grainger plc

Annual report and accounts
for the year ended 30 September 2010

Grainger plc is the UK's largest specialist residential property owner and manager traded on the London Stock Exchange.

We have approximately £2.1bn of wholly-owned property assets and £2.8bn of assets under management. We are property managers for approximately 26,400 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.

HIGHLIGHTS 2010

20 UK Residential

58 2010 Results

Property assets – £2.1bn
Assets under management – £2.8bn
Property managers for 26,400 properties
Operating profit up 20%
Operating profit up to £94m

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A diverse portfolio...

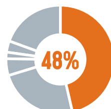
Grainger owns, acquires and trades regulated and market-let tenanted properties and has a substantial portfolio of home reversion properties. We also undertake fund, property, and asset management along with residential-led development.

UK residential

The UK residential business primarily consists of properties subject to a regulated tenancy. The portfolio is geographically widespread but with a strong concentration in London and the South East, (67% by value). This unique portfolio brings strong and stable cash flows from rental income and trading profits on the sale of property.

	2010	2009
Regulated units owned	**5,969**	6,327
Market value	**£863m**	£871m
Vacant possession value	**£1,185m**	£1,197m
Other assets	**915**	831
Market value	**£205m**	£188m
Vacant possession value	**£232m**	£214m

Value at 30/09/10 is £1,068m



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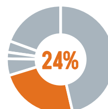
Retirement solutions

We are a market leader in the UK equity release business, with a particular focus on the home reversion sector. Our retirement solutions business offers home reversion plans with a range of features through our Bridgewater business, which distributes these plans through independent financial advisers and a strategic partnership with Aviva.

	2010	2009
Units owned	**6,981**	6,101
Market value	**£545m**	£481m
Vacant possession value	**£800m**	£699m

Value at 30/09/10 is £545m



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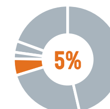
Fund management and residential investments

Our fund management and residential investments business comprises our investments in funds and joint ventures and the income from profits, dividends and management fees. The principal components are G:res1, a market rented residential property fund in which we are a co-investor and asset and property manager and GenInvest, our joint venture with Genesis Housing Association.

	2010	2009
Units owned	**3,449**	3,975
Grainger investment	**£109m**	£101m
Net asset value	**£199m**	£205m
Gross asset value	**£651m**	£696m

Value at 30/09/10 is £109m



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Property services

Our property services business provides property and asset management services nationally to our wholly-owned properties in the UK, those owned by co-investment vehicles and portfolios owned by third parties. This in-house capability is a distinguishing feature of Grainger's residential business. Our 'owner-manager' mentality enables us to drive asset value and facilitate outperformance.

	2010	2009
UK units managed	**19,263**	17,470
Gross rent roll	**£76m**	£78m
Gross property expenditure	**£20m**	£21m

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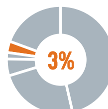
Development

Grainger's development business focuses on value creation by assembling residential development and mixed-use opportunities, obtaining or amending planning permissions, installing infrastructure and then either selling or self-developing plots. We take a long-term interest in the communities that we create and have the perspective of an investor rather than a developer/trader.

	2010	2009
Market value including share of joint ventures	**£79m**	£86m
Number of development sites	**23**	28

Value at 30/09/10 is £79m



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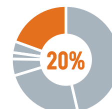
German residential

Our portfolio is concentrated in the economically and demographically stronger regions of Germany (Baden-Württemberg, Bavaria and the Rhine-Main area) and major cities such as Frankfurt, Cologne, Düsseldorf and Munich. Our asset and property management JV, Gebau Vermögen, looks after 19,000 units throughout Germany and enables us to offer an integrated asset and property management service.

	2010	2009
Residential units owned	**6,776**	6,807
Market value	**£442m**	£473m
Gross rents	**£30m**	£30m
Gross annual running rent	**£31m**	£31m

Value at 30/09/10 is £442m



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Grainger = Residential

In the UK and Germany we own £2.1bn of property assets, have £2.8bn of property assets under management and are property managers to 26,400 units.

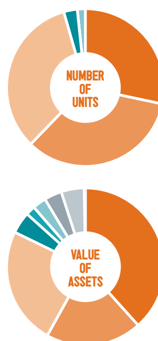
We directly own almost **14,000** properties in the UK and more than **7,000** properties in Germany.

Diversification across the residential market

Grainger's market leading position is enhanced by the ability to utilise the scale, experience and specialist expertise of our diverse business units to realise opportunities across the whole residential market.

As at 30 September 2010	Number of units	Value of assets £m
* Regulated	5,969	863
* German portfolio	7,148	442
* Home reversion*	6,981	545
* Assured shorthold	571	98
* Other	50	40
* Vacant	294	67
* Development	–	79
* JV/associates	–	109
Total	**21,013**	**2,243**

*includes Sovereign Reversions

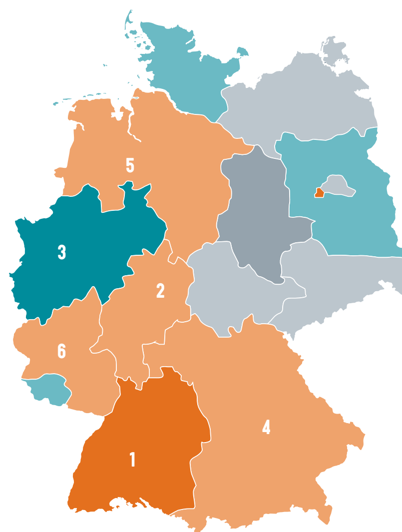


Geographic diversification

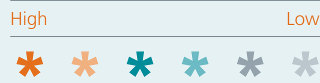
Grainger's properties have a diverse geographic spread within the UK and Germany. The UK portfolio is spread throughout the country with the greatest concentration of value located in London and South East England, the areas in which we anticipate the greatest future capital appreciation. Our UK properties are also geographically diverse on a local level, and are not subject to the 'cluster risk' of newly built and geographically concentrated developments.

Germany

As at 30 September 2010	Number of units	Book value €m	% of Grainger investment
1 Baden – Württemberg	1,502	129.50	25%
2 Hesse	1,514	111.70	22%
3 Northrhine – Westphalia	1,721	103.40	20%
4 Bavaria	559	55.20	11%
5 Lower Saxony	805	39.60	8%
6 Rhineland – Palatinate	379	28.20	6%
Other	668	42.40	8%
Total	**7,148**	**510.00**	**100%**



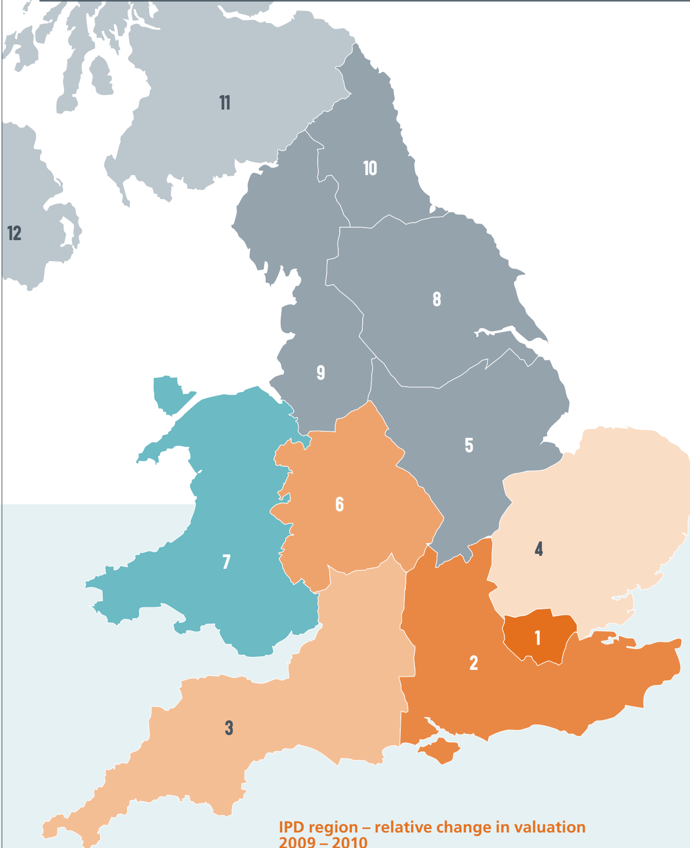
Regional economic and social attractiveness – based on Berlin Institute (2006)



UK Assets

Aggregated UKR and RS portfolios as at 30 September 2010 (excluding Sovereign)

	Number of units	Vacant possession value £m	Investment value £m	% of Grainger investment
1 London (total)	2,783	826	621	40%
2 South East	2,210	347	250	16%
3 South West	1,521	194	144	9%
4 East Anglia	1,389	178	129	8%
5 East Midlands	841	87	61	4%
6 West Midlands	1,025	152	113	7%
7 Wales	184	22	15	1%
8 Yorkshire	770	81	57	4%
9 North West	1,436	151	107	7%
10 North East	381	43	32	2%
11 Scotland	274	22	16	1%
12 Northern Ireland	13	1	1	0%
Total	**12,827**	**2,104**	**1,546**	**100%**



IPD region – relative change in valuation 2009 – 2010

High Low

Diversity of income streams

Grainger generates income from a variety of sources including:

* Rental income principally from tenanted properties in the UK residential and German portfolios;
* Proceeds from the sale of properties in the UK residential, retirement solutions and German portfolios and the sale of land and properties in the development portfolio;
* Fund management fees and performance-based distributions from the fund management and residential investments business; and
* Property and asset management fees from the property services business.

This diversity provides certainty of income despite short-term market volatility.

Diversity of ownership structures

We hold our interests in properties through a variety of ownership structures which aim to maximise our income on a risk-adjusted basis. The properties within the UK residential portfolio and retirement solutions portfolio are largely wholly owned which entitles us to the full benefit of the rental income and sales proceeds. Our limited equity interests in joint venture arrangements allow us to benefit from the contribution of our partners and co-investors in relation to both expertise and financing, while reducing our capital and risk exposure.

Highlights 2010

Financial highlights

* Operating profit up 19.5% to £94.2m (30 September 2009: £78.8m) before valuation movements and non-recurring items.
* Gross NAV per share up 3.1% to 200p (30 September 2009: 194p); Grainger NAV 180p (30 September 2009: 177p).
* Adjusted profit before tax £18.8m prior to £39.6m charge for mark to market on financial derivatives (30 September 2009: loss of £131.3m, prior to charge of £38.7m).
* Loss before tax of £20.8m after mark to market adjustment of £39.6m (30 September 2009: £170.0m loss).
* Total UK residential and retirement solutions sales of £150m (2009: £169m), at improved margins of 38.5% compared to 27.8% (30 September 2009) resulting in overall residential trading profits increasing to £58m from £47m at 30 September 2009.
* Overall vacant possession sales during the year were at a level some 6.6% above 30 September 2009 vacant possession values (30 September 2009: 6.9% below 30 September 2008).
* Valuation of the UK residential portfolio (assisted by its London and South East bias) shows a year-on-year increase in vacant possession values of 4.8% compared to increases of 2.6% and 3.1% in the Halifax and Nationwide indices respectively.
* Rights issue raising £237m net of costs resulting in loan-to-value on core facility falling to 54% (30 September 2009: 66%).

Operational highlights

* Executive board strengthened with appointment of Nick Jopling as executive property director, Mark Greenwood as finance director and Peter Couch, chief operating officer and head of Grainger's retirement solutions business.
* Recommencement of prudent buying programme with some £63m of new property acquired compared to £12m in 2009.
* Acquisition of AIM listed Sovereign Reversions plc for £34.2m. Net assets acquired were £38.7m, including circa £68m of home reversion assets. A 50% equity stake was subsequently sold into a joint venture.

WHOLLY-OWNED PROPERTY ASSETS (£m)

Year	£m
2010	2,127
2009	2,083
2008	2,260
2007	2,322
2006	1,901

GROSS NAV PER SHARE (pence)

Year	pence
2010	200
2009	194
2008	228
2007	321
2006	274

DIVIDEND PER SHARE (pence)

Year	pence
2010	1.70
2009	1.29
2008	2.00
2007	1.95
2006	1.80

Refurbished interior, Winkley Street, Bethnal Green, London

Chairman's statement

Robin Broadhurst
Chairman

"The company has repeatedly demonstrated that it can outperform the sector and we expect to continue this trend in 2011."

Following a difficult year in 2008/09 the group has taken a number of positive steps including the completion of a successful rights issue in December 2009 raising £237m net of issue costs. This has secured a stronger position, with considerable financial headroom, from which to move forward positively, but cautiously, in an uncertain economic environment.

During the year the board undertook a detailed review of the group's businesses to identify those areas within the residential sector which will provide the greatest opportunities to maximise growth and return.

Our focus during the year to 30 September 2010 has been to:

* Commence a targeted buying programme within the core regulated residential and equity release portfolios;
* Maximise sales revenues at the appropriate margin;
* Seek out attractively priced opportunities for the group in an uncertain economic climate; and
* Complete the consolidation of the German residential business.

Key progress during the year

* Sales of vacant residential property from the UK residential and retirement solutions portfolios of £110m (30 September 2009: £109m) at improved margins of 43.3% (30 September 2009: 35.5%).
* Investment sales and sales of other assets of £40m contributing a profit of £10m (2009: £60m and a profit of £8m), further demonstrating the portfolio's ongoing liquidity.
* Total combined sales therefore resulting in an improvement in overall residential trading profits to £58m from £47m at 30 September 2009, at improved margins of 38.5% (2010) compared to 27.8% (2009).
* Overall vacant possession sales during the year were at a level some 6.6% above September 2009 vacant possession values (2009: 6.9% below).
* During the year the company acquired the AIM listed company Sovereign Reversions plc which held some £68m of home reversion assets. Since the year end, we have sold 50% of our equity stake in this company to form a joint venture with Moorfield and it is anticipated that the joint venture will make further acquisitions in this area, thereby further enhancing our market-leading position in this sector.
* The valuation of our UK residential portfolio assisted by its London and South East bias indicates a year-on-year increase in vacant possession values of 4.8% compared to increases of 2.6% and 3.1% in the Halifax and Nationwide indices respectively. Within retirement solutions, which has a wider geographical distribution, there has been a smaller uplift in investment values in the year of 2.2%. Our portfolio of some 7,000 assets in Germany showed a marginal valuation decrease of less than 1% related to a small number of specific properties.

Chairman's statement continued

1.20p
The board are recommending a final dividend of 1.20p per share; total dividend for the year 1.70p (2009: 1.29p)

* During the year we recommenced a prudent buying programme acquiring some £63m of new property compared to £12m in 2009. Approximately £53m of these acquisitions were of tenanted property at a discount to vacant possession value of 30% and providing a gross yield of 3.7%.

As anticipated, the company has commenced a cautious and successful re-entry into the market leaving ample financial headroom to take advantage of opportunities we foresee within the residential sector over the next 24 months. The company's financial position remains strong and it would take a 32% fall in current UK residential values for there to be a breach in the banking covenants on our core UK debt portfolio.

We will continue to focus on owning and acquiring reversionary assets in the UK supplemented by other regular sources of income such as rental yield or management fees from co-investment structures which utilises our strong residential property and asset management skills.

Results

During the year, Grainger made a loss before taxation of £20.8m (2009: loss of £170.0m) following a charge of £39.6m for the change in fair value of derivatives. Operating profit before net valuation movements and non-recurring items amounted to £94.2m compared with £78.8m in 2009. The improvement has arisen primarily from increased sales margins.

Net asset values are as follows:

	2010 pence per share	2009 pence per share
Gross net asset value ('NAV')	200p	194p
Triple net asset value ('NNNAV')	140p	141p
Grainger net asset value ('GNAV')	180p	177p

The comparative figures for 2009 have been adjusted to take account of the rights issue in the year. Details of the calculations of these net asset value measures are provided in the financial review.

NNNAV and GNAV measures have been adversely affected by the mark to market adjustment on our derivative financial instruments.

Dividends

The board are recommending a final dividend of 1.20p per share, bringing the total for the year to 1.70p. If approved, this will be paid on 11 February 2011 to shareholders on the register on 10 December 2010.

We have strengthened the board with the appointment of three new executive directors

Board changes

The company has strengthened the board with the appointment of three new executive directors.

In June 2010 Peter Couch, the company's chief operating officer and head of its retirement solutions business, was appointed to the board. Peter has been with the company for more than five years and has demonstrated his expertise not only through the growth of the retirement solutions business, but also in his skill in managing the process elements of our business.

In September 2010 we welcomed Nick Jopling as executive property director and Mark Greenwood as finance director. Together with Andrew Cunningham, the chief executive, these three new appointments bring considerable experience to an already strong management team ensuring the company is well placed to grow shareholder value over the long term.

Outlook

We anticipate there being compelling buying opportunities which we can take advantage of

In light of the ongoing challenge of the current economic climate, we remain cautious about the prospects for general growth in residential values over the next two years. Nevertheless the company has repeatedly demonstrated that because of its carefully selected and highly reversionary portfolio and the application of its extensive asset management skills, it can outperform the sector and we expect to continue this trend in 2011. Indeed, the cyclical nature of property markets is such that we anticipate there being compelling buying opportunities during this period and we will take advantage of these where the company's undoubted track record and skills can be utilised to add value for the benefit of our shareholders.

We see an attractive opportunity to use our core property management skills and broad range of residential activities in both the UK and Germany to enhance the Grainger brand and reputation as a professional and caring landlord for the benefit of our tenants, partners and shareholders.

None of this would be possible without the enthusiasm and commitment of all the staff within Grainger to whom I would like to extend my grateful thanks.

We look forward to a successful year.

Robin Broadhurst
Chairman
10 December 2010

Chief executive and operating review

Andrew Cunningham
Chief executive

"We will continue to concentrate on the returns from long-term reversionary residential assets supplemented by other regular sources of income such as management fees and rental yield."

Grainger offers a geared exposure to residential property in the UK and Germany. The UK business accounts for 80% of our total asset base and produces a range of sources of income – rents, trading and development profits and returns from fund management and residential investments. The German business is primarily focused on rental income.

Market overview

The UK residential market has been characterised by strong capital growth over the last 50 years with occasional periods of price correction. House price growth is driven by the complex relationship between supply and demand. In the short term, as we are currently seeing, factors such as the lack of available credit and low levels of consumer confidence can depress demand. In the longer term, however, the UK suffers from a significant imbalance between supply and demand which helps support price levels. This imbalance is driven by a combination of the increasing number of households and the difficulties in providing new product, primarily because of planning restrictions and the lack of available land, and by the attraction to many home owners of investing in a long-term, tax friendly asset.

These imbalances are generally more pronounced at a local and property type level. For example, the central London residential market has out performed the rest of the country because of economic strength, its cosmopolitan nature and the attractiveness of sterling denominated property prices to overseas purchasers. In contrast, other parts of the UK residential market have suffered through the oversupply of new build one and two bedroom apartments and through lack of confidence in the general economic outlook.

Executive team from left to right
Nick Jopling executive director for property and real estate matters
Andrew Cunningham chief executive
Mark Greenwood finance director
Peter Couch executive director for retirement solutions

The German residential market is very different from the UK. It is characterised by price stability, by higher rental yields and by significantly lower levels of home ownership. Returns are therefore principally driven by rental income. As in the UK however there are regional variations with the more affluent South and South-West of the country experiencing more rapid economic growth and greater levels of demand for housing. This in turn has led to increased investor demand for properties in areas with strong demographic profiles, such as Frankfurt and Munich.

Our operating businesses reflect these different environments and have been structured so that good levels of cash return can be achieved even when underlying general house price growth is at lower levels than we have previously experienced.

Our business units

Our business comprises:

Division	Market value £m	% total
UK residential[1]	1,068	47.6
Retirement solutions[2]	545	24.3
Residential investments and fund management[3]	109	4.8
UK and European development[4]	79	3.6
German residential[5]	442	19.7
	2,243	**100.0**

Assets

[1] Primarily our portfolio of regulated tenancies.

[2] Our interests in home reversion and retirement-related assets.

[3] Investments in managed funds (G:res1) and in Grainger GenInvest.

[4] Residential or residential-led mixed-use developments.

[5] Investment in German residential portfolio.

Grainger's UK businesses are generally low yielding but highly reversionary. The total reversionary surplus in our UK businesses (the difference between vacant possession value and the tenanted or current market value) amounts to £604m (2009: £570m).

£63m
new property acquired

£2.2bn
total property related assets

£604m
reversionary surplus

Chief executive and operating review continued

AVERAGE VACANT POSSESSION VALUE (£)

Year	Value
2010	199,000
2009	189,000
2008	190,000
2007	205,000
2006	188,000

REGULATED UNITS OWNED (number)

Year	Number
2010	5,969
2009	6,327
2008	7,316
2007	7,655
2006	7,715

46.2%
margins achieved on UK residential normal sales

UK residential

The UK residential business primarily consists of properties subject to a regulated tenancy, producing a gross rental yield of 3.7% and valued at 72.5% of vacant possession value. The portfolio is geographically widespread but with a strong concentration in London and the South East, where 67% by value of these properties are situated.

Returns from this portfolio are derived from a combination of rental income and trading profits on the sale of property, generally when the property falls vacant (a 'normal sale') and the crystallisation of the reversionary gain. A key aspect of this portfolio is its strong cash flow, both from rents and asset sales. Rent arrears are low (at approximately 2% of the rent roll) and the predictable vacancy rate in our portfolio produces a consistent stream of properties available for sale. The properties are generally unrefurbished and of low average value (average vacant possession value per unit at 30 September 2010 was £199,000 despite the high London/South East weighting). They therefore do not compete directly with the new build sector and attract demand from a range of potential purchasers including first time buyers, small scale developers and cash-led local investors. These characteristics also provide our asset managers with the opportunity to add value through active management by, for example, refurbishing certain properties prior to their sale. This is reflected in the results achieved in the year; completed normal sales were at values, on average, 6.6% above September 2009 valuations, the time taken for sale, measured from the date of vacancy to receipt of cash, was just 99 days and the margins that we achieved on normal sales were up to 46.2% from the 2009 figure of 37.6%. Year-end valuations were up 4.8% from the previous September compared to the average movement in the Halifax and Nationwide housing indices of 2.9%. This is evidence that with a carefully selected and managed portfolio, outperformance can be achieved.

During the year we sold £81m of properties from this portfolio on vacancy (2009: £83m) producing a profit of £38m (2009: £32m). In addition to these normal sales the portfolio provides a good opportunity for cash generation from other asset sales. This year we deliberately reduced the level of 'investment sales' (those with a tenant in place) but we saw significant benefits from sales from our agricultural portfolio (including land and agricultural related residential properties). In total we made £40m of investment, agricultural and other sales in the year, and produced a profit of £10m (2009: £60m sales, £8m profit). This demonstrates our ability to recognise, invest in and realise value from residential related sectors alongside the regulated portfolio.

We have recommenced a cautious buying programme in the UK residential business in 2010, acquiring some 308 units for £55.7m (2009: 7 units for £0.9m). Given current economic conditions we have set out key criteria for purchases which include:

* Good prospects for long-term capital appreciation. This is reflected by the geographic spread of our purchases this year, with some 63% by value being in London and the South East;

99 days
average time taken from vacancy to cash receipt

INTEREST IN RETIREMENT SOLUTIONS RESIDENTIAL UNITS (number)

Year	Units
2010	6,981
2009	6,101
2008	6,227
2007	5,952
2006	3,003

Sovereign Reversions plc acquired with a portfolio valued at £68m

* Good levels of discounts and/or high yields. For example, in the year we acquired a portfolio of some 161 units in South-West England which, despite half of them being subject to regulated tenancies, delivers a cash yield of 5.8%; and
* Opportunities for redevelopment or refurbishment potential. As an example, early this year we acquired a portfolio of 16 units in South-West London at an average cost of £246,000, with the intention of phased development as properties fell vacant. We have sold our first unit at a profit margin of 17% achieved within a six-month period and interest in other units has been such that we have started to sell vacant units off plan.

We believe that by applying these criteria to new acquisitions and by assiduous management of our existing portfolio we will remain in position to produce levels of return that consistently exceed the long-term return of the UK market.

Retirement solutions

The retirement solutions business consists mostly of home reversion assets (assets bought at a significant discount to vacant possession value with the home owner retaining a right to occupation). This is a highly reversionary business and depends on scale to produce consistent levels of vacancy and therefore sales income. With nearly 7,000 units, Grainger's portfolio is the largest in the UK and produces a predictable level of cash flow – in 2010 sales proceeds amounted to £29m, generating a profit of £10m (2009: sales £27m; profit £7m). Certain assets in the portfolio also produce a rental income or equivalent and this amounted to £6m in the year (2009: £6m).

The assets in this portfolio are more geographically widespread than the UK residential portfolio and do not benefit from the same geographical bias towards London and the South East. This is reflected in the valuation results for the year, which showed a smaller uplift of 2.2% at investment value level.

As with the UK residential portfolio we recommenced purchasing activity this year buying some £8m of home reversion assets as well as acquiring Sovereign Reversions plc, ('Sovereign') an AIM listed business with a portfolio valued at £68m. Shortly after our year end we announced that we had sold 50% of our equity in Sovereign to MREF II Equity Release Limited, a wholly owned subsidiary of Moorfield Real Estate Fund II ('Moorfield'), and entered into a 50:50 joint venture agreement under which Moorfield will pay 50% of the acquisition and certain integration costs and Grainger will receive management fees. The total purchase price for the company was £34.2m representing 202p per share, compared with the net asset value on acquisition of 229p per share.

As well as portfolio size and an efficient operating platform, the keys to the retirement solutions business are reputation, product innovation and distribution. We are delighted therefore to have won the Equity Release award for Best Home Reversion provider for the fifth consecutive year and the ILP Moneyfacts Award for Best Home Reversion Provider 2010. Both the joint venture with Moorfield and our existing directly owned holdings provide us with an extremely strong platform for growth.

Chief executive and operating review continued

GRAINGER RESIDENTIAL INVESTMENT (£m)

Year	£m
2010	109
2009	101
2008	129
2007	175

10.5%
increase in G:res new let rental values in quarter ended 30 September 2010

UK RESIDENTIAL UNITS MANAGED (number)

Year	Number
2010	19,263
2009	17,470
2008	19,433
2007	19,312
2006	15,221

Fund management and residential investments

Our fund management and residential investments division comprises our investments in funds and joint ventures and the income (share of profits and revaluation movements, dividends received and fee income) that we consequently receive. In total this income amounted to a profit of £14m (2009: loss £14m). The major investments are in Grainger GenInvest (a 50:50 joint venture with Genesis Housing Group) which owns a total of 1,443 residential units of which 56% are subject to regulated tenancies and G:res1 ('G:res') which is a market rented fund of 2,006 units and in which we hold a 21.6% stake.

Residential values in Grainger GenInvest increased by 5% in the year to the end of September. G:res is subject to a full valuation in December and June of each year and showed an increase in market values of 7.3% for the 12 months ended in June 2010, producing an increase in net asset value in the fund of 17%.

External funding arrangements in both Grainger GenInvest LLPs are due for renewal within the next 12 months. Discussions with potential funders are progressing and we expect all external loans to be successfully refinanced.

Recent operational results at G:res provide an insight into the current UK residential rental market. Rental increases on renewals amounted to 3.2% for the quarter ended September 2010 and increases on new lets for the same period were 10.5%. Both results show an improvement on the previous four quarters and, together with a decrease in the level of voids, indicate a strengthening rental market.

