

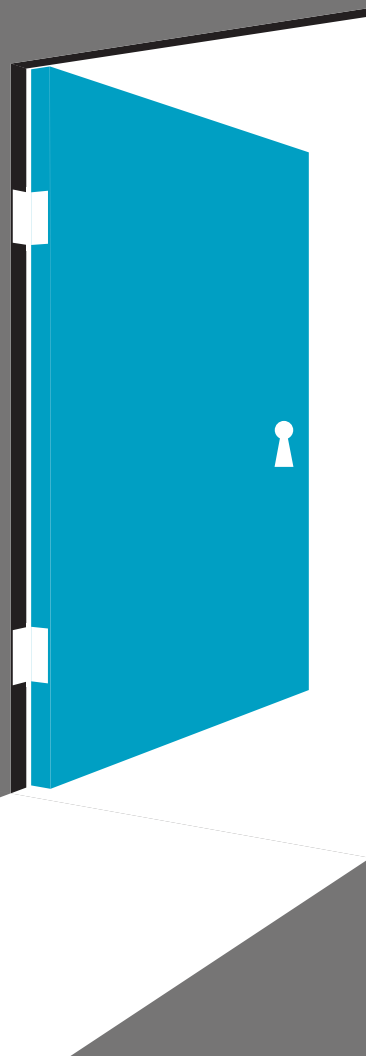


# Unlocking residential potential...

Annual report and accounts 2011

## Grainger = Residential

Our business is to provide investors with exposure to a range of returns from the residential sector.



## Key financial highlights for 2011

### Operating profit\*



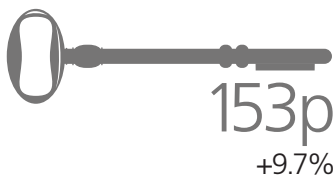
### Profit before tax



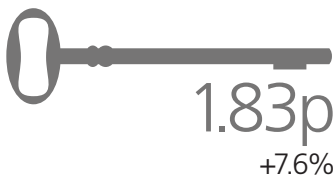
### Gross NAV per share



### NNNAV per share



### Dividend per share



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\* before valuation movements and non-recurring items

## Chairman's statement

The group has performed strongly in the year to 30 September 2011, achieving a profit before tax of £26.1m compared to a loss of £20.8m in 2010. Profit before tax and movements on financial derivatives rose almost three-fold from £18.8m to £54.1m, while operating profit before valuation movements and non-recurring items has shown a 34% increase to £126.2m from £94.2m. Gross net asset value per share increased 8.2% to 216p from 200p.

### Business overview

Our business has three income streams – sales of residential properties, rental income and fees or other income from managed or co-invested vehicles. In each of these areas we have made good progress in consolidating our position as a leading residential trader, investor and manager:

#### • Trading.

We have actively sought to improve the range and quality of our residential portfolio, selling non-core and low growth assets and acquiring good quality replacements. An example of this was the acquisition of our partners' interests in Grainger GenInvest which helped increase our proportion of UK assets in London and the South East to 62%.

#### • Investment.

Our gross rental income has increased from £75.6m to £86.3m, augmented by the acquisition of HI Tricomm Holdings. Its portfolio of 317 properties let on a long-term basis to the Ministry of Defence generates a gross annual rental yield of 8.3% on its acquisition price.

#### • Management.

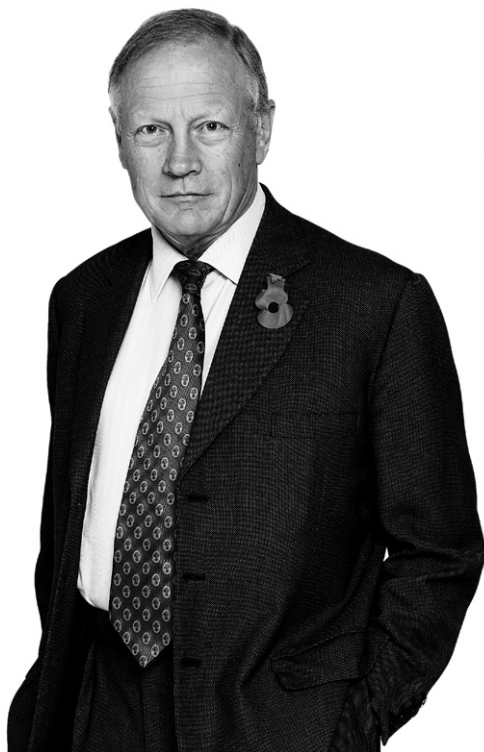
We have been successful in leveraging off our asset and property management skills to increase the group's fee income levels. In doing so, we have established working relationships with high quality partners such as Moorfield, Lloyds Banking Group, Defence Infrastructure Organisation and Bouygues Development. Fees have increased by 23% in the year.

### Dividends

The board is recommending a final dividend of 1.30p per share. If approved, this will be paid on 10 February 2012 to shareholders on the register on 9 December 2011. At the half year we returned £2.2m to shareholders (equivalent to 0.53p per share) through a tender offer for shares. This totals an equivalent of 1.83p per share (2010: 1.70p).

### Board

As announced at the half year, Bill Tudor John left the board after six years of valuable service as a director and was replaced by Belinda Richards. Robert Hiscox will retire from the board at our Annual General Meeting on 8 February 2012 and his place has been taken by Tony Wray, Chief Executive of Severn Trent plc. Robert has been a director since March 2002 and has made a significant



**Robin Broadhurst**  
Chairman



and pertinent contribution to our business over that period. We look forward to being able to take advantage of both Tony's broad corporate experience gained at a major listed company and Belinda's corporate finance expertise.

It is appropriate for me to also note the sad and premature death of Rupert Dickinson in September. Rupert was Chief Executive of Grainger until ill health caused his early retirement in October 2009. His leadership of the business was characterised by his passion and enthusiasm for the company and the residential sector. He will be sadly missed.

### Outlook

Our business has continued to show resilient performance and a proven ability to take advantage of opportunities that will provide long-term value. Our core skills remain our ability to asset manage, across the UK, large numbers of residential properties efficiently to provide enhanced returns within the sector. This is supported both by our recent refinancing and by the strong cash generative capability of our portfolio. As a result, whilst mindful of the challenges presented by the external environment, we are positioning ourselves to take advantage of what we expect to be interesting opportunities over the medium term.

We have invested wisely in strategic acquisitions during the year. Going forward we will also continue to supplement profits from our reversionary business with a growth in fee income from our asset and property management activities. Such activities enhance return on capital and rely less on investment. We therefore anticipate a reduction in our requirement for debt in the near to medium term and our successful refinancing strategy has been based around this approach.

