grainger plc

ANNUAL REPORT AND ACCOUNTS 2007

The future of residential property

Grainger specialises in owning, developing, managing, selling and delivering sustainable value from residential property. We are the largest quoted residential property owner and manager in the UK.

But we never stand still. We use our unique expertise gained from owning and managing property in local communities throughout the UK to create innovative and successful new products and services: from strongly-performing residential property funds to equity release schemes tailored to our individual customers' needs.

Our ambition is to capitalise on the strengths and skills we have forged in the UK to continue to build our core portfolio, to deliver profitable new business lines.

We believe our approach will enable Grainger to become one of Europe's leading quoted integrated residential property companies.

working together — our achievements and objectives

3 **who we are**
we are the UK's largest quoted residential property owner and manager

11 **what we do**
we own a unique portfolio and have expertise in different residential markets and products

21 **how we do it**
we have first-class skills and resources that we apply to deliver real value from our assets

strategy — 2007 and our prospects

28 financial highlights 2007
29 chairman's statement
32 chief executive's review
40 financial review
45 **how we behave**
53 adviser's statement

governance — how we manage the business

54 the board
56 corporate governance report
62 report of the remuneration committee and directors' remuneration report
70 directors' report

financials — our performance

74 independent auditors' report to the members of Grainger plc on the group financial statements
76 consolidated financial statements
81 notes to the financial statements
139 independent auditors' report to the members of Grainger plc on the parent company financial statements
141 parent company financial statements
142 notes to the parent company financial statements

useful information

147 five-year record
148 shareholders' information
149 advisers
150 glossary of terms
152 corporate addresses

annual general meeting
12 february 2008

WORKING TOGETHER

SEVEN OFFICES ACROSS THE UK
with over 100 dedicated property management and sales and valuations staff

- Newcastle
- London
- Putney
- Manchester
- Birmingham
- Ipswich
- Exeter

who we are...

Grainger is a company that puts **passion** and **energy** into everything we do. Our **people** work together as a team. We have a culture which encourages the sharing of information and a **vision** for the future.

Grainger is currently the UK's largest quoted residential property owner and manager. We have, over many years, acquired a substantial portfolio of property assets of varying types and tenures. We are a long-term business and trade our properties throughout market cycles.

Established in Newcastle in 1912 to acquire and manage tenanted residential properties, Grainger now owns over 14,000 homes in the UK and 4,000 in Germany.

Our business has grown steadily over the years, most significantly in the 1970s and 80s when several large industrial companies deregulated or denationalised and released their tenanted housing stocks. In 1983 Grainger floated on the London Stock Exchange.

Grainger has been a significant player in residential property for many years. While acquiring, managing and selling properties remains fundamental to our business, we have been actively developing complementary areas which are now significant contributors to our cash flows and profits. Grainger today is a much broader-based and more dynamic business.

Teamwork is vital to our success. Only by working closely across all our divisions to share our skills and experiences can we derive the best returns from our assets.

1912

Grainger was established in Newcastle to acquire and manage tenanted residential properties.

1983

Floated on the London Stock Exchange with gross assets of £18m.

1985

Entered land development with the acquisition of 350 acres of land between Basingstoke and the M3. Grainger, subsequently achieved planning consent, established the infrastructure then sold the land to housebuilders.

Our strategy We now hold a unique position in the UK residential market; that of being an owner, property manager, trader, asset and fund manager. As a result, few people understand the complexities and opportunities of residential property as well as Grainger.

Acquiring, managing and selling residential tenanted properties has always been at the heart of our business. While the increase in property values over the long term has inevitably contributed to our growth, this builds on astute buying founded on our local expertise.

As well as growing this core business, we have developed new income streams through exposure to other areas of the residential property market. For instance, Grainger is now an emerging force in the development of residential-led, mixed-use schemes; we are leaders in the UK's home reversion market, providing equity release for elderly homeowners; we have launched and continue to manage the largest UK market-let residential property fund; and we have successfully replicated our business model in Germany, spreading the risk of our UK-based portfolio.

Our experience gives us a unique perspective that enables us to see opportunities where others only see challenges.

Our ambition is to become one of Europe's leading quoted, integrated residential property companies. To achieve this, we aim to:

- provide superior risk-adjusted returns;
- maximise the efficiency of our capital structure by introducing third-party equity and debt through residential property funds;
- enter new residential sectors where we can use our management skills and resources to build large portfolios;
- diversify income streams to include fund management fees alongside co-investment growth;
- continue to build on our unique position as a long-term holder, asset manager, trader and developer of residential property;
- use our skills and property network reputation to integrate developing, managing and funding; and
- encourage and capitalise on the growing recognition of residential property as an investment class.

These aims are underpinned by our group-wide ethical way of doing business. This includes commitment to integrity in all business relationships, employee development, tenant care, environmental responsibility and community service.

1989

Grainger acquired Channel Hotels and Properties which owned over 700 London flats and resulted in its first London office.

2001–03

The next major expansion, with the acquisition of Bradford Property Trust plc (BPT), creating the largest quoted residential property portfolio in the UK.

2007

The closing of the highly successful capital raising activity for G:res1, the UK's largest, market-rented residential investment fund.

We are now working towards becoming one of Europe's leading, quoted, fully integrated, residential property companies.

Grainger has a substantial asset base including several different types of residential property and property-related interests.

7,655
UK regulated properties with a market value of
£1,221m

With over
14,000
UK properties, Grainger is the UK's largest quoted residential landlord

4,520
German properties with a market value of
£242m

Grainger UK average market property value
£205,000

Total market value of property-related assets
£2.5bn

Fund manager of
G:res1
the UK's largest market-rented fund

seven
property asset management offices across the UK

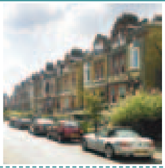
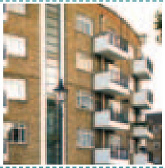
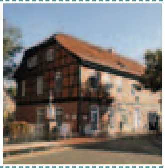
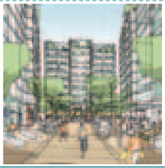
Grainger currently has in excess of
40%
of the UK home reversion market

£809m
Gross development value of existing developments

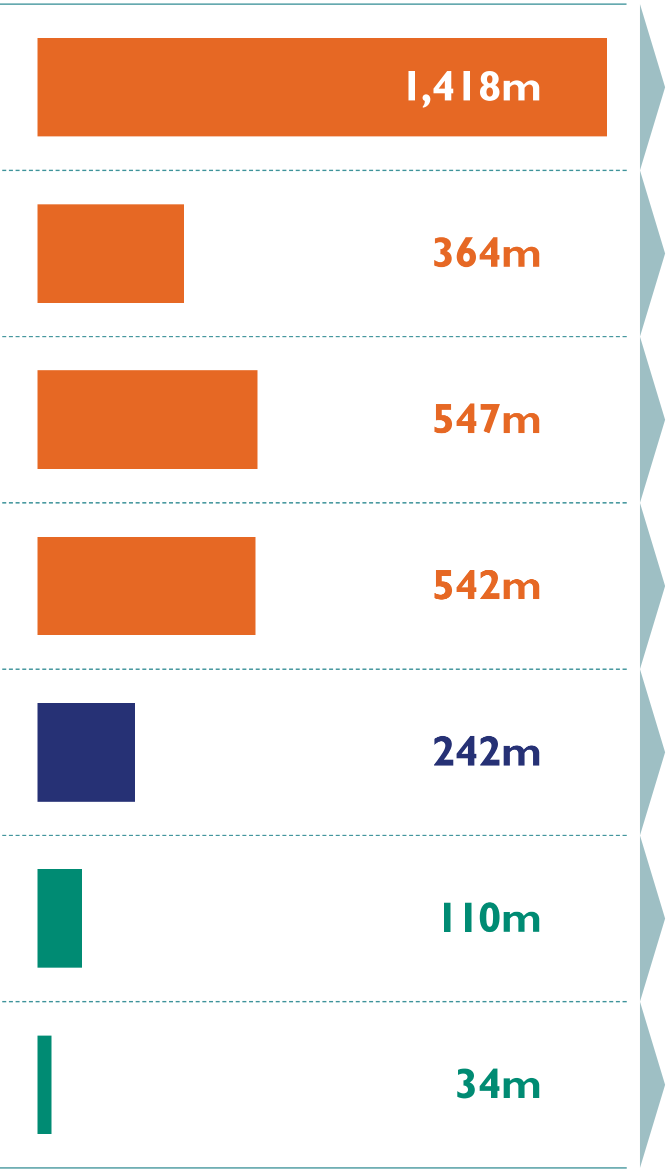
our people are professionals

Across all levels and disciplines we seek to employ not only the best in their field, but those who can consistently apply their skills and experiences for the benefit of the group as a whole. It is by this cross working that we continue to unlock real value from our portfolios and ventures.

UK RESIDENTIAL

OPERATIONS			% GRAINGER OWNED
Core portfolio PAGE 12		7,655 Regulated tenancies sit at the heart of our business. We also own 555 assured shorthold tenancies, 277 vacant properties and more…	100%
Joint ventures PAGES 12 and 15		**Grainger GenInvest** is a joint venture with Genesis Housing Association with over 1,500 units predominantly in flourishing areas of London.	50%
Funds PAGE 15		**G:res1** is a 2,000-unit market-let residential fund which was launched and then fully invested during 2007. **ResPUT** is the 550-unit Schroders market-let residential fund. We hold a significant stake in each.	22%
Retirement solutions PAGE 16		Initially, simply a home reversion portfolio, now with over 3,000 properties and growing, we have now expanded considerably into retirement housing.	100%
Germany PAGE 18		We started buying properties in Germany in October 2005 and now have over 4,500 units mostly in the south and west of the country, where demand is highest.	100%
Development PAGE 19		Our focus in this division is on large, mixed-use schemes. The expected end gross development value of our current portfolio is over £800m.	100%
Development Joint ventures PAGE 19		**Curzon Park** is our first joint venture with Development Securities plc. It is developing a 10-acre, residential-led, mixed-use development site in Central Birmingham.	50%

GROSS PROPERTY-RELATED ASSETS £



ALL ACTIVITIES THROUGHOUT THE BUSINESS ARE PERFORMED BY SKILLED EXPERTS

GRAINGER TEAM SKILLS

FINANCING

bank debt, capital markets, equity raising

RESIDENTIAL

fund management, asset management, acquisitions, strategic sales and refurbishment

PROPERTY SERVICES

lettings, property management, rent reviews, sales, valuations, customer care, repairs and maintenance, block management

RETIREMENT SOLUTIONS

acquisitions, marketing, customer relations, compliance, actuarial, sales, regulatory reporting, intermediary relationships, product design and innovation

DEVELOPMENT

financial modelling, land acquisitions, planning, procurement, project management, design, marketing, sales

SUPPORT SERVICES

accounting, tax compliance, credit control, financial modelling, financial reporting, purchase ledger, sales ledger, treasury, transactional support, IT, insurance, internal audit, company secretarial, HR, office support

GROUP

investor relations, company secretarial, governance

what makes Grainger successful?

We are completely attuned to the markets in which we operate and how government policy could effect residential property. In addition, Grainger's unique geographic coverage, owner/manager reputation and ability to innovate enables us to compete where others can't.

We are determined to achieve our ambitious plans for growth, though in the current climate this will no doubt prove more challenging and may take longer than hoped. We will be guided by the overarching values that have brought us success to date:

PASSION We approach every challenge with energy, enthusiasm and an open mind. Our creative approach helps us to see new ideas and opportunities where others may only see obstacles.

PERFORMANCE We aim to continuously improve every aspect of our business, and appreciate that our investors and colleagues should expect nothing less. First-class performance demands hard work, professionalism, teamwork and high-quality processes.

PRINCIPLES Our business is not in commodities but in people's homes and aspirations. So we never forget we have a responsibility to individuals, to the environment and to society as a whole. We have a proud reputation to maintain and a strong legacy to leave behind.

We are eager to achieve our vision through careful evolution of our business model. We stand by the values that have made us successful. Ours is a transparent approach and we believe that meaningful relationships with all of our stakeholders are essential. Teamwork is also vital to our cause, working across our divisions to ensure we derive the maximum returns from all of our assets and interests.

our leadership team from left to right:

MARIE GLANVILLE
Company secretary, finance and IT

MARK ROBSON Property services

ANDREW SCRIVENER Development

ANDREW CUNNINGHAM
Deputy chief executive and finance director

RUPERT DICKINSON Chief executive

DEBRA YUDOLPH Corporate affairs

PETER COUCH Retirement solutions

ANDREW PRATT UK residential

STEPHANIE JENKINS HR director

QUINTON HILL-LINES
Corporate development and funds

BREAKDOWN OF PROPERTY ASSETS BY MARKET VALUE

Regulated	£1,221m
UK other assets	£196m
German market-let	£242m
Retirement solutions	£542m
Development	£121m
GenInvest*	£353m
Curzon Park*	£34m
G:res1*	£435m
ResPUT*	£88m

*Joint ventures and associates shown at full value. For Grainger's share see page 6.

TOTAL AT 30 SEPTEMBER 2007 – £3,232m

what we do...

We have a well financed, **unique portfolio** of residential properties and investments and a rare, **skilled workforce** to be proud of. This **effective combination** delivers **value** from our assets.

Our portfolio We own, either directly or with co-investors, a substantial value of residential property assets, in the UK and Germany. Our portfolio of properties subject to regulated tenancies in itself is worth over £1.2bn.

Most of our assets are reversionary in nature. This means that there is an inherent gain outside of normal capital appreciation or rent which will be delivered through vacancy or from work that we do, for example, obtaining planning permission.

Our assets and interests are efficiently financed using both debt and equity to give investors one of relatively few current opportunities to invest in a geared residential company.

More recently we have broadened our business to include management fee income. We do this by applying our honed skills and experiences, to manage property on behalf of other people – generally funds and ventures in which we hold a significant stake. Annualised income is now running at some £7m per annum and has been generated with very little incremental cost due to the sheer scalability of our platform.

UK RESIDENTIAL

PAGE 12 to 16

Core portfolio

Joint ventures

Funds

Retirement solutions

GERMANY

PAGE 18

German market-let

DEVELOPMENT

PAGE 19

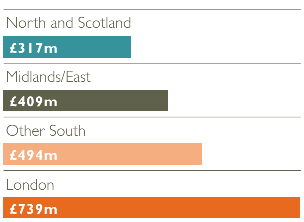
Development

Curzon Park joint venture with Development Securities

UK residential

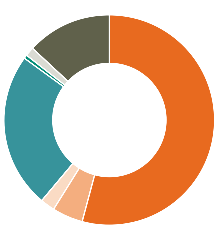
WHOLE UK RESIDENTIAL PORTFOLIO BY GEOGRAPHY

Excluding share of joint ventures (£) (investment value)



UK TENANTED RESIDENTIAL

Portfolio analysis by investment value



Regulated	£1,221m
Assured/other	£104m
Vacant	£50m
Equity release	£542m
Hotel complex	£9m
Other interests	£33m
Share of joint ventures/ associates	£290m

TOTAL AT 30 SEPTEMBER – £2,249m

Core portfolio

REGULATED We currently own some 7,600 regulated residential properties valued at over £1.2bn, and these remain central to our portfolio. These assets provide significant and predictable cash flows of over £100m per annum – from rents and from proceeds received when they are sold.

A regulated tenancy gives security of tenure – the right for the tenant to stay in the property for the rest of their lives. The rent is set independently and is less than the market rate for similar properties. Due to changes in the law, no regulated tenancies have been created since 1989. This gives us predictable vacancies and therefore sales, as our tenants get older. While inevitably this portfolio will decline, it will continue to be a major contributor to our business for some time. We do aim to buy as many of these assets as returns and availability allow. Properties subject to regulated tenancies can be acquired at a discount to the ordinary property value (known as vacant possession value). On vacancy, we sell the properties to realise both the discount (which we call the reversion) and any house price inflation from the date we originally bought them. We therefore realise high margins on sale.

We are protected against some of the risks associated with the residential market, such as short-term or localised falls in house prices, by the size and geographical spread of our portfolio, and the fact that we buy and sell properties over long periods of time. The regulated portfolio also has low exposure to top-end volatility. Currently the average vacant possession value of our regulated stock is £205,000 per unit (£182,000 in 2006) with 60% of our properties valued below £250,000. Further, these properties are typically unmodernised and appeal to first-time buyers and those hoping to create value on renovation. This keeps them in demand.

ASSURED These are residential properties let at market rates on assured shorthold tenancy ('AST') agreements, typically of six months to a year. In the year to September 2006 we transferred a large number of our ASTs to G:res1, the fund we subsequently launched this year. Increasingly we are purchasing regulated tenancies in portfolios which also contain ASTs. We will either hold these for ongoing capital growth, or trade them over a relatively short period, depending on how we believe returns can be maximised.

Joint ventures

GRAINGER GENINVEST LLP In June 2005, Grainger and Genesis Housing Association formed a 50/50 joint venture to acquire a £70m portfolio of 461 residential units from the Church Commissioners. The partnership acquired a further 1,138 units for £196m in March/June 2006.

TILT Grainger acquired The Tilt Estate Company Limited, consisting of 309 homes, in September 2007. The portfolio is located in East Dulwich, London SE22 and includes many Victorian properties most of which look out onto a private garden square.

HOMEWELL, HAVANT, HAMPSHIRE
Grainger acquired a row of ex-workman's period cottages in Havant in March 1997. We currently own eight of the row which are let on regulated tenancies.

REGIONAL OFFICES
Grainger's seven offices in the UK give good geographical coverage and localised knowledge.

TAIT & BENSON is one of the blocks belonging to Grainger GenInvest. Since acquisition from the Church Commissioners, a major works project has been completed on the communal areas.

Troy and Simon rent their contemporary designed flat in Hackney, London from the Grainger managed fund G:res1.

DIBDEN HOUSE, MAIDA VALE, LONDON

Since acquisition in 2005 from the Church Commissioners, Grainger GenInvest has spent £2m on major works to the communal areas of this block of 246 units.

BUILDING HOMES FOR THE FUTURE

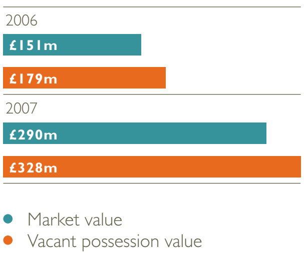
When we develop properties, we use our management expertise to build homes that are efficient to manage and can be specifically designed to let.

Grainger's open plan offices encourage a friendly working atmosphere and easy sharing of information and ideas.

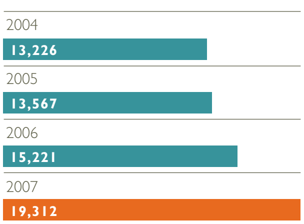
UK residential

JOINT VENTURES

Share of joint ventures/associates



NUMBER OF UK PROPERTIES MANAGED



Joint ventures continued

The portfolio now consists of 1,641 units in eight blocks in central London. Grainger provides asset management services while Genesis handles day-to-day property management. Over the coming year we aim to identify strategic opportunities to increase returns through appropriate refurbishment and individual sales.

Funds

Fund management is an integral part of Grainger's evolving business model. It adds another layer of leverage to our operations, allowing us to generate fees from the skills of the people we employ. In this way our returns are no longer derived only from the properties directly and our return on capital is enhanced. We believe that by following this model our group will be worth more than the sum of its parts.

G:res1 Established in November 2006, the G:res1 fund is a Jersey-based company that invests primarily in market-let residential properties in the UK. Grainger is a co-investor in the fund, which is independently managed and controlled. The fund was set up to capitalise on the growing attractiveness of residential property as an investment class. Investors are currently a broad mix of UK and overseas institutions. The fund's initial portfolio included 1,480 units in 38 blocks across the UK.

In March 2007, acting on our advice, the fund acquired a 700-unit portfolio consisting of properties predominately located to the east of the City of London. The fund now holds 2,155 individual units in 56 unbroken clusters of property, with a market value totalling £435m. 90% of these are in London and the South East. The fund is aiming to acquire further assets over the coming year, and make strategic sales, while refurbishing other properties.

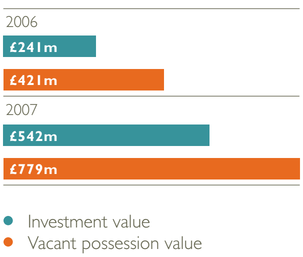
As adviser and asset and property manager, we earn fees for delivering returns. As a co-investor, we benefit from the resulting dividends and growth.

ResPUT (The Schroders Residential Property Unit Trust) ResPUT is a specialist residential fund which provides investors with almost ungeared exposure to the UK residential market. The fund is managed by Schroders Property Managers (Jersey) Limited and advised by Grainger. We also manage the property on a day-to-day basis. The fund aims to combine a high-quality income yield with above average prospects for capital growth. It has gross assets of just under £100m, and Grainger currently owns a 22% stake valued at approximately £20m. Capital is recycled through strategic sales and astute acquisitions.

UK residential

HOME REVERSION MARKET

Investment value and
vacant possesion value



Retirement solutions

Our retirement solutions business has more than doubled in size over the year. We have recognised that not all people will choose to release equity in their homes in retirement, but some will prefer other housing solutions. As a result we have begun to broaden our offering and now own in excess of 1,000 retirement apartments.

We have maintained our 40% share of the home reversion market. Under a home reversion plan, an individual or couple sells Grainger part or all of their home in return for a cash lump sum which is dependent upon the value of the property, the proportion being sold and the age(s) of the homeowner(s).

The occupiers are then able to remain in their property rent-free for the remainder of their lives. Bridgewater, Grainger's own brand, offers a flexible reversion plan which as an alternative to a single lump sum, offers an escalating release or a series of cash payments.

The property is purchased at a discount to the vacant possession value of the property (the selling price without a tenant in situ). Similarly to regulated property, this provides a reversion, which is realised on ultimate sale of the property, when the tenant vacates. The reversion is greater on a home reversion than on a regulated property since there is typically no rent at all on a home reversion.

The home reversion market became regulated by the FSA in April 2007. Against demanding deadlines we achieved regulation from the outset, a hurdle not achieved by some. We believe that regulation is a catalyst for growth in the industry, placing it on a level footing with lifetime mortgages, the most popular method of equity release.

As well as using the Bridgewater brand, we source home reversions through a distribution agreement with Norwich Union and many financial advisors. We also aim to acquire more mature portfolios through our extensive property network.

We expect continued growth in this market as more people seek to release cash to supplement their pensions, improve their lifestyles or realise their dreams.

The final major constituent of our retirement solutions business is the CHARM portfolio which we acquired early in 2007 for £135m. This is a portfolio of equity mortgages, where the mortgage is repaid as a proportion of the sales proceeds rather than as the amount of the loan originally borrowed. Interest, which grows with rpi, is also received.

WOODVILLE GARDENS, EALING

Grainger advised Schroders on the acquisition of this large detached Victorian house in July 2007. The property comprises of eight self-contained flats all let on assured shorthold tenancies.

Our in-house property services team works closely across all divisions. They also liaise with tenants and suppliers.

POINT HOUSE, BLACKHEATH LONDON

Laura is a regulated tenant in this historic listed building which Grainger acquired in May 2002.

ROTHENBURG WÜMME GERMANY

Acquired in 2006, this property comprises of 16 units of which 10 are residential and six are commercial. The property is fully occupied.

Germany

GERMAN MARKET-LET

4,520 properties with a market value of €346m

GERMANY
Portfolio overview

- 2,528 properties
- 1,684 properties
- 308 properties

4,520 properties

German market-let

We entered Germany, Europe's largest residential market, in 2006, in order to replicate our business model in a market that was behind the UK in levels of home ownership. As Germany continues to deregulate its housing, major portfolios of reversionary property are becoming available. This has made the market very attractive to investors and since 2002, €25bn has been invested in 600,000 units. The tenant-friendly laws and controlled rents attract professional landlords. The relatively low price per unit provides potential for significant capital growth.

As single occupancy continues to grow and the supply of new housing is diminishing, we believe there will be a growing demand for quality housing. We have targeted the more affluent regions and concentrated on higher quality properties that suit owner occupation, rather than only focusing on yield. Our background as a long-term residential property owner differentiates us from the many purely financial purchasers in this market.

We now own approximately 4,500 homes in Germany, worth £242m. The tenants have security of tenure similar to regulated tenancies in the UK. We will continue to work with local partners, looking for strategic expansion opportunities. We also intend to seek third-party equity so we can apply our co-investment fund management model.

Our Mannheim office currently employs seven staff who advise on acquisitions and asset management. We currently outsource the day-to-day management of the portfolio to local agents.

Development

MAJOR DEVELOPMENT PROJECTS

Project	Estimated end value
West Waterlooville 520 acres of greenland in Hampshire	Land Phase 1: £135m
Hornsey Road Baths Islington 212 residential units and community buildings	£44m
Macaulay Road Clapham 97 residential units	£56m
Barnsbury Complex Islington 141 residential units	£49m
Gateshead College 263 residential units	£72m
Newbury 330 units 50,000 sq. ft. retail	£82m
Wards Corner Seven Sisters 198 residential units	£76m

Development

This business aims to create mixed-use developments with a significant residential element. Current programmes consist of nearly 7,000 residential homes with 2 million sq. ft. of commercial space, including healthcare facilities, schools and nurseries, sports and recreational facilities, a community theatre and a cemetery.

Our philosophy is simple and responsible. We take a long-term interest in the communities we create and are committed to their sustainability. We also promote the benefits of good design, with schemes that really take into account the way people actually live, which of course, ensures a demand for the homes.

We are not afraid to challenge conventional wisdom. We also aim to maintain an open and straightforward relationship with all parties involved.

We have recently strengthened the management team with bases in both London and Newcastle to ensure good geographical coverage. Our strategy is to reduce our development risk by focusing on larger long-term residential-led schemes, in project-specific joint venture partnership with others. Current projects in the pipeline, valued by their expected end development value, include £324m with planning consent and £485m without.

Joint venture with Development Securities

CURZON PARK Curzon Park is a 10-acre site in central Birmingham, acquired for £33.5m in December 2006 through a collaborative (50/50) agreement with Development Securities plc. The site will be developed over six to eight years to create up to 800,000 sq. ft. of offices, 400,000 sq. ft. of homes, a 180-bed hotel, 20,000 sq. ft. of retail space and parking for 1,500 cars. The development will cost over £300m which will be appropriately financed. A planning application was submitted in summer 2007 and it is expected that work will begin on-site in early 2008.

WORKING TOGETHER

Eligible Grainger employees participating in our Share Incentive Plan

how we do it...

Working together is fundamental to our success. When our people direct their varied **skills, experiences and professionalisms** to supplement those of others, the consequent lateral **creativity and inspiration** delivers results.

Our people We pride ourselves on recruiting and retaining outstanding people who are individual experts and great team players. We encourage an entrepreneurial culture where everyone feels they can make a significant contribution to the business, as well as be rewarded by it.

59% of our staff are shareholders in Grainger and our permanent staff retention for the year October 2006 to September 2007 was 90.1% against a national average of 84.3%.

For Grainger, investing in people means giving staff the opportunity to develop both as employees and individuals. We believe in building the business with them, and our people development activities are guided by a mix of business objectives and individual needs. Twice-yearly reviews ensure everyone understands their role, and the impact they can make on the overall business.

During 2008, we intend to introduce a number of learning and development initiatives for our employees. These will include a management development programme, tailored to relevant individuals. We aim to become the employer of choice in our market by connecting our people strategy, values and HR policies to reinforce and promote our distinctive culture.

We aim to be a high-performance team of like-minded experts who share a common vision for growth.

GRAINGER SKILLS

FINANCING
PAGE 22

RESIDENTIAL
PAGE 22

PROPERTY SERVICES
PAGE 22

RETIREMENT SOLUTIONS
PAGES 22 AND 25

DEVELOPMENT
PAGE 25

SUPPORT SERVICES
PAGE 25

GROUP
PAGE 25

We restructured our management and teams during the year. The key change made was to create a 'residential' team, separate from 'property services'. The division of their responsibilities is described below, alongside those of our other teams.

FINANCING The success of our group is not only dependent upon the performance of our assets, but also how effectively we fund them.

The bulk of our funding comes from the debt markets but during the year, we introduced £159m of third-party equity (through G:res1) and entered the capital markets with the launch of a seven-year convertible bond. This raised c. £110m at a rate of 3.625% and a conversion price of £8.64. Our expansion into Germany has been funded by new euro facilities, to ensure a natural hedge. We believe it is necessary to refresh and update our borrowings and take innovative opportunities as they arise.

Our traditional bank debt is made up of a combination of term loans and revolving facilities with varying maturity dates, currently all in excess of two years. We have a 'club' of banks, most of whom we have had relationships with for a number of years. Our covenants, which include a loan to value test and a cash cover over interest are relatively generous. Our core business in particular, is very cash generative, and this gives us the ability to pay down debt quickly if necessary. Further, the loan to value calculation uses the current market value of our assets. This has an in-built reversion, so there is an additional layer of comfort not immediately apparent. We have a policy of hedging the interest rate on at least two thirds of our debt, keeping our hedging instruments separate from the facilities. We use a combination of swaps and caps.

RESIDENTIAL This team has two key responsibilities:

Portfolio, corporate and individual acquisitions both in our established markets and also to capitalise on potential growth areas by defining residential in a wider sense, e.g. caravan parks, serviced apartments. This requires astute awareness of changing markets, a wide network of contacts and high-calibre, creative thinking; and

Strategy-setting/decision-making at a portfolio/fund level including buy and sell decisions for capital recycling and on refurbishment programmes intended to increase rental yield and/or capital values.

PROPERTY SERVICES In total there are just over 100 people working in this team, in six of our seven UK offices. Their work falls into two major categories:

Property management covers the day-to-day operational running of the properties including rent reviews and renewals, reducing voids, repairs and maintenance, refurbishment, block management, commercial, lettings and customer care. With more than 19,000 UK properties belonging to five different owners, it is essential that not only their operational work is of a high standard, but that they also give value-added recommendations based on their local knowledge; and

Sales and valuations includes completing day-to-day sales of 12 properties every week, valuing properties which have been identified by the residential team for potential purchase and also carrying out our year-end valuation of every property that Grainger owns directly.

RETIREMENT SOLUTIONS The roles in our retirement solutions team vary from that of actuarial to customer relations. In particular, success within the home reversion market depends on the following three factors:

Product innovation Our own Bridgewater brand includes a flexible reversion alternative. Our team monitors the success of this by reference to, for example, the number of enquiries which result in the purchase of a property. We seek to be at the forefront of any emerging products;

SUPPORT SERVICES

Finance and IT work closely together to deliver management information in an efficient way.

RETIREMENT SOLUTIONS

The home reversion market became FSA regulated in 2007 which we believe will be a catalyst for growth in the industry.

WETHERBY ROAD, LEEDS

Acquired in June 2007 for our core portfolio, Wetherby Road contains six 1 and 2 bed flats of regulated and AST tenure.

REFURBISHMENT

Our Knightsbridge based refurbishment team carries out strategic works, including extensions and conversions, to increase rental yields or sales values.