The controlled liquidation of the Schroders Residential Property Unit Trust has been successful and is virtually complete; cash realisations were 6.3% in excess of the property value at the time of the decision of the unit holders taken to liquidate the fund in January 2009.

Property services

All of the above divisions are supported by our property services division which, in the UK, manages a total of 19,263 residential units and a gross rent roll of £76m from five regional offices. We believe this in-house capability is a distinguishing feature of our residential business and the 'owner-manager' mentality that it produces is one of the factors that facilitates its outperformance and secures our reputation for exceptional service.

Development

The development division focuses on value creation by assembling residential development opportunities, obtaining or amending planning permissions, installing infrastructure and then either selling or self-developing plots.
As anticipated, sales in this division at £19m were lower than last year's figure of £48m which included the sale of the bulk of the successful Hornsey Road development in North London. The major focus in 2010 has been on preparing and submitting planning applications on a number of sites, in particular at Newlands near West Waterlooville in Hampshire, where we would anticipate commencing infrastructure work in June 2011, with the first land sales due

MARKET VALUE OF DEVELOPMENT PORTFOLIOS
including share of joint ventures (£m)

Year	£m
2010	79
2009	71
2008	142
2007	127
2006	97

in the first quarter of 2012. We believe that the timing and nature of the release of plots (fully infrastructured and planned) will attract high levels of interest from housebuilders.

We will continue to focus on strategic land opportunities, primarily in Southern England (e.g. Newlands), on design-led smaller sized London developments (e.g. Macaulay Road), and the promotion of larger scale joint venture partnerships (e.g. in London with Helical Bar at King Street in Hammersmith). In addition we are actively looking at income producing assets offering the potential for future residential development.

The status of our major development projects is shown below

Major projects

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. New planning application for 2,550 new homes and a similar amount of commercial accommodation has been submitted in November 2010.
Macaulay Road	1.811-acre brownfield site, Clapham, freehold.	Detailed consent granted for 97 residential units and 30,000 sq. ft. offices. Demolition complete. New planning application to reconfigure the commercial space was submitted October 2010.
Wards Corner	Development agreement with London Borough of Haringey. A number of smaller interests within overall site currently owned.	Planning application submitted for 197 residential units with ground floor retail units. CPO may be required to purchase remaining site.
Gateshead College	9.87-acre brownfield former college site, Gateshead. Owned freehold.	Planning consent granted for 252 residential units.
Newbury	Preferred developer status with Newbury for key town centre site.	Conditional development agreement under current discussion for approximately 250 residential units, 40,000 sq. ft. retail.
Curzon Park	10-acre 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 320 residential units, 56,000 sq. ft. commercial space, 120,00 sq. ft. council offices, a public square, a bridge linking Hammersmith with the river and 200 car parking spaces has been submitted November 2010.
Zizkov	Joint venture 50% owned by Grainger, 31-acre brownfield site, Prague.	Planning application submitted for mix use scheme comprising 483,000 sq. ft. retail, 580,000 sq. ft. office, 245 residential units, hotel.

Chief executive and operating review continued

GERMAN RESIDENTIAL UNITS OWNED (number)

Year	Units
2010	6,776
2009	6,807
2008	6,894
2007	4,520
2006	2,739

6.9%
gross yield on German residential portfolio

German residential

Our German residential business provides a counterbalance of risk and return compared with the UK business where, as noted previously, our assets are low yielding. The German business complements this by delivering gross rents of €35.1m (2009: €34.6m) at gross yields of 6.9% in a largely stable price environment: year-end write downs amounted to 0.6% and related primarily to a small number of specific properties with an above average proportion of commercial space. Our portfolio comprises 6,776 residential units and 372 commercial units located predominantly in the South and South-West of the country. With the exception of Berlin and Potsdam, we have no exposure to markets in Eastern Germany where rental growth in most areas has been much lower due to economic weakness and poorer asset quality. Our strategy is to improve the returns in our German business by:

* Undertaking a high level of active asset management aimed at improving operational efficiency and maximising net rental returns by reducing voids and property expenses;
* Attracting third-party investors by placing parts of the existing portfolio into new structures which will be managed long-term by Grainger's German asset management platform. We are in discussions with a number of potential partners; and
* Continuing a programme of capital recycling to improve the overall quality of the asset base and enhance cash flow. As part of this ongoing process we sold some €5m of investment assets in 2010 and have identified further assets totalling €25m to be sold in the first half of 2011. We have also selected an initial portfolio of €10m suitable for potential tenant privatisation.

We also anticipate growth in our property manager joint venture, Gebau Vermogen, following a strengthening of senior management there during the year.

Future prospects

The near-term outlook for the general economy and the UK residential market is challenging. Nevertheless the new financial year has started well and our UK residential and development sales pipeline (completed sales, contracts exchanged and properties in solicitors' hands) amounted to £65.3m at 3 December 2010 with residential sales values at or slightly above September 2010 vacant possession levels. Grainger has repeatedly shown that it can outperform the general market through active management of its distinctive portfolio and by taking advantage of the broad spread of returns that it generates. By careful application of the purchasing criteria noted above, cash generated from operations can be recycled into assets that will deliver long-term returns.

Over the last few years the proportion of private rented accommodation has increased and we believe that the changes proposed in the Comprehensive Spending Review to the social and affordable housing systems will provide opportunities for large scale, well established residential landlords such as Grainger.

£65.3m
the new financial year has started well. UK sales pipeline at 3 December 2010 is £65.3m

We will continue to engage with the Coalition Government on specific policy areas, such as the energy efficiency of existing houses and housing benefit, to encourage either changes for improvement or discourage changes that would negatively impact on our business and the residential sector as a whole.

Lack of liquidity in the banking markets will necessitate changes in our balance sheet structure with reduced dependency on pooled bank debt sources of finance and increased emphasis on recycling capital rather than asset accumulation. This is also likely to produce an increase in the proportion of assets funded by third party capital, either in joint ventures, as with the Sovereign – Moorfield transaction or in fund structures, such as G:res1 or as planned for part of the German portfolio.

With a strengthened senior management team and the benefit of market-leading positions in the residential and home reversion market, we will continue to concentrate on the returns from long-term reversionary residential assets supplemented by other regular sources of income such as management fees and rental yield. In addition, we have seen the benefit of opportunistic acquisitions (for example our agricultural portfolio) in related residential asset classes and will continue to pursue these if appropriate returns can be achieved on behalf of our shareholders.

Going forward our focus will be on:

* Rebalancing our residential portfolios to selective areas of value or growth, through the application of careful acquisition criteria;
* Reducing capital employed in non-core assets and underperforming locations;
* Introducing third party capital into selected business units to improve diversified returns; and
* Early consideration and implementation of debt financing options.

We remain confident in our ability to deliver good levels of long-term return in the residential property sector.

Andrew R Cunningham
Chief executive
10 December 2010

Acquisitions

During 2009/10 we purchased £63m of property – the largest individual acquisitions were:

Property name	Number of units	Price
PHA Portfolio Paignton, Devon	162	£15m
Charles Allen House freehold block Islington, London	14	£4m
Apostles Portfolio freehold block Raynes Park, London	16	£4m
Holland Place Chambers freehold block Kensington, London	14	£7m
Brondesbury Court freehold block Willesden, London	18	£6m
Radstock Co-operative Somerset	10	£1m
Total of all other property purchases		£26m
Total purchases in the year		£63m

Holland Place Chambers, Kensington, London

Acquisition team left to right: Robin Hutton, Andrew Saunderson, Tracey Hartley and Arthur McCalmont

Focus on acquisitions

Our UK acquisition team restarted a cautious buying programme this year based on three key criteria. Desirable properties must provide one or more of the following:

* Good prospects for long-term capital appreciation;
* Good levels of discounts and/or high yields; and
* Opportunities for redevelopment or refurbishment.

This disciplined approach is reflected in the quality of the assets that we have acquired and the energy that we put into identifying potential opportunities and qualifying those brought to us by our extensive network of contacts. In total we have looked at £1.5bn worth of opportunities this year and made £63m of acquisitions.

The team's skills are based upon long-term experience in the residential market and the in-house development of expertise across different business units. Andrew Saunderson has worked for Grainger since 2001, and been director of acquisitions and asset management in Knightsbridge, for four years. Eliza Pattinson, director of acquisitions and asset management in Newcastle, originally joined in an administrative role and qualified as a chartered surveyor while working for Grainger. Eliza is currently on maternity leave and her post is being covered by Tracey Hartley, who is a senior sales and valuations manager when not looking after acquisitions.

Robin Hutton, acquisitions and asset manager has more than five years' experience in residential sales and acquisitions with Grainger, while the newest member of the team, Arthur McCalmont, joined the team recently following several years' experience in sales and valuations in our property services business.

Together they bring an approach to property acquisition that focuses explicitly on the identification of opportunities where significant value can be found, added and extracted.

Ranton Estate, Staffordshire

"A smart acquisition process isn't just a matter of asset accumulation. In an uncertain market we need to be constantly thinking about when to be a buyer and when to be a seller. Most importantly we need to use our specialist knowledge to spot the opportunities where significant value can be found, added and extracted."

Andrew Saunderson
Director acquisitions and asset management

Agriculture

Grainger began investing in agricultural land in 2005 having identified that land prices had shown very little growth since 1993 following the introduction of the CAP subsidies. We built our portfolio to over 7,000 acres in three years, typically acquiring large landed estates with mixed tenure land and residential property, where we could use our expertise in development and asset management to enhance value.

Whilst residential and commercial property suffered significant value falls during the credit crunch, agricultural land proved counter cyclical and land values doubled over two years. We commenced liquidating the agricultural portfolio at the beginning of 2008, and it has so far provided gross asset sales of £46m generating in excess of £10m of trading profit.

With around another £17m of sales to come, the agricultural business demonstrates our entrepreneurial ability to recognise and invest in opportunities in residential related real-estate sectors which are counter-cyclical to the core regulated portfolio.

Highlights

Regulated units owned	5,969
Market value	£863m
Vacant possession value	£1,185m
Other units	915
Market value	£205m
Vacant possession value	£232m

* Year-on-year increase in vacant possession values of 4.8% outperformed the Halifax (2.6% increase) and Nationwide indices (3.1% increase).
* Gross rent roll of £39m per annum.
* £81m of completed normal sales were at an average of 6.6% above September 2009 valuations and the margin on sale increased to 46.2% from 37.6%.
* Portfolio liquidity demonstrated through speed of sales – average 99 days from vacancy to receipt of cash.
* £1.4m additional profit delivered through selective refurbishment prior to sale.
* Acquisition programme restarted purchasing 308 units for £55.7m.

Future opportunities

* We expect to outperform the market through active asset management and a geographical focus on London and the South-East.
* Challenging market conditions will produce opportunities to acquire core regulated and other residential asset and to make opportunistic acquisitions that enhance returns.
* Strict application of our acquisition criteria will ensure that the assets we acquire will have clear potential to deliver the required level of returns and focus on areas of growth.

UK residential

Maintaining our portfolio

The UK residential business primarily consists of properties subject to a regulated tenancy, 5,969 units valued at £863m producing a gross rental yield of 3.7% and valued at 72.5% of vacant possession value as at 30 September 2010.

Under a regulated tenancy, the tenant has a right to live at the property for the rest of their life. We typically receive a sub-market rent, set by a local government rent officer, and generally sell regulated properties on vacancy to realise the reversionary surplus (the uplift in value between a tenanted and vacant property).

The portfolio is geographically widespread but with a strong concentration in London and the South East, (67% of the properties/portfolio by value). This is an irreplaceable and unique portfolio assembled over a significant period of time which brings strong and stable cash flows from rental income and trading profits on the sale of property.

Rent arrears are low (approximately 2% of the rent roll) and the predictable vacancy rate in our portfolio produces a consistent stream of properties available for sale. As a result of our long-term investment strategy we have considerable flexibility in pricing upon the disposal of the regulated properties enabling us to maximise the value of these assets, whatever the short-term market conditions.

The properties are generally unrefurbished and of low average value (average vacant possession value per unit at 30 September 2010 was £199,000, despite the London and South East weighting). They attract a range of potential purchasers – first time buyers, small scale developers, cash-led local investors. They also provide our asset managers with the opportunity to add value through active management, for example, refurbishment prior to sale.

This attractiveness of the portfolio is also shown in the time taken for sale which was just 99 days from the date of vacancy to receipt of cash, and margins achieved on normal sales which were up to 46.2% from 37.6% in 2009. The portfolio consistently outperforms the Halifax and Nationwide housing indices demonstrating the benefits of a carefully selected and managed portfolio.

Year-end valuations were up 4.8% from the previous September compared to the average movement in the Halifax and Nationwide housing indices of 2.9%.

We will continue to acquire further regulated tenancies as they become available to maintain the flow of stable rental income and sales proceeds.

Assured tenancies give tenants a degree of security of tenure and are subject to market rental rates. Assured periodic tenancies are former regulated tenancies which have passed to a relative upon the death of the previous tenant. They offer security of tenure but are subject to market rental rates.

We also own 915 units not subject to regulated tenancies, including market-let tenancies (assured shorthold tenancies), vacant units, agricultural tenancies, garages and ground rents.

Assured shorthold tenancies do not offer security of tenure (the landlord may take possession on two months' notice expiring on or after the minimum initial six-month term of the tenancy) and are also subject to market rental rates. Performance in these portfolios demonstrate our ability to realise value across a range of residential related sectors.

Harley House, Marylebone, London

Highlights

Units	6,981
Market value	£545m
Vacant possession value	£800m

* Successful acquisition of Sovereign Reversions plc for £34.2m with a portfolio valued at £68m. A 50% equity stake was subsequently sold and we entered into a 50:50 JV with Moorfield who will pay 50% of the acquisition and integration costs and which will generate management fees for Grainger. Operational integration has progressed well and management of Sovereign assets has transferred to Newcastle.
* Cautious acquisition recommenced this year, £8m of home reversion assets bought.
* Reputation as a market leader recognised by winning the Equity Release award for Best Home Reversion provider for the fifth consecutive year and ILP Moneyfacts Award for Best Home Reversion Provider 2010.

Future opportunities

* We anticipate that the joint venture with Moorfield will look to make further acquisitions in the equity release sector, further enhancing our market-leading position.
* Increased activity to develop IFA understanding of Home Reversions will strengthen our distribution capability and drive sales of Bridgewater products.

Retirement solutions

Focusing on innovation

We are a market leader in the UK Equity Release business, with a particular focus on the home reversion sector. Our Retirement Solutions Business offers home reversion plans with a range of features and prices through our Bridgewater business, which distributes these plans through independent financial advisers and a strategic joint venture with Aviva.

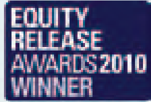
Our home reversion products are FSA-regulated and we insist that all customers receive independent advice from a qualified third party. The regulated nature of the equity release market also represents a significant barrier to entry for potential competitors.

As well as scale and an efficient operating platform, keys to the retirement solutions business are reputation, product innovation and distribution. We are delighted therefore that Bridgewater continues to receive external recognition including 'Best Home Reversion Provider' for the fifth consecutive year at the Mortgage Solutions Equity Release Awards in November 2009 and ILP Moneyfacts 'Home Reversion Provider of the Year 2010'.

Home reversion

Under a home reversion plan, an owner sells to Grainger part or all of their home in return for a cash lump sum (or a series of payments) calculated on the basis of the vacant possession value of the property, the ages of the individuals and the proportion of the property being sold. The owner in return receives a lifetime lease allowing them to remain in the property, rent free for the rest of their life, after which the property is sold.

The Home Reversion Portfolio comprises 6,981 properties with an Investment Value of £545m as at 30 September 2010. The portfolio is more geographically widespread than the UK Residential portfolio and this is reflected in the valuation results for the year, which showed a smaller uplift of 2.2%.



This is a highly reversionary business and depends on scale to produce consistent levels of vacancy and therefore sales income. Grainger's portfolio is the largest in the UK and produces a predictable level of cash flow. Some parts of the portfolio also produce a rental income or equivalent.

As well as acquiring additional assets for the portfolio through the Bridgewater IFA and Aviva channels, we also purchase directly both individual units and existing portfolios when these are offered on the market. This year we acquired Sovereign Reversions plc, an AIM listed business with a portfolio valued at £68m. Shortly after our year end we sold 50% of our equity to MREF II Equity Release Limited, a wholly owned subsidiary of Moorfield Real Estate Fund II ('Moorfield') under which Moorfield will pay 50% of the acquisition and certain integration costs and Grainger will receive management fees.

The Retirement Solutions Portfolio also includes approximately 1,000 purpose built retirement apartments as well as a portfolio of 1,062 equity mortgages for retired clergy, acquired in early 2007.

Despite recent difficult market conditions, long-term demographic trends in the UK indicate that there is significant growth potential in equity release and we aim to remain at the forefront of the market, building on our established infrastructure in other areas of Grainger. We will continue to both optimise the channels through which we distribute our products and seek opportunities to influence the external environment in which the equity release market operates to encourage its growth.

Retirement flat – Kingfisher Court, Surbiton, Surrey

Highlights

Units	3,449
Grainger investment	£109m
Net asset value	£199m
Gross asset value	£651m

* The controlled and successful liquidation of the Schroders ResPUT realised 6.3% in excess of value at the time of the decision to liquidate in January 2009.
* Strengthening rental market has increased demand for properties in G:res enabling rental increases of 3.2% on renewals and 10.5% on new lets in the quarter ended September 2010.

Future opportunities

* We are continuing to identify and develop a number of opportunities to parcel residential and residential related assets into fund and join venture structures based on our proven market expertise and unique breadth of capability from development to management and on to value realisation through disposal.

Winkley Street, Bethnal Green, London

Fund management and residential investments

Strengthening our position

Our fund management and residential investments division comprises our investments in funds and joint ventures and the income (share of profits and revaluation movements, dividends received and fee income) that we consequently receive.

We provide services to 3,449 properties in the UK valued at £651m. In total the income from fund management and performance fees and from asset and property management services amounted to £6m.

GenInvest

GenInvest was created in May 2005, as a joint venture between Grainger and Genesis Housing Association to acquire 461 residential units from the Church Commissioners. In 2006 GenInvest No2 was formed to acquire a further 1,138 units. The two portfolios consist of 1,443 residential units in London of which 56% are subject to regulated tenancies, with an aggregate value of £286m as at 30 September 2010. Grainger provides asset management services and Pathmeads, a subsidiary of Genesis, the day-to-day property management.

G:res1

G:res1 is a Jersey based closed end-fund launched in 2006 that invests in market-rented residential properties, currently 90% in London and South-East England. We are a co-investor in the fund, with an equity stake of 21.6% alongside a broad mix of UK and overseas institutions. The fund holds 2,006 property units with a total value of £365m as at 30 September 2010.

Going forward, we will look for further opportunities to deploy our skills in the acquisition, and management of residential assets and to package these assets into funds and joint ventures to generate repeatable income and value for ourselves and co-investors. We believe that there are likely to be a number of such opportunities over the coming years.

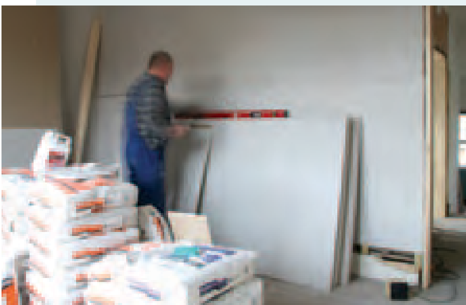
Highlights

UK units managed	19,263
Gross rent roll	£76m
Gross property expenditure	£20m

* Implementation of process improvement technologies including Agreement Express and E-risk management.
* Procurement and contractor review projects launched to drive down costs, improve quality standards and consistency of customer experience.
* Further development of reporting capabilities to ensure flexibility and transparency for all stakeholders.

Future opportunities

* National scale acquisition, valuation and sales capability; average annual sales of more than £100m of vacant property.
* Potential to use capabilities to add value to owners of distressed property portfolios and to support Grainger business units looking at joint venture and partnership opportunities.
* Identification of opportunities around sustainability initiatives including Feed in Tariffs and the coalition government's 'Green Deal'.



Maintenance work at Old Bethnal Green Road, Bethnal Green, London

Property services

Developing our capabilities

Grainger's Property Services Business provides property and asset management services nationally to our wholly-owned properties in the UK, properties owned by co-investment vehicles and property portfolios owned by third parties.

In total these amounted to 19,263 units and a gross rent roll of £76m as at 30 September 2010. Grainger's in-house capability is a distinguishing feature of our residential business. This 'owner-manager' mentality enables us to drive asset value and facilitate outperformance.

Property and asset management services provide three primary sets of services:

* All elements of the day-to-day operational management of multi-tenure properties including lettings, rent collection, arrears management, rent reviews/renewals reactive and routine cyclical repairs, proactive maintenance and budgeting of capital works and refurbishment. We focus particularly on the implementation of void reduction and rental growth for our internal and external clients;
* Block management of common parts, ground rent, service charge, caretaker, health and safety management; and
* Managing large-scale acquisition, valuation and disposal processes on a national basis generally selling in excess of £100m of vacant residential property in any one year.

We deliver a comprehensive, professional service across multiple tenures and tenant groups, whilst ensuring that our managers maintain an ownership perspective on the properties for which they are responsible.

We have a particular focus on the provision of management and client reporting to the high levels expected by institutional investors. This is a particular strength in an environment where transparency is of increasing importance in demonstrating effectiveness and value for money.

Grainger is committed to the development of the private rented sector and we are active within the bodies representing the sector including the British Property Federation and the Association of Residential Letting Agents. We are also members of the Property Ombudsman Scheme. We pursue the continuous improvement of our processes and information systems and quality management of our own processes so that we can offer increasing assured levels of service to our internal and external customers.

Highlights

Market value	£79m
Number of sites	23

Our major focus in 2010 has been the preparation and submission of planning applications at:

* Hammersmith (larger scale public/private joint venture partnership).
* Newlands, Waterlooville (strategic land opportunity).
* Macaulay Road (design led smaller scale London development).

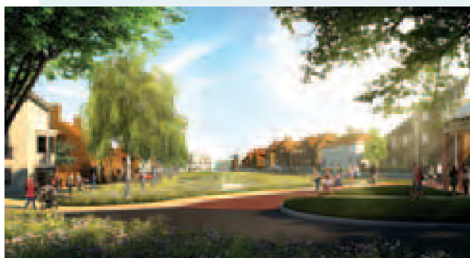
Future opportunities

We will focus going forward on:

* Strategic land options, primarily in Southern England.
* Design led smaller size London developments.
* Larger scale joint venture partnerships.

We will manage the development pipeline to deliver consistent returns through balancing existing larger scale opportunities with smaller scale developments.

We play to our strengths; the quality of our covenants, strength of our balance sheet and our reputation. Together these make us an ideal development and joint venture development partner.



Newlands development scheme, Waterlooville, Hampshire

Development

Building on opportunities

Our development business focuses on value creation by assembling residential development and mixed use opportunities, obtaining or amending planning permissions, installing infrastructure and then either selling or self-developing plots.

Our development team has the perspective and commitment of a long-term investor rather than a developer/trader. This long-term approach means that attention to detail, value for money and overall design, the long-term sustainability and quality of a scheme are key considerations. We are passionate about promoting the benefits of good design by creating schemes that take into account the way people live.

Grainger's development focus fall into three categories:

1. Strategic land opportunities – purchases of options on 'greenfield' sites, primarily in Southern England without planning status and with a long-term view towards promotion within the local planning process for future development consent. A current example is the 520-acre site at Newlands near West Waterlooville in Hampshire. We have been working on this site since 2005, having had an interest in the site and a relationship with the landowner since the 1990s;
2. Design led smaller size London developments – development of urban 'brownfield' sites from acquisition, through planning and selective build out of design led residential schemes such as Hornsey Road Baths in Islington and Macaulay Road in Clapham; and
3. Public/private partnership – residential led mixed-use schemes developed with the local authority joint venture partners. The King Street Regeneration Project in Hammersmith where we are partnering with London Borough of Hammersmith and Fulham and Helical Bar plc is a current example.

In addition we are actively looking at income-producing assets that have future residential development potential.

The Development Portfolio comprises 22 sites in the UK and one, Zizkov, in the Czech Republic. As at 30 September 2010, the UK portfolio was valued at £72m and Zizkov at £27m in which our equity stake is 50%.

Highlights

Units	6,776
Market value	£442m
Gross rents	£30m
Gross annual running rent	£31m

* Grainger's German asset management platform covers the full range of residential property investment and management activities.
* The JV with the Lindner Group allows us to offer an integrated asset and property management service as in the UK.
* The income generated by the portfolio is predominantly market-based rental income, rather than sales proceeds.

Future opportunities

* A focus on improving returns through a higher level of active asset management activities.
* Business growth through introducing third party equity and generating management fees.
* Capital recycling through sales and privatisation.

Grainger German property, Düsseldorf

German residential

Optimising our potential

Grainger started to invest in Germany in late 2005 to take advantage of Europe's largest residential market.

Our acquisitions are concentrated in the economically and demographically stronger regions of Germany (Baden-Württemberg, Bavaria and the Rhine-Main area) and major cities such as Frankfurt, Cologne, Düsseldorf and Munich. Apart from Berlin and Potsdam, we have not invested in Eastern Germany.

As at 30 September 2010, we owned 7,148 units with a total value of £442m, €510m, having reached critical mass through the acquisition of Francono Rhein-Main AG in 2008.

Due to relatively low home ownership rates in Germany (43% in 2008 compared to 68% in the UK); we typically relet our properties at the end of a tenancy. Accordingly, income from the portfolio is predominantly market-based rental income, rather than sales proceeds.

Grainger's German asset management platform covers the full range of residential property investment and management activities from the formulation of tailor-made investment strategies to analysis of investment opportunities and portfolio value optimisation through targeted sales strategies.

We intend to improve the returns in our German business by:

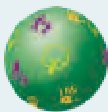
* Undertaking a high level of active asset management aimed at improving operational efficiency and maximising net rental returns by reducing voids and property expenses;
* Attracting third-party investors by placing parts of the existing portfolio into new structures which will be managed long-term by Grainger's German asset management platform. We are in discussions with a number of potential partners; and
* Continuing our programme of capital recycling to improve the overall quality of the asset base and enhance cash flow. We sold some €5m of investment assets in 2010 and have identified further assets totalling €25m to be sold in the first half of 2011. We have also selected an initial portfolio of €10m suitable for potential tenant privatisation.

We also anticipate growth in our property management JV, Gebau Vermogen, following a strengthening of senior management there during the year.

Corporate responsibility

Reporting approach

We see sustainability as an integral part of the way we run our business. We report here key data on Grainger's impacts and activities over the last year. For the third year, we are also producing a separate online sustainability report, which includes more detail on our activities in each main impact area. Our online sustainability report contains new features to enable stakeholders to drill down from high-level strategy to detailed performance statistics. In addition, we are producing a short printed document summarising Grainger's approach to sustainability and 2010 performance highlights. A digital copy can be downloaded from January 2011 on our dedicated website: www.graingercr.com



FTSE4Good

Chief executive's statement

Grainger's executive team and I are proud of our company's continually evolving and strengthening approach to sustainability. In 2009, we developed 'ETHOS', a sustainability strategy closely aligned with our business priorities designed to ensure business resilience. Using ETHOS to guide us, we completed 70% of the applicable sustainability targets that we committed to meeting by 30 September 2010.

