grainger

Grainger plc Annual report and accounts for the year ended 30 September 2009

Grainger plc is the UK's largest specialist residential property owner and manager traded on the London Stock Exchange. We have approximately £2.1 billion of property assets and £2.8 billion of assets under management. We are property managers for approximately 24,650 properties in the UK and Germany.

We intend to maintain this market leading position and to provide investors with exposure to a variety of risks and returns from the residential sector in the UK and Germany by leveraging our existing management, financial and sector experience and expertise.

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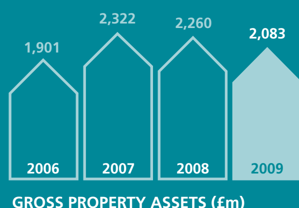
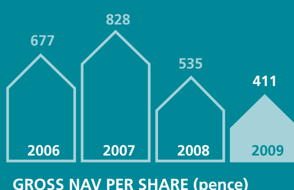
Annual General Meeting 10 February 2010

Highlights 2009

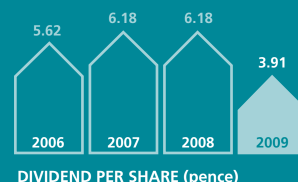
- Operating profit of £79m (2008: £106m) before valuation movements and non-recurring items reflecting market conditions and the decline in residential trading profit margins.
- Loss before tax of £3m (excluding valuation movements and non-recurring items) (2008: profit of £12m).
- Loss before tax of £170m (2008: £112m), largely derived from valuation deficits, mark to market adjustments and non-recurring items.
- As at 30 September 2009, the group's wholly owned portfolios of 13,259 residential properties in the UK and 7,180 primarily residential properties in Germany, together were valued at £2.1 billion (2008: £2.3 billion).
- Gross net asset value per share of 411p (2008: 535p); Grainger net asset value per share of 360p (2008: 520p).
- Extended liquidity for the group's financing secured through the agreement of two new forward start credit facilities totalling £615m.
- Net debt levels (before unamortised finance costs) reduced to £1,561m at the year end from £1,621m in 2008. On the successful completion of the Rights Issue, pro forma net debt levels as at 30 September 2009 will fall to £1,323m.
- At 30 September 2009, the loan to value on the group's core banking facility was 66% (2008: 66%). Under the interest cover covenant, the interest cost must be covered 1.25 times by net cash flow before interest. At the year end, this ratio was well covered at 2.7 times (2008: 2.2 times). On the successful completion of the Rights Issue, the group's pro forma loan to value ratio will decrease to 53.2%.
- Given the housing market's stabilisation over recent months and the group's success in generating sales income during the reporting period, the board is recommending a final dividend of 3.91p per share (final dividend in 2008: 3.91p).



GROSS PROPERTY ASSETS (£m)



GROSS NAV PER SHARE (pence)



DIVIDEND PER SHARE (pence)

Chairman's statement

Objectives

At the beginning of this financial year we stated that, given the anticipated difficult market conditions, cash conservation and generation was to be our key objective for the year. Accordingly, our focus during the year to 30 September 2009 has been on:

- Maximisation of sales revenue;
- Reduction in property purchases;
- Overhead reduction; and
- Enhancing the group's financial stability.

Key progress during the year

- Sales of property across the group amounted to £220m, an increase of 21.5% over 2008's figure of £181m;
- Only £12m of UK property assets were acquired compared to £123m in 2008 and £403m in 2007;
- We have reduced the number of full-time equivalent employees at 30 September 2009 by 13% as compared to 30 September 2008; and
- We finalised the refinancing of our core UK debt facility and reset various maturities.

These steps, in conjunction with the successful conclusion of the proposed Rights Issue announced today, will strengthen Grainger's financial position and ensure our business is able to take advantage of compelling future acquisition opportunities as the market recovers.

Results

Grainger's results for the year have been significantly affected by valuation movements and non-recurring items. Accordingly, within note 3 to the financial statements, we have analysed our income statement into trading activities and valuation and other mark to market adjustments and non-recurring items. This analysis enables us to present more meaningful comparisons of our core operations year on year.

Loss before tax has increased to £170m from £112m, the majority of which is derived from valuation deficits/write downs, mark to market adjustments, change in fair value of derivatives and non-recurring items. Adjusting for these, the group's result for the year would be a loss of £3m compared to a profit of £12m last year. In addition, the business has remained strongly cash generative.

	£m
Loss before taxation	(170)
Add back:	
Property – valuation movements (note 3 to the financial statements)	49
Financial – mark to market and non-recurring items (note 3 to the financial statements)	118
Other – cost of sales and other movements	173
Cash generated from operations (statement of consolidated cash flows)	170

Robin Broadhurst
Chairman

Chairman's statement continued

The trading profit included within operating profit before net valuation deficits on investment property has declined from £106m to £79m. This is primarily due to a fall in profits on disposal of trading property, with an increase in volume being offset by decreased margins.

Our net asset values have been adversely affected by falls in property values.

	2009 per share	2008 per share
Net asset value ('NAV') per share	411p	535p
Triple net asset value ('NNNAV')	251p	385p
Grainger net asset value ('GNAV')	360p	520p

Details of the calculation of these NAV measures are provided in the financial review.

We have announced our intention to raise approximately £250m (approximately £238m net of expenses) by way of a 2 for 1 Rights Issue

Rights Issue

This morning we have announced our intention to raise approximately £250m (approximately £238m net of expenses) by way of a 2 for 1 Rights Issue of up to 277,628,724 new shares. The Rights Issue price of 90p represents a 40.2% discount to the theoretical ex-rights price based on the closing middle-market price of 271.4p per ordinary share on 4 November 2009 and a 39.7% discount to the theoretical ex-rights price based on that closing price adjusted for the proposed final dividend of 3.91p per ordinary share which will be paid to shareholders on the register of members at close of business on 20 November 2009.

We have determined to raise additional equity finance to improve our balance sheet leverage ratios, reduce the overall cost and size of our debt and to better enable us to move from our current position of cash conservation to recommence active trading as opportunities arise.

Full details of the issue are contained in the Prospectus which is expected to be issued this morning.

The board are recommending a final dividend equivalent to that paid in 2008. This will amount to 3.91p per share

Dividends

At the half year the board felt that it was prudent to wait until the year end before deciding on dividends. Given the stabilisation in the housing market over recent months and our success in generating sales income the board are recommending a final dividend equivalent to that paid as a final dividend in 2008. This will therefore amount to 3.91p per share and if approved will be paid on 12 February 2010 to shareholders on the register of members at close of business on 20 November 2009.

Assuming the stabilisation in the economy and the housing market continues, the board anticipates being in a position to revert to its progressive dividend policy in the year ended 30 September 2010, from a base total cash payment of between £5.5m and £8m, the total dividend payments made in respect of 2009 and 2008 respectively.

Board changes

Subsequent to the year end and as previously announced, our chief executive, Rupert Dickinson, stepped down from the board on 20 October 2009, for reasons of ill health. On behalf of the board I thank Rupert for his significant contribution over the 17 years he was a director and in particular, for the leading role he played in the acquisition of BPT plc. His place has been taken by Andrew Cunningham who was previously deputy chief executive and finance director and who has sat on the board since 1996. The company has also commenced the search for a new property director and finance director to strengthen the executive team.

Whilst economic conditions may remain challenging for some time to come, we believe we are well positioned to capitalise on future upturns and are excited by the prospect

Outlook

Although the residential trading market has shown some sign of recovery over the late summer, we remain cautious in our near-term outlook and will not remove our focus from prudent financial management. Nevertheless, assuming the successful conclusion of the Rights Issue announced today, we would anticipate being in a position to recommence property acquisitions as the market recovers provided pricing levels are appropriate and we see the ability to generate or enhance shareholder value. Indeed, we are already beginning to see potential opportunities to build on our existing portfolio.

Whilst economic conditions may remain challenging for some time to come, we believe we are well positioned to capitalise on future upturns and are excited by the prospect.

I would like to take this opportunity to thank everyone at Grainger for the committed, professional way they have performed in extremely difficult conditions.

Robin Broadhurst
Chairman
5 November 2009

Chief executive's review

Strategic review

It remains our overriding objective to maintain and consolidate our position as the UK's largest quoted specialist residential property owner. On a divisional level, our position is as follows:

Core portfolio We will seek to build on our existing position in the ownership and management of properties subject to regulated tenancies. The supply of such tenancies is finite and our objective is to replenish our stock levels through individual, portfolio and corporate acquisitions to the extent they can be sourced at appropriate prices and to look at opportunities to grow market share.

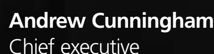
Retirement solutions We hold a market leading position in home reversions and intend to retain this. A key focus to support future acquisitions will be funding – for which we will investigate alternatives such as non-recourse asset specific debt and/or third-party equity investment.

Fund management and residential investments The G:res fund launched by the group in 2007 is the largest of its type in the UK and we also have experience in working in residential joint ventures such as our association with Genesis Housing Association. We believe this represents a significant potential growth area for Grainger and offers the opportunity to retain exposure to a variety of residential asset classes with a reduced capital and risk exposure to direct ownership of such properties and the opportunity to generate stable income through fees obtained from fund and asset management services as well as performance-based distributions.

Development division This division represents a very different risk/reward balance from that which we obtain from our core and retirement solutions portfolios and we intend to ensure that our exposure remains controlled. It is our intention that this division will not account for greater than 10% of the group's assets but, at this level and given the greater risks involved, we aim for it to contribute at least 15% of group profit. We will continue to focus on residential-led schemes, in joint ventures where appropriate.

Europe We believe that we have reached critical mass in the size of our German residential portfolio. It is our intention to introduce third-party equity into the structure and build on our management platform in Germany to create sources of fee income. However, current pricing levels are not attractive and we will only move to a co-investment structure when we believe that we can obtain adequate value.

Other asset classes Grainger intends to use its experience of the residential market allied to our existing portfolio to investigate and invest in other sectors of the residential universe, either through direct ownership or in co-investment vehicles and joint ventures. Areas currently under consideration range from intermediate housing and shared equity to retirement villages and student accommodation.



Andrew Cunningham
Chief executive

Market review

The disruption to the global financial markets, which began in the summer of 2007, and the consequential global recession, particularly in the UK, has led to marked declines in residential housing prices and significant restrictions in the availability of mortgage financing in the UK. This continues to have a negative impact on the largely credit-dependent UK residential property market.

However, the latter part of our financial year has seen signs of stability returning to the housing market. The rate of house price fall has slowed considerably and most indicators show a slight increase in prices over the summer months.

The improvement in the market is reflected by the results of our year-end valuation. Vacant possession values of our UK residential properties fell by 4.1% over the year, a significantly better result than was anticipated at the beginning of the year. The strengthening of the UK residential investment market was also shown by a narrowing of the discount applied to vacant possession values to obtain the market value of our properties. At 30 September 2008, our regulated properties were valued at 71.3% of vacant possession value and this had increased to 72.5% at 30 September 2009.

Nevertheless, we believe the market remains fragile and our near-term outlook is suitably cautious. In the longer term however, we see grounds for optimism. There remains a significant shortfall between supply and demand. The Government has indicated that some three million new homes will be required by 2020 but we believe new house build levels will be well below 100,000 for 2009. Inevitably, such an imbalance will serve to produce upward pressure on prices over the longer term.

We are also seeing signs of a political imperative to make changes to the structure of the UK housing sector – most notably the Homes and Communities Agency ('HCA') work on the Private Rented Sector Initiative ('PRSI'). With suitable fiscal incentives and planning policies and practices to encourage, for example, build to let schemes, the PRSI would not only help alleviate the supply problem but would also present Grainger, as the UK's largest listed residential owner, with significant business opportunities.

Our recent focus has been on cash conservation – particularly through maximising sales revenue and reducing property spend. Following completion of the Rights Issue we will have positioned our business to ensure that we are able to take advantage of opportunities if the market continues to stabilise and recover.

Risk review

The major risks to Grainger's business are macroeconomic.

Housing market

- further severe and rapid downturn in UK house prices
- stagnation in the market including through lack of mortgage finance and/or finance to acquire properties

Financing

- significant increases in borrowing costs
- lack of or reduction in finance available to Grainger

Extract from note 25.

Chief executive's review continued

Average vacant possession value (£)

Year	Value
09	189,000
08	190,000
07	205,000
06	188,000

Housing market

Our unique UK residential portfolio has a number of defensive features in the face of a market slowdown, including:

- It has been assembled over a significant period of time and, even after recent falls in value, its current market value exceeds cost by £320m;
- It is a reversionary portfolio and the value to be obtained by selling on vacancy exceeds the present 'tenanted' market value by £570m ('the reversionary surplus');
- It is geographically diverse (although 54% is in London and the South East) and not overly exposed to cluster risk;
- The low average value (average vacant possession value at 30 September 2009 is £189,000 (2008: £190,000)) and unmodernised nature of our regulated properties support demand; and
- As demonstrated by the level of sales we have achieved in the last two difficult trading years, our portfolio is liquid. As well as normal sales on vacancy we are also able to sell many of our properties with a tenant in place ('investment sales').

Financing

We seek to mitigate financing risks by:

Our hedging policy At 30 September 2009, 93% of group debt was hedged through being fixed or subject to caps or swaps. Debt subject to caps or which is floating can benefit from lower LIBOR rates.

Maintaining cash headroom At 30 September 2009, this stood at £171m (2008: £370m) and, assuming a successful outcome to the Rights Issue, this will increase to £304.5m.

Extending debt maturity profile We have no debt repayments uncovered by 30 September 2009 headroom until December 2012.

Generating cash The business has generated £170m of cash from operating activities, excluding sales of investment property, compared to net interest paid of £76m.

Monitoring of covenant compliance to ensure that any pre-emptive action (such as asset sales) is taken to prevent any breaches occurring. Details of our covenants are given in the financial review.

Andrew R Cunningham
Chief executive officer
5 November 2009

Operating review

Operating review

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

Division	Assets	Market value £m	Percentage of total
Core portfolio	Primarily our portfolio of regulated tenancies	1,059	48.2
Retirement solutions	Our interests in home reversion and retirement-related assets	481	21.9
Fund management and investments in residential joint ventures	Investments in managed funds (G:res1 and Schroders ResPUT) and in Grainger GenInvest	101	4.6
UK and European development	Residential or residential-led mixed use developments	83	3.8
European residential	Investment in German residential portfolio	473	21.5
		2,197	100.0

Core portfolio

	2009	2008
Regulated units owned	**6,327**	7,316
Market value	**£871m**	£1,000m
Vacant possession value	**£1,197m**	£1,399m
Other assets (vacants, assured, etc)	**831**	803
Market value	**£188m**	£190m
Vacant possession value	**£214m**	£216m

Regulated units owned (number)

09	6,327
08	7,316
07	7,655
06	7,715

Trading conditions, particularly in the early part of this financial year, have been difficult but we have achieved sales of £143m (2008: £141m), demonstrating the liquidity of the portfolio.

There has been a concerted effort to make selected investment sales (sales of a property with a tenant in place rather than with vacant possession – 'normal sales'), both as part of our usual portfolio housekeeping and also to enhance cash generation.

The total number of units sold in the year was 1,060 (2008: 817), of which 517 were investment sales accounting for £55m of proceeds and £7m of profit (2008: 302 investment sales for proceeds of £41m and profit of £17m).

The average sales price achieved on normal sales was £157,620 (2008: £193,000) and over the course of the whole year were 6% below September 2008 vacant possession values. Margins on normal sales fell to 37.6% from 45.9%.

In line with our stated policy of cash conservation, we significantly reduced acquisitions in this portfolio, buying only seven units for £0.9m (2008: 403 units for £80m).

Operating review continued

Operating contribution from the core business (comprising profits on sale of trading and investment assets together with net rents and other income, after deducting divisional overheads and adding back write down of inventories and provision for impairment of loans receivable and goodwill) amounted to £56m (2008: £83m).

Retirement solutions

	2009	2008
Interest in residential units (number)	**6,101**	6,227
Market value	**£481m**	£521m
Vacant possession value	**£699m**	£754m

During the year, we sold interests in 245 assets from this portfolio, raising aggregate proceeds of £27m and generating a profit of £7m (2008: 185 assets for £27m and profit of £11m).

As with the core portfolio, we have significantly reduced the level of acquisitions in this portfolio; buying 119 units for an aggregate of £11m (2008: 460 units for an aggregate of £43m).

Operating contribution from the retirement solutions business (on the same basis as the core portfolio but excluding the CHARM revaluation) amounted to £12m (2008: £16m).

Interest in retirement solutions residential units (number)

09	6,101
08	6,227
07	5,952
06	3,003

Fund management and residential investments

	Holding %	Number of units	Gross asset value £m	Net asset value £m	Grainger investment £m
Grainger GenInvest*	50.0	1,528	290	52*	68
G:res1	21.6	2,073	366	113	24
Schroders ResPUT	21.8	374	40	40	9
Total 2009		**3,975**	**696**	**205**	**101**
Total 2008		4,234	772	294	129

*Net asset value for Grainger GenInvest is shown after adjusting for the mezzanine loan provided by Grainger of £74m.

Grainger residential investment (£m)

09	101
08	129
07	175

Contribution from the fund management and residential investments business (comprising share of profits, dividends received, fee income, share of revaluation movements and provisions against loans) amounted to a loss of £14m (2008 loss: £50m). Included within this is our share of revaluation movements amounting to a loss of £5m. The external debt in these vehicles is non-recourse to Grainger plc.

The investors in Schroders ResPUT have agreed to a controlled liquidation of the fund and, as at 30 September 2009, Grainger has received £7.6m from the redemption of units in the fund at average values equal to 2008 levels.

UK residential units managed (number)

Year	Units
09	17,470
08	19,433
07	19,312
06	15,221

Market value of development portfolios including share of joint ventures (£m)

Year	£m
09	71
08	142
07	127
06	97

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.

	2009	2008
UK residential units managed	**17,470**	19,433
Gross rent roll	**£78m**	£78m
Gross property expenditure	**£21m**	£19m

Development division

	2009	2008
Market value of development portfolio (including share of joint ventures)	**£71m**	£142m
Estimate of completed development value	**£580m**	£850m
Of this, with planning consent	**£442m**	£484m
Committed cash expenditure	**£10m**	£30m

Although the development activities of this business have been curtailed in the interests of cash conservation, we have been successful in generating sales income with total proceeds of £47m being raised (2008: £10m). The major sources of income have come from our Barnsbury and Hornsey Road sites in North London. The first was sold as a development site for £19m. At Hornsey Road we launched 92 units for sale in early April 2009 and had completed sales or exchanged on 91 of them for £21.6m by the end of September 2009. Following the period end, as at 30 October, 25 out of the 26 units of Phase 2 of this development have been reserved, of which 13 transactions are already completed and five exchanged.

Operating review continued

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

Project	Description	Status
Newlands Common	537 acre Greenfield site, freehold with overage interest in Waterlooville, Hampshire.	Outline consent granted for 1,635 residential units and 1 million sq. ft. B1-B8 space. 1,000 further properties on land in local core strategy.
Macaulay Road	1.811 acres brownfield site, Clapham, freehold.	Detailed consent granted for 97 residential units and 30,000 sq. ft. office. Demolition complete.
Wards Corner	Development agreement with London Borough of Haringey. A number of smaller interests within overall site currently owned.	Planning consent granted for 197 residential units with ground floor retail units. CPO likely to be required to purchase remaining site.
Gateshead College	9.87 acres brownfield former college site, Gateshead. Owned freehold with deferred purchase payment.	Planning consent granted for 245 residential units.
Newbury	Preferred developer status with Newbury for key town centre site.	Conditional development agreement under current discussion for approximately 330 residential units, 50,000 sq. ft. retail.
Curzon Park	10 acres brownfield freehold, central Birmingham, 50:50 joint venture with Development Securities Plc.	Outline planning consent granted for 400,000 sq. ft. residential, 800,000 sq. ft. office, 20,000 sq. ft. retail, 200-bed hotel.
Hammersmith	Preferred developer of Hammersmith and Fulham Borough Council. Development agreement signed with Borough and joint venture partner Helical Bar, King Street, Hammersmith.	Application for 290 residential units, 5,202 sq. m. commercial space, 11,000 sq. m. council offices, a public square, a bridge linking Hammersmith with the river, and 200 car parking spaces to be submitted spring/summer 2010.
Zizkov	Joint venture 50% owned by Grainger, 31 acre brownfield site, Prague.	Planning application in preparation for mix use scheme comprising 483,000 sq. ft. retail, 580,000 sq. ft. office, 245 residential units, hotel.

The operating loss from this business in the year (comprising trading results, net of divisional overheads and asset write downs) amounted to £14m (2008: loss of £12m).

The development business has future commitments to spend £10m in the period to April 2013.

Residential units owned (number)

Year	Units
09	6,807
08	6,894
07	4,520
06	2,739

European residential

	2009	2008
Residential units owned	**6,807**	6,894
Market value	**£473m**	£418m
Gross rents	**£30m**	£21m
Gross annual running rent	**£31m**	£28m

During the year, we cleared all regulatory hurdles arising from the April 2008 acquisition of FranconoRheinMain AG ('FRM') and the company has now been de-listed. Sales and acquisitions have been minimal in the year and the focus has been on portfolio management.

The operating contribution from our German business (comprising profits on sale of investments assets together with net rents and other income after deducting divisional overheads) amounted to £11.8m (2008: £11.4m).

The revaluation movement on the portfolio resulted in asset write downs of £10.9m. The net rental yield on the portfolio is 5.0% (2008: 5.1%). External debt amounts to £321.4m and is non-recourse to Grainger plc.

Prospects

Since the year end, we have continued to sell properties. As at 30 October 2009, our UK residential sales pipeline (being completed sales, exchanged contracts and in solicitors hands) amounted to £55m.

Given our recent refinancing and depending on future market conditions, we do not anticipate making the same level of investment sales in 2010 as we have in the last year. This is expected to produce an improvement in overall sales margins albeit at the expense of total sales volumes.

Despite some recent signs of recovery in market conditions, we are still cautious in our near-term view. Against this context, we will seek to use our expertise and experience to ensure that acquisitions offer the potential to create and enhance value for our shareholders in the medium to long term.

Financial review

Performance overview

Our key performance indicators are:

	2009	2008
Gross net asset value per share (pence)	411p	535p
Operating profit before valuation and goodwill adjustments	£78.8m	£106.0m
Return on capital employed (1)	(4.3)%	(11.4)%

	1 year	5 year	10 year
Return on shareholder equity (2)	(33.7)%	(4.5)%	3.6%

1 Profit before financing costs together with all revaluation movements as a percentage of opening gross capital.

2 Growth in net net net asset value ('NNNAV') plus dividends paid per share as a percentage of opening NNNAV on an annualised basis.

Most of our properties are held as trading stock and are therefore shown in the statutory balance sheet at the lower of cost and net realisable value. This does not reflect the market value of the assets and so we set out below a summary of our net assets with the properties restated at market value.

	Statutory balance sheet £m	Adjustments to market value, deferred tax and derivatives £m	Gross NAV balance sheet £m	Deferred and contingent tax £m	Derivatives £m	Triple NAV balance sheet £m
Properties	1,779	304	2,083	–	–	2,083
Investments/other assets	116	17	133	–	(9)	124
Goodwill	6	–	6	–	–	6
Cash	28	–	28	–	–	28
Total assets	1,929	321	2,250	–	(9)	2,241
Borrowings etc	(1,676)	99	(1,577)	–	(108)	(1,685)
Other net liabilities	(103)	–	(103)	–	–	(103)
Provisions/deferred tax	(22)	22	–	(137)	33	(104)
Total liabilities	(1,801)	121	(1,680)	(137)	(75)	(1,892)
Net assets	128	442	570	(137)	(84)	349
2009 net assets per share (pence)	**93**	**318**	**411**	**(99)**	**(61)**	**251**
2008 net assets per share (pence)	178	357	535	(144)	(6)	385

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 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 remove any balances for deferred tax on property revaluations and the fair value of derivatives as calculated under International Financial Reporting Standards ('IFRS'). Triple NAV 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	Investment property/financial interest in property assets £m	Total £m
Residential	929	321	1,250	763	2,013
Development	87	(17)	70	–	70
Total September 2009	**1,016**	**304**	**1,320**	**763**	**2,083**
Total September 2008	1,142	377	1,519	741	2,260

Net asset value

Movements in NAV 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.