ELMCROFT DRIVE,
ASHFORD, MIDDLESEX

Rick and Gill have been tenants here for nearly 10 years. Their one-bed flat forms part of the Elmcroft estate which Grainger sold to G:res1.

OUR PEOPLE

We are keen to offer our staff both career and personal development to ensure they fulfil their potential at Grainger.

RETIREMENT SOLUTIONS

Based in Newcastle, the retirement solutions team commands 40% of the home reversion equity release market.

HOMES FOR THE FUTURE

Grainger's development pipeline is spread across the UK. The current programme is set to deliver over 3,000 homes.

Distribution It is critical to reach as many potential customers as possible and marketing is key. We have individual relationships with financial advisers and an online system that allows those advisers to access cases and pricing day or night. We also have an important agreement with Norwich Union who offer our home reversions alongside its own lifetime mortgages. As a group, we price the plan, acquire the property, manage the property and undertake the sale on vacancy. We also acquire existing portfolios of home reversion assets, which are actuarially priced based on market valuations of the properties; and

Regulation Since April 2007 home reversions have been regulated by the FSA. We employ compliance and education staff who ensure that our operations are of the exacting standards required and all reporting is completed on time.

We are very proud to have been recently awarded 'Best Home Reversion Provider' for the second year running at the prestigious Mortgage Solutions Awards.

Our staff are also involved in setting up lifetime leases on our new retirement properties and monitoring the performance of our CHARM investment.

DEVELOPMENT Our development team works closely with local authorities, communities, joint venture partners and all other relevant stakeholders. It also makes the most of the knowledge and expertise within our other divisions to design buildings that can be managed efficiently. Our people are strong negotiators and their specific responsibilities include:

- acquisition of land suitable for regeneration, often through tender;
- financial modelling of possible design variations;
- gaining planning permission;
- project management;
- selling developments, wholesale or individual units; and
- hand-over for ongoing management.

SUPPORT SERVICES Our support services cover all the areas expected in a FTSE 250 company. Above all they strive to constantly improve the ways they work, by increased automation as well as better methods.

Finance look after our management accounting and financial reporting, treasury, tax, internal audit, credit control, invoice processing, service charge accounting and insurance. The requirements for efficient funding, tax management and meaningful and timely financial information are rightly demanding;

IT supports a vast array of applications and systems. Our systems and communications are vital to the running of our operations and our team have both proactive development and reactive support responsibilities;

HR helps us to attract and retain the very best people. Our team ensures that our policies and practices, and salaries and benefits are competitive. In addition, they are responsible for learning and development, ensuring it is aligned to our business objectives; and

Corporate affairs is responsible for internal and external communications (except investor relations) as well as corporate responsibility (see page 45). Their aim is to build a stronger brand and ensure our public relations activity is controlled and focussed.

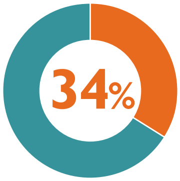
GROUP There are some functions which are operated centrally within the business, which we describe as group functions. These include:

Investor relations which is predominantly carried out by the executive directors and includes many meetings with shareholders and analysts;

Company secretarial is responsible for compliance with the Companies Act and the Listing Rules, as well as value-added activities such as board evaluation and share plan administration; and

Governance describes the board's strategy setting as well as monitoring and control.

our people are more than the key to our success. We share our vision and believe that by working together, we can achieve it. Our culture will ensure enjoyment along the way!



Our staff that have
five or more years' service.

financial highlights In the last year we have invested in total some £614m on property or related property assets.

Grainger NAV
732p
+23.0%

return on shareholders' equity
27.1%

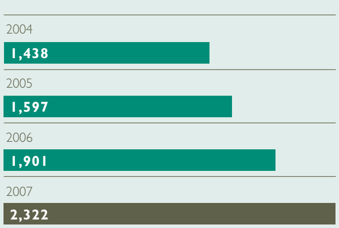
profit before tax
£77.5m
+62.5%

earnings per share
47.3p
+81.9%

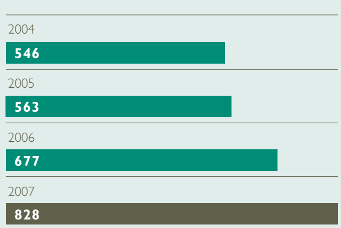
final dividend
4.12p
per share
+10.0%

+25.0%
increase in the market value of property-related assets to
£2.5bn

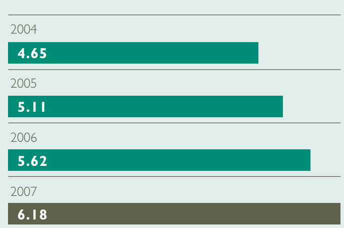
GROSS PROPERTY ASSETS (£m)



GROSS NAV PER SHARE (pence)



DIVIDENDS PER SHARE (pence)



chairman's statement In my first year as chairman of Grainger, I am pleased to report another year of strong progress and significant achievement in our three emerging business lines that complement our core residential regulated tenancy business.

ROBIN BROADHURST
Chairman

Overview Conditions over the financial year have generally been favourable and we have increased our gross property asset base to £2.5bn from £2.0bn in 2006. The increase has come from both revaluation uplifts (our UK portfolio has shown an uplift of 9.8%) and from acquisitions. In total we spent £614m on property assets in the year, including the major corporate and portfolio acquisitions of CHARM, The Capital Appreciation Trust and The Tilt Estate. The year-end value of our retirement solutions business has grown to £542m and we are pleased with our progress in Germany where we now own over 4,500 units worth £242m. Capital recycling through the successful launch of our G:res1 fund and prudent debt raising in the early part of the year have meant that this growth has been achieved at sensible loan to value ratios (53% at 30 September 2007) whilst maintaining a valuable liquidity position – our headroom on our lending facilities at the year end amounted to £226m.

Results In the light of evolving practice of accounts presentation under IFRS, we have conducted a review of the classification of our property assets. This has involved reclassifying a small proportion of those assets (4%) from trading stock to investment property or vice versa. The main impact has been that the revaluation surplus of £23.5m taken through the 2006 income statement on the transfer of assets to the Jersey Property Unit Trust ('JPUT') (that forms part of G:res1) has instead been taken through retained earnings at the beginning of that year net of tax of £7.0m. There is no change to market value net asset value measures or to business cash flows. Our 2006 figures have been restated accordingly and further details are given in the financial review section of this report.

Profit before tax has increased by 62% to £77.5m from £47.7m (restated), the principal driver of this being an improved contribution from our associates and joint ventures (up to £40.6m from £0.4m).

Operating profit (before fair value movements and goodwill impairment) has increased to £89.0m from £81.5m, largely due to improvements in trading profits from our core business.

Gross net asset value per share ('Gross NAV') has increased by 22.3% to 828p from 677p and there are similar improvements in our other NAV measures: Triple net asset value ('NNNAV') up 25.8% to 613p from 487p and base case Grainger NAV up 23.0% to 732p from 595p. Details of the calculations of these are given in the financial review.

Return on shareholders' equity has increased to 27.1% from 26.5%.

chairman's statement continued

total dividend
for the year
6.18p
per share
(2006: 5.62p)

Our goal to become a leading European quoted residential property company, we believe, will deliver consistent long-term growth in results and in dividends to our shareholders.

We are again increasing our dividend by 10% (our 13th consecutive year of increased dividends) with the result that the board are recommending a final dividend of 4.12p per share. Together with the interim dividend of 2.06p per share paid on 16 July 2007, this will produce a total dividend for the year of 6.18p per share (2006: 5.62p). At this level the dividend is covered 7.7 times (2006: 4.6 times). If approved the final dividend will be paid on 18 February 2008, to shareholders on the register on 18 January 2008.

Strategy The group's goal is to maintain and consolidate its position as the UK's leading quoted residential property company. It is proud of its core property management services model which is at the heart of the business and seeks to deliver a personal and caring service to its many tenants. Expanding and continuing the successful delivery of this service model will allow the group to expand and diversify its offerings, particularly in the fields of fund management and development, but operating within the residential arena utilising the experience gained over its long history.

We believe this goal will continue to deliver consistent long-term growth in results and in dividends to our shareholders. We are developing a mix of residential businesses away from our previous heavy reliance on regulated tenancies. Following the Housing Act 1988, the number of these tenancies will reduce over the next 10 years as this type of structure gradually disappears. Historically the business has been largely centred on the ownership and trading of these large-scale residential portfolios of regulated tenancies. Returns have been generated through rental income and, more significantly, from capturing reversionary surpluses on sales when the properties fall vacant. These returns have been enhanced by a cautious approach to acquisition, the application of rigorous management, growth in house prices and by appropriate levels of financial gearing. In recent years we have used our cash generation and property management platform in the residential sector to enable us to capture a wider range of assets.

This expansion and diversification has enabled us to become market leaders in three residential sectors; the ownership of properties subject to regulated tenancies, providers of home reversions and residential fund management. This latter activity, in particular, produces an income stream not reliant on the direct ownership of property and at low incremental cost. We have also widened our risk and return exposure by increasing our involvement in residential development and by entering the German residential market.

Board changes At the beginning of May, we welcomed Henry Pitman as a non-executive director. He was previously chief executive of Tribal Group Plc and his experience, which includes both property and government-related housing business, will be of great assistance to the board.

My personal thanks go to Robert Dickinson from whom I took over as chairman at the conclusion of the Annual General Meeting in February. His long service and contribution to the growth of the group has been previously recorded, but his help and guidance in the handover of the chairmanship was hugely appreciated.

We see good opportunities in continuing to apply our own variety and blend of skills to different residential asset classes. Widening our spread of activities will give us both resilience as well as increase our long-term growth prospects.

Outlook Whilst residential house prices continued to rise through this financial year, the listed property sector (including real estate investment trusts) fell by more than 20%, largely fuelled by the sentiment that the rapid rises of recent years are unsustainable. This has now proved to be the case and there is little doubt that the next year will be a challenging one both for the sector and for Grainger. Notwithstanding this, recent evidence suggests that properties in our portfolio are continuing to sell at or slightly above current valuation levels. Grainger's average house price in its core portfolio is £205,000 and the portfolio is geographically diverse. In light of this and our limited exposure to new build flats in city centres (the area we expect to be the most difficult in the coming months), we believe that we are relatively well protected from the slowdown in the current market.

Going forward, we see good opportunities in continuing to apply our own variety and blend of skills to different residential asset classes. Where appropriate, we will introduce third-party capital to enhance our returns and reduce our direct balance sheet exposure. This may be in the form of joint ventures (for example, along the lines of Grainger GenInvest and Curzon Park) or in co-investing funds (G:res1).

This will not be the first period of more challenging market conditions that the company has weathered in its long history. Our experience, combined with the more diversified business model we now have in place, gives us confidence in our positioning and prospects. We plan to continue our long-standing prudent approach towards acquisitions and liquidity and believe that our spread of activities will give us resilience and increase our long-term growth prospects to create shareholder value.

I would like to take this opportunity to thank everyone at Grainger for the welcome and help that they have given me in my first nine months as chairman. Their commitment and enthusiasm will serve the company and its shareholders well in the future.

ROBIN BROADHURST Chairman 18 December 2007

STRATEGY

chief executive's review

Market review There has been much recent debate over the state of the UK housing market and the impact that recent events in the world credit markets, triggered by events in the US subprime sectors, will have in the future. Many indicators point to a slowdown in the rate of house price growth – in particular, falling levels of mortgage approvals, falls in certain house price indices and slowing sales volumes from house builders. Commentators vary between predictions of a severe fall in actual house prices (as was the case in the early 1990s) and a soft landing where price growth slows and possibly stagnates for a period.

Our view is that rates of house price growth are fundamentally determined by two factors: the balance between supply and demand and levels of affordability.

The UK is currently suffering from long-term imbalance between the supply of housing stock and the amount required to support the increasing number of households. In the first seven years of this century, UK housing completions averaged 166,000 per annum. Government initiatives have been announced to increase this level of supply to 240,000 (recently increased from 200,000) per annum by 2016. Set against this are population forecasts indicating that the UK population will rise from 60.6 million in 2006 to 65 million in 2016. More importantly, the trends of immigration, an ageing population and an increasing number of single person households will lead to an additional requirement of 209,000 households per year to 2026. This is a continuation of the trend that has seen the numbers of households increase by 30% in the last three decades of the 20th Century – matched by a fall in the level of new housing built over the same period of 50%. It remains to be seen whether, given the current planning environment, increased availability will be able to absorb both existing and future demand.

As well as the imbalance at a total stock level, of equal importance is the limited supply for the right type of dwelling at the right price in the right location. For example, London and the South East has limited availability and great levels of wealth generation. This has produced some of the largest price increases we have seen over the last few years which, we believe, will help to sustain the market in this area for some time to come. We have some 55% by value of our portfolio in this region.

Conversely, there appears to be oversupply in certain provincial cities of, in particular, recently built one- or two-bedroom city centre apartments primarily built for the buy to let market. We have kept out of these more speculative markets and therefore have virtually no exposure to this sector.

RUPERT DICKINSON Chief executive

The second key factor is the level of affordability, with many commentators pointing to the impact this had on the housing market in the early 1990s. There are two main differences between that period and now. Firstly, base rates between mid-1988 and mid-1992 did not drop below 10% and, at their peak, mortgage rates were approaching 17%. Current base rates are at 5.5%, having fallen 0.25% since the time of our preliminary announcement. Secondly, the economic situation is far more robust – GDP at 3.3% in Q3 2007 (above the average long-term rate of 2.5%) and employment levels are at a record high (in 1992 unemployment approached three million).

One of the key measures of affordability is the ability of households to meet their normal expenditure once they have paid all their housing costs. Research indicates that, whilst income net of housing costs still exceeds household spend, the surplus is narrowing as a result of increased mortgage costs arising from rate rises. The unwinding of relatively cheap fixed rate loans may well reduce it further in the coming months but not to levels that would be likely to precipitate a severe correction in house prices.

Consequently, whilst we are planning for a period of slower house price growth and are therefore being more cautious in our acquisitions, we do not expect a wholesale and significant fall in prices in the short term. However, our long-term model can withstand short-term price fluctuations and we believe that the wide geographic spread, low average price and reversionary potential in our portfolio will enable it to continue to deliver enhanced returns.

Although the volume of transactions is relatively small, since the year-end sales values achieved on vacancy have exceeded our September vacant possession values by 4.0%.

Risk review The key risks to the Grainger business are:

- a severe long-term downturn in the UK housing market;
- significant increases in interest rates; and
- a lack of availability of finance.

Dealing with each of these in turn:

Housing market We have assembled our unique residential portfolio over a significant period of time and its current market value is substantially greater than cost. Moreover, much of the portfolio is reversionary and the value that we will obtain by selling on vacancy currently exceeds market value by over £600m (the 'reversionary surplus').

The nature of our portfolio is inherently defensive in times of house price slowdown. It is geographically diverse and, whilst one of its long-term strengths is a significant exposure to the high demand areas of London and the South East, we are not overly exposed to cluster risk. In other areas, house price growth tends to follow the South East but, coming from a lower base, can show dramatic levels of increase.

chief executive's review continued

The majority of our properties are unrefurbished and of relatively low value. This level of affordability is a key element of continued and sustained demand for our properties when they become available for sale. Our average vacant possession value is £205,000 (the UK average is £198,000) and 60% of the portfolio is below £250,000. Our exposure to the higher end of the market (>£500,000) which traditionally shows greater volatility is restricted to some 279 properties out of our total UK-owned portfolio of over 14,000 units. We have found that demand for our typical properties (affordable and offering potential for value appreciation through refurbishment) is resilient even in times of market slowdown.

Operationally we manage our exposure to house price inflation by constant reviews of the portfolio to ensure that we crystallise gains to maximise returns at the right time. We are also diversifying our income streams (for example, fund management income) and our geographic spread (investment in Germany) to spread risk.

Interest rates Our exposure to adverse interest rate movements is limited by adopting a prudent hedging policy. At 30 September 2007, over 70% of group debt was hedged by being either fixed or subject to caps or swaps. The hedging instruments used and the fixed rate debt have a variety of maturity dates giving protection over the medium term.

Availability of finance At 30 September the group's headroom amounted to £226m and the average maturity of our debt was six years. The first significant maturity (a revolving facility of £400m) is not until June 2010.

We guard against lack of liquidity by constantly recycling capital; for example, we raised £282m of third-party funding through equity and debt raising in the G:res1 fund during the course of the year.

The core business in particular is very cash generative – gross rents and property sales amounted to £165m in the year. Whilst we spent £151m on new acquisitions, the vast majority of this can be stopped in adverse market conditions. Consequently we are able to reduce gearing levels and improve liquidity quickly by cutting back on purchases if necessary.

As explained above, the low value, unrefurbished nature of our portfolio means that it is very liquid and easily realisable.

Operating review

General Despite the repercussions of the credit crunch in the banking markets in late summer, the UK residential market showed strong levels of growth to the end of September – the Nationwide and Halifax House Price indices recording gains of 9.0% and 10.7% respectively. Several regions showed growth of over 15%, in particular Greater London at 18.6%.

Our own portfolio, with some 55% by value in London and the South East, showed an average increase of 9.8%.

Our main operating divisions and the market value of each as a percentage of our total property and investment assets are:

Core portfolio	57%	Primarily our portfolio of properties subject to regulated tenancies.
Retirement solutions	22%	Our interests of home reversion and retirement-related assets.
Fund management and investments in residential joint ventures	7%	These are investments in managed funds (G:res1 and Schroders) and in Grainger GenInvest (our joint venture with Genesis Housing Group).
Development	4%	Focused on relatively large scale residential or residential-led mixed-use developments.
Continental Europe	10%	Principally investment in German residential portfolios.

These operating divisions are supported by our property and asset management divisions of over 100 staff based in our seven UK and one German offices.

Core portfolio

	2007	2006
Regulated units owned	**7,655**	7,715
Market value	**£1,221m**	£1,090m
Vacant possession value	**£1,571m**	£1,403m
Other assets (vacants, assured etc)	**882**	652
Market value	**£196m**	£141m
Vacant possession value	**£220m**	£160m

Trading performance in this division has been strong. Although the number of units sold has declined from 787 to 661, as explained below, sales proceeds have increased marginally from £126m to £128m, reflecting higher average values achieved (£193,000 compared to £160,000). Margins on normal sales (i.e. when a property is sold on vacancy) have also improved from 48.6% to 50.7%.

The number of sales has declined because we have made fewer investment sales (when a property is sold with a tenant in situ), down to 86 at a gross sales value of £17.2m and profit of £9.7m, from 224 at a value of £31.3m and a profit of £13.0m in 2006.

chief executive's review continued

This is a trading portfolio and, as such, we make a number of these sales as a result of active portfolio management where we feel that returns would not be significantly enhanced by waiting for vacancy in the usual way. The level of investment sales has been relatively high in recent years as we have worked through assets acquired in major portfolios. We would expect the volumes to continue to decline in the future as this process is completed.

We have been pleased with the levels of acquisitions in the year, enhanced by two major corporate transactions. Firstly, The Tilt Estate Company Limited, bought for £48m and comprising a mixed tenure estate of over 300 units in East Dulwich, London SE22 and secondly Portland House Holdings Limited comprising 135 properties located across England and Scotland for £12m. In total we have acquired 863 units for £151m (2006: 462 for £70m).

Operating contribution for this division (comprising profits on sale of trading and investment assets together with net rents and other income, after deducting divisional overheads) amounted to £81m (2006: £76m).

Retirement solutions

	2007	2006
Interest in residential units (number)	**5,952**	3,003
Market value	**£542m**	£241m
Vacant possession value	**£779m**	£421m

We have retained our market leadership in the writing of home reversion plans, with a 40% market share at 30 September 2007*. Of particular note has been our achievement in obtaining regulated status from the Financial Services Authority in April of this year. This puts home reversion plans on a level footing with other equity release products which were regulated by virtue of being mortgages. Although there was some market disruption during the period approaching the regulation deadline, leading to a slowdown in acquisitions, we believe that, in the long term, regulation will be a key factor in the continuing success of not only our business, but the home reversion market in general.

In the period, we sold interests in 139 home reversion property assets for £14.9m and recorded a profit of £7.4m (2006: 110 assets for £12.5m and a profit of £5.7m).

We have made significant progress in building this business in the year, investing a total of £252m on 2,899 assets (2006: £29m on 432 assets). These included the major acquisitions of the CHARM portfolio (a financial interest in some 1,287 equity mortgages from the Church Commissioners for £135m) and The Capital Appreciation Trust (Isle of Man) plc ('CAT') which comprises 911 sheltered housing units for £72m. This latter acquisition is significant in that it enhances our product offering in this sector, giving us the opportunity to provide more flexible tenure alternatives from rental and lifetime lease through to shared equity.

Operating contribution from this division amounted to £8m (2006: £3m).

* Source: SHIP

Fund management and residential investments

	Holding	Gross asset value £m	Net asset value £m	Grainger share £m
Grainger GenInvest	50.0%	364	80	40
G:res1	21.6%	457	219	47
Schroders	22.4%	90	90	20
Total 2007		**911**	**389**	**107**
Total 2006		312	27	14

This division has made significant progress in the year, the highlight being the close of G:res1, our market-rented fund. Total third-party investment in the fund stands at £159m, representing 78.4% and investors include Mitsubishi Corporation, Achmea, APP, British Airways Pensions Fund, FF&P, LGPI, Nomura, Norsk Hydro, Storebrand, Swiss Re and the Universities Superannuation Scheme. The fund itself grew considerably in the year with the acquisition of the Ability Portfolio (700 units in East London for £205m) and NAV grew by 14% in the period from launch in November 2006 to the end of June 2007.

Grainger GenInvest, our joint venture with Genesis Housing Group, has also shown strong growth on the back of the London house price market – average increases in the value of the portfolio amount to 24.7% and the value of our total investment has increased from £10m to £40m. Including amounts lent by Grainger to the joint venture of £68m (2006: £58m) our total investment is £108m (2006: £68m).

Annualised fee income from our fund and property management activities now stands at £7m.

The contribution from this division (being share of profits, dividends received, fee income and share of revaluation surpluses in the year) amounted to £40m (2006: £5m).

We hope that current market conditions alongside political and social imperatives will mean that the government and local authorities have to look more favourably towards the professional private rented sector as a potential partner in providing some of the new housing supply to 2016. We are engaged in this debate and are confident that the model we are creating will be well placed to respond to any initiatives that are introduced.

Property services This division carries out the asset and day-to-day property management of our core portfolios and those of our co-invested funds. The division also now includes our lettings team and regional sales and valuations. In this way we can provide a consistent level of service to each of the portfolios we manage.

	2007	2006
Residential units managed	**19,312**	15,221
Gross rent roll	**£69m**	£51m
Gross property expenditure	**£18m**	£12m

chief executive's review continued

Development

	2007	2006
Market value of development portfolios (including share of joint ventures)	**£110m**	£97m
Estimate of completed development value	**£809m**	£675m
Of this, with planning consent	**£324m**	£178m

We have been building our team and refining our strategy for development so that it is more aligned to the long-term ownership model of the group. We intend to continue to sell assets to the open market to assist in generating cash flows for the group, whilst also retaining some stock. Good progress has been achieved on all major development sites during 2007.

In particular, at Newlands (West Waterlooville) we obtained a resolution to grant planning for the development of 100,000 sq. metres of commercial space and 1,550 new homes. In addition the adopted Hampshire County Structure plan includes a reserve allocation for a further 1,000 units. We are currently in the process of agreeing the Section 106 agreement and hope to start on infrastructure work in the latter part of 2008. This is an exemplar scheme where we will be directly involved in some of the construction and in the long-term management of the estate. We expect the first house sales to commence in the financial year ending 2009.

The current status of our other major projects is set out below:

Project	Description	Status	Expected gross development value	Income from
Wholly owned				
Hornsey Road, Islington	212 residential units, community buildings	Under construction	£44m	2008
Macaulay Road, Clapham	97 residential units 30,000 sq. ft. retail	Consent granted and demolition commenced	£56m	2009
Barnsbury Complex, Islington	141 residential units	Detailed planning consent obtained	£49m	2010
Wards Corner	198 residential units	Conditional development agreement signed	£76m	2012
Newbury	330 residential units 50,000 sq. ft. retail	Preferred developer status, conditional development agreement early 2008	£82m	2011
Gateshead College	263 residential units	Detailed planning application late 2007	£72m	2009
Joint venture				
Curzon Park	Mixed-use joint venture with Development Securities plc including 400,000 sq. ft. residential, 800,000 sq. ft. office, 20,000 sq. ft. retail and 118-bed hotel	Outline application submitted	(Grainger share) £196m	2009

The above analysis demonstrates that revenues from this division will become more significant from 2009 onwards.

Operating contribution from this business in the year (including trading profits, profits on sale of fixed assets and joint venture interests, net of divisional overheads) amounted to £4m (2006: £7m).

Continental Europe

	2007	2006
Residential units owned	**4,520**	2,739
Market value	**£241.7m**	£116.9m
Gross rent	**£9.8m**	£4.5m
Gross annual running rent	**£15.0m**	£7.5m

We have made significant advances in our European operation, in particular the opening of our Mannheim asset and property management business, which now employs seven members of staff. Whilst increasing interest costs have narrowed the spread between yields and funding costs we remain optimistic for the prospects of our German residential business. This is based on our long-term strategy which includes buying good quality assets with favourable tenant structures in areas where residential demand is likely to remain high. The results of this have been reflected in the valuation of our portfolio which shows an uplift of 4.0%. We focus on smaller value portfolios (below €20m) and do not rely on overly aggressive privatisation rates to deliver the required level of returns.

We continue to investigate alternative funding structures for our German business and, in particular, the possibility of introducing third-party equity.

The operating contribution from our German portfolio in the year was £5m, primarily from net rental yield on the properties which is running at 4.5% (2006: 5.0%). We have two further European interests, one of which was sold in the year, delivering profit of £1.2m on an original investment of £2m. The other, a subsidiary company in which we own an 81.6% stake, holds a development site in Zizkov, Prague and is going through the planning process. Our investment amounts to £3.5m and the gross development value may amount to as much as £170m on phase I with a second phase of similar size to follow.

Prospects We have been building each of our businesses in a prudent way, without assuming the relatively high levels of house price growth that we have benefited from in recent years. However, we believe that we now have in place a market-leading platform that can acquire, develop, fund, manage and sell a diverse range of residential products on a national basis.

We are also confident that we can still produce good long-term returns from our specialist portfolios which rely on active management, development and trading of reversionary surpluses and will continue to concentrate our resources in these areas.

RUPERT DICKINSON Chief executive 18 December 2007

STRATEGY

financial review

Evolution of the application of IFRS and a review of our accounts by the Financial Reporting Review Panel has caused us to reconsider the suitability of certain of our accounting policies, in particular the classification of market-rented residential assets which were transferred to G:res1 during the year ended 30 September 2006. In full agreement with our auditors, these assets have been reclassified as investment assets rather than trading assets with effect from 1 October 2005 and a prior year adjustment has been made accordingly. The effect has been to remove a revaluation surplus of £23.5m taken through the income statement in 2006 and instead take it through retained earnings at 1 October 2005 net of tax of £7.0m. This adjustment has no effect on the key indicator of market value, namely net asset value, and has no implications for the economics or cash generation of the business. An added benefit is that by removing the one-off revaluation surplus taken to profit in 2006, the disclosed income statements for 2006 and 2007 are far more directly comparable. We have also taken this opportunity to reclassify an immaterial balance of equity release home reversion assets to ensure consistent presentation. Full details of the adjustment are given in note 1(b) to the financial statements on pages 81 and 82.

Performance overview Our key performance indicators are:

	2007	2006	Change
Gross net asset value per share (pence)	**828p**	677p	22.3%
Return on shareholder equity (1)	**27.1%**	26.5%	0.6%
Return on capital employed (2)	**12.1%**	14.0%	(1.9)%
Operating profit before fair value and goodwill adjustments	**£89.0m**	£81.5m	9.2%

(1) growth in NNNAV plus dividends paid per share as a percentage of opening NNNAV

(2) profit before financing costs plus all revaluation surpluses as percentage of opening gross capital

ANDREW CUNNINGHAM Deputy chief executive and finance director

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 the assets and so we set out below a summary of our net assets with the properties restated to market value.

	Statutory balance sheet £m	Adjustments to market value, deferred tax and derivatives £m	Gross NAV balance sheet £m	Contingent tax £m	Derivatives £m	Triple NAV balance sheet £m
Properties	1,679	643	2,322	–	–	2,322
Investments/other assets	186	5	191	–	2	193
Goodwill	17	–	17	–	–	17
Cash	80	–	80	–	–	80
Total assets	1,962	648	2,610	–	2	2,612
Borrowings etc	(1,408)	(12)	(1,420)	–	9	(1,411)
Other net liabilities	(117)	(6)	(123)	–	–	(123)
Provisions/deferred tax	(114)	112	(2)	(285)	(3)	(290)
Total liabilities	(1,639)	94	(1,545)	(285)	6	(1,824)
Net assets	323	742	1,065	(285)	8	788
2007 net assets per share (pence)	**251**	**577**	**828**	**(221)**	**6**	**613**
2006 net assets per share (pence)	193	484	677	(187)	(3)	487

The European Public Real Estate Association ('EPRA') Best Practices Committee has recommended the calculation and use of a diluted EPRA NAV and a diluted EPRA net net assets value (NNNAV). The definitions of these measures are consistent with Gross NAV and Triple NAV as described and shown in the table above.

This definition of Gross NAV requires us to take out any adjustments for deferred tax and changes in the fair value of derivatives as calculated under IFRS. NNNAV requires certain of these adjustments to be reinstated and in addition a deduction is made for contingent tax which is calculated by applying the expected rate of tax to the full inherent gains at the balance sheet date.

Market value analysis of property assets

	Shown as stock at cost £m	Market value adjustment £m	Market value £m	Fixed assets/ financial interests in property at market value £m	Total £m
Residential	964	627	1,591	610	2,201
Development	105	16	121	–	121
Total September 2007	**1,069**	**643**	**1,712**	**610**	**2,322**
Total September 2006 (restated)	986	527	1,513	388	1,901

financial review continued

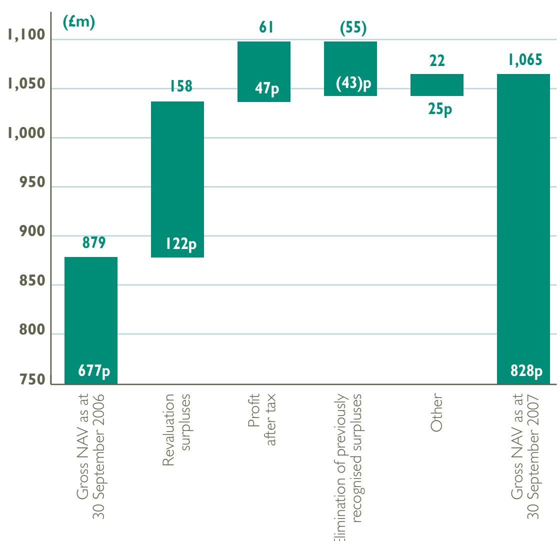
Net asset value Measurements of net asset value are key performance indicators for the group. We set out three measurements to better enable shareholders to compare our performance year-on-year and with our peers, whilst reflecting the unique nature of our business:

Gross net assets per share up 22.3% to 828p from 677p (market value of net assets per share before deduction for deferred tax on property assets and before adjustments for fair value of derivatives).