One highlight of our 2010 targets is achieving a listing on the FTSE4 Good index for the first time. We hope that this external recognition that Grainger's CR program meets globally recognised standards will give investors even greater confidence; attracting and facilitating further investment in our company in the future.

We recognise that issues such as climate change continue to be important to you, our stakeholders. For these reasons we have set ourselves new demanding targets for the coming year, which can be found in our online sustainability report.

For example in 2010/11, we will undertake a programme of work to assess how our portfolio would be affected by a variety of sustainability risks including mandatory energy efficiency standards for private rented housing, changing flood patterns based on climate change modelling and economic deprivation trends. We intend to integrate the findings from this exercise into our long-term corporate risk management and sustainability strategy and use this experience to influence future Government policy.

I hope you will explore more of Grainger's sustainability performance this year and the demanding targets we will pursue over the next 12 months, in our annual report, on our website and in our downloadable summary presentation. As always I welcome your comments and feedback.

Andrew R Cunningham
Chief executive
10 December 2010

Opportunities and risks

At Grainger, our approach to sustainability is based on a rigorous assessment of potential political, economical, social, technological and environmental (PESTE) risks and opportunities to our business. A year ago we identified a long list of such risks and opportunities through a thorough sustainability strategy review. We identified material issues by assigning scores for risks, opportunities and likelihood of impact occurring within the next five and ten years. Monitoring and managing these risks enables us to future proof our assets and to secure a long-term income stream in line with our long-term investment strategy. Building on from last year's PESTE analysis we have identified risks and opportunities for the coming year. We seek to proactively manage these by setting annual targets and on-going key performance indicators in each of our ETHOS areas.

2010/11 risks:

* Legislation: we expect there may be increased environmental legislation in the coming years, particularly focused on energy efficiency within the existing housing stock.
* Reputation: stakeholder expectations of our ability to manage our environmental and socio-economic impacts continue to grow, particularly investors and customers.
* Physical: the impacts of climate change have not yet affected our portfolio value or maintenance costs, but in the long term there is potential across the UK for flooding, water stress, overheating and other physical impacts.

2010/11 opportunities:

* Legislation: as the UK's largest listed residential landlord, we are in a unique position to actively engage with the government, directly or indirectly through industry bodies to influence and shape future sustainability policy, ensuring it is both practical and cost effective.
* Physical future proofing: if developed in partnership with industry, current government proposals relating to minimum energy efficiency standards and the green deal, for example, could offer Grainger a significant opportunity to upgrade our properties using third party funding, enhancing our reputation as a market and thought leader.
* Reputation: community engagement and investment is always central to the planning process. There is a significant opportunity to improve the communities where we own and are developing property for Grainger and in doing so to enhance Grainger's reputation and long-term income stream.
* Financial success: initiatives that contribute to employee health and wellbeing will enhance productivity and reduce turnover costs.

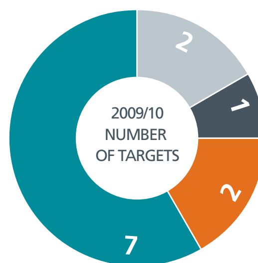
Governance

The operations board maintains overall responsibility for sustainability at Grainger and reviews target progress assessments semi-annually, and as required. Specific target delivery is assigned to individuals and teams throughout the organisation. Integrating responsible practice into all of our operations and functions is a shared responsibility.

Various policies and procedures inform our CR strategy, these are available in full on our website: **http://www.graingercr.com**

2010 performance

Target achievement



- Not applicable
- Not achieved
- Partially achieved
- Fully achieved (100%)

In 2009/10, we set targets across all components of our sustainability strategy, using the five pillars of our ETHOS strategy to align impact areas and business priorities.

Corporate responsibility continued

2010 Grainger target performance summary by ETHOS pillars

2009/10 Targets

Investing in communities and place	Responsibility to stakeholders	Driving efficiency	Protecting assets and income	Influencing the future
Develop a community investment tracking system to record all donations to charitable causes and other forms of community investment by the end of reporting year 2009/10.	Ensure Grainger's inclusion in the FTSE4Good Index.	Further the development of our carbon management strategy (2010 deadline for establishment) by expanding carbon reporting to cover common parts of our property portfolio and the monitoring of emissions from company cars.	Select a minimum of three tenant satisfaction performance indicators and maintain or improve scores against each of these for the coming year.	Produce a thought piece on reducing carbon in existing homes, including a road map for the practical achievement of the Government's targets.[1]
Ensure that at least 30% of Grainger staff participate in volunteering activities, particularly focusing on communities in areas local to our assets and using skills relevant to our sector.	Carry out a mapping exercise to review all of our key stakeholder relationships and set aims for each key stakeholder with whom we have valuable relationships.	Develop and implement quality, health and safety and environmental management systems within Grainger.		
Produce a case study based on Newlands Common illustrating the principles and lessons learned for best practice in community engagement.	The health and safety management of 85% of contractors operating on behalf of Grainger (excluding those undertaking projects under CDM regulations) will be assessed and will attain CHAS approval.	Reduce office electricity per person by 5%.		
All major development sites to be registered with the Considerate Constructors Scheme, targeting a score of at least 32.[2]	2010/11 target completed in 2009/10. Conduct health and safety audits for 100% of Grainger's managing agents.			

Fully achieved (100%) Partially achieved Not achieved Not applicable

[1] Due to the change in government and resulting uncertainty of government objectives, this was deemed not applicable

[2] Due to the development cycle, there were no construction stage developments this year.

In addition to our 2010 targets, we completed a target due in 2011 one year in advance. We will continue to work towards the achievement of all targets that were not completed this year. Or, as in the case of producing a thought-piece for government on decreasing carbon in existing stock, adjust our methods to accomplish the same aims in a changed political reality.

Notable achievements and activities – carbon emissions

We are proud to report that we have significantly expanded our reporting on carbon emissions from operations, adding car travel and a sample of common area electricity usage at managed properties.

Carbon emissions (thousand tonnes CO_2e)

Source	2009/10	2008/09	2007/08
Office electricity consumption (small power)[3]	463	401[4]	372
Energy use in common parts of residential portfolio	49[5]	Not available	Not available
Air travel	23	31	62
Rail travel	37	26	13
Car travel	228[6]	Not available	Not available
Energy use at development sites (electricity and diesel consumption)	No developments this year	3.5	346

[3] 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.

[4] The 2008/9 office carbon emissions are restated and reduced by 75 tonnes due to a corrected meter reading and subtraction of a central plant building meter that covers other tenants' energy consumption as well as that of Grainger.

[5] In 2009/10 the common area electricity data reported is for a sample of Grainger's highest use flat blocks – which we believe will account for the majority of the carbon emissions of the portfolio that Grainger is responsible for. We have utilised beginning and end of year bills to calculate the consumption. However, since bills are received at varying intervals and for different beginning and end of year dates the consumption is not all for the same period. This is a rough first step in measuring common area carbon emissions, expressive of Grainger's commitment to expanding and improving its carbon reporting.

[6] Carbon emissions are reported for all business related company car trips. Emissions are estimated based on the cost of fuel for each car each month, the average price per litre of fuel each month, and the average miles per litre of the relevant car. We are unable to report on taxi travel as service is usually hailed rather than ordered through an account.

Our car emissions are nearly 10 times air travel emissions in 2009/10. Car travel is essential to our business, as staff must travel to diverse property and development sites. We are already encouraging staff to change company cars for more efficient models and hope to make further reductions in carbon.

In 2008/09 we halved our emissions from air transport, and this year we reduced emissions from air travel by another 27% compared to 2008/09. We continue to work to reduce emissions through the increased use of rail transport and videoconferencing. Unfortunately, our office electricity consumption continued to rise in 2009/10. We will utilise the live energy meters we installed in our UK offices this year to increase our understanding of electricity consumption patterns and continue to look for ways to reduce consumption.

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

Notable achievements and activities – other areas of performance

* Improving the energy efficiency of new and existing buildings continues to drive company operations.
* On the sample of properties surveyed in the last financial year, we achieved A or B boiler efficiency ratings on over half of our fully owned or controlled properties, and on 42% of all properties in the sample, including those that we manage on behalf of others.
* Our eco-champions are helping us drive efficiency within the organisation. All seven offices offer paper, cardboard and plastic recycling. Five out of seven offices use recycled paper and all offices use videoconferencing for meetings.
* As in previous years, Grainger continues to donate surplus furniture to Emaaus, raising money for charity and diverting useable goods from landfill. This year £4,400 was raised.

Corporate responsibility continued

* Our employees have shown remarkable enthusiasm for community volunteering.
  – A total of 75.5 days were dedicated to good causes.
  – Grainger employees gave generously of money as well as time, raising £24,775 for charities through payroll giving and fund raising outside of work.
* We are committed to equal opportunity and advancement of women in the workplace. More than half of Grainger's staff is female, and 46% of technical and professional positions are held by women.
* We scored well in tenant feedback surveys, which is particularly positive given our focus on maintaining revenue streams.
  – Nearly 70% of exiting market rented tenants rating Grainger's management service as good or excellent.
  – 80% of tenants rated our contractors' response to calls for repairs as either excellent or very good.

Adviser's statement

Upstream Sustainability Services, part of Jones Lang LaSalle, has been advising Grainger plc on sustainability for several years. This programme of work includes helping Grainger set its 2009/10 CR targets, and assessing the extent to which it achieved these targets.

Due to Upstream's long-standing relationship with Grainger, 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 sustainability over the year 1 October 2009 – 30 September 2010 and all information presented is accurate to the best of our knowledge.

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

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

An achievement rating has been awarded against each target, depending on the evidence received to validate completion. Upstream has made the following specific findings:

* Target achievement improved over last year; this is partly attributable to aligning sustainability targets more closely with core business drivers, as a result of the sustainability strategy review in 2009.
* Grainger has achieved all of the targets relating to its 'Responsibility to Stakeholders' and 'Investing in Communities and Places' pillars.
* The only target related to 'Influencing the Future' was deemed not applicable due to changes in the government agenda after the election. It is challenging to set meaningful performance targets for this pillar as by its nature it is measurable more by programmes of activity than by outcomes. Grainger should therefore seek to demonstrate progress in this area through more qualitative reporting.
* Grainger achieved a listing in the FTSE4Good this year. This is a welcome external recognition of a two-year programme of work to improve systems and processes.
* Grainger's 'Driving Efficiency' targets are most directly linked to measurable performance. Of the three 2009/10 targets, one was fully achieved and one was partially achieved (and due to be completed next year). Given the effort that went into reducing office electricity this year, it is disappointing that Grainger did not achieve its goal. We encourage them to consider an audit of energy consumption in offices to identify high impact areas for change in 2010/11.
* Grainger has a number of longer-term targets that are due to be completed by the end of the next financial year (September 2011). Achievement of these targets will be an interesting indicator of the continued success and relevance of the revised sustainability strategy that was implemented in 2009.

Having undertaken significant work to review its sustainability strategy in 2009, it is encouraging to note an improvement in Grainger's target achievement levels for the past financial year. A renewed focus on sustainability risks and opportunities and better understanding of sustainability issues throughout the business had a positive impact on progress. Upstream also welcomes Grainger's renewed engagement with policy makers and its commitment to become a leader in sustainability.

Abigail Dean, associate director,
Upstream Sustainability Services, Jones Lang LaSalle,
October 2010

Left to right: John Robertson, Eleni Papadopoulos, Stephen Miller

"We never forget where we are from; our roots in the North East provide the foundation upon which the business is built. We have chosen to start to celebrate our centenary by supporting three north-eastern athletes in their preparations for the 2012 Paralympics."

Andrew R Cunningham
Chief executive

Looking forward to 2012… remembering our heritage

2012 is important for many reasons; it is the year that the Olympics and Paralympics come to the UK and it is also Grainger's centenary. Over 100 years we have grown from a small family business into the UK's leading specialist residential landlord and a major company here and in Germany.

But we never forget where we are from: our roots in the North East provide the foundation upon which the business is built. Combining that heritage with our commitment to 'invest in the communities in which we live and operate', Grainger has chosen to start to celebrate its centenary by supporting three north-eastern athletes in their preparations for the 2012 Paralympics.

Stephen Miller has won Gold medal in Clubs in three Paralympic games and is looking to regain his title after winning silver in Beijing. He is a role model for many athletes around the world in disability sport, particularly in throwing events.

John Robertson took up sailing after an accident ended his career in the RAF and is a double world champion in sonar class sailing, having competed at the highest level for more than 10 years.

Eleni Papadopoulos is an up and coming young swimmer who has won silver at European level and is currently balancing training and competition with life as a full-time student.

These athletes will be working with us over the next two years and will provide Grainger staff with regular updates on their progress over that time through training, competition and hopefully Paralympic glory.

Financial review

Performance overview

Our key performance indicators are:

	2010	2009
Gross net asset value per share (pence) (NAV)	200p	194p
Triple net asset value per share (pence) (NNNAV)	140p	141p
Grainger net asset value per share (pence) GNAV	180p	177p
Operating profit before valuation and non-recurring items	£94.2m	£78.8m
Return on capital employed[1]	5.3%	(2.7%)

	1 year	5 year	10 year
Return on shareholder equity[2]	0.6%	(4.0)%	3.6%

[1] Operating profit after net valuation movements on investment properties plus share of results from joint ventures/associates plus the movement on the uplift of trading stock to market value as a percentage of opening gross capital defined as investment property, financial interest in property assets (CHARM), investment in joint ventures/associates and trading stock at market value.

[2] Growth in net net net asset value ('NNNAV') in the year plus the dividend per share relating to each year as a percentage of opening NNNAV.

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	Re-statement to market value, adjust deferred tax and derivatives £m	Gross NAV balance sheet £m	Add deferred and contingent tax £m	Add back fair value of derivatives £m	Triple NAV balance sheet £m
Properties	1,795	332	2,127	–	–	2,127
Investments/other assets	121	9	130	–	(7)	123
Goodwill	6	–	6	–	–	6
Cash	95	–	95	–	–	95
Total assets	2,017	341	2,358	–	(7)	2,351
Borrowings/Derivatives	(1,574)	128	(1,446)	–	(141)	(1,587)
Other net liabilities	(79)	–	(79)	–	–	(79)
Provisions/deferred tax	(19)	18	(1)	(142)	40	(103)
Total liabilities	(1,672)	146	(1,526)	(142)	(101)	(1,769)
Net assets	345	487	832	(142)	(108)	582
2010 net assets per share (pence)	83	117	200	(34)	(26)	140
2009 net assets per share (pence) (restated for rights issue)	88	106	194	(33)	(20)	141

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	975	341	1,316	739	2,055
Development	81	(9)	72	–	72
Total September 2010	1,056	332	1,388	739	2,127
Total September 2009	1,016	304	1,320	763	2,083

Net asset value

Movements in net asset value are key performance indicators for the group. We set out three measurements to better enable shareholders to compare our performance year on year with our peers, whilst reflecting the distinctive nature of our business.

	2010	2009 (restated for rights issue)	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	200p	194p	+3.1%
Triple net asset value per share (NNNAV) – gross NAV per share adjusted for deferred and contingent tax on revaluation gains and for the fair value of derivatives	140p	141p	-0.6%
Grainger NAV (GNAV) – 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 (2010 includes the full reversionary surplus of £46m in relation to Sovereign assets at 30 September 2010)	180p	177p	+1.7%

The major movements in NAV in the year are:

	£m	Pence per share
NAV at 1 October 2009	570	411
Rights issue (net proceeds)	237	(217)
Adjusted NAV 1 October 2009	807	194
Results after tax	(11)	(3)
Revaluation movements	53	13
Elimination of previously recognised surplus on sales	(32)	(8)
Dividends paid	(7)	(2)
Fair value of derivatives net of tax	20	5
Others	2	1
NAV at 30 September 2010	832	200

Financial review continued

Reconciliation of NAV measures

	£m	Pence per share
NAV	832	200
Deferred and contingent tax	(142)	(34)
Fair value of derivatives adjustments net of tax	(108)	(26)
NNNAV	582	140
Discounted reversionary surplus	228	55
Tax thereon	(62)	(15)
GNAV as at 30 September 2010	748	180

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

* House price inflation taken as zero over the entire reversionary period;
* Discount rate of 8.66% used to calculate the present value of the reversionary surplus (weighted average cost of capital + 3%) (2009: discount rate 8.22%);
* No discounting of contingent tax on the revaluation surpluses; and
* Reversionary periods taken as 13 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 increased by £15.4m (19.5%) to £94.2m from £78.8m.

	£m
2009 operating profit	78.8
Decrease in gross rents and other income	(3.8)
Decrease in property expenses and overheads	3.4
Increase in residential trading profits	11.4
Decrease in development trading profits	(5.2)
Increase in interest income from CHARM	7.2
Other	2.4
2010 operating profit (see note 3)	94.2

The major movement in operating profit is due to the higher margins achieved on sales during the year. The decrease in development trading profit was anticipated and results from the majority of sales at Hornsey Road, London being completed in 2009.

Overhead costs in 2010 (excluding non-recurring costs) at £28.7m are £1.7m lower than in 2009 (£30.4m).

Loss per share

Basic loss per share is a loss of 2.9p (2009: 32.3p loss after adjusting for the full impact of the rights issue in 2009).

	£m	Pence per share
2009 Loss/loss per share	(122.0)	(89.8)
Re-statement for rights issue	–	39.0
Restated under IAS 33	(122.0)	(50.8)
Further adjustment for comparative purposes (see below)	–	18.5
2009 loss per share adjusted for full impact of rights issue	(122.0)	(32.3)
Movements in:		
Operating profit	15.4	4.1
Contribution from joint ventures and associates	17.9	4.8
Fair value of derivatives	(0.9)	(0.2)
Reversal of revaluation deficits on investment properties	24.8	6.6
Decrease in provisions against trading stock values and loan balances	30.2	8.0
Goodwill credit/(impairment)	4.2	1.1
Net interest payable	25.7	6.8
Inducement costs in 2009 on convertible bond	31.1	8.3
Taxation and other	(37.2)	(10.1)
2010 Loss/loss per share	(10.8)	(2.9)

The majority of the movements below operating profit relate to the reversal of valuation deficits on owned property assets and those held within joint ventures and associates. In addition provisions made against the carrying value of trading stock or loan balances were, overall, either reversed or reduced in the current year compared to 2009.

Loss per share for 2009 shown above has been adjusted for the full impact of the right issue. This basis isolates the impact of the rights issue providing a clearer view of the pence per share movements in the current year.

Rights issue

On 16 December 2009 the group completed a rights issue of 278m ordinary shares. This produced a cash inflow of £236.7m net of expenses. This was used to eliminate £104.5m of debt and increase cash balances by £132.2m. Consequently it created an increase in net assets of £236.7m and decreased gross net assets per share by 53%.

Interest expense and similar charges

Our net interest charge has decreased by £25.6m from £101.9m to £76.3m, the principal reason being that 2009 included a non-recurring write-off of loan refinancing costs arising from the re-financing at the end of our 2009 financial year. In addition 2010 has benefited from a reduction in debt of £104.5m paid out of the rights issue proceeds thereby reducing interest costs.

In the second half of our financial year the yield curve for long-term interest rates showed rates staying lower and for longer. The effect has been to increase the group's fair value of derivatives liability in the consolidated statement of financial position to £128.3m with a charge through the consolidated income statement of £39.6m (2009: £38.7m).

Financial resources

The business has produced £203m 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 £79m of net interest.

At the year end our net debt levels (before unamortised finance costs) had reduced from £1,561m in 2009 to £1,360m. The reduction mainly comprises loan repayments of £139m, a favourable exchange movement of £26m, an increase in net cash of £67m mainly resulting from the rights issue in December, offset partly by a net £25m of bank loans and cash acquired with Sovereign.

The group's cash and committed undrawn facilities amounted to £260m at 30 September 2010 (2009: £171m).

At 30 September 2010 gross debt was 75% hedged (2009: 93%) of which 4.5% was subject to caps. The group has core banking facilities of £101m maturing in the next two financial years with a further £868m maturing in December 2012 and the balance of £275m in June 2013.

On 30 September 2009 we announced the finalisation of two new forward start facilities totalling £615m. The first part, some £250m, commenced 30 June 2010 and was used to refinance a facility of £250m maturing on that date. The second part, £365m commencing 30 June 2011, will be used to refinance a £390m facility maturing on that date. The other facilities under our core banking facilities are a £228m revolving credit facility maturing in December 2012 and term loans of £376m maturing June 2013.

The average maturity of all of the group's debt is 3.5 years (2009: 4.4 years).

The effective average interest rate on the group's debt at 30 September 2010 was 5.0% (2009: 5.3%).

During the year our loan-to-value (LTV) on the core facility has fallen to 54% (2009: 66%). This compares to a default LTV level of 80% (at 70% purchasing restrictions and a cash sweep would apply). A 32% fall in property values would be needed to breach the 80% LTV (23% fall to reach 70%).

At 30 September 2010 our interest cover ratio stood at 2.4 times (2009: 2.7 times). This compares to an interest cover covenant of 1.25.

Although the funding position of the group is very secure for the next two financial years we are already focused on the need to reshape our sources of long-term funding in an environment where traditional bank lending is likely to remain constrained. We are already in discussions to advance a number of initiatives in this regard.

Mark Greenwood
Finance director
10 December 2010

The board

1. **Robin Broadhurst** C.B.E., F.R.I.C.S. Chairman, chairman of nomination committee. Aged 64
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. Aged 54, chartered accountant
Andrew joined Grainger in 1996 as finance director, became deputy chief executive in December 2002, and chief executive in October 2009. A fellow of the Institute of Chartered Accountants in England and Wales, Andrew was a partner in a predecessor firm of Price Waterhouse Coopers before joining Grainger. Andrew is a member of the British Property Federation's Policy Committee.

3. **Mark Greenwood** F.C.M.A. Finance director. Aged 51
Mark joined the Board as finance director in September 2010. A fellow of the Chartered Institute of Management Accountants, Mark has worked in finance since 1982 and held a number of senior positions within Alfred McAlpine Plc from 1989 to 2008. He was group finance director from 2007 until its takeover in 2008.

4. **Nick Jopling** Executive director. Aged 49
Nick joined Grainger plc in September 2010 as executive director with responsibility for property matters from CB Richard Ellis where he was executive director of residential. Nick's responsibility covers Grainger's UK residential portfolio, development and fund management business units. Nick is also the chairman of the Urban Land Institute's UK Residential Product Council.

5. **Peter Couch** Executive director. Aged 52
Peter Couch was appointed to the board as executive director responsible for Grainger's retirement solutions business in June 2010. He will continue to act as chief operating officer, a position he was appointed to in 2009. Peter joined Grainger in 2005 to manage the company's retirement solutions business. Prior to joining Grainger, Peter spent most of his career in the financial services sector and held several senior roles within the AMP Group.

6. **Robert R S Hiscox*** A.C.I.I. Member of nomination and remuneration committees. Aged 67
Appointed a director of the company in March 2002. Chairman of Hiscox Limited. Deputy chairman of Lloyd's 1993/95.

7. **John Barnsley*** F.C.A. Chairman of audit committee. Aged 62, 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.

8. **Henry Pitman*** Member of remuneration committee. Aged 48
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 1990/95 he worked for the Property Corporation of South Africa.

9. **Bill Tudor John*** Senior independent director, and member of nomination and audit committees. Aged 66
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.

10. **Baroness Margaret Ford*** Member of audit committee and chairman of remuneration committee. Aged 52
Appointed a director of the company in July 2008. The current chairman of the Olympic Park Legacy Company (since 2009). Senior independent director of Serco plc and chairman of Irvine Bay Urban Regeneration Company. Between 2007 and 2009, managing director in the Royal Bank of Canada's Global Infrastructure Group and between 2002 and 2007 chairman of English Partnerships.

***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 2010.

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, the chief executive, the chief operating officer (appointed to the board on 1 June 2010), the property director (appointed to the board on 1 September 2010), the finance director (appointed to the board on 13 September 2010) 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 June 2010 Peter Couch, the group's chief operating officer, was promoted to the board and continues to report to the chief executive and be 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.

In September 2010, Nick Jopling and Mark Greenwood joined the board as executive property director and finance director respectively and have both also joined the monthly operations board.

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.

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;
- 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.

Two of the meetings were preceded, the evening before, by an informal meeting allowing more time to debate issues in depth. Two of the board meetings were held at the company's head office in Newcastle and four of the board meetings were held in the company's offices in Knightsbridge. The meeting on 1 July 2010 was held in a central London hotel to coincide with a full day's meeting of senior management – giving the board the opportunity to engage with key staff on a range of issues.

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.

All directors attended all board meetings subsequent to their respective appointments.

Changes to the board

As noted above, Peter Couch, Nick Jopling and Mark Greenwood were each appointed to the board in the course of the year.

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.

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
Robin Broadhurst (Chairman)	Independent
Bill Tudor John (Senior Independent Director)	Independent
John Barnsley	Independent
Robert R. S. Hiscox	Independent
Henry Pitman	Independent
Baroness Margaret Ford	Independent

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 39.

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. Each of the three newly appointed executive directors attended internal induction sessions and a half day session of exclusive and specifically tailored induction provided by law firm Freshfields Bruckhaus Deringer.

Training and updating as to the business of the group and the legal and regulatory responsibilities of directors was provided throughout the year 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 given that three executive directors had only joined the board shortly before the evaluation process occurred, 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 2008/09 evaluation process were implemented in the course of the year.

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 2011 both Andrew Cunningham (the chief executive) and Henry Pitman 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.

A detailed annual budget is produced each year, together with longer-term projections in accordance with the agreed strategy, which are presented to the board for consideration and 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. A detailed management information pack is prepared monthly which covers each major area of the business and which includes detailed consolidated results and financial information for the business as a whole. The performance of each business area is reviewed monthly by both divisional management and the operations board and is subsequently reported to the board.

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 of John Barnsley as chairman, Baroness Ford and one other non-executive director throughout the year. Henry Pitman was a member of the audit committee up to 1 January 2010 and Bill Tudor John has been a member of the committee since 1 January 2010. The audit committee met five times in the year, in each case with all members of the committee present save that Baroness Ford did not attend the meeting in February 2010 and Bill Tudor John did not attend the meeting in September 2010. 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.

Corporate governance report continued

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; and
- The auditors' report to the directors and the audit committee confirming their independence in accordance with Auditing Standards.

In addition to the steps taken by the board to safeguard auditor objectivity, PricewaterhouseCoopers LLP operates a five-year rotation policy for audit partners.

During the year, £205,000 was paid by the group to PricewaterhouseCoopers LLP for taxation services. 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 £382,000 was paid for other services, the main element of which was £366,000 relating to work performed in connection with the rights issue. These fees were one-off in nature and are not expected to reoccur. In addition to services provided by PricewaterhouseCoopers LLP the group also engaged with other accountancy firms during the year for the provision of tax and other accountancy services.

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 German residential 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 chief executive and acting 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.

Share capital

Details of the major interests in the company's share capital and information relating to the rights issue and the company's share capital are provided in the directors' report on pages 54 to 57.

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
10 December 2010

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 comprises three independent non executive directors, Baroness Margaret Ford (chair), Robert Hiscox and Henry Pitman.

