickinson Shares 30 Sep 2005 | Rupert Dickinson Shares 30 Sep 2004 | Andrew Cunningham Shares 30 Sep 2005 | Andrew Cunningham Shares 30 Sep 2004 | Sean Slade Shares 30 Sep 2005 | Sean Slade Shares 30 Sep 2004 | Total Shares 30 Sep 2005 | Total Shares 30 Sep 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Performance related (conditional awards)** | | | | | | | | | | |
| Long-Term Incentive Scheme | | | | | | | | | | |
| 1999 scheme (matching awards) | | 5 Dec 05 | **52** | 52 | **45** | 45 | **–** | 20 | **97** | 117 |
| 2002 scheme | 24 Jan 03 | 24 Jan 06 | **78** | 78 | **57** | 57 | **–** | 39 | **135** | 174 |
| 2003 scheme | 12 Jan 04 | 12 Jan 07 | **61** | 61 | **46** | 46 | **–** | 25 | **107** | 132 |
| 2004 scheme | 11 Jan 05 | 11 Jan 08 | **55*** | – | **41*** | – | **–** | – | **96*** | – |
| | | | **246** | 191 | **189** | 148 | **–** | 84 | **435** | 423 |

* Share options granted in the year.

The above share awards expire 60 days after the earliest vesting date.

### Deferred Bonus

As reported fully in previous years, Rupert Dickinson and Andrew Cunningham participate in a one-off deferred bonus scheme as detailed below:

| | Original monetary amount | Equivalent number of shares, based on average share price 1 Oct 00 – 30 Sep 01 (£1.4264) 5p Shares | First tranche – vested 11 Dec 03 (mid-market value £3.15) 5p Shares | Second tranche – to vest in Dec 05 following results announcement* 5p Shares |
|---|---|---|---|---|
| Rupert Dickinson | £600,000 | 420,650 | 210,325 | 210,325 |
| Andrew Cunningham | £300,000 | 210,320 | 105,160 | 105,160 |

* Providing still in full time employment and not under notice to leave.

Sean Slade announced his resignation on 12 November 2004. The remuneration committee awarded him 15,055 shares and 37,635 options under current long-term incentive schemes. Sean exercised these options in October 2005 making a gain of £93,147. These awards took into account the time elapsed since the grant of the awards and the performance of the group as required by the rules of the scheme. All other share awards and share options under current long-term incentive schemes lapsed.

Sean also received 13,275 shares relating to the matching award which would have vested in December 2005. Just prior to resignation he exercised 51,365 approved share options making a gain of £142,076 and he retained 38,560 options which were exercised in May 2005 making a gain of £124,772.

Sean's share options under the SAYE scheme lapsed on his leaving the company. All of the share awards and share options shown in the tables and notes above are based on 5p ordinary shares including the comparatives which have been restated accordingly.

On behalf of the board

**Bill Tudor John**
Chairman of the Remuneration Committee
20 December 2005

# Directors' report for the year ended 30 September 2005.

The directors present their report and the audited financial statements for the year ended 30 September 2005.

### Principal activities

During the year the group has continued its activities of property trading and development.

### Review of business development and prospects

Development of the group's activities and its prospects are reviewed in the chairman's statement on pages 18 and 19 and the chief executive's statement on pages 20 to 24.

### Results for the year

The results of the group are set out in the consolidated profit and loss account on page 66 which shows a profit on ordinary activities after taxation for the financial year of £26.5m (2004: £33.0m).

An interim dividend of 1.70p per share (2004: 0.81p) was paid on 22 July 2005 amounting to £2.2m (2004: £1.0m) and the directors recommend the payment of a final dividend of 3.41p per share (2004: 3.84p), to be paid on 8 March 2006, amounting to £4.4m (2004: £4.7m). The profit, after dividend, of £19.9m (2004: £27.3m) will be transferred to reserves.

### Directors

The directors of the company who served during the year are listed on page 56.

### Directors' and other interests

The interests of the directors in the shares of the company at 30 September 2005 and 6 December 2005, with comparative figures as at 1 October 2004 (or date of appointment, if later), are as follows:

| | Ordinary shares of 5p each (thousands) | | | | | |
|---|---|---|---|---|---|---|
| | Beneficial | | | Non-beneficial | | |
| | 1 Oct* 2004 | 30 Sept 2005 | 6 Dec 2005 | 1 Oct* 2004 | 30 Sept 2005 | 6 Dec 2005 |
| Robert Dickinson | 1,008 | **958** | 958 | 2,286 | **2,102** | 2,102 |
| Stephen Dickinson | 3,856 | **3,758** | 3,758 | 2,705 | **2,436** | 2,436 |
| Rupert Dickinson | 1,246 | **1,248** | 1,248 | 214 | **212** | 212 |
| Robin Broadhurst | – | **–** | – | – | **–** | – |
| Andrew Cunningham | 371 | **371** | 372 | – | **–** | – |
| John Barnsley | 14 | **14** | 14 | – | **–** | – |
| Robert Hiscox | – | **–** | 10 | 12,500 | **10,227** | 10,227 |
| Bill Tudor John** | – | **–** | – | – | **–** | – |
| | 6,495 | **6,349** | 6,360 | 17,705 | **14,977** | 14,977 |

* or date of appointment, if later

** Bill Tudor John was appointed on 24 February 2005.

Shares held in trust of which Robert Dickinson is a trustee, included in the above beneficially owned by:

| | Ordinary shares of 5p each (thousands) | | | | | |
|---|---|---|---|---|---|---|
| | Beneficial | | | Non-beneficial | | |
| | 1 Oct* 2004 | 30 Sept 2005 | 6 Dec 2005 | 1 Oct* 2004 | 30 Sept 2005 | 6 Dec 2005 |
| Stephen Dickinson | 5 | **–** | – | – | **–** | – |
| Rupert Dickinson | 5 | **–** | – | – | **–** | – |
| Andrew Cunningham | 5 | **–** | – | – | **–** | – |

* or date of appointment, if later

All of the shareholdings shown above and in the tables on page 60 are based on 5p ordinary shares including the comparatives which have been restated accordingly.

## Directors' report continued

Shares held in trust of which Robert Dickinson and Stephen Dickinson are both trustees, included in the above non-beneficial holdings:

| | Ordinary shares of 5p each (thousands) | | | | | |
|---|---|---|---|---|---|---|
| | Beneficial | | | Non-beneficial | | |
| | 1 Oct 2004 | **30 Sept 2005** | 6 Dec 2005 | 1 Oct 2004 | **30 Sept 2005** | 6 Dec 2005 |
| | – | **–** | – | 69 | **–** | – |

Details of directors' share options are given on page 57.

Save as disclosed above, as at 6 December 2005, the company is aware of the following interests amounting to 3% or more in the company's shares:

| | 5p shares (thousands) | Holding % |
|---|---|---|
| Schroder Investment Management Limited* | 9,221 | 7.13 |
| Taube Hodson and Stonex Partners Limited* | 7,787 | 6.02 |
| Aberforth Partners* | 6,566 | 5.07 |
| F&C Asset Management Plc* | 5,316 | 4.11 |
| Morley Fund Management Limited* | 4,552 | 3.52 |
| Majedie Asset Management* | 4,203 | 3.25 |

* Shares held by funds managed or advised by the company indicated and/or its subsidiaries.

The company is not aware of any other substantial interests amounting to 3% or more.

### Retirement of directors

On 12 November 2004 Sean Slade resigned from the Board. Robin Herbert and Nichola Pease resigned from the board on 24 February 2005.

### Directors' interests in significant contracts

No directors were materially interested in any contract of significance.

### Insurance of directors

The group maintains insurance for Grainger Trust plc's directors in respect of their duties as director.

### Statement of directors' responsibilities

The directors are required by UK Company law to prepare financial statements for each financial year that give a true and fair view of the affairs of the company and the group as at the end of the financial year and of the profit and loss of the group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 30 September 2005. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and of the group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Acquisitions

On 15 April 2005 the company acquired City North Group plc, an AIM listed company. A group company also acquired a 50% stake in Grainger Geninvest LLP in June 2005. Full details of these and other minor acquisitions are given in notes 11 and 26 to the accounts.

### Creditor payment policy

It is the group's policy to pay suppliers in accordance with their normal terms and conditions of trading. Payment in respect of the purchase of property is subject to and will comply with contractual terms. Trade creditors existing at 30 September 2005 relating to purchases of property stock generally complete 28 days after exchange of contracts. Trade creditor days relating to other trade creditors of the company and group were calculated as 30 days (2004: 30 days).

### Charitable donations

During the year the group made charitable donations amounting to £42,234 (2004: £25,455).

### Health and safety

The company seeks to achieve the highest standards in respect of health and safety of employees, and the safety of tenants. Consultants are employed to ensure that the company complies with health and safety regulations and each year the gas supply and appliances within all of the group's relevant residential properties are independently inspected under the Gas Safety (Installation and Use) Amended Regulations 1996 and certificates of compliance issued. This year the group has also created and filled a new permanent position of Health and Safety Manager.

### Employment of disabled persons

The company gives full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities. In the event of an employee becoming disabled every effort is made to ensure that their employment within the company continues and that appropriate training is arranged where necessary.
It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

### Employee involvement

The group places considerable value on the involvement of its employees and has continued its practice of keeping them informed on matters affecting them as employees, for example, eligibility to join company share schemes, and on the various factors affecting the performance of the group. Communication is made using the intranet, 'The Source', and through regular meetings with, and presentations by senior management.

### Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors to the company and group. A resolution to reappoint them as auditors to the company will be proposed at the next Annual General Meeting.

### Issue of shares

As disclosed in Note 20 to the financial statements, the company issued 5,319,374 ordinary shares during the year based on 5p ordinary shares, for consideration of £20,456,391.