Triple net assets per share NNNAV up 25.8% to 613p from 487p (gross NAV per share adjusted for deferred tax on revaluation gains and for mark to market adjustments).

Grainger NAV up 23.0% to 732p from 595p (NNNAV adjusted for the discounted and taxed reversionary surplus in our long-term regulated and home reversion portfolios).

Gross net assets per share



Grainger net assets per share Reconciliation of Grainger NAV to NNNAV

	£m	Pence per share
NNNAV as at 30 September 2007	788	613
Discounted reversionary surplus	216	168
Tax thereon	(62)	(49)
Grainger NAV as at 30 September 2007	**942**	**732**

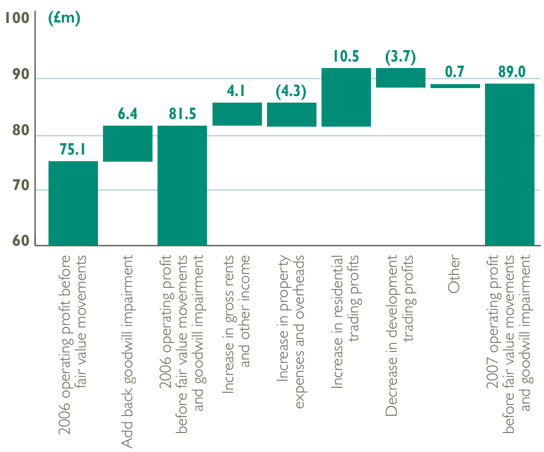
As in previous years, we set out below the major assumptions we have used in calculating the base case Grainger NAV and how it might change by amending those assumptions:

- house price inflation is taken as zero over the entire reversionary period;
- a discount rate of 9.38% has been used (weighted average cost of capital plus 3%);
- no discounting of contingent tax on the revaluation surpluses; and
- reversionary periods taken as 13 years for regulated properties and 11 years for home reversions.

Sensitivity analysis (refer to the financial model on our website www.graingerplc.co.uk).

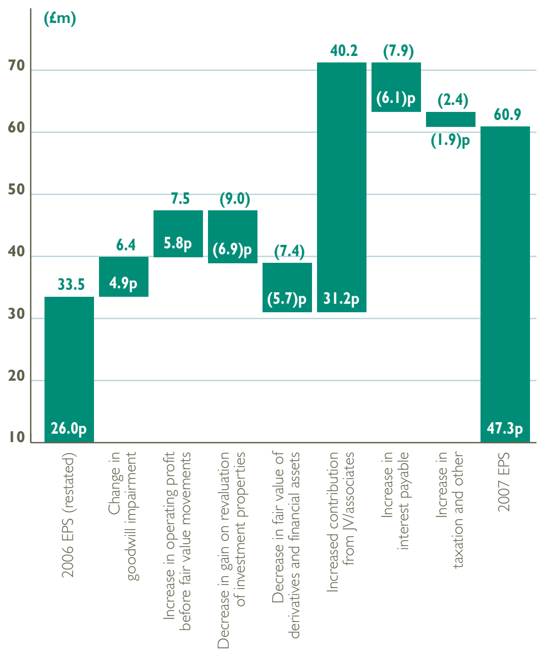
House price inflation per annum	No discount of deferred/contingent tax Discount rate WACC + 3%	Discount rate WACC	Discounting deferred/contingent tax Discount rate WACC +3%	Discount rate WACC
0%	732p	780p	878p	896p
4%	805p	882p	951p	998p
6%	855p	952p	1,001p	1,069p

Financial performance in the year Operating profit before fair value movements and goodwill impairment increased to £89.0m from £81.5m as shown below:



The major movement in operating profit derives from an increase in trading profits from our core residential and home reversion portfolios. As expected, development profits have decreased in line with the fall in the number of projects coming through for completion in the year.

Earnings per share Basic earnings per share have increased by 71.5% to 47.3p from 26.0p (restated) as shown below:



As well as an improvement in operating profit, this year's result has been enhanced by the significant contribution from our joint ventures and associates. In particular, Grainger GenInvest which is an exclusively London-based portfolio, has shown large revaluation gains, our share of which amounts to some £35m.

financial review continued

Interest and tax Our net interest charge has increased by £7.9m to £65.0m with interest payable increasing by £11.5m. The increase has arisen from a combination of higher debt levels used to finance the growth in our asset base (particularly home reversions and Germany) and higher underlying interest rate costs. On average monthly debt levels have exceeded 2006 figures by £208m and we have seen three-month LIBOR and Euribor rates rise by 123 basis points and 137 basis points respectively in the year.

Our annual tax charge is at an effective rate of 21. 4%, the major items affecting it being:

	£m
Group profit before tax	77.5
Tax at 30%	23.2
Adjustments:	
Impact of tax rate change on deferred tax	(6.0)
Utilisation of capital losses	(3.0)
Other including prior period adjustments	2.4
Actual tax charge	16.6

Financial resources The business continues to be highly cash generative producing £497m (2006: £208m) from operating activities and sales of investment property.

Major cash outflows relate to interest £66.1m, tax £8.5m and dividends £7.6m. Furthermore we spent a total of £723m on acquiring new properties, funding development and investing in joint ventures. To assist in funding this we raised additional net debt of £336m.

During the year we revised the terms of our core borrowing facility, extending the average maturity by two years and reducing the overall borrowing margin by 13 basis points. The first major repayment of £400m under this facility is not due until June 2010. We also issued a seven-year convertible bond producing net proceeds of £110m. The bond has a coupon of 3.625%, a post-tax cash cost of approximately 1.5% and a conversion share price of 864p. Subsequent to this issue we bought 1,525,000 shares back in the market for cancellation at an average price per share of £5.12. The average maturity of our debt is 5.9 years (2006: 4.1 years). At 30 September 2007 we had total headroom of £226m and the loan to value ratio stood at 53% (2006: 52%).

Our all-in cost of debt in the year was 6.1% (2006: 5.8%) and our weighted average cost of capital has moved out to 6.38% from 5.67%. Net borrowings of £1,332m were 74% hedged (2006: £1,051m and 66%). We put in place a significant level of new hedging early in the year including a 15-year £100m swap, at 4.98%. In total our financial instruments were 'in the money' by £12.3m at 30 September 2007 (2006: out of the money £(2.1)m) and we have hedges/fixed rates of at least £711m in place until March 2009.

ANDREW CUNNINGHAM Deputy chief executive and finance director 18 December 2007

how we behave...

At Grainger, we know that **our future is based around people** – whether they are our dedicated staff, the tenants we care for, the investors and shareholders we answer to or the communities that we are part of. **We are proud of our commitment** to all these groups.

This has been an exciting year for Grainger's Corporate Responsibility programme and I am pleased to report that social and environmental concerns have become increasingly central to our core business activities.

Our commitment to sustainability has had a significant impact on Grainger's developments. At our Hornsey Road site all homes are being built to the EcoHomes Very Good standard and all future developments will now be built to Code for Sustainable Homes level three.

We have also conducted a baseline review to establish significant environmental impacts across the business. A two-year action plan is being drawn up to deliver against these recommendations.

Social considerations are also being taken into account at our development sites. At Hornesy Road we are working with the school neighbouring the site on a number of different projects. On our other planned developments, all local communities impacted by our work are extensively consulted before works on site begin.

Regarding our existing homes, we have been very successful in helping tenants access funds through the Warm Front initiative[1]. Not only does this provide greater support for our more vulnerable tenants, but it also improves the energy efficiency of our portfolio.

I am very proud of our work with Business in the Community where we welcomed three people who have been affected by homelessness to join us on two-week work placements. This has been an enriching experience for all concerned – not least our own staff. In the year ahead we will be taking our commitment to our people further with a strengthened programme of training and additional investment in Human Resources.

This year we are pleased to have launched a dedicated Corporate Responsibility website (www.graingercr.com) which contains more detailed information on all our CR activities.

Grainger is challenging itself to perform better in all areas. We have set ourselves short-term targets as well as a programme of long-term goals to take our CR strategy forward in the coming years.

RUPERT DICKINSON Chief executive

[1] The Warm Front Grant provides a package of insulation and heating improvements up to the value of £2,700 (or £4,000 if oil central heating is recommended). It is a Government-funded initiative.

how we behave continued

objective 1

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.

Training remains a key area for Grainger. We have developed and launched a new training and development site on the company intranet and are also ensuring that all property managers are qualified to the Association of Residential Letting Agents ('ARLA') standard. In 2008, we will be concentrating on learning and career development with the aim of increasing average training days.

Our HR director will undertake an HR policy review to ensure the business and culture continue to align in accordance with best practice.

We will also be conducting a review of the Grainger employer brand with the aim of connecting our values, people strategy and HR policies.

TARGETS 2007/08

Enable employees to better share in the success of the company by developing a career development framework to encompass all roles; and launch a new management development programme as part of our succession planning.

Refine our performance management system to reinforce our culture that each employee makes a valuable contribution to the business.

Develop our employee benefits package to offer greater flexibility, thereby enabling employees to better reflect their individual needs.

Key performance indicators

Employees	2005	2006	2007
Number of employees undertaking professional education	31	34	**38**
Average number of training days per employee	3	3	**4**
Investment in training per employee	£671	£674	**£628**
% staff turnover	19%	25%	**10%**
% of employees with five or more years' service	30%	39%	**34%**
Proportion of all staff that are female	56%	56%	**56%**
% of women in senior management positions	24%	4%	**5%**
% of women in technical or professional positions	16%	13%	**28%**
% of part-time employees	n/a	10%	**6%**
% of eligible employees participating in the sharesave scheme	n/a	50%	**53%**
% of eligible employees participating in share incentive plan	n/a	83%	**85%**

ARCHIKIDS Grainger continued to support Open House in 2006/07 by financing the launch of the Archikids website; www.archikids.org.uk. The initiative is aimed at educating children about the built environment.

DOT & JOAN, EASTBOURNE

Dot is a regulated tenant and still lives in the same house she was born in. A few years ago, we gave her special dispensation to allow her friend Joan to move in with her.

STAFF DEVELOPMENT

Holly Walker joined Grainger as a property management assistant ('PMA') in 2005 and has shown great personal initiative and drive in this role. Recognising where data management systems could be improved, Holly devised a new method of storing, sharing and tracking information. This was implemented across our Property Services division. Holly also developed an induction guide for new PMAs to ensure comprehensive technical training was available for all.

Holly was a clear candidate for promotion to trainee property manager ('PM') and enrolled on our six month PM training programme. After successfully completing this, we were delighted to promote Holly to property manager in September 2007.

"I enjoy working at Grainger because of the focus they have on their staff and their development. They provide a supportive atmosphere where individuals can identify the need for change and these ideas are responded to positively."
HOLLY WALKER

how we behave continued

STRATEGY

objective 2

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

We are pleased to report that tenant satisfaction increased this year, with 65% of existing market rented tenants rating Grainger's Management Service as 'very good' or 'excellent' (up from 60% last year). We continue to help our more vulnerable tenants access funding via the Warm Front initiative. 36% of homes surveyed under this initiative have now had insulation work carried out. One focus on training this year has been to ensure all our property managers are ARLA qualified. This has enabled us to continue to deliver the highest standards of service.

Key performance indicators

Customers	2006	2007
Number of properties surveyed to date under the Warm Front/Miller Paterson initiative	445*	**2,946**
% of above properties which have had insulation work done	28%	**36%**
Proportion of rent due that has been collected	99%	**98%**
Rent loss due to voids as a percentage of open market rental value	6%	**2%**

* Warm Front only

TARGETS 2007/08

As a founder member of REAL SERVICE*, work to establish our current performance level within the benchmarking criteria.

Following the launch of British Property Federation Crystal marked Standard Tenancy Agreement, implement across Grainger for all new and renewed tenancies.

To measure, via a sample of tenants, the level of satisfaction with repair work in order to establish a baseline and set improvement targets from next year.

* REAL SERVICE is a benchmarking group dedicated to helping the real estate industry improve customer service and generate improved property performance (www.real-service.co.uk)

objective 3

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.

Our 2007 environmental baseline review has provided us with an accurate picture of our most significant impacts; energy use, transport, waste and procurement. We will focus on these as well as collecting data so we can report accurately and set performance-related improvement targets next year. We have had considerable success in sustainable design, environmentally-friendly practices and construction at Hornsey Road this year with all homes being built to EcoHomes Very Good standard. Our contractors are measuring and monitoring waste levels and we can report that 40% has either been recycled or sent to a Materials Recovery Facility. By considering sustainability earlier, including speaking in advance to contractors, we are confident of achieving higher environmental standards.

objective 3 continued

With regard to our existing portfolio, we have conducted a research exercise to identify more environmentally-friendly alternatives to the materials that we use in our refurbishments. We will now be developing minimum standards for a range of materials and incorporating this information into our refurbishment software programme.

TARGETS 2007/08

Devise and implement a company-wide employee environmental awareness programme.
To increase the proportion of recycled content in materials used in new builds to 10% by value and use good practice measures to increase this still further.
All new Grainger homes to be designed and delivered to CSH level three or EcoHomes 'Very Good' in the case of some existing schemes.

LONG-TERM TARGETS

Provide online access advice, information and guidance to tenants, on environmental issues and explore a suitable partner organisation with whom to communicate with tenants about the environment.
Develop an action plan to implement agreed recommendations from the Environmental Baseline Review over the coming two years.
Develop and implement a carbon management strategy by 2010.

objective 4

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

As our business is based around providing and managing homes, reducing homelessness is particularly relevant to Grainger. We were therefore delighted to welcome three people into the business through the Business Action on Homelessness work placement scheme. In addition, we have also hosted a Ready to Go Training and Action Day, which prepares clients affected by homelessness for work placements, and hosted a CV workshop.

As our development activities have grown, we have been mindful of the potential impact that we could have on local communities and have worked with specialist organisations to deliver effective community consultation. By engaging actively with the community and key stakeholders pre-application, we not only produce a better scheme which meets the needs of the community that surround it, but also increase our chances of success in planning. At our Hornsey Road development, we have enjoyed working with the local school and getting to know those in the community through a fun day held in conjunction with Tollington Community Association.

how we behave continued

objective 4 continued

TARGETS 2007/08

Develop and implement a Community Investment strategy that supports charities and community activities relevant to our business and staff.

Work in partnership with Shelter to support their policy seminars on raising awareness of the professional private rented sector.

Each business division to identify and undertake relevant community activity.

Key performance indicators

Community	2005	2006	2007
Money raised for charity of the year (Shelter)	£30,764	£24,112	**£10,296**
Number of staff involved in community activities	180	220	**250**
Total amount raised for charities	£42,234	£58,747	**£71,283**

objective 5

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

Over the past year, we have formalised our health and safety strategy and have proactively communicated with our network of contractors.

We also produced and distributed a handbook, 'Health and Safety Requirements for Property Maintenance Contractors' and this has proved to be a useful tool for embedding health and safety throughout the business.

We are pleased to report that our key performance indicators – RIDDOR reportable accidents and incidents, and pollution incidents – are zero again this year.

TARGETS 2007/08

Gather and present health and safety data for all Grainger activities and projects, track performance and identify trends.

Ensure accident/incident rates for Grainger and contracted activity is below the national average year-on-year.

Undertake health and safety audits for a representative sample of Grainger activities and contractors to assess compliance and inform improvement activity.

Identify suitable health and safety training and deliver to relevant Grainger staff.

SUPPORTING OUR STAFF

Ian Lawson, senior property manager, set up his own under 9's football team this summer, the Hebburn Wanderers. Grainger's sponsorship of his team enabled them to purchase new equipment and it has given them the necessary financial stability to offer season awards and man of the match medals.

"This sponsorship money has been warmly received by all at Hebburn Wanderers, it has allowed my team to train and compete in brand new quality kit, and provided the required training equipment to give the kids all the chance of success in the league. The setting up of a team and all that comes with the running of a junior football season takes a lot of my time and effort and the fact that Grainger provided such excellent support has delighted me." IAN LAWSON

"The strips are really cool, and we so feel part of the wanderers now, lets hope we can start challenging for the title soon, come on the wanderers."
DYLAN PHOENIX MORRISON, Team Captain.

BUSINESS IN THE COMMUNITY

Grainger has continued its relationship with BITC. In 2006/07, we gave three work placements to clients from Business Action on Homelessness.

how we behave continued

objective 6

Engage proactively with prioritised suppliers.

Grainger has embarked on a programme of supplier engagement this year. This has involved circulating a Code of Good Practice which has a focus on community awareness and respect for the environment.

We are also working with KPMG to review our supply chain which will incorporate sustainability issues. We spend a significant amount of money on property expenses and capital expenditure, and development projects.

During the year we completed a tender process and are pleased to have appointed an environmentally preferable stationery supplier across our offices.

Key performance indicators

Supplier	2005	2006	2007
Average payment term from invoice date	30 days	30 days	**18 days**

TARGETS 2007/08

Request supplier environmental information as part of future tender processes and actively consider this information when awarding significant supplier contracts.

objective 7

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

Grainger continues to engage with investors wherever we see an opportunity to do so. This year we undertook a corporate benchmarking exercise, learning more about both our investors' and our peers' public CR commitments. This has given us a better understanding of the sustainability goals of these groups.

We held an internal workshop with staff to discuss the results and brainstorm CR target ideas for the future. The outcomes of this workshop were fed directly into the development of our targets for 2007/08.

TARGETS 2007/08

Formally respond to requests for information sent by our major investors (owners of at least 2% of shares) on sustainability and CR in general.

Proactively engage with the CR committee of at least one major investor to help develop and improve our own internal CR strategy.

adviser's statement

Upstream has assessed Grainger's achievement against the 2006/07 targets based on:

- meetings and telephone interviews with Grainger individuals responsible for specific CR areas and for target delivery; and
- detailed review of documentation and information submitted as evidence against the targets.

On this basis we can provide assurance that Grainger plc has made some progress on 86% of its 22 applicable CR targets, with eight of these being fully achieved by the year end. A number became not applicable due to circumstances beyond Grainger's control, a change in responsibility for other targets unfortunately slowed progress. Nevertheless, Upstream believes that Grainger retains a genuine commitment to improving its CSR credentials, and we note that several of the targets that were not fully achieved in the past year have been carried forward for completion during the 2007/08 period.

Grainger's successes this year include:

- a baseline review of environmental aspects and impacts to prioritise those that pose the most significant risk to Grainger's business;
- an initiative to engage with contractors requiring them to provide environmental performance data for individual construction sites for monitoring purposes; and
- Grainger's work with the homeless, along with its commitment to staff, should be celebrated as particular areas of success.

Grainger has set some challenging targets for the year ahead and, for the first time, the company has committed to a number of longer-term goals. This demonstrates a more strategic approach to CR. The gathering of environmental performance data across key business activities will represent a real challenge in the coming year, but internal monitoring systems are already being developed and work is under way with a number of external organisations to facilitate this important task.

At Upstream, we look forward to continuing to work with Grainger as it continues to address its material impacts and further develops its CR strategy.

J Hirigoyen

upstream
strategies for sustainable futures

JULIE HIRIGOYEN Director

the board

ROBIN BROADHURST C.B.E., F.R.I.C.S. Chairman, chairman of nomination committee. Aged 61

Appointed director of the company in February 2004. Previously European chairman of Jones Lang La Salle, trustee and non-executive director of Grosvenor, a senior advisor to Credit Suisse Group, property consultant to Sir Robert McAlpine Limited, member of the Prince's Council for the Duchy of Cornwall and non-executive director of the British Library and Invista Real Estate Investment Management plc.

RUPERT DICKINSON M.R.I.C.S. Chief executive. Aged 48, Chartered Surveyor

Joined the company in 1992 from Richard Ellis (now CBRE). Appointed a director of the company in 1994. Appointed chief executive in October 2002. Joined Workspace Group plc as a non-executive director in August 2006. Chairman of the residential committee and member of the policy committee of the British Property Federation, member of the International Property Federation.

ANDREW CUNNINGHAM F.C.A. Deputy chief executive and finance director. Aged 51, 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 their Newcastle office in 1989. Appointed director of the company in December 1996. Appointed deputy chief executive in December 2002. In May 2007, was appointed non-executive director of The Local Shopping REIT plc.

STEPHEN DICKINSON* F.C.A. Deputy chairman, member of nomination committee. Aged 73, Chartered Accountant

In practice in the 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. Chairman of Deutsche Land plc since February 2006.

Bill Tudor John John Barnsley Stephen Dickinson Rupert Dickinson

ROBERT R S HISCOX* A.C.I.I. Member of nomination and remuneration committees. Aged 64

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

JOHN BARNSLEY* F.C.A. Chairman of audit committee and member of remuneration committee. Aged 59, Chartered Accountant

Appointed a director of the company in 2002. Non-executive director of Northern Investors Company plc, American Appraisal Associates LLP and LMS Capital plc. Chairman Creswell Medical Limited. Until December 2001 was a senior partner at PricewaterhouseCoopers.

HENRY PITMAN* Member of audit committee. Aged 45

Appointed a director in May 2007. Previously chief executive of Tribal Group plc, a company he founded in September 1999. Prior to this, he was managing director of JHP Group Limited. From 1990 to 1995 he worked for the Property Corporation of South Africa.

BILL TUDOR JOHN* Senior independent director, chairman of remuneration committee, member of audit committee. Aged 63

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 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.

*non-executive directors

corporate governance report

Robin Broadhurst, appointed chairman in February 2007, has continued to uphold the highest standards of governance which were maintained under the previous chairman. He has, inevitably, made some changes to the operation of the board in line with the increasing complexity of the business and these are described in this report.

The board believes that corporate governance is fundamentally about the way a company operates and should not be an automatic response to a check list. However, it is also mindful that The Combined Code 2003 and the modifications to it in 2006 are generally accepted to describe best practice in governance and seeks to comply as far as possible where this is in the best interests of the company. The statement of compliance refers to The Combined Code 2003, which was applicable to Grainger.

This report fulfils the requirements of the Listing Rules and should be read in conjunction with the reports of the individual committees which follow.

The directors

A company is only as good as the people who work for it and the directors are committed to ensuring that the board itself includes people who have all of the necessary skills, knowledge and experience to successfully lead the organisation. The composition of the board, which is relatively small, changed at two points during the year as follows:

On 28 February 2007, Robert Dickinson retired as chairman and was succeeded by Robin Broadhurst, previously the senior independent director. Up until that date, in the board's view, the board consisted of the chairman, deputy chairman, two executive directors and four independent non-executive directors. There were no new additions to the board at that date.

On 1 May 2007, Henry Pitman was appointed to the board as an independent non-executive director, re-establishing the same balance of non-executives as previously.

The directors therefore believe that, excluding the chairman, the board consisted of at least half independent non-executive directors for the entire reporting period.

Roles

There is a written, approved statement of the separation of duties of the chairman, who reports to the board and the chief executive, who reports to the chairman. Other key differentiating factors are as follows:

The chairman
Responsible for running the board
Only the chief executive and the company secretary (for corporate governance matters) report to him
Guardian of the board's decision making

The chief executive
Responsible for running the business
All executive management report to him, directly or indirectly
Responsible for implementing the board's decisions

Other key roles include the senior independent director and the chairmen of the committees. Robin Broadhurst held the position of senior independent director until his appointment as chairman following the Annual General Meeting in February 2007 and was replaced by Bill Tudor John. The committees' compositions and work are described in detail in their own reports which follow.

Independence

With the retirement of Robert Dickinson as chairman and subsequent appointment of Henry Pitman, an independent non-executive director, the board has again demonstrated its commitment to increasing the independence on the board. It will no doubt still be of concern to some that the chief executive is a cousin of the deputy chairman, however this is the only lasting family tie which remains on the Grainger board following many years of greater links. As intimated in The Combined Code, the criteria of A.3.1 are only a guideline and it is the directors' view of the independence of a particular director that is ultimately important. In forming their opinion, the directors consider, amongst other things, the individual's professional characteristics, their behaviour at board meetings, their contribution to the debate and unbiased judgement.

The following analysis explains the board's duly considered view of the independence of the directors.

Director	Board's determination	Explanatory notes
Robin Broadhurst (Appointed chairman 28 February 2007, previously senior independent director)	Independent	• independent under A.3.1 criteria.
Stephen Dickinson (Deputy chairman)	Not independent	• close family ties; • more than nine years' service; • previously managing director; • part-time executive responsibilities; • participation in all-employee share scheme.
Bill Tudor John (Appointed senior independent director 28 February 2007)	Independent	• independent under A.3.1 criteria.
John Barnsley	Independent	• independent under A.3.1 criteria.
Robert R S Hiscox	Independent	• although a trustee for a trust holding a material shareholding (7% at 30 September), 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 Lloyds, Mr Hiscox brings extensive skills and experience in his own right, which can only be beneficial to Grainger's board; • the trust has reduced its shareholding over the past three years, from 12.5 million shares to 9 million shares.
Henry Pitman (Appointed 1 May 2007)	Independent	• independent under A.3.1 criteria; • note that as explained at the time of his appointment Mr Pitman is related to the Dickinson family, there are no close ties between him and the current or former directors of Grainger.
Robert Dickinson (Retired 28 February 2007)	Not independent	• close family ties; • more than nine years' service.

Full biographical details of all current directors are given on pages 54 and 55.

Retirement by rotation and re-election

The board recognises that it is important to adhere to good governance principles and all board members are, as such, required to stand for re-election upon appointment and at intervals of no more than three years. However, the board is also of the view that long-term stability in the board is an important factor, given the long-term nature of the business. Continuation of leadership throughout, for example, the period of a significant development, is considered particularly beneficial. The board therefore continues to consider itself fortunate that the deputy chairman, being willing and able, will again offer himself for re-election, despite having passed the age of 70 and having stood for re-election for each of the past three years. The chairman has satisfied himself that, following evaluation, all directors offering themselves for re-election continue to show the required commitment and effective performance.

corporate governance report continued

Meetings

There were four ordinary meetings of the board in the year, where the board met to review the business and to consider the items reserved specifically for it which have been documented and approved by the board. These include setting the overall strategy, approving major transactions, setting debt/gearing limits and associated hedging strategy and agreeing accounting policies. No changes were made to this schedule during the year. Decisions regarding more minor transactions are delegated to management.

Each meeting was preceded, the evening before, with an informal meeting allowing more time for debate and also a dinner, giving an opportunity for the directors to enhance their relationships with each other. All directors attended all meetings during their relevant periods of office except for Robert Hiscox, who was not present at two of the meetings. On one occasion when unable to attend the formal board meeting, Mr Hiscox attended the previous evening meeting and dinner to ensure that his views could be taken to the board meeting. It is intended that there will be six ordinary board meetings in the next reporting period.

As in previous years, at the June meeting, the board met for an extended period in order to debate and reflect fully on strategy. This event also provides an ideal opportunity for the board to spend time with the senior executives.

As well as the ordinary meetings, ad hoc meetings are arranged as necessary in order to consider major transactions or events. Due to the short notice, which is unavoidable, all directors are not always able to attend, or to join by teleconference. Wherever possible the chairman will take on views of the non-attending director prior to the meeting.

Board papers are produced and distributed in a timely manner for each meeting. They contain sufficient financial and non-financial information to allow the board to properly monitor the group and understand the challenges facing it and opportunities open to it. The format of the papers has recently been amended to specifically highlight items for decision and for discussion. In this way the board can be sure that it concentrates its efforts and allocates sufficient time to those items which are most important.

Each director is given an opportunity to raise an item to the agenda and any request for further information from a director is treated as a high priority. The directors also 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.

The chairman met once during the year with the non-executives, without the executives present. It was the joint view of the chairman and the non-executives that this was indeed useful and two such meetings have been planned for the next reporting period.

Induction, evaluation, training and development

Henry Pitman was appointed in the year and received a comprehensive, tailored induction to the company. This consisted of the provision of a 'bible' of information covering such items as the most recent risk review, recent minutes, terms of reference of the committees etc. as well as sessions with each member of the senior management team. These meetings were arranged in small groups so that as well as the divisional leaders each giving a presentation of their business area, discussion and debate was encouraged.

Mr Pitman was also taken on two property tours, to enable him to see some of the company's properties – ranging from the core regulated portfolio through to the development activities.

Mr Pitman was fortunate to join the board in time to participate in the June extended strategy meeting described above, which gave him an ideal opportunity to understand the strategy at a very early opportunity.

Directors and Officers insurance is held by the company and details of the policy are given to new directors on appointment.

The evaluation process this year again built on the success of the previous year, extending the work involved and in turn enhancing the outcomes. The process was conducted internally and consisted of a written questionnaire followed by an interview with the chairman. Rather than a box ticking or simple rating scheme, the response required from directors this year was an 'in their own words' approach. This allowed for more than just the standard areas of performance to be recognised. The questionnaire covered all of the board as a whole, the committees and the individual directors and all of these areas were picked up as relevant in the subsequent interviews. Notes of the interviews are held only by the chairman and the company secretary since it has been proven in recent years that this allows the directors to be more open in their discussions.

The chairman was pleased with the commitment shown by the directors to the process and felt that it was very useful for him in his first year of chairmanship. The whole process and its outcomes were reviewed formally at a board meeting. As a result of the evaluation process it has been agreed that more communication between the executives and the non-executives could be beneficial. This will be in part achieved through a planned increase in number of board meetings to be held each year.

The senior independent director met firstly with the executives and then immediately after with the non-executives in order to evaluate the performance of the chairman. The board's written document for the separation of the roles of the chairman and the chief executive was used as a basis for the evaluation, bearing in mind that the chairman had only very recently been appointed.

The board is provided with regular written updates which are relevant to a listed property company. In the year this included further information on the REIT regime and the Companies Act 2006. Directors are able to request specific training, through the chairman or company secretary. If any development areas are identified for the board as a whole, its committees or for directors as individuals, then they would be appropriately addressed on appointment or thereafter.

Relations with stakeholders

The primary contacts with shareholders, analysts and potential investors are the chief executive and deputy chief executive/ finance director. The usual half yearly results announcements and briefings were also attended by some of the company's most senior management and this was welcomed by shareholders. Apart from these meetings, there have again been circa. 100 meetings and presentations by the executive directors, to maintain an appropriate dialogue. They also participated either together or individually in several roadshows throughout Europe and in the USA. In particular this year, more meetings have taken place with private client brokers. Feedback is always sought following such events and is presented to the board as a whole. The board is briefed on the views of major shareholders. Further, all directors, including the chairman and non-executives, are available for meetings with shareholders. There were no requests in the year from shareholders to meet Henry Pitman, the newly appointed non-executive director. He, along with all other directors, will be in attendance at the Annual General Meeting and available to answer questions.