Baroness Margaret Ford and Henry Pitman joined the committee on 1 January 2010 when Bill Tudor John and John Barnsley stood down from the committee. Bill Tudor John had previously been chairman of the committee.

The committee comprised three independent non-executive directors throughout the year.

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

This year Hewitt New Bridge Street ('HNBS') continued to be involved in the set-up and implementation of the LTIP. HNBS 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 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 (and senior executives) are expected to hold the equivalent value of at least one year's salary in Grainger shares. Details of executive directors' shareholdings are shown on page 53. 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 pay. They include salary, bonus and defined contribution pension elements as well as long-term share incentive and option schemes. Usual benefits are also afforded.

No executive director is involved in the determination of his own remuneration. Fees of the non-executive directors, which include increments where a committee chairmanship or senior independent position is held, are determined by the executive committee of the board.

The salaries and bonuses of senior management are determined by the executive directors and reported to the remuneration committee. Senior management also participate in long-term incentive scheme arrangements described below. Usual benefits are also afforded to these individuals. In this context, senior management are those employees who are members of the 'Executive Team'.

The remuneration committee also review the total level of salaries and bonuses paid to the group as a whole.

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
Andrew Cunningham	20 October 2009	No fixed term	12 months
Peter Couch	1 June 2010	No fixed term	12 months
Nick Jopling	1 September 2010	No fixed term	6 months
Mark Greenwood	13 September 2010	No fixed term	6 months
Robin Broadhurst	26 February 2004	29 months	3 months
Bill Tudor John	24 February 2005	5 months	3 months
John Barnsley	27 February 2003	17 months	3 months
Robert Hiscox	6 March 2002	5 months	3 months
Henry Pitman	1 May 2007	29 months	3 months
Baroness Margaret Ford	3 July 2008	5 months	3 months

*Calculated as at 30 September 2010 and rounded to the nearest whole month.

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

Each non-executive director has specific terms of reference. Their 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

The board has approved a policy on other directorships. This permits a full-time executive director to hold non-executive directorships, and to retain fees from any such appointment, provided that the board considers that this will not adversely affect their executive responsibilities.

None of the executive directors held any other directorships outside of the group during the year.

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, 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 fees for the chairman and non-executive directors are reviewed on a biennial basis by the executive committee to the board. Increases in these fees to be effective from 1 October 2010 were agreed in November 2010.

Pensions

The group contributes 15% of basic salary to the money purchase pension schemes of all of the executive directors. No other elements of remuneration are pensionable.

Share schemes open to all employees

Andrew Cunningham and Peter Couch are eligible to participate in two share schemes which are open to all employees with relevant service, subject to the rules of the schemes. The first is a save as you earn scheme ('SAYE'), and the second a share incentive plan ('SIP'). Both are Inland Revenue approved and therefore subject to the limits prescribed.

Nick Jopling and Mark Greenwood will be eligible to participate in both of these schemes once they have been employed for the requisite periods.

Amounts relating to directors' participation in the SIP and share options under the SAYE scheme are shown on pages 50 and 51.

Report of the remuneration committee and directors' remuneration report continued

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 2010 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. The maximum amount that can be transferred into the pool in any one year is 150% of salary and this could only be achieved under exceptional performance conditions.

As at 30 September 2009 the balance in the notional bonus pool stood at £619,193. An amount of £199,238 has been transferred to the pool based on performance for the year to September 2010 and a bonus of £272,810, being one third of the pool, is payable in respect of this period, leaving £545,621 to be paid out over future years.

Following a review of bonus arrangements undertaken during the year the remuneration committee has agreed to close this bonus scheme and to replace it with an annual bonus scheme. The balance of the existing bonus pool will be paid to Andrew Cunningham in equal tranches over the next five years.

Peter Couch who was appointed to the board on 1 June 2010 has been awarded a bonus of £132,500 in respect of the 12-month period to September 2010.

Long-term Incentives

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

The current long-term incentive scheme ('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 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 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.

Conditional awards were made under this current scheme on 8 December 2009 and 29 September 2010 and are quantified below.

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

Revised arrangements for incentive schemes

The remuneration committee has during the year undertaken, with the independent assistance of HNBS, a review of the remuneration arrangements for the executive directors.

This review has taken into account feedback from major shareholders following the 2010 AGM and the current market and best practice together with the strategic review completed by the CEO during the year and the addition of new directors to the board.

Following this review the committee has made revisions to the arrangements which it believes should motivate, retain and appropriately reward management within a best practice compliant framework that aligns their interests with those of shareholders.

The key revisions made by the committee are:

- **Annual cash bonus**

  Maximum potential for CEO remains at 150% of salary but for the other directors this will be 125% of salary. The performance measures will be 75% based on the following two financial measures:

  i. Operating profit before valuation

  ii. Return on shareholders' equity

  and 25% based on personal performance.

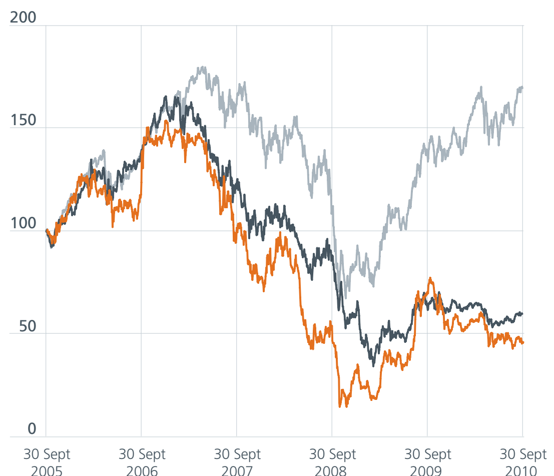
- **Long-term incentive scheme**

  Performance measures over a three-year period which are currently 33% based on TSR and 67% based on NNNAV vs. WACC will be revised to 50% based on TSR and 50% based NNNAV vs. average of the Halifax and Nationwide indices. The TSR target range has been adjusted to 5% to 15% from 8% to 16% to reflect the committee's view of altered circumstances.

The remuneration committee carefully considered the new arrangements to ensure that they were no less challenging than the previous system and were satisfied that this was the case.

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.

Total shareholder return



This graph shows the value by 30 September 2010 of £100 invested in Grainger on 30 September 2005 compared with the value of £100 invested in the FTSE 250 Index and in the FTSE 350 Real Estate/Real Estate Investment and Services indices.

GRAINGER
FTSE 250 INDEX
FTSE 350 REAL ESTATE/REAL ESTATE INVESTMENT AND SERVICES INDICES

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	Rupert Dickinson £'000	Andrew Cunningham £'000	Peter Couch £'000	Nick Jopling £'000	Mark Greenwood £'000	Stephen Dickinson £'000	Total £'000
Non-performance-related remuneration								
Salary and fees	120	26	420	88	27	14	–	695
Taxable benefits	–	–	12	11	1	1	–	25
Share incentive plan	–	–	6	2	–	–	–	8
Total non-performance-related remuneration	120	26	438	101	28	15	–	728
Performance-related remuneration								
Annual discretionary bonus	–	–	273	133	–	–	–	406
Total performance-related remuneration	–	–	273	133	–	–	–	406
Total remuneration for the year ended 30 September 2010	120	26	711	234	28	15	–	1,134
Total remuneration for the year ended 30 September 2009	120	508	527	–	–	–	84	1,239
Pension contributions into money purchase schemes								
Year ended 30 September 2010	–	–	66	14	4	3	–	87
Year ended 30 September 2009	–	74	56	–	–	–	–	130

Non-executive	John Barnsley £'000	Baroness Margaret Ford £'000	Robert Hiscox £'000	Henry Pitman £'000	Bill Tudor John £'000	Total £'000	Total all directors 2010 £'000
Non-performance-related remuneration							
Salary and fees	50	39	35	35	46	205	900
Taxable benefits	–	–	–	–	–	–	25
Share incentive plan	–	–	–	–	–	–	8
Total non-performance-related remuneration	50	39	35	35	46	205	933
Performance-related remuneration							
Annual discretionary bonus	–	–	–	–	–	–	406
Total performance-related remuneration	–	–	–	–	–	–	406
Total remuneration for the year ended 30 September 2010	50	39	35	35	46	205	1,339
Total remuneration for the year ended 30 September 2009	50	35	35	35	50	205	1,444

Stephen Dickinson retired from the board on 10 February 2009.

Peter Couch was appointed to the board on 1 June 2010.

Nick Jopling was appointed to the board on 1 September 2010.

Mark Greenwood was appointed to the board on 13 September 2010.

Rupert Dickinson retired from the board on 20 October 2009. Pursuant 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 made an aggregate payment to Rupert Dickinson of £2,982,521 (less PAYE deductions).

Directors' share options

Ordinary shares (thousands)		Rupert Dickinson		Andrew Cunningham		Peter Couch	
Dates exercisable	Exercise price	30 Sept 2010	30 Sept 2009	30 Sept 2010	30 Sept 2009	30 Sept 2010	30 Sept 2009
Non-performance-related (available to all staff)							
SAYE Scheme							
1 February 2014 to 31 July 2014	£0.377	–	44	44	44	25	25
Performance-related (conditional awards)							
Inland Revenue Approved Executive Share Option Scheme							
23 March 2010 to 23 March 2017	£3.70	–	8	–	8	–	–
		–	52	44	52	25	25

Ordinary shares (thousands)		Nick Jopling		Mark Greenwood		Total	
Dates exercisable	Exercise price	30 Sept 2010	30 Sept 2009	30 Sept 2010	30 Sept 2009	30 Sept 2010	30 Sept 2009
Non-performance-related (available to all staff)							
SAYE Scheme							
1 February 2014 to 31 July 2014	£0.377	–	–	–	–	69	113
Performance-related (conditional awards)							
Inland Revenue Approved Executive Share Option Scheme							
23 March 2010 to 23 March 2017	£3.70	–	–	–	–	–	16
		–	–	–	–	69	129

Performance conditions for the options exercisable 23 March 2010 to 23 March 2017 at £3.70 were not met, thus the options lapsed.

The market price of the company's shares at the end of the financial year was 110p, and the range of the closing mid-market prices during the year was 102p to 170p.

Comparative figures for Peter Couch, Nick Jopling and Mark Greenwood are as at the date of their appointment to the board.

Report of the remuneration committee and directors' remuneration report continued

Directors' share awards

Ordinary shares of 5p each (thousands)

			Rupert Dickinson		Andrew Cunningham		Peter Couch	
	Award date	Earliest vesting date	30 Sept 2010	30 Sept 2009	30 Sept 2010	30 Sept 2009	30 Sept 2010	30 Sept 2009
Non-performance-related – miscellaneous*	12 Dec 2007	12 Dec 2010	–	–	–	–	26	26
Non-performance-related – deferred bonus plan*	3 Feb 2010	3 Feb 2011	–	–	–	–	90	90
Performance-related (conditional awards)								
Long-term incentive scheme								
2006 scheme (lapsed)	23 Mar 2007	23 Mar 2010	–	187	–	140	–	–
2007 scheme	9 Jan 2008	9 Jan 2011	–	376	284	284	153	153
2008 scheme	23 Dec 2008	23 Dec 2011	–	1,048	779	779	429	429
2009 scheme	9 Dec 2009	9 Dec 2012	–	–	481	–	–	–
2009 scheme	29 Sept 2009	9 Dec 2012	–	–	–	–	–	–
Matching awards (conditional)								
2006 scheme (lapsed)	23 Mar 2007	23 Mar 2010	–	37	–	28	–	–
2007 scheme	9 Jan 2008	9 Jan 2011	–	75	56	56	31	31
2008 scheme	23 Dec 2008	23 Dec 2011	–	206	156	156	86	86
2009 scheme	9 Dec 2009	9 Dec 2012	–	–	96	–	–	–
2009 scheme	29 Sept 2009	9 Dec 2012	–	–	–	–	–	–
			–	1,929	1,852	1,443	815	815

Ordinary shares of 5p each (thousands)	Award date	Earliest vesting date	Nick Jopling 30 Sept 2010	Nick Jopling 30 Sept 2009	Mark Greenwood 30 Sept 2010	Mark Greenwood 30 Sept 2009	Total 30 Sept 2010	Total 30 Sept 2009
Non-performance-related – miscellaneous*	12 Dec 2007	12 Dec 2010	–	–	–	–	26	26
Non-performance-related – deferred bonus plan*	3 Feb 2010	3 Feb 2011	–	–	–	–	90	90
Performance-related (conditional awards)								
Long-term incentive scheme								
2006 scheme (lapsed)	23 Mar 2007	23 Mar 2010	–	–	–	–	–	327
2007 scheme	9 Jan 2008	9 Jan 2011	–	–	–	–	437	813
2008 scheme	23 Dec 2008	23 Dec 2011	–	–	–	–	1,208	2,256
2009 scheme	9 Dec 2009	9 Dec 2012	–	–	–	–	481	–
2009 scheme	29 Sept 2009	9 Dec 2012	283	–	230	–	513	–
Matching awards (conditional)								
2006 scheme (lapsed)	23 Mar 2007	23 Mar 2010	–	–	–	–	–	65
2007 scheme	9 Jan 2008	9 Jan 2011	–	–	–	–	87	162
2008 scheme	23 Dec 2008	23 Dec 2011	–	–	–	–	242	448
2009 scheme	9 Dec 2009	9 Dec 2012	–	–	–	–	96	–
2009 scheme	29 Sept 2009	9 Dec 2012	23	–	10	–	33	–
			306	–	240	–	3,213	4,187

Performance conditions for the conditional share awards set to vest on 23 March 2010 were not met and therefore lapsed on that date.

Rupert Dickinson retained his participation in the long-term incentive scheme for awards conditionally vesting on 9 January and 23 December 2011 respectively. Any awards which vest will be adjusted on a pro forma basis to 20 October 2009 being the date he retired from the board. On this pro rata basis the maximum shares that could vest total 612,000.

*These share awards were granted to Peter Couch before he was appointed to the board.

Comparative figures for Peter Couch, Nick Jopling and Mark Greenwood are as at the date of their appointment to the board.

On behalf of the board

Baroness Margaret Ford
Chairman of the remuneration committee
10 December 2010

Directors' report

The directors present their report and the audited financial statements for the year ended 30 September 2010.

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 and its prospects are reviewed in the chairman's statement on pages 7 to 9 and the chief executive's statement on pages 10 to 17.

Results for the year

The results of the group are set out in the consolidated income statement on page 59 which shows a loss for the financial year attributable to equity shareholders of £10.8m (2009: £122.0m loss).

Dividends

An interim dividend of 0.50p per share was paid on 2 July 2010 (2009: nil) and the directors recommend the payment of a final dividend of 1.20p per share (2009: 1.29p), to be paid on 11 February 2011 making a total dividend for the year of 1.70p per share. Any shareholder wishing to participate in the Dividend Reinvestment Plan for the 2010 final dividend will need to ensure that their application form is returned to our registrars by 14 January 2011.

Directors

The directors of the company who served during the year and up to the date of signing are listed on page 39.

Directors' and other interests

The interests of the directors in the shares of the company at 30 September 2010 and 3 December 2010, with comparative figures as at 1 October 2009 are as follows:

	Ordinary shares of 5p each (thousands)		
	Beneficial		
	1 Oct 2009*	30 Sept 2010	3 Dec 2010
Robin Broadhurst	26	90	100
Andrew Cunningham	512	1,092	1,103
Bill Tudor John	–	–	–
John Barnsley	46	76	103
Robert Hiscox	50	150	200
Henry Pitman	451	102	102
Baroness Margaret Ford	4	14	14
Peter Couch[1]	146	88	88
Nick Jopling[2]	23	23	61
Mark Greenwood[3]	10	10	20
	1,268	1,645	1,791

* or date of appointment, if later.
[1] appointed on 1 June 2010.
[2] appointed on 1 September 2010.
[3] appointed on 13 September 2010.

Details of directors' share options are given on page 51.

Save as disclosed above, as at 3 December 2010, 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	77,276	18.56
Standard Life Investments Limited	32,067	7.70
BNP Paribas Investment Partners SA	21,242	5.10
Taube Hodson Stonex Partners LLP	20,023	4.81
Morgan Stanley Investment Management	16,975	4.07
BlackRock Inc	13,496	3.24

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 prepared 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 IFRSs 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 39 confirm that, to the best of their knowledge:

- The group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the group;
- The operating review on pages 10 to 17 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 maintenance and integrity of the Grainger plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Directors' report continued

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

Corporate governance

A report on matters of corporate governance is set out on pages 40 to 45 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 2010 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 21 days (2009: 18 days).

Financial risk management

Details of this are included in note 24 to the financial statements.

Sustainability

Our approach to sustainability is based on our assessment of the potential risk and opportunity to our business. In the year ended 30 September 2010 we completed 70% of the applicable sustainability targets that we committed to meeting by that date. Further information is provided in the corporate responsibility report on pages 28 to 33.

Group risk factors

As with all businesses, the group is affected by certain risks, not wholly within our control, which could have a material impact on the group and could cause actual results to differ materially from forecast and historical results. The most significant of these, both of which are macro-economic, are as follows:

- A further downturn in house prices and stagnation in the market through lack of mortgage finance and/or finance to acquire properties; and
- Significant increases in borrowing costs and/or a lack of or reduction in finance available to Grainger.

Charitable donations

During the year the group made charitable donations amounting to £12,320 (2009: £12,577).

Health and safety

The company seeks to achieve the highest standards in respect of health and safety of employees and tenants. Consultants are employed to ensure that the company complies with health and safety regulations and each year the gas supply and appliances within all of the group's relevant residential properties are independently inspected under the Gas Safety (Installation and Use) Amended Regulations 1996 and certificates of compliance issued. The group employs a full-time health and safety manager.

Employment of disabled persons

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

Employee involvement

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

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.

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

Shares

On 5 November 2009, the company announced a two for one rights issue of up to 277,628,724 new ordinary shares of 5p each at 90p per ordinary share. A general meeting held on 30 November 2009 approved the increase of the authorised share capital from £8m to £25m by the creation of an additional 340m ordinary shares of 5p each and approved the authority for directors to allot shares in the company up to an aggregate nominal amount of £16m. Following receipt of valid acceptances for shares, 277,553,406 shares in the company were issued on 16 December 2009 pursuant to the rights issue. Between February and April 2010 a further 10,901 ordinary shares were issued fully paid pursuant to the exercise of share options under the group's SAYE scheme. At 30 September 2010, the company's authorised share capital comprised 500m ordinary shares of 5p each and at that date, the issued share capital was 416,362,420 ordinary shares of 5p each. The company has one class of ordinary shares and all shares rank equally and are fully paid. No person holds shares carrying special rights with regard to control of the company. There are neither restrictions on the transfer of shares nor the size of a holding which are both governed by the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of shares in the company that may result in restrictions on the transfer of shares or on voting rights.

At 30 September 2010, the directors had unexpired power to repurchase up to 41,600,000 shares.

Takeover directive

On a change of control, the core bank facilities (described in note 25 to the accounts) 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

On 12 October 2010 the group sold 50% of its equity stake in Sovereign Reversions plc to MREF II Equity Release Limited, a wholly owned subsidiary of Moorfield Real Estate Fund II ('Moorfield') for £17.5m. The group has entered into a 50:50 joint venture agreement with Moorfield under which Moorfield will pay 50% of the acquisition costs, certain integration costs and under which Grainger will receive management fees for management of the assets and business.

By order of the board

Nick On
Company secretary
10 December 2010

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 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of 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 (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 55, 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 Chapter 3 of Part 16 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 2010 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:

- 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; and
- The information given in the corporate governance statement set out on pages 40 to 45 with respect to internal control and risk management systems and about share capital structures is consistent with the 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:

- 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 statement has not been prepared by the parent company.

Under the Listing Rules we are required to review:

- The directors' statement, set out on page 45, in relation to going concern; and
- The part of the Corporate Governance Statement 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 2010 and on the information in the 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
10 December 2010

Consolidated income statement

For the year ended 30 September 2010	Notes	2010 £m	2009 £m
Group revenue		244.5	302.2
Net rental income	5	40.8	38.5
Profit on disposal of trading property	6	52.8	44.9
Administrative expenses	8	(11.2)	(8.9)
Other income and expenses	9	5.9	7.3
Net gain on acquisition of subsidiary	41	2.8	–
Goodwill impairment	21	(1.5)	(2.9)
Profit/(loss) on disposal of investment property	7	0.4	(1.1)
Profit on redemption of equity units in associate	18	1.0	–
Interest income/(expense) from financial interest in property assets	20	2.5	(4.7)
Write back/(write down) of inventories to net realisable value	22	2.9	(18.4)
Provision for impairment of loans receivable net of write backs	19, 23	(10.7)	(19.6)
Operating profit before net valuation deficits on investment property		85.7	35.1
Net valuation deficits on investment property	16	(0.8)	(25.6)
Operating profit after net valuation deficits on investment property		84.9	9.5
Change in fair value of derivatives	24	(39.6)	(38.7)
Interest expense and similar charges	12	(81.3)	(107.1)
Interest income	12	5.0	5.2
Inducement costs and expenses on convertible bond	25	–	(31.1)
Share of profit/(loss) of associates after tax	18	5.6	(6.4)
Share of profit/(loss) of joint ventures after tax	19	4.6	(1.4)
Loss before tax	11	(20.8)	(170.0)
Taxation – current		0.1	10.8
Taxation – deferred		9.9	37.2
Tax credit for the year	13	10.0	48.0
Loss for the year attributable to equity shareholders		(10.8)	(122.0)
Basic loss per share (2009 restated)	15	(2.9)p	(50.8)p
Diluted loss per share (2009 restated)	15	(2.9)p	(50.8)p
Dividend per share (2009 restated)	14	1.70p	1.29p

All of the above results relate to continuing operations.

Consolidated statement of comprehensive income

For the year ended 30 September 2010	Notes	2010 £m	2009 £m
Loss for the year		(10.8)	(122.0)
Actuarial loss on BPT Limited defined benefit pension scheme net of tax	27	(0.4)	(2.9)
Fair value movement on financial interest in property assets net of tax	20	2.3	1.9
Net exchange adjustments offset in reserves net of tax		0.9	0.6
Changes in fair value of cash flow hedges net of tax		(1.4)	(47.0)
Other comprehensive income and expense for the year		1.4	(47.4)
Total comprehensive income and expense for the year attributable to equity shareholders		(9.4)	(169.4)

Consolidated statement of financial position

As at 30 September 2010	Notes	2010 £m	2009 £m
ASSETS			
Non-current assets			
Investment property	16	634.7	654.3
Property, plant and equipment	17	1.3	1.9
Investment in associates	18	28.6	24.5
Investment in joint ventures	19	91.0	80.7
Financial interest in property assets	20	103.9	109.1
Goodwill	21	6.2	5.9
		865.7	876.4
Current assets			
Investment in associates	18	0.1	8.7
Inventories – trading property	22	989.9	1,015.6
Trade and other receivables	23	17.2	20.0
Derivative financial instruments	24	–	0.2
Cash and cash equivalents	25	91.5	28.3
Assets held for sale	41	70.7	–
		1,169.4	1,072.8
Total assets		2,035.1	1,949.2
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	25	1,361.7	1,557.0
Trade and other payables	26	4.0	4.0
Retirement benefits	27	6.0	5.8
Provisions for other liabilities and charges	26	0.8	0.9
Deferred tax liabilities	13, 28	14.2	21.1
		1,386.7	1,588.8
Current liabilities			
Interest-bearing loans and borrowings	25	55.6	19.9
Trade and other payables	29	57.3	88.1
Current tax liabilities	13	27.8	24.4
Derivative financial instruments	24	128.3	99.5
Liabilities held for sale	41	34.1	–
		303.1	231.9
Total liabilities		1,689.8	1,820.7
Net assets		345.3	128.5

Consolidated statement of financial position continued

As at 30 September 2010	Notes	2010 £m	2009 £m
EQUITY			
Capital and reserves attributable to the company's equity holders			
Issued share capital	30	20.8	6.9
Share premium		109.8	109.7
Merger reserve		20.1	20.1
Capital redemption reserve		0.3	0.3
Cash flow hedge reserve		(43.0)	(41.6)
Equity component of convertible bond		5.0	5.0
Available-for-sale reserve		4.2	1.9
Retained earnings	33	228.0	26.1
Total shareholders' equity		345.2	128.4
Non-controlling interests		0.1	0.1
Total equity		345.3	128.5

The financial statements on pages 59 to 130 were approved by the board of directors on 10 December 2010 and were signed on their behalf by:

Andrew Cunningham
Director

Mark Greenwood
Director

Company registration number: 125575

Consolidated statement of changes in equity

	Issued share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Cash flow hedge reserve £m	Equity component of convertible bond £m	Available for sale reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
Balance as at 1 October 2008	6.4	23.1	20.1	0.3	5.4	22.4	–	152.0	0.1	229.8
Loss for the year	–	–	–	–	–	–	–	(122.0)	–	(122.0)
Other recognised income and expense for the year	–	–	–	–	(47.0)	–	1.9	(2.3)	–	(47.4)
Total recognised income and expense for the year	–	–	–	–	(47.0)	–	1.9	(124.3)	–	(169.4)
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
Purchase of own shares	–	–	–	–	–	–	–	(0.4)	–	(0.4)
Share-based payments charge	–	–	–	–	–	–	–	0.8	–	0.8
Dividends paid	–	–	–	–	–	–	–	(5.2)	–	(5.2)
Balance as at 30 September 2009	6.9	109.7	20.1	0.3	(41.6)	5.0	1.9	26.1	0.1	128.5
Loss for the year	–	–	–	–	–	–	–	(10.8)	–	(10.8)
Other recognised income and expense for the year	–	–	–	–	(1.4)	–	2.3	0.5	–	1.4
Total recognised income and expense for the year	–	–	–	–	(1.4)	–	2.3	(10.3)	–	(9.4)
Issue of shares	–	0.1	–	–	–	–	–		–	0.1
Purchase of own shares	–	–	–	–	–	–	–	(4.5)	–	(4.5)
Rights issue (see note 39)	13.9	–	235.9	–	–	–	–	(13.1)	–	236.7
Transfer to retained earnings (see note 39)	–	–	(235.9)	–	–	–	–	235.9	–	–
Share-based payments charge	–	–	–	–	–	–	–	1.3	–	1.3
Dividends paid	–	–	–	–	–	–	–	(7.4)	–	(7.4)
Balance as at 30 September 2010	20.8	109.8	20.1	0.3	(43.0)	5.0	4.2	228.0	0.1	345.3

Consolidated statement of cash flows

For the year ended 30 September 2010	Notes	2010 £m	2009 £m
Cash flow from operating activities			
Loss for the year		(10.8)	(122.0)
Depreciation	17	0.7	0.8
Net gain on acquisition of subsidiary	41	(2.8)	–
Goodwill impairment	21	1.5	2.9
Net valuation deficits on investment property	16	0.8	25.6
Net finance costs	12	76.3	101.9
Share of (profit)/loss of associates and joint ventures	18, 19	(10.2)	7.8
(Profit)/loss on disposal of investment property	7	(0.4)	1.1
Provision for impairment of loans receivable net of write-backs	19, 23	10.7	19.6
Profit on redemption of equity units in associate	18	(1.0)	–
Inducement costs on convertible bond	25	–	31.1
Share-based payments charge	31	1.3	0.8
Change in fair value of derivatives	24	39.6	38.7
Interest (income)/expense from financial interest in property assets	20	(2.5)	4.7
Taxation	13	(10.0)	(48.0)
Operating profit before changes in working capital		93.2	65.0
(Increase)/decrease in trade and other receivables		(2.5)	1.4
Decrease in trade and other payables		(23.9)	(22.9)
Decrease in trading property		42.5	126.9
Cash generated from operations		109.3	170.4
Interest paid		(80.2)	(77.9)
Taxation refund/(paid)	13	3.6	(16.2)
Net cash inflow from operating activities		32.7	76.3

For the year ended 30 September 2010	Notes	2010 £m	2009 £m
Cash flow from investing activities			
Proceeds from sale of investment property and property, plant and equipment	7	9.9	8.8
Proceeds from financial interest in property assets	20	10.8	10.1
Proceeds from redemption of equity units in associate	18	9.8	7.6
Interest received		1.7	1.9
Dividends/distributions received	18	–	0.4
Acquisition of subsidiaries, net of cash acquired	40, 41	(47.0)	(0.8)
Investment in associates and joint ventures		(7.0)	(4.8)
Acquisition of investment property and property, plant and equipment	16, 17	(15.4)	(5.1)
Net cash (outflow)/inflow from investing activities		(37.2)	18.1
Cash flows from financing activities			
Proceeds from the issue of share capital	39	236.7	–
Purchase of own shares	30	(4.5)	(0.4)
Inducement payment to convertible bondholders	25	–	(31.1)
Proceeds from new borrowings		–	11.6
Repayment of borrowings		(139.4)	(86.0)
Settlement of derivative contract		(13.4)	–
Dividends paid	14	(7.4)	(5.3)
Payments to defined benefit pension scheme	27	(0.6)	(0.5)
Net cash inflow/(outflow) from financing activities		71.4	(111.7)
Net increase/(decrease) in cash and cash equivalents		66.9	(17.3)
Cash and cash equivalents at the beginning of the year	25	28.3	43.2
Net exchange movements on cash and cash equivalents		(0.6)	2.4
Total cash and cash equivalents at the end of the year		94.6	28.3
Cash held in Sovereign Reversions plc at the end of the year	41	(3.1)	–
Cash and cash equivalents at the end of the year	25	91.5	28.3

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 141. The group financial statements consolidate those of the company and its subsidiaries, together referred to as the 'group', and equity account the group's interest in joint ventures and associates. The parent company financial statements present information about the company and not about its group.