	2009	2008	Movement
Gross net assets per share (NAV) – market value of net assets per share before deduction for deferred tax on property revaluations and before adjustments for the fair value of derivatives	**411p**	535p	(23)%
Triple net assets per share (NNNAV) – gross NAV per share adjusted for deferred and contingent tax on revaluation gains and for mark to market adjustments	**251p**	385p	(35)%
Grainger NAV – NNNAV adjusted for the discounted and taxed reversionary surplus (the difference between vacant possession and current market value) in our long-term regulated and home reversion portfolios	**360p**	520p	(31)%

The major movements in NAV in the year are:

	£m	Pence per share
Gross net assets 1 October 2008	688	535
Conversion of convertible bond	42	30
Results after tax net of adjustments (see table on page 16)	(92)	(66)
Revaluation movements	(23)	(17)
Elimination of previously recognised surplus	(44)	(31)
Dividends paid	(5)	(4)
Other*	4	(36)
Gross net assets 30 September 2009	**570**	**411**

*The pence per share movement in 'other' reflects the impact on the opening balance resulting from the increase in shares in issue.

Financial review continued

Results after tax net of adjustments shown above can be reconciled to the loss after tax in the income statement as follows:

	£m
Loss after tax from income statement	(122)
Pre-tax inducement cost on convertible bond	31
Net of tax charge on mark to market adjustments	28
Deferred tax credit on property revaluations	(29)
Results after tax net of adjustments (see table on page 15)	(92)

Reconciliation of NAV measures

	£m	Pence per share
Gross NAV	570	411
Deferred and contingent tax	(137)	(99)
Mark to market adjustments net of tax	(84)	(61)
NNNAV	349	251
Discounted reversionary surplus	209	151
Tax thereon	(59)	(42)
Grainger NAV as at 30 September 2009	**499**	**360**

The major assumptions used in calculating the base case Grainger NAV are set out below:

- House price inflation taken as zero over the entire reversionary period;
- Discount rate of 8.22% used to calculate the present value of the reversionary surplus (weighted average cost of capital + 3%) (2008: discount rate 8.43%);
- No discounting of contingent tax on the revaluation surpluses; and
- Reversionary periods taken as 14 years for regulated properties and 10 years for home reversions.

Our website (www.graingerplc.co.uk) sets out how these assumptions may be varied.

Financial performance in the year

Operating profit before all revaluation movements, fair value, impairment and goodwill adjustments has decreased £27.2m (26%) to £78.8m from £106.0m.

	£m
2008 operating profit	106.0
Increase in gross rents and other income	5.8
Increase in property expenses and overheads	(4.9)
Decrease in residential trading profits	(26.3)
Increase in development trading profits	6.9
Increase in interest expense from interest in financial asset	(3.8)
Other	(4.9)
2009 operating profit (see note 3 to the financial statements)	**78.8**

The major movement in operating profit is a reduction in trading profit from the core and retirement solutions businesses. This reflects the lower margins achieved on sales resulting from the difficult market conditions existing during the year. The increase in development trading profit arose from the sale of properties at Barnsbury, Hornsey Road, Kensington Church Street and Elder Street. The increase in gross rents and other income reflects a full year of FRM results in Germany compared to six months in 2008, and this has also led to an increase in property expenses. The run rate of our overhead costs (excluding non-recurring costs) at 30 September 2009 amounts to £29.4m (2008: £32.2m), a reduction of 8.7%.

Earnings per share

Basic earnings per share has fallen to a loss of 90p from a loss of 61p.

	£m	Pence per share
2008 loss per share	(77.4)	(61.0)
Movements in:		
Operating profit	(27.2)	(20.2)
Contribution from joint ventures and associates	45.4	33.4
Fair value of derivatives and financial assets	(27.2)	(20.1)
Revaluation losses on investment properties	17.5	12.9
Provisions against trading stock values and loan balances	(25.6)	(18.8)
Goodwill impairment	6.2	4.6
Net interest payable	(12.9)	(9.5)
Convertible bond	(31.1)	(22.9)
Taxation and other	10.3	11.8
2009 loss per share	**(122.0)**	**(89.8)**

Interest expense and similar charges

Our net interest charge has increased by £12.9m from £89.0m to £101.9m, principally because of the write-off of certain unamortised loan costs brought forward, costs incurred in the refinancing of our banking facilities and a non-recurring interest charge relating to a potential tax liability.

As part of the early conversion in November 2008, holders representing £87.1m of the £112m 2014 convertible bond accepted a cash payment of £35,000 per £100,000 nominal bond value to convert early. This cash payment of £31.1m is shown in the income statement as an inducement cost. The other effects of the early conversion have been to:

- Issue 10.08 million ordinary shares;
- Eliminate £57m of nominal debt; and
- Increase net assets by £42.0m and decrease net assets per share by 1.6%.

Financial resources

The business has produced £235m of cash from its operating activities being net rents and other income, property sales and other working capital movements net of overheads. The largest outflow of cash is £76m on net interest.

At the year end, our net debt levels (before unamortised finance costs) had reduced from £1,621m in 2008 to £1,561m, despite a deterioration in the Sterling/Euro exchange rate which increased overall group debt by £69m. The debt was 93% hedged (2008: 85%), of which 16% was subject to caps. At the year end, the group had headroom of £171m (2008: £370m).

On 30 September 2009, we announced the finalisation of two new forward start credit facilities totalling £615m which will provide the group with extended liquidity at a time when certain of our existing facilities will expire.

The facilities comprise a £250m committed term loan available from June 2010 and a £365m committed term loan available in June 2011. On these dates they will be used to refinance facilities of £400m and £475m that mature on those dates. These facilities have been reduced to £250m and £445m respectively by using excess short-term committed but undrawn facilities. The two new forward start facilities will mature in December 2012.

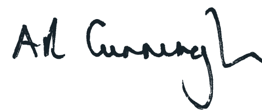
The other facilities under Grainger's core banking facilities are a £228m revolving credit facility maturing in December 2012 and £425m of term loans maturing in June 2013. The average maturity of all of the group's debt is 4.4 years (2008: 4.5 years).

As a result of the above, the group has no core banking facilities maturing in its financial year to 2010, with only £109m maturing in the year to September 2011 and £57m in the year to September 2012. A total of £872m of the core banking facilities will mature in December 2012.

Our effective average interest rate on the group's bank loans in the year ended 30 September 2009 was 5.7% (2008: 6.2%). Immediately post the refinancing, Grainger's effective average interest rate on the group's bank loans was 5.5% but this would reduce to 5.2% under an interest ratchet mechanism should the loan to value ratio on the core facilities fall below 60%.

Our core banking facilities have two covenants covering loan to value ('LTV') and interest cover. The method of calculation and limits of these covenants remain unchanged by the new facilities.

Under the LTV covenant, an LTV of 80% could lead to default of the agreement and, at 70% LTV, purchasing restrictions and a cash sweep mechanism apply. At 30 September 2009, 'V' was £1,820m (2008: £1,971m) and 'L' was £1,206m (2008: £1,308m) (in each case for purposes of the LTV covenant) and accordingly the LTV on the core facility was 66% (2008: 66%). Under the interest cover covenant, our interest cost must be covered 1.25 times by net cash flow before interest. As at 30 September 2009, the ratio stood at 2.7 times (2008: 2.2 times).



Andrew R Cunningham
Chief executive officer
5 November 2009

Corporate responsibility

Reporting approach

We see corporate responsibility ('CR') as an integral part of the way we run our business and to this end, we report below key data on our impacts and activities over the last year. For the second year running, we are also producing a separate online CR report, which includes more detail on our activities in each of the main impact areas. This year, we have divided the online CR report into a selection of different stakeholder-focused sections and these will be available from January 2010 on our dedicated website: www.graingercr.com.

CEO statement

The past 18 months have been extremely challenging for the property sector and despite some current signs of increasing stability, we anticipate that the market will remain fragile in the short term. These tough operating conditions call for innovation in business strategy and a robust approach to risk management. We must ensure that alongside our primary focus on cash conservation, we continue to achieve strong sales, customer satisfaction, employee well-being, positive community relations and good environmental management.

In this context, our CR strategy must add value to the business, reflect stakeholder concerns and help us to adapt so that we are best placed to take advantage of potential opportunities as we come out of the recession. All investments we make in CR initiatives at Grainger will continue to be rigorously assessed for costs and benefits, while we strive to anticipate future challenges for the sector and position ourselves to best respond to them. We are currently undertaking a review of our CR strategy, which incorporates a programme of stakeholder consultation. The outcome of this review will be a strategy that is aligned with our evolving business priorities and to the risks that arise from changing environmental, social and economic pressures. Please see our website for more detailed information.

Despite being a period of significant change, we have continued to see strong CR performance in the year and we fully achieved or substantially progressed 60% of our targets. I am proud that a commitment to responsible business is at the heart of Grainger's operations. We are continually learning from our experience and expect to perform even better in years to come.

Andrew R Cunningham
Chief executive officer
5 November 2009

Opportunities and risks

While the economic downturn has dominated much decision-making over the last year, we believe that CR issues remain material to the short, medium and long-term prospects of our business. Moreover, failing to address our corporate responsibilities would expose us to risk. The good management of our CR impacts presents several opportunities for Grainger to increase performance, for example, through reduced costs, enhanced asset value and increased social capital.

- Engaging with and investing in the community is an essential part of good property management. It gives us the opportunity to enhance the communities in which we operate and is also central to the planning process.
- Working to continually improve our service quality and relationships with customers will improve customer satisfaction and could result in reduced void periods, a protected rental income and increased lease renewals.
- Initiatives that contribute to the health and well being of our employees will contribute towards enhanced employee productivity and company reputation.

We also see the progression towards a low carbon economy as one that offers several opportunities for companies such as ourselves to differentiate and streamline our operations, for example, through providing innovative solutions for more efficient property management and by future-proofing our assets ahead of tightening regulations. We believe these will help us to maintain a strong market position and competitive advantage as the UK's largest listed specialist residential property owner.

On the other side of the coin to these opportunities, we also recognise a number of potential risks, such as tightening regulations, increasing costs of meeting required planning and development standards, and changing customer and investor expectations. By anticipating and addressing these risks we hope to manage their impacts on our business and convert them into opportunities for differentiation wherever possible.

We have now commissioned Energy Performance Certificates ('EPCs') for the majority of properties in our portfolio. This means that both rental customers and buyers acquiring properties from us have access to an assessment of the energy performance of their building. While other market factors have somewhat overshadowed the impact of energy efficiency on property attractiveness and value over the last 12 months, we expect this issue to be of growing importance as we emerge from the downturn and energy prices continue to rise.

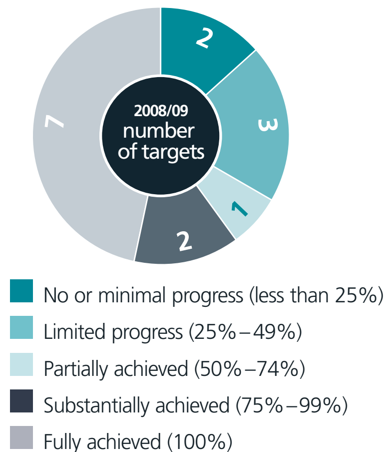
Governance

The board maintains overall responsibility for CR at Grainger. The operations board is responsible for implementation of CR policy and reviews progress against targets against a six-monthly progress assessment and as required. Specific target delivery is assigned to individuals and teams across the organisation, meaning that there is a shared responsibility for integrating responsible practice into all of our operations and functions. Last year we reported that we planned to establish a series of working groups around our key areas of focus. We have successfully launched an Environmental Working Group, bringing together professionals from our property services, asset management and corporate teams to address environmental issues across the business. Other working groups are currently on hold as we undergo the process of a CR strategy review. One outcome of this review will be a revised governance structure, which will be published on our website.

We have various policies and procedures which inform our CR strategy, these are set out in full on our website: http://www.graingercr.com/policies-procedure-guidance.asp

Performance

Target achievement



Corporate responsibility continued

In 2008/09, we set targets across all of our main identified impacts. We have fully achieved seven (47%) of our 15 CR targets and have substantially progressed a further two (13%). For a full breakdown of our performance against targets, and for a full set of key performance indicators, please see our downloadable CR report: www.graingercr.com.

It should be noted that:

- We saw particular success in targets related to customers, employees and the community.
- We set ourselves a range of challenging environmental targets this year. Two were completed, one was substantially progressed, one was started and one has yet to be addressed.
- Several targets related to the appointment of suppliers for both refurbishment and development projects. Target progress in relation to development practices could not, however, be assessed as no new developments were started this year. Best practice procedures are already in place for our development activities. We set out environmental design standards and construction process requirements in contracts and proactively engage with contractors about sustainability issues. This will continue to be a feature of all future developments.
- A number of business decisions, such as that to broaden the training of property managers, has delayed delivery of some targets related to training in specific areas as we have spent more time in planning these programmes.
- We will continue to work towards the achievement of all of our targets that were not achieved this year.

Ideally, we would have liked to fully achieve more of our targets. Personnel changes meant that some implementation programmes were started a little late in the year and a focus on cost minimisation across the business has slowed progress in some areas. Despite these significant challenges, we are proud to have made progress against almost all targets, putting in the groundwork to ensure their achievement in the future.

Our business strategy has evolved significantly over the past two years and we acknowledge the need for our CR strategy to reflect this. One goal of our aforementioned strategy review is to align our CR strategy more closely with key business priorities. The outcomes of this will be a more relevant and well-embedded strategy and, correspondingly, higher target achievement in future years.

Notable achievements and activities – carbon emissions

We have seen overall emissions from air transport reduce significantly this year.

Source	2008/09 carbon emissions (tonnes)	2007/08 carbon emissions (tonnes)
Office electricity consumption (small power)	476	372
Office central plant (heating and cooling)	Not available	Not available
Energy use in common parts of residential portfolio	Not available	Not available
Air travel	31	62
Rail travel	26	13
Taxi travel	Not available	Not available
Car travel	Not available	Not available
Energy use at development sites (electricity and diesel consumption)	3.5	346

The energy used within tenanted properties under our ownership and management forms the greatest part of our carbon footprint. However, due to tenant power supply being outside of our control we are unable to access this data or put in place significant measures to reduce consumption within tenant demise. We have, therefore, chosen to focus our monitoring on those areas over which we do have control.

- Despite extending the monitoring of transport carbon emissions, we have seen overall emissions from air transport reduce significantly this year, with rail transport making up a greater proportion of transport costs and emissions.
- A reported increase in electricity use within our offices is largely due to improved accuracy and coverage of monitoring and moves into new space in Birmingham and Frankfurt.
- Due to few development projects being on site over the past 12 months, carbon emissions from diesel used on site is much reduced. We continue to work towards obtaining meaningful electricity data for the common parts of our managed blocks and hope to be able to report this fully next year.
- Given that all of our offices are in multi-tenanted buildings, we are unlikely to ever be able to access data on central plant emissions from our offices, but instead we continue to improve the quality of electricity monitoring, such as through live energy meters which are being put in place in all of our UK offices.
- We continue to assess the viability of obtaining emissions data for car and taxi travel, but at present, the material benefits of this task would not overcome the significant complexity associated with collecting this information effectively.

Notable achievements and activities – other areas of performance

- We have successfully completed a number of changes to our internal communications programme, including relaunching our intranet 'Source', introducing a cascade briefing system for employees and giving a few staff each month the opportunity to have breakfast with the CEO for open discussion on topics of their interest.
- We have built upon last year's success in raising our employees' awareness of sustainability issues, by establishing a network of eco-champions in offices across the UK and Germany. The champions are daily advocates for energy, water and waste efficiency and they also promote volunteering and sustainable transport opportunities to other staff members across our offices.
- Our employees have shown remarkable enthusiasm for community volunteering and we easily met our target to achieve 20% of employees contributing time to a good cause. A total of 71 days were dedicated to good causes. These included helping to build houses with Habitat for Humanity and creating a horticultural learning space at a community centre for Business in the Community's 'Give and Gain' day.
- We have scored well in tenant feedback surveys, which is particularly positive given the current focus on maintaining revenue streams. Around 80% of tenants leaving our properties rated management department services as either excellent or very good.
- We ran a pilot project placing energy monitors into all the flats in one of our properties, to give tenants live information on the electricity they use at different times of the day. We now intend to roll these monitors out across various parts of our managed portfolio and within our own offices as well as placing them in all houses when we carry out major refurbishment works.
- Nearly half of the properties to receive Energy Performance Certificates ('EPCs') to date are rated C or above.

Adviser's statement

Upstream Sustainability Services, part of Jones Lang LaSalle, has been working to advise Grainger plc on CR for several years. This programme of work includes helping Grainger to set its 2008/09 CR targets, as well as to assess the extent to which it has achieved these targets. Due to Upstream's long-standing relationship with Grainger and its CR commitments, the review of performance against targets and this statement itself cannot be considered as fully independent, nor should any data be viewed as formally verified. However, Upstream has carried out a full and documented review of Grainger's performance and management of CR over the year 1 October 2008 to 30 September 2009 and all information presented is accurate to the best of Upstream's knowledge.

Corporate responsibility continued

The method for assessing Grainger's level of performance against CR targets and commitments was based on:

1. Meetings and telephone interviews with Grainger representatives, responsible for target delivery.
2. Detailed review of documentation and information submitted by Grainger and collected by Upstream over the year.

A percentage score has been awarded against each target, depending on the evidence received to validate completion. For some targets that relate to management actions rather than quantifiable performance, it has been necessary for Upstream to use its professional judgement to assess the evidence received and award weightings for various milestones achieved.

Upstream's review can conclude the following general findings:

- Almost half (47%) of Grainger's 2008/09 CR targets have been fully achieved, with a further two targets (13%) substantially progressed (over 75% achieved).
- A further four targets (27%) have been progressed either minimally (at least 25% achieved) or partially (at least 50% achieved).
- Only two targets (13%) were not progressed at all this year.

Upstream has made the following specific findings:

- Targets relating to employee initiatives are an area of particular achievement to highlight for Grainger for the last 12 months. Upstream is pleased to see success in improving internal communications, encouraging staff to volunteer for community causes and identifying individuals in all offices to become eco-champions, promoting a more sustainable workplace. These initiatives underline Grainger's commitment to fully engaging its staff in order to embed sustainability into all aspects of its operations.
- Grainger has made good progress in communicating with its customers and investors for feedback on its approach to business and the needs of its stakeholders. Customers of market let properties are now contacted at point of moving into a property, exiting a property and when they are visited by one of Grainger's contractors. These feedback questionnaires received largely positive responses this year, with approximately 80% of exiting tenants rating Grainger's management department services as either very good or excellent. Grainger has continued to maintain a dialogue with its top shareholders around CR and has proactively engaged with two more investors this year, obtaining valuable feedback on how its sustainability strategy is viewed by both socially responsible and mainstream investors.
- The two supplier targets have been assessed as not progressed and minimal progress. The lack of progress in this area can in part be attributed to a break down of communication channels and the departure of key members of staff during the target scoping stage. In assessing progress, it has become clear that a more rigorous scoping exercise, including a cost-benefit analysis, should have been carried out when deciding on the appropriateness of these targets to refurbishment activity. Grainger does continue to demonstrate impressive performance in reducing the environmental impacts of its development activities, setting out a range of environmental design standards and construction process requirements in its standard contracts and engaging with contractors about sustainability issues on an ongoing basis. However, there have been no new projects commencing this year, so these targets were only relevant to refurbishment works. As the economy picks up in the coming year, Upstream encourages Grainger to adopt a renewed focus on promoting high standards of environmental awareness within its refurbishment supply chain, whether this is through contract specifications or engagement activity.

Despite a challenging year, it is clear to Upstream that Grainger has retained its commitment to CR and continues to recognise this as an important part of its business strategy. While performance against CR targets has not been as strong as in previous years, this is largely a product of setting some particularly stretching targets in some areas, significant internal reorganisation over the previous year and a focus on cost constraint. Grainger is currently undergoing a process to review its CR strategy over the next few months and will redefine its commitment in a way which is meaningful in a changing economic and regulatory landscape, relevant to core business objectives and reflective of stakeholder desires. Upstream looks forward to working with Grainger to develop and deliver its new strategy and to realise the opportunities presented by its commitment to sustainability.

Abigail Dean
Senior Consultant
Upstream Sustainability Services, Jones Lang LaSalle
October 2009

The board

1 Robin Broadhurst

C.B.E., F.R.I.C.S. Chairman, chairman of nomination committee. Aged 63

Appointed director of the company in February 2004. Previously European chairman of Jones Lang LaSalle, he is now trustee and non-executive director of Grosvenor, a senior adviser 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.

2 Andrew R Cunningham

F.C.A. Chief executive officer. Aged 53, 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 a director of the company in December 1996. Appointed deputy chief executive in December 2002. Appointed chief executive in October 2009. From May 2007 until September 2009, he was a non-executive director of The Local Shopping REIT plc.

3 Robert R S Hiscox*

A.C.I.I. Member of nomination and remuneration committees. Aged 66

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

4 John Barnsley*

F.C.A. Chairman of audit committee and member of remuneration committee. Aged 61, 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 of Westover Medical Limited. Until December 2001 was a senior partner at PricewaterhouseCoopers.

5 Henry Pitman*

Member of audit committee. Aged 47

Appointed a director in May 2007. Currently chairman of African Century, an African investment business. Previously chief executive of Tribal Group plc. Prior to this, he was managing director of JHP Group Limited. From 1990-1995 he worked for the Property Corporation of South Africa.

6 Bill Tudor John*

Senior independent director, chairman of remuneration committee, member of nomination committee. Aged 65

Appointed a director of the company in February 2005. Currently a senior adviser to Nomura International, previously a partner at Allen & Overy LLP for 29 years, serving as senior partner for six years. Also deputy chairman of the Nationwide Building Society and deputy chairman of the Bank of England Financial Markets Law Committee. An Associate Fellow of Downing College, Cambridge.

7 Baroness Margaret Ford*

Member of audit committee. Aged 52

Appointed a director of the company in July 2008. Managing director in the Royal Bank of Canada's Capital Markets Group and is the Chair of Legacy Committee of the London Organising Committee of the Olympic Games and Paralympic Games Limited. Prior to this she was chairman, from 2002, of English Partnerships. Early career in a variety of housing and regeneration roles across the public and private sector.

*Non-executive directors.

Corporate governance report

Compliance with the Combined Code

The board of Grainger is committed to maintaining high standards of corporate governance, which the directors see as fundamental to effective management of the business and delivery of long-term shareholder value.

The governance rules applicable to all UK companies admitted to the Official List of the UK Listing Authority are set out in the Combined Code, published by the Financial Reporting Council in June 2003, and revised in 2008. The board fully supports the principles set out in the Combined Code and confirms that it has complied with all of the provisions set out in Section 1 throughout the financial year ended 30 September 2009.

This report sets out Grainger's governance policies and practices and includes details of how the group applies the principles and complies with the provisions of the Combined Code.

The role of the board

The board provides leadership of the group and, either directly or through the operation of committees of directors and delegated authority, applies independent judgement on matters of strategy, performance, resources (including key appointments) and standards of behaviour. The board sets the group's strategic objectives and approves and monitors business plans and budgets submitted by the executive directors and senior management.

The written statement of matters reserved to the board is reviewed and approved annually by the board and a copy is available on the group's website (www.graingerplc.co.uk) or from the company secretary on request.

Board composition, structure and roles

The board was made up of a non-executive chairman, a non-executive deputy chairman (until 10 February 2009), the chief executive, the deputy chief executive and finance director, and five non-executive directors.

The posts of chairman and chief executive are separate and their roles and responsibilities are clearly established, set out in writing and agreed by the board. A copy of the written statement of roles is available on the group's website (www.graingerplc.co.uk) or from the company secretary on request.

The chairman is responsible for running the board and ensuring its effectiveness. The chief executive reports to the chairman, as does the company secretary on matters of corporate governance. The chairman is the guardian of the board's decision-making.

The chief executive is responsible for running the business and implementing the board's decisions. All executive management report to him, directly or indirectly. In November 2008 the group appointed Peter Couch as chief operating officer reporting to the chief executive and responsible for day-to-day management of the group's operations in accordance with the strategy and business plans set by the board. The chief operating officer chairs a monthly operations board meeting made up of the senior management team.

The non-executive directors are responsible for bringing independent and objective judgement and scrutiny to all matters before the board and its committees, using their substantial and wide-ranging experience. The key responsibilities of non-executive directors are set out in their letters of appointment and include requirements to:

- Challenge and contribute to the development of strategy;
- Scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance; and
- Satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible.