The group's website includes a specific and comprehensive Investor Relations section, containing all RNS announcements, share price information and annual documents available for download etc. All shareholders have the opportunity to attend the Annual General Meeting, which continues as a route for communication with smaller/private shareholders.

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 2007, Grainger included a 'vote withheld' category for the third year, in line with best practice. Shareholders were also able again to lodge their votes through the CREST system.

Internal control

The group has a cyclical process for identifying, assessing and managing its internal control, which has been in place for the full year under review and up to the date of this report. 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 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. The audit committee reports to the board at every board meeting. Risks and controls are reviewed to ensure effective management of appropriate

corporate governance report continued

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 from internal audit 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 in accordance with the agreed strategy, which are presented to the board for approval. A fundamental part of the control process is the diligent monitoring of actual performance against this budget by the board. 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, a 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 diligent enquiries, including the review of future anticipated cash flows and compliance with 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 Combined Code 2003 during the year ended 30 September 2007.

B.1.6 The company complied with this requirement at the year end, however as explained in detail in the directors' remuneration report, Rupert Dickinson and Andrew Cunningham held service contracts during the year with notice periods in excess of one year. The notice periods were being reduced from two years to one year on a straight-line basis over a period of five years from 1 October 2002 to 30 September 2007.

Nomination committee report

The nomination committee composition changed during the year due to the retirement of Robert Dickinson, the previous chairman, but at all times consisted of the chairman of the board (who is the chairman of the committee) and two independent non-executive directors as follows:

Until 28 February 2007	
Robert Dickinson	Chairman
Robert R S Hiscox	Member
Robin Broadhurst	Member
From 28 February 2007	
Robin Broadhurst	Chairman
Robert R S Hiscox	Member
Bill Tudor John	Member

Due to the relatively small size of the board, matters which are included within the nomination committee's terms of reference are often discussed by the board as a whole. As a result, this year, the committee met only informally and communicated on other occasions by email or by telephone.

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 succession planning. Following some restructuring of the senior management team it is expected that succession planning will be high on the nomination committee's agenda next year.

The retirement of the previous chairman and appointment of the new chairman had been announced prior to last year's report and as reported in last year's nomination report, the recruitment of a further independent non-executive was in progress. This involved the use of an agency.

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 February 2008 Annual General Meeting are given in the notice of meeting which accompanies this report and biographies are displayed on pages 54 and 55.

Audit committee report

The audit committee meets four times each year and reports on its work at every subsequent board meeting. This is a critical part of the internal control process. Meetings of the committee invariably last two hours or more.

As a result of Robin Broadhurst being appointed chairman of the board on 28 February 2007, he resigned from the committee on that date. The board therefore comprised only two members for the two months until 1 May 2007 when Henry Pitman was appointed to the board and the audit committee. However, since there were no meetings of the committee during that period, there were three independent members available for all meetings. As a result, this minor non-compliance with provision C.3.1 has not been formally raised to the compliance statement.

Attendance of the individual directors is shown below. Mr Barnsley has the particular recent, relevant financial experience required by The Combined Code.

	Nov 2006	Feb 2007	May 2007	Sep 2007
John Barnsley Chairman	✓	✓	✓	✓
Bill Tudor John Member	✓	✓	✓	✓
Robin Broadhurst Member (resigned 28 February 2007)	✓	✓	n/a	n/a
Henry Pitman Member (appointed 1 May 2007)	n/a	n/a	✓	✓

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 the appointment of the external auditor and for agreeing 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. In particular this year, the audit committee has started to receive presentations from members of staff such as the treasury director, tax director and IT director (all non-statutory directors), to ensure that they feel sufficiently close to these important individuals who have significant levels of control to maintain. Once each year the audit committee meet with management without the auditors present and also with the auditors without management present.

During the year the committee received 26 internal audit reports covering both control and value for money matters.

By order of the board

MARIE GLANVILLE ACA ACIS
Company secretary 18 December 2007

report of the remuneration committee and directors' remuneration report

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.

The remuneration committee

The remuneration committee consisted throughout the period of Bill Tudor John (chairman), with Robert Hiscox and John Barnsley as members.

In the opinion of the directors the committee therefore comprised three independent non-executives throughout the year. Certain shareholder pressure groups raised concerns again last year that Mr Hiscox, as trustee of an unconnected family trust owning a material shareholding (7% as at 30 September 2007), should not be regarded as independent. The board maintains their view that Mr Hiscox is independent and a valued contributor to the remuneration committee.

The remuneration committee met formally twice during the year and all members attended except for Robert Hiscox, who was unable to attend one of those meetings. The committee have also communicated informally during the year, in particular with regard to the finalisation of the new LTIS, which had been substantially agreed at the September 2006 committee meeting and was approved by shareholders at the February 2007 Annual General Meeting. They also exchanged correspondence regarding uplifts in salaries and bonuses for all staff, including the executive directors and share awards made in accordance with the new LTIS in March 2007.

This year New Bridge Street Consultants LLP ('NBSC') continued to be involved in the set up and implementation of the new LTIS, as approved at the February Annual General Meeting. NBSC have no other connection with the company or its directors as individuals.

The chairman and committee have also had access to advice from the director of HR. This position was vacated during the year and a new director of HR was appointed in November 2007.

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. As a guideline, executive directors (and senior executives) are expected to hold the equivalent value of at least one year's salary in Grainger shares. Details of executive directors' shareholdings are shown on page 70. 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 balance both short- and long-term rewards, as well as performance-related pay and non-performance-related. They 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 his own remuneration. Fees of the non-executive directors, which include increments where a committee chairmanship or senior independent position is held, are determined by the board as a whole.

Following his appointment as chairman, Robin Broadhurst recommended to the board as a whole that John Barnsley, as chairman of the audit committee, should receive an interim rise in fees to £50,000 per annum. This was in recognition of the significant and increasing amount of work involved in this role. Usually, non-executive directors' fees are only reviewed biennially and as such would not fall to be reviewed in the current reporting year.

The salaries and bonuses of senior management are determined by the executive directors and reported to the remuneration committee. Senior management also participate in long-term incentive scheme arrangements described below.

Usual benefits are also afforded to these individuals. In this context, senior management are those employees who are members of the 'executive team' which was restructured in the year. In addition to this, specific bonus schemes were negotiated with certain key senior management during the year, based on their specific business areas, in order to drive performance.

The remuneration committee also review the total level of salaries and bonuses paid to the group as a whole. This includes reviewing the details of any employee earning over £100,000, or earning a bonus in excess of £50,000 or a bonus in excess of 25% of salary.

Service contracts

As explained in prior years, Rupert Dickinson and Andrew Cunningham each hold service contracts with notice periods which were decreasing on a straight-line basis from two years to one year, over a period of five years which ended on 30 September 2007. At the year end and as at the date of this report therefore the notice periods were reduced to one year and are now in full compliance with the Combined Code.

Contract dates and unexpired terms for the directors are as follows:

	Contract date	Unexpired term*	Notice period
Rupert Dickinson	19 July 1996	No fixed term	12 months
Andrew Cunningham	26 July 2000	No fixed term	12 months
Robin Broadhurst	26 February 2004	5 months	None
Stephen Dickinson	28 February 2000	5 months	None
Bill Tudor John	24 February 2005	5 months	None
John Barnsley	27 February 2003	5 months	None
Robert Hiscox	6 March 2002	5 months	None
Henry Pitman	1 May 2007	7 months	None

* calculated as at 30 September 2007 and rounded to the nearest whole month

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

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.

Other directorships

Rupert Dickinson has served as a non-executive director of Workspace Group plc throughout the period under review. Grainger's board were satisfied that the appointment would be of mutual benefit, with Rupert gaining invaluable experience of another plc. On 2 May 2007 it was announced that Andrew Cunningham joined the board of The Local Shopping REIT plc.

After full consideration it was agreed by the remuneration committee that both executive directors should retain the fees paid to them by the respective organisations. In the year under review, Rupert Dickinson and Andrew Cunningham retained £16,500 and £12,385 respectively.

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, along with other senior members of staff, receive a fully expensed company car, or a car allowance. All members of staff, including the executive directors and Stephen Dickinson, benefit from health and life insurances.

report of the remuneration committee and directors' remuneration report continued

The chairman's and non-executive directors' fees, which is the only remuneration received, 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. 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 ('SAYE') scheme, 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 67 and 68 respectively.

Performance-related remuneration

As should be expected and in accordance with the Combined Code, 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 expectations.

Non-executive directors do not receive performance-related remuneration.

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 executive officers, 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 2007 represents 107% of salary for that year (2006: 90%).

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 these employees to grow their shareholdings.

In order to maintain best practice and more closely align performance with reward, a resolution to adopt a new long-term incentive scheme ('LTIS') was put to and approved by shareholders at an Extraordinary General Meeting, convened immediately after the Annual General Meeting in February 2007.

Current long-term incentive scheme

This scheme makes conditional awards of shares to reward performance and retain key staff over rolling three-year periods. The potential award is split into two, with two thirds of the awards being dependent upon the absolute level of increase in NNNAV (triple net asset value – i.e. net assets after adjusting for contingent tax and mark to market adjustments) and one third dependent upon the increase in absolute total shareholder return ('TSR') (increase in value of shares plus dividends which are assumed to be reinvested) as follows:

Average annual growth in NNNAV	Percentage of the NNNAV proportion of an award which will vest
Less than or equal to average WACC	0%
Equal to average WACC +3%	100%
Between average WACC and average WACC +3%	Pro rata on a straight-line basis between 0% and 100%

GOVERNANCE

TSR of the company over the TSR performance period	Percentage of the TSR proportion of an award which will vest
TSR being less than or equal to 8% compounded per annum (25.98% growth in total over the TSR performance period)	0%
TSR being equal to or greater than 16% compounded per annum (56.09% growth in total over the TSR performance period)	100%
Between 8% compounded per annum and 16% compounded per annum	Between 0% and 100% pro rata on a straight-line basis

There is also a matching awards element to the scheme, to encourage executives to develop and maintain a shareholding in the company. Participants may pledge or buy shares of equivalent value to 30% of their relevant salary and to the extent that performance criteria are met, these shares will be matched one for one at the end of the three-year period.

Full explanation of why the board considered absolute rather than relative measures to be appropriate was given in the previous notice of general meeting. Fundamentally it was considered that Grainger was unusual in nature and has no natural comparator group. Grainger is the only listed company of its size to invest, trade and manage primarily in residential property assets. All other comparably sized property companies are principally commercial or development focussed.

Awards were made under this current scheme in March 2007 and are quantified below.

These performance criteria are believed to be stretching, but realistic and reward executives if Grainger's return to shareholders is significant in absolute terms.

Previous long-term incentive scheme

There are two previous years of awards outstanding which operate under the previous long-term incentive scheme year so the details of that scheme are also included here. Participants were 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 will become unconditional if challenging performance criteria are satisfied over a single three-year performance period following grant. The criteria for the awards were based on TSR – dependent upon where Grainger's TSR lies with respect to a pre-determined comparator group as follows:

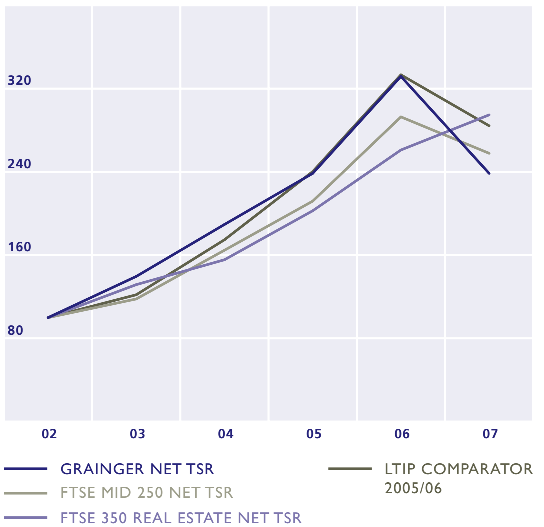
Performance condition	Vesting of option
If Grainger's TSR is equal to or greater than the upper quartile TSR of the comparator companies	100%
If Grainger's TSR is equal to the median TSR of the comparator companies	40%
If Grainger's TSR is above the median but below the upper quartile TSR of the comparator companies	Pro rata vesting
If Grainger's TSR is below the median TSR of the comparator companies	0%

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

It should be noted that during its period of operation, it has been necessary to change the comparator group due to companies being taken over. The comparator group for the awards made in January 2006 comprised A & J Mucklow Group plc, Big Yellow Group plc, Brixton plc, Capital and Regional plc, CLS Holdings plc, Daejan Holdings plc, Derwent Valley Holdings plc, Freeport plc, Great Portland Estates plc, Helical Bar plc, London Merchant Securities plc, Mapeley Limited, Minerva plc, Mountview Estates plc, Quintain Estates and Development plc, Shaftesbury plc, St Mowden Properties plc, The Unite Group plc, Warner Estate Holdings plc and Workspace Group plc.

report of the remuneration committee and directors' remuneration report continued

As required by legislation covering the directors' remuneration report, the graph below shows TSR (based upon share price growth with dividends reinvested) for Grainger, compared to the 2005/06 LTIP 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, abeit that the Real Estate Index comprises mainly commercial property companies.



Source: Datastream

The auditors have audited the following parts of the remuneration report.

Directors' remuneration

Chairman, deputy chairman and executive directors	Robin Broadhurst £'000	Robert Dickinson £'000	Stephen Dickinson £'000	Rupert Dickinson £'000	Andrew Cunningham £'000	Total £'000
Non-performance-related remuneration						
Salary and fees	88	56	150	462	347	1,103
Taxable benefits (see page 63)	–	–	18	12	26	56
Share incentive plan	–	–	6	6	6	18
Total non-performance-related remuneration	88	56	174	480	379	1,177
Performance-related remuneration						
Annual discretionary bonus	–	–	–	496	371	867
Total performance-related remuneration	–	–	–	496	371	867
Total remuneration for the year ended 30 September 2007	**88**	**56**	**174**	**976**	**750**	**2,044**
Total remuneration for the year ended 30 September 2006	38	108	166	856	653	1,821
Pension contributions into money purchase schemes						
Year ended 30 September 2007	**–**	**–**	**–**	**69**	**52**	**121**
Year ended 30 September 2006	–	–	–	66	50	116

Non-executive directors	John Barnsley £'000	Robert Hiscox £'000	Bill Tudor John £'000	Henry Pitman £'000	Total £'000	Total all directors 2007 £'000
Non-performance-related remuneration						
Salary and fees	47	35	47	15	144	**1,247**
Taxable benefits	–	–	–	–	–	**56**
Share incentive plan	–	–	–	–	–	**18**
Total non-performance-related remuneration	47	35	47	15	144	**1,321**
Performance-related remuneration						
Annual discretionary bonus	–	–	–	–	–	**867**
Total performance-related remuneration	–	–	–	–	–	**867**
Total remuneration for the year ended 30 September 2007	**47**	**35**	**47**	**15**	**144**	**2,188**
Total remuneration for the year ended 30 September 2006	38	30	38	0	106	1,927

Robert Dickinson retired from the board on 28 February 2007. Robin Broadhurst was appointed chairman on the same date. Henry Pitman was appointed a non-executive director on 1 May 2007. No amounts were paid for loss of office in the year.

report of the remuneration committee and directors' remuneration report continued

Directors' share options

Ordinary shares (thousands) Dates exercisable	Exercise price	Stephen Dickinson 30 Sep 2007	Stephen Dickinson 30 Sep 2006	Rupert Dickinson 30 Sep 2007	Rupert Dickinson 30 Sep 2006	Andrew Cunningham 30 Sep 2007	Andrew Cunningham 30 Sep 2006	Total 30 Sep 2007	Total 30 Sep 2006
Non-performance-related (available to all staff)									
SAYE scheme									
8 August 2007 to 8 February 2008	£1.636	–	–	–	10	–	10	–	20
1 September 2008 to 1 March 2009	£1.865	9	9	–	–	–	–	9	9
1 September 2012 to 28 February 2013	£4.543	–	–	4	–	4	–	8	–
Performance-related (conditional awards)									
Inland Revenue Approved Executive Share Option Scheme									
23 March 2010 to 23 March 2017	£6.409	–	–	5	–	5	–	10	–
Long-Term Incentive Scheme									
9 July 2000 to 9 July 2007	£0.534	–	–	–	64	–	–	–	64
12 January 2007 to 12 January 2014 (lapsed)	£3.264	–	–	–	153	–	115	–	268
11 January 2008 to 11 January 2015	£3.818	–	–	138	138	103	103	241	241
12 January 2009 to 12 January 2016	£5.280	–	–	104	104	78	78	182	182
		9	9	251	469	190	306	450	784

On 30 September 2007 and 1 September 2007 respectively, Rupert Dickinson and Andrew Cunningham each exercised 10,115 SAYE approved share options at £1.636, when the share prices were £4.475 and £5.215 and the gains before tax were £28,716 and £36,202 respectively.

Performance conditions for options exercisable 12 January 2007 to 12 January 2114 at £3.264 were not met, thus the options lapsed.

On 3 April 2007, Rupert Dickinson exercised 63,645 share options at £0.534 per share. The share price at the previous night closing was £6.475 so the gain before tax arising was £378,115. Exercise was 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. These were the last remaining options under that scheme.

The market price of the company's shares at the end of the financial year was £4.475, and the range of the closing mid-market prices during the year was £4.225 to £6.95.

Directors' share awards

Ordinary shares of 5p each (thousands)	Award date	Earliest vesting date	Rupert Dickinson 30 Sep 2007	Rupert Dickinson 30 Sep 2006	Andrew Cunningham 30 Sep 2007	Andrew Cunningham 30 Sep 2006	Total 30 Sep 2007	Total 30 Sep 2006
Performance-related (conditional awards)								
Long-Term Incentive Scheme								
2003 scheme	12 Jan 2004	12 Jan 2007	**–**	61	**–**	46	**–**	107
2004 scheme	11 Jan 2005	11 Jan 2008	**55**	55	**41**	41	**96**	96
2005 scheme	12 Jan 2006	12 Jan 2009	**42**	42	**31**	31	**73**	73
2006 scheme (granted in the year)	23 Mar 2007	23 Mar 2010	**108**	–	**81**	–	**189**	–
Matching awards (conditional)	23 Mar 2007	23 Mar 2010	**22**	–	**16**	–	**38**	–
			227	158	**169**	118	**396**	276

Performance conditions for the conditional share awards set to vest on 12 January 2007 were not met. The conditional awards therefore lapsed on that date.

On behalf of the board

BILL TUDOR JOHN

Chairman of the remuneration committee 18 December 2007

GOVERNANCE

directors' report

The directors present their report and the audited financial statements for the year ended 30 September 2007.

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 as set out in the Business Review requirements are reviewed in the chairman's statement on pages 29 to 31 and the chief executive's review on pages 32 to 39.

Results for the year

The results of the group are set out in the consolidated income statement on page 76 which shows a profit for the financial year attributable to the equity holders of the company of £60.9m (2006: £33.5m restated).

An interim dividend of 2.06p per share (2006: 1.87p) was paid on 16 July 2007 amounting to £2.7m (2006: £2.5m) and the directors recommend the payment of a final dividend of 4.12p per share (2006: 3.75p), to be paid on 18 February 2008, amounting to £5.3m (2006: £4.9m). Any shareholder wishing to participate in the Dividend Reinvestment Plan for the 2007 final dividend will need to ensure that their application form is returned to our registrars by 18 January 2008.

Directors

The directors of the company who served during the year are shown in the tables on page 67.

Directors' and other interests

The interests of the directors in the shares of the company at 30 September 2007 and 5 December 2007, with comparative figures as at 1 October 2006 (or date of appointment, if later), are as follows:

	Ordinary shares of 5p each (thousands)					
	Beneficial			Non-beneficial		
	1 Oct 2006*	30 Sept 2007	5 Dec 2007	1 Oct 2006	30 Sept 2007	5 Dec 2007
Robin Broadhurst	3	**5**	9	–	**–**	–
Stephen Dickinson	3,560	**3,461**	3,461	2,436	**2,386**	2,386
Rupert Dickinson	1,374	**1,420**	1,430	207	**207**	207
Andrew Cunningham	487	**498**	498	–	**–**	–
Bill Tudor John	–	**–**	–	–	**–**	–
John Barnsley	14	**14**	28	–	**–**	–
Robert Hiscox	10	**20**	20	9,500	**9,000**	9,000
Henry Pitman**	25	**25**	25	–	**–**	–
	5,473	**5,443**	5,471	12,143	**11,593**	11,593

* or date of appointment, if later
** appointed 1 May 2007

Details of directors' share options are given on page 68.

Save as disclosed above, as at 5 December 2007, the company is aware of the following interests amounting to 3% or more in the company's shares:

	Holding 000s	% Holding
Schroder Investment Management Limited*	18,237	14.17%
BlackRock Inc	8,435	6.56%
Taube Hodson & Stonex Partners Ltd*	7,872	6.12%
Aberforth Partners*	5,848	4.54%
Majedie Asset Management*	5,173	4.02%
Legal & General Investment Management Ltd*	4,198	3.26%

* 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

Directors' interests in significant contracts

No directors were materially interested in any contract of significance.

Insurance of directors

The group maintains insurance for Grainger 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 which 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 or loss for that period and comply with the Companies Act 1985.

The directors must ensure that the group financial statements are prepared in accordance with IFRS as adopted by the European Union and the parent company financial statements and the directors' remuneration report in accordance with applicable law and United Kingdom Accounting Standards (UK GAAP), and that a statement of this is made. Further, that suitable accounting policies have been selected, consistently applied and supported by reasonable and prudent judgements and estimates.

The directors must also prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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 applicable laws and regulations. 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. The directors are also responsible for maintaining the system of internal control and reviewing its effectiveness.

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 2007 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 18 days (2006: 30 days).

Financial risk management

Details of this are included in note 26 to the financial statements.

Charitable donations

During the year the group made charitable donations amounting to £71,283 (2006: £58,747). More information is provided in the corporate responsibility report.

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. The group employs a full-time health and safety manager.

directors' report continued

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

As far as each director is aware, there is no relevant audit information of which the company's auditors are unaware. Each director has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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.

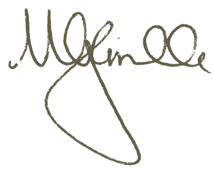
Shares

As disclosed in note 33 to the financial statements, the company issued 255,903 5p ordinary shares for an aggregate consideration of £477,016 in the year under various employee share option schemes. The company also bought back 1,525,000 5p ordinary shares for total consideration of £7,846,020, which were subsequently cancelled. A further 650,000 5p ordinary shares were bought back for £3,590,216 and are being held in treasury. At 30 September 2007, the directors had unexpired power to repurchase up to 17,325,930 shares.

Post balance sheet events

Since the year end, our Euro credit facility was increased by €75m to €225m to fund future acquisitions.

By order of the board



MARIE GLANVILLE ACA ACIS
Company secretary 18 December 2007

financials

74	independent auditors' report to the members of Grainger plc on the group financial statements
76	consolidated financial statements
81	notes to the financial statements
139	independent auditors' report to the members of Grainger plc on the parent company financial statements
141	parent company financial statements
142	notes to the parent company financial statements
147	five-year record for the year ended 30 September 2007
148	shareholders' information
149	advisers
150	glossary of terms
152	corporate addresses

independent auditors' report to the members of Grainger plc on the group financial statements

We have audited the group financial statements of Grainger plc for the year ended 30 September 2007 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the statement of consolidated cash flows and the related notes. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Grainger plc for the year ended 30 September 2007 and on the information in the report of the remuneration committee and directors' remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the group financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRS') as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the group financial statements.

The information given in the directors' report includes that specific information presented in the chairman's statement and the chief executive's review that is cross-referenced from the review of business development and prospects section of the directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance report reflects the company's compliance with the nine provisions of the Combined Code (2003) 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 form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited group financial statements. The other information comprises only the chairman's statement, the chief executive's review, the financial review, the corporate governance report, the directors' report, the corporate responsibility report and the unaudited part of the report of the remuneration committee and directors' remuneration report and the other items listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group'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 group financial statements 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 group financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 30 September 2007 and of its profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
18 December 2007

Note

The maintenance and integrity of the Grainger 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.

consolidated income statement

For the year ended 30 September 2007	Notes	2007 £m	Restated 2006 £m
Group revenue		**229.3**	206.3
Net rental income	4	**23.2**	28.3
Profit on disposal of trading properties	5	**62.8**	56.2
Administrative expenses	7	**(9.5)**	(10.4)
Other income	8	**6.2**	2.1
Goodwill impairment loss		**–**	(6.4)
Net other income/(expense)		**6.2**	(4.3)
Profit on disposal of investment property	6	**2.5**	4.9
Profit on disposal of shares in subsidiary	9	**2.0**	–
Profit on disposal of joint venture interest	10	**–**	0.4
Interest income from financial assets	21	**1.8**	–
Operating profit before net valuation gains on investment properties and changes in fair value		**89.0**	75.1
Net valuation gains on investment properties	17	**9.9**	18.5
Change in fair value through profit or loss financial assets		**–**	0.4
Operating profit		**98.9**	94.0
Change in fair value of interest rate derivatives	13, 26	**3.0**	10.4
Interest expense	13	**(74.4)**	(62.9)
Interest income	13	**9.4**	5.8
Share of profit/(loss) of associates after tax	19	**7.7**	(0.1)
Share of profit of joint ventures after tax	20	**32.9**	0.5
Profit before tax	12	**77.5**	47.7
Taxation – current		**(16.6)**	(30.6)
Taxation – deferred		**–**	16.4
Tax charge for the year	14	**(16.6)**	(14.2)
Profit for the year attributable to equity holders of the company		**60.9**	33.5
Basic earnings per share	16	**47.3p**	26.0p
Diluted earnings per share	16	**46.6p**	25.8p
Dividend per share	15	**6.18p**	5.62p

Included within the profit for the financial year is a loss of £91,000 (2006: £29,000) attributable to minority interests.

All of the above results relate to continuing operations.

consolidated statement of recognised income and expense

For the year ended 30 September 2007	Notes	£m	2007 £m	£m	Restated 2006 £m
Profit for the year			**60.9**		33.5
Actuarial profit on BPT Limited defined benefit pension scheme net of tax	30	**1.5**		0.4	
Net exchange adjustments offset in reserves net of tax	35	**0.3**		0.1	
Changes in fair value of cash flow hedges net of tax	19, 20, 26	**9.0**		(0.8)	
Net income/(expense) recognised directly in equity			**10.8**		(0.3)
Total recognised income and expense for the year			**71.7**		33.2
Effect of adoption of IAS 32 and IAS 39 on 1 October 2005 net of tax			**–**		(5.4)
Prior year adjustment – reclassification of equity release assets (see note 1(b))			**(0.5)**		–
Total recognised income and expense since last report			**71.2**		27.8
The total recognised income and expense in the year is attributable to:					
Equity shareholders of the parent			**71.8**		33.2
Minority interest			**(0.1)**		–
			71.7		33.2

consolidated balance sheet

As at 30 September 2007	Notes	2007 £m	Restated 2006 £m
ASSETS			
Non-current assets			
Investment property	17	478.6	219.4
Property, plant and equipment	18	2.3	2.1
Investment in associates	19	68.5	2.0
Investment in joint ventures	20	114.8	71.5
Financial interest in property assets	21	131.7	–
At fair value through profit or loss financial assets	22	–	19.0
Goodwill	23	17.4	–
		813.3	314.0
Current assets			
Inventories – trading properties	24	1,069.1	985.5
Trade and other receivables	25	16.4	5.3
Derivative financial instruments	26	13.1	2.3
Cash and cash equivalents	28	80.1	34.5
Assets held for sale	27	–	168.3
		1,178.7	1,195.9
Total assets		1,992.0	1,509.9
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	28	1,393.8	1,070.5
Trade and other payables	29	8.0	8.0
Retirement benefits	30	2.7	4.6
Provisions for other liabilities and charges	29	1.2	1.3
Deferred tax liabilities	31	113.5	91.1
		1,519.2	1,175.5
Current liabilities			
Interest-bearing loans and borrowings	28	18.2	19.4
Trade and other payables	32	84.9	23.3
Current tax liabilities	14	45.8	37.2
Derivative financial instruments	26	0.8	4.4
		149.7	84.3
Total liabilities		1,668.9	1,259.8
Net assets		323.1	250.1

As at 30 September 2007	Notes	2007 £m	Restated 2006 £m
EQUITY			
Capital and reserves attributable to the company's equity holders			
Issued share capital	33, 35	**6.4**	6.5
Share premium	35	**23.0**	22.6
Merger reserve	35	**20.1**	20.1
Capital redemption reserve	35	**0.3**	0.2
Cash flow hedge reserve	35	**8.2**	(0.8)
Equity component of convertible bond	35	**22.4**	–
Retained earnings	35	**242.6**	201.3
Total shareholders' equity		**323.0**	249.9
Equity minority interest	35	**0.1**	0.2
Total equity	35	**323.1**	250.1

The financial statements on pages 76 to 138 were approved by the board of directors on 18 December 2007 and were signed on their behalf by:

Rupert Dickinson
Director

Andrew Cunningham
Director

statement of consolidated cash flows

For the year ended 30 September 2007	Notes	2007 £m	Restated 2006 £m
Cash flow from operating activities			
Profit for the year		**60.9**	33.5
Depreciation	18	**0.6**	0.6
Impairment of goodwill	23	**–**	6.4
Net valuation gains on investment properties	17	**(9.9)**	(18.5)
Net finance costs	13	**65.0**	57.1
Share of profit of associates and joint ventures	19, 20	**(40.6)**	(0.4)
Profit on disposal of investment property	6	**(2.5)**	(4.9)
Profit on disposal of shares in subsidiary	9	**(2.0)**	–
Profit on disposal of joint venture interest	10	**–**	(0.4)
Share-based payment charge	34	**1.0**	0.9
Change in fair value of derivatives and fair value through profit or loss financial assets	26	**(3.0)**	(10.8)
Interest income from financial assets	21	**(1.8)**	–
Taxation	14	**16.6**	14.2
Operating profit before changes in working capital		**84.3**	77.7
(Increase)/decrease in trade and other receivables		**(12.1)**	3.2
(Decrease)/increase in trade and other payables		**(1.9)**	4.0
Increase in trading properties		**(65.1)**	(64.1)
Cash generated from operations		**5.2**	20.8
Interest paid		**(66.1)**	(55.0)
Taxation paid	14	**(8.5)**	(15.4)
Net cash outflow from operating activities		**(69.4)**	(49.6)
Cash flow from investing activities			
Proceeds from sale of investment property	6	**14.8**	40.6
Proceeds from sale of joint venture interest	10	**–**	5.4
Proceeds from financial interest in property assets		**4.9**	–
Disposal of subsidiary net of cash disposed of		**251.0**	–
Interest received		**4.7**	2.6
Dividends/distributions received	19, 20	**8.0**	0.4
Acquisition of subsidiaries, net of cash acquired	42	**(146.5)**	(3.4)
Investment in associates and joint ventures		**(93.3)**	(57.8)
Acquisition of investment property and property, plant and equipment		**(100.9)**	(98.9)
Acquisition of financial interest in property assets	21	**(134.7)**	–
Acquisition of at fair value through profit or loss financial assets		**–**	(0.4)
Net cash outflow from investing activities		**(192.0)**	(111.5)
Cash flows from financing activities			
Proceeds from the issue of share capital	35	**0.5**	1.0
Purchase of own shares including treasury shares	35	**(14.8)**	(0.5)
Proceeds from new borrowings		**227.2**	165.2
Issue of convertible bond net of costs		**109.6**	–
Repayment of borrowings		**(12.1)**	(12.0)
Dividends paid	15	**(7.6)**	(6.9)
Purchase of financial derivative	26	**(0.3)**	–
Net cash inflow from financing activities		**302.5**	146.8
Net increase/(decrease) in cash and cash equivalents		**41.1**	(14.3)
Cash and cash equivalents at beginning of year	28	**39.0**	53.3
Cash and cash equivalents at end of year	28	**80.1**	39.0

notes to the financial statements

1 Accounting policies

(a) Basis of preparation

Grainger plc is a company incorporated and domiciled in the UK. It is a public limited liability company listed on the London Stock Exchange and the address of the registered office is given on page 148. The group financial statements consolidate those of the company and its subsidiaries, together referred to as the 'group', and equity account the group's interest in joint ventures and associates. The parent company financial statements present information about the company and not about its group.