The group financial statements have been prepared in accordance with EU endorsed International Financial Reporting Standards ('IFRSs'), 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 132 to 139.

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, share-based payments and pensions.

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 on consolidation. 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 and equity instruments issued. 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. Costs attributable to an acquisition are expensed in the consolidated income statement under the heading 'other income and expenses'.

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 those entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

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

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

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 non-controlling interests

The group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the group. Disposals to non-controlling interests result in gains or losses for the group that are recorded in the income statement. On acquisition of non-controlling 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 adopted IFRS 8, 'Operating Segments' ('IFRS 8') for these financial statements. IFRS 8 requires operating segments to be identified based upon the group's internal reporting to the chief operating decision maker ('CODM') to make decisions about resources to be allocated to segments and to assess their performance. The group's CODM is the chief executive officer.

The group has identified six such segments as follows:

- UK residential;
- Retirement solutions;
- Property services;
- Fund management/residential investments;
- UK and European development; and
- German residential.

All of the above segments are UK based except German residential which has its assets and tenants based in Germany and UK and European development which includes 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 and operating review on pages 10 to 17 of this document and in note 4.

The group has a segment director responsible for the performance of each of these six segments and the group reports key financial information to the CODM on the basis of these six segments. Each of these six segments operate within a different part of the overall residential market.

The title 'All other segments' has been included in the segmental tables in note 4 to reconcile the segments to the figures reviewed by the CODM.

The measure of profit or loss used by the CODM is the trading profit or loss before valuation gains or deficits on investment property and excluding all revaluation and non-recurring items as set out in note 3. The CODM reviews by segment two key balance sheet measures of net asset value. These are gross net asset value ('NAV') and triple net asset value ('NNNAV') measures. Both measures include trading stock at market value as opposed to the lower of cost and net realisable value. Further information on the calculation of these measures is provided in note 4 on page 82.

Information relating to the group's operating segments is set out in note 4. Comparatives have been restated to conform with the requirement of IFRS 8.

Notes to the financial statements continued

1 Accounting policies continued

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 company's functional and presentation currency.

ii Foreign currency transactions

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

iii Foreign operations

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

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.

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.

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:

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 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 property

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, subsequent development costs and capitalised borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, 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.

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.

k) Income 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.

Notes to the financial statements continued

1 Accounting policies continued

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 comprehensive income 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 deferred bonus plan ('DBP'), 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 estimate 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 Black-Scholes valuation model.

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

m) Revenue recognition

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

i Rental and similar income

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

ii 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 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) Derivative 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.

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 is broken 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 in the income statement over the original life of the instrument.

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.

Financial assets classified as fair value through profit and loss are the derivative financial instruments not in hedge accounting relationships.

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.

Notes to the financial statements continued

1 Accounting policies continued

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 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.

t) Trade payables

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

Interim dividend distributions to the company's shareholders are recognised in the group financial statements when paid. Final dividend distributions are recognised as a liability in the group 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 and liabilities held for sale

Where a group of assets and liabilities 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 its equity-settled share-based compensation plans. 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, 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:

International Financial Reporting Standards ('IFRS')

- IFRS 9, 'Financial instruments' – the impact of IFRS 9 on the group financial statements is currently being assessed.

International Financial Reporting Interpretations Committee ('IFRIC') interpretations

- IFRIC 15, 'Agreements for construction of real estates';
- IFRIC 18, 'Transfer of assets from customers';
- Amendment to IFRIC 14, 'Prepayments of a minimum funding requirement'; and

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'.

Amendments to existing standards

- Annual improvements 2010;
- Amendment to IFRS 2, 'Share-based payments – group cash-settled share-based payment transactions';
- Amendments to IFRS 1 for additional exemptions;
- Amendment to IAS 24, 'Related Party disclosures'; and
- Amendment to IAS 39, 'Financial Instruments: Recognition and Measurement'.

All the above IFRSs, IFRIC interpretations and amendments to existing standards are yet to be endorsed by the European Union ('EU') at the date of approval of these financial statements.

z) Impact of new standards, interpretations, revisions and amendments mandatory for the group this year

At the date of approval of these financial statements, the following new standards, interpretations, revisions and amendments were issued, endorsed by the EU and are mandatory for the group for the first time for the financial year beginning 1 October 2009.

International Financial Reporting Standards ('IFRS')

- IFRS 3 (revised) 'Business combinations' (effective from I July 2009) and IAS 27 'Consolidated and Separate Financial Statements' (effective from 1 January 2009). Some of the key changes are: i) the requirement to measure all consideration at fair value at acquisition date, with any subsequent changes (e.g. 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 property. The expensing of transaction costs has been applied in these financial statements although the impact has not been material.
- 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 has been applied in these financial statements and further information is provided in note 4.
- IAS 1 (revised), 'Presentation of financial statements' (effective from 1 January 2009). This revised standard 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. This standard has therefore resulted in changes to the statement of recognised income and expense which has been split into two statements: one showing changes in equity resulting from transactions not reflected in the income statement and the other showing changes in equity resulting from transactions with shareholders. The statement of changes in equity has now become a primary statement in the group's results.
- IAS 23 (revised), 'Borrowing costs' (effective from 1 January 2009). This revised standard 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 revised standard has been applied to the group from 1 October 2009 but has had no material impact on these financial statements.
- IAS 27 (revised) 'Consolidated and separate financial statements' (effective from 1 July 2009). This revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. This revised standard has been applied to the group from 1 October 2009 but has had no material impact on these financial statements.
- IFRS 1 (revised) 'First time adoption'. This revised standard does not contain any technical changes as it only improves the structure, which had become complex due to the numerous amendments in recent years. No impact on the group's results.

International Financial Reporting Interpretations Committee ('IFRIC') interpretations

Notes to the financial statements continued

1 Accounting policies continued

- IFRIC 12, 'Service concession arrangements';
- IFRIC 13, 'Customer loyalty programmes relating to IAS 18, Revenue';
- IFRIC 14, 'IAS 19 – The limit of a defined benefit asset, minimum funding requirements and their interaction';
- IFRIC 16, 'Hedges of a net investment in a foreign operation'; and
- IFRIC 17, 'Distributions of non-cash assets to owners'.

These interpretations have no material impact on the group's financial statements.

Amendments to existing standards

- Amendment to IFRS 1 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' on the 'Cost of an investment in a subsidiary, jointly controlled entity or associate';
- Amendments to IAS 32 , 'Financial instruments: Presentation on classification of rights issues' and IAS 1, 'Presentation of financial statements on puttable financial instruments and obligations arising on liquidation';
- Amendment to IFRS 7, 'Financial instruments: Disclosures'. This amendment has changed the IFRS 7 disclosure requirements in the financial statements. The main impact will be the classification of fair value assets and liabilities against a fair value hierarchy; and
- Amendment to IAS 39, 'Financial instruments: Recognition and measurement: Eligible hedged items'.

The amendments to these standards have had no material financial impact on these financial statements.

The directors anticipate that the future adoption of those standards, interpretations, revisions and amendments listed above will not have a material impact on the group's accounts except for IFRS 3 (R) and IAS 23 (R) which will result in, amongst other things, acquisition costs on future acquisitions being expensed to the income statement as incurred instead of being included in the calculation of purchased goodwill and borrowing costs on development assets being capitalised instead of expensed as incurred.

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 2010. 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 UK residential and retirement solutions portfolios was valued as at 30 September 2010 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 UK residential portfolio and approximately 33% 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 UK residential and retirement solutions portfolios."

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. Overall, across all of the properties valued by Allsop LLP, the directors' valuations were 1.69% lower than the Allsop LLP values.

i Investment Property

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

The net gain on valuation of the UK residential and retirement solutions portfolios as at 30 September 2010 was £1.8m and this has been taken through the income statement.

As at 30 September 2010, Cushman & Wakefield LLP, external valuers, valued the whole of the residential portfolio in Germany at a total value of €510.0m (£441.9m).

The net deficit on valuation of investment property in the Germany portfolio as at 30 September 2010 was £2.6m 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 as at 30 September 2010. 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 and IAS 40. The valuation of each portfolio was on the basis of Market Value, subject to the assumption that the dwellings 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 £285.6m. Allsop LLP is satisfied that, in respect of this valuation Market Value is the same as Fair Value. The valuer's opinion of Market Value was primarily derived using comparable recent market transactions on arm's length terms."

The group's share of the investment property across both Grainger GenInvest entities of £142.8m represents only 6% of the total market value of the group's assets at 30 September 2010.

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 2009 and 30 June 2010 by external valuers, Allsop LLP and DTZ Debenham Tie Leung Limited. In aggregate, the valuation of investment property at 30 June 2010 was £367.4m. After full consideration of house price movements in those areas where the G:res property assets are situated, and evidence from the sale of G:res property assets in the three months to 30 September 2010, the group's directors made no adjustment to the 30 June 2010 valuations, other than for sales and purchases, in the group's accounts to 30 September 2010.

Other than for sales and purchases, no adjustment has been made to these valuations in the group's accounts to 30 September 2010.

The group has a 21.8% share in Schroders Residential Property Unit Trust (ResPUT). Investment property in this Fund was valued at £0.4m by Allsop LLP as at 30 September 2010.

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 2010 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 no change to property prices in 2011 followed by a period of 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 2010 against projected investment sales on the same basis as above except that net realisable value is based on market value rather than vacant possession value.

In aggregate the group is holding a provision of £3.6m in the 2010 consolidated statement of financial position to adjust

Notes to the financial statements continued

2 Critical accounting estimates and assumptions continued

the book value of trading properties to the lower of cost and net realisable value. This represents a reduction in the provision, compared to 30 September 2009, of £3.7m which has been credited to the consolidated income statement. Of this amount £1.4m has been credited to profit on disposal of trading property to offset losses made on property sales during the year. The remaining £2.3m has been credited separately under the heading 'write back/(write down) of inventories to 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 any or further 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 2010 are based upon the current intentions of the directors. In addition, estimates at 30 September 2010 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 credit of £0.6m has been made in the 2010 income statement within the heading 'write back/(write down) of inventories to net realisable value' to adjust 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) above. 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 2010 to would either increase the valuation by £6.9m or reduce the valuation by £6.2m.

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 0.85% as at 30 September 2010 compared to the effective interest rate when the financial interest was acquired. A 1% change to the discount rate would either increase the carrying value by £7.6m or reduce the carrying value by £6.8m.

Distinction between investment and trading property

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

Income taxes

There are some transactions and calculations that involve a degree of estimation and judgement and whose tax treatment 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 the taxation cash flows will arise in future years and the discounted value of these cash flows is

significantly less than the tax actually provided. 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 UK residential business in 2010 relating to taxation as described above was £0.1m. The key sensitivities relating to the goodwill impairment testing are the discount rate used and the expected hold period for the assets concerned. No further information is provided on grounds of immateriality.

In addition to the above, goodwill of £2.7m arose in 2009 in relation to the group's acquisition of 50% of the equity in a German property management company, Gebau Vermogen GmbH ('Gebau'). The goodwill arose on the fair value of the consideration given exceeded the fair value of the group's share of the net assets acquired. The value of the goodwill was supported by the future discounted cash flows of Gebau.

Gebau is the cash generating unit for impairment testing. A goodwill impairment loss arises if the carrying amount of the investment in Gebau exceeds the value in use determined as the present value of the future cash flows arising. The goodwill impairment charge in the year relating to Gebau goodwill was £1.4m. This resulted from a reduction in projected future cash flows. As above, no further information is provided on grounds of immateriality.

Going concern

The directors are required to make an assessment of the group's ability to continue to trade as a going concern. The directors have given this matter due consideration and have concluded that it is appropriate to prepare the group financial statements on a going concern basis. The main considerations were as follows:

i) Covenant compliance

The group's core banking facility has two covenants, being loan-to-value ('LTV') and interest cover. At 30 September 2010 the LTV ratio was 54% compared to a default level of 80% and the interest cover ratio was 2.4 times compared to a minimum requirement of 1.25 times.

In addition, the group has other bank debt on which there are covenant requirements. As at 30 September 2010 the group is operating comfortably within these requirements.

The directors have reviewed the group's financial projections covering a minimum period of two years ahead and which include covenant compliance forecasts. These projections show that the group will comfortably meet its covenants requirements.

ii) Banking facilities

The group has drawn core banking facilities of £101m maturing in the next two financial years to 30 September 2012. The group has cash and undrawn committed facilities as at 30 September 2010 of £260m.

As has been demonstrated over the past two years, the group is able to generate strong cash flows even in more difficult market conditions. The group's cash flow projections confirm that the group will remain well within its facilities for the next two financial years to 30 September 2012.

A further £680m of facilities, drawn as at 30 September 2010, are due for repayment in December 2012 and a further £275m of drawn facilities are due for repayment in June 2013. Although the group's funding position is very secure for the next two financial years, there is already a focus on the need to reshape its sources of long-term funding in an environment where traditional bank lending is likely to remain constrained. The group is already in discussions to advance a number of initiatives in this regard.

iii) Re-financing of Grainger GenInvest debt

The group has a 50% joint venture interest in two Grainger GenInvest LLPs (see note 19). External funding arrangements in both entities are due for renewal within the next 12 months. Total external debt in the two entities as at 30 September 2010 was £189m.

Discussions with potential funders are reasonably advanced and our expectation is that both entities will be successfully refinanced, albeit at slightly lower LTVs than is currently the case. This will necessitate a relatively modest capital injection from the members and discussions are ongoing with our joint venture partner as to how best to achieve this. The group will be able to meet its obligations comfortably in this regard from existing facilities and cash.

Notes to the financial statements continued

3 Analysis of loss before tax

The results for the years ended 30 September 2009 and 2010 respectively have been significantly affected by valuation movements and non-recurring items, although the impact of these items in 2009 was much greater than it has been in 2010. The table below provides further analysis of the consolidated income statement showing the results of trading activities separately from these other items.

	2010				2009			
	Trading £m	Valuation £m	Non-recurring £m	Total £m	Trading £m	Valuation £m	Non-recurring £m	Total £m
Group revenue	244.5	–	–	244.5	302.2	–	–	302.2
Net rental income	40.8	–	–	40.8	40.2	–	(1.7)	38.5
Profit on disposal of trading property	52.8	–	–	52.8	45.3	–	(0.4)	44.9
Administrative expenses	(9.2)	–	(2.0)	(11.2)	(8.2)	–	(0.7)	(8.9)
Other income and expenses	5.9	–	–	5.9	7.3	–	–	7.3
Net gain on acquisition of subsidiary	–	2.8	–	2.8	–	–	–	–
Goodwill impairment	–	(1.5)	–	(1.5)	–	(2.9)	–	(2.9)
Profit/(loss) on disposal of investment property	0.4	–	–	0.4	(1.1)	–	–	(1.1)
Profit on redemption of equity units in associate	1.0	–	–	1.0	–	–	–	–
Interest income/(expense) from financial interest in property assets	2.5	–	–	2.5	(4.7)	–	–	(4.7)
Write back/(write down) of inventories to net realisable value	–	2.9	–	2.9	–	(18.4)	–	(18.4)
Provision for impairment of loans receivable net of write backs	–	(10.7)	–	(10.7)	–	(19.6)	–	(19.6)
Operating profit before net valuation deficits on investment property	94.2	(6.5)	(2.0)	85.7	78.8	(40.9)	(2.8)	35.1
Net valuation deficits on investment property	–	(0.8)	–	(0.8)	–	(25.6)	–	(25.6)
Operating profit after net valuation deficits on investment property	94.2	(7.3)	(2.0)	84.9	78.8	(66.5)	(2.8)	9.5
Change in fair value of derivatives	–	(39.6)	–	(39.6)	–	(38.7)	–	(38.7)
Interest expense and similar charges	(82.2)	–	0.9	(81.3)	(84.5)	–	(22.6)	(107.1)
Interest income	5.0	–	–	5.0	5.2	–	–	5.2
Inducement costs and expenses on conversion of bond	–	–	–	–	–	–	(31.1)	(31.1)
Share of profit/(loss) of associates after tax	–	5.6	–	5.6	0.2	(6.6)	–	(6.4)
Share of profit/(loss) of joint ventures after tax	(2.3)	6.9	–	4.6	(3.1)	1.7	–	(1.4)
Loss before tax	14.7	(34.4)	(1.1)	(20.8)	(3.4)	(110.1)	(56.5)	(170.0)

4 Segmental information

The group has adopted IFRS 8, 'Operating Segments' ('IFRS 8') in these financial statements. IFRS 8 requires operating segments to be identified based upon the group's internal reporting to the chief operating decision maker ('CODM') so that the CODM can make decisions about resources to be allocated to segments and to assess their performance. The group's CODM is the chief executive officer.

The group has identified six segments and is treating all of these as reportable segments. The segments are: UK residential; retirement solutions; property services; fund management and residential investments; UK and European development and German residential. The group has a segment director responsible for the performance of each of these six segments and the group reports key financial information to the CODM on the basis of these six segments. Each of these six segments operate within a different part of the overall residential market.

The title 'All other segments' has been included in the tables on pages 80 to 85 to reconcile the segments to the figures reviewed by the CODM.

The measure of profit or loss used by the CODM is the trading profit or loss before valuation gains or deficits on investment property and excluding all revaluation and non-recurring items as set out in note 3. The CODM reviews by segment two key balance sheet measures of net asset value. These are gross net asset value (NAV) and triple net asset value (NNNAV).

The adoption of IFRS 8 has resulted in several changes to the group's segmental information. Major changes are to add property services as a reportable segment, combine UK and European development into a single segment, to change the basis of the segment operating profit/(loss) and to show NAV and NNNAV by segment in addition to statutory net assets by segment.

Notes to the financial statements continued

4 Segmental Information continued

Information relating to the group's operating segments is set out in the tables below. Comparatives have been restated to conform with the requirements of IFRS 8.

2010 Income statement (£m)	UK residential	Retirement solutions	Property services	Fund management/ residential investments	UK and European development	German residential	All other segments	Total
Group revenue								
Segment revenue – external	155.2	25.6	0.6	4.9	19.7	38.5	–	244.5
Segment revenue – internal	–	–	7.1	–	–	–	–	7.1
Net rental income	19.5	4.1	(0.3)	–	0.8	16.7	–	40.8
Profit on disposal of trading property	45.0	6.7	–	–	1.1	–	–	52.8
Administrative expenses	–	–	–	–	–	–	(9.2)	(9.2)
Other income and expenses	0.5	(0.4)	0.6	4.9	0.1	0.2	–	5.9
Profit on disposal of investment property	0.2	–	–	–	–	0.2	–	0.4
Profit on redemption of equity units in associate	–	–	–	1.0	–	–	–	1.0
Interest income from financial interest in property assets	–	2.5	–	–	–	–	–	2.5
Internal recharges	4.5	(0.7)	0.2	(4.0)	–	–	–	–
Operating profit before net valuation deficits on investment property	69.7	12.2	0.5	1.9	2.0	17.1	(9.2)	94.2
Net trading interest payable	–	(3.2)	–	2.4	0.1	(13.9)	(62.6)	(77.2)
Share of trading loss of joint ventures and associates after tax	–	–	–	(1.7)	(0.6)	–	–	(2.3)
Trading profit before tax, valuation and non-recurring items								14.7
Reversal of write down of inventories to net realisable value	2.3	–	–	–	0.6	–	–	2.9
Net valuation deficits on investment property	5.2	(3.4)	–	–	–	(2.6)	–	(0.8)
Change in fair value of derivatives	–	–	–	–	–	(1.5)	(38.1)	(39.6)
Provision for impairment of loans receivable net of write backs	–	–	–	–	(4.9)	–	(5.8)	(10.7)
Net gain on acquisition of subsidiary	–	2.8	–	–	–	–	–	2.8
Goodwill impairment	(0.1)	–	–	–	–	(1.4)	–	(1.5)
Share of valuation gains in joint ventures and associates after tax	–	–	–	12.5	–	–	–	12.5
Other net non-recurring items	–	–	–	–	–	–	(1.1)	(1.1)
Loss before tax								(20.8)

2009 Income statement (£m)	UK residential	Retirement solutions	Property services	Fund management/ residential investments	UK and European development	German residential	All other segments	Total
Group revenue								
Segment revenue – external	180.0	24.1	0.4	5.3	48.2	44.2	–	302.2
Segment revenue – internal	–	–	8.3	–	–	–	–	8.3
Net rental income	20.8	4.3	(0.2)	–	1.1	14.2	–	40.2
Profit on disposal of trading property	35.5	4.4	–	–	5.4	–	–	45.3
Administrative expenses	–	–	–	–	–	–	(8.2)	(8.2)
Other income and expenses	0.9	0.1	0.5	5.3	–	0.5	–	7.3
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)
Internal recharges	3.4	(0.9)	1.4	(3.9)	–	–	–	–
Operating profit before net valuation deficits on investment property	60.9	2.9	1.7	1.4	6.5	13.6	(8.2)	78.8
Net trading interest payable	–	(3.2)	–	3.2	0.1	(15.1)	(64.3)	(79.3)
Share of trading loss of joint ventures and associates after tax	–	–	–	(2.3)	(0.8)	0.2	–	(2.9)
Trading loss before tax, valuation and non-recurring items								(3.4)
Write down of inventories to net realisable value	(4.4)	–	–	–	(14.0)	–	–	(18.4)
Net valuation deficits on investment property	(5.2)	(9.5)	–	–	–	(10.9)	–	(25.6)
Change in fair value of derivatives	–	–	–	–	–	(0.5)	(38.2)	(38.7)
Provision for impairment of loans receivable net of write backs	–	–	–	(9.2)	(5.7)	–	(4.7)	(19.6)
Goodwill impairment	(2.2)	–	–	–	–	(0.7)	–	(2.9)
Share of valuation deficits in joint ventures and associates after tax	–	–	–	(4.9)	–	–	–	(4.9)
Other net non-recurring items	(0.1)	–	(0.2)	–	(0.3)	(1.5)	(54.4)	(56.5)
Loss before tax								(170.0)

Notes to the financial statements continued

4 Segmental Information continued

The majority of the group's 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 our key balance sheet measures of net asset value include trading stock at market value. The two principal net asset value measures reviewed by the CODM are gross net asset value ('NAV') and triple net asset value ('NNNAV').

NAV is the statutory net assets plus the adjustment required to increase the value of trading stock from its statutory accounts value of the lower of cost and net realisable value, to its market value. In addition, the statutory balance sheet amounts for both deferred tax on property revaluations and derivative financial instruments net of deferred tax, including those in joint ventures and associates, are added back to statutory net assets. Finally, the market value of Grainger plc shares owned by the group are added back to statutory net assets.

NNNAV reverses some of the adjustments made between statutory net assets and NAV. All of the adjustments for the value of derivative financial instruments net of deferred tax, including those in joint ventures and associates, are reversed. The adjustment for the deferred tax on property revaluations is also reversed. In addition, adjustments are made to net assets to reflect the fair value, net of deferred tax, of the group's fixed rate debt and to deduct from net assets the contingent tax calculated by applying the expected rate of tax to the adjustment to increase the value of trading stock from its statutory accounts value of the lower of cost and net realisable value, to its market value.

These measures are set out below by segment along with a reconciliation to the summarised statutory balance sheet.

2010 Segment net assets

(£m)	UK residential	Retirement solutions	Property services	Fund management/ residential investments	UK and European development	German residential	All other segments	Total
Total segment net assets (statutory)	781.8	403.4	–	108.6	88.3	131.4	(1,168.2)	345.3
Total segment net assets (NAV)	1,115.5	459.6	–	114.5	73.5	152.5	(1,083.8)	831.8
Total segment net assets (NNNAV)	993.3	433.3	–	111.1	76.0	131.2	(1,163.3)	581.6

2010 Reconciliation of NAV measures

(£m)	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	Gross NAV balance sheet	Deferred and contingent tax	Derivatives	Triple NAV balance sheet
Properties	1,795.0	331.5	2,126.5	–	–	2,126.5
Investments/other assets	121.0	9.4	130.4	–	(7.0)	123.4
Goodwill	6.2	–	6.2	–	–	6.2
Cash	94.6	–	94.6	–	–	94.6
Total assets	2,016.8	340.9	2,357.7	–	(7.0)	2,350.7
Borrowings/Derivatives	(1,574.0)	128.4	(1,445.6)	–	(141.1)	(1,586.7)
Other net liabilities	(79.0)	–	(79.0)	–	–	(79.0)
Provisions/Deferred Tax	(18.5)	17.2	(1.3)	(142.1)	40.0	(103.4)
Total liabilities	(1,671.5)	145.6	(1,525.9)	(142.1)	(101.1)	(1,769.1)
Net assets	345.3	486.5	831.8	(142.1)	(108.1)	581.6

In order to provide further analysis the following table sets out NNNAV assets and liabilities by segment.