A copy of the standard letter of appointment for a non-executive director is available on the group's website (www.graingerplc.co.uk) or from the company secretary on request. The non-executive directors meet periodically without the executive directors present. There were three such meetings in the year and an additional meeting of the non-executive directors without the chairman or the executive directors present.

The senior independent director is Bill Tudor John. He is available to shareholders if they request a meeting or have concerns, which contact through the normal channels has failed to resolve or where such contact is inappropriate. No such requests were received from shareholders during the year. As senior independent director, Bill Tudor John leads the annual performance review of the chairman. He is also chairman of the remuneration committee.

Meetings

There were seven meetings of the board in the year. The board has a list of matters reserved to it and a rolling annual plan of items for discussion, agreed between the chairman and the chief executive. The list of reserved matters and annual plan are reviewed regularly to ensure all matters reserved to the board, as well as other key issues, are discussed at the appropriate time. At each board meeting the chief executive provided a review of the business, how it was performing and strategic issues arising. In the year, the range of subjects discussed included:

- The strategy of the group in response to changing economic conditions;
- Operational changes arising from the change to a cash conservation strategy;
- Key business areas, including Germany, retirement solutions, residential and funds;
- The group's debt and capital structure;
- The group's financial results;
- Dividend policy;
- Regulatory and governance issues; and
- The development of the group's people.

Five of the meetings were preceded, the evening before, by an informal meeting allowing more time to debate issues in depth. Three of the board meetings were held at the company's head office in Newcastle, two of the board meetings were held in the company's offices in Knightsbridge with the other meetings being held in the company's offices in Birmingham and Putney – giving the board the opportunity to meet staff in a number of locations.

The chairman, together with the company secretary, ensures that the directors receive clear and relevant information on all relevant matters in a timely manner. Board papers are circulated sufficiently in advance of meetings for them to be thoroughly digested in advance of the meeting to ensure clarity of informed debate. The board papers contain the chief executive's written report, high level papers on each business area, key metrics and specific papers relating to agenda items. The board papers are accompanied by a working papers pack containing detailed financial and other supporting information.

The board receives a bi-weekly update throughout the year and occasional ad hoc papers on matters of particular relevance or importance.

Throughout the year the board received presentations from various business units.

Stephen Dickinson did not attend the board meeting held immediately before the Annual General Meeting in February 2009 and Rupert Dickinson was absent from three meetings. Otherwise all directors attended all board meetings.

Changes to the board

There were no appointments to the board in the year. Stephen Dickinson stepped down as a director and as deputy chairman on the conclusion of the Annual General Meeting on 10 February 2009.

The nomination committee consisted throughout the year of Robin Broadhurst as chairman and Robert Hiscox and Bill Tudor John. The nomination committee met in April 2009 to formally review the composition of the board, including the balance between executive and non-executive directors and succession planning.

The terms of reference of the nomination committee are available on the group's website (www.graingerplc.co.uk) or from the company secretary on request. Principally, the nomination committee is responsible for filling vacancies on the board, reviewing the continuation of service of directors required to retire by rotation and succession planning.

Due to the relatively small size of the board, matters which are included in the nomination committee's terms of reference are often discussed by the board as a whole.

Rupert Dickinson, the chief executive, was absent due to ill health throughout the latter part of the year, during which time Andrew Cunningham was acting chief executive. Rupert stood down as a director and as chief executive with effect from 20 October 2009 and Andrew Cunningham has been appointed as chief executive with effect from the same date. Andrew Cunningham continues in the role of finance director but the company is seeking to recruit a new executive finance director to the board. The board is also considering additional appointments of executive directors in the current financial year to strengthen the board and to achieve a better balance between executive and non-executive directors.

Corporate governance report continued

Independence

The following table sets out the board's duly considered view of the independence of the non-executive directors with reference to the criteria set out at A.3.1 of the Combined Code.

Director	Board's determination	Explanatory notes
Robin Broadhurst (Chairman)	Independent	Independent under A.3.1 criteria
Stephen Dickinson (Deputy chairman) (Retired 10 February 2009)	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 (Senior independent director)	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 an estate holding a material shareholding, the board is of the opinion that this position does not interfere with or influence his character or judgement in any way. As chairman of Hiscox Limited, and past deputy chairman of Lloyd's, Mr Hiscox brings extensive skills and experience in his own right, which can only be beneficial to Grainger's board – The estate has reduced its shareholding over the past four years, from 12.5 million shares to 6 million shares
Henry Pitman	Independent	Independent under A.3.1 criteria
Baroness Margaret Ford	Independent	Independent under A.3.1 criteria

The board reviews non-executive director independence on an annual basis and takes into account the individual's professional characteristics, their behaviour at board meetings and their contribution to unbiased and independent debate.

The board consisted of a majority of independent non-executive directors (excluding the chairman) throughout the year. Biographical details of all the current directors are set out on page 23.

Time commitment

The board is satisfied that the chairman and each of the non-executive directors committed sufficient time during the year to fulfilment of their duties as directors of the company. None of the non-executive directors has any conflict of interest which has not been disclosed to the board in accordance with the company's articles of association.

Professional development

The chairman is responsible for ensuring that induction and training are provided to each director and the company secretary organises the induction process and regular updating and training of board members. No new board members were appointed in the year so no induction was necessary. Training and updating as to the business of the group and the legal and regulatory responsibilities of directors was provided by a variety of means to board members, including presentations by executives, visits to business operations and circulation of briefing materials.

Individual directors are also expected to take responsibility for identifying their training needs and to ensure they are adequately informed about the group and their responsibilities as a director.

The board is confident that all its members have the knowledge, ability and experience to perform the functions required of a director of a listed company.

Access to independent advice

All directors have access to the advice and services of the company secretary who ensures that board processes are followed and good corporate governance standards are maintained. Any director who considers it necessary or appropriate may take independent, professional advice at the company's expense. None of the directors sought such advice in the year.

Performance evaluation

Each year the board undertakes a formal evaluation of the performance of the board, its committees and of individual directors. The chairman led the process which was, as in previous years, in the form of a confidential survey completed by all directors in relation to the board and any committee of which they were a member together with a one-to-one meeting between the chairman and each director.

The board considered the merit of using an external body to undertake the performance evaluation process. It concluded that the current approach was most appropriate in the circumstances of the current year but that serious consideration would be given to an external process in the next financial year.

The company secretary collated the evaluation results and these were considered by the chairman and the company secretary. These were positive and indicated that the board, its committees and individual directors were all operating effectively. The chairman's performance was reviewed and his leadership and performance were considered to have been of a high standard.

No major areas were highlighted for consideration from the review but there were recommendations made for continuous improvement in the areas of supply of information and improved access to company management and employees.

Recommendations arising from the 2007/08 evaluation process were implemented in the course of the year, principally in establishing the role of the chief operating officer assumed by Peter Couch.

Re-election of directors

The company's articles of association require the directors to offer themselves for re-election at least once every three years.

At the Annual General Meeting in 2010, both Robin Broadhurst (the chairman) and Robert Hiscox will be proposed for re-election. In the light of the performance evaluations summarised above, the board recommends that both directors be re-elected.

Internal control

The board is responsible for reviewing and approving the group's system of internal control and its adequacy and effectiveness.

The group has a cyclical process for identifying, assessing and managing its significant risks, which has been in place for the full year under review. 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 ultimate 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 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.

Corporate governance report continued

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.

The group's processes for internal control have been in place throughout the year and accord with the Turnbull guidelines (2005). The board regularly reviews the group's processes for internal control and conducts a formal annual review of these processes and the risks relating to the business. No significant failings or weaknesses were identified from this review in the year.

Audit committee and auditor independence

The audit committee consisted throughout the year of John Barnsley as chairman and Henry Pitman and Baroness Ford. The audit committee met four times in the year, in each case with all members of the committee present. John Barnsley has the particular recent, relevant financial experience required by the Combined Code.

The terms of reference of the audit committee are available on the group's website (www.graingerplc.co.uk) or from the company secretary on request.

In addition to the work referred to in the section 'internal control' above, the audit committee is responsible for reviewing the independence and objectivity of the external auditor, and ensuring this is safeguarded notwithstanding any provision of any non-audit services to the group.

The board recognises the importance of safeguarding auditor objectivity and has taken the following steps to ensure that auditor independence is not compromised:

- The audit committee carries out each year a full evaluation of the external auditor as to its complete independence from the group and relevant officers of the group in all material respects and that it is adequately resourced and technically capable to deliver an objective audit to shareholders. Based on this review the audit committee recommends to the board each year the continuation, or removal and replacement, of the external auditor.
- The external auditors provide audit-related services such as regulatory and statutory reporting as well as formalities relating to shareholders and other circulars.
- The external auditors may undertake due diligence reviews and provide assistance on tax and pension matters given its knowledge of the group's businesses. Such provision will, however, be assessed on a case-by-case basis so that the best placed adviser is retained. The audit committee monitors the application of policy in this regard and keeps the policy under review.
- The audit committee reviews on a regular basis all fees paid for audit, and all consultancy fees, with a view to assessing reasonableness of fees, value of delivery, and any independence issues that may have arisen or may potentially arise in the future.
- The auditors' report to the directors and the audit committee confirming their independence in accordance with Auditing Standards.

During the year, £106,000 was paid by the group to PricewaterhouseCoopers for taxation services during the year. The audit committee give careful consideration before appointing the auditors to provide taxation advice and regularly use other providers to ensure that independence and full value for money are achieved. A further £531,000 was paid for due diligence services in respect of the acquisition of FRM and other transactional work. These fees were one-off in nature and are not expected to reoccur.

The audit committee is responsible for reviewing and reporting to the board on the accounting policies and practices of the group and on the annual and half-yearly financial reporting process.

The audit committee reviewed the company's whistle-blowing policy and was satisfied that this meets FSA rules and good standards of corporate governance.

The finance director and external audit partner are invited to attend meetings of the committee. Question and answer sessions were held by the committee with members of staff managing key business areas, including treasury, IT and the retirement solutions business. These sessions assist the committee to question risk in the business and to stay close to staff who have significant control responsibilities.

Once in each year the committee meets with management without the auditors present and also with the auditors without management present.

Relations with shareholders

The company has held over 100 meetings with shareholders, analysts and potential investors in the year in addition to the usual half-yearly results announcements and briefings. Andrew Cunningham, as acting chief executive and finance director, has had the vast majority of these meetings and manages the group's investor relations programme with the head of corporate affairs. Feedback is always sought following such meetings and is presented to the board as a whole and the board is briefed on the views of major shareholders. All the directors intend to 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, annual documents available for download and similar materials. All shareholders have the opportunity to attend the Annual General Meeting, which continues as a route for communication with smaller and 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. Grainger includes, as standard, a 'vote withheld' category, in line with best practice. Shareholders are also able again to lodge their votes through the CREST system.

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.

By order of the board

Nick On
Company secretary
5 November 2009

Report of the remuneration committee and directors' remuneration report

This report meets the disclosure requirements of the Companies Act 2006 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.

The committee comprised three independent non-executive directors throughout the year. Mr Hiscox is a trustee of an estate containing a material shareholding, but having taken this into account the board has reconfirmed its view that Mr Hiscox is independent and a valued contributor to the remuneration committee.

The remuneration committee met formally four times during the year and all members attended every meeting. The committee have also communicated informally during the year.

This year New Bridge Street Consultants LLP ('NBSC') continued to be involved in the set-up and implementation of the LTIP. NBSC have no other connection with the company or its directors as individuals. The committee's terms of reference are available on the group's website (www.graingerplc.co.uk) or on request from the company secretary.

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 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 37. 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 provided.

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.

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 ('LTIS') 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'. 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 £50,000 or earning a bonus in excess of £5,000.

Service contracts

Service contracts were updated during the year to incorporate best practice. 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 R Cunningham	26 July 2000	No fixed term	12 months
Robin Broadhurst	26 February 2004	5 months	3 months
Bill Tudor John	24 February 2005	17 months	3 months
John Barnsley	27 February 2003	29 months	3 months
Robert R S Hiscox	6 March 2002	17 months	3 months
Henry Pitman	1 May 2007	5 months	3 months
Baroness Margaret Ford	3 July 2008	17 months	3 months

*Calculated as at 30 September 2009 and rounded to the nearest whole month.

**Rupert Dickinson retired from the board on 20 October 2009.

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 contracts state an initial one-year period, with a continuation subject to review at that time. The new contracts contain no entitlement to compensation for early termination.

Other directorships

Rupert Dickinson served as a non-executive director of Workspace Group plc throughout the period under review. Andrew Cunningham served as a non-executive director of The Local Shopping REIT plc until 30 September 2009. As in the previous year, both executive directors retained the fees paid to them by the respective organisations. In the year under review, Rupert Dickinson and Andrew Cunningham retained £36,600 and £28,423 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 had part-time executive responsibilities during this period of office, 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, benefit from health and life insurances.

The chairman's and non-executive directors' fees are reviewed on a biennial basis by the whole board. The non-executives agreed that due to market conditions, they would waive an increase for the period starting 1 October 2009, with the next review date set at 1 October 2010.

Report of the remuneration committee and directors' remuneration report continued

Pensions

The group contributed 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

The executive directors, and Stephen Dickinson, deputy chairman during his period of office, were 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 34 and 35.

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. In the financial year ending 30 September 2009, the executive directors, Rupert Dickinson and Andrew Cunningham, participated in an arrangement introduced in 2003 whereby each year a notional provisional bonus amount is calculated 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.

The calculated amount is aggregated with the unpaid notional amounts from previous years and each year the remuneration committee consider the appropriate proportion, if any, of this aggregate notional sum to be approved for payment. The notional balance after any approved payment remains to be taken into account over future years.

Approval of any bonus payment in any year is at the discretion of the remuneration committee. The intention of the remuneration committee is to pay to the relevant executive as bonus in any given year an amount equal to one third of the aggregate unpaid notional amount relating to that executive in that year, subject always to the overriding discretion of the remuneration committee to vary this in the light of performance. In any event, bonuses remain capped at 150% of salary and this could only be achieved under exceptional performance conditions.

Andrew Cunningham was paid a bonus of £124,000 (being one sixth of the relevant aggregated sum) in May 2009 in recognition of his performance and additional responsibilities. No other bonuses have been paid under these arrangements for the year (2008: no bonus paid). No additional provisional bonus amount for the year has been added to unpaid notional amounts from previous years (2008: no amounts added).

As at 30 September 2009, the aggregate unpaid notional amounts to be taken into account going forward were £992,521 in respect of Rupert Dickinson and £619,093 in respect of Andrew Cunningham.

Long-term incentives

Grainger's policy in relation to LTIS 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.

The current LTIS was approved by shareholders 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 and one third dependent upon the increase in absolute total shareholder return ('TSR') as follows:

Average annual growth in NNNAV	Percentage of the NNNAV proportion of an award which will vest
Less than or equal to average weighted average cost of capital ('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%

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.

Fundamentally, it was considered that absolute measures of performance were suitable because Grainger is unusual in nature and has no natural comparator group. Grainger is the only listed company of its size to invest primarily in residential property assets. All other comparably sized property companies are principally commercial or development focused.

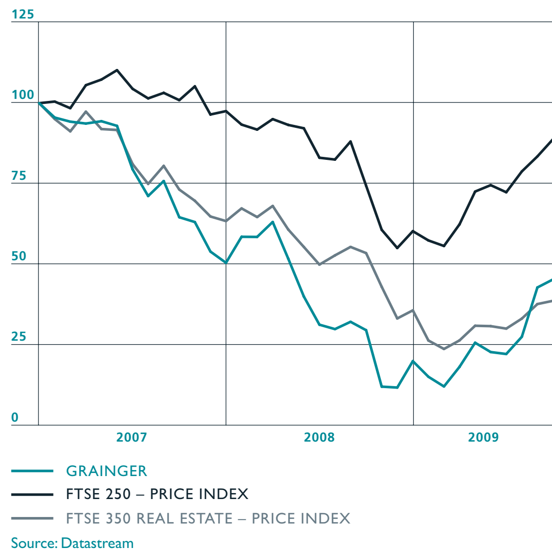
Awards were made under this current scheme on 23 December 2008 and are quantified in the table on page 36.

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

The one prior year award outstanding under the previous LTIS referred to in last year's report lapsed in January 2009.

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 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, albeit that the Real Estate Index comprises mainly commercial property companies.



Source: Datastream

Report of the remuneration committee and directors' remuneration report continued

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

Directors' remuneration

Chairman, deputy chairman and executive directors	Robin Broadhurst £'000	Stephen Dickinson £'000	Rupert Dickinson £'000	Andrew Cunningham £'000	Total £'000
Non-performance-related remuneration					
Salary and fees	120	63	490	370	1,043
Taxable benefits	–	17	12	27	56
Share incentive plan	–	4	6	6	16
Total non-performance-related remuneration	120	84	508	403	1,115
Performance-related remuneration					
Annual discretionary bonus	–	–	–	124	124
Total performance-related remuneration	–	–	–	124	124
Total remuneration for the year ended 30 September 2009	**120**	**84**	**508**	**527**	**1,239**
Total remuneration for the year ended 30 September 2008	120	174	508	400	1,202
Pension contributions into money purchase schemes					
Year ended 30 September 2009	**–**	**–**	**74**	**56**	**130**
Year ended 30 September 2008	–	–	74	56	130

Non-executive directors	John Barnsley £'000	Baroness Margaret Ford £'000	Robert Hiscox £'000	Henry Pitman £'000	Bill Tudor John £'000	Total £'000	Total all directors 2009 £'000
Non-performance-related remuneration							
Salary and fees	50	35	35	35	50	205	**1,248**
Taxable benefits	–	–	–	–	–	–	**56**
Share incentive plan	–	–	–	–	–	–	**16**
Total non-performance-related remuneration	50	35	35	35	50	205	**1,320**
Performance-related remuneration							
Annual discretionary bonus	–	–	–	–	–	–	**124**
Total performance-related remuneration	–	–	–	–	–	–	**124**
Total remuneration for the year ended 30 September 2009	**50**	**35**	**35**	**35**	**50**	**205**	**1,444**
Total remuneration for the year ended 30 September 2008	50	9	35	35	50	179	**1,381**

Stephen Dickinson retired from the board on 10 February 2009.

Rupert Dickinson retired from the board on 20 October 2009. Persuant to the terms of a compromise agreement between Rupert Dickinson and the company relating to his resignation as a director and as chief executive with effect from 20 October 2009 the company has made an aggregate payment to Rupert Dickinson of £2,982,521 (less PAYE deductions).

Baroness Margaret Ford was appointed a non-executive director on 3 July 2008. Prior to her appointment she was paid £8,750 in advisory fees.

GOVERNANCE

Directors' share options

Ordinary shares (thousands)		Rupert Dickinson		Andrew Cunningham		Total	
Dates exercisable	Exercise price	30 Sept 2009	30 Sept 2008	30 Sept 2009	30 Sept 2008	30 Sep 2009	30 Sep 2008
Non-performance-related (available to all staff)							
SAYE scheme							
1 September 2013 to 28 February 2014	£1.678	–	10	–	10	–	20
1 February 2014 to 31 July 2014	£0.652	26	–	26	–	52	–
Performance-related (conditional awards)							
Inland Revenue Approved Executive Share Option Scheme							
23 March 2010 to 23 March 2017	£6.409	5	5	5	5	10	10
Long-term incentive scheme							
12 January 2009 to 12 January 2016 (lapsed)	£5.280	–	104	–	78	–	182
		31	119	31	93	62	212

Performance conditions for options exercisable 12 January 2009 to 12 January 2116 at £5.280 were not met, thus the options lapsed.

The market price of the company's shares at the end of the financial year was £2.98, and the range of the closing mid-market prices during the year was £0.64 to £3.02.

Report of the remuneration committee and directors' remuneration report continued

Directors' share awards

Ordinary shares of 5p each (thousands)			Rupert Dickinson		Andrew Cunningham		Total	
	Award date	Earliest vesting date	30 Sept 2009	30 Sept 2008	30 Sept 2009	30 Sept 2008	30 Sept 2009	30 Sept 2008
Performance-related (conditional awards)								
Long-term incentive scheme								
2005 scheme (lapsed)	12 Jan 2006	12 Jan 2009	–	42	–	31	–	73
2006 scheme	23 Mar 2007	23 Mar 2010	108	108	81	81	189	189
2007 scheme	09 Jan 2008	09 Jan 2011	217	217	164	164	381	381
2008 scheme (granted upon)	23 Dec 2008	23 Dec 2011	597	–	450	–	1,047	–
Matching awards (conditional)	23 Mar 2007	23 Mar 2010	22	22	16	16	38	38
	09 Jan 2008	09 Jan 2011	43	43	33	33	76	76
	23 Dec 2008	23 Dec 2011	119	–	90	–	209	–
			1,106	432	834	325	1,940	757

Performance conditions for the conditional share awards set to vest on 12 January 2009 were not met.

The conditional awards therefore lapsed on this date.

On behalf of the board

Bill Tudor John
Chairman of the remuneration committee

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 30 September 2009.

Principal activities

Grainger plc is a holding company and during the year the group (through subsidiaries of Grainger plc) has continued its activities of property trading and development.

Review of business development and prospects

Development of the group's activities, its prospects and the main trends and factors likely to affect the future development, performance and position of the business are reviewed in the chairman's statement on pages 3 to 5 and the chief executive's review on pages 6 to 8.

Results for the year

The results of the group are set out in the consolidated income statement on page 42 which shows a loss for the financial year attributable to the equity holdings in the group of £122.0m (2008: £77.4m loss).

Dividends

No interim dividend (2008: 2.27p) was paid (2008: total cost £2.9m) and the directors recommend the payment of a final dividend of 3.91p per share (2008: 3.91p), to be paid on 12 February 2010 amounting to £5.3m (2008: £5.3m). Any shareholder wishing to participate in the Dividend Reinvestment Plan for the 2009 final dividend will need to ensure that their application form is returned to our registrars by 23 January 2010.

Directors

The directors of the company who served during the year are listed on page 23.

Directors' and other interests

The interests of the directors in the shares of the company at 30 September 2009 and 4 November 2009, with comparative figures as at 1 October 2008 are as follows:

	Ordinary shares of 5p each (thousands)					
	Beneficial			Non-beneficial		
	1 Oct 2008	30 Sept 2009	4 Nov 2009*	1 Oct 2008	30 Sept 2009	4 Nov 2009*
Robin Broadhurst	9	**26**	26	–	**–**	–
Rupert Dickinson**	1,448	**1,458**	1,458	207	**207**	207
Andrew R Cunningham	507	**512**	512	–	**–**	–
Bill Tudor John	–	**–**	–	–	**–**	–
John Barnsley	28	**46**	46	–	**–**	–
Robert R S Hiscox	30	**50**	50	–	**–**	–
Henry Pitman	26	**451**	451	–	**–**	–
Baroness Margaret Ford	–	**4**	4	–	**–**	–
	2,048	**2,547**	2,547	207	**207**	207

*Or date of resignation, if earlier.

**Resigned 20 October 2009.

Details of directors' share options are given on page 35.

Directors' report continued

Robert Hiscox is one of the trustees for the Viscount Lymington Settlement whose shareholding is referred to below.

Save as disclosed on the previous page, as at 4 November 2009, the company is aware of the following interests amounting to 3% or more in the company's shares:

	Holding 000's	Holding %
Schroder Investment Management Limited*	23,435	16.88
Standard Life Investments Limited	10,113	7.29
BlackRock Investment Management Limited	8,428	6.07
Viscount Lymington Settlement	6,000	4.32
Legal & General Investment Management Limited*	4,307	3.10

*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.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether IFRS as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the group and parent company financial statements respectively; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the directors, whose names and functions are listed on page 23 confirm that, to the best of their knowledge:

- The group financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the group;
- The operating review on pages 9 to 13 includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that it faces;
- So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware; and
- The directors have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the UK governing of the preparation and dissemination of financial statements may differ from legalisation in other jurisdictions.

Corporate governance

A report on matters of corporate governance is set out on pages 24 to 29 of this annual report.

Environmental matters and social and community issues

Details of these are contained within the corporate responsibility statement set out on pages 18 to 22 of this annual report.