By order of the Board

**Marie Glanville**
Company Secretary
20 December 2005

# Independent auditors' report to the members of Grainger Trust plc

We have audited the financial statements which comprise the statement of accounting policies, the consolidated profit and loss account, the statement of group total recognised gains and losses, note of group historical cost profits and losses, balance sheets, the consolidated cash flow statement, and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the remuneration committee report ('the auditable part').

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the remuneration committee report.

Our responsibility is to audit the financial statements and the auditable part of the remuneration committee report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the remuneration committee report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises all sections up to and including the chairman's statement, the chief executive's statement, the operating and financial review, the corporate governance report, the directors' report, the corporate social responsibility report and the unaudited part of the remuneration committee report.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risk and control procedures.

The maintenance and integrity of the Grainger Trust plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the remuneration committee report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the remuneration committee report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the auditable part of the remuneration committee report.

### Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group at 30 September 2005 and of the profit and cash flows of the group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the remuneration committee report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered accountants and registered auditors
Newcastle upon Tyne
20 December 2005

# Statement of accounting policies

A summary of the principal accounting policies is set out below. The policies have been applied consistently in all material respects throughout the current and the previous year.

## Accounting convention

The group prepares its annual financial statements on the historical cost basis of accounting, as modified by the revaluation of investment properties and in accordance with the Companies Act 1985 and applicable UK accounting standards.

## Basis of consolidation

The group financial statements comprise the consolidated financial statements of the company and its subsidiaries. The financial statements of subsidiary companies are made up to 30 September.

The results of subsidiaries sold or acquired are included in the consolidated profit and loss account up to, or from, the date control passes. Intra-group sales and profits are eliminated fully on consolidation. On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their provisional fair values reflecting their condition at that date.

Goodwill arising on consolidation represents the difference between the fair value of the consideration paid and the fair value of the identifiable assets acquired. Goodwill arising on the acquisition of subsidiaries prior to 30 September 1998 was eliminated or credited immediately against reserves and will be transferred to the profit and loss account on subsequent disposal of the business to which it relates. Goodwill arising subsequent to that date is shown in the balance sheet under fixed assets. Positive goodwill is amortised through the profit and loss account over its estimated useful economic life. Negative goodwill is amortised through the profit and loss account over the period in which the non-monetary assets are realised either through depreciation or sale.

## Turnover

Turnover comprises gross sale proceeds of trading properties and developments, gross rentals, commissions and sundry other income, and is exclusive of VAT. Sales of land and properties are only recognised when the cash proceeds are received in full or the group has entered into a legally binding undertaking. Gross rentals and commissions are recognised as they fall due.

## Joint ventures

In compliance with FRS9, the group accounts for joint ventures under the gross equity method. Under this method, the group's share of the Joint Venture's turnover and profits and losses are separately disclosed in the group's profit and loss account. The group's share of the gross assets and gross liabilities, together with goodwill, is shown on the face of the balance sheet. The group's statement of total recognised gains and losses includes its share of the Joint Venture's total recognised gains and losses.

## Repairs and improvements

Repairs are charged in the year they are incurred. Improvement costs are capitalised.

## Pensions

Contributions to defined contribution schemes are charged to the profit and loss account in the year to which they relate.

The Bromley Property Holdings Limited group currently contributes to a defined benefits scheme, which was closed to new members and employee contributions in 2003. Funding requirements are assessed with the advice of an independent qualified actuary. Actuarial valuations are carried out every three years. The group will continue to contribute so as to spread the cost over the expected remaining life of the relevant employees. The transitional disclosure requirements of FRSI7, 'Retirement Benefits', are given in note 27 to the financial statements.

## Tangible fixed assets

The cost of fixed assets is their purchase cost, together with any incremental costs of acquisition.

In accordance with SSAP 19, (i) investment properties are revalued annually and the aggregate surplus or temporary deficit is transferred to a revaluation reserve, and (ii) no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run. Permanent diminutions in value below cost are charged in the profit and loss account. The requirement of the Companies Act 1985 is to depreciate all properties, but that requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider that to depreciate such properties would not give a true and fair view, as the properties are not held for consumption but for investment, and that a true and fair view is given by following SSAP 19 as described above. The effect of depreciation and amortisation on value is already reflected annually in the valuation of properties, and the amount attributed to this factor by the valuers cannot reasonably be separately identified or quantified. Had the provisions of the Act been followed, net assets would not have been affected but profits would have been reduced for this and earlier years.

Investment properties are revalued every year by our in-house Chartered Surveyors and the valuations are reviewed and approved by the directors. The basis of valuation is explained in note 10 to the financial statements.

Depreciation is calculated so as to write off the cost of tangible fixed assets (excluding investment properties), less their estimated residual values, over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

| | % | Method |
|---|---|---|
| Fixtures, fittings and equipment | 20 | Straight line |

### Investments

Investments in subsidiaries and other investments are included in the financial statements at cost less provisions for permanent diminution of value.

### Stocks

Tenanted residential properties are shown in the financial statements at the lower of cost to the group and net realisable value. Cost to the group includes legal and surveying charges incurred during acquisition together with improvement costs. Net realisable value is the net sale proceeds which the group expects on sale of a property with vacant possession.

Development and trading properties are shown in the financial statements at the lower of cost to the group and net realisable value. Cost represents the acquisition price together with subsequent development costs net of amounts transferred to cost of sales. Net realisable value is the current market value which the group expects to receive on sale net of associated selling costs.

### Derivative financial instruments

The group uses derivative financial instruments to reduce exposure to interest rate movements. The group does not hold or issue derivative financial instruments for speculative purposes.

For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

### Deferred taxation

Deferred tax is measured at the rate expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all evidence available, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred taxation is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on the sale has been recognised in the financial statements.

### Share schemes

The group operates a long-term incentive plan and a deferred bonus scheme. In accordance with UITF17 ‘Employee share schemes’, the costs are expensed on a straight-line basis over the period in which performance is measured. The amount to be expensed is based upon an estimate of the probability that the performance criteria will be met. Shares in the company are held by The Grainger Trust Employee Trustee Company Limited to meet the group’s obligations under these schemes. The assets, income and costs of this trustee company are included in these financial statements.

### Loan issue costs

Costs incurred in raising loan finance are capitalised and set off against the outstanding debt in the balance sheet. The costs are charged to profit and loss account on a straight line basis over the term of the facility.

## Consolidated profit and loss account

| For the year ended 30 September 2005 | notes | 2005 £m | 2004 £m |
|---|---|---|---|
| **Turnover (including share of joint ventures)** | 1 | 226.9 | 217.4 |
| Less: share of turnover of joint ventures and associates | | (0.6) | – |
| Group turnover | | 226.3 | 217.4 |
| Gross rentals | | 45.5 | 41.0 |
| Trading profits | | 74.8 | 72.6 |
| Other income | | 2.9 | 9.8 |
| | | 123.2 | 123.4 |
| Less: | | | |
| Property expenses | | (24.3) | (22.7) |
| Administrative expenses | | (9.4) | (7.5) |
| Operating profit – group and share of joint ventures and associates | | 89.5 | 93.2 |
| Net profit on disposal of and provisions against fixed assets | | | |
| – Group | 2 | 2.1 | 6.5 |
| **Profit on ordinary activities before interest** | | 91.6 | 99.7 |
| Net interest payable and similar charges | | | |
| – Group normal | | (49.1) | (40.1) |
| – Group exceptional | 3, 4 | – | (5.4) |
| – Joint venture | 3 | (0.4) | – |
| | 3 | (49.5) | (45.5) |
| **Profit on ordinary activities before taxation** | 1, 5 | 42.1 | 54.2 |
| Tax on profit on ordinary activities | 7 | (15.6) | (21.2) |
| **Profit on ordinary activities after taxation** | | 26.5 | 33.0 |
| Dividends | 8 | (6.6) | (5.7) |
| **Retained profit for the year** | 21 | 19.9 | 27.3 |
| **Basic earnings per share** | 9 | 21.2p | 26.8p |
| **Diluted earnings per share** | 9 | 20.9p | 26.7p |
| **Basic earnings per share before exceptional item** | 9 | 21.2p | 29.9p |

All results relate to continuing operations.

## Statement of group total recognised gains and losses

| For the year ended 30 September 2005 | notes | 2005 £m | 2004 £m |
|---|---|---|---|
| Profit on ordinary activities attributable to shareholders | | **26.5** | 33.0 |
| Taxation on realisation of property revaluation gains of previous years | 7 | **–** | (0.4) |
| Unrealised surplus on revaluation of properties | 10, 21 | **5.4** | 4.3 |
| Total gains and losses recognised since the last annual report | | **31.9** | 36.9 |

## Note of group historical cost profits and losses

| For the year ended 30 September 2005 | notes | 2005 £m | 2004 £m |
|---|---|---|---|
| Reported profit on ordinary activities before taxation | | **42.1** | 54.2 |
| Realisation of property revaluation gains of previous years | 21 | **1.6** | 5.1 |
| Historical cost profit on ordinary activities before taxation | | **43.7** | 59.3 |
| Taxation | | **(15.6)** | (21.6) |
| Dividends | | **(6.6)** | (5.7) |
| Retained historical cost profit for the year | | **21.5** | 32.0 |