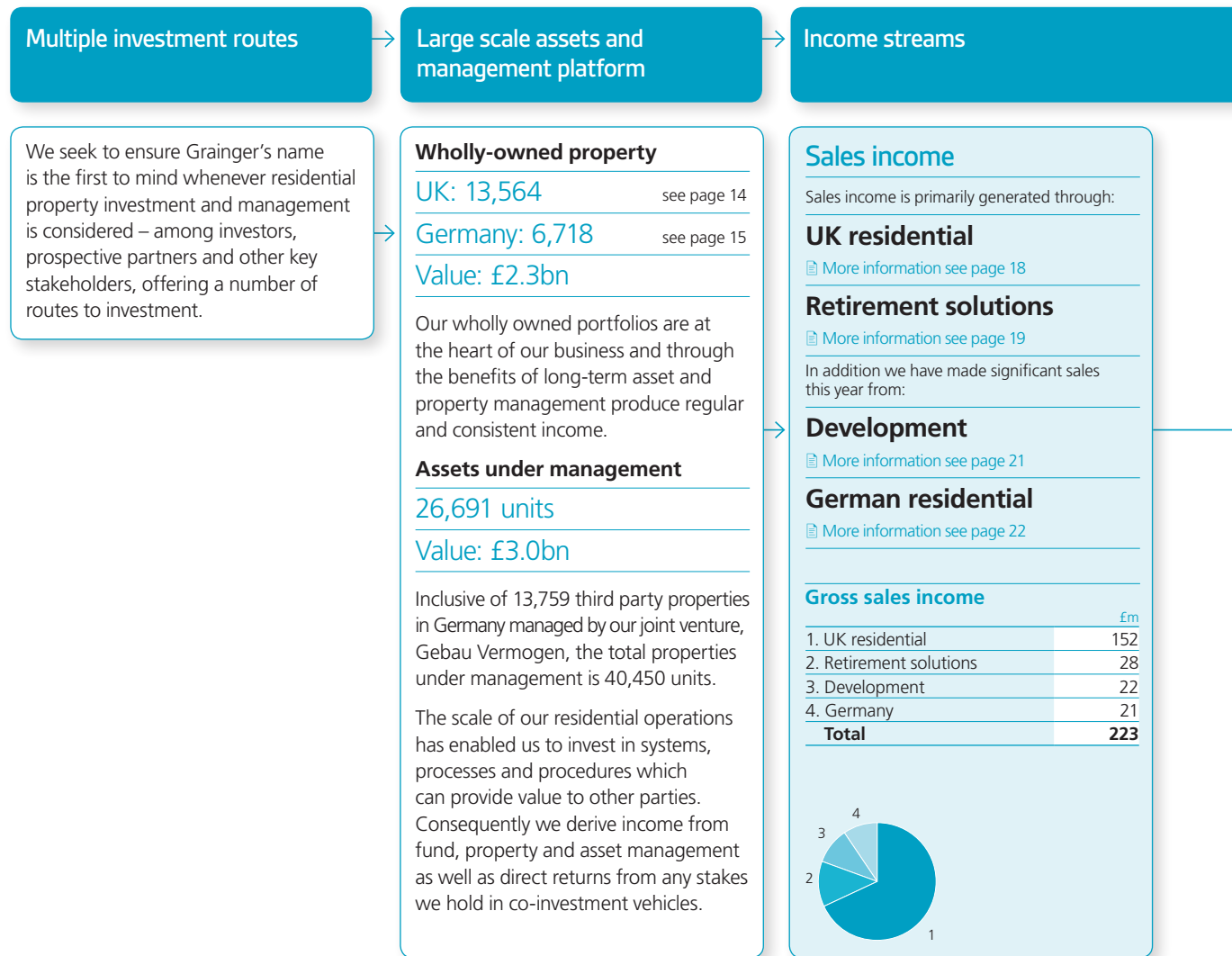
Grainger was incorporated in 1912 and as we enter our first centenary year we have cemented our brand and our reputation as a professional and caring landlord. In turn this has benefited our tenants, partners and stakeholders.

None of this would have been possible without the enthusiasm, skill and commitment not only of our current staff but also their predecessors. I would like to extend my thanks to them all.

**Robin Broadhurst**  
Chairman  
5 December 2011

# Grainger = Residential

Our business model is dedicated to ensuring Grainger is the first port of call for residential investment. Our expertise and the scale of our assets and operations enable us to generate sustainable income streams from sales, rents, management fees and other related activities.



## Rental income

Rental income is primarily generated through:

### UK residential

[More information see page 18](#)

### Retirement solutions

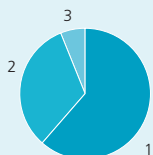
[More information see page 19](#)

### German residential

[More information see page 22](#)

## Net rental income

	£m
1. UK residential	38.4
2. Germany	20.2
3. Retirement solutions	3.8
<b>Total</b>	<b>62.4</b>



## Fees and other income

Fees and other income is primarily generated through:

### UK residential

[More information see page 18](#)

### Retirement solutions

[More information see page 19](#)

### Fund management and residential investments

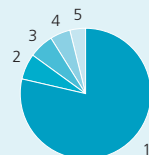
[More information see page 20](#)

### Development

[More information see page 21](#)

## Fee income

	£m
1. Fund management and residential investments	6.3
2. UK residential	0.5
3. Retirement solutions	0.5
4. Development	0.4
5. Germany	0.3
<b>Total</b>	<b>8.0</b>



Shareholder returns



Debt servicing

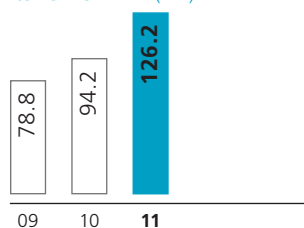


Disciplined recycling back into asset portfolio

# Our performance

We measure our performance through a clear set of KPIs.

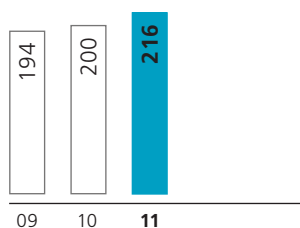
Operating profit before valuation movements and non-recurring items – OPBVM (£m)



OPBVM is a measure of the profit generated by our key income streams of net rents, profits on sale of property and other income, net of overheads.

OPBVM reached £126.2m in 2011 up by 34% from 2010. This was assisted by increases in net rent from our two key acquisitions and strong residential and development trading profits.

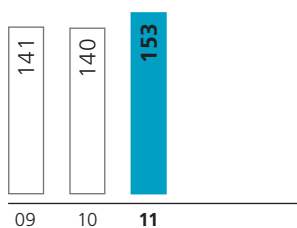
Gross net asset value per share – NAV (p)



NAV is based on property assets stated at market value. It is stated after adding back deferred tax on property revaluations and the balance sheet value of derivatives.

NAV increased from 200p to 216p at the 2011 year end primarily as a result of our profit after tax and an increase of 3.0% in the market value of our UK properties.

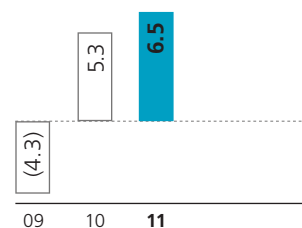
Triple net asset value per share – NNNAV (p)



NNNAV is also based on property assets at market value but also includes the contingent tax on this uplift, deferred tax on asset revaluations and the full balance sheet value of derivatives net of deferred tax.