Insurance of directors

The company has put in place insurance to cover its directors and officers against the costs of defending themselves in civil legal proceedings taken against them in that capacity and in respect of damages awarded in such proceedings. Following shareholder approval the group maintains insurance for Grainger plc's directors in respect of the duties as director, which is a qualifying third-party indemnity provision for the purposes of the Companies Act 2006.

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 2009 relating to purchases of property stock generally complete 28 days after exchange of contracts. The company has no trade creditors. Trade creditor days of the group were calculated as 18 days (2008: 19 days).

Financial risk management

Details of this are included in note 25 to the financial statements.

Charitable donations

During the year the group made charitable donations amounting to £12,577 (2008: £28,495).

Health and safety

The group seeks to achieve the highest standards in respect of health and safety of employees and tenants. Consultants are employed to ensure that the group 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.

Employment of disabled persons

The group 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 group continues and that appropriate training is arranged where necessary. It is the policy of the group 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.

Independent auditors and disclosure of information to 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 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.

Directors' report continued

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 and the group will be proposed at the next Annual General Meeting.

Shares

As disclosed in note 31 to the financial statements, the company issued 10,082,019 5p ordinary shares, of which 10,081,013 related to the conversion of £87.1m of convertible bonds as referred to in note 33 to the financial statements, and the balance of 1,006 to the company's SAYE share scheme. The company also bought back 194,987 5p ordinary shares for total consideration of £209,850, which were put into treasury. A further 626,489 5p ordinary shares were transferred out of treasury into an Employee Benefit Trust. At 30 September 2009, the directors had unexpired power to repurchase up to 13,834,410 shares.

Change of control

On a change of control, the club bank facilities (described in note 26 to the financial statements) would become repayable had prior consent not been obtained, or the debt had not been renegotiated within 45 days. There are no other material matters relating to a change of control of the company following a takeover bid.

Post balance sheet events

Grainger plc has announced, at the same time as these financial statements have been approved, its intention to raise approximately £250m (approximately £238m net of expenses) by way of a 2 for 1 Rights Issue up to 277,628,724 new shares. The group has determined to raise additional equity finance to improve its balance sheet leverage ratios, reduce the overall cost and size of its debt and to enable it to move from its current position of cash conservation to recommence active trading as opportunities arise.

By order of the board

Nick On
Company secretary
5 November 2009

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 2009 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. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRS') as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out in the directors' report, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the group financial statements:

- Give a true and fair view of the state of the group's affairs as at 30 September 2009 and of its loss and cash flows for the year then ended;
- Have been properly prepared in accordance with IFRS as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit; or
- A corporate governance report has not been prepared by the parent company.

Under the Listing Rules we are required to review:

- The directors' statement, set out in the corporate governance report, in relation to going concern; and
- The part of the corporate governance report relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on the parent company financial statements of Grainger plc for the year ended 30 September 2009 and on the information in the report of the remuneration committee and directors' remuneration report that is described as having been audited.

Bowker Andrews (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
5 November 2009

Consolidated income statement

For the year ended 30 September 2009	Notes	2009 £m	2008 £m
Group revenue		302.2	246.2
Net rental income	5	38.5	37.7
Profit on disposal of trading properties	6	44.9	62.6
Administrative expenses	8	(8.9)	(6.2)
Other income	9	7.3	9.2
Goodwill impairment	22	(2.9)	(9.6)
(Loss)/profit on disposal of investment property	7	(1.1)	0.6
Profit on disposal of shares in subsidiary	10	–	3.5
Interest expense from financial interest in property assets	21	(4.7)	(0.9)
Write down of inventories to net realisable value	23	(18.4)	(12.3)
Provision for impairment of loans receivable	20, 24	(19.6)	–
Operating profit before net valuation deficits on investment properties		35.1	84.6
Net valuation deficits on investment properties	17	(25.6)	(43.1)
Operating profit after net valuation deficits on investment properties		9.5	41.5
Change in fair value of derivatives	25	(38.7)	(11.5)
Interest expense and similar charges	13	(107.1)	(96.1)
Interest income	13	5.2	7.1
Inducement costs and expenses on convertible bond	26	(31.1)	–
Share of loss of associates after tax	19	(6.4)	(14.0)
Share of loss of joint ventures after tax	20	(1.4)	(39.1)
Loss before tax	12	(170.0)	(112.1)
Taxation – current		10.8	(5.7)
Taxation – deferred		37.2	40.4
Tax credit for the year	14	48.0	34.7
Loss for the year attributable to equity shareholders		(122.0)	(77.4)
Basic loss per share	16	(89.8)p	(61.0)p
Diluted loss per share	16	(89.8)p	(61.0)p
Dividend per share	15	3.91p	6.18p

All of the above results relate to continuing operations.

Consolidated statement of recognised income and expense

For the year ended 30 September 2009	Notes	2009 £m	2009 £m	2008 £m	2008 £m
Loss for the year			(122.0)		(77.4)
Actuarial (loss)/gain on BPT Limited defined benefit pension scheme net of tax	28, 33	(2.9)		0.3	
Fair value movement on available-for-sale financial asset net of tax	33	1.9		–	
Net exchange adjustments offset in reserves net of tax	33	0.6		0.8	
Changes in fair value of cash flow hedges net of tax	25, 33	(47.0)		(2.8)	
Net expense recognised directly in equity			(47.4)		(1.7)
Total recognised income and expense for the year and since the last report attributable to equity shareholders			(169.4)		(79.1)

Consolidated balance sheet

As at 30 September 2009	Notes	2009 £m	2008 £m
ASSETS			
Non-current assets			
Investment property	17	654.3	619.3
Property, plant and equipment	18	1.9	2.3
Investment in associates	19	24.5	51.6
Investment in joint ventures	20	80.7	90.8
Financial interest in property assets	21	109.1	121.2
Goodwill	22	5.9	8.0
		876.4	893.2
Current assets			
Investment in associates	19	8.7	–
Inventories – trading properties	23	1,015.6	1,142.2
Trade and other receivables	24	20.0	23.0
Derivative financial instruments	25	0.2	11.9
Cash and cash equivalents	26	28.3	43.2
		1,072.8	1,220.3
Total assets		1,949.2	2,113.5
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	26	1,557.0	1,635.4
Trade and other payables	27	4.0	4.0
Retirement benefits	28	5.8	2.1
Provisions for other liabilities and charges	27	0.9	1.0
Deferred tax liabilities	14, 29	21.1	78.4
		1,588.8	1,720.9
Current liabilities			
Interest-bearing loans and borrowings	26	19.9	17.9
Trade and other payables	30	88.1	80.1
Current tax liabilities	14	24.4	51.4
Derivative financial instruments	25	99.5	13.4
		231.9	162.8
Total liabilities		1,820.7	1,883.7
Net assets		128.5	229.8

As at 30 September 2009	Notes	2009 £m	2008 £m
EQUITY			
Capital and reserves attributable to the company's equity holders			
Issued share capital	31, 33	6.9	6.4
Share premium	33	109.7	23.1
Merger reserve	33	20.1	20.1
Capital redemption reserve	33	0.3	0.3
Cash flow hedge reserve	33	(41.6)	5.4
Equity component of convertible bond	33	5.0	22.4
Available-for-sale reserve	33	1.9	–
Retained earnings	33	26.1	152.0
Total shareholders' equity	33	128.4	229.7
Equity minority interests		0.1	0.1
Total equity		128.5	229.8

The financial statements on pages 42 to 105 were approved by the board of directors on 5 November 2009 and were signed on their behalf by:

Andrew R Cunningham
Director

FINANCIALS

Statement of consolidated cash flows

For the year ended 30 September 2009	Notes	2009 £m	2008 £m
Cash flow from operating activities			
Loss for the year		(122.0)	(77.4)
Depreciation	18	0.8	0.8
Impairment of goodwill	22	2.9	9.6
Net valuation deficits on investment properties	17	25.6	43.1
Gain on acquisition of subsidiary		–	(0.5)
Net finance costs	13	101.9	89.0
Share of loss of associates and joint ventures	19, 20	7.8	53.1
Loss/(profit) on disposal of investment property	7	1.1	(0.6)
Provision for impairment of loans receivable	20, 24	19.6	–
Inducement costs on convertible bond	26	31.1	–
Profit on disposal of shares in subsidiary	10	–	(3.5)
Share-based payment charge	32	0.8	0.5
Change in fair value of derivatives	25	38.7	11.5
Interest expense from financial interest in property assets	21	4.7	0.9
Taxation	14	(48.0)	(34.7)
Operating profit before changes in working capital		65.0	91.8
Decrease in trade and other receivables		1.4	2.9
Decrease in trade and other payables		(22.9)	(0.3)
Decrease/(increase) in trading properties		126.9	(79.4)
Cash generated from operations		170.4	15.0
Interest paid		(77.9)	(92.4)
Taxation paid	14	(16.2)	(0.2)
Net cash inflow/(outflow) from operating activities		76.3	(77.6)
Cash flow from investing activities			
Proceeds from sale of investment property	7	8.8	7.4
Proceeds from financial interest in property assets	21	10.1	9.5
Disposal of subsidiary net of cash disposed of		–	3.7
Redemption of units in associate	19	7.6	–
Interest received		1.9	3.8
Dividends/distributions received	19	0.4	2.5
Acquisition of subsidiaries, net of cash acquired	22	(0.8)	(29.1)
Investment in associates and joint ventures		(4.8)	(11.0)
Acquisition of investment property and property, plant and equipment		(5.1)	(51.9)
Acquisition of minority interests		–	(6.7)
Net cash inflow/(outflow) from investing activities		18.1	(71.8)

For the year ended 30 September 2009	Notes	2009 £m	2008 £m
Cash flows from financing activities			
Proceeds from the issue of share capital	33	–	0.1
Purchase of own shares	33	(0.4)	(1.0)
Inducement payment to convertible bondholders	26	(31.1)	–
Proceeds from new borrowings		11.6	131.4
Repayment of borrowings		(86.0)	(11.0)
Dividends paid	15	(5.3)	(8.1)
Payment to defined benefit pension scheme	28	(0.5)	–
Net cash (outflow)/inflow from financing activities		(111.7)	111.4
Net decrease in cash and cash equivalents		(17.3)	(38.0)
Cash and cash equivalents at beginning of year	26	43.2	80.1
Net exchange movements on cash and cash equivalents		2.4	1.1
Cash and cash equivalents at end of year	26	28.3	43.2

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 113. 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 European Union endorsed International Financial Reporting Standards ('IFRS'), IFRIC interpretations and those parts of the Companies Act 2006 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 107 to 111.

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, defined benefit pension scheme and share-based payments.

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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.

b) 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.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

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 acquisition of joint ventures and associates is included in investments 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. Impairment losses on goodwill are not reversed. 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.

1 Accounting policies continued

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.

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.

iv Transactions with minority interests

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains or losses for the group that are recorded in the income statement. On acquisition of minority interests, where the consideration paid exceeds the relevant share acquired of the carrying value of net assets of the subsidiary the difference is recorded in equity as a deduction from retained earnings.

c) Segmental reporting

The group's risks and rates of return are affected predominantly by differences between the property asset types it owns and manages. A business segment is a distinguishable group of assets and operations, reflected in the way that the group manages its business, that is subject to risks and returns that are different from those of other business segments.

The group has identified six such segments as follows:

- Core portfolio;
- Retirement solutions;
- Fund management/residential investments;
- Development;
- European tenanted residential; and
- European development.

All of the above segments are UK based except European tenanted residential which has its assets and tenants based in Germany and European development which has its assets based in the Czech Republic. More detail is given relating to each of the above segments, and their geographical split in the chief executive's review on pages 6 to 8 of this document and in note 4.

d) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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 group'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 into 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.

iv Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity within the translation reserve as part of retained earnings. Any gain or loss relating to the ineffective portion is recognised in the income statement within other interest payable. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

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.

Notes to the financial statements continued

1 Accounting policies continued

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 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.

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.

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 subsequently carried at fair value. Subsequent to initial recognition, the net change in value is recorded through the income statement as follows: i) the carrying value of the asset is increased by the effective interest rate and ii) the carrying value of the asset is revised to the net present value of the revised cash flows arising from the instrument using the effective interest rate applicable at acquisition. The change in value recorded through the income statement is shown on the line 'interest income/expense from financial interest in property assets'.

Differences between the 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.

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 segment 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 costs net of amounts transferred to costs of sale. Net realisable value is the expected net sales proceeds of the developed property.

Where residential properties are sold tenanted or where land is sold without development, net realisable value is the current market value net of associated selling costs.

1 Accounting policies continued

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 and deferred tax

Income tax on the profits or losses 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.

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 are reflected in the income statement each year. Actuarial gains and losses net of deferred income tax are reflected in the consolidated statement of recognised income and expense each year.

iii Share-based compensation

The group operates a number of equity-settled, share-based compensation plans comprising awards under a long-term incentive scheme ('LTIS'), a share incentive plan 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. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares and options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement with a corresponding adjustment to equity.

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

Notes to the financial statements continued

1 Accounting policies continued

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 Management fee income

Management fee income is recognised in the accounting period in which the services are rendered.

iii Service charges

The group is responsible for providing service charge services in both the UK and in Germany. Where Grainger is exposed to the significant risks and rewards associated with the rendering of services it is acting as principal. Otherwise it is acting as agent.

In the UK, Grainger acts primarily as agent. Accordingly, service charge income and costs are shown net in the balance sheet. Where recovery of service charges is doubtful a provision for impairment is made. Any management fees earned are recognised in the income statement on an accruals basis.

In Germany, Grainger acts primarily as principal. Accordingly, service charge income and costs are shown gross in the income statement with service charge recoveries from tenants recorded as a component of group revenue. Where recovery of service charges is doubtful a provision for impairment is made.

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, 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 revised on an actuarial basis and the remaining deferred rent is released to the income statement on a straight-line basis over this revised 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 of 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

i 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. Derivatives are classified as current assets and current liabilities.

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.

1 Accounting policies continued

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.

ii Fair value estimation

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

iii 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) Convertible bond

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 based on 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.

s) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate 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.

Notes to the financial statements continued

1 Accounting policies continued

t) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

u) 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.

v) Dividends

Dividend distributions to the company's shareholders are recognised as a liability in the consolidated financial statements in the period in which the dividends either are approved by the company's shareholders or are appropriately authorised and no longer at the discretion of the group.

w) 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.

x) 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 33).

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.

y) 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 to existing standards that have been published but which are not yet effective and which have not been early adopted by the group. These are as follows:

- IFRS 8 'Operating Segments' (effective from 1 January 2009). IFRS 8 amends the current segmental reporting requirements of IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131. It 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 23 'Borrowing Costs' (effective from 1 January 2009). 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.
- Amendments to IFRS 3 'Business Combinations' (effective from I July 2009) and IAS 27 'Consolidated and Separate Financial Statements' (effective from 1 January 2009). The amendment to both of these standards is still subject to endorsement by the European Union. Some of the key changes are: i) the requirement to measure all consideration at fair value at acquisition date, with any subsequent changes (for example, contingent consideration) remeasured at fair value through income ii) the expensing of all transaction costs iii) stepped acquisitions to be accounted for as a disposal of existing interests and an acquisition of an enlarged interest, giving rise to potential profits or losses on disposal of the existing interest.

1 Accounting policies continued

- Amendment to IAS 1 'Presentation of Financial Statements' (effective from 1 January 2009). The amendment requires the introduction of a Statement of Comprehensive Income along with voluntary changes in the titles of some of the financial statements and the requirement to aggregate information in the financial statements on the basis of shared characteristics. The statement of changes in equity will become a primary statement in the group's results.

The following interpretations to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2009 or later periods but are not expected to have any material impact on the financial statements of the group:

- IFRIC 13 'Customer Loyalty Programmes'. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the group's operations because none of the group companies operate any loyalty programmes.
- IFRIC 15 'Agreements of Construction on Real Estate'. IFRIC 15 standardises accounting practices across jurisdictions for the recognition of revenue by real estate developers for sales of units before construction is complete. IFRIC 15 is not considered to have a material impact on the group's results.
- IAS 32 'Financial Instruments Presentation'. Amendments to IAS 32 classify puttable financial instruments as equity provided they have particular features and meet specific conditions. IAS 32 is not relevant to the group's operations as the group does not hold any such financial instruments.
- IAS 39 'Financial Instruments: Recognition and Measurement'. Amendments to IAS 39 regarding eligible hedged items clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not applicable to the group as no reclassifications of financial instruments are to be carried out.

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.

Property valuations

After a review by the directors, the valuations performed by the group's own in-house qualified surveying team are used to value the UK-based property as at 30 September 2009. A structured sample of the in-house valuations are checked by Allsop LLP, an external independent valuer. Allsop LLP has provided the directors with the following opinion on the directors' valuation of the group's UK property, "Property held in the core residential and retirement solutions portfolios was valued as at 30 September 2009 by Grainger's in-house surveyors. These valuations were reviewed and approved by the directors. Allsop LLP has undertaken a comprehensive review of the directors' valuation and they are satisfied with the process by which the in-house valuations were conducted. As part of the review, Allsop LLP valued approximately 50% of the core residential portfolio and approximately 31% of the retirement solutions portfolio, independently of the group. Allsop LLP has concluded that they have a high degree of confidence in the totals reported by the directors in the core residential and retirement solutions portfolios."

Notes to the financial statements continued

2 Critical accounting estimates and assumptions continued

Valuing the large number of properties in the portfolio is a significant task. For this reason, and because we have no right to internal access, it is undertaken on an external inspection basis only. Invariably, when the 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 this is discussed with the valuer to determine the reasons for the difference. Typically the reasons vary but it could be, for example, that further or better information about internal condition is available or that respective valuers have placed a different interpretation on comparable sales. Once such reasons have been identified the group and the valuer agree the appropriate valuation that should be adopted.

i Investment property

Investment property in the UK portfolio is valued as set out under property valuations above.

The net deficit on valuation of the core and retirement solutions portfolios as at 30 September 2009 was £14.7m and this has been taken through the income statement.

As at 30 September 2009, Cushman & Wakefield LLP and Jones Lang LaSalle GmbH, both external valuers, have valued separate parts of the portfolio in Germany. Cushman & Wakefield LLP valued property with a value of €346.4m (£316.7m) and Jones Lang LaSalle valued property with a value of €168.0m (£153.6m).

The net deficit on valuation of investment property in the German portfolio as at 30 September 2009 was £10.9m and this has been taken through the income statement.

Whilst in the UK valuers rely predominantly on recent transactional evidence for similar properties to value investment property, in Germany investment property is valued using an income capitalisation approach under which net rental income is discounted to a net present value. Both methodologies are permitted under IAS 40.

The group also has investments in joint ventures and associates which include investment property. Investment property held in Grainger GenInvest LLP and Grainger GenInvest No.2 (2006) LLP, in both of which Grainger has a 50% share, were valued by an external valuer, Martin Angel FRICS, of Allsop LLP. He has provided the directors of those entities with the following opinion. "The valuations of the portfolios were made in accordance with the requirements of the RICS Valuation Standards sixth edition and International Valuation Standards. The valuation of each portfolio was on the basis of market value, subject to the assumption that the properties would be sold individually, in their existing condition, and subject to any existing leases or tenancies. In aggregate, across both entities, the valuation of the investment property was £279.7m. Allsop LLP is satisfied that, in respect of this valuation, market value is the same as fair value. The valuers opinion of market value was primarily derived using comparable recent market transactions on arm's length terms. However, although there has been reasonable activity in the market for properties subject to Regulated Tenancies, there have been lower than usual volumes of recent market transactional evidence, in particular for vacant properties and properties subject to Assured Shorthold Tenancies. In line with the guidance to valuers under GN5 of the RICS Valuation Standards, Allsop LLP has stated to the directors that valuations of some individual dwellings may be subject to a lower level of confidence than is normal. However, when taken in aggregate, and reported as such, Allsop LLP has concluded that individual differences in value are likely to be smoothed out across the whole portfolio and would not materially affect our valuation."

The group's share of the investment property across both GenInvest entities of £139.9m represents only 6% of the total market value of the group's total interest in property assets at 30 September 2009.

The group has a 21.63% interest in G:res which has invested in investment property. Valuations of 100% of the G:res portfolio were carried out jointly as at 31 December 2008 and 30 June 2009 by external valuers, Allsop LLP and DTZ Debenham Tie Leung Limited. In aggregate, the valuation of investment property at 30 June 2009 was £346.2m. Other than for sales and purchases, no adjustment has been made to these valuations in the group's accounts to 30 September 2009.

The group has a 21.8% share in Schroders Residential Property Unit Trust (ResPUT). Investment property in this Fund was valued at £40.0m by Allsop LLP as at 30 September 2009.

2 Critical accounting estimates and assumptions continued

Net realisable value of trading property

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 qualified surveying team. As stated above, a structured sample of the in-house valuations was checked by Allsop LLP, an external independent valuer.

As the group's business model is to sell trading stock on vacancy, net realisable value is the net sales proceeds which the group expects on sale of a property with vacant possession. A net realisable value provision has been made at 30 September 2009 to write down properties expected to be sold ultimately at vacant possession value. For properties expected to be held beyond the immediate future, the provision has been assessed on what the group considers to be prudent assumptions. These allow for a further decline in property prices in 2010 followed by a period of stable prices with price increases thereafter in line with conservative historical house price growth rates. The group does sell some property as investment sales, a sale with the tenant still in situ. A net realisable value provision has been made at 30 September 2009 against projected investment sales.

In aggregate a charge of £4.4m has been made in the 2009 income statement to reduce the book value of trading properties to the lower of cost and net realisable value.

Land and property held within the development segment of the business, including house-building sites, are shown in the financial statements at the lower of cost and net realisable value. Net realisable value is the expected net sales proceeds of the developed property and a provision is made when, and to the extent that, total projected project costs exceed total projected project revenues.

Where land is sold without development, net realisable value is the current market value net of associated selling costs.

Decisions regarding whether to develop a site or to sell a site undeveloped are made by the directors based on market conditions prevailing at the time. The assumptions adopted as at 30 September 2009 are based upon the current intentions of the directors. In addition, estimates at 30 September 2009 of project profitability are based on assumptions regarding projected build costs and sales proceeds for those sites where development is expected to occur. In some cases these projections are made without the benefit of planning permission having been agreed. The assumptions made may or may not be borne out in practice. It is possible therefore that the net realisable value provision required should be more than or less than that made.

A charge of £14.0m has been made in the 2009 income statement to reduce the book value of development stock to net realisable value.

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) on page 50. The key assumptions affecting the carrying value are house price inflation and the effective interest rate.

The assumptions adopted with regard to house prices are the same as those set out under 'net realisable value of trading property' above. A change of 1% to average house price inflation over the 10-year period from 1 October 2009 would either increase the valuation by £7.4m or reduce the valuation by £6.7m.

Consideration has been given to the effective interest rate to adopt for the valuation. We have concluded that the effective interest rate should be reduced by 0.35% as at 30 September 2009. A 1% change to the discount rate would either increase the carrying value by £8.1m or reduce the carrying value by £7.3m.

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.

Notes to the financial statements continued

2 Critical accounting estimates and assumptions continued

Income taxes

There are some transactions and calculations that involve a degree of estimation and judgement and whose tax treatment cannot 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.

Goodwill impairment

Goodwill can arise when a portfolio is acquired on the acquisition of a corporate entity accounted for as a business combination. The goodwill 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 taxation cash flows will arise in future years and the discounted value of these cash flows is significantly less than the tax actually provided. The cash-generating unit for impairment testing is the portfolio acquired in the relevant entity and a goodwill impairment loss arises if the carrying amount of the portfolio exceeds the value in use which is determined as the present value of the future cash flows arising.

The goodwill impairment charge in the core business in 2009 relating to taxation as described above was £2.2m. The key sensitivities relating to the goodwill impairment testing are the discount rate used and the expected hold period for the assets concerned.

The discount rate used is a post-tax weighted average cost of capital of 4.83%, a post-tax rate as the cash flows being discounted are tax payments. A 1% increase in the discount rate would reduce the impairment charge by £0.8m whilst a 1% decrease would increase the impairment charge by £0.9m.

The hold periods used for the assets, and over which the cash flows have been discounted, are dependent upon the classification of assets between investment property and trading stock and the different property tenures. For instance, regulated properties are likely to be sold on vacancy whereas an assured shorthold property held as an investment property is more likely to be held for long-term investment gains and rental income. The hold periods used in the impairment calculations range from 11 years to 15 years. If the average hold period was changed by one year the impairment charge would either be reduced or increased by £0.3m.