## Balance sheets

| At 30 September 2005 | notes | Group 2005 £m | Group 2004 £m | Company 2005 £m | Company 2004 £m |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 12 | (81.3) | (84.8) | – | – |
| Tangible assets | 10 | 224.4 | 106.7 | 0.7 | 0.6 |
| Investments | 11 | 15.4 | 10.3 | 140.9 | 91.3 |
| Investments in joint ventures | 11 | | | | |
| Share of gross assets | | 44.7 | – | – | – |
| Share of gross liabilities | | (28.3) | – | – | – |
| Goodwill | | 1.5 | – | – | – |
| | | 17.9 | – | – | – |
| Investments in associates | 11 | 0.1 | – | – | – |
| | | 33.4 | 10.3 | 140.9 | 91.3 |
| | | 176.5 | 32.2 | 141.6 | 91.9 |
| **Current assets** | | | | | |
| Stocks | 14 | 961.5 | 918.6 | – | – |
| Debtors | 15 | 12.9 | 10.6 | 52.5 | 146.4 |
| Cash at bank and in hand | 16 | 53.3 | 53.8 | 1.7 | 0.7 |
| | | 1,027.7 | 983.0 | 54.2 | 147.1 |
| **Creditors: amounts falling due within one year** | 17 | (76.2) | (109.0) | (7.6) | (71.8) |
| **Net current assets** | | 951.5 | 874.0 | 46.6 | 75.3 |
| **Total assets less current liabilities** | | 1,128.0 | 906.2 | 188.2 | 167.2 |
| **Creditors: amounts falling due after more than one year** | 17 | (895.9) | (717.9) | – | – |
| **Provisions for liabilities and charges** | 19 | (8.5) | (10.4) | – | – |
| **Net assets** | | 223.6 | 177.9 | 188.2 | 167.2 |
| **Capital and reserves** | | | | | |
| Called-up equity share capital | 20 | 6.5 | 6.2 | 6.5 | 6.2 |
| Share premium account | 21 | 21.6 | 21.5 | 21.6 | 21.5 |
| Revaluation reserve | 21 | 17.7 | 13.9 | – | – |
| Merger reserve | 21 | 20.1 | – | – | – |
| Capital redemption reserve | 21 | 0.2 | 0.2 | 0.2 | 0.2 |
| Profit and loss account | 21 | 157.5 | 136.1 | 159.9 | 139.3 |
| **Equity shareholders' funds** | 22 | 223.6 | 177.9 | 188.2 | 167.2 |

The financial statements on pages 64 to 94 were approved by the board of directors on 20 December 2005 and were signed on their behalf by:

**Rupert Dickinson**
Director

**Andrew Cunningham**
Director

# Consolidated cash flow statement

| For the year ended 30 September 2005 | notes | 2005 £m | 2004 £m |
|---|---|---|---|
| **Net cash inflow from operating activities** | 25 | 19.3 | 56.7 |
| **Returns on investments and servicing of finance** | | | |
| Interest received | | 2.2 | 3.3 |
| Interest paid – normal | | (49.9) | (42.2) |
| – exceptional | | – | (5.4) |
| Dividends received | | 0.1 | 0.2 |
| | | (47.6) | (44.1) |
| **Taxation** | | | |
| UK Corporation tax paid | | (16.6) | (24.1) |
| **Capital expenditure and financial investment** | | | |
| Purchase of fixed asset investments | | (8.4) | (4.5) |
| Purchase of tangible fixed assets | | (18.8) | (29.8) |
| Sale of fixed asset investments | | – | 1.2 |
| Sale of tangible fixed assets | | 13.3 | 41.1 |
| | | (13.9) | 8.0 |
| **Acquisitions and disposals** | | | |
| Purchase of subsidiaries | 26 | (39.8) | (2.3) |
| Costs on purchase of subsidiaries | 26 | (1.5) | – |
| (Overdraft)/cash acquired on purchase of subsidiaries | 26 | (0.3) | 0.2 |
| Investments in associates and joint ventures | 11 | (11.1) | – |
| | | (52.7) | (2.1) |
| **Equity dividends paid** | | (6.9) | (4.2) |
| **Cash outflow before financing** | | (118.4) | (9.8) |
| **Financing** | | | |
| New loans raised | 24 | 170.0 | 726.1 |
| Repayment of loans | 24 | (52.2) | (743.7) |
| Purchase of shares | | – | (0.6) |
| Issue of shares | 21 | 0.1 | 0.1 |
| **Net cash inflow/(outflow) from financing** | | 117.9 | (18.1) |
| **Decrease in cash in the year** | 23, 24 | (0.5) | (27.9) |

# Notes to the financial statements

## 1 Segmental analysis by class of business

The analysis by class of business of the group's turnover, profit before taxation, and net assets is set out below:

### Turnover and profit before taxation

| | 2005 Turnover £m | 2005 Profit before taxation £m | 2004 Turnover £m | 2004 Profit before taxation £m |
|---|---|---|---|---|
| Class of business | | | | |
| Continuing operations | | | | |
| Tenanted residential | 171.4 | 81.2 | 157.5 | 76.1 |
| Development and trading | 54.9 | 10.4 | 59.9 | 23.6 |
| | 226.3 | 91.6 | 217.4 | 99.7 |
| Joint ventures and associates | 0.6 | – | – | – |
| | 226.9 | 91.6 | 217.4 | 99.7 |
| Net interest payable – group | – | (49.1) | – | (45.5) |
| Net interest payable – joint venture | – | (0.4) | – | – |
| | 226.9 | 42.1 | 217.4 | 54.2 |

The Joint Venture activities encompass both Tenanted residential and Development and trading.

### Net assets

| | Net assets | | Adjusted net assets* | |
|---|---|---|---|---|
| | 2005 £m | 2004 £m | 2005 £m | 2004 £m |
| Class of business | | | | |
| Continuing operations | | | | |
| Tenanted residential | 181.8 | 148.0 | 659.1 | 623.6 |
| Development and trading | 41.8 | 29.9 | 63.2 | 54.7 |
| | 223.6 | 177.9 | 722.3 | 678.3 |

* Adjusted net assets represent balance sheet net assets plus the excess of market value over book cost of trading stock as valued on the same basis as disclosed in note 10, plus the market value of other investments, net of minority interest. Adjusted net assets exclude any provision for contingent taxation. Turnover between segments is immaterial.

### Analysis by geographical area

Group turnover relates solely to operations carried out within the United Kingdom.

## 2 Net profit on disposal of and provisions against fixed assets

| | 2005 £m | 2004 £m |
|---|---|---|
| **Group** | | |
| Profit on disposal of investment properties | 2.1 | 6.5 |

## 3 Net interest payable and similar charges

| | 2005 £m | 2004 £m |
|---|---|---|
| **Group** | | |
| Bank loans and overdrafts | 49.3 | 38.4 |
| Debentures and other loans | 1.5 | 2.7 |
| Other interest costs | 0.8 | 2.5 |
| | 51.6 | 43.6 |
| Less: | | |
| Income from listed fixed asset investments | (0.3) | (0.2) |
| Interest receivable | (2.2) | (3.3) |
| | 49.1 | 40.1 |
| Exceptional item: | | |
| Cost of redemption of loans and debenture stock (note 4) | – | 5.4 |
| | 49.1 | 45.5 |
| **Joint venture** | | |
| Bank loans and overdrafts | 0.4 | – |
| Group and joint venture | 49.5 | 45.5 |

All interest payable is charged to the profit and loss account. No interest has been capitalised in this or prior periods.

# Notes to the financial statements continued

## 4 Exceptional item

| | 2005 £m | 2004 £m |
|---|---|---|
| Cost of early redemption of loans and debenture stock | – | 5.4 |

The exceptional item in 2004 was paid in cash during the course of that year and represented the premium paid upon early redemption of quoted debentures and penalties on the early repayment of loans.

## 5 Profit on ordinary activities before taxation

| | 2005 £m | 2004 £m |
|---|---|---|
| **Profit on ordinary activities before taxation is stated after charging:** | | |
| Depreciation of owned tangible fixed assets | **0.4** | 0.4 |
| Auditors' remuneration (including expenses) | | |
| (Company £6,000 (2004: £6,000)) | **0.1** | 0.1 |
| Write off of goodwill on acquisition of associates | **0.4** | – |
| **And after crediting:** | | |
| Amortisation of negative goodwill | **5.9** | 7.6 |

Remuneration of the company's auditors for the provision of non-audit services to the company and its UK subsidiary undertakings was £169,000 (2004: £61,000). Of this £101,000 (2004: £34,000) related to tax advisory services, £54,000 related to the acquisition of City North Group plc and £14,000 to other services.

## 6 Directors and employees

| | 2005 £m | 2004 £m |
|---|---|---|
| Staff costs (including executive directors) during the year: | | |
| Wages and salaries | **8.6** | 7.5 |
| Social security costs | **1.1** | 1.1 |
| Other pension costs (see note 27) | **0.7** | 0.9 |
| Cost of employee share schemes | **0.6** | 1.3 |
| | **11.0** | 10.8 |

The average weekly number of persons employed by the group during the year (including executive directors) was 188 (2004: 164). All employees were involved in the management and/or administration of the group. Details of directors' remuneration (including pensions), directors' share options and interests in the long-term incentive plan are provided in the remuneration committee report on pages 56 to 58.

The company contributed to defined contribution schemes for three directors during the year (2004: three directors).

## 7 Taxation

| | 2005 £m | 2004 £m |
|---|---|---|
| **Analysis of charge in year** | | |
| Current tax: | | |
| **Group** | | |
| UK corporation tax on profits for the period | 17.9 | 20.8 |
| Adjustments in respect of prior periods | – | (0.6) |
| Transferred to appropriate reserve (see below) | – | (0.4) |
| Total current tax | 17.9 | 19.8 |
| Deferred tax: | | |
| Origination and reversal of timing differences | | |
| Group | 0.7 | 1.4 |
| Adjustments in respect of prior periods | (3.0) | – |
| Total deferred tax | (2.3) | 1.4 |
| Tax on profit on ordinary activities | 15.6 | 21.2 |

The group allocates the tax arising on the sale of investment properties between the profit and loss account and the appropriate reserve to match the accounting treatment of the gain arising. Tax attributable to the exceptional interest charges in 2004 was a credit of £1.6m.