NNNAV increased from 140p to 153p at the 2011 year end as a result of the group's profit after tax and the net increase in market value of our property assets.

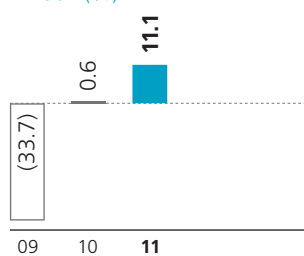
Return on capital employed – ROCE (%)



ROCE measures the overall profit of the business before interest and derivative expense, as a percentage of the opening market value of all property assets and investments in JV's/associates.

ROCE was 6.5% in 2011 assisted by the strong trading performance noted in OPBVM.

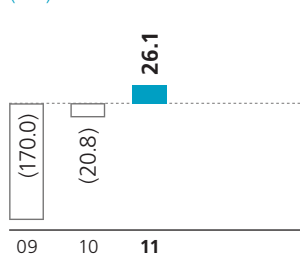
Return on shareholder equity – ROSE (%)



ROSE measures the movement in NNNAV in the year plus the dividend relating to the year as a percentage of opening NNNAV.

ROSE was 11.1% in 2011 reflecting the increase in NNNAV from 140p to 153p and also the dividend for the year of 1.83p (including the tender offer equivalent to 0.53p per share).

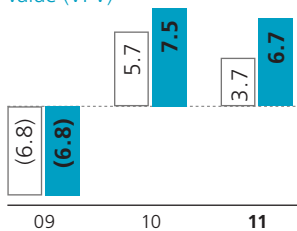
Profit/(loss) before tax – PBT (£m)



Whereas OPBVM above measures specific elements of the income statement, PBT includes all items taken through the income statement before tax, including net interest expense.

PBT was £26.1m in 2011 assisted by the strong trading performance of the business as noted above and despite a charge to income of £28.0m arising from derivatives.

Sales price above previous year end vacant possession value (VPV)



○ Pre refurb %  
● After refurb %

We compare actual prices achieved on sales of vacant properties in our UK residential and retirement solutions business to their VPV at the previous year end. This measure shows how prices are moving and the effectiveness of our sales process. This year we sold un-refurbished properties on average at 3.7% above the 2010 year end VPV, and those with pre-sale refurbishment at 6.7% above the 2010 year end VPV.



## CEO strategic overview

Grainger operates as a trader, investor and manager of residential properties and therefore offers its investors exposure to residential returns from three main sources of income.

### Main sources of income

- Receipts from the sale of assets (profits from sale: £81m).
- Rents (net rents: £62m).
- Fees from co-invested and/or managed vehicles (total fees: £8m).

### Business overview

Grainger owns £2.3bn of residential property of which 82% is located in the UK and the balance in Germany. In the year ended 30 September 2011 this portfolio generated £86m of gross rents and total asset sales amounted to £223m. A further £8m of fees and other income was produced.



**Andrew R Cunningham**  
Chief executive

The overall portfolio can be categorised by asset type, location and income as follows:

Assets & value (£m)	Sales	Rents	Fees
<b>UK residential portfolio</b> £1,402m			
<b>Retirement solutions assets</b> £474m			
<b>Fund management and residential investments</b> £54m			
<b>Development assets</b> £73m			
<b>German residential portfolio</b> £422m			

Our UK residential portfolio comprises 13,564 tenanted houses and flats, together with other associated interests such as ground rents and garage blocks. Most of the properties are, or have been, subject to regulated tenancies or home reversions plans. Under a regulated tenancy the tenant pays us a rent set by a local rent officer which is usually below the prevailing market rent. The tenant also has right of tenure but, when the property is vacated, it reverts back to Grainger and can be sold on the open market with

## CEO strategic overview continued

vacant possession. We buy these tenanted properties at a discount ('the reversion') to the vacant possession value and so our returns consist of rents received during occupation, the value of the reversion crystallised when the property is vacated and sold, together with any growth in value from house price inflation during the period of ownership. It is a key characteristic of the residential market that properties are more valuable vacant than tenanted. The properties are usually owned for ten years or more and this helps smooth out price volatility arising from economic cycles.

Our retirement solutions assets consist primarily of ownership stakes in properties occupied by elderly people (home reversion plans). A lump sum is paid to the owner occupier for some or all of their residential property reflecting an appropriate discount, and they are entitled to remain in their house for the rest of their lives without paying any rent. When they vacate the property it reverts back to Grainger and we are then able to sell it with vacant possession. The returns therefore consist of the reversion enhanced by house price inflation.

These two reversionary portfolios account for about 77% by value of our total business and offer a blend of trading and rental returns. The majority of our regulated tenants receive financial support through housing benefit and, because of their rights of tenure, have a vested interest in ensuring the rent is paid. Consequently our rental returns are long term, stable and

secure with very low levels of arrears. Both of our reversionary portfolios provide a steady stream of predictable vacancies giving us the opportunity to sell and crystallise value. The reversionary surplus in our UK business (the difference between vacant possession value and tenanted or market value) now stands at £571m (2010: £604m). The low average value (c.£197K), often un-refurbished nature of the properties and high level of cash purchasers they attract mean that these vacant properties sell well and quickly.

Our development activities are much smaller in scale (book value £80m at 30 September 2011) but offer opportunities for significant returns and cash flow. We often work in joint venture arrangements (for example with Development Securities in Birmingham and Helical Bar in Hammersmith) to leverage the respective skills and resources of ourselves and our partners. Our major development activity at present is at our site in West Waterlooville, Hampshire. We will bring some 2,550 residential units through the planning process, install infrastructure and then sell fully serviced plots to housebuilders under common standards of quality and sustainability. This activity follows the core Grainger principles of long-term residential expertise and the creation of returns through a change in value and subsequent sale. In the UK residential and home reversions portfolios this comes from a change in tenure and in development, it largely derives from a change in use or planning permission.

Our German residential portfolio consists of some 6,718 units with a value at the year end of €490m. The returns from these assets are more heavily biased towards rental income than those in the UK, and so provide a good balance of risk through stable asset values and higher gross yields.

In total we own 20,282 residential properties. This has enabled us to invest in the systems, processes and people required to run such a large portfolio. Together with the breadth of our residential expertise this has placed us in a good position to offer these skills to third parties, often on a co-investing basis (for example, G:res and our Sovereign Reversions Joint Venture with Moorfield). This is a growing part of the business as demonstrated clearly this year by the success of our expanding these activities through arrangements with Defence Infrastructure Organisation (the Aldershot Urban Extension) and with Lloyds Banking Group (the Grainger Residential Asset Management Platform G:RAMP). Subsequent to the year end we also announced our framework agreement with Bouygues Development to co-invest in a residential Build-to-Let fund which, on creation, will provide institutional investors with the opportunity to invest in scale in the private rented sector.