In addition to the above, goodwill of £0.7m arose in the year from the acquisition of FRM in 2008. Additional legal and professional costs were incurred during the year relating to the group's acquisition of the remaining shares from the minority interest. This goodwill has been fully impaired in the income statement.

Going concern

The directors are required to make an assessment of the group's ability to continue to trade as a going concern. The two main considerations were as follows:

i Refinancing of banking facilities

The group announced on 30 September 2009 that two new forward start facilities totalling £615m had been finalised to refinance the group's £400m facility maturing in June 2010 and £475m facility maturing in June 2011. These two latter facilities have been reduced to £250m and £445m respectively by using short-term committed but undrawn facilities. As a result of the above, the group has no core debt facilities maturing in its 2010 financial year. A total of £109m matures in the group's 2011 financial year.

As demonstrated this year, the group is able to generate strong cash inflows even in very difficult market conditions.

ii Covenant compliance

The core facility has two covenants, both unchanged by the new facilities, covering loan to value ('LTV') ratio and interest cover. The group has remained well within both of these covenants during the year. At 30 September 2009 the LTV ratio on the core facility was 66%; an LTV of 80% could lead to default. The interest cover ratio was 2.7 times against a minimum requirement of 1.25 times.

The group's financial forecasts confirm that, in the absence of unforeseen circumstances, the group will operate within its banking facilities and also remain compliant with its covenants for at least the next 12 months.

On the basis of the above, 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.

3 Analysis of loss before tax

The results for the year have been significantly affected by valuation movements and non-recurring charges. The table below provides further analysis of the income statement showing the results of trading activities separately from these items.

	2009				2008		
	Trading £m	Valuation £m	Non-recurring £m	Total £m	Trading £m	Valuation £m	Total £m
Group revenue	302.2	–	–	302.2	246.2	–	246.2
Net rental income	40.2	–	(1.7)	38.5	37.7	–	37.7
Profit on disposal of trading properties	45.3	–	(0.4)	44.9	62.6	–	62.6
Administrative expenses	(8.2)	–	(0.7)	(8.9)	(6.2)	–	(6.2)
Other income	7.3	–	–	7.3	8.7	0.5	9.2
Goodwill impairment	–	(2.9)	–	(2.9)	–	(9.6)	(9.6)
(Loss)/profit on disposal of investment properties	(1.1)	–	–	(1.1)	0.6	–	0.6
Profit on disposal of shares in subsidiary	–	–	–	–	3.5	–	3.5
Interest expense from financial interest in property assets	(4.7)	–	–	(4.7)	(0.9)	–	(0.9)
Write down of inventories to net realisable value	–	(18.4)	–	(18.4)	–	(12.3)	(12.3)
Provision for impairment of loans receivable	–	(19.6)	–	(19.6)	–	–	–
Operating profit before net valuation deficits on investment properties	78.8	(40.9)	(2.8)	35.1	106.0	(21.4)	84.6
Net valuation deficits on investment properties	–	(25.6)	–	(25.6)	–	(43.1)	(43.1)
Operating profit after net valuation deficits on investment properties	78.8	(66.5)	(2.8)	9.5	106.0	(64.5)	41.5
Change in fair value of derivatives	–	(38.7)	–	(38.7)	–	(11.5)	(11.5)
Interest expense and similar charges	(84.5)	–	(22.6)	(107.1)	(96.1)	–	(96.1)
Interest income	5.2	–	–	5.2	7.1	–	7.1
Inducement costs and expenses on conversion of bond	–	–	(31.1)	(31.1)	–	–	–
Share of loss of associates after tax	0.2	(6.6)	–	(6.4)	0.2	(14.2)	(14.0)
Share of loss of joint ventures after tax	(3.1)	1.7	–	(1.4)	(5.0)	(34.1)	(39.1)
Loss before tax	(3.4)	(110.1)	(56.5)	(170.0)	12.2	(124.3)	(112.1)

4 Segmental information

As at 30 September 2009 the group is organised into the six segments as set out in the tables below. All of the segments have their assets and undertake their business in the UK except European tenanted residential which has its assets and tenants in Germany and European development which has its assets and undertakes its business in the Czech Republic.

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

Notes to the financial statements continued

4 Segmental information continued

2009 Income statement (£m)	Core portfolio	Retirement solutions	Fund management/ residential investments	Development	European tenanted residential	European development	Unallocated	Group total 30 September 2009
Group revenue	180.0	24.1	5.7	48.2	44.2	–	–	302.2
Net rental income	21.0	4.3	(0.4)	1.1	12.5	–	–	38.5
Profit on disposal of trading properties	35.5	4.4	–	5.0	–	–	–	44.9
Administrative expenses	–	–	–	–	–	–	(8.9)	(8.9)
Other income	0.9	0.1	5.7	0.1	0.5	–	–	7.3
Goodwill impairment	(2.2)	–	–	–	(0.7)	–	–	(2.9)
Profit/(loss) on disposal of investment property	0.3	(0.3)	–	–	(1.1)	–	–	(1.1)
Interest expense from financial interest in property assets	–	(4.7)	–	–	–	–	–	(4.7)
Write down of inventories to net realisable value	(4.4)	–	–	(14.0)	–	–	–	(18.4)
Provision for impairment of loans receivable	–	–	(9.2)	(5.7)	–	–	(4.7)	(19.6)
Operating profit/(loss) before net valuation deficits on investment properties	51.1	3.8	(3.9)	(13.5)	11.2	–	(13.6)	35.1
Net valuation deficits on investment properties	(5.2)	(9.5)	–	–	(10.9)	–	–	(25.6)
Operating profit/(loss) – segment result	45.9	(5.7)	(3.9)	(13.5)	0.3	–	(13.6)	9.5
Change in fair value of derivatives								(38.7)
Interest expense and similar charges								(107.1)
Interest income								5.2
Inducement costs and expenses on conversion of bond								(31.1)
Share of loss of associates after tax								(6.4)
Share of loss of joint ventures after tax								(1.4)
Loss before tax								(170.0)
Included in the above analysis are the following non-cash expenses:								
Depreciation	(0.6)	(0.1)	–	–	–	–	(0.1)	(0.8)
Share-based payments	(0.1)	(0.2)	–	–	–	–	(0.5)	(0.8)

The share of loss of associates after tax of £6.4m is all attributable to fund management/residential investments.

Of the share of loss of joint ventures after tax of £1.4m, a loss of £0.8m is attributable to fund management/residential investments, a loss of £0.6m is attributable to development, a loss of £0.2m is attributable to European development and a profit of £0.2m is attributable to European tenanted residential.

4 Segmental information continued

2008 Income statement (£m)	Core portfolio	Retirement solutions	Fund management/ residential investments	Development	European tenanted residential	European development	Unallocated	Group total 30 September 2008
Group revenue	181.0	25.7	6.3	11.3	21.9	–	–	246.2
Net rental income	21.3	4.6	–	1.0	10.8	–	–	37.7
Profit on disposal of trading properties	58.4	7.3	–	(3.1)	–	–	–	62.6
Administrative expenses	3.6	–	(3.6)	–	–	–	(6.2)	(6.2)
Other income	2.4	–	6.3	–	0.5	–	–	9.2
Goodwill impairment	(6.3)	(3.3)	–	–	–	–	–	(9.6)
Profit on disposal of investment property	0.5	–	–	–	0.1	–	–	0.6
Profit on disposal of shares in subsidiary	–	–	–	–	–	3.5	–	3.5
Interest expense from financial interest in property assets	–	(0.9)	–	–	–	–	–	(0.9)
Write down of inventories to net realisable value	(3.1)	–	–	(9.2)	–	–	–	(12.3)
Operating profit/(loss) before net valuation deficits on investment properties	76.8	7.7	2.7	(11.3)	11.4	3.5	(6.2)	84.6
Net valuation deficits on investment properties	(20.7)	(13.8)	–	–	(8.6)	–	–	(43.1)
Operating profit/(loss) – segment result	56.1	(6.1)	2.7	(11.3)	2.8	3.5	(6.2)	41.5
Change in fair value of derivatives								(11.5)
Interest expense and similar charges								(96.1)
Interest income								7.1
Share of loss of associates after tax								(14.0)
Share of loss of joint ventures after tax								(39.1)
Loss before tax								(112.1)
Included in the above analysis are the following non-cash expenses:								
Depreciation	(0.6)	(0.1)	–	(0.1)	–	–	–	(0.8)
Share-based payments	(0.1)	(0.1)	–	(0.1)	–	–	(0.2)	(0.5)

Of the share of loss of associates after tax of £14.0m, a loss of £14.2m is attributable to fund management/residential investments and a profit of £0.2m is attributable to European development.

Of the share of loss of joint ventures after tax of £39.1m, £38.1m is attributable to fund management/residential investments, £0.8m is attributable to development and £0.2m is attributable to European development.

Notes to the financial statements continued

4 Segmental information continued

2009 Segment assets (£m)	Core portfolio	Retirement solutions	Fund management/ residential investments	Development	European tenanted residential	European development	Group total 30 September 2009
Assets							
Investment property	95.4	88.6	–	–	470.3	–	654.3
Investment in associates	–	–	33.2	–	–	–	33.2
Investment in joint ventures	–	–	68.1	1.1	3.0	8.5	80.7
Financial interest in property assets	–	109.1	–	–	–	–	109.1
Goodwill	5.9	–	–	–	–	–	5.9
Inventories – trading properties	686.8	239.8	–	87.2	1.8	–	1,015.6
Trade and other receivables	3.0	1.3	7.2	1.4	4.5	0.9	18.3
Cash and cash equivalents	0.4	2.0	–	0.3	11.9	0.2	14.8
Total segment assets	791.5	440.8	108.5	90.0	491.5	9.6	1,931.9
Unallocated assets							
Property, plant and equipment							1.9
Derivative financial instruments							0.2
Trade and other receivables							1.7
Cash and cash equivalents							13.5
Total assets							1,949.2
Liabilities							
Interest-bearing loans and borrowings	–	35.4	–	–	321.4	–	356.8
Trade and other payables	3.1	28.0	–	11.9	9.9	–	52.9
Total segment liabilities	3.1	63.4	–	11.9	331.3	–	409.7
Unallocated liabilities							
Interest-bearing loans and borrowings							1,220.1
Trade and other payables							39.2
Retirement benefits							5.8
Current tax liabilities							24.4
Provisions for other liabilities and charges							0.9
Deferred tax liabilities							21.1
Derivative financial instruments							99.5
Total liabilities							1,820.7
Net assets							128.5
Other unallocated items							
Capital expenditure on property, plant and equipment	–	–	–	–	–	–	0.4

4 Segmental information continued

2008 Segment assets (£m)	Core portfolio	Retirement solutions	Fund management/ residential investments	Development	European tenanted residential	European development	Group total 30 September 2008
Assets							
Investment property	104.2	99.0	–	–	416.1	–	619.3
Investment in associates	–	–	51.6	–	–	–	51.6
Investment in joint ventures	–	–	77.7	7.2	–	5.9	90.8
Financial interest in property assets	–	121.2	–	–	–	–	121.2
Goodwill	8.0	–	–	–	–	–	8.0
Inventories – trading properties	768.1	239.5	–	133.2	1.4	–	1,142.2
Trade and other receivables	2.8	0.7	9.4	1.4	1.9	2.8	19.0
Cash and cash equivalents	0.6	1.8	–	0.3	19.8	0.9	23.4
Total segment assets	883.7	462.2	138.7	142.1	439.2	9.6	2,075.5
Unallocated assets							
Property, plant and equipment							2.3
Derivative financial instruments							11.9
Trade and other receivables							4.0
Cash and cash equivalents							19.8
Total assets							2,113.5
Liabilities							
Interest-bearing loans and borrowings	–	38.0	–	–	301.4	–	339.4
Trade and other payables	4.3	32.4	–	18.7	13.3	0.9	69.6
Total segment liabilities	4.3	70.4	–	18.7	314.7	0.9	409.0
Unallocated liabilities							
Interest-bearing loans and borrowings							1,313.9
Trade and other payables							14.5
Retirement benefits							2.1
Current tax liabilities							51.4
Provisions for other liabilities and charges							1.0
Deferred tax liabilities							78.4
Derivative financial instruments							13.4
Total liabilities							1,883.7
Net assets							229.8
Other unallocated items:							
Capital expenditure on property, plant and equipment	–	–	–	–	–	–	0.7

Notes to the financial statements continued

5 Net rental income

	2009 £m	2008 £m
Gross rental income	77.9	70.7
Service charge income on a principal basis	13.4	5.6
Property repair and maintenance costs	(22.3)	(19.2)
Service charge expense on a principal basis	(15.3)	(6.3)
Property operating expenses (see note 8)	(15.2)	(13.1)
	38.5	37.7

6 Profit on disposal of trading properties

	2009 £m	2008 £m
Proceeds from sale of trading properties	198.4	162.2
Carrying value of trading properties sold (see note 23)	(144.4)	(88.8)
Other sales costs (see note 8)	(9.1)	(10.8)
	44.9	62.6

7 (Loss)/profit on disposal of investment property

	2009 £m	2008 £m
Proceeds from sale of investment property	8.8	7.4
Carrying value of investment property sold (see note 17)	(9.9)	(6.8)
	(1.1)	0.6

8 Administrative expenses

	2009 £m	2008 £m
Total group expenses	33.2	30.1

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:

	2009 £m	2008 £m
Property operating expenses (see note 5)	15.2	13.1
Costs attributable to the disposal of trading properties (see note 6)	9.1	10.8
Administrative expenses	8.9	6.2
	33.2	30.1

9 Other income

	2009 £m	2008 £m
Property and asset management fee income	**5.7**	7.0
Crop store and agricultural income	**0.5**	0.6
Other sundry income	**1.1**	1.1
Gain on acquisition of subsidiary	–	0.5
	7.3	9.2

10 Profit on disposal of shares in subsidiary

	2009 £m	2008 £m
Sale of shares in CCZ a.s. and Prazsky Project a.s.	–	3.5

In 2008 the group acquired an additional 3.4% of the equity of two companies incorporated in the Czech Republic, CCZ a.s. and Prazsky Project a.s. bringing the aggregate group holding to 85% in each company. The group then sold 35% of its equity holding in each company reducing its holding to 50% and making a profit on sale of equity of £3.5m.

11 Employees

	2009 £m	2008 £m
Wages and salaries	**13.1**	13.2
Termination benefits	**1.5**	0.1
Social security costs	**1.3**	1.4
Other pension costs – defined contribution scheme (see note 28)	**0.8**	0.9
Share-based payments	**0.8**	0.5
	17.5	16.1

Interest on net pension scheme liabilities amounted to £0.2m in 2009 (2008: £nil) and is included within interest expense and similar charges (see note 13).

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

	2009 Number	2008 Number
UK tenanted residential	**251**	273
UK development	**10**	15
European tenanted residential	**13**	12
	274	300

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 34 to 36 which form part of these financial statements.

Notes to the financial statements continued

11 Employees continued

	2009 £m	2008 £m
Key management compensation		
Salaries and short-term employee benefits	3.0	3.1
Post-employment benefits	0.2	0.3
Share-based payments	0.7	0.4
	3.9	3.8

Key management figures shown above include the executive and the non-executive directors.

12 Loss before tax

	2009 £m	2008 £m
Loss before tax is stated after charging/(crediting):		
Depreciation on fixtures, fittings and equipment	0.8	0.8
Impairment of goodwill (see note 22)	2.9	9.6
Gain on acquisition of subsidiary	–	(0.5)
Bad debt expense	1.1	0.9
Foreign exchange losses/(gains)	0.4	(1.5)
Operating lease payments	1.7	1.5
Auditors' remuneration – audit	0.1	0.1
Auditors' remuneration – non-audit	0.8	0.4

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

Auditors' remuneration

	2009 £'000	2008 £'000
Audit fees		
Fees payable to the company's auditors for the audit of the parent company and consolidated financial statements	148	136
Non-audit fees		
The audit of the company's subsidiaries pursuant to legislation	103	58
Other services pursuant to legislation:		
Tax services	106	145
Other services	531	166
Total fees	888	505

During the year, £106,000 was paid by the group to PricewaterhouseCoopers LLP for taxation services during the year. The Audit Committee give careful consideration before appointing the auditors to provide taxation advice and regularly use other providers to ensure that independence and full value for money are achieved. A further £531,000 was paid for due diligence services in respect of the acquisition of FRM and other transactional work. These fees were one-off in nature and are not expected to reoccur.

Operating lease payments represent the 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 one to 13 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 37.

13 Interest

	2009 £m	2008 £m
Interest expense and similar charges		
Bank loans and mortgages	**78.2**	87.9
Convertible bond	**2.1**	6.9
Loan notes	**0.4**	0.8
Other interest payable	**5.2**	–
Foreign exchange gains on financing activities	**0.4**	(1.5)
Loan issue costs – amortisation and loss on extinguishment	**20.6**	2.0
Interest on net pension scheme liabilities	**0.2**	–
	107.1	96.1
Interest income		
Interest receivable from associates and joint ventures (see note 35)	**3.3**	4.1
Other interest receivable	**1.9**	3.0
	5.2	7.1
Net finance costs	**101.9**	89.0

Loan issue costs – amortisation and loss on extinguishment of £20.6m includes £17.5m of loan costs and fees expensed as a result of the debt refinancing concluded immediately prior to the year end through which certain loans have been accounted for as an extinguishment under IAS 39 'Financial Instruments: Recognition and Measurement'.

14 Taxation

	2009 £m	2008 £m
Current tax		
Corporation tax on profits	**0.9**	11.6
Adjustments relating to prior years	**(11.7)**	(5.9)
	(10.8)	5.7
Deferred tax		
Origination and reversal of timing differences	**(38.8)**	(38.6)
Adjustments relating to prior years	**1.6**	(1.8)
	(37.2)	(40.4)
Income tax credit for the year	**(48.0)**	(34.7)

Notes to the financial statements continued

14 Taxation continued

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	Exchange adjustments £m	Movements recognised in equity £m	Closing balance £m
Current tax	51.4	(16.2)	–	(10.8)	–	–	**24.4**
Deferred tax							
Trading property uplift to fair value on acquisition	60.3	–	–	(18.3)	–	–	**42.0**
Investment property revaluation	20.1	–	–	(11.0)	0.3	–	**9.4**
Accelerated capital allowances	2.2	–	–	(1.8)	–	–	**0.4**
Short-term timing differences	(8.7)	–	–	(6.1)	–	–	**(14.8)**
Actuarial surplus on BPT Limited pension scheme	0.7	–	–	–	–	(1.1)	**(0.4)**
Equity component of available-for-sale financial asset	–	–	–	–	–	0.7	**0.7**
Fair value movement in cash flow hedges and exchange adjustments	3.8	–	–	–	–	(20.0)	**(16.2)**
	78.4	–	–	(37.2)	0.3	(20.4)	**21.1**
Total tax – 2009 movement	129.8	(16.2)	–	(48.0)	0.3	(20.4)	**45.5**
Total tax – 2008 movement	159.3	(0.2)	3.9	(34.7)	0.3	1.2	**129.8**

The tax credit for the year comprises:

	2009 £m	2008 £m
UK taxation	**(46.1)**	(41.4)
Overseas taxation	**(1.9)**	6.7
	(48.0)	(34.7)

The tax credit for the year is higher than the standard rate of corporation tax in the UK of 28% (2008: 29%). The differences are explained below:

	2009 £m	2008 £m
Loss before tax	**(170.0)**	(112.1)
Loss before tax at a rate of 28% (2008: 29%)	**(47.6)**	(32.5)
Expenses not deductible for tax purposes	**2.5**	2.1
Goodwill impairment	**0.8**	2.6
Impact of tax rate change	**–**	1.7
Utilisation of current and prior period losses	**(11.9)**	(10.6)
Other losses and non-taxable items	**6.6**	–
Adjustment in respect of prior periods	**1.6**	2.0
Total income tax credit in the income statement (see above)	**(48.0)**	(34.7)

14 Taxation continued

As detailed in note 29, 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 and exchange adjustments.

The movement in the tax rate used for the group computation is as a result of the tax rate change part way through the prior year resulting in an average rate taken for group tax purposes in 2008.

Factors that may affect future tax charges

A number of matters have been agreed during the year with the relevant tax authorities. At the year end there are no material outstanding factors that would affect future tax charges.

15 Dividends

Under IAS 10, final dividends are excluded from the balance sheet either until they are approved by the company in general meeting or until they have been appropriately authorised and are no longer at the discretion of the group. Dividends paid in the year are shown below:

	2009 £m	2008 £m
Ordinary dividends on equity shares:		
Final dividend for the year ended 30 September 2007 – 4.12p per share	–	5.2
Interim dividend for the year ended 30 September 2008 – 2.27p per share	–	2.9
Final dividend for the year ended 30 September 2008 – 3.91p per share	5.3	–
	5.3	8.1

A final dividend relating to 2009 of 3.91p 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 12 February 2010 to shareholders on the register on 20 November 2009. No interim dividend for 2009 was declared. In addition to the above, £0.1m of the provision for dividend payment to the minority interest in FRM made in the accounts to 30 September 2008, has been reversed. Further shares were acquired by the group prior to the payment date resulting in a payment of only £0.1m. The total dividend taken to equity in the year is therefore £5.2m (£2008: £8.3m).

16 Loss per share

Basic

Basic (loss)/earnings per share is calculated by dividing the profit or loss 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 to meet its obligations under the long-term incentive scheme ('LTIS').

Diluted

Diluted (loss)/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 2009 was the end of the contingency period. The (loss)/profit for the year is adjusted to add back the after tax interest cost on the debt component of the convertible bond. Where the effect of the above adjustments is antidilutive, as is the case for both years being reported, they are excluded from the calculation of diluted (loss)/earnings per share.

Notes to the financial statements continued

16 Loss per share continued

	30 September 2009			30 September 2008		
	Loss for the year £m	Weighted average number of shares (thousands)	Loss per share pence	Loss for the year £m	Weighted average number of shares (thousands)	Loss per share pence
Basic loss per share						
Loss attributable to equity holders	(122.0)	135,816	(89.8)	(77.4)	126,720	(61.0)
Effect of potentially dilutive securities						
Options and shares	–	–	–	–	–	–
Convertible bond	–	–	–	–	–	–
Diluted loss per share						
Loss attributable to equity holders	(122.0)	135,816	(89.8)	(77.4)	126,720	(61.0)

17 Investment property

	2009 £m	2008 £m
Opening balance	619.3	478.6
Additions:		
Acquisitions	1.1	23.9
Subsequent expenditure	3.7	4.4
Business combinations	–	131.9
Disposals	(9.9)	(6.8)
Net valuation deficits	(25.6)	(43.1)
Exchange adjustments	65.7	30.3
Transfer from owner occupied property	–	0.1
Closing balance	654.3	619.3

The group has valued all of its investment property as at 30 September 2009 at fair value.

Information relating to the basis of valuation of investment property, the use of external independent valuers, and the judgements and assumptions adopted by management is set out in note 2 'critical accounting estimates and assumptions'.

A revaluation deficit of £25.6m has arisen on valuation of investment property to fair value as at 30 September 2009 (2008: deficit of £43.1m) and this has been taken to the income statement.

The historical cost of the group's investment property as at 30 September 2009 is £637.6m (2008: £605.7m).

Rental income from investment property during the year was £41.3m (2008: £31.9m). Direct property repair and maintenance costs arising from investment property that generated rental income during the year was £12.2m (2008: £7.8m). Direct operating expenses arising from investment property that did not generate rental income during the year amounted to £0.1m (2008: £0.1m).

18 Property, plant and equipment

	Fixtures fittings and equipment £m	Owner-occupied property £m	Total £m
Cost			
At 1 October 2008	4.7	–	4.7
Additions	0.4	–	0.4
At 30 September 2009	5.1	–	5.1
Accumulated depreciation			
At 1 October 2008	2.4	–	2.4
Charge for the year	0.8	–	0.8
At 30 September 2009	3.2	–	3.2
Net book value			
At 30 September 2009	**1.9**	**–**	**1.9**
At 30 September 2008	2.3	–	2.3
Cost			
At 1 October 2007	4.7	0.1	4.8
Additions	0.7	–	0.7
Acquisition of subsidiary	0.2	–	0.2
Transfer to investment property	–	(0.1)	(0.1)
Disposals	(0.9)	–	(0.9)
At 30 September 2008	4.7	–	4.7
Accumulated depreciation			
At 1 October 2007	2.5	–	2.5
Charge for the year	0.8	–	0.8
Disposals	(0.9)	–	(0.9)
At 30 September 2008	2.4	–	2.4
Net book value			
At 30 September 2008	**2.3**	**–**	**2.3**
At 30 September 2007	2.2	0.1	2.3

Notes to the financial statements continued

19 Investment in associates

	2009 £m	2008 £m
Opening balance	51.6	68.5
Share of losses	(6.4)	(14.0)
Distributions received	(0.4)	(2.1)
Redemption of equity units	(7.6)	–
Share of change in fair value of cash flow hedges taken through equity	(4.0)	(0.8)
Closing balance	33.2	51.6
Disclosed as:		
Non-current assets	24.5	51.6
Current assets	8.7	–
Closing balance	33.2	51.6

The investors in Schroders ResPUT have agreed to a controlled liquidation of the fund and the group has received a number of redemption payments as assets have been realised. The investment is therefore held as a current asset in 2009.