### Factors affecting the tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%).

The differences are explained below:

| | 2005 £m | 2004 £m |
|---|---|---|
| Profit on ordinary activities before tax | 42.1 | 54.2 |
| Profit on ordinary activities before tax at a rate of 30% | 12.6 | 16.3 |
| Expenses not deductible for tax purposes | 0.4 | 0.6 |
| Effect of negative goodwill written back | (1.8) | (2.3) |
| Tax on fair values released on sales | 7.4 | 7.2 |
| Effect of timing differences | (0.7) | (0.5) |
| Difference between tax and accounting profit on disposals | – | (0.9) |
| Adjustments in respect of prior periods | – | (0.6) |
| Total current tax | 17.9 | 19.8 |

### Factors that may affect future tax charges

No provisions for deferred tax have been made on gains which would become payable if the group's investment properties were sold at their year end values. The estimate of unprovided deferred tax is £23.6m (2004: £15.9m).

# Notes to the financial statements continued

## 7 Taxation continued

FRS19 prohibits the making of provisions for contingent tax liabilities on the fair value of properties on the acquisition of companies. It had previously been industry practice to make partial provision for such liabilities as part of the fair value exercise on acquisition. Thus there is a greater tax charge on property sales where there is no brought forward contingent tax provision available to be utilised in its reduction.

The total contingent tax to the group on the difference between original cost and carrying value of trading properties not provided at 30 September 2005 is £76.9m (2004: £83.3m).

## 8 Dividends

| | 2005 £m | 2004 £m |
|---|---|---|
| Dividends on equity shares: | | |
| Ordinary – interim paid of 1.7p per share (2004: 0.81p per share) | 2.2 | 1.0 |
| Ordinary – final proposed of 3.41p per share (2004: 3.84p per share) | 4.4 | 4.7 |
| | 6.6 | 5.7 |

## 9 Earnings per share

The calculation of basic, diluted and adjusted earnings per share is based on the following earnings and number of shares:

| | Year ended 30 September 2005 | | | Year ended 30 September 2004 | | |
|---|---|---|---|---|---|---|
| | Profit for the year £m | Weighted average number of shares (thousands) | Earnings per share pence | Profit for the year £m | Weighted average number of shares (thousands) | Earnings per share pence |
| **Basic earnings per share** | | | | | | |
| Profit attributable to shareholders | 26.5 | 125,077 | 21.2 | 33.0 | 122,815 | 26.8 |
| Exceptional item (note 4) less tax | – | – | – | 3.8 | – | 3.1 |
| Adjusted earnings | 26.5 | 125,077 | 21.2 | 36.8 | 122,815 | 29.9 |
| **Effect of dilutive securities** | | | | | | |
| Options and shares | – | 1,770 | (0.3) | – | 720 | (0.1) |
| **Diluted earnings per share** | | | | | | |
| Profit attributable to shareholders | 26.5 | 126,847 | 20.9 | 33.0 | 123,535 | 26.7 |
| Exceptional item (note 4) less tax | – | – | – | 3.8 | – | 3.1 |
| Adjusted earnings | 26.5 | 126,847 | 20.9 | 36.8 | 123,535 | 29.8 |

The adjusted earnings per share is presented as, in the opinion of the directors, it gives a better picture of the underlying performance of the business.

The company completed a five for one share split on 25 February 2005. As such, the weighted average number of shares and earnings per share above, including the comparatives which have been restated, are based on 5p ordinary shares rather than 25p ordinary shares.

## 10 Tangible fixed assets

| | Investment properties £m | Group fixtures, fittings and equipment £m | Total £m | Company fixtures, fittings and equipment £m |
|---|---|---|---|---|
| Cost or valuation | | | | |
| At 1 October 2004 | 105.4 | 2.2 | 107.6 | 1.2 |
| Surplus on revaluation | 5.4 | – | 5.4 | – |
| Acquisition of subsidiary | 110.8 | – | 110.8 | – |
| Additions | 17.8 | 1.0 | 18.8 | 0.3 |
| Disposals | (11.9) | – | (11.9) | – |
| Transfers to investment in joint ventures | (5.0) | – | (5.0) | – |
| **At 30 September 2005** | **222.5** | **3.2** | **225.7** | **1.5** |
| Depreciation | | | | |
| At 1 October 2004 | – | 0.9 | 0.9 | 0.6 |
| Charge for year | – | 0.4 | 0.4 | 0.2 |
| Released on disposals | – | – | – | – |
| **At 30 September 2005** | **–** | **1.3** | **1.3** | **0.8** |
| Net book value | | | | |
| **At 30 September 2005** | **222.5** | **1.9** | **224.4** | **0.7** |
| At 30 September 2004 | 105.4 | 1.3 | 106.7 | 0.6 |

Group investment properties were revalued at their open market value at 30 September 2005 by our in-house Chartered Surveyors and the valuations were reviewed and approved by the directors. A structured sample of the in-house valuations has also been reviewed by Allsop & Co., Chartered Surveyors, independent of the company. Based on the results of that review, Allsop & Co. have concluded that they have a high degree of confidence in those valuations. These represent estimates of the open market value of the properties subject to the tenancies then existing.

The net book value of investment properties comprises:

| | Group 2005 £m | Group 2004 £m |
|---|---|---|
| Freehold | **211.7** | 97.7 |
| Long leasehold | **10.8** | 7.7 |
| Net book value | **222.5** | 105.4 |

If investment properties had not been revalued, they would have been included at the following amounts:

| | Group 2005 £m | Group 2004 £m |
|---|---|---|
| Net book value | **214.3** | 101.0 |

# Notes to the financial statements continued

## 11 Fixed asset investments

| | Group | | | | Company | | |
|---|---|---|---|---|---|---|---|
| | Investment in joint ventures £m | Investment in associates £m | Other investments £m | Total £m | Investment in subsidiaries £m | Other investments £m | Total £m |
| Cost | | | | | | | |
| At 1 October 2004 | – | – | 10.3 | 10.3 | 84.3 | 7.0 | 91.3 |
| Additions – net assets | 8.5 | 1.1 | 8.4 | 18.0 | 41.2 | 8.4 | 49.6 |
| – goodwill | 1.5 | – | – | 1.5 | – | – | – |
| Transfers | 3.3 | – | (3.3) | – | | | |
| Transferred from investment properties | 5.0 | – | – | 5.0 | – | – | – |
| Write off of investment | – | (0.9) | – | (0.9) | – | – | – |
| Share of losses | (0.4) | (0.1) | – | (0.5) | – | – | – |
| **At 30 September 2005** | **17.9** | **0.1** | **15.4** | **33.4** | **125.5** | **15.4** | **140.9** |

Additions to the company investment in subsidiaries of £41.2m is net of the premium on the shares issued to acquire City North Group plc of £20.1m (see note 21).

Investments in joint ventures relate to an £8.8m investment in Grainger Geninvest LLP in which the group holds a 50% stake, a £5.0m investment in a joint venture with Grange (Prescot Street) Limited in which the group holds a 50% stake and a £4.1m investment in a limited partnership, Regen (NT) LLP to develop Smith Docks in North Tyneside in which the group holds a 33⅓% stake.

| | Group other investments | |
|---|---|---|
| | 2005 £m | 2004 £m |
| Investments at net book value include: | | |
| Investments listed on a recognised stock exchange | **15.4** | 7.0 |
| Aggregate market value of listed investments | **18.2** | 9.7 |

The directors consider that providing details of all subsidiaries, joint ventures and associates as at 30 September 2005 would result in disclosure of excessive length. The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the figures of the group. A full list will be appended to the next Annual Return.

## 11 Fixed asset investments continued

| Name of undertaking | Proportion of nominal value of ordinary issued shares held by: Group % | Company % | Activity |
|---|---|---|---|
| Northumberland Property & Durham Trust Limited | 100 | – | Property trading |
| GIP Limited | 100 | – | Property trading & investment |
| N & D London Limited | 100 | – | Property management |
| Grainger Residential Management Limited | 100 | 100 | Property management |
| City North Group plc | 100 | 100 | Property investment |
| Derwent Developments Limited | 100 | – | Land development |
| BPT (Bradford Property Trust) Limited | 100 | – | Property trading |
| BPT (Assured Homes) Limited | 100 | – | Property investment |
| BPT (Residential Investments) Limited | 100 | – | Property investment |
| Bromley Property Investments Limited | 100 | – | Finance company |
| Home Properties Limited | 100 | – | Property trading |
| Grainger Homes Limited | 100 | – | House-building |

All subsidiaries are consolidated in the group accounts, and all subsidiaries whose results materially affect the figures of the group are incorporated in England and Wales and operate within the United Kingdom.

## 12 Intangible assets

| | Group<br>Positive goodwill £m | Negative goodwill £m | Total £m |
|---|---|---|---|
| Cost | | | |
| At 1 October 2004 | 0.3 | (94.0) | (93.7) |
| Additions | – | (2.4) | (2.4) |
| **At 30 September 2005** | **0.3** | **(96.4)** | **(96.1)** |
| **Amortisation** | | | |
| At 1 October 2004 | – | 8.9 | 8.9 |
| Amortisation for year | – | 5.9 | 5.9 |
| **At 30 September 2005** | **–** | **14.8** | **14.8** |
| **Net book value** | | | |
| **At 30 September 2005** | **0.3** | **(81.6)** | **(81.3)** |
| At 30 September 2004 | 0.3 | (85.1) | (84.8) |

The goodwill and negative goodwill arising on acquisitions are being amortised in line with the disposal of acquired assets. Negative goodwill arising in the year of £2.4m relates to the acquisition of City North Group plc (see note 26). £5.3m of the amortisation in the year was recognised within trading profits and £0.6m within profit on disposal of fixed assets.

# Notes to the financial statements continued

## 13 Capital commitments

The group had capital commitments contracted but not provided for of £nil at 30 September 2005 (2004: £nil).

## 14 Stocks

| | Group | |
|---|---|---|
| | 2005 £m | 2004 £m |
| Trading and development properties | 961.5 | 918.6 |

The market value of the group's trading and development properties is £1,374.7m (2004: £1,332.5m), as valued on the same basis as disclosed in note 10 for investment properties.