Segment assets and liabilities for NNNAV 30 September 2010

(£m)	UK residential portfolio	Retirement solutions	Property services	Fund management/ residential investments	UK and European development	German residential	All other segments	30 September 2010
NNNAV assets								
Investment property	110.0	84.0	–	–	–	440.7	–	634.7
Investment in associates	–	–	–	28.7	–		–	28.7
Investment in joint ventures	–	–	–	79.9	5.2	1.7	–	86.8
Financial interest in property assets	–	103.9	–	–	–	–	–	103.9
Goodwill	6.2	–	–	–	–	–	–	6.2
Inventories – trading property	958.6	289.5	–	–	72.1	1.2	–	1,321.4
Trade and other receivables	3.3	1.9	–	–	6.0	2.5	3.5	17.2
Cash and cash equivalents	(0.8)	0.8	–		0.3	13.4	77.8	91.5
Property, plant and equipment	–	–	–	–	–	0.3	1.0	1.3
Assets held for sale	–	70.7	–	–	–	–	–	70.7
Value of own shares held	–	–	–	–	–	–	6.6	6.6
Total segment NNNAV assets	1,077.3	550.8	–	108.6	83.6	459.8	88.9	2,369.0
NNNAV liabilities								
Interest-bearing loans and borrowings	–	44.7	–	–	–	297.6	1,087.7	1,430.0
Trade and other payables	5.8	26.1	–	–	10.1	6.7	12.6	61.3
Retirement benefits	–	–	–	–	–	–	6.0	6.0
Current tax liabilities	–	–	–	–	–	–	27.8	27.8
Provisions for other liabilities and charges	–	–	–	–	–	–	0.8	0.8
Deferred and contingent tax liabilities	78.2	12.6	–	(2.5)	(2.5)	2.5	10.8	99.1
Derivative financial instruments	–	–	–	–	–	21.8	106.5	128.3
Liabilities held for sale	–	34.1	–	–	–	–	–	34.1
Total segment NNNAV liabilities	84.0	117.5	–	(2.5)	7.6	328.6	1,252.2	1,787.4
Net NNNAV assets	993.3	433.3	–	111.1	76.0	131.2	(1,163.3)	581.6

Notes to the financial statements continued

4 Segmental Information continued

2009 Segment net assets

(£m)	UK residential	Retirement solutions	Property services	Fund management/ residential investments	UK and European development	German residential	All other segments	Total
Total segment net assets (statutory)	788.4	376.6	–	101.3	87.6	138.2	(1,363.6)	128.5
Total segment net assets (NAV)	1,108.3	422.1	–	107.9	73.4	158.2	(1,300.3)	569.6
Total segment net assets (NNNAV)	987.6	403.3	–	101.3	77.3	138.6	(1,359.7)	348.4

2009 Reconciliation of NAV measures

(£m)	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	Gross NAV balance sheet	Deferred and contingent tax	Derivatives	Triple NAV balance sheet
Properties	1,779.0	303.5	2,082.5	–	–	2,082.5
Investments/other assets	115.8	17.2	133.0	–	(8.5)	124.5
Goodwill	5.9	–	5.9	–	–	5.9
Cash	28.3	–	28.3	–	–	28.3
Total assets	1,929.0	320.7	2,249.7	–	(8.5)	2,241.2
Borrowings/Derivatives	(1,676.2)	99.3	(1,576.9)	–	(108.1)	(1,685.0)
Other net liabilities	(103.2)	–	(103.2)	–	–	(103.2)
Provisions/deferred tax	(21.1)	21.1	–	(137.2)	32.6	(104.6)
Total liabilities	(1,800.5)	120.4	(1,680.1)	(137.2)	(75.5)	(1,892.8)
Net assets	128.5	441.1	569.6	(137.2)	(84.0)	348.4

In order to provide further analysis the following table sets out NNNAV assets and liabilities by segment.

Segment assets and liabilities for NNNAV 30 September 2009

(£m)	UK residential portfolio	Retirement solutions	Property services	Fund management/ residential investments	UK and European development	German residential	All other segments	30 September 2009
NNNAV Assets								
Investment property	95.4	88.6	–	–	–	470.3	–	654.3
Investment in associates	–	–	–	33.2	–	–	–	33.2
Investment in joint ventures	–	–	–	68.1	12.3	3.0		83.4
Financial interest in property assets	–	109.1	–	–	–	–	–	109.1
Goodwill	5.9	–	–	–	–	–	–	5.9
Inventories – trading property	963.4	283.0	–	–	70.3	2.4	–	1,319.1
Trade and other receivables	3.0	1.3	–	–	2.2	4.5	9.0	20.0
Cash and cash equivalents	0.4	2.0	–	–	0.5	11.9	13.5	28.3
Property, plant and equipment	–	–	–	–	–	0.4	1.5	1.9
Derivative financial instruments	–	–	–	–	–	0.1	0.1	0.2
Value of own shares held	–	–	–	–	–	–	6.0	6.0
Total segment NNNAV assets	1,068.1	484.0	–	101.3	85.3	492.6	30.1	2,261.4

(£m)	UK residential	Retirement solutions	Property services	Fund management/ residential investments	UK and European development	German residential	All other segments	30 September 2009
NNNAV Liabilities								
Interest-bearing loans and borrowings	–	41.7	–	–	–	321.4	1,222.6	1,585.7
Trade and other payables	3.1	28.0	–	–	11.9	9.9	39.2	92.1
Retirement benefits	–	–	–	–	–	–	5.8	5.8
Current tax liabilities	–	–	–	–	–	0.4	24.0	24.4
Provisions for other liabilities and charges	–	–	–	–	–	–	0.9	0.9
Deferred tax liabilities	77.4	11.0	–	–	(3.9)	2.9	17.2	104.6
Derivative financial instruments	–	–	–	–	–	19.4	80.1	99.5
Total segment NNNAV liabilities	80.5	80.7	–	–	8.0	354.0	1,389.8	1,913.0
Net NNNAV assets	987.6	403.3	–	101.3	77.3	138.6	(1,359.7)	348.4

5 Net rental income

	2010 £m	2009 £m
Gross rental income	75.6	77.9
Service charge income on a principal basis	7.2	13.4
Property repair and maintenance costs	(19.9)	(22.3)
Service charge expense on a principal basis	(10.0)	(15.3)
Property operating expenses (see note 8)	(12.1)	(15.2)
	40.8	38.5

6 Profit on disposal of trading property

	2010 £m	2009 £m
Proceeds from sale of trading property	151.0	198.4
Carrying value of trading property sold	(90.8)	(144.4)
Other sales costs (see note 8)	(7.4)	(9.1)
	52.8	44.9

7 Profit/(loss) on disposal of investment property

	2010 £m	2009 £m
Proceeds from sale of investment property	9.9	8.8
Carrying value of investment property sold	(9.5)	(9.9)
	0.4	(1.1)

Notes to the financial statements continued

8 Administrative expenses

	2010 £m	2009 £m
Total group expenses	30.7	33.2

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:

	2010 £m	2009 £m
Property operating expenses (see note 5)	12.1	15.2
Costs directly attributable to the disposal of trading property (see note 6)	7.4	9.1
Administrative expenses	11.2	8.9
	30.7	33.2

9 Other income and expenses

	2010 £m	2009 £m
Property and asset management fee income	5.5	5.7
Crop store and agricultural income	0.3	0.5
Other sundry income	0.8	1.1
Costs on acquisition of subsidiary undertakings	(0.7)	–
	5.9	7.3

10 Employees

	2010 £m	2009 £m
Wages and salaries	11.7	13.1
Termination benefits	2.1	1.5
Social security costs	1.2	1.3
Other pension costs – defined contribution scheme (see note 27)	0.7	0.8
Share-based payments (see note 31)	1.3	0.8
	17.0	17.5

Interest on net pension scheme liabilities amounted to £0.3m in 2010 (2009: £0.2m) and is included within interest expense and similar charges (see note 12).

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

	2010 Number	2009 Number
UK tenanted residential	238	251
UK development	4	10
European tenanted residential	12	13
	254	274

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 50 to 53 which form part of these financial statements.

Key management compensation	2010 £m	2009 £m
Salaries and short-term employee benefits	3.0	3.0
Post-employment benefits	0.2	0.2
Share-based payments	0.4	0.7
	3.6	3.9

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

11 Loss before tax

11 Loss before tax	2010 £m	2009 £m
Loss before tax is stated after charging/(crediting):		
Depreciation on fixtures, fittings and equipment (see note 17)	0.7	0.8
Impairment of goodwill (see note 21)	1.5	2.9
Net gain on acquisition of subsidiary (see note 41)	(2.8)	–
Bad debt expense	1.4	1.1
Foreign exchange losses	1.0	0.4
Operating lease payments	1.7	1.7
Auditors' remuneration – audit	0.1	0.1
Auditors' remuneration – non audit	0.8	0.8

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

Auditors' remuneration	2010 £'000	2009 £'000
Audit fees		
Fees payable to the company's auditors for the audit of the parent company and consolidated financial statements	146	148
Other fees		
The audit of the company's subsidiaries pursuant to legislation	131	103
Other service pursuant to legislation:		
Tax services	205	106
Other services	382	531
Total fees	864	888

During the year, £205,000 was paid by the group to PricewaterhouseCoopers LLP for taxation services. 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 £382,000 was paid for other services, the main element of which was £366,000 relating to work performed in connection with the rights issue. 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.

Notes to the financial statements continued

12 Interest

	2010 £m	2009 £m
Interest expense and similar charges		
Bank loans and mortgages	75.0	78.2
Convertible bond	1.7	2.1
Loan notes	–	0.4
Other interest payable	0.1	5.2
Foreign exchange losses on financing activities	1.0	0.4
Loan issue costs – amortisation and loss on extinguishment	3.2	20.6
Interest on net pension scheme liabilities (see note 27)	0.3	0.2
	81.3	107.1
Interest income		
Interest receivable from associates and joint ventures (see note 35)	2.4	3.3
Other interest receivable	2.6	1.9
	5.0	5.2
Net finance costs	76.3	101.9

Loan issue costs – amortisation and loss on extinguishment of £20.6m in 2009 includes £17.5m of loan costs and fees expensed as a result of the debt refinancing concluded immediately prior to the 30 September 2009 year end through which certain loans were accounted for as an extinguishment under IAS 39 'Financial Instruments: Recognition and Measurement'.

13 Taxation

	2010 £m	2009 £m
Current tax		
Corporation tax on profits	4.1	0.9
Adjustments relating to prior years	(4.2)	(11.7)
	(0.1)	(10.8)
Deferred tax		
Origination and reversal of timing differences	(12.3)	(38.8)
Adjustments relating to prior years	2.4	1.6
	(9.9)	(37.2)
Income tax credit for the year	(10.0)	(48.0)

Movements in taxation during the year are set out below:

2010 Movement in taxation	Opening balance £m	Refund received in the year £m	Transfers	Acquired in the year £m	Movements recognised in income £m	Exchange adjustments £m	Movements recognised in equity £m	Closing balance £m
Current tax	24.4	3.6	–	0.1	(0.1)	(0.2)	–	27.8
Deferred tax								
Trading property uplift to fair value on acquisition	42.0	–	0.3	2.4	(3.2)	–	–	41.5
Investment property revaluation	9.4	–	–	–	(0.2)	–	–	9.2
Accelerated capital allowances	0.4	–	–	–	–	–	–	0.4
Short-term timing differences	(14.8)	–	(0.3)	–	(6.5)	–	–	(21.6)
Actuarial deficit on BPT Limited pension scheme	(0.4)	–	–	–	–	–	(0.1)	(0.5)
Equity component of available-for-sale financial asset	0.7	–	–	–	–	–	0.8	1.5
Fair value movement in cash flow hedges and exchange adjustments	(16.2)	–	–	–	–	(0.1)	–	(16.3)
	21.1	–	–	2.4	(9.9)	(0.1)	0.7	14.2
Total tax – 2010 movement	45.5	3.6	–	2.5	(10.0)	(0.3)	0.7	42.0

2009 Movement in taxation	Opening balance £m	Payments made 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 gain/(deficit) 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

Notes to the financial statements continued

13 Taxation continued

The tax credit for the year comprises:

	2010 £m	2009 £m
UK taxation	(8.6)	(46.1)
Overseas taxation	(1.4)	(1.9)
	(10.0)	(48.0)

The tax credit for the year is higher than the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are explained below:

	2010 £m	2009 £m
Loss before tax	(20.8)	(170.0)
Loss before tax at a rate of 28% (2009: 28%)	(5.8)	(47.6)
Expenses not deductible for tax purposes	2.0	2.5
Goodwill credit/impairment not taxable/allowable	(0.4)	0.8
Impact of tax rate change	(0.9)	–
Utilisation of current and prior period losses	–	(11.9)
Other losses and non-taxable items	(3.0)	6.6
Adjustment in respect of prior periods	(1.9)	1.6
Total income tax credit in the income statement (see above)	(10.0)	(48.0)

As shown in note 28, deferred tax has been taken directly to equity in relation to the actuarial loss on the BPT Limited pension scheme, the equity component of available-for-sale financial assets and the fair value movement in cash flow hedges and exchange adjustments.

Factors that may affect future tax charges

A number of changes to the UK corporation tax system were announced in the June 2010 Budget Statement. The Finance (No. 2) Act 2010 introduced legislation to reduce the main rate of corporation tax from 28% to 27% effective from 1 April 2011. Based on our assessment of the reversal of timing differences we have reduced our deferred tax liability by £0.9m as a result of this change. Further reductions to the main rate of corporation tax proposed that would reduce the rate by 1% per annum to 24% by 1 April 2014. These further changes are not substantively enacted at the balance sheet date and are therefore not included in these financial statements.

Although a number of matters have been agreed during the year with the relevant tax authorities, we are currently in discussions with HM Revenue & Customs in connection with a number of outstanding tax matters. The Group has continued with its policy of prudent tax provisioning and no credit has been taken as at 30 September 2010 for any potential benefits that may arise from settlement of these outstanding matters.

14 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:

	2010 £m	2009 £m
Ordinary dividends on equity shares:		
Final dividend for the year ended 30 September 2008 – 1.29p per share	–	5.3
Final dividend for the year ended 30 September 2009 – 1.29p per share	5.3	–
Interim dividend for the year ended 30 September 2010 – 0.5p per share	2.1	–
	7.4	5.3

Dividend per share figures relating to the prior period have been restated to reflect the rights issue in December 2009.

A final dividend in respect of the year ended 30 September 2010 of 1.20p per share amounting to £4.9m will be proposed at the 2011 Annual General Meeting. If approved, this dividend will be paid on 11 February 2011 to shareholders on the register at close of business on 10 December 2010. The 2010 interim dividend of 0.50p per share was paid in July 2010. This gives a total dividend for 2010 of 1.70p per share (2009: 1.29p per share).

15 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') and deferred bonus plan ('DBP').

Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of shares in issue 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 and DBP, based upon the number of shares that would be issued if 30 September 2010 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

15 Loss per share continued

	30 September 2010			30 September 2009		
	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 (2009 as originally stated)	(10.8)	375,687	(2.9)	(122.0)	135,816	(89.8)
Loss attributable to equity holders in 2009 (as restated)	–	–	–	(122.0)	240,340	(50.8)
Effect of potentially dilutive securities						
Share options and contingent shares	–	–	–	–	–	–
Diluted loss per share						
Loss attributable to equity holders (2009 as originally stated)	(10.8)	375,687	(2.9)	(122.0)	135,816	(89.8)
Loss attributable to equity holders in 2009 (as restated)	–	–	–	(122.0)	240,340	(50.8)

The 2009 loss per share has been restated to reflect the impact of the rights issue in December 2009. In accordance with IAS 33 the rights issue comprised a bonus issue of shares for no consideration and an issue of shares at the full theoretical ex-rights price. The bonus issue represented 104,523,114 shares and has been added to the weighted average number of shares with effect from the beginning of the earliest period being reported, 1 October 2008. The remaining 173,030,292 shares have been time apportioned from their date of issue, 16 December 2009, in calculating the weighted average number of shares.

16 Investment property

	2010 £m	2009 £m
Opening balance	654.3	619.3
Additions:		
Acquisitions	13.0	1.1
Subsequent expenditure	2.1	3.7
Disposals	(9.5)	(9.9)
Net valuation deficits	(0.8)	(25.6)
Exchange adjustments	(24.4)	65.7
Closing balance	634.7	654.3

The group has valued all of its investment property as at 30 September 2010 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 £0.8m has arisen on valuation of investment property to fair value as at 30 September 2010 (2009: deficit of £25.6m) and this has been taken to the income statement.

The historical cost of the group’s investment property as at 30 September 2010 is £638.0m (2009: £659.4m).

Rental income from investment property during the year was £41.7m (2009: £41.3m).

Direct property repair and maintenance costs arising from investment property that generated rental income during the year was £10.8m (2009: £12.2m).

Direct operating expenses arising from investment property that did not generate rental income during the year amounted to nil (2009: £0.1m).

The reduction in value of £24.4m (2009: increase of £65.7m) relates to an exchange movement on the group's German residential property. This reflects the movement in the sterling/euro exchange rate at 30 September 2010 compared to the rate at 30 September 2009.

17 Property, plant and equipment

	Fixtures fittings and equipment £m
Cost	
At 1 October 2009	5.1
Additions	0.3
Disposals	(0.4)
At 30 September 2010	5.0
Accumulated Depreciation	
At 1 October 2009	3.2
Charge for the year	0.7
Disposals	(0.2)
At 30 September 2010	3.7
Net book value	
At 30 September 2010	1.3
At 30 September 2009	1.9

	Fixtures fittings and equipment £m
Cost	
At 1 October 2008	4.7
Additions	0.4
At 30 September 2009	5.1
Accumulated Depreciation	
At 1 October 2008	2.4
Charge for the year	0.8
At 30 September 2009	3.2
Net book value	
At 30 September 2009	1.9
At 30 September 2008	2.3

Notes to the financial statements continued

18 Investment in associates

	2010 £m	2009 £m
Opening balance	33.2	51.6
Share of profit/(loss)	5.6	(6.4)
Distributions received	–	(0.4)
Profit on redemption of equity units	1.0	–
Proceeds on redemption of equity units	(9.8)	(7.6)
Share of change in fair value of cash flow hedges taken through equity	(1.3)	(4.0)
Closing balance	28.7	33.2
Disclosed as:		
Non-current assets	28.6	24.5
Current assets	0.1	8.7
Closing balance	28.7	33.2

In January 2009 the investors in Schroders ResPUT agreed to a controlled liquidation of the fund and the group has received a number of redemption payments as assets have been realised. The liquidation process was virtually completed at 30 September 2010 and the remaining investment of £0.1m (2009: £8.7m) is therefore held as a current asset.

As at 30 September 2010, 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

The accounting period end of G:res1 Limited is 31 December 2010. Their results for the 12 months to 30 September 2010 and their financial position as at that date have been equity accounted in these accounts.

The accounting period end of Schroders ResPUT is 31 March 2011. Their results for the 12 months to 30 September 2010 and their financial position as at that date have been equity accounted in these accounts.

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:

	2010		
	G:res1 Limited £m	ResPUT £m	Total £m
Non-current assets	79.0	–	79.0
Current assets	5.7	0.1	5.8
Non-current liabilities	(54.4)	–	(54.4)
Current liabilities	(1.7)	–	(1.7)
Net assets	28.6	0.1	28.7
Revenues	4.4	–	4.4
Profit (including share of gain on revaluation of investment property)	5.5	0.1	5.6

	2009		
	G:res1 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 (including share of deficit on revaluation of investment property)	(6.0)	(0.4)	(6.4)

19 Investment in joint ventures

	Net assets £m	Loans £m	Goodwill £m	Total £m
At 1 October 2008	2.2	88.6	–	90.8
Loans advanced	–	7.5	–	7.5
Movement in provisions against loans	–	(14.8)	–	(14.8)
Share of loss	(1.4)	–	–	(1.4)
Net assets acquired through purchase of joint venture	0.1			0.1
Goodwill arising on investment in Gebau Vermogen GmbH	–	–	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
Loans advanced	–	9.3	–	9.3
Movement in provisions against loans	–	(4.9)	–	(4.9)
Share of profit	4.6	–	–	4.6
Goodwill impairment charge on investment in Gebau Vermogen GmbH (see note 21)	–	–	(1.4)	(1.4)
Exchange adjustment	–	(0.1)	–	(0.1)
Share of change in fair value of cash flow hedges taken through equity	2.8	–	–	2.8
At 30 September 2010	4.1	85.6	1.3	91.0

The movement in provisions against loans in 2010 of £4.9m represents a release of £1.5m provision against the group's mezzanine loan to Grainger GenInvest No.2 (2006) LLP, a £1.5m provision against the group's investment in its Czech Republic joint ventures and a £4.9m provision against the group's investment in its Curzon Park joint venture. These provisions are included within the provision for impairment on loans receivable net of write backs on the face of the consolidated income statement.

Notes to the financial statements continued

19 Investment in joint ventures continued

As we announced at the half year, a recent White Paper on the proposed High Speed Rail Network from London to Birmingham indicates that the potential route will cover at least part of our development site (held in joint venture with Development Securities plc) at Curzon Park in Birmingham. We are assessing the long-term impact with our advisers and aim to collaborate with other affected owners in the area. A provision of £4.9m has been made in our year-end accounts against the carrying value of our joint venture investment. In view of the uncertainty relating to the future of the Curzon Park site, the group is seeking advice in order to protect its position. Should the value of the site, together with any compensation received, be insufficient to repay the bank loan in the joint venture entity, the group may incur further charges in respect of its obligations to the joint venture and the bank.

At 30 September 2010, 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
Gebau Vermogen GmbH	50	Germany

The accounting period end of Curzon Park Limited is 31 December 2010. Their results for 12 months to 30 September 2010 and their financial position as at that date have been equity accounted in these accounts.

The accounting period end of King Street Developments (Hammersmith) is 31 March 2011. Their results for 12 months to 30 September 2010 and their financial position as at that date have been equity accounted in these accounts. 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:

2010 Summarised income statement

	2010						
	Grainger GenInvest LLP £m	Grainger GenInvest No.2 (2006) LLP £m	Czech Republic combined £m	Curzon Park Limited £m	King Street Developments Hammersmith Limited £m	Gebau Vermogen GmbH £m	Total £m
Net rental income and other income	0.9	2.8	–	–	–	0.2	3.9
Profit on disposal of investment property	0.1	0.4	–	–	–	–	0.5
Operating profit before valuation deficits	1.0	3.2	–	–	–	0.2	4.4
Net valuation gains on investment property	4.7	2.2	–	–	–	–	6.9
Operating profit	5.7	5.4	–	–	–	0.2	11.3
Interest payable	(1.9)	(4.0)	(0.2)	(0.4)	–	(0.2)	(6.7)
Profit/(loss) before tax	3.8	1.4	(0.2)	(0.4)	–	–	4.6
Taxation	–	–	–	–	–	–	–
Profit/(loss) after tax	3.8	1.4	(0.2)	(0.4)	–	–	4.6

2010 Summarised balance sheet

	2010						
	Grainger GenInvest LLP £m	Grainger GenInvest No.2 (2006) LLP £m	Czech Republic combined £m	Curzon Park Limited £m	King Street Developments Hammersmith Limited £m	Gebau Vermogen GmbH £m	Total £m
Investment property	41.6	101.1	–	–	–	–	142.7
Current assets	0.6	3.6	14.9	18.6	1.9	1.2	40.8
Total assets	42.2	104.7	14.9	18.6	1.9	1.2	183.5
Non-current liabilities	(6.4)	(4.0)	(5.6)	(20.7)	–	–	(36.7)
Current liabilities	(28.9)	(104.1)	(6.8)	(0.1)	(1.9)	(0.9)	(142.7)
Net assets/(liabilities)	6.9	(3.4)	2.5	(2.2)	–	0.3	4.1

Notes to the financial statements continued

19 Investment in joint ventures continued

2009 Summarised income statement

	2009						
	Grainger GenInvest LLP £m	Grainger GenInvest No.2 (2006) LLP £m	Czech Republic combined £m	Curzon Park Limited £m	King Street Developments Hammersmith 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 gains	0.9	2.6	–	–	–	0.4	3.9
Net valuation gains on investment property	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)

2009 Summarised balance sheet

	2009						
	Grainger GenInvest LLP £m	Grainger GenInvest No.2 (2006) LLP £m	Czech Republic combined £m	Curzon Park Limited £m	King Street Developments Hammersmith 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.

20 Financial interest in property assets

	2010 £m	2009 £m
Opening balance	109.1	121.2
Cash received from the instrument	(10.8)	(10.1)
Amounts taken to income statement	2.5	(4.7)
Amounts taken to equity before tax	3.1	2.7
Closing balance	103.9	109.1

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 and is valued at fair value.

For interests held at 30 September 2010 we have revised our assessment of future cash flows and of the effective interest rate to discount those cash flows. This has resulted in an increase to the fair value of £3.1m before tax which has been taken through equity reserves.

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.

21 Goodwill

	2010 £m	2009 £m
Opening balance	5.9	8.0
Arising on prior year acquisition	–	0.8
Arising on current year acquisition	0.4	–
Impairment charge taken to income statement	(0.1)	(2.9)
Closing balance	6.2	5.9

Goodwill arising in the current year of £0.4m relates to the group's acquisition of PHA Limited on 31 March 2010 (see note 40).

The total goodwill impairment charge in the income statement comprises:

	2010 £m	2009 £m
Impairment charge as shown above	(0.1)	(2.9)
Impairment charge relating to Gebau Vermogen GmbH (see note 19)	(1.4)	–
	(1.5)	(2.9)

Further information on how goodwill arises is provided in note 2 'Critical accounting estimates and assumptions'.

22 Inventories – trading properties

	2010 £m	2009 £m
Residential trading property	908.5	928.4
Development trading property	81.4	87.2
	989.9	1,015.6

The market value of inventories as at 30 September 2010 was £1,321.4m (2009: £1,319.2m).

Notes to the financial statements continued

22 Inventories – trading properties continued

Provisions of £2.9m against the net realisable value of residential trading property have been credited back to the consolidated income statement in the year (2009: charge to the income statement of £18.4m). Further details are given in note 2 'Critical accounting estimates and assumptions'.

The cost of inventories recognised as an expense in the consolidated income statement is shown in note 6 'Profit on disposal of trading property' and amounted to £90.8m (2009: £144.4m).

23 Trade and other receivables

	2010 £m	2009 £m
Trade receivables	8.8	10.1
Deduct: Provision for impairment of trade receivables	(2.0)	(2.2)
Trade receivables – net	6.8	7.9
Other receivables	5.4	9.9
Prepayments	5.0	2.2
	17.2	20.0

The fair values of trade and other receivables are considered to be equal to their carrying amounts.

Other receivables includes a loan of £1.6m net of an impairment provision of £10.6m (2009: £4.8m) made to the Mornington Capital Special Situations Co-investment Fund 1 Limited Partnership ('Mornington'). The group is in regular contact with the fund managers at Mornington and is discussing how to realise value from the investment made. However, in assessing impairment a prudent view has been taken on assessment of the discounted future cash flows likely to be realised. 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.

Other receivables also include a loan of £2.4m made to Clarins Limited ('Clarins') to enable that company to develop a property in the City of Westminster. The loan is interest free and subordinated to the senior debt provider funding the development. Grainger is entitled to a priority profit share of up to £4.25m on sale of the developed property. The loan is secured by a charge on the property being developed.