## Strategy in action

### Objective set in 2010

**1** Rebalancing residential portfolios to selective areas of value or growth.

### Action in 2011

- Acquisitions of high yielding HI Tricomm portfolio and the Grainger GenInvest LLPs.
- Some 62% of UK portfolio in London and the South East (54% two years ago).
- Increase in gross rental income of 14%.

**2** Reducing capital employed in non-core assets and underperforming locations.

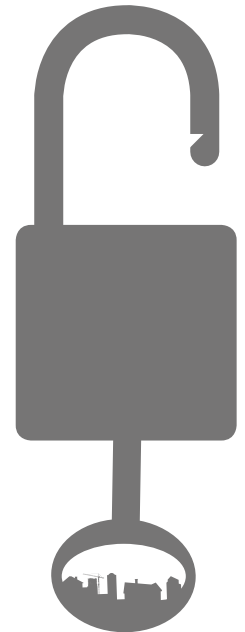
- Disposal of £41m of tenanted properties in the UK and €23m in Germany to improve overall portfolio quality.

**3** Introducing third party capital to diversify returns.

- Joint venture with Moorfield to hold Sovereign Reversion assets.
- G:res life extended.
- Partnership with Defence Infrastructure Organisation at Aldershot.
- Partnership with Lloyds Banking Group through G:RAMP.
- Increase in management fees of 23%.

**4** Acting early to consider and implement debt financing options.

- Approximately £1.2bn of debt finance raised including the introduction of several new lenders and the extension of average maturities.



## CEO strategic overview continued

### Business performance

This year has been characterised by a number of significant transactions which have moved the business forward and which reflect how our strategic objectives are put into practice.

Transaction	Description	Impact
<b>Sovereign Reversions joint venture</b>	Sovereign Reversions was acquired by Grainger in August 2010. It owned 1,038 home reversion assets with a market value of approximately £68m. In October 2010, Moorfield acquired a 50% stake in the vehicle.	The acquisition adds scale to Grainger's own home reversion business. As well as the returns from our investment we obtain fees for managing the portfolio.
<b>HI Tricomm acquisition</b>	Acquisition of corporate entity owning 317 houses let to the Ministry of Defence. Gross annual yield of 8.3% based on its acquisition price and existing long-term financing retained.	Adds c.£9m to the group's gross rent roll. The financing brought a new lender into the group and extended our overall debt maturities. The discount on acquisition produced a one-off gain of £14.9m and the value has increased by a further £0.6m since acquisition. Net rental income since acquisition was £5.0m.
<b>Grainger GenInvest LLP's acquisition</b>	The acquisition of our JV partner's (Genesis Housing Group) stake in these LLPs to give us 100% ownership. The portfolios included c.1,650 residential units in central London with a market value of £289m and a vacant possession value of £353m.	Incremental gross rents of c.£12m and a significant addition to the UK residential portfolio, increasing its size by 25% on acquisition and providing us with significant development and reversionary potential. The acquisition also enabled us to introduce two new lenders, HSBC and Santander. Since acquisition, net rental income of £5.3m, representing a gross annual yield of 4.2% and a further revaluation uplift of 4.2% at £11.9m.

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Transaction	Description	Impact
<b>G:RAMP</b>	Provision of G:RAMP for Lloyds Banking Group. By 30 September 2011 some 1,545 residential units were included in G:RAMP.	Significant leveraging off existing skills and operational platform to provide fees and improve return on capital employed.
<b>Aldershot Urban Extension</b>	Appointment as preferred developer by Defence Infrastructure Organisation and Homes and Communities Agency for 148 hectares of land which may result in up to 4,500 residential units.	Long-term recurring fee income with high quality partner. Based on value of sales of serviced plots to housebuilders.
<b>Waterlooville</b>	Outline planning consent obtained for 2,550 homes, 15–20 year pipeline of serviced land sales to housebuilders.	Long-term income from land sales.



## CEO strategic overview continued

### Overall market review

Residential property values are driven by supply and demand and can be distorted significantly by local economic factors. This has been most noticeable over the last year in the prime London market where ultra high value properties have adopted many of the characteristics of precious metal investment. Shortage of supply, exacerbated by planning restrictions, geopolitical stability, the attractiveness of the time zone and London's standing as a high quality urban environment have pushed prices of these properties to unprecedented levels. To a lesser extent, prices in other London and South East areas have also reflected the imbalance between supply and demand by exhibiting stronger price levels than other parts of the UK, which are much more susceptible to the weak economy and to the effects of the mortgage market. Some 62% of our UK properties are situated in London and the South East and so benefit from these factors.

As well as geographical imbalances we find, that in these markets, certain types of property sell better. Generally, our properties are of low average value and tend to be un-refurbished on vacancy. Demand for these properties from a mixed constituency of cash buyers, amateur and professional developers and local specialist landlords as well as the usual mortgage backed owner-occupier remains strong.

This is reflected by the fact that our average sales period runs at approximately 112 days and our vacant sales were completed for values on average 3.7% above the equivalent September 2010 valuation. Refurbishment works prior to sale can improve returns and when these are taken into account we have sold at 6.7% above September 2010 valuations.

Mortgage funding for house purchases remains at very low levels reflecting primarily the higher levels of deposit required by lenders – the average first time buyer deposit stands at 21% of purchase price. This, allied to weak confidence in the economic outlook, has led to a significant increase in the number of household properties being rented. In London it is estimated that the percentage level of home ownership has fallen from 60% in 2001 to 52% in 2010. The increase in demand has also pushed rentals up with prime London residential rents showing annual increases of up to 10% on new lettings.

Government has indicated support for a stronger more professional private rented sector. There is an increased possibility of residential REITs being created once legislative changes are enacted in 2012. The Government's Housing Strategy, announced on 21 November 2011, clearly states the Government's desire to support the private rented sector and announced the creation of an independent review to explore ways to attract institutional investment into the sector.

We believe the switch between home ownership and rented occupation signals a significant and permanent structural change in the housing market. We anticipate demand for rental properties, particularly in major metropolitan areas, to increase and there to be more blurring of the edges between the affordable/public/private rented sectors.

We are well placed to take advantage of these changes through our expertise as a major residential landlord and by positioning ourselves in the market rented sector through our involvement with G:res and the Bouygues and Grainger build-to-let fund. The fund was recognised by the UK Government in its Housing Strategy as an exemplar of private sector initiatives.

The German residential market shows different characteristics from the UK. Overall levels of home ownership are much lower at approximately 42%, the second lowest in Europe. The size of the rental market has led to a diverse range of rental housing and vacancy rates are relatively constant at below 4%. These factors have led to a more investment based market with some 40% of rental units being owned by professional/commercial landlords. As with the UK, geographical differences are evident and both residential prices and rental demand are strongest in the larger economically successful cities, particularly in the West. It is in these areas that our German portfolio is located and these attractive locations, together with a good quality portfolio, bode well for future rental growth and capital appreciation.