As at 30 September 2009, the group's interest in associates was as follows:

	% of ordinary share capital/units held	Country of incorporation
G:res1 Limited	21.6	Jersey
Schroders Residential Property Unit Trust (ResPUT)	21.8	Jersey

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:

	2009		
	G:res 1 Limited £m	ResPUT £m	Total £m
Non-current assets	74.2	7.8	82.0
Current assets	4.9	0.9	5.8
Non-current liabilities	(53.0)	–	(53.0)
Current liabilities	(1.6)	–	(1.6)
Net assets	24.5	8.7	33.2
Revenues	4.4	0.6	5.0
Loss	(6.0)	(0.4)	(6.4)

19 Investment in associates continued

	2008			
	G:res1 Limited £m	ResPUT £m	OU Robbins £m	Total £m
Non-current assets	81.7	16.9	–	98.6
Current assets	5.0	0.2	–	5.2
Non-current liabilities	(50.6)	–	–	(50.6)
Current liabilities	(1.6)	–	–	(1.6)
Net assets	34.5	17.1	–	51.6
Revenues	4.5	1.0	0.2	5.7
(Loss)/profit	(11.6)	(2.6)	0.2	(14.0)

20 Investment in joint ventures

	Net assets £m	Loans £m	Goodwill £m	Total £m
At 1 October 2007	39.8	74.8	0.2	114.8
Additions	2.3	–	–	2.3
Loans advanced	–	13.8	–	13.8
Share of losses	(39.1)	–	–	(39.1)
Goodwill impairment charge taken to income statement	–	–	(0.2)	(0.2)
Share of change in fair value of cash flow hedges taken through equity	(1.0)	–	–	(1.0)
Net assets of subsidiaries transferred to investment in joint ventures	0.6	–	–	0.6
Distributions received	(0.4)	–	–	(0.4)
At 30 September 2008	2.2	88.6	–	90.8
Loans advanced	–	7.5	–	7.5
Provisions against loans	–	(14.8)	–	(14.8)
Share of losses	(1.4)	–	–	(1.4)
Net assets acquired through purchase of joint venture	0.1	–	–	0.1
Goodwill arising on investment in Gebau (see note 40)	–	–	2.7	2.7
Exchange adjustment	0.4	–	–	0.4
Share of change in fair value of cash flow hedges taken through equity	(4.6)	–	–	(4.6)
At 30 September 2009	**(3.3)**	**81.3**	**2.7**	**80.7**

Notes to the financial statements continued

20 Investment in joint ventures continued

Provisions against loans represent a provision of £9.1m against the group's mezzanine loan to Grainger GenInvest No.2 (2006) LLP and a £5.7m provision against the group's loan to Curzon Park Limited. These provisions are included within the provision for impairment of loans receivable on the face of the consolidated income statement.

At 30 September 2009, the group's interest in joint ventures was as follows:

	% of ordinary share capital held	Country of incorporation
Grainger GenInvest LLP	50	United Kingdom
Grainger GenInvest No 2 (2006) LLP	50	United Kingdom
Curzon Park Limited	50	United Kingdom
King Street Developments (Hammersmith) Limited	50	United Kingdom
CCZ a.s.	50	Czech Republic
CCY a.s.	50	Czech Republic
Prazsky Project a.s.	50	Czech Republic

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

2009 Summarised income statement

	2009					
	Grainger GenInvest LLP £m	Grainger GenInvest No.2 (2006) LLP £m	Czech Republic combined £m	Curzon Park Limited £m	Gebau Vermogen GmbH £m	Total £m
Net rental income and other income	0.9	2.6	–	–	0.4	3.9
Profit on disposal of investment property	–	–	–	–	–	–
Operating profit before valuation deficits	0.9	2.6	–	–	0.4	3.9
Net valuation gains on investment properties	1.7	–	–	–	–	1.7
Operating profit	2.6	2.6	–	–	0.4	5.6
Interest payable	(1.9)	(4.1)	(0.2)	(0.6)	(0.2)	(7.0)
Profit/(loss) before tax	0.7	(1.5)	(0.2)	(0.6)	0.2	(1.4)
Taxation	–	–	–	–	–	–
Profit/(loss) after tax	0.7	(1.5)	(0.2)	(0.6)	0.2	(1.4)

20 Investment in joint ventures continued

2009 Summarised balance sheet

	2009					
	Grainger GenInvest LLP £m	Grainger GenInvest No.2 (2006) LLP £m	Czech Republic combined £m	Curzon Park Limited £m	Gebau Vermogen GmbH £m	Total £m
Investment property	39.1	100.8	–	–	–	139.9
Current assets	0.1	5.0	14.0	18.5	0.5	38.1
Total assets	39.2	105.8	14.0	18.5	0.5	178.0
Non-current liabilities	(33.7)	(108.3)	(5.2)	(12.7)	(0.1)	(160.0)
Current liabilities	(3.1)	(4.6)	(5.9)	(7.6)	(0.1)	(21.3)
Net assets/(liabilities)	2.4	(7.1)	2.9	(1.8)	0.3	(3.3)

The results and financial position of the three Czech Republic companies have been aggregated in the above tables as individually they are not material and the development being undertaken in Prague is being managed as a single development with each company owning part of the combined site.

2008 Summarised income statement

	2008				
	Grainger GenInvest LLP £m	Grainger GenInvest No.2 (2006) LLP £m	Czech Republic combined £m	Curzon Park Limited £m	Total £m
Net rental income	0.8	2.2	–	–	3.0
Profit on disposal of investment property	(0.1)	0.1	–	–	–
Operating profit before valuation deficits	0.7	2.3	–	–	3.0
Net valuation deficits on investment properties	(9.8)	(24.3)	–	–	(34.1)
Operating loss	(9.1)	(22.0)	–	–	(31.1)
Interest payable	(2.4)	(4.6)	(0.2)	(0.8)	(8.0)
Loss before tax	(11.5)	(26.6)	(0.2)	(0.8)	(39.1)
Taxation	–	–	–	–	–
Loss after tax	(11.5)	(26.6)	(0.2)	(0.8)	(39.1)

2008 Summarised balance sheet

	2008				
	Grainger GenInvest LLP £m	Grainger GenInvest No.2 (2006) LLP £m	Czech Republic Combined £m	Curzon Park Limited £m	Total £m
Investment property	39.0	102.6	–	–	141.6
Current assets	0.4	4.7	11.4	18.4	34.9
Total assets	39.4	107.3	11.4	18.4	176.5
Non-current liabilities	(34.7)	(105.3)	(4.7)	(12.0)	(156.7)
Current liabilities	(2.3)	(3.7)	(4.0)	(7.6)	(17.6)
Net assets/(liabilities)	2.4	(1.7)	2.7	(1.2)	2.2

There is no tax charge on any profits made in the LLP businesses as they are 'transparent' for tax. Any tax payable on Grainger's share of the profits/(losses) is included within the group tax charge.

Notes to the financial statements continued

21 Financial interest in property assets

	2009 £m	2008 £m
Opening balance	121.2	131.7
Cash received from the instrument	(10.1)	(9.6)
Amounts taken to income statement	(4.7)	(0.9)
Amounts taken to equity before tax	2.7	–
Closing balance	109.1	121.2

Financial interest in property assets relates to the CHARM portfolio, which is a financial interest in equity mortgages held by the Church of England Pensions Board as mortgagee. It is accounted for under IAS 39 in accordance with the designation available-for-sale financial assets.

Credit risk arises from the credit exposure relating to cash receipts from the financial instrument. All of the cash receipts are payable by the Church Commissioners, a counterparty considered to be low risk as they have no history of past due or impaired amounts and there are no past due amounts outstanding at the year end.

22 Goodwill

	2009 £m	2008 £m
Opening balance	8.0	17.4
Arising on prior year acquisitions	0.8	–
Impairment charge taken to income statement	(2.9)	(9.4)
Closing balance	5.9	8.0

The opening and closing goodwill shown above relates to the UK core portfolio both in 2009 and 2008. Goodwill arising on a prior year acquisition relates to the additional legal and professional costs incurred in acquiring the remaining share from the minority interest in FRM. It has been fully impaired and is included within the impairment charge taken to the income statement.

The total goodwill impairment charge in the consolidated income statement comprises:

	2009 £m	2008 £m
Impairment charge as shown above	(2.9)	(9.4)
Impairment charge on goodwill shown within investment in joint ventures (see note 20)	–	(0.2)
	(2.9)	(9.6)

Details of the impairment tests are given in note 2.

23 Inventories – trading properties

	2009 £m	2008 £m
Residential trading properties	**928.4**	1,009.0
Development trading properties	**87.2**	133.2
	1,015.6	1,142.2

The market value of trading properties as at 30 September 2009 was £1,319.2m (2008: £1,519.1m).

Write downs to net realisable value and amounts written off book values in the year amounted to £18.4m (2008: £12.3m). Further details are given in note 2.

The cost of trading properties recognised as an expense is shown in note 6 'profit on disposal of trading properties' and amounted to £144.4m (2008: £88.8m).

24 Trade and other receivables

	2009 £m	2008 £m
Trade receivables	**10.1**	11.1
Less: Provision for impairment of trade receivables	**(2.2)**	(1.2)
Trade receivables – net	**7.9**	9.9
Other receivables	**9.9**	11.2
Prepayments	**2.2**	1.9
	20.0	23.0

The fair values of trade and other receivables are considered to be equal to their carrying amounts. Other receivables includes a loan of £7.2m net of an impairment provision of £4.8m (2008: £9.4m) made to the Mornington Capital Special Situations Co-investment Fund 1 Limited Partnership. The provision has been based on the group's assessment of discounted future cash flows. The loan has been used by the fund to invest in real estate joint venture partnerships. The loan bears interest at between 5% and 8% per annum above EURIBOR and is repayable within one year. The loan is secured by fixed and floating charges over the assets of the fund.

As at 30 September 2009, trade receivables of £2.2m were impaired and fully provided for (2008: £1.2m). The individually impaired receivables are based on a review of outstanding arrears and an assessment of collectability. The ageing of these receivables is:

	2009 £m	2008 £m
Up to two months	**0.1**	0.1
Three months or more	**2.1**	1.1
	2.2	1.2

Rental debtors are due on demand and hence all balances outstanding at the year end are past due. The balances within trade receivables which are past due but are not considered to be impaired, because we have either collected the debt since the balance sheet date or there is a history of regular payment, are as follows:

	2009 £m	2008 £m
Up to two months	**1.9**	1.7

Notes to the financial statements continued

24 Trade and other receivables continued

The carrying amounts of the group's trade and other receivables are denominated in the following currencies:

	2009 £m	2008 £m
Pounds Sterling	7.3	9.3
Czech Koruna	0.9	2.4
Euros	11.8	11.3
	20.0	23.0

Movements on the group provision for impairment of trade receivables are as follows:

	2009 £m	2008 £m
Opening balance	1.2	0.7
Provision for receivables impairment during the year	1.5	1.0
Receivables written off during the period as uncollectable	(0.1)	(0.4)
Unused amounts reversed	(0.4)	(0.1)
Closing balance	2.2	1.2

The creation and release of provisions for impaired receivables have been included in property repair and maintenance costs in the consolidated income statement (see note 5). Amounts provided for are generally written off when there is no expectation of recovering additional cash.

The loan due from Mornington included within other receivables has been impaired and the provision of £4.8m is included within the provision for impairment of loans receivable on the face of the consolidated income statement. The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. Tenant deposits of £3.6m (2008: £3.3m) are held which provide some security against rental arrears and property dilapidations caused by the tenant. In addition, the loan to Mornington is secured as described above. The group does not hold any other collateral as security.

25 Financial risk management and derivative financial instruments

Financial risk management

The group's objectives for managing financial risk are to minimise the risk of adverse effects on performance and to ensure the ability of the group to continue as a going concern while securing access to cost effective finance and maintaining flexibility to respond quickly to opportunities which arise.

The group's policies on financial risk management are approved by the board of directors and implemented by group treasury. Written policies and procedures cover interest rate risk, credit risk, the use of derivative and non-derivative financial instruments and investment of excess liquidity. Compliance is monitored by internal auditors. Group treasury reports to the risk committee.

The group uses derivative financial instruments to hedge its exposure to financial risk but does not take positions for speculative purposes.

The sources of financial risk and the policies and activities used to mitigate each are discussed below and include credit risk, liquidity risk and market risk which includes interest rate risk, foreign exchange risk, house price risk in relation to the CHARM portfolio, our financial interest in property assets and capital risk management.

25 Financial risk management and derivative financial instruments continued

Categories of financial instruments

A summary of the classifications of the financial assets and liabilities held by the group is set out in the following table:

	30 September 2009			30 September 2008		
	Book value £m	Fair value £m	Fair value adjustment £m	Book value £m	Fair value £m	Fair value adjustment £m
Financial interest in property assets	109.1	109.1	–	121.2	121.2	–
Trade and other receivables	17.8	17.8	–	21.1	21.1	–
Derivative financial instruments	0.2	0.2	–	11.9	11.9	–
Cash and cash equivalents	28.3	28.3	–	43.2	43.2	–
Total financial assets	155.4	155.4	–	197.4	197.4	–
Non-current liabilities						
Interest-bearing loans and borrowings	1,557.0	1,565.8	8.8	1,635.4	1,644.8	9.4
Trade and other payables	4.0	4.0	–	4.0	4.0	–
Provisions for other liabilities and charges	0.9	0.9	–	1.0	1.0	–
Current liabilities						
Interest-bearing loans and borrowings	19.9	19.9	–	17.9	17.9	–
Trade and other payables	11.2	11.2	–	17.0	17.0	–
Derivative financial instruments	99.5	99.5	–	13.4	13.4	–
Total financial liabilities	1,692.5	1,701.3	8.8	1,688.7	1,698.1	9.4
Total net financial liabilities	1,537.1	1,545.9	8.8	1,491.3	1,500.7	9.4

The fair value adjustment relates to the group's fixed rate loan with Lloyds TSB Bank plc 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.

Credit risk

Credit risk is the risk of financial loss due to a counterparty's failure to honour its obligations. The group's principal financial assets include its financial interest in property assets, bank balances and cash, trade and other receivables and financial derivatives. The carrying amount of financial assets recorded in the financial statements represents the group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The group's financial interest in property assets relates to a financial interest in equity mortgages held by the Church of England Pensions Board as mortgagee, a counterparty considered to be low risk as they have no history of past due or impaired amounts and there are no past due amounts outstanding at the year end.

The group's principal credit risk relates to trade receivables. Where it is identified that recovery is doubtful, a provision for impairment is made. For all Assured Shorthold Tenancies credit checks are performed prior to acceptance of the tenant. Regulated tenants are incentivised through the benefit of their tenancy agreement to avoid default on their rent. Lifetime tenancies are generally at low or zero rent and hence suffer minimal credit risk. Rent deposits and personal guarantees are held in respect of some leases. Taking these factors into account the risk to the group of individual tenant default and the credit risk of trade receivables is considered low, as is borne out by the low level of trade receivables written off both in this year and in prior years.

Notes to the financial statements continued

25 Financial risk management and derivative financial instruments continued

The credit risk on liquid funds and derivative financial instruments is managed through the group's policies of monitoring counterparty exposure, concentration of credit risk through the use of multiple counterparties and the use of counterparties of good financial standing. Cash and short-term deposits at 30 September 2009 amounted to £28.3m (2008: £43.2m). Deposits were placed with financial institutions with A- or better credit ratings.

At 30 September 2009, the fair value of all interest rate derivatives which had a positive value was £0.2m (2008: £11.9m). All the counterparties have investment grade credit ratings.

At 30 September 2009, the largest combined credit exposure to a single counterparty arising from money market deposits and interest rate swaps was £305.4m (2008: £306.3m) which represents 15.7% (2008: 14.5%) of total assets.

At 30 September 2009, the loan advanced to Mornington Capital Special Situations Co-investment Fund 1 Limited Partnership was impaired on the basis of discounted future cash flows (see note 24).

Liquidity risk

The group ensures that it maintains continuity and flexibility through a spread of maturities.

Although the group's core funding is supported by covenants requiring certain levels of loan to value with respect to the entities in the group of obligors and to maintaining a certain level of interest cover at the group level the loan is not secured directly against any property allowing operational flexibility. The group has comfortably complied with its covenants during 2009 (see note 2 on page 58).

The group ensures that it maintains sufficient cash for operational requirements at all times. The group uses short-term money market deposits to manage its liquidity. The group also ensures that it has sufficient undrawn committed borrowing facilities from a diverse range of banks to allow for operational flexibility and to meet committed expenditure on its developments.

The core business in particular is very cash generative from its gross rents and sales of trading properties. In adverse trading conditions, investment sales can be increased and new acquisitions can be stopped. Consequently, the group is able to reduce gearing levels and improve liquidity quickly.

The following table analyses the group's financial liabilities and net-settled derivative financial liabilities at the balance sheet date into relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. As the amounts included in the table are the contractual undiscounted cash flows, these amounts will not equal the amounts disclosed on the balance sheet for borrowings, derivative financial instruments, trade and other payables and provisions for liabilities and charges. A reconciliation to the balance sheet amounts is given on page 81. Trade and other payables due within 12 months equal their carrying balances as the impact of discounting is not significant.

The cash flows are calculated using yield curves for floating rate interest-bearing liabilities. Foreign currency related cash flows are calculated by means of the forward rates relevant to each maturity date.

25 Financial risk management and derivative financial instruments continued

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 30 September 2009					
Interest-bearing loans and borrowings	**63.3**	**172.7**	**1,395.6**	**214.0**	**1,845.6**
Cash flow hedges	**45.5**	**28.5**	**24.3**	**9.6**	**107.9**
Trade and other payables	**62.0**	**–**	**4.0**	**–**	**66.0**
Provision for liabilities and charges	**0.1**	**0.1**	**0.4**	**0.7**	**1.3**

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 30 September 2008					
Interest-bearing loans and borrowings	124.1	488.4	958.1	562.2	2,132.8
Cash flow hedges	(5.8)	(1.2)	(3.8)	8.8	(2.0)
Trade and other payables	51.0	–	4.0	–	55.0
Provision for liabilities and charges	0.1	0.1	0.4	0.8	1.4

Reconciliation of maturity analysis

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 30 September 2009					
Interest-bearing loans and borrowings (see note 26)	**19.9**	**109.6**	**1,275.6**	**171.8**	**1,576.9**
Foreign exchange impact of forward rates	**(0.3)**	**(0.1)**	**(13.7)**	**(6.6)**	**(20.7)**
Interest	**39.4**	**58.9**	**127.1**	**47.5**	**272.9**
Unamortised borrowing costs	**4.3**	**4.3**	**6.6**	**1.3**	**16.5**
Financial liability cash flows shown above	**63.3**	**172.7**	**1,395.6**	**214.0**	**1,845.6**

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 30 September 2008					
Interest-bearing loans and borrowings (see note 26)	17.9	393.1	787.5	454.8	1,653.3
Foreign exchange impact of forward rates	0.7	0.4	2.2	36.3	39.6
Interest	105.5	91.5	164.9	67.2	429.1
Unamortised borrowing costs	–	3.4	3.5	3.9	10.8
Financial liability cash flows shown above	124.1	488.4	958.1	562.2	2,132.8

Notes to the financial statements continued

25 Financial risk management and derivative financial instruments continued

The group's undrawn committed borrowing facilities are monitored against projected cash flows.

Maturity of committed undrawn borrowing facilities

	2009 £m	2008 £m
Expiring:		
Within one year	**5.0**	46.8
Between one and two years	**–**	–
Between two and five years	**159.5**	296.0
Total	**164.5**	342.8

The above facilities are those freely available to be drawn for group purposes.

Market risk

The group is exposed to market risk through interest rates, foreign exchange fluctuations, the availability of credit and house price movements relating to the CHARM portfolio. The approach the group takes to each of these risks is set out below. The group is not exposed to equity price risk or to commodity price risk.

Fair values

The fair value of swaps and other financial instruments is derived from the present value of future cash flows discounted at rates obtained by means of the current yield curve appropriate for those instruments.

The following financial instruments were in existence as at 30 September 2009:

	2009		2008	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Interest rate swaps – cash flow hedges in hedge accounting relationships	**–**	**60.0**	8.4	1.2
Interest rate swaps – cash flow hedges not in hedge accounting relationships	**0.2**	**39.5**	3.5	12.2
	0.2	**99.5**	11.9	13.4

Interest rate swaps are all classified as either current assets or current liabilities.

The notional principal amounts of the outstanding interest rate swap contracts as at 30 September 2009 was £1,117.3m (2008: £1,228.3m). As at 30 September 2009 the fixed interest rates vary from 3.51% to 5.22% (2008: 3.43% to 6.0%). The fair value movement relating to cash flow hedges not in hedge accounting relationships amounted to a charge of £38.7m (2008: charge of £11.5m).

All of the financial derivatives included in the above table were valued by external consultants, using a discounted cash flow model and quoted market information and were checked internally using a bespoke software package.

In accordance with IAS 39, the group has reviewed its interest rate hedges. In the absence of hedge accounting, movements in fair value would have been taken directly to the income statement. However, where cash flow hedges have been viewed as being effective any gains or losses have been taken to equity through the cash flow hedge reserve.

25 Financial risk management and derivative financial instruments continued

A valuation was carried out at 30 September 2009 by external consultants, to calculate the market value of the group's fixed rate debt on a replacement basis, taking into account the difference between the fixed interest rates for the group's borrowings and the market value and prevailing interest rate of appropriate debt instruments as a fair value adjustment. The fair values compared to the carrying amounts of the group's fixed rate financial liabilities are analysed below.

	Book value at 30 September 2009	Fair value at 30 September 2009
Fixed rate loan facilities	**86.2**	**95.0**

	Book value at 30 September 2008	Fair value at 30 September 2008
Fixed rate loan facilities	153.6	163.0

Interest rate risk

The group's interest rate risk arises from the risk of fluctuations in interest charges on floating rate borrowings. The group mitigates this risk through the use of variable to fixed interest rate swaps, caps and collars. This subjects the group to fair value risk as the value of the financial derivatives fluctuates in line with variations in interest rates. However, the group seeks to cash flow hedge account where applicable. The group is, however, driven by commercial considerations when hedging its interest rate risk and is not driven by the strict requirements of the hedge accounting rules under IAS 39 if this is to the detriment of achieving the best commercial arrangement.

Hedging activities are carried out under the terms of the group's hedging policies and are regularly reviewed by the board to ensure compliance with this policy. The board reviews its policy on interest rate exposure regularly with a view to establishing that it is still relevant in the prevailing and forecast economic environment. The current group treasury policy is to maintain floating rate exposure of no greater than 35% of expected borrowing. As at 30 September 2009, 93% (2008: 85%) of the group's net borrowings were economically hedged to fixed or capped rates.

As at 30 September 2009, the market value of derivatives designated as cash flow hedges under IAS 39, is a net liability of £60.0m (2008: net asset of £7.2m). The movement in fair value measured in the income statement on cash flow hedges in the year ended 30 September 2009 was a charge of £38.7m (2008: £11.5m). At 30 September 2009, the market value of derivatives not designated as cash flow hedges under IAS 39, is a net liability of £39.3m (2008: £8.7m). The cash flows occur and enter in the determination of profit and loss until the maturity of the hedged debt. The table below summarises debt hedged at 30 September 2009.