The group financial statements have been prepared in accordance with EU endorsed International Financial Reporting Standards ('IFRS'), IFRIC interpretations and those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The company has elected to prepare its company financial statements in accordance with UK GAAP. These are presented on pages 141 to 146.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in the group financial statements.

The group financial statements have been prepared under the historical cost convention except for the following assets and liabilities which are stated at their fair value; investment property, derivative financial instruments, financial interest in property assets and at fair value through profit or loss financial assets.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of the events and amounts involved, actual results ultimately may differ from those estimates.

(b) Prior year adjustment

Evolution of the application of IFRS and a review of our accounts by the Financial Reporting Review Panel has caused us to reconsider the treatment of certain items in our accounts. We have reviewed the treatment and classification in our balance sheet of our residential assets and, in particular, the transfer of assets to the JPUT (that forms part of G:res1 Limited) in the 2006 financial year.

Classification of property assets

After a considered and detailed review we have concluded that all of our property assets are correctly classified with the exception of some of our equity release home reversion assets and assets transferred to the JPUT (see below). The equity release home reversion assets had been shown in the balance sheet as investment property but, as the most likely outcome will be the sale of these assets on vacancy, the more appropriate classification is as trading stock. This has been corrected retrospectively through a prior year adjustment. There is no impact on the accounts for the year ended 30 September 2005 and prior but the accounts for the year ended 30 September 2006 have been restated. The assets have been reduced from market value to historical cost by deducting £0.5m both from the 2006 revaluation gain in the 2006 income statement and from the value of investment property.

The assets have then been correctly shown as trading stock rather than as investment property with the result that trading stock in the 30 September 2006 balance sheet has increased by £32.8m and investment property has decreased by the same amount. Sales of assets of £0.5m and the related cost of sales of £0.2m have been moved from profit on disposal of investment property and added to profit on disposal of trading property. The additional profit arising is insignificant.

Transfer of assets to the JPUT

Included within the assets transferred to the JPUT on 1 December 2005 were properties with a carrying amount, at cost, of £43.5m that had been classified as trading stock. On transfer, these assets were reclassified as investment properties and a revaluation gain of £23.5m to take their value up to market value was recognised in the 2006 income statement. A tax charge of £7.0m arose in respect of this transfer. However, this reclassification did not comply with the requirements of IAS 40 paragraph 57 which explains the circumstances which provide evidence of a change in use of

notes to the financial statements continued

1 Accounting policies continued

a property asset allowing a transfer between categories to be made. These assets were originally acquired for the purpose of long-term capital appreciation and rental growth and, consequently, should always have been shown as investment property rather than trading stock. Indeed one of the main reasons why these assets were chosen to be transferred to the JPUT was that they had always been held for that purpose. Properties similar to these and retained by Grainger are shown in the accounts as investment properties.

The error has been corrected by a prior year adjustment restating the opening 2006 balance sheet (i.e. at 1 October 2005) and the income statement for the year ended 30 September 2006. Retained earnings at 1 October 2005 have been increased by the revaluation gain of £23.5m and a provision for deferred tax of £7.0m has been made (see note 35).

The gain has been eliminated from the 2006 income statement. The tax charge for 2006 is reduced by £7.0m as the deferred tax provision is released against the current tax charge arising as a result of the transfer to the JPUT. Costs of £2.5m relating to the cost of raising equity investment in the JPUT offset against this revaluation gain in 2006 have been transferred to interest expense. This transfer has no impact on 2006 profit before tax.

The above changes have no effect on the market value net asset value of the business or on its cash flows. Basic earnings per share for the year ended 30 September 2006 are reduced from 39.1p as previously stated to 26.0p and diluted earnings per share from 38.9p to 25.8p.

(c) Basis of consolidation

i) Subsidiaries

Subsidiaries are all entities (including special purposes entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date control ceases.

ii) Goodwill and impairment

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of the acquisition is measured as the fair value of the assets given, equity instruments issued plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition. Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of net identifiable assets including intangible assets of the acquired entity at the date of acquisition. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisitions of joint ventures and associates is included in investment in joint ventures and associates.

Goodwill is allocated to cash-generating units for the purpose of impairment testing and is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

iii) Joint ventures and associates

Joint ventures are those entities over whose activities the group has joint control, established by contractual agreement. Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in joint ventures and associates are accounted for by the equity method of accounting and are initially recognised at cost. The group's investment in joint ventures and associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The group's share of its joint ventures' and associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

1 Accounting policies continued

Unrealised gains on transactions between the group and its joint ventures and associates are eliminated to the extent of the group's interest in joint ventures and associates. The accounting policies of joint ventures and associates have been changed where necessary to ensure consistency with the policies adopted by the group.

(d) Segmental reporting

A business segment is a distinguishable group of assets and operations, reflected in the way that the group manages its business, that are subject to risks and returns that are different from those of other business segments.

The group has identified six such segments as follows:

- UK core portfolio;
- Retirement solutions;
- Fund management/residential investments;
- UK development;
- European tenanted residential; and
- European development.

More detail is given relating to each of the above segments, and their geographical split in the chief executive's review on pages 32 to 39 and in note 3.

(e) Foreign currency translation

i) Functional and presentation currency
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in pounds sterling, which is the company's functional and presentation currency.

ii) Foreign currency transactions
Foreign currency transactions are translated at the foreign exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the foreign exchange rate ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

iii) Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to sterling at foreign exchange rates ruling at the balance sheet date. Revenues and expenses of foreign operations are translated at average foreign exchange rates for the relevant period.

Exchange differences arising from the translation of the net investment in foreign operations are taken to the translation reserve.

(f) Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated group, is classified as investment property.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specified asset. If this information is not available, the group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections.

Subsequent expenditure is included in the carrying amount of the property when it is probable that future economic benefit associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Gains or losses arising from changes in the fair value of the group's investment properties are included in the income statement of the period in which they arise.

(g) Property, plant and equipment

Property, plant and equipment is stated at historical cost less subsequent depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

notes to the financial statements continued

1 Accounting policies continued

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost less residual values over their estimated useful lives, as follows:

Land	Nil
Fixtures, fittings and equipment	Five years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(h) Financial interest in property assets

Financial interest in property assets is initially recognised at fair value plus transaction costs and is subsequently carried at fair value. Subsequent to initial recognition, changes in value are recorded through the income statement based on revised cash flows using the effective interest rate applicable at acquisition. Differences based on revised cash flows using the effective interest rate applicable at acquisition compared to revised cash flows using a year-end effective interest rate, assessed as the rate available in the market for an instrument with a similar maturity and credit risk, are taken through equity. When gains or losses in the assets are realised, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from financial interest in property assets. Income received from the mortgages is recognised in the income statement on an accruals basis. The amount credited to the income statement is shown on the line 'interest income from financial assets'.

(i) Inventories – trading properties

Tenanted residential properties held for sale in the normal course of business are shown in the financial statements at the lower of cost and net realisable value. Cost 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.

Land and property held within the development segments of the business, including house-building sites, are shown in the financial statements at the lower of cost and net realisable value. Cost represents the acquisition price including legal and other professional costs associated with the acquisition together with subsequent development cost net of amounts transferred to costs of sale. Net realisable value is the current market value which the group expects to receive on sale net of associated selling costs.

(j) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(k) Income tax

Income tax on the profit for the periods presented comprises both current and deferred tax. Current tax is the expected tax payable on the taxable income for the year using rates applicable at the balance sheet date. Tax payable upon the realisation of revaluation gains recognised in prior periods is recorded as a current tax charge with a release of the associated deferred taxation.

Deferred income tax is provided using the balance sheet liability method. Provision is made for temporary differences between the carrying value of assets and liabilities in the consolidated financial statements and the values used for tax purposes. Deferred income tax is calculated after taking account of any indexation allowances and capital losses. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities and is calculated using rates enacted or substantially enacted at the balance sheet date in the tax jurisdiction in which the temporary differences arise.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be used. The deferred income tax assets and liabilities are only offset if there is a legally enforceable right of set off.

1 Accounting policies continued

(l) Employee benefits

i) Defined contribution pension scheme

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the income statement in the period to which they relate.

ii) Defined benefit pension scheme

The group currently contributes to a defined benefit pension scheme that was closed to new members and employee contributions in 2003. The full deficit in the scheme was recognised in the balance sheet as at 1 October 2004.

An actuarial valuation of the scheme is carried out every three years. However, the valuation is updated annually by a qualified actuary for the purpose of determining the amounts to be reflected in the group's financial statements under IAS 19.

The liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of scheme assets.

There are no current or past service costs as the scheme is closed to new members and employee contributions. Interest on pension scheme liabilities and the expected return on pension scheme assets will be reflected in the income statement each year. Actuarial gains and losses will be reflected in the consolidated statement of recognised income and expense each year.

iii) Share-based compensation

The group operates an equity-settled, share-based compensation plan comprising awards under a Long-Term Incentive Scheme ('LTIS') and a save as you earn ('SAYE') scheme. The fair value of the employee services received in exchange for the grant of shares and options is recognised as an employee expense with a corresponding increase in equity. The total amount to be expensed is spread over the vesting period during which the employees become unconditionally entitled to the shares and options.

Awards that are subject to a market-based performance condition are fair valued using the Monte Carlo simulation model. Awards not subject to a market-based performance condition are fair valued using the Black-Scholes valuation model.

When options are exercised, the proceeds received net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

(m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is stated net of sales taxes and value added taxes. Revenue is recognised as follows:

i) Rental and similar income

Rental income from operating leases is recognised on a straight-line basis over the lease term on an accruals basis.

ii) Service charge and management fee income

Service charge and management fee income is recognised in the accounting period in which the services are rendered.

Other income is accounted for as follows:

i) Income from property trading

Profits or losses arising from the sale of trading and investment property are included in the income statement where contract completion has taken place. Profits or losses arising from the sale of trading and investment property are calculated by reference to their carrying value and are included in operating profit.

ii) Income from investments

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(n) Leases

i) Group as lessor

The net present value of ground rents receivable is, in the opinion of the directors, immaterial. Accordingly, ground rents receivable are taken to the income statement on a straight-line basis over the period of the lease. Properties leased out to tenants are included in the balance sheet as either investment property or as trading property under inventories.

Where the group grants a lifetime lease on an investment property and receives from the lessee an upfront payment in respect of the grant of the lease, the upfront payment is treated as deferred rent in the balance sheet. This deferred rent is released to the income statement on a straight-line basis over the projected term of the lease. At each year end the projected term of the lease is reassessed and the

notes to the financial statements continued

1 Accounting policies continued

remaining deferred rent is released to the income statement on a straight-line basis over this reassessed lease term.

ii) Group as lessee

The group occupies a number of its offices as a lessee. After a review of all of its occupational leases, the directors have concluded that all such leases are operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period the lease.

The net present value of ground rents payable is, in the opinion of the directors, immaterial. Accordingly, ground rent expenses are taken to the income statement on a straight-line basis over the lease term.

(o) Financial instruments

Derivatives

The group uses derivative instruments to help manage its interest rate risk. In accordance with its treasury policy, the group does not hold or issue derivatives for trading purposes.

The derivatives are recognised initially at fair value. Subsequently, the gain or loss on remeasurement to fair value is recognised immediately in the income statement, unless the derivatives qualify for cash flow hedge accounting in which case any gain or loss is taken to equity in a cash flow hedge reserve.

In order to qualify for hedge accounting, the group is required to document in advance the relationship between the item being hedged and the hedging instrument. The group is also required to demonstrate that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed at each period end to ensure that the hedge remains highly effective.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecasted transaction is ultimately recognised in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the income statement.

Fair value estimation

The fair value of interest rate swaps is based on a discounted cash flow model using quoted market information.

Derecognition of financial assets and liabilities

Derecognition is the point at which the group removes an asset or a liability from its balance sheet. The group's policy is to derecognise financial assets only when the contractual right to the cash flows from the financial asset expires. The group also derecognises financial assets that it transfers to another party provided the transfer of the assets also transfers the right to receive cash flows from the financial asset. When the transfer does not result in the group transferring the right to receive cash flows from the financial asset but it does result in the group assuming a corresponding obligation to pay cash flows to another recipient, the financial asset is derecognised.

The group derecognises financial liabilities only when its obligation is discharged, is cancelled or expires.

(p) At fair value through profit or loss financial assets

At fair value through profit or loss financial assets are included in the balance sheet at fair value with changes in fair value taken through the income statement. At fair value through profit or loss financial assets are managed, and their performance is evaluated, on a fair value basis in accordance with the group's documented investment policy.

(q) Borrowings

Borrowings are initially recognised at cost, being the fair value of consideration received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(r) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment in trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The movement in the provision is recognised in the income statement.

(s) Provisions

Provisions are recognised when a) the group has a present obligation as a result of a past event and b) it is probable that an outflow of resources will be required to settle the obligation and c) a reliable estimate can be made of the amount of the obligation.

(t) Dividends

Dividend distributions to the company's shareholders are recognised as a liability in the group financial statements in the period in which the dividends are approved by the company's shareholders.

(u) Assets held for sale

Where a group of assets are to be disposed of by sale together or as a single group, they are classified as a disposal group. The disposal group is classified as held for sale as defined by IFRS 5 when they are available for sale in their present condition and the sale is highly probable and expected to be completed within one year from the date of classification.

(v) Acquisition of and investment in own shares

The group acquires its own shares to enable it to meet its obligations under the LTIS. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the company's own shares. The acquisition cost of the shares is debited to an investment in own shares reserve within retained earnings. When shares are issued to employees under the LTIS, a transfer is made at the average cost of the shares issued between the investment in own shares reserve and the share-based payments reserve all within retained earnings (see note 35).

Where the group buys back its own shares as treasury shares it adopts the accounting as described above. Where it subsequently cancels them, issued share capital is reduced by the nominal value of the shares cancelled and this same amount is transferred to the capital redemption reserve.

(w) Impact of standards and interpretations in issue but not yet effective

At the date of authorisation of these financial statements there are a number of standards, amendments and interpretations that have been published but which are not yet effective. All of these have been endorsed by the EU with the exception of IFRS 8 'Operating Segments', IFRIC 12 'Service Concession Arrangements', IFRIC 13 'Customer Loyalty Programmes' and IFRIC 14 'IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' and are therefore likely to be mandatory for the group's accounting periods beginning on or after 1 October 2007. The group has not early adopted any standard, amendment or interpretation.

The standards, amendments and interpretations that are expected to impact upon the group are:

- IFRS 7 'Financial Instruments: Disclosures'. IFRS 7 introduces new disclosures on quantitative and qualitative risks arising from financial instruments. This standard will apply to the group from 1 October 2007 and is expected to impact upon the group by requiring additional disclosures in the annual financial statements;
- IFRS 8 'Operating Segments'. IFRS 8 amends the current segmental reporting requirements of IAS 14 and requires a 'management approach' to be adopted so that segment information is presented on the same basis as that used for internal reporting purposes. This standard will apply to the group from 1 October 2009 and is expected to impact upon the group by requiring additional disclosures in the annual financial statements;
- Amendment to IAS 1 'Presentation of Financial Statements Capital Disclosures'. This amendment introduces new disclosures about an entity's management of its capital resources. This amendment will apply to the group from 1 October 2007 and is expected to impact upon the group

notes to the financial statements continued

1 Accounting policies continued

by requiring additional disclosures in the annual financial statements; and

- Amendment to IAS 23 'Borrowing Costs'. This amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is one that takes a substantial period of time to get ready for use or sale. The option of immediately expensing these borrowing costs is removed. This amendment will apply to the group from 1 October 2009 and its impact is currently being assessed.

The adoption of the following standards, amendments and interpretations are not expected to have any material impact on the financial statements of the group:

- IFRIC 10 'Interim Financial Reporting and Impairment'. IFRIC 10 prohibits the reversal of impairment losses recognised in previous interim periods on goodwill, investments in equity instruments or financial assets;
- IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions'. IFRIC 11 requires all share-based payment transactions for which services are received in exchange for shares in the company to be treated as equity-settled. It also requires that where the parent grants share-based payment transactions to the employees of a subsidiary that they be treated as equity-settled, whereas if the subsidiary grants shares to its employees the transactions are treated as cash-settled. This interpretation will apply to the group from 1 October 2007;
- IFRIC 12 'Service Concession Arrangements'. IFRIC 12 provides guidance upon the accounting for public-to-private infrastructure service concession arrangements. This interpretation will apply to the group from 1 October 2008;
- IFRIC 13 'Customer Loyalty Programmes'. IFRIC 13 requires the credits given as part of customer loyalty schemes to be recognised at their fair value as a separate component of revenue. The revenue related to these schemes should only be recognised when the entity's obligations are fulfilled. This interpretation will apply to the group from 1 October 2008; and
- IFRIC 14 'IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. IFRIC 14 states when refunds or reductions in future contributions can be treated as available under IAS 19 and how a minimum funding requirement affects future contributions or may give rise to a liability. This interpretation will apply to the group from 1 October 2008.

2 Critical accounting estimates and assumptions

The group's significant accounting policies are stated in note 1 above. Not all of these accounting policies require management to make subjective or complex judgements or estimates. The following is intended to provide further detail relating to those accounting policies that management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on the consolidated financial statements.

Investment property valuations

The group, after review by the directors, uses the valuations performed by its own in-house surveying team to value its own UK-based residential investment property as at 30 September 2007. A structured sample of approximately 25% of these valuations is checked by an external independent valuer. Investment property in Germany has been valued by an external independent valuer as at 30 September 2007 except for acquisitions since 1 June 2007 where the fair value as at 30 September 2007 has been assessed by the directors. Investment property in the group's joint ventures and associates is valued by external independent valuers. In the UK the majority of the portfolio is invested in the type of properties where demand is high. Accordingly, the valuers generally are well informed and have good recent information on current market values for properties similar to our own. Valuers also make reference to discounted cash flow projections based upon estimates of future rental income, property expenses and an appropriate discount rate in order to value properties.

2 Critical accounting estimates and assumptions continued

Trading property valuations

The group's residential trading properties are carried in the balance sheet at the lower of cost and net realisable value. In assessing net realisable value the group uses valuations carried out by its own in-house surveying team. A structured sample of approximately 25% of these valuations is checked by an external independent valuer. Valuing the significant number of properties in our portfolio is a significant task and there are some subjectivities involved in the process. In particular, in relation to our regulated tenancies, we have no right to know the age of the tenant and, other than for specific limited purposes, for example, the annual gas safety check, we have no right of access to the property. Invariably, when our in-house valuations are compared to those of the external valuer, over 95% of the valuations are within a small acceptable tolerance. Where the difference is more significant we discuss this with the valuer to determine the reasons for the difference. Typically the reasons vary but it could be, for example, a different number of bedrooms, the possibility of planning permission or the wrong flat in the block having been valued. Once such reasons have been identified we and the valuer agree the appropriate valuation that should be adopted.

Development trading properties are included in the balance sheet at the lower of cost and net realisable value. Development projects with a cost of £86.0m out of a total cost as at 30 September 2007 of £104.6m have been valued by an external independent valuer. Of the remaining book cost of £18.6m, £12.2m relates to the group's housebuilding sites and £6.4m to the group's development in Prague. These have been valued as at 30 September 2007 by the directors. Provision is made on a project-by-project basis to reduce costs to net realisable value to the extent that total projected costs exceed total projected revenues.

Valuation of financial interest in property assets

The valuation is based on an assessment of the future cash flows that will arise from our financial interest and on the effective interest rate used to discount those cash flows. The valuation methodology adopted is set out in note 1(h) above. Key assumptions are house price inflation ('HPI') and the effective interest rate. The valuation utilised in the accounts assumes HPI of zero for the next two years followed by 3.75% per annum thereafter. A reduction in HPI to 3.50% per annum from year three onwards reduces the valuation by £2.1m.

Distinction between investment and trading property

The group considers the intention at the outset when each property is acquired in order to classify the property as either an investment or a trading property. Where the intention is to either trade the property or where the property is held for immediate sale upon receiving vacant possession within the ordinary course of business, the property is classified as trading property. Where the intention is to hold the property for its long-term rental yield and/or capital appreciation, the property is classified as an investment property.

Income taxes

There are some transactions and calculations that involve a degree of estimation and judgement and whose tax treatment can not be determined until a formal resolution has been reached with the relevant tax authorities. In such cases, the group's policy is to be prudent in its assessment of the tax benefit that may accrue in line with the contingent asset rules set out in IAS 37. Where the final outcome of these matters is different from the amounts initially recorded, such differences will impact on the income and deferred tax amounts reflected in subsequent accounting periods (see note 14).

Goodwill impairment

Goodwill primarily arises from the difference between how deferred tax is calculated for accounting purposes and the value ascribed to it in the acquisition negotiations. Generally, the value of goodwill is supported by the fact that the taxation cash flows will arise in future years and the discounted value of these cash flows is significantly less than the tax actually provided. However, this position needs to be carefully monitored and goodwill is tested annually for impairment.

notes to the financial statements continued

3 Segmental information

2007 Income statement (£m)	- UK core portfolio	Retirement solutions	Fund management/ residential investments
Group revenue	160.3	16.7	1.1
Net rental income	15.0	1.2	1.1
Profit on disposal of trading properties	59.2	4.8	–
Administrative expenses	4.6	–	(4.6)
Other income	0.6	–	5.3
Profit on disposal of investment property	1.6	–	0.1
Profit on disposal of shares in subsidiary	–	–	2.0
Interest income from financial assets	–	1.8	–
Operating profit before net valuation gains on investment properties and changes in fair value	81.0	7.8	3.9
Net valuation gains on investment properties	2.5	(1.5)	–
Operating profit – segment result	83.5	6.3	3.9
Change in fair value of derivatives			
Interest expense			
Interest income			
Share of profit of associates after tax			
Share of profit of joint ventures after tax			
Profit before tax			
Included in the above analysis are the following non-cash expenses:			
Depreciation	(0.4)	(0.1)	–
Share-based payments	(0.2)	(0.1)	(0.2)

Of the share of profit of associates after tax of £7.7m, £6.5m is attributable to fund management/residential investment and £1.2m is attributable to European development.

Of the share of profit of joint ventures after tax of £32.9m, £29.6m is attributable to fund management/residential investment and £3.3m is attributable to UK development.

The group monitors its operations in the above segments. There is no primary or secondary split and the above is a complete analysis by business and geographic segment.

UK development	European tenanted residential	European development	Group	Total 30 September 2007
41.3	9.9	–	–	229.3
1.3	4.6	–	–	23.2
(1.2)	–	–	–	62.8
–	–	–	(9.5)	(9.5)
0.2	0.1	–	–	6.2
0.4	0.4	–	–	2.5
–	–	–	–	2.0
–	–	–	–	1.8
0.7	5.1	–	(9.5)	89.0
–	8.9	–	–	9.9
0.7	14.0	–	(9.5)	98.9
				3.0
				(74.4)
				9.4
				7.7
				32.9
				77.5
(0.1)	–	–	–	(0.6)
(0.1)	(0.1)	–	(0.3)	(1.0)

notes to the financial statements continued

3 Segmental information continued

2006 Income statement (£m) (restated)	UK core portfolio	Retirement solutions	UK market tenancies
Group revenue	147.2	12.7	9.0
Net rental income	20.2	(0.2)	6.1
Profit on disposal of trading properties	50.9	2.9	–
Administrative expenses	–	–	–
Net other income/(expense)	3.8	0.1	(1.9)
Profit on disposal of investment property	0.9	–	0.4
Profit on disposal of joint venture interest	–	–	–
Operating profit before net valuation gains on investment properties and changes in fair value	75.8	2.8	4.6
Net valuation gains on investment properties	6.0	–	12.9
Change in fair value through profit or loss financial assets	0.4	–	–
Operating profit – segment result	82.2	2.8	17.5
Change in fair value of derivatives			
Interest expense			
Interest income			
Share of loss of associates after tax			
Share of profit of joint ventures after tax			
Profit before tax			
Included in the above analysis are the following non-cash expenses:			
Depreciation	(0.4)	(0.1)	–
Goodwill impairment loss	–	–	–
Share-based payments	(0.2)	(0.1)	–

The share of loss of associates after tax of £0.1m is attributable to European development.

The share of profit of joint ventures after tax of £0.5m is attributable to UK core portfolio.

The group monitors its operations in the above segments. There is no primary or secondary split and the above is a complete analysis by business and geographic segment.

UK development	European tenanted residential	European development	Group	Total 30 September 2006
32.9	4.5	–	–	206.3
0.4	1.8	–	–	28.3
2.4	–	–	–	56.2
–	–	–	(10.4)	(10.4)
–	–	0.1	(6.4)	(4.3)
3.4	0.2	–	–	4.9
0.4	–	–	–	0.4
6.6	2.0	0.1	(16.8)	75.1
–	(0.4)	–	–	18.5
–	–	–	–	0.4
6.6	1.6	0.1	(16.8)	94.0
				10.4
				(62.9)
				5.8
				(0.1)
				0.5
				47.7
(0.1)	–	–	–	(0.6)
–	–	–	(6.4)	(6.4)
(0.2)	–	–	(0.4)	(0.9)

notes to the financial statements continued

3 Segmental information continued

2007 Segment assets (£m)	UK core portfolio	Retirement solutions
Assets		
Investment property	127.8	109.1
Investment in associates	–	–
Investment in joint ventures	–	–
Financial interest in property assets	–	131.7
Goodwill	14.1	3.3
Inventories – trading properties	753.7	210.8
Trade and other receivables	1.5	0.7
Cash and cash equivalents	1.6	7.3
Total segment assets	898.7	462.9
Unallocated assets		
Property, plant and equipment		
Derivative financial instruments		
Trade and other receivables		
Cash and cash equivalents		
Total assets		
Liabilities		
Interest-bearing loans and borrowings	–	41.0
Trade and other payables	9.0	34.6
Total segment liabilities	9.0	75.6
Unallocated liabilities		
Interest-bearing loans and borrowings		
Trade and other payables		
Retirement benefits		
Current tax liabilities		
Provisions for other liabilities and charges		
Deferred tax liabilities		
Derivative financial instruments		
Total liabilities		
Net assets		
Other unallocated items		
Capital expenditure on property, plant and equipment	–	–

The group monitors its operations in the above segments. There is no primary or secondary split and the above is a complete analysis by business and geographic segment.

FINANCIALS

Fund management/ residential investments	UK development	European tenanted residential	European development	Total 30 September 2007
–	–	241.7	–	478.6
67.5	–	–	1.0	68.5
108.0	6.8	–	–	114.8
–	–	–	–	131.7
–	–	–	–	17.4
–	98.2	–	6.4	1,069.1
8.1	1.3	1.0	2.3	14.9
–	0.1	4.9	0.7	14.6
183.6	106.4	247.6	10.4	1,909.6
				2.3
				13.1
				1.5
				65.5
				1,992.0
–	–	133.2	3.6	177.8
–	12.2	23.2	0.5	79.5
–	12.2	156.4	4.1	257.3
				1,234.2
				13.4
				2.7
				45.8
				1.2
				113.5
				0.8
				1,668.9
				323.1
–	–	–	–	0.8

FINANCIALS

notes to the financial statements continued

3 Segmental information continued

2006 Segment assets (£m) (restated)	UK core portfolio	Retirement solutions
Assets		
Investment property	60.0	–
Investment in associates	–	–
Investment in joint ventures	67.4	–
Inventories – trading properties	720.2	176.6
Trade and other receivables	1.1	0.1
Cash and cash equivalents	–	–
Assets held for sale	(2.6)	–
Total segment assets	846.1	176.7
Unallocated assets		
Property, plant and equipment		
At fair value through profit or loss financial assets		
Derivative financial instruments		
Trade and other receivables		
Cash and cash equivalents		
Total assets		
Liabilities		
Interest-bearing loans and borrowings	–	41.7
Trade and other payables	5.0	2.6
Total segment liabilities	5.0	44.3
Unallocated liabilities		
Interest-bearing loans and borrowings		
Trade and other payables		
Retirement benefits		
Current tax liabilities		
Provisions for other liabilities and charges		
Deferred tax liabilities		
Derivative financial instruments		
Total liabilities		
Net assets		
Other unallocated items		
Capital expenditure on property, plant and equipment	–	–

The group monitors its operations in the above segments. There is no primary or secondary split and the above is a complete analysis by business and geographic segment.

UK market tenancies	UK development	European tenanted residential	European development	Total 30 September 2006
42.1	0.4	116.9	–	219.4
–	–	–	2.0	2.0
–	4.1	–	–	71.5
–	83.1	–	5.6	985.5
0.1	0.3	0.1	–	1.7
1.1	–	–	–	1.1
170.9	–	–	–	168.3
214.2	87.9	117.0	7.6	1,449.5
				2.1
				19.0
				2.3
				3.6
				33.4
				1,509.9
–	–	36.9	3.1	81.7
0.5	9.3	1.6	0.4	19.4
0.5	9.3	38.5	3.5	101.1
				1,008.2
				11.9
				4.6
				37.2
				1.3
				91.1
				4.4
				1,259.8
				250.1
–	–	–	–	0.7

notes to the financial statements continued

4 Net rental income

	2007 £m	2006 £m
Gross rental income	**52.7**	52.6
Property repair and maintenance costs	**(15.8)**	(12.7)
Property operating expenses (see note 7)	**(13.7)**	(11.6)
	23.2	28.3

5 Profit on disposal of trading properties

	2007 £m	Restated 2006 £m
Proceeds from sale of trading properties	**166.0**	151.5
Carrying value of trading properties sold	**(92.8)**	(85.3)
Other sales costs (see note 7)	**(10.4)**	(10.0)
	62.8	56.2

6 Profit on disposal of investment property

	2007 £m	Restated 2006 £m
Proceeds from sale of investment property	**14.8**	40.6
Carrying value of investment property sold (see note 17)	**(12.3)**	(35.7)
	2.5	4.9

In 2006, a profit on disposal of joint venture interest of £0.4m was shown within profit on disposal of investment property. This profit has been shown separately in the income statement in the 2006 comparative in these accounts.