## 15 Debtors

| | Group | | Company | |
|---|---|---|---|---|
| | 2005 £m | 2004 £m | 2005 £m | 2004 £m |
| Trade debtors | 1.9 | 5.8 | – | – |
| Amounts owed by group undertakings | – | – | 49.4 | 145.0 |
| Other debtors | 4.8 | 0.5 | 0.4 | – |
| Prepayments and accrued income | 3.8 | 2.9 | 2.7 | 1.4 |
| Deferred tax asset (see note 19) | 2.4 | 1.4 | – | – |
| | 12.9 | 10.6 | 52.5 | 146.4 |

## 16 Cash at bank and in hand

At 30 September 2005, bank balances included £25.4m (2004: £30.4m) which is held by lenders awaiting substitution of alternative security, represents deposits received or is held as a guarantee for loan note obligations.

## 17 Creditors

| | Group | | Company | |
|---|---|---|---|---|
| | 2005 £m | 2004 £m | 2005 £m | 2004 £m |
| Amounts falling due within one year: | | | | |
| Loan notes | **26.4** | 31.8 | **1.3** | 1.6 |
| Deposits received | **1.1** | 0.8 | **–** | – |
| Trade creditors | **6.7** | 22.2 | **0.4** | – |
| Amounts owed to group undertakings | **–** | – | **–** | 55.1 |
| Corporation tax payable | **22.0** | 20.5 | **1.0** | – |
| Other taxation and social security | **1.5** | 3.2 | **–** | – |
| Accruals and deferred income | **14.1** | 25.8 | **0.5** | 10.4 |
| Dividends payable | **4.4** | 4.7 | **4.4** | 4.7 |
| | **76.2** | 109.0 | **7.6** | 71.8 |

| | Group | | Company | |
|---|---|---|---|---|
| | 2005 £m | 2004 £m | 2005 £m | 2004 £m |
| Amounts falling due after more than one year: | | | | |
| Bank loans | **887.9** | 717.9 | **–** | – |
| Other creditors | **8.0** | – | **–** | – |
| | **895.9** | 717.9 | **–** | – |

Other creditors of £8.0m represents deferred consideration for the purchase of land at West Waterlooville. It is payable in two equal instalments in April 2009 and 2013 respectively.

| | Group | | Company | |
|---|---|---|---|---|
| | 2005 £m | 2004 £m | 2005 £m | 2004 £m |
| Maturity of finance debt (net of issue costs) is as follows: | | | | |
| In one year or less | **26.4** | 31.8 | **1.3** | 1.6 |
| Between two and five years | **644.8** | 475.2 | **–** | – |
| Between five and ten years | **201.2** | 199.1 | **–** | – |
| Over ten years | **41.9** | 43.6 | **–** | – |
| | **914.3** | 749.7 | **1.3** | 1.6 |

Bank loans bear interest at rates between 0.9% and 1.0% above LIBOR and are secured by fixed and floating charges over the assets of the group. Repayments are over terms of four to 27 years. Unutilised borrowing facilities of £450m out of a total of £460m at the year end (see note 18) bear interest at rates 0.7% above LIBOR.

Loan notes carry interest at 0.75% and 1.00% below LIBOR and are payable half-yearly/quarterly or on demand. Final redemption is at par on 30 September 2009 and 30 April 2011.

# Notes to the financial statements continued

## 18 Financial instruments

The group's policies relative to financial instruments are set out in the operating and financial review on page 32. All amounts are held in pounds sterling. Short-term debtors and creditors have been excluded from these disclosures as they do not have a significant impact on the financial risk profile of the group.

Interest rate risk profile of financial liabilities.

| | 2005 | | | |
|---|---|---|---|---|
| | Fixed rate liabilities £m | Capped rate liabilities £m | Floating rate liabilities £m | Total £m |
| Loan notes | – | – | 26.4 | 26.4 |
| Bank debt | 45.1 | 612.5 | 237.5 | 895.1 |
| Total | 45.1 | 612.5 | 263.9 | 921.5 |

| | 2004 | | | |
|---|---|---|---|---|
| | Fixed rate liabilities £m | Capped rate liabilities £m | Floating rate liabilities £m | Total £m |
| Loan notes | – | – | 31.8 | 31.8 |
| Bank debt | 45.0 | 456.1 | 223.9 | 725.0 |
| Total | 45.0 | 456.1 | 255.7 | 756.8 |

The interest rate profile shown above takes into account the various derivative instruments used to manage interest rate fluctuations and is gross of issue costs.

Borrowings subject to caps, collars and swaps are included in capped rate liabilities.

| | 2005 | | | |
|---|---|---|---|---|
| | Fixed rate weighted average rate % | Weighted average period years | Capped rate weighted average rate % | Weighted average period years |
| Hedge profile | | | | |
| Bank debt | 6.3 | 19 | 6.0 | 4 |

| | 2004 | | | |
|---|---|---|---|---|
| | Fixed rate weighted average rate % | Weighted average period years | Capped rate weighted average rate % | Weighted average period years |
| Hedge profile | | | | |
| Bank debt | 6.3 | 20 | 6.1 | 3 |

The fixed and capped rates are inclusive of loan margins and reflect the effective cost of finance after taking account of the effect of interest rate swaps.

## 18 Financial instruments continued

### Financial assets

The group's financial assets at the year end consist of cash at bank and in hand of £53.3m (2004: £53.8m). The interest rate on this is floating.

### Borrowing facilities

The group had unutilised borrowing facilities at the year end amounting to £460m (2004: £230m), of which £10m expires on 30 September 2006 and £450m expires on 23 June 2009 (2004: £10m expired on 30 September 2005 and £220m expires on 23 June 2009).

### Fair values of financial liabilities

The following fair values represent the amounts at which the financial instruments could be exchanged on an arm's length transaction between informed and willing parties, and exclude accrued interest.

| | 2005 Book value £m | 2005 Fair value £m | 2005 Fair value adjustment £m | 2004 Book value £m | 2004 Fair value £m | 2004 Fair value adjustment £m |
|---|---|---|---|---|---|---|
| Financial instruments: | | | | | | |
| Fixed rate bank debt | 45.1 | 49.7 | (4.6) | 42.5 | 43.8 | (1.3) |
| Debt fixed under one year | 869.2 | 869.2 | – | 707.2 | 707.2 | – |
| Derivative financial instruments: | | | | | | |
| Interest rate swaps | – | 11.2 | (11.2) | – | 2.1 | (2.1) |
| Interest rate caps | – | 1.4 | (1.4) | – | (0.1) | 0.1 |
| Interest rate collars | – | – | – | – | (0.1) | 0.1 |
| Total current derivatives | – | 12.6 | (12.6) | – | 1.9 | (1.9) |
| Future interest rate swaps | – | 0.9 | (0.9) | – | 1.9 | (1.9) |
| Total derivatives | – | 13.5 | (13.5) | – | 3.8 | (3.8) |
| | 914.3 | 932.4 | (18.1) | 749.7 | 754.8 | (5.1) |
| Financial assets: | | | | | | |
| Cash | (53.3) | (53.3) | – | (53.8) | (53.8) | 0.0 |
| | 861.0 | 879.1 | (18.1) | 695.9 | 701.0 | (5.1) |
| Less amount provided (see note 19) | | | 2.9 | | | 4.6 |
| | | | (15.2) | | | (0.5) |

The fair values were calculated at 30 September 2005 using interest rates and market prices prevailing at that date and reflect the replacement values of the respective financial instruments. After deduction of provisions, this has an after tax effect on NAV of 8p (2004: 0p).

Changes in the fair value of derivative instruments are only recognised when the position matures or terminates.

The fair value of all remaining financial assets and liabilities is equal to their book values.

# Notes to the financial statements continued

## 18 Financial instruments continued

An analysis of the unrecognised gains and losses arising on financial instruments used as hedges is as follows:

| | Gains £m | Losses £m | Net total £m |
|---|---|---|---|
| Gains/(losses) on hedges at 1 October 2004 | 0.3 | (4.1) | (3.8) |
| Losses arising in previous periods that were recognised during the year | – | 1.5 | 1.5 |
| Gains/(losses) not recognised in the year to 30 September 2005: | | | |
| Arising before 1 October 2004 | 0.3 | (2.6) | (2.3) |
| Arising during the year to 30 September 2005 | (0.3) | (10.9) | (11.2) |
| **Unrecognised gains/(losses) on hedges at 30 September 2005** | **–** | **(13.5)** | **(13.5)** |
| Of which: | | | |
| Losses expected to be recognised in the year to 30 September 2006 | – | (2.7) | (2.7) |
| Losses expected to be recognised in the year to 30 September 2007 or later | – | (10.8) | (10.8) |

## 19 Provisions for liabilities and charges

| | | Group | |
|---|---|---|---|
| | Provision for retirement liabilities £m | Provision for fair value of financial instruments £m | Total £m |
| Cost at 1 October 2004 | 5.8 | 4.6 | 10.4 |
| Credited to profit and loss account | (0.2) | (1.7) | (1.9) |
| **At 30 September 2005** | **5.6** | **2.9** | **8.5** |

The provision for retirement liabilities reflects an estimate for the amount required to meet a shortfall in retirement liabilities within Bromley at the date of acquisition and is being amortised over the expected remaining service lives of relevant employees.

The provision for fair value of financial instruments reflects the mark to market adjustment calculated on the financial instruments of Bromley at the date of acquisition and is being amortised over the maturity periods of those financial instruments.