Cash flow hedged debt

	2009 £m	2008 £m
Cash flow hedges maturing:		
Within one year	–	214.2
Between one and two years	**82.0**	227.4
Between two and five years	**958.3**	565.9
Over five years	**77.0**	220.8
	1,117.3	1,228.3

Notes to the financial statements continued

25 Financial risk management and derivative financial instruments continued

Interest rate profile – including the effect of derivatives

	2009			2008		
	Sterling £m	Euro £m	Total £m	Sterling £m	Euro £m	Total £m
Fixed rate	**59.0**	**27.2**	**86.2**	133.3	20.3	153.6
Capped rate	**945.1**	**423.5**	**1,368.6**	862.1	366.2	1,228.3
Variable rate	**81.1**	**53.9**	**135.0**	235.6	46.6	282.2
	1,085.2	**504.6**	**1,589.8**	1,231.0	433.1	1,664.1

At 30 September 2009, the weighted average interest rate of the Sterling fixed rate debt is 5.4% (2008: 7.13%). The weighted average period for which the rate is fixed is 12 years (2008: nine years). The weighted average interest rate of the Euro fixed rate debt is 0.5% (2008: 0.5%). The weighted average period for which the rate is fixed is 41 years (2008: 42 years).

Based on the group's interest rate profile at the balance sheet date, a 1% increase in interest rates would decrease annual profits by £2.3m (2008: £3.3m). Similarly, a 1% decrease would increase annual profits by £2.3m (2008: £5.3m). This has been calculated to include the effect of hedge accounting.

Upward movements in medium and long-term interest rates, associated with higher interest rate expectation, increase the value of the group's interest rate swaps that provide protection against such moves. The converse is true for downward movements in the yield curve. Where the group's swaps qualify as effective hedges under IAS 39, these movements in fair value are recognised directly in equity rather than the income statement.

Foreign exchange risk

The group's foreign exchange risk arises from the exposure due to translating overseas trading performance and overseas net assets into Sterling and it does not have foreign currency trading with cross-border currency flows. The group hedges foreign currency assets naturally by funding them through borrowings in the applicable foreign currency and aims to ensure that it has no material unhedged net assets or liabilities denominated in a foreign currency. Profit translation is not hedged.

The group's balance sheet translation exposure is summarised below:

	2009 Euro £m	2008 Euro £m	2009 Czech Koruna £m	2008 Czech Koruna £m
Gross foreign currency assets	**499.1**	454.4	**8.5**	9.2
Gross foreign currency liabilities	**(534.8)**	(449.9)	**–**	–
Net exposure	**(35.7)**	4.5	**8.5**	9.2

As at 30 September 2009, it is estimated that a general increase/decrease of 10 percentage points in the value of Sterling against the Euro would decrease/increase the group's profit before tax by approximately £1.6m (2008 £1.2m) and equity by £3.6m (2008: £0.5m).

25 Financial risk management and derivative financial instruments continued

As at 30 September 2009, it is estimated that a general increase/decrease of 10 percentage points in the value of Sterling against the Czech Koruna would increase/decrease the group's profit before tax by approximately £0.3m (2008: £0.3m) and equity by £0.9m (2008 £0.9m).

Credit availability risk

Credit availability risk relates to the group's ability to refinance its borrowings at the end of their terms or to secure additional financing where necessary. The group maintains relationships with a range of lenders and maintains sufficient headroom through committed borrowings.

House price risk

The cash flows arising from the group's financial interest in property assets (CHARM) are related to the movement in value of the underlying property assets and, therefore, are subject to movements in house prices. However, consistent with the group's approach to house price risk across its portfolio of trading and investment properties the group does not seek to eliminate this risk as it is a fundamental part of the group's business model.

At 30 September 2009, it is estimated that, with respect to the group's financial interest in property assets, a general increase/(decrease) of 1 percentage point in house prices at the balance sheet date would increase/(decrease) the group's profit before tax by approximately £0.9m (2008: £1m).

Capital risk management

The board manages the group's capital through the regular review of: cash flow projections, the ability of the group to meet contractual commitments, covenant tests, dividend cover and gearing.

The group manages the level of its equity shareholders' funds by means of dividends, share purchases and share issues.

Loans within the group have associated covenant requirements with respect to loan to value and interest cover ratios. The board regularly reviews all covenants and projected future levels to monitor anticipated compliance and available headroom against key thresholds. For the group as a whole the board does not have a specific loan to value target but it is reviewed in the context of the board's view of markets, the prospects of and risks relating to the portfolio and the recurring cash flows of the business.

The group monitors its cost of debt and weighted average cost of capital ('WACC') on a regular basis. At 30 September 2009, the weighted average cost of debt was 5.7% (2008: 6.2%) and the WACC was 5.22% (2008: 5.43%). Investment and development opportunities are evaluated using the WACC in order to ensure long-term shareholder value is created.

Certain group subsidiaries are regulated by the Financial Services Authority and therefore have externally applied capital adequacy requirements, however, these do not have any material impact on the group as a whole.

Notes to the financial statements continued

26 Financial assets and liabilities

i Interest-bearing loans and borrowings

	2009 £m	2008 £m
Current liabilities		
Mortgages	**0.3**	0.2
Bank loans	**11.9**	4.9
Loan notes	**7.7**	12.8
	19.9	17.9
Non-current liabilities		
Mortgages	**22.9**	20.1
Bank loans	**1,513.1**	1,524.2
Convertible bond	**21.0**	91.1
	1,557.0	1,635.4
Total interest-bearing loans and borrowings	**1,576.9**	1,653.3

Costs relating to the raising of the loan finance set off against the balances shown in the above table amount to £12.9m (2008: £10.8m).

Analysis of bank loans

a) £1.3 billion Multi Option Facility (the 'MOF') agreement

	2009 £m	2008 £m
Term Facility A	**225.0**	225.0
Term Facility B	**200.0**	200.0
Revolving Facility A	**392.4**	407.0
Revolving Facility A Euro	**53.5**	–
Revolving Facility B	**193.0**	245.0
Revolving Facility B Euro	**59.4**	148.2
Revolving Facility C Euro	**68.5**	–
Total	**1,191.8**	1,225.2

Headroom on the MOF at 30 September 2009 was £159.5m (2008: £302.8m).

26 Financial assets and liabilities continued

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	Jun 2013
Term Facility B	0.85	Jun 2013
Revolving Facility A	0.70	Jun 2011
Revolving Facility B	0.65	Jun 2010
Revolving Facility C	1.00	Dec 2012

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

On 30 September 2009, the group signed two new forward start credit facilities totalling £615m which will provide extended liquidity for the group at the time that certain of its existing facilities expire. These two new facilities comprise a £250m committed term loan which will become available in June 2010 and a £365.0m committed term loan available in June 2011. They will be used to refinance existing revolving credit facilities of £250m and £445m that mature on those dates.

b) Other UK bank loans

	2009 £m	2008 £m
Fixed rate – Pounds Sterling	**37.3**	40.0
Variable rate – Pounds Sterling	**8.5**	8.5
	45.8	48.5

The fixed rate loan is secured by fixed charges over specific retirement solutions 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

	2009 £m	2008 £m
Bank loans – Euro	**299.9**	264.6
	299.9	264.6

Headroom on these facilities at 30 September 2009 amounted to £nil (2008: £30.0m).

The Euro bank loans are secured by floating and 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.

Notes to the financial statements continued

26 Financial assets and liabilities continued

d) Analysis of loan notes

	2009 £m	2008 £m
Fixed rate – Pounds Sterling	0.4	0.6
Floating rate – Pounds Sterling	7.3	12.2
	7.7	12.8

The fixed rate loan notes 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.

e) Mortgages

	2009 £m	2008 £m
Mortgages – Euro	23.3	20.3

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

f) Convertible bond

	2009 £m	2008 £m
Opening balance	92.7	90.2
Early conversion during the year	(72.2)	–
Amortised during the year	0.8	2.5
	21.3	92.7

As part of the early conversion in November 2008, holders representing £87.1m of the £112m 2014 convertible bond accepted a cash payment of £35,000 per £100,000 nominal bond value to convert early.

This cash payment totalling, with expenses, £31.1m is shown in the income statement as an inducement cost.

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.

Other loans and borrowings information

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 £0.3m within one year, £1.2m within two to five years and £21.8m after more than five years. The effective interest rate on borrowings in the year ended 30 September 2009 was 5.7% (2008: 6.2%).

26 Financial assets and liabilities continued

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

	2009 £m	2008 £m
Within one year	19.9	17.9
Between one and two years	109.6	393.1
Between two and five years	1,275.6	787.5
Over five years	171.8	454.8
	1,576.9	1,653.3

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:

	2009			
	Fixed rate liabilities £m	Capped rate liabilities £m	Floating rate liabilities £m	Total £m
Loan notes	0.4	–	7.3	7.7
Mortgages – Euro	23.3	–	–	23.3
Convertible bond	21.3	–	–	21.3
Bank loans				
Pounds Sterling	37.3	945.1	73.8	1,056.2
Euro	3.9	423.5	53.9	481.3
	86.2	1,368.6	135.0	1,589.8
Unamortised issue costs				(12.9)
				1,576.9

	2008			
	Fixed rate liabilities £m	Capped rate liabilities £m	Floating rate liabilities £m	Total £m
Loan notes	0.6	–	12.2	12.8
Mortgages – Euro	20.3	–	–	20.3
Convertible bond	92.7	–	–	92.7
Bank loans				
Pounds Sterling	40.0	862.1	223.4	1,125.5
Euro	–	366.2	46.6	412.8
	153.6	1,228.3	282.2	1,664.1
Unamortised issue costs				(10.8)
				1,653.3

Notes to the financial statements continued

26 Financial assets and liabilities continued

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.

	2009			
	Fixed rate weighted average rate %	Weighted average period years	Capped rate weighted average rate %	Weighted average period years
Loan notes	**3.25**	**1**	–	–
Mortgages	**0.50**	**41**	–	–
Convertible bond	**3.63**	**5**	–	–
Bank loans – Pounds Sterling	**6.32**	**16**	**6.50**	**3**
Bank loans – Euro	–	–	**5.10**	**4**

	2008			
	Fixed rate weighted average rate %	Weighted average period years	Capped rate weighted average rate %	Weighted average period years
Loan notes	3.25	1	–	–
Mortgages	0.50	42	–	–
Convertible bond	3.63	6	–	–
Bank loans – Pounds Sterling	6.32	16	6.02	3
Bank loans – Euro	–	–	4.94	6

ii Financial assets

The group has the following cash and cash equivalents at 30 September 2009:

	2009 £m	2008 £m
Pounds Sterling	**15.9**	33.4
Euros	**12.2**	8.9
Czech Koruna	**0.2**	0.9
	28.3	43.2

Short-term deposits totalling £7.5m (2008: £12.1m) with an average maturity of three months are held as cash collateral. These have an effective interest rate of 1.4% (2008: 5.51%). Included within 2009 year end cash balances is £2.9m (2008: £4m) held in third-party client accounts where Grainger acts as trustee or agent. The corresponding liability is included within trade creditors.

At the year end £nil was placed on the overnight money market (2008: £4.7m at a rate of 4.35%). Remaining cash and cash equivalents are held as cash at bank or in hand.

The group has an overdraft facility of £5m as at 30 September 2009 (2008: £10m).

27 Non-current liabilities

	2009 £m	2008 £m
i Trade and other payables		
Deferred consideration payable	**4.0**	4.0

Deferred consideration is for the purchase of land at West Waterlooville and is payable in April 2013.

	2009 £m	2008 £m
ii Provisions for other liabilities and charges		
Other	**0.9**	1.0

28 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 34. The pension cost charge of £0.8m (2008: £0.9m) 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 final salary defined benefit pension scheme, the BPT Limited 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 projected unit credit method. Actuarial valuations are carried out every three years and the last full actuarial valuation was undertaken as at 1 July 2007. This scheme was operated by BPT Limited which became a subsidiary of Grainger plc in 2003.

No benefits have accrued since 30 June 2003 although active members retain a final salary link.

Pension benefits for deferred members are based on the members' final pensionable salaries and service at the date employment ceased (or date of leaving if earlier).

The company has opted to recognise all actuarial gains and losses immediately via the consolidated Statement of Recognised Income and Expense (SORIE).

The actuarial valuation as at 1 July 2007 was based on the main actuarial assumptions of an investment return of 6.8% per annum, salary increases of 4.9% per annum and inflation-linked increases to pensions in deferment of 3.4% per annum. The scheme assets were valued at £17.9m and scheme liabilities at £21.1m, a funding level of 85%. The funding level for the scheme at the previous valuation as at 1 July 2004 was 79%. The trustees and the employer have agreed a recovery plan to eliminate the deficit. This plan will run for seven years with company contributions to the scheme of £48,350 per month, excluding standard expense charges, £580,200 per annum. The actuary also undertook a Section 179 valuation as at 1 July 2007 as required by the Pension Protection Fund. The funding level on a Section 179 valuation basis was 142%.

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 2007 actuarial valuation but have been updated to 30 September 2009 by a qualified independent actuary.

Notes to the financial statements continued

28 Pension costs continued

Principal actuarial assumptions under IAS 19

	2009	2008
Discount rate	5.30% p.a.	7.00% p.a.
Price inflation	3.05% p.a.	3.60% p.a.
Salary increases	4.55% p.a.	5.10% p.a.
Rate of increase of pensions in payment	5.00% p.a.	5.00% p.a.
Rate of increase for deferred pensioners	3.05% p.a.	3.60% p.a.
Expected return on assets	5.30% p.a.	6.50% p.a.

The overall expected return on assets assumption of 5.30% per annum as at 30 September 2009 has been derived by calculating the weighted average of the expected rate of return for each asset class. The following approach has been used to determine the expected rate of return for each asset class:

- Fixed interest securities, current market yields;
- Equities, allowance for an additional return of 2.60% per annum above that available on UK government securities;
- Property, allowance for an additional return of 2.60% per annum above that available on UK government securities; and
- Cash, current Bank of England base rate.

Demographic assumptions

	2009	2008
Mortality tables for pensioners	107% of PCMA00 year of birth tables allowing for long cohort improvements with 1.25% minimum improvements for males and 0.75% minimum improvements for females each year	107% of PCMA00 year of birth tables allowing for long cohort improvements with 1.25% minimum improvements for males and 0.75% minimum improvements for females each year
Mortality tables for non-pensioners	As for pensioners	As for pensioners

Life expectancies

	30 September 2009		30 September 2008	
	Males	Females	Males	Females
Life expectancy for a current 65 year old	88.2 years	90.3 years	88.7 years	90.7 years
Life expectancy at age 65 for a current 55 year old	89.5 years	91.1 years	89.5 years	91.1 years

The other demographic assumptions are the same as those adopted in the Scheme Funding valuation as at 1 July 2007.

28 Pension costs continued

Market value of scheme assets and expected rates of return

	30 September 2009			30 September 2008		
	Market value £m	% of total scheme assets %	Long-term expected rate of return %	Market value £m	% of total scheme assets %	Long-term expected rate of return %
Equities	**5.3**	**32.0%**	**6.5%**	5.0	33.0%	7.3%
Bonds	**7.0**	**42.0%**	**4.4%**	6.5	43.0%	5.5%
Properties	**0.3**	**2.0%**	**6.5%**	0.3	2.0%	7.3%
Other	**0.1**	**–**	**0.5%**	–	–	5.0%
Insurance policies	**4.0**	**24.0%**	**5.3%**	3.4	22.0%	7.0%
Total value of assets	**16.7**			15.2		
The actual return on assets over the period was	**1.9**			(1.7)		

The assets of the scheme 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 6.5% in 2009 and 7.3% in 2008 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.

Defined benefit obligations, scheme assets and scheme deficit

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Total market value of assets	**16.7**	15.2	14.0	13.5	12.1
Present value of scheme liabilities	**(22.5)**	(17.3)	(16.7)	(18.1)	(17.4)
Scheme deficit at 30 September	**(5.8)**	(2.1)	(2.7)	(4.6)	(5.3)

The change in the present value of defined benefit obligation over the year was as follows:

	2009 £m	2008 £m
Present value of projected defined benefit obligation at start of the year	**17.3**	16.7
Interest on pension scheme liabilities	**1.1**	0.9
Actuarial loss/(gain)	**5.0**	(3.0)
Benefits paid	**(0.9)**	(0.7)
Insurance policies	**–**	3.4
Present value of projected defined benefit obligation at end of the year	**22.5**	17.3

Notes to the financial statements continued

28 Pension costs continued

The change in fair value of scheme assets over the year was as follows:

	2009 £m	2008 £m
Opening fair value of scheme assets	**15.2**	14.0
Expected return on scheme assets	**0.9**	0.9
Employer contributions	**0.5**	0.2
Actuarial gain/(loss)	**1.0**	(2.6)
Benefits paid	**(0.9)**	(0.7)
Insurance policies	**–**	3.4
Closing fair value of scheme assets	**16.7**	15.2

Pension cost recognised in the income statement

	2009 £m	2008 £m
Interest on pension scheme liabilities	**1.1**	0.9
Expected return on pension scheme assets	**(0.9)**	(0.9)
	0.2	–

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

Actuarial (loss)/gain recognised in the consolidated statement of recognised income and expense

	2009 £m	2008 £m
Actual return less expected return on assets	**1.0**	(2.6)
Experience gain on liabilities	**–**	1.3
(Loss)/gain on change of assumptions	**(5.0)**	1.7
Total actuarial (loss)/gain before tax	**(4.0)**	0.4

The net actuarial gain shown in the above tables of £4.0m (2008: £0.4m) net of tax has been included in the consolidated statement of recognised income and expense (see page 43).

History of assets, liabilities, experience gains and losses

	2009	2008	2007	2006	2005
Gains/(losses) arising on scheme liabilities:					
Due to experience	**–**	£1.3m	–	–	£0.9m
Percentage of defined benefit obligation	**–**	7.5%	–	–	5.2%
Due to change of basis	**£(5.0)m**	£1.7m	£2.0m	–	–
Percentage of defined benefit obligation	**(22.2)%**	9.8%	12.0%	–	–
Experience adjustments:					
Gains/(losses) arising on scheme assets	**£1.0m**	£(2.6)m	–	£0.6m	£0.8m
Percentage of scheme assets	**6.0%**	(17.1)%	–	4.2%	6.6%

28 Pension costs continued

Future funding obligation

The last actuarial valuation of the scheme was performed by the actuary for the trustees as at 1 July 2007. The company has agreed a recovery plan with the trustees and expects to pay £597,000 including the standard expense charges payable under the managed fund policy to the scheme during the year beginning 1 October 2009.

Sensitivity analysis

Set out below is an analysis of how the scheme deficit would vary with changes to the key actuarial assumptions:

Discount rate increased by 0.1%	decrease in deficit of £0.3m
Inflation increased by 0.1%	increase in deficit of £0.1m
Life expectancies increased by one year	increase in deficit of £0.7m

The cumulative amount of actuarial losses recognised in the consolidated statement of recognised income and expense before taxation is £1.7m (2008: gains of £2.3m).

29 Deferred tax liabilities

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

	2009 £m	2008 £m
Opening balance	**78.4**	113.5
Acquisition of subsidiaries in the year	**–**	3.8
Recognised in the income statement	**(37.2)**	(40.4)
Recognised in equity:		
Actuarial surplus on BPT pension scheme	**(1.1)**	0.1
Fair value movement in cash flow hedges and exchange adjustments	**(20.0)**	1.1
Equity component of available-for-sale financial asset	**0.7**	–
Exchange adjustments	**0.3**	0.3
Closing balance	**21.1**	78.4

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 £85.7m (2008: £104.5m).

Notes to the financial statements continued

30 Trade and other payables

	2009 £m	2008 £m
Deposits received	3.6	3.3
Trade payables	7.3	15.8
Other taxation and social security	0.3	0.5
Accruals and deferred income	76.9	60.5
	88.1	80.1

Trade payables includes £nil (2008: £0.6m) relating to acquisitions of property where contracts have either been unconditionally exchanged or notarised.

Accruals and deferred income includes £26.1m (2008: £29.1m) of rent received in advance relating to lifetime leases.

31 Share capital

	2009 £m	2008 £m
Authorised		
160,000,000 (2008: 160,000,000) ordinary shares of 5p each	8.0	8.0
Allotted, called-up and fully paid		
138,798,113 (2008: 128,716,094) ordinary shares of 5p each	6.9	6.4

Grainger plc acquired 194,987 of its own shares for £0.2m in January 2009. In addition, the group paid £0.2m to the SIP scheme during the year for the purchase of matching shares in the scheme.

The overall cost of £0.4m has been deducted from retained earnings within shareholders' equity (see note 33).

As at 30 September 2009, share capital included 31,929 (2008: 584,673) shares held by The Grainger Trust Employee Trustee Company Limited, 1,975,867 (2008: 1,017,088) shares held by The Grainger Employee Benefit Trusts and 21,410 (2008: 452,912) shares held by Grainger plc as treasury shares. The total of these shares is 2,029,206 (2008: 2,054,673) with a nominal value of £101,460 (2008: £102,734).

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

	Number	Nominal value £'000
At 1 October 2007	128,656,385	6,433
Options exercised under LTIS	11,307	1
Options exercised under SAYE schemes	48,402	2
At 30 September 2008	128,716,094	6,436
Shares issued following conversion of £87.1m of 2014 convertible bond	10,081,013	504
Options exercised under SAYE schemes	1,006	–
At 30 September 2009	**138,798,113**	**6,940**

31 Share capital continued

Share options

Certain senior executives hold options to subscribe for shares in the company under LTIS. In addition, the company operates a SAYE share option scheme available to employees. The number of shares subject to options as at 30 September 2009, 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	2009 number	2008 number
LTIS				
2003	191.8	2006-13	**52,586**	52,586
2006	528.0	2009-16	**–**	313,445
2007	640.9	2010-17	**9,360**	14,040
			61,946	380,071
SAYE share options				
2003	186.5	2006-09	**–**	25,615
2004	271.8	2007-10	**1,800**	6,250
2005	334.0	2008-11	**–**	18,796
2006	413.0	2009-12	**1,899**	3,527
2007	454.3	2010-13	**997**	1,745
2008 (A)	167.8	2011-14	**74,687**	612,351
2008 (B)	65.2	2012-14	**1,366,337**	–
2009	118.0	2012-15	**85,913**	–
			1,531,633	668,284
Total share options			**1,593,579**	1,048,355

Notes to the financial statements continued

31 Share capital continued

The movement on the share options schemes during the year is as follows:

	Opening position	Exercised	Granted	Lapsed	Closing position
LTIS					
2003	52,586	–	–	–	52,586
2006	313,445	–	–	(313,445)	–
2007	14,040	–	–	(4,680)	9,360
	380,071	–	–	(318,125)	61,946
Weighted average exercise price (pence per share)	485.7	–	–	529.7	259.7
SAYE schemes					
2003	25,615	–	–	(25,615)	–
2004	6,250	(240)	–	(4,210)	1,800
2005	18,796	–	–	(18,796)	–
2006	3,527	–	–	(1,628)	1,899
2007	1,745	–	–	(748)	997
2008 (A)	612,351	–	–	(537,664)	74,687
2008 (B)	–	(766)	1,408,144	(41,041)	1,366,337
2009	–	–	85,913	–	85,913
	668,284	(1,006)	1,494,057	(629,702)	1,531,633
Weighted average exercise price (pence per share)	176.2	114.5	68.2	168.5	74.1

For those share options exercised during the year, the weighted average share price at the date of exercise was 290.1p (2008: 350.9p). For share options outstanding at the end of the year, the weighted average remaining contractual life is 3.9 years (2008: 2.6 years). There were 56,285 (2008: 96,404) share options exercisable at the year end with a weighted average exercise price of 201.8p (2008: 217.2p).

Further details of the above option schemes is provided in the report of the remuneration committee and directors' remuneration report on pages 30 to 36 which form part of these financial statements.

32 Share-based payments

The group operates an equity-settled, share-based compensation plan comprising awards under a LTIS, a SIP and a SAYE scheme.

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 valued at fair value using a Monte Carlo simulation model.

For awards under the 2009, 2008 and 2007 LTIS, one third are subject to an absolute TSR 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 valued at fair value 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 valued at fair value using a Black-Scholes valuation model.