### Future prospects

The prospects for the UK economy and therein the broad housing market is uncertain. Wider global economic conditions will play an important, if not the most important, part in the health of the UK economy in the short to medium term. This uncertainty will result in subdued behaviour both among businesses and consumers. We therefore take a cautious view of the prospects for general house price growth in the short to medium term, but believe this can be offset by the severe undersupply of housing compared to growing demand in local markets. The imbalance between supply and demand will vary significantly from area to area with an impact on pricing.

Our future focus will be to build on our three main income streams in a risk controlled way – property sales primarily of assets to capture their reversionary value, rental income and fees or other income from managed or co-invested vehicles. Our existing portfolio provides us with a ready source of liquid assets that sell well and quickly. The portfolio also provides opportunities for rental appreciation and we continue to increase our fee income through the application of our residential property expertise.

We have seen a good start to the new financial year and our total group sales pipeline (completed sales, contracts exchanged and properties in solicitors hands) amounted to £60.3m at 25 November 2011 with UK normal residential sales values some 5.3% above September 2011 vacant possession values.

We are disposing of assets that are either regarded as non-core or where we see limited opportunities for growth. When taken in conjunction with our normal sales on vacancy, we anticipate being net sellers of property in the short to medium term. We believe that operating at lower levels of debt in conjunction with a greater emphasis on fee generating activities, will generate a better risk adjusted return to our shareholders. Our property management activities may result in increased assets under management.

We are well positioned to take advantage of the opportunities presented by the changes in the residential market. A large proportion of our portfolio is in geographic areas where economic activity, and therefore demand, is highest enabling us to maximise sales value and velocity. Our expertise as residential landlords will enable us to take full advantage of the increasing rental market and, in particular, the build-to-let sector. We are optimistic about our opportunities to improve return on capital by managing other parties' residential real estate exposure.

In summary, we remain confident in our ability to deliver good levels of long-term return in the residential property sector for our shareholders.

*Andrew Cunningham*

**Andrew R Cunningham**  
Chief executive  
5 December 2011

## Where our properties are located

We own £2.3bn of residential property assets in the UK and Germany located in those areas with good prospects for rental growth and capital appreciation.

### UK

#### IPD region:

Relative change in valuation Sept 2010 – September 2011

High  Low



#### Key statistics

 13,564  
Properties

 £2,447m  
Vacant Possession Value

 £1,876m  
Market Value

#### Overview

The market value of our UK residential properties has increased by 3.0% overall in the year ended 30 September 2011.

As reflected by the shading in the map of the UK, property values have been most resilient in London and the South East.

This reflects the imbalance between supply

#### UK assets

Substantial asset value and future revenue potential embedded in Grainger's large, mature and geographically diverse portfolio focused on attractive areas.

		September 2011				September 2010		
		Number of units	Vacant possession value £m	Market value £m	% of Grainger market value	Number of units	% of Grainger market value	
London and South East: 62% of UK portfolio	<b>1</b>	London (Total)	4,006	1,160	915	49%	2,783	40%
	<b>2</b>	South East	2,134	333	240	13%	2,210	16%
	<b>3</b>	South West	1,786	290	244	13%	1,521	9%
	<b>4</b>	East	1,299	165	120	6%	1,389	8%
	<b>5</b>	East Midlands	562	62	43	2%	841	4%
	<b>6</b>	West Midlands	970	145	107	6%	1,025	7%
	<b>7</b>	Wales	138	15	9	0%	184	1%
	<b>8</b>	Yorkshire	674	72	51	3%	770	4%
	<b>9</b>	North West	1,368	143	102	5%	1,436	7%
	<b>10</b>	North East	365	40	30	2%	381	2%
	<b>11</b>	Scotland	250	21	14	1%	274	1%
	<b>12</b>	Northern Ireland	12	1	1	0%	13	0%
		<b>Total</b>	<b>13,564</b>	<b>2,447</b>	<b>1,876</b>	<b>100%</b>	<b>12,827</b>	<b>100%</b>

The reversionary surplus in our UK business, the difference between vacant possession value and market value, is £571m.

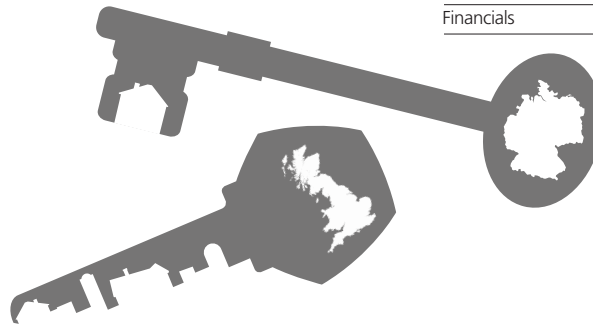


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and demand as well as the relative attractiveness of our low average value and generally un-refurbished properties. As a result of acquisitions in the year, Grainger now has 62%, by market value, of its property located in these more attractive regions.

### UK assets by tenure

As at 30 September 2011	Number of units	Market value £m
Regulated	5,853	954
Home Reversion	5,902	474
Assured Shorthold	1,220	233
HI Tricomm	317	106
Other	52	52
Vacant	220	57
<b>Total</b>	<b>13,564</b>	<b>1,876</b>

## Germany

**Germany:**  
Socioeconomic attractiveness



Source: Berlin Institute

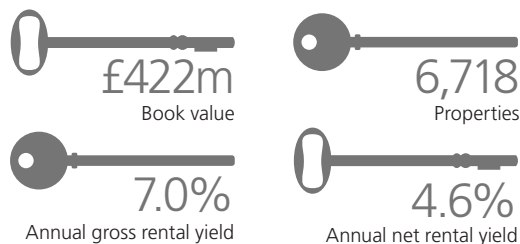
### Overview

As shown by the shading in the map of Germany, the economically successful areas in the West and South of the country are the most attractive in terms of rental demand and prices. The majority of our portfolio is located in these more attractive regions such as Baden-Württemberg, Hesse, Bavaria and Rhineland – Palatinate and we expect this to provide a good platform for future rental and price growth.

### Germany assets

	Number of units	Investment value €m	% of Grainger investment value
<b>1</b> Baden-Württemberg	1,501	127	26%
<b>2</b> Hesse	1,490	112	23%
<b>3</b> North Rhine – Westphalia	1,677	101	21%
<b>4</b> Bavaria	560	56	11%
<b>5</b> Lower Saxony	751	37	8%
<b>6</b> Rhineland – Palatinate	337	26	5%
Other	402	31	6%
<b>Total</b>	<b>6,718</b>	<b>490</b>	<b>100%</b>

### Key statistics



## Our business activities

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



Sales + rents + fees

### 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, (72% by value). This unique portfolio brings strong and stable cash flows from rental income and trading profits on the sale of property.

	2011	2010
Regulated units owned	<b>5,853</b>	5,969
Market value	<b>£954m</b>	£863m
Vacant possession value	<b>£1,280m</b>	£1,185m
Other assets	<b>1,809</b>	915
Market value	<b>£448m</b>	£205m
Vacant possession value	<b>£490m</b>	£232m

#### Contribution to income

**£191m**  
65%

More information see [page 18](#)



Sales + rents + fees

### 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. We have won the Best Provider Home Reversions for the last five years at the Equity Release awards.