## 19 Provisions for liabilities and charges continued

### Deferred taxation

| | Amount provided | | Amount unprovided | |
|---|---|---|---|---|
| | 2005 £m | 2004 £m | 2005 £m | 2004 £m |
| **Group** | | | | |
| Tax effect of timing differences due to: | | | | |
| Accelerated capital allowances | **1.4** | 0.1 | **–** | – |
| Net short-term timing differences | **(3.8)** | (4.3) | **–** | – |
| Held over gains in stock arising from transfers from fixed assets | **–** | 2.8 | **–** | – |
| Revalued investment properties | **–** | – | **23.6** | 15.9 |
| Transferred to debtors (see note 15) | **2.4** | 1.4 | **–** | – |
| **Balance at 30 September 2005** | **–** | – | **23.6** | 15.9 |

| | £m |
|---|---|
| **Group** | |
| The movements on the provisions for deferred taxation are as follows: | |
| 1 October 2004 (included within debtors) | (1.4) |
| Amount credited to profit and loss account | (2.3) |
| Acquisition of subsidiary | 1.3 |
| Transferred to debtors (see note 15) | 2.4 |
| **Balance at 30 September 2005** | – |

The company has no liability, potential or otherwise, to deferred taxation.

The group does not provide deferred tax on revalued investment properties, in line with FRS19 'Deferred taxation', as there is no binding agreement to sell the revalued investment properties as at the balance sheet date.

In addition to the above, the total contingent tax to the group on the difference between original cost and carrying value of trading properties not provided at 30 September 2005 is £76.9m (2004: £83.3m).

# Notes to the financial statements continued

## 20 Called-up equity share capital

| | 2005 £m | 2004 £m |
|---|---|---|
| **Company and group** | | |
| Authorised: | | |
| 160,000,000 (2004: 160,000,000) ordinary shares of 5p each | **8.0** | 8.0 |
| Allotted, called-up and fully paid: | | |
| 129,374,394 (2004: 124,055,020) ordinary shares of 5p each | **6.5** | 6.2 |

| | Number | Nominal value £'000 | Consideration £'000 |
|---|---|---|---|
| Shares issued during the year: | | | |
| Purchase of subsidiary | 5,189,893 | 260 | 20,347 |
| Executive share option scheme | 89,925 | 4 | 50 |
| SAYE scheme at 93.2p | 5,765 | – | 5 |
| SAYE scheme at 163.6p | 32,955 | 2 | 52 |
| SAYE scheme at 186.4p | 197 | – | – |
| SAYE scheme at 271.8p | 639 | – | 2 |
| | 5,319,374 | 266 | 20,456 |

**Share split**

The company completed a five for one share split on 25 February 2005. As such, all shares and prices per share are based on 5p ordinary shares rather than 25p ordinary shares.

## 20 Called-up share capital continued

### Potential issues of ordinary shares

Certain senior executives hold options to subscribe for shares in the company under executive share option schemes at prices ranging from 53.4p to 381.8p. In addition, the company operates a SAYE share option scheme for employees. Under this scheme, employees hold options to subscribe for shares in the company at prices ranging from 138.0p to 334.0p. Under these various schemes, options on 129,481 shares were exercised in the year and options on 137,459 shares lapsed. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below:

| Year of grant | Exercise price (pence) | Exercise period | 2005 Number | 2004 Number |
|---|---|---|---|---|
| **Executive share options** | | | | |
| 1994 | | | | – |
| 1996 | 68.5 | 1999-06 | **43,795** | 95,160 |
| 1997 | 53.4 | 2000-07 | **100,720** | 139,280 |
| 2003 | 191.8 | 2006-13 | **787,410** | 847,530 |
| 2004 | 326.4 | 2007-14 | **564,225** | 625,495 |
| 2005 | 381.8 | 2008-15 | **563,955** | – |
| | | | **2,060,105** | 1,707,465 |
| **SAYE share options** | | | | |
| 2000 | 93.2 | 2003-06 | **–** | 5,765 |
| 2001 | 138.0 | 2004-07 | **26,895** | 26,895 |
| 2002 | 163.6 | 2005-08 | **66,745** | 110,395 |
| 2003 | 186.4 | 2006-09 | **95,425** | 96,510 |
| 2004 | 271.8 | 2007-10 | **102,850** | 107,975 |
| 2005 | 334.0 | 2008-11 | **47,358** | – |
| | | | **339,273** | 347,540 |
| Total share options | | | **2,399,378** | 2,055,005 |

The number of share options and the exercise prices shown above are based on 5p ordinary shares including the comparatives which have been restated accordingly.

# Notes to the financial statements continued

## 21 Reserves

| | Share premium account £m | Merger reserve £m | Revaluation reserve £m | Capital redemption reserve £m | Profit and loss account £m |
|---|---|---|---|---|---|
| **Group** | | | | | |
| At 1 October 2004 | 21.5 | – | 13.9 | 0.2 | 136.1 |
| Issue of shares | 0.1 | 20.1 | – | – | – |
| Investment properties: | | | | | |
| Surplus on revaluation | – | – | 5.4 | – | – |
| Realisation on disposals | – | – | (1.6) | – | 1.6 |
| Movement in own shares | – | – | – | – | (0.1) |
| Retained profit for the year | – | – | – | – | 19.9 |
| **At 30 September 2005** | **21.6** | **20.1** | **17.7** | **0.2** | **157.5** |

The company issued 5,189,893 ordinary shares in partial consideration for the acquisition of City North Group plc. The issue satisfied the provisions of Section 131 of the companies Act 1985. In the consolidated accounts, the premium relating to these shares, of £20.1m, has been credited to a merger reserve. In the company accounts, the cost of investment in City North Group plc has been reduced by £20.1m and the premium on the shares has been disregarded.

| | Share premium account £m | Capital redemption reserve £m | Profit and loss account £m |
|---|---|---|---|
| **Company** | | | |
| At 1 October 2004 | 21.5 | 0.2 | 139.3 |
| Issue of shares | 0.1 | – | – |
| Retained profit for the year | – | – | 20.6 |
| **At 30 September 2005** | **21.6** | **0.2** | **159.9** |

The group financial statements do not include a separate profit and loss account for the company as permitted under section 230 of the Companies Act 1985. The amount of group profit after taxation dealt with in the financial statements of the parent company is £1.5m (2004: £7.3m). Included within the company's profit and loss account balance of £159.9m is a total of £60.5m which is non-distributable as the profit arose on a transfer of assets between group companies (2004: £60.5m).

The Grainger Trust Employee Trustee Company Limited holds 1,164,380 (2004: 1,192,710) shares with a cost of £2.3m (2004: £2.3m) and an open market value at 30 September 2005 of £5.3m (2004: £4.4m). These shares were acquired at various dates in the open market. The trustee company uses funds provided by the group to meet the group's obligations under its long-term incentive scheme. These shares are retained until awarded to employees by the trustee company in accordance with the wishes of the company.

## 22 Reconciliation of movements in equity shareholders' funds

| | 2005 £m | 2004 £m |
|---|---|---|
| Profit for the financial year | 26.5 | 33.0 |
| Dividends | (6.6) | (5.7) |
| | 19.9 | 27.3 |
| Other recognised gains and losses for the year | 5.4 | 3.9 |
| Movement in own shares | (0.1) | (0.1) |
| Proceeds from ordinary shares issued for cash | 0.1 | 0.1 |
| Nominal value of ordinary shares issued to acquire City North Group plc | 0.3 | – |
| Premium on ordinary shares issued to acquire City North Group plc | 20.1 | – |
| Net additions to equity shareholders' funds | 45.7 | 31.2 |
| Opening equity shareholders' funds | 177.9 | 146.7 |
| Closing equity shareholders' funds | 223.6 | 177.9 |

## 23 Reconciliation of net cash flow to movement in net debt

| | 2005 £m | 2004 £m |
|---|---|---|
| Decrease in cash | (0.5) | (27.9) |
| Cash (inflow)/outflow from (increase)/decrease in debt | (117.8) | 17.6 |
| Change in net debt resulting from cash flows | (118.3) | (10.3) |
| Other non-cash items: | | |
| Loans acquired with subsidiary | (44.0) | – |
| Others | (2.8) | (6.1) |
| Movement in net debt for the year | (165.1) | (16.4) |
| Net debt at 1 October 2004 | (695.9) | (679.5) |
| Net debt at 30 September 2005 | (861.0) | (695.9) |

# Notes to the financial statements continued

## 24 Analysis of net debt

| | At 1 Oct 2004 £m | Cash flow £m | On purchase of subsidiary £m | Other non cash changes £m | At 30 Sept 2005 £m |
|---|---|---|---|---|---|
| Cash at bank and in hand | 53.8 | (0.5) | – | – | **53.3** |
| Debt due within one year | (31.8) | 52.2 | (44.0) | (2.8) | **(26.4)** |
| Debt due after one year | (717.9) | (170.0) | – | – | **(887.9)** |
| Total | (695.9) | (118.3) | (44.0) | (2.8) | **(861.0)** |

## 25 Reconciliation of group operating profit to net cash inflow from operating activities

| | 2005 £m | 2004 £m |
|---|---|---|
| Operating profit | **89.5** | 93.2 |
| Depreciation | **0.4** | 0.4 |
| Movement in provisions for liabilities and charges | **(0.2)** | (0.2) |
| Provision against investment | **0.9** | – |
| Amortisation of goodwill | **(5.3)** | (6.1) |
| Decrease/(increase) in debtors | **0.9** | (2.0) |
| (Decrease)/increase in creditors | **(24.3)** | 1.7 |
| Increase in stocks | **(42.6)** | (30.3) |
| **Net cash inflow from operating activities** | **19.3** | 56.7 |

## 26 Acquisitions

### a) Acquisition of City North Group plc

The group purchased 100% of the share capital of City North Group plc on 15 April 2005. The total consideration of £61.3m was satisfied by shares issued of £20.4m and cash of £40.9m.

The purchase has been accounted for using the acquisition method of accounting.