7 Administrative expenses

	2007 £m	2006 £m
Total group expenses	**33.6**	32.0

Many of the group's expenses relate directly to either property management activities or to staff involved directly with the sale and acquisition of property. Accordingly, total group expenses shown above have been allocated as follows:

	2007 £m	2006 £m
Property operating expenses (see note 4)	**13.7**	11.6
Costs directly attributable to the disposal of trading properties (see note 5)	**10.4**	10.0
Administrative expenses	**9.5**	10.4
	33.6	32.0

8 Other income

	2007 £m	2006 £m
Property and asset management fee income	**5.8**	1.8
Crop store and agricultural income	**0.4**	0.3
	6.2	2.1

9 Profit on disposal of shares in subsidiary

	2007 £m	2006 £m
Sale of shares in G:res1 Limited	**2.0**	–

During the year, the group disposed of 78.4% of its equity interest in G:res1 Limited and made a profit on sale of equity of £2.0m (2006: £nil).

10 Profit on disposal of joint venture interest

	2007 £m	2006 £m
Proceeds from sale of joint venture interest	–	5.4
Carrying value of joint venture interest sold (see note 20)	–	(5.0)
	–	0.4

11 Employees

	2007 £m	2006 £m
Wages and salaries	**14.6**	13.8
Social security costs	**1.5**	1.8
Other pension costs – defined contribution scheme (see note 30)	**0.8**	0.7
Share-based payments	**1.0**	0.9
	17.9	17.2

The average monthly number of group employees during the year (including executive directors) was:

	2007	2006
UK tenanted residential	**226**	203
UK development	**14**	16
Europe	**7**	3
	247	222

Details of directors' remuneration, including pension costs, share options and interests in the LTIS are provided in the audited section of the remuneration committee report on pages 67 to 69.

notes to the financial statements continued

11 Employees continued

	2007 £m	Restated 2006 £m
Key management compensation		
Salaries and short-term employee benefits	**4.5**	3.9
Post-employment benefits	**0.3**	0.2
Share-based payments	**0.8**	0.6
	5.6	4.7

Key management figures shown above include the executive and the non-executive directors. The 2006 figures have been restated to include the non-executive directors.

12 Profit before tax

	2007 £m	2006 £m
Profit before tax is stated after charging/(crediting):		
Depreciation on fixtures, fittings and equipment	**0.6**	0.6
Impairment of goodwill	**–**	6.4
Bad debt (credit)/expense	**(0.3)**	0.1
Foreign exchange gains	**(0.4)**	(0.2)
Operating lease payments	**1.1**	1.1
Auditors' remuneration – audit	**0.1**	0.1
Auditors' remuneration – non-audit	**0.5**	0.2

The remuneration paid to PricewaterhouseCoopers LLP, the group's principal auditors, is disclosed below:

Auditors' remuneration

	2007 £'000	2006 £'000
Audit fees		
Fees payable to the company's auditors for the audit of the parent company and consolidated financial statements	**136**	128
Non-audit fees		
The audit of the company's subsidiaries pursuant to legislation	**45**	40
Other services pursuant to legislation:		
Tax services	**172**	61
Other services	**241**	67
Total fees	**594**	296

Other services include transaction services of £210,849 (2006: £18,575).

FINANCIALS

12 Profit before tax continued

The goodwill impairment in 2006 related primarily to goodwill on acquisition of City North Group plc of £5.8m.

Operating lease payments represent the minimum lease payments made in the year relating to renting of office space used by the group, car leases under contract hire arrangements and operating lease payments relating to office equipment such as photocopiers. Leases relating to office space used by the group have initial terms of varying lengths, between four to 15 years. Rent reviews generally take place every five years. Contract hire car leases generally have a three-year term. There are no other significant operating lease arrangements requiring disclosure under IAS 17. The group's operating lease commitments are shown in note 39.

13 Interest

	2007 £m	Restated 2006 £m
Interest expense		
Bank loans and mortgages	**71.6**	56.8
Loan notes	**0.8**	0.9
Other interest payable	**0.5**	1.1
Amortisation of issue costs	**1.3**	1.3
Interest on net pension scheme liabilities	**0.2**	0.2
Costs of equity raising	–	2.6
	74.4	62.9
Interest income		
Income from at fair value through profit or loss financial assets	–	0.4
Interest receivable from associates and joint ventures (see note 37)	**6.3**	2.8
Other interest receivable	**3.1**	2.6
	9.4	5.8
Net finance costs	**65.0**	57.1
Change in fair value of derivatives	**3.0**	10.4

In accordance with IAS 39, the group has reviewed its interest rate hedges and those of its joint ventures and associates. The fair value of such hedges has been valued by JC Rathbone Associates Limited, financial risk consultants. Movements in fair value have been taken directly to the income statement unless the hedge is viewed as being effective in which case any gain or loss has been taken to equity through the cash flow hedge reserve (see notes 26 and 35).

notes to the financial statements continued

14 Taxation

	2007 £m	Restated 2006 £m
Current tax		
UK corporation tax on profits	**15.9**	26.3
Adjustments relating to prior years	**0.7**	4.3
	16.6	30.6
Deferred tax		
Origination and reversal of timing differences	**1.9**	(16.8)
Adjustments relating to prior years	**(1.9)**	0.4
	–	(16.4)
Income tax expense for the year	**16.6**	14.2

Movements in taxation during the year are set out below:

	Opening balance £m	Payments in the year £m	Acquired in the year £m	Movements recognised in income £m	Movements recognised in equity £m	Closing balance £m
Current tax	37.2	(8.5)	0.5	16.6	–	**45.8**
Deferred tax						
Trading property uplift to fair value on acquisition	73.7	–	3.3	(9.5)	–	**67.5**
Investment property revaluation	16.5	–	15.6	8.5	–	**40.6**
Accelerated capital allowances	1.4	–	–	0.7	–	**2.1**
Short-term timing differences	(0.5)	–	–	0.3	–	**(0.2)**
Actuarial surplus on BPT Limited pension scheme	0.2	–	–	–	0.6	**0.8**
Fair value movement in cash flow hedges	(0.2)	–	–	–	2.9	**2.7**
	91.1	–	18.9	–	3.5	**113.5**
Total tax – 2007 movement	128.3	(8.5)	19.4	16.6	3.5	**159.3**
Total tax – 2006 movement	129.5	(15.4)	–	14.2	–	**128.3**

The tax charge for the year comprises:

	2007 £m	2006 £m
UK taxation	**9.2**	13.2
Overseas taxation	**7.4**	1.0
	16.6	14.2

14 Taxation continued

The tax charge for the year is lower than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2007 £m	Restated 2006 £m
Profit before tax	**77.5**	47.7
Profit before tax at a rate of 30%	**23.3**	14.3
Expenses not deductible for tax purposes	**0.7**	0.4
Goodwill impairment	**–**	1.9
Impact of rate change on deferred tax	**(6.0)**	–
Corporation tax on capital gains	**7.4**	12.7
Capital losses not previously recognised	**(3.0)**	(6.4)
Deferred tax released relating to capital gains	**(6.3)**	(11.0)
Other losses and non-taxable items	**1.7**	(2.6)
Adjustment in respect of prior periods	**(1.2)**	4.9
Total income tax expense in the income statement (see above)	**16.6**	14.2

As detailed in note 31, deferred tax has been taken direct to equity in relation to the actuarial surplus on the BPT Limited pension scheme and the fair value movement in cash flow hedges.

The 2007 Finance Act gained Royal Assent during 2007. This Act reduced the corporation tax rate to 28% from 1 April 2008. As the Act is substantially enacted as at 30 September 2007, deferred tax has been calculated at this lower rate. This has resulted in a reduction in deferred tax of £6.0m which has been taken through the income statement.

Factors that may affect future tax charges

The group has not taken all of the benefit in relation to capital losses brought forward and available for offset against subsequent capital gains arising as this has yet to be formally agreed with the relevant tax authorities. If it is found that all the capital losses are available for offset against capital gains, then provisions of up to £26m would be released over the coming years.

15 Dividends

Under IAS 10, final dividends are excluded from the balance sheet until they are approved by the company in general meeting. Dividends paid in the year are shown below:

	2007 £m	2006 £m
Ordinary dividends on equity shares:		
Final dividend for the year ended 30 September 2006 – 3.75p per share	**4.9**	–
Final dividend for the year ended 30 September 2005 – 3.41p per share	**–**	4.4
Interim dividend for the year ended 30 September 2007 – 2.06p per share	**2.7**	–
Interim dividend for the year ended 30 September 2006 – 1.87p per share	**–**	2.5
	7.6	6.9

A final dividend relating to 2007 of 4.12p per share has been proposed by the board. If approved, this will result in a further distribution of £5.3m and it will be paid on 18 February 2008 to shareholders on the register on 18 January 2008. The 2007 interim dividend of 2.06p per share was paid in July 2007. This gives a total dividend for 2007 of 6.18p per share compared to 5.62p per share in 2006, an increase of 10%.

notes to the financial statements continued

16 Earnings per share

Basic

Basic earnings per share is calculated by dividing profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the group and held both in trust and as treasury shares.

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding by the dilutive effect of ordinary shares that the company may potentially issue relating to its convertible bond and its share option schemes and contingent share awards under the LTIS, based upon the number of shares that would be issued if 30 September 2007 was the end of the contingency period. The profit for the year is adjusted to add back the after tax interest cost on the liability component of the convertible bond.

	30 September 2007			Restated 30 September 2006		
	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 equity holders	**60.9**	**128,849**	**47.3**	33.5	129,001	26.0
Effect of potentially dilutive securities						
Options and shares	**–**	**752**	**(0.3)**	–	803	(0.2)
Convertible bond	**1.8**	**4,866**	**(0.4)**	–	–	–
Diluted earnings per share						
Profit attributable to equity holders	**62.7**	**134,467**	**46.6**	33.5	129,804	25.8

17 Investment property

	2007 £m	Restated 2006 £m
Opening balance (2006 as previously reported)	**219.4**	222.4
Prior year adjustment – transfer of assets to the JPUT (see note 1(b))	**–**	67.0
Additions	**219.4**	289.4
– acquisitions	**122.5**	111.8
– subsequent expenditure	**–**	3.7
– business combinations	**173.3**	–
Disposals	**(12.3)**	(35.7)
Disposal as part of disposal of subsidiary	**(209.8)**	–
Net valuation gains	**9.9**	18.5
Exchange adjustments	**7.3**	–
Transfer from/(to) a disposal group (see note 27)	**168.3**	(168.3)
Closing balance	**478.6**	219.4

17 Investment property continued

The group has valued all of its investment property as at 30 September 2007 at fair value.

Investment property held in the core residential and equity release portfolios with a value of £236.9m was valued as at 30 September 2007 at fair value by our in-house chartered surveyors. These valuations have been reviewed and approved by the directors. A structured sample of approximately 25% of the in-house valuations was reviewed by Allsop LLP, Chartered Surveyors, independently of the group. Based on the results of that review, Allsop LLP concluded that they have a high degree of confidence in the directors' valuations.

As at 30 September 2007, investment property in our German portfolio had a fair value of £241.7m. All of the properties acquired prior to 1 June 2007 were valued at their fair value as at 30 September 2007 by Cushman & Wakefield, Chartered Surveyors, Frankfurt. This valuation amounted to £163.7m. Investment properties acquired after 1 June 2007 were valued at fair value on 30 September 2007 by the directors. The value of these properties was £78m.

The assumptions relevant to the valuation of investment property are outlined in note 2 above.

A revaluation gain of £9.9m has arisen on valuation of investment property to fair value as at 30 September 2007 and this has been taken to the income statement.

The historical cost of the group's investment property as at 30 September 2007 is £420.6m (2006: £370.4m).

Rental income from investment property during the year was £16.1m (2006: £17.4m).

Direct property repair and maintenance costs arising from investment property that generated rental income during the year was £4.2m (2006: £3.9m).

Direct operating expenses arising from investment property that did not generate rental income during the year amounted to £0.4m (2006: £nil).

18 Property, plant and equipment

	Fixtures, fittings and equipment £m	Owner-occupied property £m	Total £m
Cost			
At 1 October 2006	3.9	0.1	4.0
Additions	0.8	–	0.8
At 30 September 2007	4.7	0.1	4.8
Depreciation			
At 1 October 2006	1.9	–	1.9
Charge for the year	0.6	–	0.6
At 30 September 2007	2.5	–	2.5
Net book value			
At 30 September 2007	**2.2**	**0.1**	**2.3**
At 30 September 2006	2.0	0.1	2.1

notes to the financial statements continued

18 Property, plant and equipment continued

	Fixtures, fittings and equipment £m	Owner-occupied property £m	Total £m
Cost			
At 1 October 2005	3.2	0.1	3.3
Additions	0.7	–	0.7
At 30 September 2006	3.9	0.1	4.0
Depreciation			
At 1 October 2005	1.3	–	1.3
Charge for the year	0.6	–	0.6
At 30 September 2006	1.9	–	1.9
Net book value			
At 30 September 2006	**2.0**	**0.1**	**2.1**
At 30 September 2005	1.9	0.1	2.0

19 Investment in associates

	2007 £m	2006 £m
Opening balance	**2.0**	0.1
Loans advanced	**–**	2.0
Loans repaid	**(2.1)**	–
Share of profits/(losses)	**7.7**	(0.1)
Distributions received	**(0.6)**	–
Share of change in fair value of cash flow hedges taken through equity	**0.4**	–
At fair value through profit or loss financial assets transferred to investment in associates (see note 22)	**19.0**	–
Net assets of G:res1 Limited transferred to investment in associates	**88.3**	–
Additional equity invested in G:res1 Limited	**84.4**	–
Sale of equity in G:res1 Limited	**(130.6)**	–
Closing balance	**68.5**	2.0

As at 30 September 2007, the group's interest in associates was as follows:

	% of share capital/units held	Country of incorporation
G:res1 Limited	21.6	Jersey
Schroders Residential Property Unit Trust (ResPUT)	22.4	Jersey
OÜ Robbins	43.2	Estonia

FINANCIALS

19 Investment in associates continued

Due to an increase in the group's percentage holding in the ResPUT combined with an increased level of influence for the group arising from its engagement as property adviser to the Unit Trust, the group's investment, which had been classified as an at fair value through profit or loss financial asset, was transferred during the year to investment in associates (see note 22).

In relation to the group's investment in associates, the group's share of the aggregated assets, liabilities, revenues and profit or loss are shown below:

	G:res1 Limited £m	ResPUT £m	OÜ Robbins £m	2007 £m	2006 £m
Non-current assets	94.6	19.7	–	**114.3**	2.1
Current assets	4.3	0.5	1.0	**5.8**	–
Non-current liabilities	(49.7)	–	–	**(49.7)**	(2.2)
Current liabilities	(1.9)	–	–	**(1.9)**	–
Net assets	47.3	20.2	1.0	**68.5**	(0.1)
Revenues	8.0	1.0	3.3	**12.3**	–
Profit	4.8	1.7	1.2	**7.7**	(0.1)

The amounts shown for 2006 all relate to OÜ Robbins.

20 Investment in joint ventures

	Net assets £m	Loans £m	Goodwill £m	Total £m
At 1 October 2005	10.4	6.0	1.5	17.9
Additions	6.5	–	0.1	6.6
Loans advanced	–	51.7	–	51.7
Share of profits	0.5	–	–	0.5
Share of change in fair value of cash flow hedges taken through equity	(0.2)	–	–	(0.2)
Disposals (see note 10)	(5.0)	–	–	(5.0)
At 30 September 2006	12.2	57.7	1.6	71.5
Loans advanced	–	17.1	–	17.1
Share of profits	34.3	–	(1.4)	32.9
Share of change in fair value of cash flow hedges taken through equity	0.7	–	–	0.7
Distributions received	(7.4)	–	–	(7.4)
At 30 September 2007	**39.8**	**74.8**	**0.2**	**114.8**

At 30 September 2007, the group's interest in joint ventures is as follows:

	% of share capital held	Country of incorporation
Grainger GenInvest LLP	50	United Kingdom
Grainger GenInvest No 2 (2006) LLP	50	United Kingdom
Regen (NT) LLP	33⅓	United Kingdom
Curzon Park Limited	50	United Kingdom

FINANCIALS

notes to the financial statements continued

20 Investment in joint ventures continued

In relation to the group's investment in joint ventures, the group's share of the aggregated assets, liabilities, revenues and profit are shown below:

2007 Summarised income statement

	Grainger GenInvest LLP £m	Grainger GenInvest No 2 LLP £m	Regen (NT) LLP £m	Curzon Park Limited £m	2007 £m
Net rental income	1.3	3.8	–	–	**5.1**
Profit on disposal of trading property	–	–	5.1	–	**5.1**
Profit on disposal of investment property	1.5	1.1	–	–	**2.6**
Goodwill impairment	–	–	(1.4)	–	**(1.4)**
Operating profit before valuation gains	2.8	4.9	3.7	–	**11.4**
Valuation gains on investment properties	9.1	22.3	–	–	**31.4**
Operating profit	11.9	27.2	3.7	–	**42.8**
Change in fair value of derivatives	–	–	–	–	**–**
Interest payable	(2.4)	(7.1)	–	(0.4)	**(9.9)**
Profit before tax	9.5	20.1	3.7	(0.4)	**32.9**
Taxation	–	–	–	–	**–**
Profit after tax	9.5	20.1	3.7	(0.4)	**32.9**

2007 Summarised balance sheet

	Grainger GenInvest LLP £m	Grainger GenInvest No 2 LLP £m	Regen (NT) LLP £m	Curzon Park Limited £m	2007 £m
Investment property	49.3	127.4	–	–	**176.7**
Current assets	0.3	4.7	0.4	20.9	**26.3**
Total assets	49.6	132.1	0.4	20.9	**203.0**
Non-current liabilities	(33.1)	(102.9)	–	(11.2)	**(147.2)**
Current liabilities	(2.4)	(3.5)	–	(10.1)	**(16.0)**
Net assets	14.1	25.7	0.4	(0.4)	**39.8**

There is no tax charge on the profits made in the the LLP companies as they are 'transparent' for tax. The tax payable on Grainger's share of the profits is included within the group tax charge.

20 Investment in joint ventures continued

2006 Summarised income statement

	Grainger GenInvest LLP £m	Grainger GenInvest No 2 LLP £m	Regen (NT) LLP £m	2006 £m
Net rental income	0.7	1.0	–	**1.7**
Administrative expenses	–	(0.1)	–	**(0.1)**
Operating profit before valuation gains	0.7	0.9	–	**1.6**
Valuation gains on investment properties	3.5	–	–	**3.5**
Operating profit	4.2	0.9	–	**5.1**
Change in fair value of derivatives	0.1	0.7	–	**0.8**
Interest payable	(2.1)	(3.2)	–	**(5.3)**
Profit before tax	2.2	(1.6)	–	**0.6**
Taxation	(0.1)	–	–	**(0.1)**
Profit after tax	2.1	(1.6)	–	**0.5**

2006 Summarised balance sheet

	Grainger GenInvest LLP £m	Grainger GenInvest No 2 LLP £m	Regen (NT) LLP £m	2007 £m
Investment property	40.6	102.7	–	**143.3**
Current assets	0.9	4.0	3.7	**8.6**
Total assets	41.5	106.7	3.7	**151.9**
Non-current liabilities	(34.5)	(100.4)	–	**(134.9)**
Current liabilities	(2.1)	(1.6)	(1.1)	**(4.8)**
Net assets	4.9	4.7	2.6	**12.2**

21 Financial interest in property assets

	2007 £m	2006 £m
Opening balance	**–**	–
Additions	**134.7**	–
Change in fair value	**(0.6)**	–
Disposals	**(2.4)**	–
Closing balance	**131.7**	–

Financial interest in property assets relates to the CHARM portfolio, which is a financial interest in equity mortgages, acquired in the year. It is accounted for under IAS 39 in accordance with the designation available-for-sale financial assets.

notes to the financial statements continued

21 Financial interest in property assets

The amount credited to the income statement comprises:

	2007 £m	2006 £m
Change in fair value	**(0.6)**	–
Interest income	**2.0**	–
Profit on redemption of mortgages	**0.4**	–
	1.8	–

22 At fair value through profit or loss financial assets

	2007 £m	2006 £m
Opening balance	**19.0**	18.2
Units acquired in the year	–	0.5
Uplift to fair value	–	0.3
Transfer to investment in associates (see note 19)	**(19.0)**	–
Closing balance	–	19.0

Due to an increase in the group's percentage holding in the Schroder Residential Property Unit Trust combined with an increased level of influence for the group arising from its engagement as property adviser to the Unit Trust, the group's investment, which had been classified as an at fair value through profit or loss financial asset, was transferred during the year to investment in associates (see note 19).

23 Goodwill

	2007 £m	2006 £m
Opening balance	–	6.1
Arising on acquisitions during the year (see note 42)	**17.4**	0.3
Impaired during the year	–	(6.4)
Closing balance	**17.4**	–

Of the £17.4m of goodwill carried in the group's balance sheet, £14.1m relates to the UK core portfolio and £3.3m to the equity release/retirement solutions division.

Impairment has been tested by comparing the carrying amount of each business's assets and liabilities with its recoverable amount, being its value in use. The value in use has been calculated by reference to the cash flow projections for each business. The discount rate used for the 2007 test was 6.87%.

In 2006 goodwill of £6.4m was impaired and an impairment loss for this amount was recognised in the 2006 income statement. Of this amount, the largest portion, £5.8m, related to goodwill that had arisen on acquisition of the City North Group in 2005. Goodwill had arisen primarily from the difference between how deferred tax had been calculated for accounts purposes and the value ascribed to it in the acquisition negotiations. The value of goodwill was supported by the fact that the taxation cash flows will arise in future years and the discounted value of this cash flow is significantly less than the tax actually provided. During 2006, however, when the assets from the City North acquisition were transferred to the JPUT, that tax was actually crystallised so that the carrying value of the goodwill could be no longer justified by reference to future cash flows.

The gross amount of goodwill and accumulated impairment losses as at 30 September 2007 were £23.8m and £6.4m respectively.

24 Inventories – trading properties

	2007 £m	Restated 2006 £m
Residential trading properties (2006 as previously stated)	**964.5**	864.0
Prior year adjustment – reclassification of equity release assets (see note 1(b))	**–**	32.8
	964.5	896.8
Development trading properties	**104.6**	88.7
	1,069.1	985.5

The market value of inventories as at 30 September 2007 was £1,711.9m (2006: £1,513.1m as restated).

Write-downs to net realisable value in the year amounted to £1.9m (2006: £0.8m).

25 Trade and other receivables

	2007 £m	2006 £m
Trade receivables	**5.7**	2.9
Other receivables	**9.0**	2.2
Prepayments and accrued income	**1.7**	0.2
	16.4	5.3

As at 30 September 2007, the impairment provision relating to trade receivables is £0.7m (2006: £1.0m). Therefore the gross amount of trade receivables is £6.4m (2006: £3.9m).

Other receivables in 2007 includes a loan of £7.0m made to the Mornington Capital Special Situations Co-Investment Fund 1 Limited Partnership. The loan is to be used by the fund to invest in real estate joint venture partnerships. The loan bears interest at 5% per annum above EURIBOR and is repayable within one year. The loan is secured by fixed and floating charges over the assets in the fund.

26 Financial risk management and derivative financial instruments

Financial risk management

The group is subject to a number of financial risks, in particular, interest rate, liquidity, foreign currency and credit risks.

Interest rate risk

The group does not take trading positions in financial instruments but uses them to minimise the risk of exposure to fluctuating interest rates. The majority of the group's debt is subject to protective swaps, caps or collars or is maintained at fixed rates of interest (see note 28). To protect itself against interest rate risk the group's treasury policy is to maintain floating rate exposure of no greater than 35% of expected borrowings. As at 30 September 2007, 74% (2006: 66%) of the group's net borrowings was economically hedged.

Liquidity risk

The group maintains a combination of long-term and short-term committed facilities that are designed to ensure that it has sufficient available funds for ongoing operations and to meet planned future investments. In addition, the core business in particular is very cash generative from its gross rents and sales of trading properties. In adverse trading conditions, new acquisitions can be stopped and, consequently, we are able to reduce gearing levels and improve liquidity quickly.

Foreign currency risk

The group invests in property acquired in a currency other than pounds sterling. In such situations, it is the group's policy to take out loans in the same currency to act as a natural hedge against currency fluctuations.

notes to the financial statements continued

26 Financial risk management and derivative financial instruments continued

Credit risk

The group has significant financial assets held in cash and bank balances and in trade and other receivables. The group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are shown net of provisions for impairment (see note 25). Such provisions are made when there is objective evidence that the group will not be able to collect all amounts due. The group has no individually material risk as its exposure is spread over a large number of tenants.

The profile of the group's interest rate swaps in existence at 30 September 2007 which were classified as effective cash flow hedges was as follows:

Maturity date	Amount £m	Rate %	Fair value at 30 September 2007 £m	Fair value at 30 September 2006 £m	Movement reflected in income statement £m	Movement reflected in equity £m
Interest rate swaps						
7 June 2009	50.0	5.100	**0.6**	–	–	0.6
7 March 2014	30.0	5.170	**0.6**	(0.4)	–	1.0
7 June 2012	135.0	5.380	**1.1**	(2.4)	–	3.5
7 June 2009	115.5	4.782	**2.1**	1.0	–	1.1
18 December 2011	10.5	3.510	**0.3**	0.1	–	0.2
11 October 2013	9.8	3.995	**0.2**	–	–	0.2
11 October 2013	7.7	3.995	**0.2**	–	–	0.2
11 October 2013	16.4	3.670	**0.5**	–	–	0.5
25 January 2013	20.9	3.833	**0.6**	–	–	0.6
28 June 2013	100.0	4.980	**2.7**	–	–	2.7
11 October 2013	5.6	4.150	**0.1**	–	–	0.1
11 October 2013	1.4	4.150	**–**	–	–	–
11 October 2013	3.7	4.235	**0.2**	–	–	0.2
11 October 2013	14.0	4.028	**0.3**	–	–	0.3
7 March 2012	10.5	4.365	**–**	–	–	–
7 December 2012	–	4.495	**(0.1)**	–	–	(0.1)
15 October 2012	–	4.390	**–**	–	–	–
	531.0		**9.4**	(1.7)	–	11.1

26 Financial risk management and derivative financial instruments continued

In addition to the above, the following financial instruments were in existence at 30 September 2007 which were classified as ineffective hedges:

Maturity date	Amount £m	Rate %	Fair value at 30 September 2007 £m	Fair value at 30 September 2006 £m	Movement reflected in income statement £m	Movement reflected in equity £m
Interest rate swaps						
8 June 2015	–	5.380	**(0.1)**	(1.0)	0.9	–
16 November 2006	–	3.598	**–**	0.2	(0.2)	–
16 November 2006	–	3.965	**–**	(0.2)	0.2	–
11 October 2013	–	3.628	**0.1**	–	0.1	–
7 March 2022	–	4.980	**0.4**	–	0.4	–
Interest rate collars and caps						
7 December 2009	231.6	6.000	**1.1**	0.4	0.7	–
18 December 2011	10.5	3.430	**0.4**	0.3	0.1	–
16 November 2006	–	3.598	**–**	0.3	(0.3)	–
7 March 2016	13.7	3.598	**0.6**	–	0.6	–
7 June 2012	50.0	6.000	**0.6**	–	0.6	–
7 March 2012	10.5	4.365	**0.2**	–	0.2	–
7 December 2012	–	4.495	**0.3**	–	0.3	–
Swaption						
7 March 2014	–	5.1700	**(0.7)**	(0.4)	(0.3)	–
	316.3		**2.9**	(0.4)	3.3	–
	847.3		**12.3**	(2.1)	3.3	11.1
Deduct: cost of cap acquired in the year					(0.3)	
Total amount reflected in the income statement					3.0	

The fair value movement reflected in the income statement is now presented below operating profit as the instruments are held entirely to manage interest rate risk on the group's borrowings.

Included within the total value of financial instruments of £847.3m were Euro instruments totalling €193.6m (£135.2m) at rates between 3.43% and 4.495%.

Derivative financial instruments are shown in the consolidated balance sheet as follows:

	2007 £m	2006 £m
Current assets	**13.1**	2.3
Current liabilities	**(0.8)**	(4.4)
	12.3	(2.1)

As at 30 September 2007 the following interest rate swaps, shown at their full amount, were held within Grainger GenInvest LLP and Grainger GenInvest No 2 (2006) LLP both of which are joint ventures in which the group holds a 50% interest and also within G:Res-co 2 Limited and G:Res-co 4 Limited in which the group has a 21.6% interest. These hedges were effective for the whole year to 30 September 2007.

notes to the financial statements continued

26 Financial risk management and derivative financial instruments continued

Maturity date	Amount £m	Rate %	Fair value at 30 September 2007 £m	Fair value at 30 September 2006 £m	Movement reflected in income statement £m	Movement reflected in equity £m
Grainger GenInvest LLP						
23 June 2007	–	4.455	–	0.3	–	(0.3)
23 June 2010	40.0	5.610	–	–	–	–
Grainger GenInvest No.2 (2006) LLP						
1 October 2006	–	4.890	–	0.8	–	(0.8)
1 October 2006	–	4.890	–	0.1	–	(0.1)
20 March 2011	140.0	4.890	**2.9**	–	–	2.9
G:Res-co 2 Limited						
17 January 2014	112.5	5.000	**2.1**	–	–	2.1
G:Res-co 4 Limited						
17 January 2014	94.5	5.250	**0.3**	–	–	0.3
	387.0		**5.3**	1.2	–	4.1

All of the financial derivatives included in the above tables were valued by JC Rathbone Associates Limited, financial risk consultants, using a discounted cash flow model using quoted market information and were checked internally using a bespoke software package.

27 Disposal group and assets held for sale

As at 30 September 2006 negotiations with investors were well advanced in relation to the sale of units in the JPUT and the expectation at that time was that 80%, in total, of the units would be sold within 12 months of the balance sheet date.

Accordingly, as at 30 September 2006, 80% of the net assets of the Trust, less an accrual for sales fees, were reclassified as a disposal group under assets held for sale within current assets. The balance comprised the following:

	2007 £m	2006 £m
Investment property	–	168.3
Trade and other receivables	–	0.2
Cash and cash equivalents	–	4.5
Trade and other payables	–	(4.7)
	–	168.3

During the 2007 financial year the group sold 78.4% of its interest in the JPUT to external investors.