	2011	2010
Units owned	<b>5,902</b>	6,981
Market value	<b>£474m</b>	£545m
Vacant possession value	<b>£677m</b>	£800m

#### Contribution to income

**£33m**  
11%

More information see [page 19](#)



Fees

### Fund management and residential investments

Our fund management and residential investments business comprises our investments in funds and joint ventures and the income from asset and property 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 G:RAMP, our asset management platform which services our contract with Lloyds Banking Group.

#### Contribution to income

**£6m**  
2%

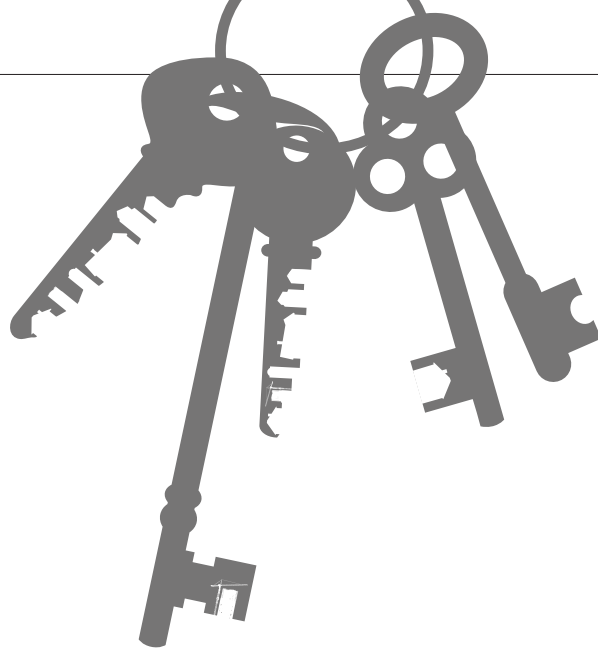
More information see [page 20](#)

Overview

Business review

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Sales + fees

## 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.

	2011	2010
Market value including share of joint ventures	<b>£73m</b>	£79m
Number of development sites	<b>24</b>	23
Gross development value	<b>£490m</b>	£460m

### Contribution to income

**£22m**  
8%

More information see [page 21](#)



Sales + rents

## 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 c.20,000 units throughout Germany and enables us to offer an integrated asset and property management service.

	2011	2010
Units owned	<b>6,718</b>	7,148
Gross rent roll	<b>£29m</b>	£30m
Market value	<b>£422m</b>	£442m

### Contribution to income

**£41m**  
14%

More information see [page 22](#)

The overall portfolio can be categorised by asset type, location and income as follows:

Business area/ asset value (£m)	Sales £m	Net rent £m	Fees/ other £m	Total £m
<b>UK residential</b> £1,402m	152	38	1	<b>191</b>
<b>Retirement solutions</b> £474m	28	4	1	<b>33</b>
<b>Fund management and residential investments</b> £54m			6	<b>6</b>
<b>Development</b> £73m	22			<b>22</b>
<b>German residential</b> £422m	21	20		<b>41</b>
<b>Total</b>	223	62	8	<b>293</b>

More information [page 4](#) [page 5](#) [page 5](#)

## UK residential

Sales + rents + fees



### Operational highlights

Regulated units owned

5,853

Other units

1,809

Market value

£954m

Market value

£448m

Vacant possession value

£1,280m

Vacant possession value

£490m

- Year-on-year increase in market values of 3.8% outperformed the Halifax (2.3% decrease) and Nationwide (0.3% decrease) indices.
- Gross rent in 2011 of £51m. Gross rent running rate at 30 September 2011 £57m.
- £89m of completed normal sales were at an average of 4.6% above September 2010 valuations, 8.6% after refurbishment work prior to sale.
- Portfolio liquidity demonstrated through speed of sales – average 99 days from vacancy to receipt of cash.
- Acquisitions of HI Tricomm and Grainger GenInvest LLPs increased property assets by £394m. Total property assets acquired £402m.

The UK residential business (UKR) primarily consists of properties subject to a regulated tenancy, the whole portfolio producing a gross rental yield of 4.1%. These are valued at 75% of vacant possession value in London and at 72.5% of vacant possession value in other locations. The portfolio is geographically widespread but with a strong concentration in London and the South East, where 72% by value and 59% by volume of these properties are situated.

Net rental income in the year increased significantly to £38.4m from last year's figure of £28.5m, assisted by the strategic portfolio acquisitions during the year of the HI Tricomm and Grainger GenInvest LLPs. (Prior to the date of acquisition of the remaining 50% of Grainger GenInvest our share of its results are reported in Fund Management and Residential Investments business below). The division also generated £0.5m of other income.

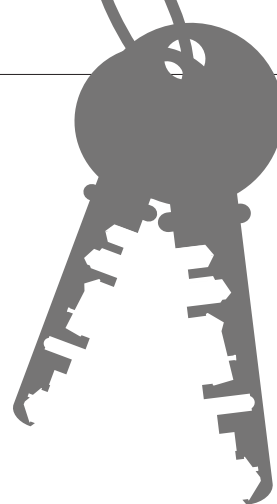
During the year we generated normal sales of £88.5m from this portfolio (2010: £81.0m) producing a profit of £37.8m (2010: £37.4m). The margins that we achieved on normal sales were 42.8% (2009: 46.2%). This year we conducted a regional review of our portfolios in view of future expected returns. This resulted in a growth of 'investment sales' (those with a tenant in place) which gave £56.6m of sales with a profit of £14.6m (2010: sales £7.5m and profit £2.0m). We also made other miscellaneous sales of £7.3m with a profit of £2.6m. Last year, including a larger amount of agricultural sales, the miscellaneous sales figure was £32.4m with profit of £8.2m.

Year end valuations were up 3.8% from the previous September compared to decreases in the Nationwide and Halifax Housing Indices of 0.3% and 2.3% respectively. This clearly illustrates the specialised nature of our property assets and the value we add to them through expert asset and property management. The carrying values were also again supported by the fact that completed normal sales were at values, on average, 4.6% above September 2010 valuations. Refurbishment works prior to sale can improve returns and when these are taken into account we have sold at 8.6% above September 2010 valuations. The liquidity of the properties was also demonstrated by the time taken for sale, measured from the date of vacancy to receipt of cash, being maintained at 99 days.

Other than the two specific strategic portfolios referred to above we were cautious buyers in the UK residential business in 2011 acquiring 44 units for £7.5m (2010: 308 units for £55.7m).

Given current economic conditions our key criteria for purchases continue to be:

- Good prospects for long-term capital appreciation. This is reflected by the geographic spread of our purchases this year, with some 72% by value being in London and the South East.
- Good levels of discounts and/or high yields.
- Opportunities for redevelopment or refurbishment potential.