As at 30 September 2010, tenant arrears of £2.0m within trade receivables were impaired and fully provided for (2009: £2.2m). The individually impaired receivables are based on a review of outstanding tenant arrears and an assessment of collectability. The ageing of these receivables is:

	2010 £m	2009 £m
Up to two months	0.1	0.1
Three months or more	1.9	2.1
	2.0	2.2

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 either the debt has been collected since the balance sheet date or there is a history of regular payment, are as follows:

	2010 £m	2009 £m
Up to two months	2.5	1.9

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

	2010 £m	2009 £m
Pounds Sterling	13.1	7.3
Czech Koruna	–	0.9
Euros	4.1	11.8
	17.2	20.0

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

	2010 £m	2009 £m
Opening balance	2.2	1.2
Provision for receivables impairment during the year	2.2	1.5
Receivables written off during the period as not recoverable	(1.6)	(0.1)
Unused amounts reversed	(0.8)	(0.4)
Closing balance	2.0	2.2

The charge/credit relating to 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 any further cash.

The loan due from Mornington included within other receivables has been impaired and the provision made in the year of £5.8m is included within the provision for impairment of loans receivable net of write backs 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 £3.7m (2009: £3.6m) are held which provide some security against rental arrears and property dilapidations caused by the tenant. In addition the loans to Mornington and Clarins are secured as described above. The group does not hold any other collateral as security.

24 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.

Notes to the financial statements continued

24 Financial risk management and derivative financial instruments continued

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.

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:

	2010						
	Loans and receivables/ cash and cash equivalents £m	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Available-for-sale £m	Total book value £m	Fair value £m	Fair value adjustment £m
Financial interest in property assets	–	–	–	103.9	103.9	103.9	–
Trade and other receivables	12.2	–	–	–	12.2	12.2	–
Derivative financial instruments	–	–	–	–	–	–	–
Cash and cash equivalents	91.5	–	–	–	91.5	91.5	–
Total financial assets	103.7	–	–	103.9	207.6	207.6	–

		Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other financial liabilities at amortised cost £m	Total book value £m	Fair value £m	Fair value adjustment £m
Non-current liabilities							
Interest-bearing loans and borrowings		–	–	1,361.7	1,361.7	1,374.4	12.7
Trade and other payables		–	–	4.0	4.0	4.0	–
Provisions for other liabilities and charges		–	–	0.8	0.8	0.8	–
Current liabilities							
Interest-bearing loans and borrowings		–	–	55.6	55.6	55.6	–
Trade and other payables		–	–	15.8	15.8	15.8	–
Derivative financial instruments		72.7	55.6	–	128.3	128.3	–
Total financial liabilities		72.7	55.6	1,437.9	1,566.2	1,578.9	12.7
Total net financial assets/(liabilities)	103.7	(72.7)	(55.6)	(1,334.0)	(1,358.6)	(1,371.3)	(12.7)

	2009						
	Loans and receivables/ cash and cash equivalents £m	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Available-for-sale £m	Total book value £m	Fair value £m	Fair value adjustment £m
Financial interest in property assets	–	–	–	109.1	109.1	109.1	–
Trade and other receivables	17.8	–	–	–	17.8	17.8	–
Derivative financial instruments	–	0.2	–	–	0.2	0.2	–
Cash and cash equivalents	28.3	–	–	–	28.3	28.3	–
Total financial assets	46.1	0.2	–	109.1	155.4	155.4	–

		Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other financial liabilities at amortised cost £m	Total book value £m	Fair value £m	Fair value adjustment £m
Non-current liabilities							
Interest-bearing loans and borrowings		–	–	1,557.0	1,557.0	1,565.8	8.8
Trade and other payables		–	–	4.0	4.0	4.0	–
Provisions for other liabilities and charges		–	–	0.9	0.9	0.9	–
Current liabilities							
Interest-bearing loans and borrowings		–	–	19.9	19.9	19.9	–
Trade and other payables		–	–	11.2	11.2	11.2	–
Derivative financial instruments		39.5	60.0	–	99.5	99.5	–
Total financial liabilities		39.5	60.0	1,593.0	1,692.5	1,701.3	8.8
Total net financial assets/(liabilities)	46.1	(39.3)	(60.0)	(1,483.9)	(1,537.1)	(1,545.9)	(8.8)

The fair value adjustment relates to the group's fixed rate loans and the liability component of the convertible bond, all of which are stated at amortised cost in the consolidated statement of financial position. 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.

Notes to the financial statements continued

24 Financial risk management and derivative financial instruments continued

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.

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 2010 amounted to £91.5 (2009: £28.3m). Deposits were placed with financial institutions with A- or better credit ratings.

At 30 September 2010, the fair value of all interest rate derivatives which had a positive value was nil (2009: £0.2m). For 2009 balances, all the counterparties had investment grade credit ratings.

At 30 September 2010, the largest combined credit exposure to a single counterparty arising from money market deposits and interest rate swaps was £291.7m (2009: £305.4m) which represents 14.3% (2009: 15.7%) of total assets.

At 30 September 2010, 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 23).

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 2010 and as at 30 September 2010 (see note 2 'Critical accounting estimates and assumptions').

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 UK residential 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 105. 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.

	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 2010					
Interest-bearing loans and borrowings	92.0	90.1	1,185.4	198.2	1,565.7
Cash flow hedges	32.9	31.6	49.3	19.7	133.5
Trade and other payables	34.6	–	4.0	–	38.6
Provision for liabilities and charges	0.1	0.1	0.4	0.6	1.2

	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	62.2	171.6	1,394.1	214.1	1,842.0
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

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 2010					
Interest-bearing loans and borrowings (see note 25)	55.6	51.4	1,144.9	165.4	1,417.3
Foreign exchange impact of forward rates	–	(0.1)	(3.6)	(4.5)	(8.2)
Interest	33.4	35.8	41.7	36.0	146.9
Unamortised borrowing costs	3.0	3.0	2.4	1.3	9.7
Financial liability cash flows shown above	92.0	90.1	1,185.4	198.2	1,565.7

	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 25)	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	3.2	3.2	5.1	1.4	12.9
Financial liability cash flows shown above	62.2	171.6	1,394.1	214.1	1,842.0

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

Notes to the financial statements continued

24 Financial risk management and derivative financial instruments continued

Maturity of committed undrawn borrowing facilities

	2010 £m	2009 £m
Expiring:		
Within one year	5.0	5.0
Between one and two years	–	–
Between two and five years	188.1	159.5
Total	193.1	164.5

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

IFRS 7 sets out a three-tier hierarchy for financial assets and liabilities valued at fair value. These are as follows:

Level 1 – quoted prices in active markets for identified assets or liabilities;

Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices; and

Level 3 – inputs for the asset or liability that are not based on observable market data.

The following table presents the group's assets and liabilities that are measured at fair value as at 30 September 2010.

The fair value of swaps 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. As all significant inputs required to value the swaps are observable, they all fall within level 2.

	2010		2009	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Interest rate swaps – cash flow hedges in hedge accounting relationships	–	55.6	–	60.0
Interest rate swaps – cash flow hedges not in hedge accounting relationships	–	72.7	0.2	39.5
	–	128.3	0.2	99.5

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 2010 was £932.2m (2009: £1,117.3m) As at 30 September 2010 the fixed interest rates vary from 3.51% to 5.26% (2009: 3.51% to 5.38%). The fair value movement relating to cash flow hedges not in hedge accounting relationships amounted to a charge of £39.6m (2009: charge of £38.7m) in the consolidated income statement.

All of the financial derivatives included in the above table were valued by external consultants, J.C. Rathbone Associated Ltd, 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.

A valuation was carried out at 30 September 2010 by external consultants, J.C. Rathbone Associated Ltd, 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 2010	Fair value at 30 September 2010
Fixed rate loan facilities	83.8	96.5

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

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 2010, 75% (2009: 93%) of the group's gross borrowings were economically hedged to fixed or capped rates.

As at 30 September 2010, the market value of derivatives designated as cash flow hedges under IAS 39, is a net liability of £55.6m (2009: net liability of £60.0m). The movement in fair value measured through the income statement on cash flow hedges in the year ended 30 September 2010 was a charge of £39.6m (2009: charge of £38.7m). At 30 September 2010, the market value of derivatives not designated as cash flow hedges under IAS 39, is a net liability of £72.7m (2009: net liability of £39.3m). 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 2010.

Cash flow hedged debt

	2010 £m	2009 £m
Cash flow hedges maturing:		
Within one year	75.0	–
Between one and two years	13.0	82.0
Between two and five years	789.0	958.3
Over five years	55.2	77.0
	932.2	1,117.3

Notes to the financial statements continued

24 Financial risk management and derivative financial instruments continued

Interest rate profile – including the effect of derivatives

	2010			2009		
	Sterling £m	Euro £m	Total £m	Sterling £m	Euro £m	Total £m
Fixed rate	58.6	25.2	83.8	59.0	27.2	86.2
Capped rate	630.0	366.0	996.0	945.2	423.4	1,368.6
Variable rate	292.9	54.3	347.2	81.1	53.9	135.0
	981.5	445.5	1,427.0	1,085.3	504.5	1,589.8

At 30 September 2010, the weighted average interest rate of the sterling fixed rate debt is 5.5% (2009: 5.4%). The weighted average period for which the rate is fixed is 11 years (2009: 12 years). The weighted average interest rate of the euro fixed rate debt is 1.25% (2009: 1.25%). The weighted average period for which the rate is fixed is 40 years (2009: 41 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 £4.1m (2009: £2.3m). Similarly a 1% decrease would increase annual profits by £4.1m (2009: £2.3m). 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. The group 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:

	2010 Euro £m	2009 Euro £m	2010 Czech Koruna £m	2009 Czech Koruna £m
Gross foreign currency assets	459.7	499.1	7.5	8.5
Gross foreign currency liabilities	(475.4)	(534.8)	–	–
Net exposure	(15.7)	(35.7)	7.5	8.5

As at 30 September 2010 it is estimated that a general increase/decrease of 10 percentage points in the value of Sterling against the Euro would increase/decrease the group's profit before tax by approximately £0.2m (2009 £1.6m) and equity by £1.6m (2009 £3.6m).

As at 30 September 2010 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 (2009 £0.3m) and equity by £0.8m (2009 £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 cash and committed borrowings. Although the funding position of the group is very secure for the next two financial years there is already a focus on the need to reshape its sources of long-term funding in an environment where traditional bank lending is likely to remain constrained. The group is already in discussions to advance a number of initiatives in this regard.

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 2010 it is estimated that, with respect to the group's financial interest in property assets a general increase/(decrease) of one percentage point in house prices at the balance sheet date would increase/(decrease) the group's profit before tax by approximately £0.9m (2009: £0.9m).

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.

The rights issue completed in December 2009 is an example of how the board manages the group's capital. The rights issue proceeds were used, inter alia, to improve balance sheet leverage ratios and to reduce the overall size and cost of the group's debt.

Loans within the group have associated covenant requirements with respect to loan to value and interest cover ratios. The board regularly reviews all current and future projected covenant 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 2010, the weighted average cost of debt was 5.0% (2009: 5.3%) and the WACC was 5.66% (2009: 5.22%). 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

25 Financial assets and liabilities

i) Interest-bearing loans and borrowings

	2010 £m	2009 £m
Current liabilities		
Mortgages	0.3	0.3
Bank loans	49.8	11.9
Loan notes	5.5	7.7
	55.6	19.9
Non-current liabilities		
Mortgages	21.5	22.9
Bank loans	1,318.6	1,513.1
Convertible bond	21.6	21.0
	1,361.7	1,557.0
Total interest-bearing loans and borrowings	1,417.3	1,576.9

Costs relating to the raising of the loan finance set off against the balances shown in the above table amount to £9.7m (2009: £12.9m).

Analysis of bank loans

a) Core banking facility

	2010 £m	2009 £m
Term Facility A	198.8	225.0
Term Facility B	176.7	200.0
Revolving Facility A	337.4	392.4
Revolving Facility A Euro	50.7	53.5
Revolving Facility B	196.4	193.0
Revolving Facility B Euro	56.3	59.4
Revolving Facility C Euro	39.9	68.5
Total	1,056.2	1,191.8

Headroom on the core banking facility at 30 September 2010 was £188.1m (2009: £159.5m).

Interest is payable at the agreed margin over LIBOR plus mandatory costs. The agreed margin and final repayment date of the facilities 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	2.00	Dec 2012
Revolving Facility C	1.00	Dec 2012

The core banking facility is secured by floating charges over the assets of the group.

The group has a forward start credit facility comprising a committed term loan of £365m that will become available on 30 June 2011 which will replace the Revolving Facility A expiring on that same date.

b) Other UK bank loans

	2010 £m	2009 £m
Fixed rate – Pounds Sterling	36.3	37.3
Variable rate – Pounds Sterling	8.5	8.5
	44.8	45.8

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

	2010 £m	2009 £m
Variable rate – Euro	273.3	296.0
Fixed rate – Euro	3.5	3.9
	276.8	299.9

Headroom on these facilities at 30 September 2010 amounted to £nil (2009: £nil). The variable rate Euro bank loans are secured by floating and fixed charges over the investment property in the group's German residential portfolio. The loans bear interest at between 0.6% and 2.1% over EURIBOR. The fixed rate Euro bank loans are secured by floating and fixed charges over the investment property in the group's German residential portfolio. The loans bear fixed interest rates between 5.2% and 7.5%.

Notes to the financial statements continued

25 Financial assets and liabilities continued

d) Analysis of loan notes

	2010 £m	2009 £m
Fixed Rate – Pounds Sterling	0.3	0.4
Floating rate – Pounds Sterling	5.2	7.3
	5.5	7.7

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

	2010 £m	2009 £m
Mortgages – Euro	21.8	23.3

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

f) Convertible bond

	2010 £m	2009 £m
Opening balance	21.3	92.7
Early conversion during the year	–	(72.2)
Amortised during the year	0.6	0.8
	21.9	21.3

As part of the early conversion in November 2008, of £87.1m of the £112m 2014 convertible bond, holders 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 2009 comparatives as an inducement cost.

The analysis of the loans and borrowings in the above tables is before deducting unamortised issue costs of £9.7m (2009: £12.9m) relating to the raising of the loan finance.

Other loans and borrowings information

The core banking facility, 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 £20.3m after more than five years. The average interest rate on borrowings during the year was 5.6% (2009: 5.7%).

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

	2010 £m	2009 £m
Within one year	55.6	19.9
Between one and two years	51.4	109.6
Between two and five years	1,144.9	1,275.6
Over five years	165.4	171.8
	1,417.3	1,576.9

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:

	2010			
	Fixed rate liabilities £m	Capped rate liabilities £m	Floating rate liabilities £m	Total £m
Loan notes	0.3	–	5.2	5.5
Mortgages – Euro	21.8	–	–	21.8
Convertible bond	21.9	–	–	21.9
Bank loans				
Pounds Sterling	36.3	630.0	287.9	954.2
Euro	3.5	366.0	54.1	423.6
	83.8	996.0	347.2	1,427.0
Unamortised issue costs				(9.7)
				1,417.3

	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

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.

	2010			
	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	40	–	–
Convertible bond	3.63	4	–	–
Bank loans – Pounds Sterling	6.32	15	6.40	2
Bank loans – Euro	–	–	4.80	3

Notes to the financial statements continued

25 Financial assets and liabilities continued

	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

ii) Financial assets

The group has the following cash and cash equivalents at 30 September 2010:

	2010 £m	2009 £m
Pounds Sterling	77.7	15.9
Euros	13.6	12.2
Czech Koruna	0.2	0.2
	91.5	28.3

Short-term deposits totalling £5.4m (2009: £7.5m) with an average maturity of three months are held as cash collateral. These have an effective interest rate of 0.6% (2009: 1.4%).

Included within 2010 year end cash balances is £4.0m (2009: £2.9m) held in third-party client accounts where Grainger acts as Trustee or agent. The corresponding liability is included within trade payables.

At the year end £63.4m was placed on the overnight money market (2009: £nil) at effective interest rates of between 0.9% and 1.55%. 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 2010 (2009: £5m).

26 Non-current liabilities

	2010 £m	2009 £m
i) Trade and other payables		
Deferred consideration payable	4.0	4.0

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

	2010 £m	2009 £m
ii) Provisions for other liabilities and charges		
Other	0.8	0.9

27 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 50. The pension cost charge in these financial statements represents contributions payable by the group. The charge of £0.7m (2009: £0.8m) is included within employee remuneration in note 10.

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 Axa Sun Life, 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 through the statement of comprehensive income.

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, £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 2010 by a qualified independent actuary.

Principal actuarial assumptions under IAS 19

	2010	2009
Discount rate	4.90% p.a.	5.30% p.a.
Price inflation	3.10% p.a.	3.05% p.a.
Salary increases	4.60% p.a.	4.55% p.a.
Rate of increase of pensions in payment	5.00% p.a.	5.00% p.a.
Rate of increase for deferred pensioners	3.10% p.a.	3.05% p.a.

	Year commencing 1 October 2010	Year commencing 1 October 2009
Expected return on assets	5.00% p.a.	5.30% p.a.

Notes to the financial statements continued

27 Pension costs continued

The overall expected return on assets assumption of 5.00% p.a. as at 30 September 2010 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% p.a. above that available on UK government securities;
- Property, allowance for an additional return of 2.60% p.a. above that available on UK government securities; and
- Cash, current Bank of England base rate.

Demographic assumptions

	2010	2009
Mortality tables for pensioners	107% of PCA00 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 PCA00 year of 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 2010		30 September 2009	
	Males £m	Females £m	Males £m	Females £m
Life expectancy for a current 65 year old	88.2 years	90.3 years	88.2 years	90.3 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.

Market value of scheme assets and expected rates of return

The assets of the scheme are invested in a diversified portfolio.

	30 September 2010			30 September 2009		
	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	6.2	33%	6.1%	5.3	32%	6.5%
Bonds	7.5	40%	4.4%	7.0	42%	4.4%
Properties	0.3	2%	6.1%	0.3	2%	6.5%
Other	0.5	3%	0.5%	0.1	–	0.5%
Insurance policies	4.1	22%	4.9%	4.0	24%	5.3%
Total value of assets	18.6	100%		16.7	100%	
The actual return on assets over the period was	2.0			1.9		

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 6.1% in 2010 and 6.5% in 2009 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

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Total market value of assets	18.6	16.7	15.2	14.0	13.5
Present value of scheme liabilities	(24.6)	(22.5)	(17.3)	(16.7)	(18.1)
Scheme deficit at 30 September	(6.0)	(5.8)	(2.1)	(2.7)	(4.6)

History of assets, liabilities, experience gains and losses

	2010	2009	2008	2007	2006
Gains/(losses) arising on scheme liabilities:					
Due to experience	–	–	£1.3m	–	–
Percentage of defined benefit obligation	–	–	7.5%	–	–
Due to change of basis	£(1.6)m	£(5.0)m	£1.7m	£2.0m	–
Percentage of defined benefit obligation	(6.5)%	(22.2)%	9.8%	12.0%	–
Experience adjustments:					
Gains/(losses) arising on scheme assets	£1.1m	£1.0m	£(2.6)m	–	£0.6m
Percentage of scheme assets	5.9%	6.0%	(17.1)%	–	4.2%

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

	2010 £m	2009 £m
Present value of projected defined benefit obligation at start of the year	22.5	17.3
Interest on pension scheme liabilities	1.2	1.1
Actuarial loss	1.6	5.0
Benefits paid	(0.7)	(0.9)
Present value of projected defined benefit obligation at end of the year	24.6	22.5

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

	2010 £m	2009 £m
Market value of scheme assets at start of the year	16.7	15.2
Expected return on scheme assets	0.9	0.9
Employer contributions	0.6	0.5
Actuarial gain	1.1	1.0
Benefits paid	(0.7)	(0.9)
Market value of scheme assets at end of the year	18.6	16.7

Notes to the financial statements continued

27 Pension costs continued

Pension cost recognised in the income statement

	2010 £m	2009 £m
Interest on pension scheme liabilities	1.2	1.1
Expected return on pension scheme assets	(0.9)	(0.9)
Total pension cost	0.3	0.2

The total pension cost shown above has been included within interest expense and similar charges (see note 12).

Actuarial loss recognised in the consolidated statement of comprehensive income

	2010 £m	2009 £m
Actual return less expected return on assets	1.1	1.0
Loss on change of assumptions	(1.6)	(5.0)
Total actuarial loss before tax	(0.5)	(4.0)

The actuarial loss shown in the above tables of £0.5m (2009: £4.0m) has been included in the consolidated statement of comprehensive income, net of deferred tax (see page 60).

Future funding obligation

The last actuarial valuation of the Scheme was performed by the Actuary for the Trustees as at 1 July 2007. The group has agreed a recovery plan with the Trustees to pay annual deficit contributions of £580,200. The group 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 2010. The next actuarial valuation of the scheme as at 1 July 2010 is currently being carried out. Following this valuation, the contributions required to be paid by the group may change.

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 £0.4m
Inflation increased by 0.1%	increase in deficit of £0.1m
Life expectancies increased by one year	increase in deficit of £0.8m

The cumulative amount of actuarial losses recognised in the consolidated statement of comprehensive income before deferred taxation is £2.2m (2009: £1.7m).

28 Deferred tax liabilities

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

	2010 £m	2009 £m
Opening balance	21.1	78.4
Acquisition of subsidiaries in the year	2.4	–
Recognised in the income statement	(9.9)	(37.2)
Recognised in equity:		
Actuarial loss on BPT pension scheme	(0.1)	(1.1)
Fair value movement in cash flow hedges and exchange adjustments	–	(20.0)
Equity component of available-for-sale financial asset	0.8	0.7
Exchange adjustments	(0.1)	0.3
Closing balance	14.2	21.1

In addition to the above, the group has a contingent tax liability representing the difference between the carrying value of trading properties in the balance sheet and their market value. This contingent tax, which is not provided in the accounts, amounts to £88.4m (2009: £85.7m).

29 Trade and other payables

	2010 £m	2009 £m
Deposits received	3.7	3.6
Trade payables	10.9	7.3
Taxation and social security	1.2	0.3
Accruals and deferred income	41.5	76.9
	57.3	88.1

Trade payables includes £0.6m (2009: nil) relating to acquisitions of property where contracts have either been unconditionally exchanged or notarised.

Accruals and deferred income includes £22.7m (2009: £26.1m) of rent received in advance relating to lifetime leases.

30 Share capital

	2010 £m	2009 £m
Authorised		
500,000,000 (2009: 160,000,000) ordinary shares of 5p each	25.0	8.0
Allotted, called-up and fully paid		
416,362,420 (2009: 138,798,113) ordinary shares of 5p each	20.8	6.9

During the year The Grainger Employee Benefit Trusts took up their rights to 2,400,756 shares at a cost of £2.1m and The Grainger Trust Employee Trustee Company Limited took up its rights to 63,858 shares at a cost of £0.1m. The Grainger Employee Benefit Trusts also acquired 1,600,000 shares during the year at a cost of £1.8m.

In addition, the group paid £0.5m to the share incentive plan during the year for the purchase of matching shares and free shares in the scheme.

Notes to the financial statements continued

30 Share capital continued

The overall cost of £4.5m has been deducted from retained earnings within shareholders' equity (see note 33).

As at 30 September 2010, share capital included 46,803 (2009: 31,929) shares held by The Grainger Trust Employee Trustee Company Limited, 5,976,623 (2009: 1,975,867) shares held by The Grainger Employee Benefit Trusts and 21,410 (2009: 21,410) shares held by Grainger plc as treasury shares. The total of these shares is 6,044,836 (2009: 2,029,206) with a nominal value of £302,242 (2009: £101,460) and a market value as at 30 September 2010 of £6.6m (2009: £6.0m).

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

	Number	Nominal value £'000
At 1 October 2008	128,716,094	6,436
Shares issued following conversion of Convertible Bonds	10,081,013	504
Options exercised under SAYE schemes	1,006	–
At 30 September 2009	138,798,113	6,940
Issue of shares under the rights issue	277,553,406	13,878
Options exercised under SAYE schemes	10,901	–
At 30 September 2010	416,362,420	20,818

Share options

Certain senior executives hold options to subscribe for shares in the company under long-term incentive schemes. In addition, the company operates a SAYE share option scheme available to all employees. The number of shares subject to options as at 30 September 2010, the periods in which they were granted and the periods in which they may be exercised are given below. Prior year numbers have been restated to take account of the rights issue in the year.

Year of grant	Exercise price (pence)	Exercise period	2010 number	2009 number (restated)
Long-term incentive scheme (LTIS)				
2003	111.0	2006-13	20,814	90,915
2007	370.0	2010-17	–	16,182
			20,814	107,097
SAYE share options				
2004	157.2	2007-10	–	3,112
2006	238.9	2009-12	–	3,281
2007	262.8	2010-13	1,003	1,722
2008 (A)	97.1	2011-14	124,110	129,114
2008 (B)	37.7	2012-14	2,166,864	2,362,208
2009	68.3	2012-15	133,903	148,527
2010	90.8	2013-16	113,304	–
			2,539,184	2,647,964
Total share options			2,559,998	2,755,061

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

	Opening position	Exercised	Granted	Lapsed	Closing position
LTIS schemes					
2003	90,915	–	–	(70,101)	20,814
2007	16,182	–	–	(16,182)	–
	107,097	–	–	(86,283)	20,814
Weighted average exercise price (pence per share)	150.1	–	–	159.6	111.0
SAYE scheme					
2004	3,112	–	–	(3,112)	–
2006	3,281	(781)	–	(2,500)	–
2007	1,722	–	–	(719)	1,003
2008 (A)	129,114	–	–	(5,004)	124,110
2008 (B)	2,362,208	(10,120)	–	(185,224)	2,166,864
2009	148,527	–	–	(14,624)	133,903
2010	–	–	113,304	–	113,304
	2,647,964	(10,901)	113,304	(211,183)	2,539,184
Weighted average exercise price (pence per share)	42.8	52.1	90.8	46.1	40.

Notes to the financial statements continued

31 Share-based payments continued

Shares were awarded, subject to any vesting conditions set out above, to executive directors and selected employees during the year under the LTIS and the DBP but there were no options granted in the year under these schemes. 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 set out in the tables below. Conditional share awards over a total of 546,000 shares granted to Nick Jopling and Mark Greenwood on 29 September 2010 are not shown as no share-based payment charge has been made in 2010 relating to these awards on grounds of immateriality given the proximity of the awards to the group's financial year end.

LTIS

Share awards:

Award date	8 December 2009 market based	8 December 2009 non-market based
Number of shares on grant	192,278	384,556
Exercise price (£)	–	–
Vesting period from date of grant (years)	3	3
Exercise period after vesting (years)	7	7
Share price at grant (£)	1.305	1.305
Expected risk free rate (%)	5.310	–
Expected dividend yield (%)	0.900	–
Expected volatility (%)	26.000	–
Fair value (£)	0.50	1.305

DBP

Share awards:

Award date	3 February 2010
Number of shares on grant	516,932
Exercise price (£)	–
Vesting period from date of grant (years)	1-3
Share price at grant (£)	1.316
Dividend yield (£)	0.017
Fair value (£)	1.299

SAYE

	19 July 2010 3-year scheme	19 July 2010 5-year scheme
Number of shares on grant	99,694	13,610
Exercise price (£)	0.908	0.908
Vesting period from date of grant (years)	3	5
Expected exercise date	1 Nov 2013	01 Nov 2015
Share price at grant (£)	1.132	1.132
Expected risk free rate (%)	1.880	1.880
Expected dividend yield (%)	2.170	2.170
Expected volatility (%)	37.000	37.000
Fair value (£)	0.333	0.378

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

The share-based payments charge recognised in the income statement is £1.3m (2009: £0.8m).