The aggregate assets and liabilities acquired, and their fair values, were:

| | Book value £m | Revaluations £m | Other £m | Fair value £m |
|---|---|---|---|---|
| Investment properties | 111.4 | (0.6) | | 110.8 |
| Other fixed assets | 0.8 | (0.8) | | 0.0 |
| Debtors | 0.2 | | 0.9 | 1.1 |
| Creditors | (2.6) | | | (2.6) |
| Bank overdraft | (0.3) | | | (0.3) |
| Bank loans | (44.0) | | | (44.0) |
| Deferred taxation | (1.3) | | | (1.3) |
| Net assets acquired | 64.2 | (1.4) | 0.9 | 63.7 |
| Negative goodwill | | | | (2.4) |
| Consideration | | | | 61.3 |
| Consideration satisfied by: | | | | |
| Shares issued | | | | 20.4 |
| Cash (including costs on acquisition of £1.5m) | | | | 40.9 |
| | | | | 61.3 |

The book value of the assets and liabilities have been taken from the management accounts of City North Group plc as at 15 April 2005.

Investment properties were valued by the directors as at 15 April 2005.

Other fixed assets have been written off as there was no fixed asset register to support their existence or carrying value.

The other adjustment relates to the exercise of options by City North Group plc management. This was triggered by the acquisition by Grainger and the amount received has been set up as a debtor on acquisition.

The post acquisition results and cash flows of City North Group plc are not considered material by the directors and therefore have not been disclosed separately in the profit and loss account or cash flow statement.

# Notes to the financial statements continued

## 26 Acquisitions continued

From the date of acquisition to 30 September 2005 City North Group plc contributed the following to group results:

| | £m |
|---|---|
| Turnover | 2.7 |
| Profit on ordinary activities after taxation | 0.9 |
| Increase in cash in the period | 5.4 |

### b) Other acquisition

The group purchased 100% of the share capital of Holdfield Limited on 18 October 2004. Fair value adjustments of £0.3m were made to revalue trading stock acquired to market value.

| | £m |
|---|---|
| Book value of net assets acquired | 0.1 |
| Fair value adjustments | 0.3 |
| Consideration satisfied by cash | 0.4 |

## 27 Pension schemes

The group operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the group in independently administered funds. Pension arrangements for executive directors are disclosed in the remuneration committee report. The pension cost charge in these financial statements represents contributions payable by the group (see note 6).

At the start of the financial year, BPT Limited, a wholly owned subsidiary of Bromley, was contributing to two pension schemes. The first was a defined contribution scheme, implemented in 2003 and open to all employees. During the year, the employees were transferred to Grainger Limited and all pension contributions were made into the Grainger Limited defined contribution scheme instead of the BPT scheme. The second is a defined benefit scheme, which was closed to new members and employee contributions during 2003. The group will continue to contribute to this scheme so as to spread the cost over the expected remaining service lives of the relevant employees.

### BPT Defined benefit scheme

The assets of the BPT defined benefit scheme are held separately from those of the group in funds administered by trustees and are invested with an independent investment manager. Costs and funding are assessed with the advice of an independent qualified actuary using the attained age method.

Actuarial valuations are carried out every three years. The last full actuarial valuation was undertaken as at 1 July 2004. Based on actuarial assumptions of an investment return of 6.5% per annum and salary increases of 5% per annum, the assets were valued at £10.5m. These were held in a relevant insurance contract. These assets represented 79% of the value of the scheme's accrued liabilities. The actuary has recommended an employer contribution rate of 28.5% in order to eliminate the deficiency over the expected future working lifetimes of the members.

## 27 Pension schemes continued

The actuary also undertook a Minimum Funding Requirement valuation as at 1 July 2004 in accordance with the Pensions Act 1995. The value of the assets of the scheme was determined at 101% of the liabilities of the scheme.

### FRS17 transitional disclosures

The FRS17 calculations for disclosure purposes have been based on a valuation at 1 July 2004 adjusted to 30 September 2005 and adjusted to the projected unit method by a qualified independent actuary. The major assumptions used by the actuary were:

| | 30 September 2005 | 30 September 2004 | 30 September 2003 |
|---|---|---|---|
| Discount rate | 5.00% pa | 5.50% pa | 5.30% pa |
| Rate of increase in pensionable salaries | 3.90% pa | 4.00% pa | 3.70% pa |
| Rate of increase in pensions in payment | 5.00% pa | 5.00% pa | 5.00% pa |
| Inflation assumption | 2.90% pa | 3.00% pa | 2.70% pa |

The assets are held with AXA Sun Life in a managed fund.

The breakdown of the assets and the associated expected rate of return is given in the table below:

| | 30 September 2005 | | 30 September 2004 | | 30 September 2003 | |
|---|---|---|---|---|---|---|
| | Value (£m) | Expected rate of return (pa) | Value (£m) | Expected rate of return (pa) | Value (£m) | Expected rate of return (pa) |
| Equities | 4.9 | 6.8% | 4.0 | 7.3% | – | – |
| Bonds | 6.9 | 4.7% | 6.2 | 5.2% | – | – |
| Other | 0.3 | 6.8% | 0.5 | 5.0% | – | – |
| AXA Sun Life with-profits fund | – | – | – | – | 10.5 | 6.3% |
| Total value of assets | 12.1 | | 10.7 | | 10.5 | |

The following approximate amounts were measured in accordance with the requirements of FRS17:

| | 30 September 2005 £m | 30 September 2004 £m | 30 September 2003 £m |
|---|---|---|---|
| Total market value of assets | 12.1 | 10.7 | 10.5 |
| Present value of scheme liabilities | (17.4) | (15.3) | (14.2) |
| Deficit in the scheme | (5.3) | (4.6) | (3.7) |
| Related deferred tax assets | 1.6 | 1.4 | 1.1 |
| **Net pension liability** | (3.7) | (3.2) | (2.6) |

## Notes to the financial statements continued

### 27 Pension schemes continued

If the above amounts had been recognised in the financial statements, the net assets and profit and loss reserve would be as follows:

| | 30 September 2005 £m | 30 September 2004 £m | 30 September 2003 £m |
|---|---|---|---|
| Net assets excluding SSAP24 pension liability | 225.6 | 179.9 | 148.9 |
| FRS17 pension liability | (1.9) | (1.6) | (1.3) |
| Net assets including FRS17 pension liability | 223.7 | 178.3 | 147.6 |
| Profit and loss reserve excluding SSAP24 pension liability | 159.5 | 138.1 | 109.3 |
| FRS17 pension reserve | (1.9) | (1.6) | (1.3) |
| Profit and loss reserve | 157.6 | 136.5 | 108.0 |

The following amounts would have been recognised in the group's performance statements in the year to 30 September 2005, under the requirements of FRS17:

| | Year ended 30 September 2005 £m | Year ended 30 September 2004 £m |
|---|---|---|
| **Operating profit** | | |
| Current service cost | – | – |
| Past service cost | – | – |
| **Total operating charge** | – | – |
| **Other finance income/(expense)** | | |
| Interest on pension scheme liabilities | (0.8) | (0.8) |
| Expected return on pension scheme assets | 0.6 | 0.7 |
| **Net finance expense** | (0.2) | (0.1) |
| **Statement of total recognised gains and losses (STRGL)** | | |
| Actual return less expected return on pension scheme assets | 1.1 | (0.9) |
| Experience gains and losses arising on the scheme liabilities | 0.6 | (0.5) |
| Changes in assumptions underlying the present value of scheme liabilities | (2.4) | – |
| **Actuarial loss recognised in STRGL** | (0.7) | (1.4) |

## 27 Pension schemes continued

Movements in deficit for the year to 30 September 2005

| | Year ended 30 September 2005 £m | Year ended 30 September 2004 £m |
|---|---|---|
| Deficit in scheme at beginning of the year | (4.6) | (3.7) |
| Current service cost | – | – |
| Past service gain | – | – |
| Contributions | 0.2 | 0.6 |
| Other finance income | (0.2) | (0.1) |
| Actuarial loss | (0.7) | (1.4) |
| **Deficit in scheme at end of year** | (5.3) | (4.6) |

Details of experience gains and losses for the year to 30 September 2005

| | Year ended 30 September 2005 £m | Year ended 30 September 2004 £m | Year ended 30 September 2003 £m |
|---|---|---|---|
| 1. Difference between the expected and actual return on scheme assets: | | | |
| Amount | 1.1 | (0.9) | (0.3) |
| Percentage of scheme assets | 9.1% | (8.4%) | (2.9%) |
| 2. Experience gains and losses on scheme liabilities: | | | |
| Amount | 0.6 | (0.5) | 0.1 |
| Percentage of the present value of the scheme liabilities | 3.4% | (3.3%) | 0.1% |
| 3. Total amount recognised in statement of total recognised gains and losses: | | | |
| Amount | (0.7) | (1.4) | (1.3) |
| Percentage of the present value of the scheme liabilities | (4.0%) | (9.2%) | (9.2%) |

# Notes to the financial statements continued

## 28 Contingent liabilities

The company, in conjunction with certain other group companies, has guaranteed bank loans and other loans of subsidiary companies amounting at 30 September 2005 to £850m (2004: £680m).

In addition, the group has an obligation, under the sale and purchase agreement for the land at West Waterlooville, to pay further consideration should the site value exceed certain pre-agreed amounts. It is not possible to determine the amount or timing of any such future payments due to the long-term nature of the site's development and the associated uncertainties with respect to planning applications. However, any future payments will not fall due until at least 2015 and will be spread over a number of years.

## 29 Operating leases

The group has operating leases relating primarily to certain office premises occupied by group personnel and cars leased under contract hire agreements. Future commitments are not disclosed, as in the opinion of the directors, the amounts involved are not material.

## 30 Related party transactions

In accordance with the provisions of FRS8 'Related Party Disclosures', details of transactions with subsidiary undertakings are not disclosed. There are no other related party transactions in addition to those already disclosed in the financial statements.

## 31 Post balance sheet events

Since the year end the group has exchanged on a portfolio acquisition of 1,400 properties in the Metro Ruhr of Germany for a consideration of €71.5m (£48.9m). Completion is expected before 31 December 2005.