# Retirement solutions

Sales + rents + fees



## Operational highlights

Units owned

5,902

Market value

£474m

Vacant possession value

£677m

- A 50% equity stake in Sovereign Reversions sold to Moorfield to form our 50:50 JV. Moorfield paid 50% of the acquisition and integration costs. Management of the joint venture generates management fees for Grainger. Operational integration has progressed well and management of Sovereign assets has transferred to Newcastle.
- Completed sales of £27.6m generating a profit of £10.0m
- Acquired £14m of home reversion assets.

### 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.

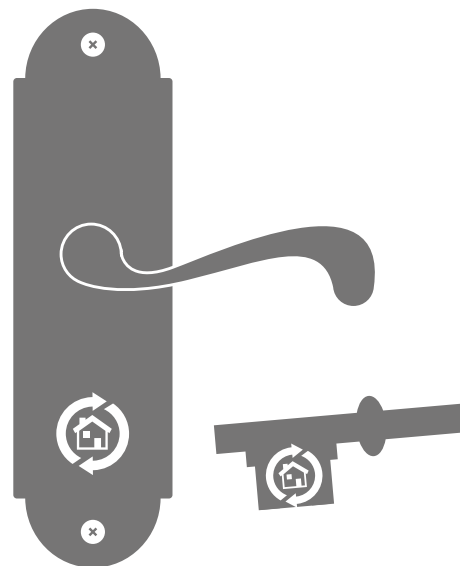
Sales proceeds in 2011, including CHARM, amounted to £27.6m, generating a profit of £10.0m (2010: sales £29.1m; profit £10.2m). Certain assets in the portfolio also produce a net rental income and this amounted to £3.8m in the year (2010: £4.1m). Other income of £0.5m comprises management fees from the Sovereign Reversions joint venture.

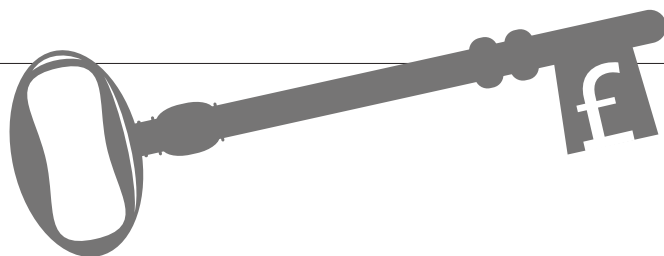
The assets in this portfolio are more geographically widespread than the UK residential portfolios and do not benefit from the bias they have towards London and the South East. This is reflected in the valuation results for the year, which showed a small increase of 0.1% at investment value level.

We bought £14.0m of home reversion assets in the year. We also, early in the year and as noted in last year's report and accounts, 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 paid 50% of the acquisition and certain integration costs and Grainger receives management fees.



Local residents on our Moorpool Estate in Harborne, Birmingham





## Fund management and residential investments

### Fees



#### Operational highlights

- Residential Asset management programme commenced with Lloyd's Banking Group to establish the G:RAMP earning management fees for the group. There were 1,545 units under management at 30 September 2011.
- Strengthening rental market has increased demand for properties in G:res enabling rental increases of 5.2% on renewals and 11.4% on new lets in the quarter ended September 2011.

#### Future opportunities

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

Profit from our Fund Management and Residential Investments business amounted to £3.6m (2010: profit £2.7m) arising from gross fee income of £6.3m from asset and property management fees from G:res 1 ('G:res'), G:RAMP and Grainger GenInvest, less allocated overheads. At the year end, and following our acquisition in the year of the remaining equity in the two Grainger GenInvest LLPs, the remaining equity investment in this division is our 21.96% stake in G:res which is a market rented fund of 2,031 units.

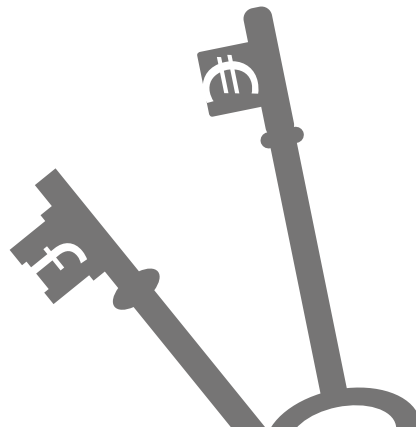
G:res is subject to a full external valuation in December and June of each year and showed an increase in market values of 5.2% for the twelve months ended 30 June 2011, producing an increase in net asset value in the fund of 13.6%.

Operational results at G:res provide a continuing insight into the current UK residential rental market. Rental increases on renewals amounted to 5.2% for the quarter ended September 2011 and increases on new lets for the same period were 11.4%. Both results indicate a continued strengthening of the rental market. The investors in this fund voted to extend its duration by two years to 2013 and its controlled liquidation is under way as planned.

During the year, and before we acquired our partner's 50% stake referred to above, our 50% investment in Grainger GenInvest was reported in this division. Prior to that acquisition the values in Grainger GenInvest increased by 2.8% in the period from 1 October 2010.

The controlled liquidation of the Schroder Residential Property Unit Trust was completed in the year; 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.

A significant advance in the fee earning element of this business in the year was the agreement with Lloyds Banking Group to establish the G:RAMP. There is no requirement for Grainger investment in this arrangement. By the year end, G:RAMP was proceeding to plan with 1,545 units under management.



# Development

Sales + fees



## Operational highlights

Market value

£73m

Number of sites

24

In 2011 we have had the following successes:

- Appointed as development partner at Aldershot with Defence Infrastructure Organisation. This will generate the group long term recurring fees.
- Obtained planning permission at Macaulay Road (design led smaller scale London development).
- Obtained outline planning consent at Waterlooville for a further 915 units bringing the total on which we have outline consent to 2,550 units.

### Future opportunities

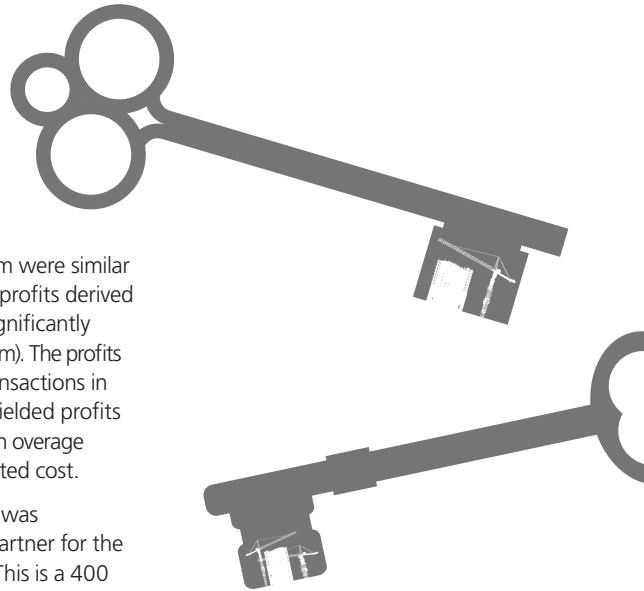
We will focus going forward on:

- 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.