32 Share-based payments continued

Awards under the SIP and SAYE scheme have been valued at fair value using a Black-Scholes model. Shares were awarded, subject to the vesting conditions set out above, to executive directors and selected employees during the year under the LTIS but there were no options granted in the year under this scheme. Share options were granted to employees of the group during the year under the SAYE scheme. The main assumptions used to value the shares and options granted during the year are as follows:

LTIS

Share awards:

Award date	21 January 2009 Market based	21 January 2009 Non-market based	23 December 2008 Market based	23 December 2008 Non-market based
Number of shares on grant	57,859	115,718	697,647	1,395,293
Exercise price (£)	–	–	–	–
Vesting period from date of grant (years)	3	3	3	3
Exercise period after vesting (years)	7	7	7	7
Share price at grant (£)	1.037	1.037	1.232	1.232
Expected risk free rate (%)	5.310	5.310	5.310	5.310
Expected dividend yield (%)	0.900	0.900	0.900	0.900
Expected volatility (%)	26.000	26.000	26.000	26.000
Fair value (£)	0.387	0.387	0.520	0.520

SAYE

Award date	28 July 2009 3-year scheme	28 July 2009 5-year scheme	23 December 2008 3-year scheme	23 December 2008 5-year scheme
Number of shares on grant	57,979	27,934	674,324	733,820
Exercise price (£)	1.180	1.180	0.652	0.652
Vesting period from date of grant (years)	3	5	3	5
Expected exercise date	1 Nov 12	1 Nov 14	1 Apr 12	1 Apr 14
Share price at grant (£)	1.805	1.805	1.358	1.358
Expected risk free rate (%)	4.698	4.698	4.698	4.698
Expected dividend yield (%)	1.100	1.100	1.100	1.100
Expected volatility (%)	21.000	21.000	21.000	21.000
Fair value (£)	0.570	0.650	0.430	0.490

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 £0.8m (2008: £0.5m).

Movements in options and options exercisable as at 30 September 2009 are shown in note 31.

Notes to the financial statements continued

33 Consolidated statement of changes in equity

	Issued share capital £m	Share premium £m	Merger reserve £m	Equity component of convertible bond £m	Capital redemption reserve £m	Cash flow hedge reserve £m	Available-for-sale reserve £m	Retained earnings £m	Total £m
Balance as at 1 October 2007	6.4	23.0	20.1	22.4	0.3	8.2	–	242.6	323.0
Loss for the year	–	–	–	–	–	–	–	(77.4)	(77.4)
Actuarial gain on BPT pension scheme net of tax	–	–	–	–	–	–	–	0.3	0.3
Changes in fair value of cash flow hedges net of tax	–	–	–	–	–	(2.8)	–	–	(2.8)
Net exchange adjustment offset in reserves	–	–	–	–	–	–	–	0.8	0.8
Purchase of own shares	–	–	–	–	–	–	–	(1.0)	(1.0)
Issue of shares to satisfy employee share options	–	0.1	–	–	–	–	–	–	0.1
Share-based payments charge	–	–	–	–	–	–	–	0.5	0.5
Dividends paid	–	–	–	–	–	–	–	(8.3)	(8.3)
Acquisition of minority interests	–	–	–	–	–	–	–	(5.5)	(5.5)
Balance as at 30 September 2008	6.4	23.1	20.1	22.4	0.3	5.4	–	152.0	229.7
Loss for the year	–	–	–	–	–	–	–	(122.0)	(122.0)
Actuarial loss on BPT pension scheme net of tax	–	–	–	–	–	–	–	(2.9)	(2.9)
Changes in fair value of cash flow hedges net of tax	–	–	–	–	–	(47.0)	–	–	(47.0)
Fair value movement on available-for-sale financial asset net of tax	–	–	–	–	–	–	1.9	–	1.9
Net exchange adjustment offset in reserves	–	–	–	–	–	–	–	0.6	0.6
Purchase of own shares	–	–	–	–	–	–	–	(0.4)	(0.4)
Issue of shares	0.5	86.6	–	–	–	–	–	–	87.1
Conversion of convertible bond	–	–	–	(17.4)	–	–	–	–	(17.4)
Transfer on early conversion of convertible bond	–	–	–	–	–	–	–	3.2	3.2
Share-based payments charge	–	–	–	–	–	–	–	0.8	0.8
Dividends	–	–	–	–	–	–	–	(5.2)	(5.2)
Balance as at 30 September 2009	**6.9**	**109.7**	**20.1**	**5.0**	**0.3**	**(41.6)**	**1.9**	**26.1**	**128.4**

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 612 of the Companies Act 2006 and the premium relating to the shares issued was credited to a merger reserve.

33 Consolidated statement of changes in equity continued

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.

Equity component of convertible bond

In November 2008, holders representing £87.1m of the £112m 2014 convertible bond accepted a cash payment of £35,000 per £100,000 nominal bond value to convert early. The effects of this early conversion were the issuance of 10.08 million ordinary shares, the reduction of £57m in nominal debt and an increase in net assets of £42m.

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 £m	Translation reserve £m	Retained earnings £m	Total retained earnings reserve £m
Balance as at 1 October 2007	1.5	(7.8)	(8.4)	0.4	256.9	242.6
Loss for the year	–	–	–	–	(77.4)	(77.4)
Actuarial gain on BPT pension scheme net of tax	–	–	–	–	0.3	0.3
Net exchange adjustment offset in reserves	–	–	–	0.8	–	0.8
Purchase of own shares	–	–	(1.0)	–	–	(1.0)
Share-based payments charge	0.5	–	–	–	–	0.5
Dividends	–	–	–	–	(8.3)	(8.3)
Acquisition of minority interests	–	–	–	–	(5.5)	(5.5)
Balance as at 30 September 2008	2.0	(7.8)	(9.4)	1.2	166.0	152.0
Loss for the year	–	–	–	–	(122.0)	(122.0)
Actuarial loss on BPT pension scheme net of tax	–	–	–	–	(2.9)	(2.9)
Net exchange adjustment offset in reserves	–	–	–	0.6	–	0.6
Purchase of own shares	–	–	(0.4)	–	–	(0.4)
Award of shares from own shares	(0.7)	–	0.7	–	–	–
Transfer on conversion of convertible bond	–	–	–	–	3.2	3.2
Share-based payments charge	0.8	–	–	–	–	0.8
Dividends	–	–	–	–	(5.2)	(5.2)
Balance as at 30 September 2009	**2.1**	**(7.8)**	**(9.1)**	**1.8**	**39.1**	**26.1**

Share-based payments reserve

This reserve comprises the cumulative credit entries relating to the share-based payments charge made in the income statement less the average cost of shares issued to employees.

Investment in own shares reserve

As at 30 September 2009, the group owned its own shares as follows: 31,929 (2008: 584,673) shares held by The Grainger Trust Employee Trustee Company Limited, 1,975,867 (2008: 1,017,088) shares held by The Grainger Employee Benefit Trusts and 21,410 (2008: 452,912) shares held by Grainger plc as treasury shares. The total of shares held is 2,029,206 (2008: 2,054,673) with a cost of £9,125,863 (2008: £9,459,400).

Notes to the financial statements continued

34 List of principal subsidiaries

The directors consider that providing details of all subsidiaries, joint ventures and associates as at 30 September 2009 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 & 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
Warren Court Limited	100		England & Wales	Property Trading
Grainger Hornsey, Limited	100		England & Wales	Land Development
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 2517 Limited	100		England & Wales	Property Trading
Grainger Recklinghausen Portfolio One Sarl & Co KG	100		Germany	Property Investment
Grainger Recklinghausen Portfolio Two Sarl & Co KG	100		Germany	Property Investment
Grainger Berlin Portfolio One Sarl & Co KG	100		Germany	Property Investment
Grainger Stuttgart Portfolio One Sarl & Co KG	100		Germany	Property Investment
Grainger Stuttgart Portfolio Two Sarl & Co KG	100		Germany	Property Investment
Francono Rhein-Main AG	100		Germany	Property Investment
Grainger Luxembourg Financing (No. 1) Sarl	100		Luxembourg	Finance Company
Grainger Luxembourg Financing (No. 2) SA	100		Luxembourg	Finance Company
Grainger Luxembourg Financing (No. 3) SA	100		Luxembourg	Finance Company
Grainger Luxembourg Germany Holdings Sarl	100		Luxembourg	Investment Company
Grainger Treasury Property (2006) LLP	100		England & Wales	Property Investment
The Tilt Estate Company Limited	100		England & Wales	Property Investment
Grainger Retirement Housing No.1 (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.

35 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:

	2009 Fees recognised £'000	2009 Year-end balance £'000	2008 Fees recognised £'000	2008 Year-end balance £'000
Asset adviser fee	**700**	**199**	878	256
Sales fee	**43**	**6**	36	8
Commercial management fee	**26**	**7**	30	8
Treasury fee	**30**	**8**	30	9
	799	**220**	974	281

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

	Balance as at 30 September 2009 £m	Balance as at 30 September 2008 £m	2009 Interest receivable £m	2008 Interest receivable £m
Grainger GenInvest LLP – 8.5% fixed interest loan note	**7.8**	7.1	**0.7**	0.7
Grainger GenInvest No 2 (2006) LLP – 11.0% fixed interest loan note	**5.2**	4.8	**0.3**	0.3
Grainger GenInvest No 2 (2006) LLP – mezzanine loan at LIBOR plus 4%	**75.3**	68.3	**5.3**	6.6
	88.3	80.2	**6.3**	7.6

Interest receivable is included within interest receivable from associates and joint ventures shown in note 13. The difference of £3.0m between the figure shown above of £6.3m and the amount shown in note 13 of £3.3m is a consolidation adjustment to eliminate interest receivable by the group from the Grainger GenInvest entities against interest payable in those entities to the group.

The loan notes have no fixed repayment date and are subordinated to external financing within 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 2009. The group has provided a loan to Curzon Park Limited as at 30 September 2009 of £7.5m (2008: £7.4m). The loan is repayable on demand and bears interest at 4% per annum.

Notes to the financial statements continued

35 Related party transactions continued

The group held a 21.6% interest in G:res1 Limited as at 30 September 2009. The group provides a number of services to the fund 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:

	2009 Fees recognised £'000	2009 Year-end balance £'000	2008 Fees recognised £'000	2008 Year-end balance £'000
Property management fees	**1,443**	**370**	1,437	364
Lettings and renewal fees	**167**	**50**	187	49
Asset management fees	**2,229**	**1,033**	2,739	616
	3,839	**1,453**	4,363	1,029

The group held a 21.8% interest in the Schroders Residential Property Unit Trust as at 30 September 2009. The group provides a number of services to the trust and receives a property management fee, a lettings and renewal fee, an asset management fee and a sales fee.

Amounts recognised in the income statement and the outstanding balance at the year end are as follows:

	2009 Fees recognised £'000	2009 Year-end balance £'000	2008 Fees recognised £'000	2008 Year-end balance £'000
Property management fees	**202**	**19**	320	90
Lettings and renewal fees	**9**	**–**	13	4
Asset management fees	**369**	**67**	530	140
Sales fees	**91**	**64**	–	–
	671	**150**	863	234

Details of key management compensation are provided in note 11.

36 Capital commitments

As at 30 September 2009, the group and its joint ventures and associates had capital commitments of £nil (2008: £nil).

37 Operating lease commitments

The future aggregate minimum lease payments payable by the group under non-cancellable operating leases are as follows:

	2009 £m	2008 £m
Operating leases which expire:		
Not later than one year	**0.4**	0.5
Later than one year and not later than five years	**2.7**	0.9
Later than five years	**5.9**	5.9
	9.0	7.3

The group expects to receive £1.0m under non-cancellable sub-leases (2008: £nil).

38 Contingent liabilities

The properties in certain subsidiary companies forming a 'guarantee group' provide the security for the group's MOF (see note 26). The properties in certain of the group's German subsidiaries provide security for the non-recourse finance raised in those subsidiary undertakings. Barclays Bank PLC and Lloyds TSB Bank plc have provided guarantees under performance bonds relating to the group's UK development division. In addition, they have provided guarantees against certain loan notes issued by the group. In either case, if called upon, the relevant bank would have recourse to the group in relation to these guarantees.

As at 30 September 2009, total guarantees amounted to £4.5m (2008: £14.3m).

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.

39 Post balance sheet events

Grainger plc has announced, at the same time as these financial statements have been issued, its intention to raise approximately £250m (approximately £238m net of expenses) by way of a fully underwritten Rights Issue. The group will use this additional equity finance to improve its balance sheet leverage ratios, reduce the overall cost and size of its debt and to recommence property acquisition activities as suitable opportunities arise.

40 Business combinations

Effective from 1 January 2009, the group acquired a 50% joint venture interest in Gebau Vermogen GmbH, a residential property management company based in Germany. The consideration for the acquisition was €2.9m. The net assets acquired totalled €0.2m, generating goodwill of €2.7m. Due to the immaterial nature of the transaction, no further disclosure is provided.

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 2009 which comprise the parent company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out in the directors' report, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Sections 495 to 497 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- Give a true and fair view of the state of the company's affairs as at 30 September 2009;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The part of the report of the remuneration committee and directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the directors' report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the group financial statements of Grainger plc for the year ended 30 September 2009.

Bowker Andrews (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
5 November 2009

Parent company balance sheet

As at 30 September 2009	Notes	2009 £m	2008 £m
Fixed assets			
Tangible assets	2	**0.1**	0.2
Investments	3	**127.7**	109.4
		127.8	109.6
Current assets			
Investment in associates	3	**8.7**	–
Debtors	4	**309.9**	325.8
Cash at bank and in hand		**1.1**	0.6
		319.7	326.4
Creditors: amounts falling due within one year	5	**162.3**	127.9
Net current assets		**157.4**	198.5
Total assets less current liabilities		**285.2**	308.1
Creditors: amounts falling due after more than one year			
Convertible bond	6	**21.0**	91.1
Provisions for liabilities and charges	7	**–**	0.4
Net assets		**264.2**	216.6
EQUITY			
Capital and reserves			
Called-up equity share capital	8	**6.9**	6.4
Share premium	9	**109.7**	23.1
Capital redemption reserve	9	**0.3**	0.3
Equity component of convertible bond	9	**5.0**	22.4
Profit and loss account	9	**142.3**	164.4
Total shareholders' funds		**264.2**	216.6

The financial statements on pages 107 to 111 were approved by the board of directors on 5 November and were signed on their behalf by:

Andrew R Cunningham
Chief executive officer

Notes to the parent company financial statements

1 Accounting policies

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 2006 and applicable UK accounting standards.

The company has taken the exemption allowed under Section 408 of the Companies Act 2006 from the requirement to present its own profit and loss account. The loss for the year was £20.4m (2008: profit of £36.3m). On an historical cost basis the loss for the year would have been £20.0m (2008: profit of £38.5m). 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 (revised 1996)', the company has not prepared a cash flow statement on the grounds that it has presented 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 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 valued at fair value under FRS 26 'Financial Instruments: Recognition and Measurement'. 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 or losses 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 Trusts are included in the consolidated financial statements. The purchase of shares in the company by each trust and any treasury shares bought back by the company are debited directly to equity.

h) Convertible bond
The £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 based on 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.

i) Share-based payments
Under the share-based compensation arrangements set out in note 1(l)(iii) on page 51, employees of Grainger Employees Limited have been awarded options and conditional shares in the company. These share-based arrangements have been treated as equity-settled in the group consolidated financial statements. In the company accounts the share-based payment charge has been added to the cost of investment in subsidiaries with a corresponding adjustment to equity.

2 Tangible fixed assets

	Fixtures, fittings and equipment £m
Cost	
At 1 October 2008 and 30 September 2009	0.9
Depreciation	
At 1 October 2008	0.7
Charge for the year	0.1
At 30 September 2009	0.8
Net book value	
At 30 September 2009	**0.1**
At 1 October 2008	0.2

3 Investments

	Investment in subsidiaries £m	Investment in Schroders Residential Property Unit Trust £m	Total £m
Valuation			
At 1 October 2008	92.3	17.1	109.4
Additions	35.4	–	35.4
Disposals	–	(7.6)	(7.6)
Reduction to fair value	–	(0.8)	(0.8)
At 30 September 2009	**127.7**	**8.7**	**136.4**

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 valued at fair value under FRS 26. The investment in the Schroders Residential Property Unit Trust can be reliably measured and, therefore, has been valued at fair value under FRS 26.

The additions in the year relate to an investment of £34.6m in Grainger Europe No.2 Ltd and a capital contribution during the year of £0.8m in respect of share-based payment awards granted to employees of a subsidiary company.

The investors in Schroders ResPUT have agreed to a controlled liquidation of the fund and the group has received a number of redemption payments as assets have been realised. The investment is therefore held as a current asset in 2009.

A list of the principal subsidiaries of the company is given in note 34 on page 102.

4 Debtors

	2009 £m	2008 £m
Amounts owed by group undertakings	**309.8**	325.1
Other debtors	**0.1**	0.7
	309.9	325.8

Debtors in both 2009 and 2008 are all due within one year.

Notes to the parent company financial statements continued

5 Creditors: amounts falling due within one year

	2009 £m	2008 £m
Loan notes	–	0.4
Amounts owed to group undertakings	161.6	125.3
Corporation tax payable	–	0.3
Other taxation and social security	0.1	0.1
Accruals and deferred income	0.6	1.8
	162.3	127.9

6 Convertible bond

	2009 £m	2008 £m
Opening balance	92.7	90.2
Early conversion during the year	(72.2)	–
Amortised during the year	0.8	2.5
	21.3	92.7
Unamortised issue costs	(0.3)	(1.6)
Liability component at 30 September 2009	21.0	91.1

As part of the early conversion in November 2008, holders representing £87.1m of the £112m 2014 convertible bond accepted a cash payment of £35,000 per £100,000 nominal bond value to convert early.

7 Provision for liabilities and charges

	2009 £m	2008 £m
Deferred tax liability:		
Opening balance	0.4	1.2
Deferred tax on revaluation deficits	(0.4)	(0.8)
Closing balance	–	0.4

The deferred tax balance relates to the tax on the unrealised gain on the revaluation of the investment in units in the Schroders Residential Property Unit Trust. Deferred tax is provided at a rate of 28% (2008: 28%).

8 Share capital

	2009 £m	2008 £m
Authorised		
160,000,000 (2008: 160,000,000) ordinary shares of 5p each	8.0	8.0
Allotted, called-up and fully paid		
138,798,113 (2008: 128,716,094) ordinary shares of 5p each	6.9	6.4

Grainger plc acquired 194,987 of its own shares for £0.2m in January 2009. In addition, the group paid £0.2m to the SIP scheme during the year for the purchase of matching shares in the scheme. The overall cost of £0.4m has been deducted from retained earnings within shareholders' equity (see note 9 on page 111).

8 Share capital continued

As at 30 September 2009, share capital included 31,929 (2008: 584,673) shares held by The Grainger Trust Employee Trustee Company Limited, 1,975,867 (2008: 1,017,088) shares held by The Grainger Employee Benefit Trusts and 21,410 (2008: 452,912) shares held by Grainger plc as treasury shares. The total of these shares is 2,029,206 (2008: 2,054,673) with a nominal value of £101,460 (2008: £102,734).

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

	Number	Nominal value £'000
At 1 October 2007	128,656,385	6,433
Options exercised under LTIS	11,307	1
Options exercised under SAYE schemes	48,402	2
At 30 September 2008	128,716,094	6,436
Shares issued following conversion of £87.1m of 2014 convertible bond	10,081,013	504
Options exercised under SAYE schemes	1,006	–
At 30 September 2009	**138,798,113**	**6,940**

Details of share options granted by the company are provided in note 31 on pages 96 to 98.

9 Reserves

	Share premium £m	Capital redemption reserve £m	Equity component of convertible bond £m	Profit and loss account £m
At 1 October 2008	23.1	0.3	22.4	164.4
Retained loss for the year	–	–	–	(20.4)
Share-based payment charge	–	–	–	0.8
Issue of shares	86.6	–	–	–
Conversion of convertible bond	–	–	(17.4)	3.2
Purchase of own shares	–	–	–	(0.4)
Dividends paid	–	–	–	(5.3)
At 30 September 2009	**109.7**	**0.3**	**5.0**	**142.3**

10 Other information

Post balance sheet event

Grainger plc has announced, at the same time as these financial statements have been issued, its intention to raise approximately £250m (approximately £238m net of expenses) by way of a fully underwritten Rights Issue. The group will use this additional equity finance to improve its balance sheet leverage ratios, reduce the overall cost and size of its debt and to recommence property acquisition activities as suitable opportunities arise.

Dividends

Information on dividends paid and declared is given in note 15 on page 69.

Share options

Details of share options outstanding and the movements during the year are given in note 31 on pages 97 and 98 respectively.

Audit fees

The audit fee for the year was £8,000 (2008: £8,000).

Five-year record for the year ended 30 September 2009

	IFRS				
	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m
Group revenue	227.6	206.3	229.3	246.2	**302.2**
Gross rental income	45.5	52.6	52.7	70.7	**77.9**
Sales of investment properties	13.3	40.6	14.8	7.4	**8.8**
Profits on disposal of trading properties	67.2	56.2	62.8	62.6	**44.9**
Profit/(loss) before taxation**	41.0	47.7	77.5	(112.1)	**(170.0)**
Profit/(loss) after taxation and minority interests**	31.1	33.5	60.9	(77.4)	**(122.0)**
Dividends taken to equity	6.9	6.9	7.6	8.3	**5.2**

	Pence per share	Pence per share	Pence per share	Pence per share	Pence per share
(Loss)/earnings**	24.88	25.99	47.26	(61.05)	**(89.81)**
Dividends per share	5.11	5.62	6.18	6.18	**3.91**

	£m	£m	£m	£m	£m
Fixed assets and stocks on a financial statements basis	1,225.4	1,467.8	1,865.0	2,027.4	**1,886.1**
Fixed assets and stocks at market value	1,639.3	2,009.9	2,514.7	2,404.6	**2,201.1**
Share capital and reserves	211.1	250.1	323.1	229.8	**128.5**

	Pence per share	Pence per share	Pence per share	Pence per share	Pence per share
Net asset value on a financial statements basis	159.1	192.5	251.1	178.4	**92.6**
Net asset value including fixed assets and stocks at market value*	475.4	606.3	751.7	471.5	**317.5**
Dividend cover**	4.7x	4.6x	7.7x	–	**–**
Share price at 30 September	456.0p	628.0p	447.5p	200.0p	**297.6p**

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	10 February 2010
Payment of 2009 final dividend	12 February 2010
Announcement of 2010 interim results	May 2010
Announcement of 2010 final results	November 2010

Share price

During the year ended 30 September 2009, the range of the closing mid-market prices of the company's ordinary shares were:

Price at 30 September 2009	298p
Lowest price during the year	64p
Highest price during the year	302p

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

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Company registration number 125575

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Corporate public relations

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Banking

Clearing Bank and Facility Agent
Barclays Bank PLC

Other bankers

Lloyds TSB Bank plc

The Royal Bank of Scotland plc

Allied Irish Banks plc

The Governor and Company of the Bank of Scotland

National Australia Bank Limited

Nationwide Building Society

Eurohypo AG

Deutsche Pfandbriefbank AG

The Governor and Company of the Bank of Ireland

GE Real Estate Finance Limited

Svenska Handelsbanken AB

SEB AG

Bayerische Hypo-und VereInsbank AG

HSH Nordbank AG

Sparkasse

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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.

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 life tenancy.

Investment value ('IV') or market value
Open market value of a property subject to relevant tenancy in place.

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.

Tenanted residential ('TR')
Activity covering the acquisition, renting out and subsequent sale (usually on vacancy) of residential units subject to a tenancy agreement.

Vacant possession ('VP') value
Open market value of a property free from any tenancy.

Corporate

Grainger NAV
NNNAV adjusted for the after tax value of the reversionary surplus in our regulated and equity release portfolios discounted back to present value using our risk adjusted weighted average cost of capital over the expected average period of realisation.

IFRS
International Financial Reporting Standards, 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 should assets be sold at the market value shown in the accounts.

Financial continued

Dividend cover
Earnings per share divided by dividends per share.

Earnings per share ('EPS')
Profit after tax 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 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.

Gross net asset value ('Gross NAV')
Market value of net assets before deduction for deferred tax on property revaluations and before adjustments for the fair value of derivatives.

Hedging
The use of financial instruments to protect against interest rate movements.

Interest cover
Profit on ordinary activities before interest and tax divided by net interest payable.

Loan to value ('LTV')
Ratio of net debt to the market value of properties.

Net net net asset value (triple net or 'NNNAV')
Gross NAV adjusted for contingent tax liabilities which would accrue if assets sold at market value and for the market value of long-term debt and derivatives.

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 together with all revaluation movements as 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.

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