## 32 Major non-cash transactions

i) Part of the consideration for the acquisition of City North Group plc comprised shares. Further details are set out in note 26.

ii) The company acquired £12.3m of residential properties, the consideration for which was by way of Grainger transferring to the vendor certain commercial properties.

# Five-year record for the year ended 30 September 2005

| | 2001 £m | 2002 £m | 2003 £m | 2004 £m | 2005 £m |
|---|---|---|---|---|---|
| Turnover** | 124.7 | 213.8 | 173.6 | 217.4 | 226.9 |
| Gross rentals | 23.2 | 22.0 | 21.4 | 41.0 | 45.5 |
| Sales of investment properties | 40.0 | 7.1 | 2.1 | 41.1 | 13.3 |
| Trading profits | 26.5 | 33.7 | 38.8 | 72.6 | 74.8 |
| Profit before taxation** | 21.1 | 44.9 | 48.5 | 54.2 | 42.1 |
| Profit after taxation and minority interests** | 12.9 | 23.5 | 29.3 | 36.8 | 26.5 |
| Dividends paid | 3.0 | 3.5 | 4.0 | 5.7 | 6.6 |
| | Pence per share | Pence per share | Pence per share | Pence per share | Pence per share |
| Earnings** | 10.58 | 19.28 | 23.96 | 29.94 | 21.20 |
| Dividends | 2.47 | 2.84 | 3.26 | 4.65 | 5.11 |
| | £m | £m | £m | £m | £m |
| Fixed assets and stocks on a financial statement basis | 315.1 | 372.8 | 907.2 | 950.8 | 1,138.0 |
| Fixed assets and stocks at market value*** | 554.9 | 680.3 | 1,305.8 | 1,454.5 | 1,639.3 |
| Share capital and reserves | 94.8 | 119.2 | 146.7 | 177.9 | 223.6 |
| | Pence per share | Pence per share | Pence per share | Pence per share | Pence per share |
| Net asset value on financial statements basis | 76.8 | 96.4 | 118.4 | 143.4 | 172.8 |
| Net asset value including fixed assets and stocks at replacement value* | 271.2*** | 344.8*** | 438.8 | 546.8 | 558.3 |
| Dividend cover** | 4.3x | 6.7x | 7.3x | 6.5x | 4.0x |
| Gearing | 60% | 52% | 125% | 103% | 120% |
| Share price at 30 September | 151.5p | 198.5p | 273.0p | 367.0p | 456.0p |

Figures for 2000 and 2001 are restated, where relevant, to take account of FRS19.
Figures for 2000 to 2003 are restated, where relevant, to take account of UITF 38.
Earnings are restated to reflect ESOP shares held by the group.
Share price and per share figures have been restated across all five years to take account of the five for one share split that took place in February 2005.

In addition:

* Corporation tax has not been provided on valuation surpluses relating to stocks.
** Excluding exceptional items and including share of Joint venture.
*** 2001 and 2002 includes share of the market value of Joint venture properties and negative goodwill write back.

# Shareholders' information

### Financial calendar

Annual general meeting **2 March 2006**
Payment of 2005 final dividend **8 March 2006**
Announcement of 2006 interim results **June 2006**
Payment of 2006 interim dividend **July 2006**
Announcement of 2006 final results **December 2006**

### Share price

During the year ended 30 September 2005, the range of mid market prices of the company's ordinary shares were:

| | |
|---|---|
| Price at 30 September 2005 | 456.0p |
| Lowest price during the year | 318.4p |
| Highest price during the year | 457.0p |

Daily information on the company's share price can be obtained on our website or by telephoning:
The Financial Times Cityline Service on 09068 432 750.

### Capital gains tax

The market value of the company's shares for capital gains tax purposes at 31 March 1982 was 6.08p.

### Website

Website address www.graingertrust.co.uk

### Shareholders' enquiries

All administrative enquiries relating to shareholdings (for example, notification of change of address, loss of share certificates, dividend payments) should be addressed to the company's registrar at:

Capita IRG plc,
The Registry,
34 Beckenham Road, Beckenham, Kent

### Share dealing service

A share dealing service is available to existing shareholders to buy or sell the company's shares via Capita Share Dealing Services. Online and telephone dealing facilities provide an easy to access and simple to use service.

For further information on this service, or to buy or sell shares, please contact:
**www.capitadeal.com** – online dealing
**0870 458 4577** – telephone dealing

Please note that the directors of the company are not seeking to encourage shareholders to either buy or sell their shares. Shareholders in any doubt as to what action to take are recommended to seek financial advice from an independent financial adviser authorised by the Financial Services and Markets Act 2000.

### Secretary and registered office

Marie Glanville
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

### Company registration number 125575

# Advisers

### Solicitors
Dickinson Dees,
St Ann’s Wharf,112 Quayside,
Newcastle upon Tyne

Freshfields, Bruckhaus Deringer,
65 Fleet Street, London

Hammonds,
2 Park Lane, Leeds

### Financial public relations
Baron Philips Associates,
131 Finsbury Pavement, London

NP Public Relations and Marketing,
8 Mosley Street, Newcastle upon Tyne

### Bankers
### Clearing Bank and Facility Agent
Barclays Bank PLC

### Other Bankers
Lloyds TSB Bank plc

The Royal Bank of Scotland plc

Allied Irish Banks plc

Bradford & Bingley plc

The Governor and Company of the Bank of Scotland

National Australia Bank Limited

Nationwide Building Society

### Auditors
PricewaterhouseCoopers LLP,
89 Sandyford Road, Newcastle upon Tyne

### Stockbrokers
Cazenove & Company Ltd,
20 Moorgate, London

Brewin Dolphin Securities,
Commercial Union House, 39 Pilgrim Street,
Newcastle upon Tyne

### Registrars and transfer office
Capita IRG plc,
The Registry, 34 Beckenham Road,
Beckenham, Kent

# Glossary of terms

| Property | |
|---|---|
| Assured periodic tenancy ('APT') | Market-rented tenancy arising from succession from regulated. Tenant has security of tenure. |
| Assured shorthold tenancy ('AST') | Market-rented tenancy where landlord may obtain possession if appropriate notice served. |
| Assured tenancy ('AT') | Market-rented tenancy where tenant has right to renew. |
| Investment value ('IV') | Open market value of a property subject to relevant tenancies in place. |
| Home reversion | Rent free tenancy where tenant has right of occupation until possession is forfeited (usually on death). If tenant retains an equity interest in the property this is a partial home reversion. |
| Regulated tenancy | Tenancy regulated under 1977 Rent Act, rent (usually sub market) set by rent officer and tenant has security of tenure. |
| Tenanted Residential ('TR') | Activity covering the acquisition, renting out and subsequent sale (usually on vacancy) of residential units subject to a tenancy agreement. |
| Vacant possession value ('VP') | Open market value of a property free from any tenancies. |

| Corporate | |
|---|---|
| Grainger NAV | NNNAV adjusted for the after tax value of the reversionary surplus in our regulated and equity release portfolios discounted back to present value using our risk adjusted weighted average cost of capital over the expected average period of realisation. |
| IFRS | International Financial Reporting Standards. These are mandatory for UK listed companies for accounting periods ending on or after 31 December 2005. They will impact on Grainger's financial statements in the year ending 30 September 2006. |

| Financial | |
|---|---|
| Cap | Financial instrument which, in return for a fee, guarantees an upper limit for the interest rate on a loan. |
| Contingent tax | The amount of tax that would be payable should assets be sold at the market value shown in the accounts. |
| Dividend cover | Earnings per share divided by dividends per share. |
| Earnings per share ('EPS') | Profit attributable to shareholders divided by the weighted average number of shares in issue in the year. |
| FRS13 | Accounting standard requiring the disclosure of the market value of long-term debt and financial instruments. |
| FRS19 | Accounting standard prohibiting the provision of deferred tax on stock revaluation surpluses when companies are acquired. |
| Gearing | The ratio of borrowings net of cash to net asset value. |
| Hedging | The use of financial instruments to protect against interest rate movements. |
| Interest cover | Profit on ordinary activities before interest and tax divided by net interest payable. |
| Loan to value ('LTV') | Ratio of net debt to the market value of properties. |
| Negative goodwill | On acquisition of a company, the surplus of the value of the statutory net assets acquired over the purchase price paid. |
| Net asset value ('NAV') | Shareholders' funds adjusted for the market value of property assets held as stock. |
| Net net asset value (triple net or 'NNNAV') | NAV adjusted for contingent tax liabilities which would accrue if assets sold at market value and for the market value of long-term debt and derivatives. |
| Swap | Financial instrument to protect against interest rate movements. |
| Total Shareholder Return ('TSR') | Return attributable to shareholders on basis of share price growth with dividends reinvested. |
| Weighted average cost of capital ('WACC') | The weighted average cost of funding the group's activities through a combination of shareholders' funds and debt. |

# Corporate addresses

**Newcastle**
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE
Tel: 0191 261 1819

**London**
161 Brompton Road
London
SW3 1QP
Tel: 020 7795 4700

**Birmingham**
The Circle
Harborne
Birmingham
B17 9DY

www.graingertrust.co.uk

**Ipswich**
42a Barrach Square
Martlesham Heath
Ipswich
Suffolk
IP5 3RF

**Putney**
1st Floor
SW15H Building
73-75 Upper Richmond Road
London
SW15 2SR

**Manchester**
St John's House
Barrington Road
Altrincham
Cheshire
WA14 1TJ

This report has been produced on paper from a sustainable source by an environmentally accredited printing company. This report has been printed by Empress Litho Ltd who are accredited with the ISO 14001 environmental management system. Produced entirely using vegetable based inks which contain environmentally friendly, replenishable vegetable oils. On average 87% of all waste associated with the production of this report is recycled. The paper is made from at least 40% recovered fibre and 60% virgin fibre from plantation and sustainable forests. This report is recyclable and bio-degradable.

Designed and produced by corporateedge.com