Movements in options and options exercisable as at 30 September 2010 are shown in note 30.

32 Changes in equity

The consolidated statement of changes in equity is shown on page 63. Further information relating to the merger reserve and cash flow hedge reserve is provided below.

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. In December 2009 the group completed a two for one rights issue at an issue price of 90p per share raising a total gross amount of £249.8m, net of costs £236.7m. The rights issue increased the number of shares in issue by 277,553,406 shares, increasing share capital by £13.9m. The group took advantage of Section 612 of the Companies Act 2006 to take proceeds in excess of the nominal value of shares issued, amounting to £235.9m, to a merger reserve. The group used a cash-box structure to effect the rights issue and, under this mechanism, £235.9m has been subsequently transferred to retained earnings. Of this amount £104.5m is currently not distributable. Costs of issue, which totalled £13.1m have been taken directly to reserves.

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 net of tax.

Notes to the financial statements continued

33 Movement in retained earnings

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 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 paid	–	–	–	–	(5.2)	(5.2)
Balance as at 30 September 2009	2.1	(7.8)	(9.1)	1.8	39.1	26.1
Loss for the year	–	–	–	–	(10.8)	(10.8)
Actuarial loss on BPT pension scheme net of tax	–	–	–	–	(0.4)	(0.4)
Net exchange adjustment offset in reserves net of tax	–	–	–	0.9	–	0.9
Purchase of own shares	–	–	(4.5)	–	–	(4.5)
Award of shares from own shares	(0.5)	–	0.5	–	–	–
Rights issue costs	–	–	–	–	(13.1)	(13.1)
Transfer from merger reserve	–	–	–	–	235.9	235.9
Share-based payments charge	1.3	–	–	–	–	1.3
Dividends paid	–	–	–	–	(7.4)	(7.4)
Balance as at 30 September 2010	2.9	(7.8)	(13.1)	2.7	243.3	228.0

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 2010, the group owned its own shares as follows: 46,803 (2009: 31,929) shares held by The Grainger Trust Employee Trustee Company Limited, 5,976,623 (2009: 1,975,867) shares held by The Grainger Employee Benefit Trusts and 21,410 (2009: 21,410) shares held by Grainger plc as treasury shares. The total of these shares held is 6,044,836 (2009: 2,029,206) with a cost of £13,068,465 (2009: £9,125,863).

Details relating to the rights issue and the transfer from merger reserve are set out in notes 32 and 39.

34 List of principal subsidiaries

The directors consider that providing details of all subsidiaries, joint ventures and associates as at 30 September 2010 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	Development
West Waterlooville Developments Limited	100		England & Wales	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 Trading
Homesafe Equity Release LP	100		England & Wales	Property Trading
Sovereign Reversions plc	100		England & Wales	Property Trading
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 Gmbh	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	Investment Partnership
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

All subsidiaries are consolidated in the group accounts.

Notes to the financial statements continued

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:

	2010 Fees recognised £'000	2010 Year end balance £'000	2009 Fees recognised £'000	2009 Year end balance £'000
Asset adviser fee	691	201	700	199
Sales fee	49	5	43	6
Commercial management fee	28	8	26	7
Treasury fee	30	9	30	8
	798	223	799	220

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

	Balance as at 30 September 2010 £m	Balance as at 30 September 2009 £m	2010 Interest receivable £m	2009 Interest receivable £m
Grainger Geninvest LLP – 8.5% fixed interest loan note	8.5	7.8	0.7	0.7
Grainger Geninvest No.2 (2006) LLP – 11.0% fixed interest loan note	5.5	5.2	0.3	0.3
Grainger Geninvest No.2 (2006) LLP – mezzanine loan at LIBOR plus 4%	79.0	75.3	3.8	5.3
	93.0	88.3	4.8	6.3

Interest receivable is included within interest receivable from associates and joint ventures (see note 12). The difference of £2.4m between the figure shown above of £4.8m and the amount shown in note 12 of £2.4m 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. As at 30 September 2010 the group is holding an impairment provision of £7.6m (2009: £9.1m) against the mezzanine loan.

The group held a 50% interest in Curzon Park Limited as at 30 September 2010. The group has provided a loan to Curzon Park Limited as at 30 September 2010 of £12.8m (2009: £7.5m). The loan is repayable on demand and bears interest at 4% per annum. As at 30 September 2010 the group is holding an impairment provision of £10.6m against this loan.

The group held a 21.6% interest in G:res 1 Limited as at 30 September 2010. 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 balances at the year end are as follows:

	2010 Fees recognised £'000	2010 Year end balance £'000	2009 Fees recognised £'000	2009 Year end balance £'000
Property management fee	1,421	748	1,443	370
Lettings and renewal fee	183	58	167	50
Asset management fee	2,302	1,242	2,229	1,033
	3,906	2,048	3,839	1,453

The group held a 21.8% interest in the Schroder Residential Property Unit Trust as at 30 September 2010. 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. In January 2009 the fund investors agreed to a controlled liquidation of the fund and this was virtually completed by 30 September 2010. As a result, fee income in 2010 is considerably lower than in 2009. Amounts recognised in the income statement and the outstanding balances at the year end are as follows:

	2010 Fees recognised £'000	2010 Year end balance £'000	2009 Fees recognised £'000	2009 Year end balance £'000
Property management fees	2	–	202	19
Lettings and renewal fees	11	–	9	0
Asset management fees	44	–	369	67
Sales Fees	118	–	91	64
	175	–	671	150

Details of key management compensation are provided in note 10.

36 Capital commitments

As at 30 September 2010, the group and its joint ventures and associates had capital commitments of £nil (2009: £nil).

37 Operating lease commitments

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

	2010 £m	2009 £m
Operating leases which expire:		
Not later than one year	0.3	0.4
Later than one year and not later than five years	2.2	2.7
Later than five years	5.0	5.9
	7.5	9.0

The group expects to receive £0.8m under non-cancellable sub-leases (2009: £1.0m).

38 Contingent liabilities

The properties in certain subsidiary companies forming a 'guarantee group' provide the security for the group's core debt facility. The properties in certain of the group's German subsidiaries provide security for the non-recourse finance raised in those subsidiary undertakings (see note 25 for further details).

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 2010, total guarantees amounted to £2.4m (2009: £4.5m).

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.

As explained in more detail in note 19, there is uncertainty relating to the future of the site at Curzon Park in which the group has a 50% joint venture interest. Should the value of the site, together with any compensation received, be insufficient to repay the bank loan in the joint venture entity, the group may incur charges in excess of those provided in these financial statements, in respect of obligations to the joint venture and the bank.

39 Rights issue

In December 2009 the group completed a two for one rights issue at an issue price of 90p per share raising a total gross amount of £249.8m, net of costs £236.7m. The rights issue increased the number of shares in issue by 277,553,406 shares, increasing share capital by £13.9m.

The group took advantage of Section 612 of the Companies Act 2006 to take proceeds in excess of the nominal value of shares issued, amounting to £235.9m to a merger reserve. Under a cash-box mechanism this amount has been subsequently transferred to retained earnings and of this, £104.5m is currently not distributable. Costs of issue which totalled £13.1m have been taken directly to reserves.

40 Acquisition of PHA Limited

On 31 March 2010 the group acquired 100% of the equity in PHA Limited, a company which owns 162 residential properties located in Devon. The total consideration for the purchase was £15.4m paid in cash. The acquisition has been treated as a business combination and goodwill of £0.4m arose reflecting the discount obtained against the potential contingent tax inherent in the portfolio. There has been no impairment of goodwill in the period since acquisition.

The identifiable assets and liabilities acquired were as follows:

	£m
Assets	
Inventories – trading property	17.2
Cash and cash equivalents	0.4
Other current assets	0.1
	17.7
Liabilities	
Corporation tax	0.2
Deferred tax	2.4
Other current liabilities	0.1
	2.7
Net assets acquired	15.0
Fair value of consideration paid	15.4
Goodwill arising (see note 21)	0.4

The post acquisition revenue and profit of PHA Limited included within the group's consolidated income statement was £0.5m and £0.3m respectively. Had the acquisition taken place on 1 October 2009, we estimate on a pro-forma basis, that the revenue and profit of PHA Limited for the 12-month period from that date would have been £1.0m and £0.6m respectively.

41 Acquisition of Sovereign Reversions plc

On 9 August 2010 the group acquired Sovereign Reversions plc ('Sovereign') a company which specialises in equity release investment, advice, plan provision and plan administration. The Sovereign property portfolio on acquisition, was valued at approximately £67.9m.

Grainger Equity Release Limited ('GERL') paid £34.2m for 100% of the issued share capital of Sovereign (excluding acquisition costs). The fair value of assets and liabilities acquired was £73.1m and £34.4m respectively. The fair value of net assets acquired therefore was £38.7m. The resulting gain on acquisition of £4.5m has been credited to the income statement in accordance with IFRS 3 (Revised).

The purchase was made with the intention of entering into a joint venture with Moorfield Real Estate Fund II Equity Release Limited, a wholly owned subsidiary of Moorfield Real Estate Fund II ('Moorfield'). Moorfield is a UK-based real estate investor and Fund Manager.

41 Acquisition of Sovereign Reversions plc continued

Subsequent to the Grainger year end, on 12 October 2010, GERL received a cash consideration of £17.5m from Moorfield for a 50% stake in Sovereign valued at £19.2m. The group has provided for the resulting loss of £1.7m in these financial statements. In accordance with IFRS 5 all of the assets and liabilities of Sovereign as at 30 September 2010 have been classified as a disposal group held-for-sale. This is because the disposal group meets the two criteria set out in IFRS 5 of being available for sale in its present condition and the sale being highly probable. Included on the face of the consolidated statement of financial position are total assets of £70.7m and total liabilities of £34.1m relating to Sovereign. These balances comprise the following:

	£m
Total assets	
Inventories – trading property	66.5
Cash and cash equivalents	3.1
Other current assets	1.1
	70.7
Total liabilities	
Bank loans	28.2
Deferred tax	4.9
Other current liabilities	1.0
	34.1

A net gain of £2.8m, comprising the gain on acquisition of £4.5m and impairment loss of £1.7m has been credited to the consolidated income statement and is shown in the segmental analysis in note 4 within the retirement solutions segment. The Sovereign assets and liabilities are also shown as part of the retirement solutions segment in note 4.

42 Post balance sheet events

As stated in note 41, the group sold 50% of its equity stake in Sovereign Reversions plc on 12 October 2010.

There are no other post balance sheet events requiring disclosure in these financial statements.

Independent auditors' report on the parent company financial statements

We have audited the parent company financial statements of Grainger plc for the year ended 30 September 2010 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 on page 55, 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 Chapter 3 of Part 16 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 2010;
- 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 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 2010.

Bowker Andrews (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
10 December 2010

Parent company balance sheet

As at 30 September 2010	Notes	2010 £m	2009 £m
Fixed assets			
Tangible assets	2	–	0.1
Investments	3	348.2	127.7
		348.2	127.8
Current assets			
Investment in associates	3	0.1	8.7
Debtors	4	130.2	309.9
Cash at bank and in hand		48.9	1.1
		179.2	319.7
Creditors: amounts falling due within one year	5	14.5	162.3
Net current assets		164.7	157.4
Total assets less current liabilities		512.9	285.2
Creditors: amounts falling due after more than one year			
Convertible bond	6	21.6	21.0
Net assets		491.3	264.2
EQUITY			
Capital and reserves			
Called-up equity share capital	7	20.8	6.9
Share premium	8	109.8	109.7
Capital redemption reserve	8	0.3	0.3
Equity component of convertible bond	8	5.0	5.0
Profit and loss account	8	355.4	142.3
Total shareholders' funds		491.3	264.2

The financial statements on pages 132 to 139 were approved by the board of directors on 10 December 2010 and were signed on their behalf by:

Andrew Cunningham
Director

Mark Greenwood
Director

Company registration number: 125575.

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 profit for the year was £0.9m (2009: loss of £20.4m). On an historical cost basis the profit for the year would have been £0.9m (2009: loss of £20.0m). These financial statements present information about the company as an individual undertaking and not about its group.

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) Investment in joint ventures and associates

Investments in joint ventures and associates are accounted for by the equity method of accounting and are initially recognised at cost. The company's share of its joint ventures' and associates' post-acquisition profits or losses is recognised in the income statement, and the 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.

g) 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.

h) Own shares including treasury shares

Transactions of the Grainger Trust Employee Trustee Company Limited and The Grainger Employee Benefit Trusts are included in the company's 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.

i) 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 £4.60. The convertible bond is a compound financial instrument and the carrying amount has been allocated to its equity and liability components in the company's 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.

Notes to the parent company financial statements

1 Accounting policies continued

j) Share-based payments

Under the share-based compensation arrangements set out in Note 1(l)(iii) on page 70 and note 31 on pages 121 and 122, 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 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 2009 and 30 September 20010	0.9
Depreciation	
At 1 October 2009	0.8
Charge for the year	0.1
At 30 September 2010	0.9
Net book value	
At 30 September 2010	–
At 1 October 2009	0.1

3 Investments

	Investment in subsidiaries £m	Investment in Schroder Residential Property Unit Trust £m	Total £m
Valuation			
At 1 October 2009	127.7	8.7	136.4
Additions	308.9	–	308.9
Disposals	–	(8.7)	(8.7)
Provision for impairment	(88.4)	–	(88.4)
Increase in fair value	–	0.1	0.1
At 30 September 2010	348.2	0.1	348.3

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 Schroder 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 a further investment of £250.0m in Grainger Finance Company Ltd, £8.0m in Grainger Europe No 3 Limited and £49.6m in relation to the acquisition of Sovereign Reversions plc and PHA Limited by subsidiaries of Grainger plc. The additions also include a capital contribution during the year of £1.3m in respect of share-based payment awards granted to subsidiary employees.

The provision for impairment of £88.4m has been made against the company's investments after assessment of net recoverable value in accordance with the company's accounting policy 1e) on page 133.

In January 2009 the investors in Schroders ResPUT agreed to a controlled liquidation of the fund and the company has received a number of redemption payments as assets have been realised. The liquidation process was virtually completed at 30 September 2010 and the remaining investment is therefore held as a current asset.

A list of the principal subsidiaries of the company is given in note 34 on page 125.

4 Debtors

	2010 £m	2009 £m
Amounts owed by group undertakings	130.1	309.8
Other debtors	0.1	0.1
	130.2	309.9

Debtors in both 2009 and 2010 are all due within one year.

5 Creditors: amounts falling due within one year

	2010 £m	2009 £m
Amounts owed to group undertakings	12.6	161.6
Other taxation and social security	1.0	0.1
Accruals and deferred income	0.9	0.6
	14.5	162.3

6 Convertible bond

	2010 £m	2009 £m
Opening balance	21.3	92.7
Early conversion during the year	–	(72.2)
Amortised during the year	0.6	0.8
	21.9	21.3
Unamortised issue costs	(0.3)	(0.3)
Liability component at 30 September 2010	21.6	21.0

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 Share capital

	2010 £m	2009 £m
Authorised		
500,000,000 (2009: 160,000,000) ordinary shares of 5p each	25.0	8.0
Allotted, called-up and fully paid		
416,362,420 (2009: 138,798,113) ordinary shares of 5p each	20.8	6.9

During the year The Grainger Employee Benefit Trusts took up their rights to 2,400,756 shares at a cost of £2.1m and The Grainger Employee Trustee Company Limited took up its rights to 63,858 shares at a cost of £0.1m. The Grainger Employee Benefit Trusts also acquired 1,600,000 shares during the year at a cost of £1.8m. In addition, the group paid £0.5m to the share incentive plan during the year for the purchase of matching shares and free shares in the scheme. The overall cost of £4.5m has been deducted from retained earnings within shareholders' equity (see note 8).

As at 30 September 2010, share capital included 46,803 (2009: 31,929) shares held by The Grainger Trust Employee Trustee Company Limited 5,976,623 (2009: 1,975,867) shares held by The Grainger Employee Benefit Trusts and 21,410 (2009: 21,410) shares held by Grainger plc as treasury shares. The total of these shares is 6,044,836 (2009: 2,029,206) with a nominal value of £302,242 (2009: £101,460) and a market value as at 30 September 2010 of £6.6m (2009: £6.0m).

Notes to the parent company financial statements continued

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

	Number	Nominal Value £'000
At 1 October 2008	128,716,094	6,436
Shares issued following conversion of Convertible Bonds	10,081,013	504
Options exercised under SAYE schemes	1,006	–
At 30 September 2008	138,798,113	6,940
Issue of shares under the rights issue	277,553,406	13,878
Options exercised under SAYE schemes	10,901	–
At 30 September 2009	416,362,420	20,818

Details of share options granted by the company are provided in note 30 on pages 119 to 121.

8 Reserves	Share premium £m	Capital redemption reserve £m	Equity component of convertible bond £m	Merger reserve £m	Profit and loss account £m
At 1 October 2009	109.7	0.3	5.0	–	142.3
Retained profit for the year	–	–	–	–	0.9
Share-based payment charge	–	–	–	–	1.3
Issue of shares	0.1	–	–	–	–
Rights issue	–	–	–	235.9	(13.1)
Transfer to profit and loss account	–	–	–	(235.9)	235.9
Purchase of own shares	–	–	–	–	(4.5)
Dividends paid	–	–	–	–	(7.4)
At 30 September 2010	109.8	0.3	5.0	–	355.4

Merger reserve

In December 2009 the company completed a two for one rights issue at an issue price of 90p per share raising a total gross amount of £249.8m, net of costs £236.7m. The rights issue increased the number of shares in issue by 277,553,406 shares, increasing share capital by £13.9m. The group took advantage of Section 612 of the Companies Act 2006 to take proceeds in excess of the nominal value of shares issued amounting to £235.9m, to a merger reserve. Under a cash-box mechanism this amount has been subsequently transferred to retained earnings and of this, £104.5m is currently not distributable. Costs of issue which totalled £13.1m have been taken directly to reserves.

9 Other information

Post balance sheet event

There are no post balance sheet events requiring disclosure in these financial statements.

Dividends

Information on dividends paid and declared is given in note 14 on page 91.

Directors' share options and share awards

Details of the directors' share options and of their share awards are set out below.

Directors' share options

Ordinary shares (thousands)		Rupert Dickinson		Andrew Cunningham		Peter Couch	
Dates exercisable	Exercise price	30 Sept 2010	30 Sept 2009	30 Sept 2010	30 Sept 2009	30 Sept 2010	30 Sept 2009
Non-performance-related (available to all staff)							
SAYE Scheme							
1 February 2014 to 31 July 2014	£0.377	–	44	44	44	25	25
Performance-related (conditional awards)							
Inland Revenue Approved Executive Share Option Scheme							
23 March 2010 to 23 March 2017	£3.70	–	8	–	8	–	–
		–	52	44	52	25	25

Ordinary shares (thousands)		Nick Jopling		Mark Greenwood		Total	
Dates exercisable	Exercise price	30 Sept 2010	30 Sept 2009	30 Sept 2010	30 Sept 2009	30 Sept 2010	30 Sept 2009
Non-performance-related (available to all staff)							
SAYE Scheme							
1 February 2014 to 31 July 2014	£0.377	–	–	–	–	69	113
Performance-related (conditional awards)							
Inland Revenue Approved Executive Share Option Scheme							
23 March 2010 to 23 March 2017	£3.70	–	–	–	–	–	16
		–	–	–	–	69	129

Performance conditions for the options exercisable 23 March 2010 to 23 March 2017 at £3.70 were not met, thus the options lapsed.

The market price of the company's shares at the end of the financial year was 110p, and the range of the closing mid-market prices during the year was 102p to 170p.

Comparative figures for Peter Couch, Nick Jopling and Mark Greenwood are as at the date of their appointment to the board (see page 51).

Notes to the parent company financial statements continued

9 Other information continued

Directors' share awards

Ordinary shares of 5p each (thousands)

	Award date	Earliest vesting date	Rupert Dickinson 30 Sept 2010	Rupert Dickinson 30 Sept 2009	Andrew Cunningham 30 Sept 2010	Andrew Cunningham 30 Sept 2009	Peter Couch 30 Sept 2010	Peter Couch 30 Sept 2009
Non-performance-related – miscellaneous*	12 Dec 2007	12 Dec 2010	–	–	–	–	26	26
Non-performance-related – deferred bonus plan*	3 Feb 2010	3 Feb 2011	–	–	–	–	90	90
Performance-related (conditional awards)								
Long-term incentive scheme								
2006 scheme (lapsed)	23 Mar 2007	23 Mar 2010	–	187	–	140	–	–
2007 scheme	9 Jan 2008	9 Jan 2011	–	376	284	284	153	153
2008 scheme	23 Dec 2008	23 Dec 2011	–	1,048	779	779	429	429
2009 scheme	9 Dec 2009	9 Dec 2012	–	–	481	–	–	–
2009 scheme	29 Sept 2009	9 Dec 2012	–	–	–	–	–	–
Matching awards (conditional)								
2006 scheme (lapsed)	23 Mar 2007	23 Mar 2010	–	37	–	28	–	–
2007 scheme	9 Jan 2008	9 Jan 2011	–	75	56	56	31	31
2008 scheme	23 Dec 2008	23 Dec 2011	–	206	156	156	86	86
2009 scheme	9 Dec 2009	9 Dec 2012	–	–	96	–	–	–
2009 scheme	29 Sept 2009	9 Dec 2012	–	–	–	–	–	–
			–	1,929	1,852	1,443	815	815

Ordinary shares of 5p each (thousands)

	Award date	Earliest vesting date	Nick Jopling 30 Sept 2010	Nick Jopling 30 Sept 2009	Mark Greenwood 30 Sept 2010	Mark Greenwood 30 Sept 2009	Total 30 Sept 2010	Total 30 Sept 2009
Non-performance-related – miscellaneous*	12 Dec 2007	12 Dec 2010	–	–	–	–	26	26
Non-performance-related – deferred bonus plan*	3 Feb 2010	3 Feb 2011	–	–	–	–	90	90
Performance-related (conditional awards)								
Long-term incentive scheme								
2006 scheme (lapsed)	23 Mar 2007	23 Mar 2010	–	–	–	–	–	327
2007 scheme	9 Jan 2008	9 Jan 2011	–	–	–	–	437	813
2008 scheme	23 Dec 2008	23 Dec 2011	–	–	–	–	1,208	2,256
2009 scheme	9 Dec 2009	9 Dec 2012	–	–	–	–	481	–
2009 scheme	29 Sept 2009	9 Dec 2012	283	–	230	–	513	–
Matching awards (conditional)								
2006 scheme (lapsed)	23 Mar 2007	23 Mar 2010	–	–	–	–	–	65
2007 scheme	9 Jan 2008	9 Jan 2011	–	–	–	–	87	162
2008 scheme	23 Dec 2008	23 Dec 2011	–	–	–	–	242	448
2009 scheme	9 Dec 2009	9 Dec 2012	–	–	–	–	96	–
2009 scheme	29 Sept 2009	9 Dec 2012	23	–	10	–	33	–
			306	–	240	–	3,213	4,187

Performance conditions for the conditional share awards set to vest on 23 March 2010 were not met and therefore lapsed on that date.

Rupert Dickinson retained his participation in the long-term incentive scheme for awards conditionally vesting on 9 January and 23 December 2011 respectively. Any awards which vest will be adjusted on a pro forma basis to 20 October 2009 being the date he retired from the board. On this pro rata basis the maximum shares that could vest total 612,000.

*These share awards were granted to Peter Couch before he was appointed to the board.

Comparative figures for Peter Couch, Nick Jopling and Mark Greenwood are as at the date of their appointment to the board (see page 51).

Audit fees

The audit fee for the year was £8,000 (2009: £8,000).

Five-year record for the year ended 30 September 2010

	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m
Turnover	206.3	229.3	246.2	302.2	244.5
Gross rental income	52.6	52.7	70.7	77.9	75.6
Sales of investment properties	40.6	14.8	7.4	8.8	9.9
Trading profits	56.2	62.8	62.6	44.9	52.8
Profit/(loss) before taxation	47.7	77.5	(112.1)	(170.0)	(20.8)
Profit/(loss) after taxation and non-controlling interests	33.5	60.9	(77.4)	(122.0)	(10.8)
Dividends taken to equity	6.9	7.6	8.3	5.2	7.4

	Pence per share	Pence per share	Pence per share	Pence per share	Pence per share
(Loss)/earnings per share	25.99	47.26	(61.05)	(89.81)	(2.90)
Dividends per share	5.62	6.18	6.18	3.91	1.70

	£m	£m	£m	£m	£m
Fixed assets and stocks on a financial statements basis	1,467.8	1,865.0	2,027.4	1,886.1	1,849.4
Fixed assets and stocks at market value	2,009.9	2,514.7	2,404.6	2,201.1	2,176.7
Share capital and reserves	250.1	323.1	229.8	128.5	345.3

	Pence per share	Pence per share	Pence per share	Pence per share	Pence per share
Net asset value on a financial statements basis	192.5	251.1	178.4	92.6	82.9
Net asset value including fixed assets and stocks at market value*	606.3	751.7	471.5	317.5	163.1
Dividend cover	4.6x	7.7x	–	–	
Share price at 30 September	628.0p	447.5p	200.0p	297.6p	109.8p

In addition:

*Corporation tax has not been provided on valuation surpluses relating to stocks.

Shareholders' information

Financial calendar

Annual General Meeting	9 February 2011
Payment of 2010 final dividend	11 February 2011
Announcement of 2011 interim results	May 2011
Announcement of 2011 final results	November 2011

Share price

During the year ended 30 September 2010, the range of the closing mid-market prices of the company's ordinary shares were:

Price at 30 September 2010	110p
Lowest price during the year	102p
Highest price during the year	170p

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 2.03p.

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.

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Barclays Bank PLC

Other bankers

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The Royal Bank of Scotland plc

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National Australia Bank Limited

Nationwide Building Society

Eurohypo AG

Deutsche Pfandbriefbank AG

The Governor and Company of the Bank of Ireland

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Glossary of terms

Property

Assured periodic tenancy ('APT')
Market-rented tenancy arising from succession from regulated. Tenant has security of tenure.

Assured shorthold tenancy ('AST')
Market-rented tenancy where landlord may obtain possession if appropriate notice served.

Assured tenancy ('AT')
Market-rented tenancy where tenant has right to renew.

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

Home reversion
Rent free tenancy where tenant has right of occupation until possession is forfeited (usually on death). If tenant retains an equity interest in the property this is a partial life tenancy.

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

Corporate

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 market value balance sheet.

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.

Financial continued

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 ('NAV')
Shareholders' funds adjusted for the market value of property assets held as stock but 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 deferred tax and those contingent tax liabilities which would accrue if assets sold at market value and for the fair value of long-term debt and derivatives.

Grainger NAV ('GNAV')
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.

Return on capital employed
Operating profit after net valuation movements on investment properties plus share of results from joint venture/associates plus the movement on the uplift of trading stock to market value as a percentage of opening gross capital defined as investment property, financial interest in property assets (CHARM), investment in joint venture/associates and trading stock at market value.

Return on shareholders' equity
Growth in net net net asset value ('NNNAV') in the year plus the dividend per share relating to each year as a percentage of opening NNNAV.

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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