28 Financial assets and liabilities

(i) Interest-bearing loans and borrowings

	2007 £m	2006 £m
Current liabilities		
Mortgages	0.2	–
Bank loans	1.8	1.0
Loan notes	16.2	18.4
	18.2	19.4
Non-current liabilities		
Mortgages	18.0	17.7
Bank loans	1,287.3	1,052.8
Convertible bond	88.5	–
	1,393.8	1,070.5
Total interest-bearing loans and borrowings	1,412.0	1,089.9

Costs relating to the raising of the loan finance set off against the balances shown in the above table amount to £10.5m (2006: £6.2m).

Analysis of bank loans

(a) £1.3bn Multi Option Facility Agreement (the 'MOF')

	2007 £m	2006 £m
Term Facility A	225.0	225.0
Term Facility B	200.0	200.0
Revolving Facility A	475.0	475.0
Revolving Facility B	141.0	10.0
Revolving Facility B Euro	84.5	83.5
Total	1,125.5	993.5

Headroom on the MOF at 30 September 2007 was £175m (2006: £307m). This headroom provides the group with a strong position when it bids for significant acquisitions.

Interest is payable at the agreed margin over LIBOR plus mandatory costs. The agreed margin and final repayment date of the options are as follows:

	Margin %	Final repayment date
Facility		
Term Facility A	0.90	13 June
Term Facility B	0.85	14 June
Revolving Facility A	0.70	11 June
Revolving Facility B	0.60	10 June
Revolving Facility B Euro	0.60	10 June

The MOF is secured by floating charges over various assets of the group.

notes to the financial statements continued

28 Financial assets and liabilities continued

(b) Other UK bank loans

	2007 £m	2006 £m
Fixed rate – Pounds sterling	**43.2**	44.0
Variable rate – Pounds sterling	**10.0**	–
	53.2	44.0

The fixed rate loan is secured by fixed charges over specific equity release home reversion assets in the group's subsidiary company Hamsard 2517 Limited and bears interest at a fixed rate of 6.32%. The variable rate loan is secured by fixed charges over specific investment property assets in The Tilt Estate Company Limited and bears interest at 0.9% above base rate.

(c) European bank loans

	2007 £m	2006 £m
Bank loans – Euro	**115.6**	19.4
Bank loan – Czech Coruna	**3.6**	3.1
	119.2	22.5

Headroom on these facilities at 30 September 2007 amounted to £41m (2006: £nil). The Euro bank loans are secured by floating charges and by fixed charges over the investment property in the group's German portfolio. The loans bear interest at between 0.6% and 2.1% over EURIBOR. The Czech Coruna bank loan is secured by a fixed charge over land held for development in Zizkov, a suburb of Prague in the Czech Republic, and bears interest at 2% over PRIBOR.

Analysis of loan notes

	2007 £m	2006 £m
Fixed rate – Pounds sterling	**0.9**	–
Floating rate – Pounds sterling	**15.3**	18.4
	16.2	18.4

The fixed rate loan notes were issued during the year and are secured by a bank guarantee and bear interest at a fixed rate of 3.25%. The floating rate loan notes are secured by bank guarantees and cash collateral and bear interest at between 0.75% and 1% under LIBOR.

Mortgages

	2007 £m	2006 £m
Mortgages – Euro	**18.2**	17.7

The mortgages are secured by floating charges and by fixed charges over the investment property in the group's German portfolio and bear interest at a fixed rate of 0.5%.

28 Financial assets and liabilities continued

Convertible bond

	2007 £m	2006 £m
Value at issue	**112.0**	–
Equity component at issue (see note 35)	**(22.4)**	–
Amortisation during the year	**0.6**	–
	90.2	–

A £112m 3.625% convertible bond due 2014 was issued in May 2007. Interest is payable semi-annually. Unless previously redeemed, converted, purchased or cancelled the bond is convertible at any time up to 12 May 2014 into fully paid up ordinary shares at a conversion price of £8.64. The convertible bond is a compound financial instrument and the carrying amount has been allocated to its equity and liability components in the group balance sheet. The liability component has been determined by measuring the fair value of a similar liability that does not have an associated equity component. The discount rate used for this was a rate of 7.5% compounded semi-annually. The liability component has been deducted from the fair value of the compound financial instrument as a whole and the residual element has been assigned to the equity component. The liability element is subsequently measured at amortised cost using the effective interest rate method.

The analysis of the loans and borrowings in the above tables is before deducting unamortised issue costs relating to the raising of the loan finance.

The MOF, variable rate UK bank loans and the European bank loans are generally rolled over every three months. At roll over, LIBOR, EURIBOR and PRIBOR are reset for the following interest period. The fixed rate UK bank loan and the mortgages are at a fixed rate of interest which do not reprice. The fixed rate loan is repayable after more than five years. The mortgage has repayments of £0.2m within one year, £0.9m within two to five years and £17.1m after more than five years. The effective interest rate on borrowings was 6.1% (2006: 5.8%).

The maturity profile of the group's debt, net of finance costs, is as follows:

	2007 £m	2006 £m
Within one year	**18.2**	19.4
Between one and two years	**5.0**	0.4
Between two and five years	**783.6**	822.3
Over five years	**605.2**	247.8
	1,412.0	1,089.9

notes to the financial statements continued

28 Financial assets and liabilities continued

The interest rate risk profile of the group's debt after taking into account the various financial derivatives used by the group to manage its interest rate risk is as follows:

	2007			
	Fixed rate liabilities £m	Capped rate liabilities £m	Floating rate liabilities £m	Total £m
Loan notes	**0.9**	–	**15.3**	**16.2**
Mortgages – Euro	**18.2**	–	–	**18.2**
Convertible bond	**90.2**	–	–	**90.2**
Bank loans				
Pounds sterling	**43.2**	**712.1**	**338.9**	**1,094.2**
Euro	–	**135.1**	**65.0**	**200.1**
Czech Coruna	–	–	**3.6**	**3.6**
	152.5	**847.2**	**422.8**	**1,422.5**
Unamortised issue costs				**(10.5)**
				1,412.0

	2006			
	Fixed rate liabilities £m	Capped rate liabilities £m	Floating rate liabilities £m	Total £m
Loan notes	–	–	18.4	18.4
Mortgages – Euro	17.7	–	–	17.7
Bank loans				
Pounds sterling	44.0	562.2	347.8	954.0
Euro	–	70.5	32.4	102.9
Czech Coruna	–	–	3.1	3.1
	61.7	632.7	401.7	1,096.1
Unamortised issue costs				(6.2)
				1,089.9

The group's borrowings subject to fixed interest rates and to swaps, caps and collars (capped rates) have the following weighted average interest rates and weighted average maturity dates. The weighted average interest rates shown are inclusive of loan margins.

28 Financial assets and liabilities continued

	2007			
	Fixed rate weighted average rate %	Weighted average period Years	Capped rate weighted average rate %	Weighted average period Years
Loan notes	3.25	1	–	–
Mortgages – Euro	0.50	43	–	–
Convertible bond	3.63	7	–	–
Bank loans – Pounds sterling	6.32	17	6.30	3
Bank loans – Euro	–	–	4.76	7

	2006			
	Fixed rate weighted average rate %	Weighted average period Years	Capped rate weighted average rate %	Weighted average period Years
Mortgages – Euro	0.50	43	–	–
Bank loans – Pounds sterling	6.30	19	6.00	4
Bank loans – Euro	–	–	4.30	5

In December 2007 the group's €150m Euro credit facility was increased by €75m to €225m. This additional facility will be used to finance acquisitions in Germany, both those currently in the acquisition pipeline as well as future acquisitions.

(ii) Financial assets

The group has the following cash and cash equivalents at 30 September 2007:

	2007 £m	2006 £m
Pounds sterling	73.4	33.0
Euro	6.0	4.8
Czech Coruna	0.7	1.2
	80.1	39.0

Cash and cash equivalents are shown in the consolidated balance sheet as:

	2007 £m	2006 £m
Cash and cash equivalents as a separate line item	80.1	34.5
Within assets held for sale	–	4.5
	80.1	39.0

Short-term deposits totalling £14.7m (2006: £17.7m) with an average maturity of three months are held as cash collateral. These have an effective interest rate of 4.86% (2006: 4.395%).

At the year end, £47.2m (2006: £4.6m) was placed on the overnight money market, £46.0m at a rate of 5.49% and £1.2m (€1.7m) at a rate of 3.01%. Remaining cash and cash equivalents are held as cash at bank or in hand.

The group has an overdraft facility of £10m as at 30 September 2007 (2006: £10m).

notes to the financial statements continued

28 Financial assets and liabilities continued

(iii) Fair value table

The fair value of the group's financial assets and liabilities, including those within assets held for sale, are as follows:

	2007			2006		
	Book value £m	Fair value £m	Fair value differences £m	Book value £m	Fair value £m	Fair value differences £m
Financial interest in property assets	131.7	131.7	–			
At fair value through profit or loss financial assets	–	–	–	19.0	19.0	–
Trade and other receivables	16.4	16.4	–	5.5	5.5	–
Derivative financial instruments	13.1	13.1	–	2.3	2.3	–
Cash and cash equivalents	80.1	80.1	–	39.0	39.0	–
Total financial assets	241.3	241.3	–	65.8	65.8	–
Non-current liabilities						
Interest-bearing loans and borrowings	1,393.8	1,396.6	2.8	1,070.5	1,073.9	3.4
Trade and other payables	8.0	8.0	–	8.0	8.0	–
Provisions for other liabilities and charges	1.2	1.2	–	1.3	1.3	–
Current liabilities						
Interest-bearing loans and borrowings	18.2	18.2	–	19.4	19.4	–
Trade and other payables	84.9	84.9	–	28.0	28.0	–
Derivative financial instruments	0.8	0.8	–	4.4	4.4	–
Total financial liabilities	1,506.9	1,509.7	2.8	1,131.6	1,135.0	3.4
Total net financial liabilities	1,265.6	1,268.4	2.8	1,065.8	1,069.2	3.4

The fair value adjustment relates to the group's fixed rate loan with TSB Lloyds bank and the liability component of the convertible bond, both of which are stated at amortised cost in the consolidated balance sheet. There is no requirement under IAS 39 to revalue these loans to fair value in the statutory balance sheet.

29 Non-current liabilities

	2007 £m	2006 £m
(i) Trade and other payables		
Trade and other payables	8.0	8.0

Trade and other payables is deferred consideration for the purchase of land at West Waterlooville and is payable in two equal instalments in April 2009 and April 2013 respectively.

	2007 £m	2006 £m
(ii) Provisions for other liabilities and charges		
Other	1.2	1.3

30 Pension costs

Defined contribution scheme

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 directors are disclosed in the report of the remuneration committee and the directors' remuneration report on page 67. The pension cost charge in these financial statements represents contributions payable by the group. This is shown in note 11.

Defined benefit scheme

In addition to the above, the group also operates a defined benefit pension scheme, the BPT Retirement Benefits Scheme. The assets of the scheme are held separately 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 and the last full actuarial valuation was undertaken as at 1 July 2004 with the valuation as at 1 July 2007 currently in progress. This scheme was operated by BPT Limited which became a subsidiary of Grainger plc in 2003.

The actuarial valuation as at 1 July 2004 was based on the main actuarial assumptions of an investment return of 6.5% per annum, salary increases of 5% per annum and inflation-linked increases to pensions in deferment of 2.5% per annum. The scheme assets were valued at £10.5m and scheme liabilities at £13.3m, a funding level of 79%.

The actuary has recommended an employer contribution rate of 28.5% in order to eliminate the deficiency over the expected working lifetimes of the members. The actuary also undertook a Minimum Funding Requirement valuation as at 1 July 2004 in accordance with the Pensions Act 1995. The value of assets of the scheme was determined at 101% of the liabilities of the scheme.

The scheme was closed to new members and to employee contributions in 2003. Accordingly, there is no current service cost for the scheme.

The IAS 19 calculations for disclosure purposes have been based upon the 1 July 2004 actuarial valuation but have been updated to 30 September 2007 by a qualified independent actuary.

Pension cost recognised in the income statement

	2007 £m	2006 £m
Interest on pension scheme liabilities	**0.9**	0.9
Expected return on pension scheme assets	**(0.7)**	(0.7)
	0.2	0.2

The net pension cost shown above has been included within interest expense (see note 13).

Change in the present value of defined benefit obligation in the year

	2007 £m	2006 £m
Present value of opening defined benefit obligation	**18.1**	17.4
Interest on pension scheme liabilities	**0.9**	0.9
Actuarial gain	**(2.0)**	–
Benefits paid	**(0.3)**	(0.2)
Present value of closing defined benefit obligation	**16.7**	18.1

The actuarial gain shown above has been included in the consolidated statement of recognised income and expense net of tax (see page 77).

FINANCIALS

notes to the financial statements continued

30 Pension costs continued

Change in the present value of the scheme assets in the year

	2007 £m	2006 £m
Opening fair value of scheme assets	**13.5**	12.1
Expected return on scheme assets	**0.7**	0.7
Employer contributions	**0.1**	0.3
Actuarial gain	**–**	0.6
Benefits paid	**(0.3)**	(0.2)
Closing fair value of scheme assets	**14.0**	13.5

Defined benefit obligations, scheme assets and scheme deficit

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Total market value of assets	**14.0**	13.5	12.1	10.7	10.5
Present value of scheme liabilities	**(16.7)**	(18.1)	(17.4)	(15.3)	(14.2)
Scheme deficit at 30 September	**(2.7)**	(4.6)	(5.3)	(4.6)	(3.7)

The scheme deficit of £4.6m, net of deferred tax, was taken into the opening IFRS balance sheet as at 1 October 2004.

Actuarial gain recognised in the consolidated statement of recognised income and expense

	2007 £m	2006 £m
Actual return less expected return on assets	**–**	0.6
Gain on change of assumptions	**2.0**	–
Total actuarial gain before tax	**2.0**	0.6

Market value of scheme assets and expected rates of return

	30 September 2007		30 September 2006	
	Market value £m	Long-term expected rate of return %	Market value £m	Long-term expected rate of return %
Equities	**6.3**	**7.6**	5.5	7.0
Bonds	**6.8**	**5.3**	7.2	4.4
Properties	**0.4**	**7.6**	0.4	7.0
Other	**0.5**	**5.8**	0.4	4.5
Total value of assets	**14.0**		13.5	

The assets are held with AXA Sun Life in a managed fund. As the above table shows, the assets of the scheme are primarily held within equities and bonds. The equity return of 7.6% in 2007 and 7.0% in 2006 is based on an equity risk premium of 2.6% above the 15-year fixed rate on gilts. The directors consider this to be at the mid-point of the acceptable range. The return on bonds has been determined by reference to actual yields.

FINANCIALS

30 Pension costs continued

Principal actuarial assumptions under IAS 19

	2007	2006
Discount rate	**5.90% pa**	5.10% pa
Inflation	**3.40% pa**	3.00% pa
Rate of increase in salaries	**4.90% pa**	4.50% pa
Rate of increase in pensions in payment	**5.00% pa**	5.00% pa
Mortality tables for pensioners	**PXA92c2025**	PXA92c2025
Mortality tables for non-pensioners	**PXA92c2025***	PXA92c2025

* after allowing for short cohort effect

The mortality table referred to above, PXA92c2025, is based on the latest commonly used study of pensioners carried out over the period 1991 to 1994 and includes updates for expected improvements in life expectancies up to 2025. For non-pensioners the mortality assumption has been changed in 2007 to reflect the improvements in short cohort projections. The resulting life expectancy for a future male pensioner is 86.2 years (2006: 84.8 years), and for a future female pensioner is 89.1 years (2006: 87.8 years). The life expectancy for a current male pensioner is 85.9 years (2006: 85.9 years), and for a current female pensioner is 88.7 years (2006: 88.7 years).

History of experience gains and losses

	2007	2006	2005	2004	2003
Difference between the expected and the actual return on scheme assets:					
Amount	–	£0.6m	£0.8m	£(0.9)m	£(0.3)m
Percentage of scheme assets	–	4.20%	6.60%	(8.40)%	(2.90)%
Experience gains and losses on scheme liabilities:					
Amount	–	–	£0.9m	£(0.5)m	£0.1m
Percentage of present value of liabilities	–	–	5.20%	(3.30)%	0.10%

The actual return on scheme assets in 2007 was £0.7m (2006: £1.3m). The cumulative amount of actuarial gains recognised in the consolidated statement of recognised income and expense before taxation is £1.9m (2006: £(0.1)m).

Payments to the scheme in 2008

The group expects to continue its payments to the scheme in 2008 based on the recommendations of the actuary. Contributions in the next 12 months are estimated at £300,000.

notes to the financial statements continued

31 Deferred tax liabilities

The movement in the provision for deferred taxation is as follows:

	2007 £m	Restated 2006 £m
Opening balance	**91.1**	102.8
Prior year adjustment – transfer of assets to the JPUT (see note 1(b))	–	7.0
Balance as at 30 September (2006 as restated)	**91.1**	109.8
Effect of adoption of IAS 39 on 1 October 2005	–	(2.3)
At 1 October	**91.1**	107.5
Acquisition of subsidiaries in the year	**18.9**	–
Recognised in the income statement	–	(16.4)
Recognised in equity		
Actuarial surplus on BPT pension scheme	**0.6**	0.2
Fair value movement in cash flow hedges	**2.9**	(0.2)
Closing balance	**113.5**	91.1

In addition to the above the group has a contingent tax liability representing the difference between the carrying value of trading properties in the balance sheet and their market value. This contingent tax, which is not provided in the accounts, amounts to £176.7m (2006: £152.6m).

32 Trade and other payables

	2007 £m	2006 £m
Deposits received	**0.6**	0.8
Trade payables	**29.7**	8.4
Other taxation and social security	**0.3**	1.5
Accruals and deferred income	**54.3**	12.6
	84.9	23.3

Trade payables in 2007 includes £23.6m relating to acquisitions of property where contracts have either been unconditionally exchanged or notarised (2006: £nil).

Accruals and deferred income in 2007 includes £31.2m of rent received in advance, relating to lifetime leases (2006: £nil).

33 Share capital

	2007 £m	2006 £m
Authorised		
160,000,000 (2006: 160,000,000) ordinary shares of 5p each	**8.0**	8.0
Allotted, called-up and fully paid		
128,656,385 (2006: 129,925,482) ordinary shares of 5p each	**6.4**	6.5

As at 30 September 2007, share capital included 584,673 (2006: 584,673) shares held by the Grainger Trust Employee Trustee Company Limited, 520,000 (2006: nil) shares held by the Grainger Employee Benefit Trust and 650,000 (2006: nil) shares held by Grainger plc as treasury shares. The total of these shares is 1,754,673 (2006: 584,673) with a nominal value of £87,734 (2006: £29,234).

33 Share capital continued

Movements in issued share capital during the year and the previous year were as follows:

	Number	Nominal value £'000
At 1 October 2005	129,374,394	6,468
Options exercised under the executive share option scheme	43,795	2
Options exercised under the LTIS	454,359	23
Options exercised under SAYE schemes	52,934	3
At 30 September 2006	129,925,482	6,496
Options exercised under the executive share option scheme	63,645	3
Options exercised under the LTIS	74,586	4
Options exercised under SAYE schemes	117,672	6
Treasury shares bought back and cancelled	(1,525,000)	(76)
At 30 September 2007	**128,656,385**	**6,433**

Share options

Certain senior executives hold options to subscribe for shares in the company under executive share option and long-term incentive schemes. In addition, the company operates a SAYE share option scheme available to employees. The number of shares subject to options as at 30 September 2007, 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	2007 number	2006 number
Executive share option scheme				
1997	53.4	2000-07	–	63,645
			–	63,645
Long-Term Incentive Scheme (LTIS)				
2003	191.8	2006-13	**63,893**	115,739
2004	326.4	2007-14	–	471,365
2005	381.8	2008-15	**370,525**	495,689
2006	528.0	2009-16	**313,445**	420,322
2007	640.9	2010-17	**14,040**	–
			761,903	1,503,115
SAYE share options				
2001	138.0	2004-07	–	12,225
2002	163.6	2005-08	**10,115**	56,630
2003	186.5	2006-09	**58,060**	58,455
2004	271.8	2007-10	**29,655**	94,490
2005	334.0	2008-11	**39,702**	46,791
2006	413.0	2009-12	**65,798**	71,153
2007	454.3	2010-13	**65,592**	–
			268,922	339,744
Total share options			**1,030,825**	1,906,504

notes to the financial statements continued

33 Share capital continued

The movement on the share option schemes during the year was as follows:

Number of ordinary shares	Opening position	Exercised	Granted	Lapsed	Closing position
Executive scheme					
1997	63,645	(63,645)	–	–	–
	63,645	(63,645)	–	–	–
LTIS					
2003	115,739	(51,846)	–	–	63,893
2004	471,365	–	–	(471,365)	–
2005	495,689	(22,739)	–	(102,425)	370,525
2006	420,322	–	–	(106,877)	313,445
2007	–	–	18,720	(4,680)	14,040
	1,503,115	(74,585)	18,720	(685,347)	761,903
SAYE schemes					
2001	12,225	(12,225)	–	–	–
2002	56,630	(44,351)	–	(2,164)	10,115
2003	58,455	(393)	–	(2)	58,060
2004	94,490	(58,124)	–	(6,711)	29,655
2005	46,791	(2,579)	–	(4,510)	39,702
2006	71,153	–	–	(5,355)	65,798
2007	–	–	65,592	–	65,592
	339,744	(117,672)	65,592	(18,742)	268,922

For those share options exercised during the year, the weighted average share price at the date of exercise was 610p (2006: 544p).

For share options outstanding at the end of the year, the weighted average remaining contractual life is 1.17 years (2006: 1.39 years).

Further details of the above option schemes is provided in the report of the remuneration committee and directors' remuneration report from pages 62 to 69.

34 Share-based payments

The group operates an equity-settled, share-based compensation plan comprising awards under a long-term incentive scheme ('LTIS') and a save as you earn ('SAYE') scheme.

For awards under the 2007 LTIS, one third are subject to an absolute total shareholder return performance condition measured over three years from the date of grant and two thirds are subject to annual growth in Net Net Net Asset value ('NNNAV') measured over three years from the date of grant. One third of the awards, therefore, are subject to a market-based performance condition and these have been fair valued using a Monte Carlo simulation model. The remaining two thirds of the awards are subject to a non-market-based performance condition and have been fair valued using a Black-Scholes valuation model.

Awards under the LTIS for 2006 and prior are subject to market performance conditions under which the total shareholder return ('TSR') of the company is measured against a peer group. There is no vesting below median performance. If the company TSR equals the median of the peer group 40% will vest. If the group's TSR is equal to or greater than the upper quartile TSR of the peer group, 100% will vest. At points between the median and upper quartile of the peer group there is pro rata vesting between 40% and 100%. Awards under the LTIS for 2006 and prior have been fair valued using a Monte Carlo simulation model.

Awards under the SAYE scheme have been fair valued using a Black Scholes model.

The Monte Carlo simulation model takes into account the market-based performance conditions which effectively estimate the number of shares or options expected to vest. No subsequent adjustment is made to the fair value charge for shares or options that do not vest in the event that these performance conditions are not met. Adjustments are, however, made for leavers and, once adjusted for leavers, the total expense for each equity-settled award is spread over the vesting period.

For awards under the 2007 LTIS which are subject to a non-market-based performance condition, the number of shares or options expected to vest is adjusted during the vesting period based on the best available estimate. On vesting, the estimate will be revised to equal the number of shares or options that will ultimately vest.

Options under the SAYE scheme are fair valued at the date of grant and are not adjusted thereafter. Adjustment is made, however, for assumptions about leavers.

The tables below summarise the main assumptions used to fair value the awards made under the above schemes. For the LTIS, the number of shares or options is shown for both the maximum number at award and the latest number as at 30 September 2007 after adjustment for leavers. This same information is given for the SAYE schemes.

notes to the financial statements continued

34 Share-based payments continued

LTIS

Share awards:

Award date	12 January 2004	11 January 2005	12 January 2006	23 March 2007 Market-based	23 March 2007 Non-market-based
Number on grant	250,165	225,575	185,553	**206,496**	**412,994**
Number adjusted for leavers	173,044	153,247	153,412	**163,335**	**326,672**
Exercise price (£)	–	–	–	**–**	**–**
Vesting period from date of grant (years)	3	3	3	**3**	**3**
Exercise period after vesting (years)	7	7	7	**7**	**7**
Share price at grant (£)	3.360	3.786	5.350	**6.625**	**6.625**
Expected risk-free rate (%)	4.370	4.453	4.217	**5.310**	**5.310**
Expected dividend yield (%)	1.150	1.140	0.960	**0.900**	**0.900**
Expected volatility (%)	22.680	23.310	20.180	**26.000**	**26.000**
Fair value (£)	1.802	1.750	3.226	**2.540**	**6.440**

LTIS

Options:

Award date	12 January 2004	11 January 2005	12 January 2006	23 March 2007 Market-based	23 March 2007 Non-market-based
Number on grant	625,495	563,955	463,882	**6,240**	**12,480**
Number adjusted for leavers	432,651	423,560	383,538	**6,240**	**12,480**
Exercise price (£)	3.264	3.818	5.280	**6.409**	**6.409**
Vesting period from date of grant (years)	3	3	3	**3**	**3**
Exercise period after vesting (years)	7	7	7	**7**	**7**
Share price at grant (£)	3.360	3.786	5.350	**6.625**	**6.625**
Expected risk-free rate (%)	4.589	4.493	4.260	**5.054**	**5.054**
Expected dividend yield (%)	1.530	1.560	0.960	**0.900**	**0.900**
Expected volatility (%)	22.680	23.310	20.180	**21.000**	**21.000**
Fair value (£)	0.680	0.588	1.178	**1.060**	**2.150**

34 Share-based payments continued

SAYE

Award date	7 August 2003 5-year scheme	5 August 2004 3-year scheme	5 August 2004 5-year scheme	1 August 2005 3-year scheme	1 August 2005 5-year scheme	1 August 2006 3-year scheme	1 August 2006 5-year scheme
Number on grant	58,060	75,870	32,105	32,718	14,640	45,199	25,954
Number adjusted for leavers	58,060	63,060	21,280	25,062	14,640	44,521	22,836
Exercise price (£)	1.865	2.718	2.718	3.340	3.340	4.130	4.130
Vesting period from date of grant (years)	5	3	5	3	5	3	5
Expected exercise date	1 Dec 08	1 Dec 07	1 Dec 09	1 Dec 08	1 Dec 10	1 Dec 09	1 Dec 11
Share price at grant (£)	2.546	3.498	3.498	4.240	4.240	5.140	5.140
Expected risk-free rate (%)	4.280	5.010	5.040	4.267	4.301	4.745	4.698
Expected dividend yield (%)	1.740	1.280	1.400	1.310	1.310	1.100	1.100
Expected volatility (%)	21.240	23.970	22.710	22.340	21.170	24.000	21.000
Fair value (£)	0.923	1.180	1.314	1.320	1.480	1.660	1.840

The expected volatility figures used in the valuation were calculated based on the historic volatility over a period equal to the expected term from the date of grant.

The share-based payments charge recognised in the income statement is £1.0m (2006: £0.9m). Of this amount, £0.7m (2006: £0.4m) related to the LTIS share awards, £0.2 (2006: £0.4m) to the LTIS options and £0.1m (2006: £0.1m) to the SAYE options.

SAYE options awarded in August 2007 under the 2007 scheme have not been fair valued in the accounts to 30 September 2007 as the cost to be charged to the income statement is very small in the context of materiality to the group results. Accordingly, the cost of calculating the fair value exceeded the benefit to be obtained. The 2007 SAYE awards will be valued in 2008 along with the 2008 LTIS awards.

Movements in options and options exercisable as at 30 September 2007 are shown in note 33.

notes to the financial statements continued

35 Consolidated statement of changes in equity

	Issued share capital £m	Share premium £m	Merger reserve £m	Equity component of convertible bond £m
Balance as at 30 September 2005 as previously reported	6.5	21.6	20.1	–
Prior year adjustment – transfer of assets to the JPUT (see note 1(b))	–	–	–	–
Balance as at 30 September 2005 as restated	6.5	21.6	20.1	–
Effect of adoption of IAS 32 and IAS 39 on 1 October 2005	–	–	–	–
Balance at 1 October 2005	6.5	21.6	20.1	–
Retained profit for the year (restated)	–	–	–	–
Actuarial gain on BPT pension scheme net of tax	–	–	–	–
Changes in fair value of cash flow hedges net of tax	–	–	–	–
Net exchange adjustment offset in reserves	–	–	–	–
Purchase of own shares	–	–	–	–
Issue of shares to satisfy employee share options	–	1.0	–	–
Share-based payments charge	–	–	–	–
Dividends paid	–	–	–	–
Minority interest on business combination	–	–	–	–
Balance as at 30 September 2006 as restated	6.5	22.6	20.1	–
Retained profit for the year	–	–	–	–
Actuarial gain on BPT pension scheme net of tax	–	–	–	–
Changes in fair value of cash flow hedges net of tax	–	–	–	–
Net exchange adjustment offset in reserves	–	–	–	–
Purchase of own shares	–	–	–	–
Issue of shares to satisfy employee share options	–	0.4	–	–
Treasury shares bought back and cancelled	(0.1)	–	–	–
Share-based payments charge	–	–	–	–
Dividends paid	–	–	–	–
Issue of convertible bond	–	–	–	22.4
Minority interest on business combination	–	–	–	–
Balance as at 30 September 2007	**6.4**	**23.0**	**20.1**	**22.4**

Merger reserve

The merger reserve arose when the company issued 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 and the premium relating to the shares issues was credited to a merger reserve.

Cash flow hedge reserve

The fair value movements on those derivative financial instruments qualifying for hedge accounting under IAS 39 are taken to this reserve.

Capital redemption reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
0.2	–	162.7	211.1	–	**211.1**
–	–	16.4	16.4	–	**16.4**
0.2	–	179.1	227.5	–	**227.5**
–	–	(5.4)	(5.4)	–	**(5.4)**
0.2	–	173.7	222.1	–	**222.1**
–	–	33.6	33.6	–	**33.6**
–	–	0.4	0.4	–	**0.4**
–	(0.8)	–	(0.8)	–	**(0.8)**
–	–	0.1	0.1	–	**0.1**
–	–	(0.5)	(0.5)	–	**(0.5)**
–	–	–	1.0	–	**1.0**
–	–	0.9	0.9	–	**0.9**
–	–	(6.9)	(6.9)	–	**(6.9)**
–	–	–	–	0.2	**0.2**
0.2	(0.8)	201.3	249.9	0.2	**250.1**
–	–	60.9	60.9	–	**60.9**
–	–	1.5	1.5	–	**1.5**
–	9.0	–	9.0	–	**9.0**
–	–	0.3	0.3	–	**0.3**
–	–	(7.0)	(7.0)	–	**(7.0)**
–	–	–	0.4	–	**0.4**
0.1	–	(7.8)	(7.8)	–	**(7.8)**
–	–	1.0	1.0	–	**1.0**
–	–	(7.6)	(7.6)	–	**(7.6)**
–	–	–	22.4	–	**22.4**
–	–	–	–	(0.1)	**(0.1)**
0.3	**8.2**	**242.6**	**323.0**	**0.1**	**323.1**

notes to the financial statements continued

35 Consolidated statement of changes in equity continued

The retained earnings reserve comprises various elements. Those elements and the movements in each are set out below:

	Share-based payment reserve £m	Treasury shares bought back and cancelled £m	Investment in own shares reserve £m	Translation reserve £m	Retained earnings £m	Total retained earnings reserve £m
Balance as at 30 September 2005	1.0	–	(2.3)	–	164.0	162.7
Prior year adjustment – transfer of assets to the JPUT (see note 1(b))	–	–	–	–	16.4	16.4
Balance as at 30 september 2005 as restated	1.0	–	(2.3)	–	180.4	179.1
Effect of adoption of IAS 32 and IAS 39 on 1 October 2005	–	–	–	–	(5.4)	(5.4)
Balance at 1 October 2005	1.0	–	(2.3)	–	175.0	173.7
Retained profit for the year (restated)	–	–	–	–	33.6	33.6
Actuarial gain on BPT pension scheme net of tax	–	–	–	–	0.4	0.4
Net exchange adjustment offset in reserves	–	–	–	0.1	–	0.1
Purchase of own shares	–	–	(0.5)	–	–	(0.5)
Award of shares from own shares	(1.4)	–	1.4	–	–	–
Share-based payments charge	0.9	–	–	–	–	0.9
Dividends paid	–	–	–	–	(6.9)	(6.9)
Balance as at 30 September 2006	0.5	–	(1.4)	0.1	202.1	201.3
Retained profit for the year	–	–	–	–	60.9	60.9
Actuarial gain on BPT pension scheme net of tax	–	–	–	–	1.5	1.5
Net exchange adjustment offset in reserves	–	–	–	0.3	–	0.3
Purchase of own shares	–	–	(7.0)	–	–	(7.0)
Treasury shares bought back and cancelled	–	(7.8)	–	–	–	(7.8)
Share-based payments charge	1.0	–	–	–	–	1.0
Dividends paid	–	–	–	–	(7.6)	(7.6)
Balance as at 30 September 2007	**1.5**	**(7.8)**	**(8.4)**	**0.4**	**256.9**	**242.6**

35 Consolidated statement of changes in equity continued

Share-based payments reserve

This reserve comprises the credit entry relating to the share-based payments charge made in the income statement less the average cost of treasury shares issued to employees as part of the LTIS.

Shares bought back and cancelled

During the year, Grainger plc bought back and cancelled 1,525,000 shares at a cost of £7,846,020 (2006: none).

Investment in own shares reserve

The Grainger Trust Employee Trustee Company Limited held 584,673 shares in Grainger plc at the start and end of the year. These shares were held at an average cost of £1,438,375. The Grainger Employee Benefit Trust acquired 520,000 shares in Grainger plc during the year at a cost of £3,426,783. Grainger plc bought back and retained 650,000 shares as treasury shares during the year at a cost of £3,590,216. All of the shares held are to enable the company to meet its obligations under the employee share schemes. The total number of shares held at the year end was 1,754,673 at a cost of £8,455,374. The shares had a market value at the year end of £7,852,162.

notes to the financial statements continued

36 List of principal subsidiaries

The directors consider that providing details of all subsidiaries, joint ventures and associates as at 30 September 2007 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 group. A full list will be appended to the next annual return.

	Proportion of nominal value of ordinary issued shares held by:			
Name of undertaking	Group %	Company %	Incorporated	Activity
Northumberland and Durham Property Trust Limited	100		England & Wales	Property Trading
Grainger Residential Management Limited	100	100	England & Wales	Property Management
Grainger Asset Management Limited	100	100	England & Wales	Asset Management
Derwent Developments Limited	100		England & Wales	Land Development
Grainger Homes Limited	100		England & Wales	House-building
West Waterlooville Developments Limited	100		England & Wales	Land Development
BPT (Bradford Property Trust) Limited	100		England & Wales	Property Trading
BPT (Residential Investments) Limited	100		England & Wales	Property Investment
Grainger Finance Company Limited	100	100	England & Wales	Finance Company
Bromley Property Investments Limited	100		England & Wales	Finance Company
Home Properties Limited	100		England & Wales	Property Trading
Bridgewater Tenancies Limited	100		England & Wales	Property Trading
Bridgewater Equity Release Limited	100		England & Wales	Property Investment
Homesafe Equity Release LP	100		England & Wales	Property Investment
Hamsard 2518 Limited	80		England & Wales	Holding Company
Grainger Recklinghausen Portfolio 1 Sarl & Co KG	100		Germany	Property Investment
Grainger Recklinghausen Portfolio 2 Sarl & Co KG	100		Germany	Property Investment
Grainger Berlin Portfolio 1 Sarl & Co KG	100		Germany	Property Investment
Grainger Stuttgart Portfolio 1 Sarl & Co KG	100		Germany	Property Investment
Grainger Stuttgart Portfolio 2 Sarl & Co KG	100		Germany	Property Investment
Grainger Luxembourg Financing (No 1) Sarl	100		Luxembourg	Finance Company
Grainger Luxembourg Financing (No 2) Sarl	100		Luxembourg	Finance Company
Grainger Luxembourg Financing (No 3) Sarl	100		Luxembourg	Finance Company
Grainger Luxembourg Germany Holdings Sarl	100		Luxembourg	Holding Company
Grainger Treasury Properties LLP	100		England & Wales	Property Investment
The Tilt Estate Company Limited	100		England & Wales	Property Investment
Grainger Retirement Housing No1 (2007) Limited	100		England & Wales	Property Investment
BPT Limited	100		England & Wales	Investment Company
Grainger Malta Finance Limited	100		Malta	Finance Company

All subsidiaries are consolidated in the group accounts.

FINANCIALS

37 Related party transactions

During the year and at the year end, the group held a 50% interest in Grainger GenInvest LLP and Grainger GenInvest No 2 (2006) LLP. The group provides a number of services to both partnerships and receives an asset adviser fee, a sales fee, a commercial management fee and a treasury services fee. Amounts recognised in the income statement and outstanding balances at the year end are as follows:

	2007 Fees recognised £'000	2007 Year-end balance £'000	2006 Fees recognised £'000	2006 Year-end balance £'000
Asset adviser fee	**688**	**200**	410	358
Sales fee	**83**	**–**	–	–
Commercial management fee	**7**	**5**	14	18
Treasury fee	**10**	**9**	20	27
	788	**214**	444	403

In addition, the group has provided loans to both partnerships as follows:

	Balance as at 30 September 2007 £m	Balance as at 30 September 2006 £m	2007 interest receivable £m	2006 interest receivable £m
Grainger GenInvest LLP – 8.5% fixed interest loan note	**7.9**	7.2	**0.7**	0.6
Grainger GenInvest No 2 (2006) LLP – 11.0% fixed interest loan note	**4.5**	4.2	**0.3**	0.2
Grainger GenInvest No 2 (2006) LLP – mezzanine loan at LIBOR plus 4%	**55.6**	46.3	**5.1**	1.9
	68.0	57.7	**6.1**	2.7

Interest receivable is included within interest receivable from associates and joint ventures shown in note 13.

The loan notes have no fixed repayment date and are subordinated to external financing with each LLP. If not demanded before, the Grainger GenInvest LLP loan notes are repayable by 23 June 2015 and the Grainger GenInvest No 2 (2006) LLP loan notes by 31 December 2016. The mezzanine loan is repayable on demand but has a final repayment date of 20 March 2011.

The group held a 50% interest in Curzon Park Limited as at 30 September 2007. The group has provided a loan to Curzon Park Limited as at 30 September 2007 of £6.8m. The loan is repayable on demand and bears interest at 4.0% per annum.

The group held a 21.6% interest in G:res1 Limited as at 30 September 2007. The group provides a number of services to the fund and receives a property management fee, a lettings and renewal fee, an asset management fee and an insurance intermediary fee. Amounts recognised in the income statement and the outstanding balance at the year end are as follows:

	2007 Fees recognised £'000	2007 Year-end balance £'000	2006 Fees recognised £'000	2006 Year-end balance £'000
Property management fee	**1,081**	**352**	613	222
Lettings and renewal fee	**130**	**49**	61	22
Asset management fee	**2,078**	**707**	1,073	326
Insurance intermediary fee	**38**	**–**	13	–
	3,327	**1,108**	1,760	570

notes to the financial statements continued

37 Related party transactions continued

The group held a 22.4% interest in the Schroder Residential Property Unit Trust as at 30 September 2007. The group provides a number of services to the Trust and receives a property management fee, a lettings and renewal fee and an asset management fee. Amounts recognised in the income statement and the outstanding balance at the year end are as follows:

	2007 Fees recognised £'000	2007 Year-end balance £'000	2006 Fees recognised £'000	2006 Year-end balance £'000
Property management fee	**345**	**87**	330	103
Lettings and renewal fee	**26**	**–**	90	10
Asset management fee	**587**	**168**	576	184
	958	**255**	996	297

The group also has a 33⅓% interest in Regen (NT) LLP and receives a management fee for the provision of accountancy and other services. The fees amounted to £41,000 in the year (2006: £11,000) and the oustanding balance as at 30 September 2007 was £nil (2006: £19,000). The fees are calculated on an arm's-length basis.

The group has a 43.2% interest in OÜ Robbins, a company incorporated in Estonia, and provided a loan to the company of £2.1m by way of 9% fixed interest loan notes. Interest receivable on the loan notes in the year to 30 September 2007 was £0.2m (2006: £0.1m) and is included in interest receivable from associates and joint ventures shown in note 13. The loan notes and accrued interest were repaid to the group during the year.

On 16 July 2007, Grainger plc bought back 400,000 of its own shares from the Estate of Lord Portsmouth ('the Estate') at the prevailing open market price of 556.25p. The shares, which cost £2.2m were bought back as treasury shares and were subsequently cancelled by the group. Robert Hiscox, a non-executive director of Grainger plc is a Trustee of the Estate and is a related party to the transaction under the Listing Rules.

On 20 March 2007 the group acquired a portfolio of properties at a cost of £4.1m from the Duke of Northumberland. The Duke of Northumberland is a joint venture partner in Regen (NT) LLP with an interest of 33⅓%.

Details of key management compensation are provided in note 11.

FINANCIALS

38 Capital commitments

As at 30 September 2007, the group had capital commitments of £nil (2006: £0.2m).

39 Operating lease commitments

Future minimum lease payments payable by the group under non-cancellable operating leases are as follows:

	2007 £m	2006 £m
Operating leases which expire:		
Not later than one year	**0.5**	0.6
Later than one year and not later than five years	**0.8**	0.8
Later than five years	**6.6**	6.9
	7.9	8.3

The group does not expect to receive any payments under non-cancellable sub leases (2006: £nil).

40 Contingent liabilities

The properties in certain subsidiary companies forming a 'guarantee group' provide the security for the group's MOF (see note 28). The properties in certain of the group's German subsidiaries provide security for the non-recourse finance raised in those subsidiary undertakings.

The group has provided guarantees under performance bonds relating to its UK development division. As at 30 September 2007 these amounted to £11.4m (2006: £11.3m).

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.

41 Post-balance sheet events

In December 2007 the group's €150m Euro credit facility was increased by €75m to €225m. This additional facility will be used to finance acquisitions in Germany, both those currently in the acquisition pipeline as well as future acquisitions.

42 Business combinations

The group acquired 100% of 12 businesses during the year for a total consideration of £134.4m all of which have been accounted for as a business combination. These were as follows:

The Tilt Estate Company Limited	17 September 2007	Property investment company
The Portland Group	14 March 2007	
Portland House Holdings Limited		Property trading company
St Andrews Property Holdings Limited		Property trading company
The ELM Group	6 June 2007	
Economic Reversions Ltd		Property investment company
Milford Reversions Ltd		Property investment company
ELM Reversions Ltd		Property investment company
ELM Property Investments LLP		Property investment company
The Capital Appreciation Trust Group (CAT Group)	12 January 2007	
CAT (IOM) Ltd		Property investment company
CAT (G) Ltd		Property investment company
RHM (IOM) Ltd		Property investment company
RHM (G) Ltd		Property investment company
Langwood Properties Limited	21 December 2006	Property investment company

notes to the financial statements continued

42 Business combinations continued

The fair value of the net assets acquired the fair value of the consideration and the resultant goodwill are shown below:

	The Tilt Estate Company Limited £m	The Portland Group £m	The ELM Group £m	The CAT Group £m	Langwood Properties Limited £m	Total £m
Investment properties	66.0	–	9.5	96.2	1.6	173.3
Inventories – trading property	–	18.4	–	–	–	18.4
Trade and other receivables	0.3	–	0.1	–	–	0.5
Cash	0.5	–	0.1	0.5	0.1	1.2
Debt and other creditors	(11.2)	(0.6)	(3.4)	(28.0)	–	(43.2)
Deferred tax liabilities	(15.6)	(2.6)	(0.3)	–	(0.3)	(18.9)
Net assets acquired	40.0	15.2	6.0	68.7	1.4	131.3
Cost of investment						
Cash	47.8	12.3	0.2	71.6	0.3	132.2
Loan notes	–	–	–	–	1.0	1.0
Costs	0.6	–	0.1	0.3	0.2	1.2
	48.4	12.3	0.3	71.9	1.5	134.4
Cash – repayment of debt on acquisition	4.3	4.2	5.8	–	–	14.3
	52.7	16.5	6.1	71.9	1.5	148.7
Goodwill	12.7	1.3	0.1	3.2	0.1	17.4

Acquisition of subsidiaries net of cash acquired in the statement of consolidated cash flows is shown after repayment of debt on acquisition.

Profit/(loss) since the date of acquisition	0.1	0.5	(0.1)	(0.6)	0.4	0.3
Group revenue for the year assuming all business combinations effective at the beginning of the year						233.3
Operating profit before net valuation gains on investment properties and change in fair value for the combined entity for the year assuming all business combinations effective at the beginning of the year						92.1

It is not possible to estimate the impact of valuation gains had the property assets been acquired at the beginning of the year and so the impact of the acquisitions on profit is shown at the level of operating profit before valuation gains on investment properties and change in fair value rather than at the level of profit after tax.

Goodwill in all of the acquisitions other than CAT, arises primarily from the difference between how deferred tax is calculated for accounts purposes and the value ascribed to it in acquisition negotiations. Goodwill relating to CAT reflects the value ascribed to the associated market position and the distribution arrangements that were acquired with the portfolio.

The following fair value adjustments were made on acquisition:

For The Portland Group 'Inventories – trading property' was fair valued at the date of acquisition at £18.4m an increase of £8.6m over entity book value.

For The CAT Group and The ELM Group, an adjustment was made for properties held with lifetime leases to gross up the value of investment property to its vacant possession value with a corresponding adjustment to establish a deferred rent creditor representing the lifetime lease payments received but not yet credited to the income statement. These adjustments were for £26.1m and £2.8m respectively.

independent auditors' report to the members of Grainger plc on the parent company financial statements

We have audited the parent company financial statements of Grainger plc for the year ended 30 September 2007 which comprise the company balance sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the report of the remuneration committee and directors' remuneration report that is described as having been audited.

We have reported separately on the group financial statements of Grainger plc for the year ended 30 September 2007.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the report of the remuneration committee and directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the report of the remuneration committee and directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the parent company financial statements.

The information given in the directors' report includes that specific information presented in the chairman's statement and the chief executive's review that is cross-referenced from the review of business development and prospects section of the directors' report.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the chairman's statement, the chief executive's review, the financial review, the corporate governance report, the directors' report, the corporate responsibility report and the unaudited part of the report of the remuneration committee and directors' remuneration report and the other items listed in the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the report of the remuneration committee and directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company 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 parent company financial statements and the part of the report of the remuneration committee and directors' remuneration report to be audited 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 parent company financial statements and the part of the report of the remuneration committee and directors' remuneration report to be audited.

independent auditors' report to the members of Grainger plc on the parent company financial statements continued

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 September 2007;
- the parent company financial statements and the part of the report of the remuneration committee and directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
18 December 2007

Note

The maintenance and integrity of the Grainger 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.

parent company balance sheet

At 30 September 2007	Notes	2007 £m	2006 £m
Non-current assets			
Tangible fixed assets	2	**0.3**	0.5
Investments	3	**149.1**	144.5
		149.4	145.0
Current assets			
Debtors	4	**261.4**	164.7
Cash at bank and in hand		**3.0**	0.7
		264.4	165.4
Creditors: amounts falling due within one year	5	**135.3**	124.7
Net current assets		**129.1**	40.7
Total assets less current liabilities		**278.5**	185.7
Creditors: amounts falling due after more than one year:			
Convertible bond	6	**88.5**	–
Deferred tax liabilities	7	**1.2**	1.0
Net assets		**188.8**	184.7
Called-up equity share capital	8	**6.4**	6.5
Share premium account	9	**23.0**	22.6
Capital redemption reserve	9	**0.3**	0.2
Equity component of convertible bond		**22.4**	–
Profit and loss account	9	**136.7**	155.4
Equity shareholders' funds		**188.8**	184.7

The financial statements on pages 141 to 146 were approved by the board of directors on 18 December 2007 and signed on their behalf by:

Rupert J. Dickinson
Director

Andrew R. Cunningham
Director

notes to the parent company financial statements

1 Accounting policies continued

(a) Basis of preparation

The financial statements have been prepared on a going concern basis in accordance with the historical cost convention, as modified by the revaluation of certain investments, in accordance with the Companies Act 1985 and applicable UK accounting standards.

The company has taken the exemption allowed under Section 230(4) of the Companies Act 1985 from the requirement to present its own profit and loss account. The profit for the year was £2.1m (2006: loss of £3.5m). On an historical cost basis, the profit for the year would have been £1.2m (2006: a loss of £3.9m). These financial statements present information about the company as an individual undertaking and not about its group.

In accordance with the exemption in FRS 1 'Cash Flow Statements', the company has not prepared a cash flow statement because one is included in its own consolidated financial statements.

The company has taken advantage of the exemption in FRS 8 'Related Party Transactions', from the requirement to disclose such transactions on the grounds that it has presented its own consolidated financial statements.

(b) Accounting policies

The company financial statements have been prepared under UK GAAP, rather than under IFRS which has been adopted for group reporting.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

(c) Tangible fixed assets

These assets comprise office fixtures, fittings and equipment and are carried at historical cost less accumulated depreciation and impairment. Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. Depreciation is provided on a straight-line basis over the estimated useful life of the assets which is assessed as five years.

(d) Investments

Investments in equity instruments that have a quoted market price in an active market or whose fair value can be reliably measured are fair valued under FRS 26. Fair value is measured as the net asset value per unit held.

(e) Investment in subsidiaries

Investments in subsidiaries are carried at historical cost less provision for impairment.

(f) Taxation

Corporation tax is provided on taxable profits at the current rate.

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the accounts and their recognition in a tax computation.

In accordance with FRS 19 'Deferred Tax', deferred tax is provided in respect of all timing differences that have originated, but not reversed, at the balance sheet date that may give rise to an obligation to pay more or less tax in future. Deferred tax is measured on a non-discounted basis.

(g) Own shares including treasury shares

Transactions of The Grainger Trust Employee Trust Company Limited and The Grainger Employee Benefit Trust are included in the company's financial statements. In particular, the purchases of shares in the company by each trust and any treasury shares bought back by the company are debited directly to equity.

2 Tangible fixed assets

	Fixtures, fittings and equipment £m
Cost	
At 1 October 2006 and 30 September 2007	0.9
Depreciation	
At 1 October 2006	0.4
Charge for the year	0.2
At 30 September 2007	0.6
Net book value	
At 30 September 2007	**0.3**
At 1 October 2006	0.5

3 Fixed asset investments

Cost	Investment in subsidiaries £m	Investment in Schroder Residential Property Unit Trust £m	Total £m
At 1 October 2006	125.5	19.0	144.5
Additions	3.5	–	3.5
Uplift to fair value	–	1.1	1.1
At 30 September 2007	**129.0**	**20.1**	**149.1**

Investments in equity instruments that do not have a quoted market price in an active market or whose fair value cannot be reliably measured cannot be fair valued under FRS 26. The investment in the Schroder Residential Property Unit Trust can be reliably measured and, therefore, has been fair valued under FRS 26.

A list of the principal subsidiaries of the company is given in note 36 on page 134.

notes to the parent company financial statements continued

4 Debtors

	2007 £m	2006 £m
Amounts owed by group undertakings	**260.7**	164.7
Other debtors	**0.7**	–
	261.4	164.7

Debtors in both 2006 and 2007 are all due within one year.

5 Creditors: amounts falling due within one year

	2007 £m	2006 £m
Loan notes	**0.6**	0.8
Trade creditors	**–**	0.3
Amounts owed to group undertakings	**132.6**	118.4
Corporation tax payable	**–**	0.8
Other taxation and social security	**–**	0.7
Accruals and deferred income	**2.1**	3.7
	135.3	124.7

The loan notes are secured by bank guarantees and cash collateral and bear interest at between 0.75% and 1% under LIBOR. The loan notes are repayable within one year.

6 Convertible bond

	2007 £m	2006 £m
Value at issue	**112.0**	–
Equity component at issue	**(22.4)**	–
Amortisation during the year	**0.6**	–
	90.2	–
Unamortised issue costs	**(1.7)**	–
	88.5	–

A £112m 3.625% convertible bond due 2014 was issued in May 2007. Interest is payable semi-annually. Unless previously redeemed, converted, purchased or cancelled the bond is convertible at any time up to 12 May 2014 into fully paid up ordinary shares at a conversion price of £8.64. The convertible bond is a compound financial instrument and the carrying amount has been allocated to its equity and liability components in the balance sheet. The liability component has been determined by measuring the fair value of a similar liability that does not have an associated equity component. The discount rate used for this was a rate of 7.5% compounded semi-annually. The liability component has been deducted from the fair value of the compound financial instrument as a whole and the residual element has been assigned to the equity component. The liability element is subsequently measured at amortised cost using the effective interest rate method.

7 Deferred tax liabilities

	2007 £m	2006 £m
Opening balance	**1.0**	0.9
On revaluation gains in the year	**0.3**	0.1
Impact of change in tax rate	**(0.1)**	–
Closing balance	**1.2**	1.0

The deferred tax balance relates to the tax on the unrealised gain relating to the revaluation of the investment in units in the Schroder Residential Property Unit Trust. Deferred tax is provided at a rate of 28% (2006: 30%).

As the Finance Act 2007, which introduced a corporation tax rate of 28%, was substantially enacted as at 30 September 2007, deferred tax has been calculated at this rate. This has resulted in a deferred tax credit of £0.1m in the year which has been taken through the income statement.

8 Share capital

	2007 £m	2006 £m
Authorised		
160,000,000 (2006: 160,000,000) ordinary shares of 5p each	**8.0**	8.0
Allotted, called-up and fully paid		
128,656,385 (2006: 129,925,482) ordinary shares of 5p each	**6.4**	6.5

As at 30 September 2007, share capital included 584,673 (2006: 584,673) shares held by the Grainger Trust Employee Trustee Company Limited, 520,000 (2006: nil) shares held by the Grainger Employee Benefit Trust and 650,000 (2006: nil) shares held by the company as treasury shares. The total of these shares is 1,754,673 (2006: 584,673) with a nominal value of £87,734 (2006: £29,234).

Movements in issued share capital during the year were as follows:

	Number	Nominal value £'000
At 1 October 2005	129,374,394	6,468
Options exercised under the executive share option scheme	43,795	2
Options exercised under the LTIS	454,359	23
Options exercised under SAYE schemes	52,934	3
At 30 September 2006	129,925,482	6,496
Options exercised under the executive share option scheme	63,645	3
Options exercised under the LTIS	74,586	4
Options exercised under SAYE schemes	117,672	6
Treasury shares bought back and cancelled	(1,525,000)	(76)
At 30 September 2007	**128,656,385**	**6,433**

Details of share options granted by the company are provided in note 33 on pages 125 and 126.

notes to the parent company financial statements continued

9 Reserves

	Share premium £m	Capital redemption reserve £m	Equity component of convertible bond £m	Profit and loss account £m
At 1 October 2006	22.6	0.2	–	155.4
Retained profit for the year	–	–	–	2.1
Share-based payment charge	–	–	–	1.6
Issue of shares to satisfy employee share options	0.4	–	–	–
Treasury shares bought back and cancelled	–	0.1	–	(7.8)
Purchase of own shares	–	–	–	(7.0)
Issue of convertible bond	–	–	22.4	–
Dividends paid	–	–	–	(7.6)
At 30 September 2007	**23.0**	**0.3**	**22.4**	**136.7**

The Grainger Trust Employee Trustee Company Limited held 584,673 shares in Grainger plc at the start and end of the year. These shares were held at an average cost of £1,438,375. The Grainger Employee Benefit Trust acquired 520,000 shares in Grainger plc during the year at a cost of £3,426,783. Grainger plc bought back and retained 650,000 shares as treasury shares during the year at a cost of £3,590,216. All of the shares held are to enable the company to meet its obligations under the LTIS. The total number of shares held at the year end was 1,754,673 at a cost of £8,455,374. The shares had a market value at the year end of £7,852,162.

10 Other information

Dividends
Information on dividends paid and declared is given in note 15 on page 103.

Share options
Details of share options outstanding and the movements during the year are given in note 33 on pages 125 and 126 respectively.

Contingent liabilities
2007 £nil (2006: £nil).

Employees
The company had no employees in 2007 (2006: none) other than the directors. Details of their remuneration are provided on page 67.

Audit fees
The audit fee for the year was £8,000 (2006: £8,000).

five-year record for the year ended 30 September 2007

	UK GAAP		IFRS		
	2003 £m	2004 £m	2005 £m	Restated 2006 £m	2007 £m
Turnover	173.6	217.4	227.6	206.3	**229.3**
Gross rental income	21.4	41.0	45.5	52.6	**52.7**
Sales of investment properties	2.1	41.1	13.3	40.6	**14.8**
Trading profits	38.8	72.6	67.2	56.2	**62.8**
Profit before taxation**	48.5	59.6	41.0	47.7	**77.5**
Profit after taxation and minority interests**	29.3	36.8	31.1	33.5	**60.9**
Dividends	4.0	5.7	6.9	6.9	**7.6**
	Pence per share	Pence per share	Pence per share	Pence per share	Pence per share
Earnings**	23.96	29.94	24.88	25.99	**47.26**
Dividends per share	3.26	4.65	5.11	5.62	**6.18**
	£m	£m	£m	£m	£m
Fixed assets and stocks on a financial statements basis	907.2	950.8	1,225.4	1,467.8	**1,865.0**
Fixed assets and stocks at market value	1,305.8	1,454.5	1,639.3	2,009.9	**2,514.7**
Share capital and reserves	146.7	177.9	211.1	250.1	**323.1**
	Pence per share	Pence per share	Pence per share	Pence per share	Pence per share
Net asset value on a financial statements basis	118.4	143.4	159.1	192.5	**251.1**
Net asset value including fixed assets and stocks at market value*	438.8	546.8	475.4	606.3	**751.7**
Dividend cover**	7.3x	6.5x	4.7x	4.6x	**7.7x**
Gearing	125%	103%	140%	133%	**138%**
Share price at 30 September	273.0p	367.0p	456.0p	628.0p	**447.5p**

Share price and per share figures have been restated for 2003 and 2004 to take account of the five for one share split that took place in February 2005.

Information relating to 2003 and 2004 is presented under UK GAAP as directed by IFRS 1. The main adjustments that would be required to comply with IFRS are those set out in note 38 to the 2006 consolidated financial statements.

In addition:

* corporation tax has not been provided on valuation surpluses relating to stocks

** excluding exceptional items and including share of joint ventures and associates

shareholders' information

Financial calendar

Annual General Meeting **12 February 2008**
Payment of 2007 final dividend **18 February 2008**
Announcement of 2008 interim results **May 2008**
Payment of 2008 interim dividend **June 2008**
Announcement of 2008 final results **November 2008**

Share price

During the year ended 30 September 2007, the range of the closing mid-market prices of the company's ordinary shares were:

Price at 30 September 2007	448p
Lowest price during the year	423p
Highest price during the year	695p

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.graingerplc.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
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire
HD8 0LA

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 ACA ACIS
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

DWF
West 1
Wellington Street
Leeds LS1 1BA

Financial public relations
Financial Dynamics
Holborn Gate
26 Southampton Buildings
London

Corporate public relations
FD Tamesis
26 Southampton Buildings
London

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

Eurohypo AG

Hypo Real Estate Bank AG

Auditors
PricewaterhouseCoopers LLP
89 Sandyford Road
Newcastle upon Tyne

Stockbrokers
JPMorgan Cazenove Limited
20 Moorgate
London

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

Registrars and transfer office
Capita IRG Plc
Northern House
Woodsome Park
Tenay Bridge
Huddersfield
West Yorkshire
HD8 0LA

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') or market value	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.
PRS	Private rented sector.
Regulated tenancy	Tenancy regulated under 1977 Rent Act, rent (usually sub market) set by rent officer and tenant has security of tenure.
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. Base case and sensitivities exist.
IFRS	International Financial Reporting Standards. Mandatory for UK listed companies for accounting periods ending on or after 31 December 2005.

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 on the difference between the carrying value of trading properties as recorded in the balance sheet and their market value.
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.
Gearing	The ratio of borrowings, net of cash, to the market net asset value.
Goodwill	On acquisition of a company, the difference between the fair value of net assets acquired and the purchase price paid.
Grainger NAV	NNNAV adjusted for the taxed discounted reversionary surplus on regulated and home reversion portfolios.
Gross net asset value ('Gross NAV')	Shareholders' funds adjusted for the market value of property assets held as stock, and adding back deferred tax and before adjustments for the fair value of derivatives.
Hedging	The use of financial instruments to protect against interest rate movements.
IAS 39	Accounting standard containing complex rules for the recognition of the market value of long-term debt and financial instruments.
IFRS	International Financial Reporting Standards.
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.
Net net asset value (triple net or 'NNNAV')	Gross NAV adjusted for tax liabilities which would accrue if assets sold at market value and for the market value of long-term debt and derivatives.
Return on capital employed	Growth in NNNAV plus dividends paid per share as a percentage of opening NNNAV.
Return on shareholders' equity	Profit before financing costs plus all revaluation surpluses as a percentage of opening gross capital.
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

Ipswich
42a Barrack 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

Exeter
Lower Ground Floor
4 Barnfield Crescent
Southernhay
Exeter
EX1 1RF

Luxembourg
9 Parc d'Activite Syrdall
L-5365 Munsbach
Luxembourg

Germany
D-68161 Mannheim
Germany
Willy-Brandt-Platz 3

Malta
Suite 1, 17
Sir A Bartolo Street
Ta Xbiex
Malta

Ireland
57 Herbert Lane
Dublin 2
Ireland

www.graingerplc.co.uk

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