Sales in this division at £22.1m were similar to last year's of £18.7m. The profits derived from this year's sales were significantly increased at £15.1m (2010: £2.1m). The profits primarily derive from two transactions in central London which both yielded profits of c.£7m, one of which was an average receipt which had no associated cost.

During the year the business was appointed as development partner for the Aldershot Urban Extension. This is a 400 acre brownfield site on which we intend to achieve outline planning permission and to sell serviced land-parcels to housebuilders. This will lead to further recurring fee generation from 2012.

Artist's impression of public green space at Grainger's development site at Waterlooville, Hampshire



# German residential

## Sales + rents



### Operational highlights

Units

6,718

Market value

£422m

Gross rents

£30m

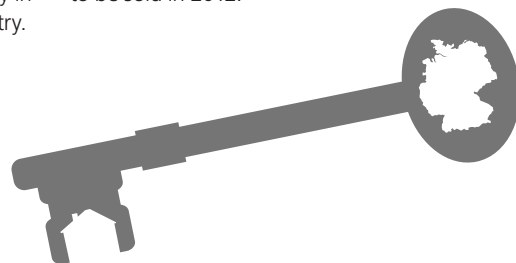
- Grainger's German asset management platform covers the full range of residential property investment and management activities.
- The JV with the Lindner Group allows us to offer an integrated asset and property management service as in the UK.
- The income generated by the portfolio is predominantly market-based rental income, although sales of €24m were achieved this year including the sale of our Berlin portfolio.

#### 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 with assets identified for sale in 2012.

The German business delivered net rents of €25.3m (2010: €24.7m) at an annual net yield of 4.6% (gross yield of 7.03%) in a largely stable price environment. Property assets were written down at year end by €1.9m (0.4%). Our portfolio comprises 6,397 residential units and 321 commercial units located predominantly in the South and South West of the country.

We have undertaken a programme of capital recycling to improve the overall quality of the asset base and enhance cash flow. As part of this on-going process we sold investment assets for €24.3m generating a profit on sale of €1.1m in 2011 and have identified further assets to be sold in 2012.



Grainger property in Wiesbaden, Hesse, Germany





## Financial review

### Performance overview

Our key performance indicators are:

	2011	2010
Operating profit before valuation movements and non-recurring items	<b>£126.2m</b>	£94.2m
Gross net asset value per share (pence) (NAV)	<b>216p</b>	200p
Triple net asset value per share (pence) (NNNAV)	<b>153p</b>	140p
Excess on sale of normal sales to previous valuation	<b>3.7%</b>	5.7%
Profit/(loss) before tax	<b>£26.1m</b>	£(20.8)m
Return on capital employed	<b>6.5%</b>	5.3%
Return on shareholder equity	11.1%	(5.4)%
	1 year	5 year
	11.1%	(5.4)%
		10 year
		3.9%

Our three income streams, sales of residential properties, rental income, and fees or other income, net of property expenses and overheads and before valuation and non-recurring items has produced an operating profit before valuation movements (OPBVM) as follows:

	Net rents £m	Profit on sale of assets £m	Fees £m	Overheads/ other/CHARM £m	2011 Total £m	2010 Total £m
UK residential portfolio	38.4	55.0	0.5	(9.7)	<b>84.2</b>	69.4
Retirement solutions portfolio	3.8	10.0	0.5	4.4	<b>18.7</b>	12.2
Fund management and residential investments	–	–	6.3	(2.7)	<b>3.6</b>	2.7
Development assets	–	15.1	0.4	(1.1)	<b>14.4</b>	2.0
German residential portfolio	20.2	0.9	0.3	(3.1)	<b>18.3</b>	17.1
Group and other	–	–	–	(13.0)	<b>(13.0)</b>	(9.2)
<b>OPBVM – 2011</b>	<b>62.4</b>	<b>81.0</b>	<b>8.0</b>	<b>(25.2)</b>	<b>126.2</b>	
OPBVM – 2010	52.9	61.5	6.5	(26.7)		94.2

In the year net rents rose by 18% from £52.9m to £62.4m primarily due to contributions from our acquisitions in the year of the Grainger GenInvest LLPs and HI Tricomm which are both performing in line with expectations.

Profit from sales of property including CHARM, was £81.0m compared to £61.5m in 2010 including a £1.4m release of net realisable value provision. This was generated from gross sales proceeds of £223m compared to £173m in 2010. This movement in volume was driven mainly by an increase in investment sales (properties with tenants in place) and other sales which rose from £39.9m to £63.9m. Overall margins rose from 34.8% to 36.3% assisted by an increased contribution from our development business.

Fees have risen to £8.0m from £6.5m assisted by increased G:res fees (fees have been driven by increased asset values and higher rents) and income from both G:RAMP and the Sovereign Reversions joint venture.

## Financial review continued

### Sales and margins

	Full year 2011				Full year 2010			
	Units sold	Sales £m	Profit £m	Margin	Units sold	Sales £m	Profit £m	Margin
Sales on vacancy								
UK residential	423	88.5	37.8	42.8%	447	81.0	37.4	46.2%
Retirement solutions	217	27.6	10.0	36.0%	251	29.1	10.2	35.1%
	640	116.2	47.8	41.2%	698	110.1	47.6	43.3%
Investment and other	607	63.9	17.2	26.9%	111	39.9	10.2	25.5%
Residential sales total	1,247	180.1	65.0	36.1%	809	150.0	57.8	38.5%
Development	–	22.1	15.1	68.2%	–	18.7	2.1	11.4%
UK total	1,247	202.2	80.1	39.6%	809	168.7	59.9	35.5%
Germany	438	21.1	0.9	4.4%	55	4.3	0.2	5.0%
<b>Overall total</b>	<b>1,685</b>	<b>223.3</b>	<b>81.0</b>	<b>36.3%</b>	<b>864</b>	<b>172.9</b>	<b>60.1</b>	<b>34.8%</b>

Overhead costs in 2011 at £33.1m are £2.4m higher than in 2010 (£30.7m) supporting the increase in the business represented by additional assets under management and to enable future growth in our management capacity.

The key elements of the movement in OPBVM are shown below:

	£m
2010 OPBVM	94.2
Increase in gross rents and other income	12.9
Increase in property expenses and overheads	(4.8)
Increase in residential trading profit	6.0
Increase in development trading profit	12.9
Increase in interest income from CHARM	5.4
Other	(0.4)
<b>2011 OPBVM (see note 3 to the accounts)</b>	<b>126.2</b>

Valuation movements, impairment and goodwill adjustments and non-recurring items amounted to a credit of £1.3m (2010: charge of £9.3m) as shown below:

	2011 £m	2010 £m
Gain on acquisition of subsidiaries	<b>16.1</b>	2.8
Goodwill impairment	<b>(2.2)</b>	(1.5)
(Write down)/write back of inventories to net realisable value	<b>(1.8)</b>	2.9
Movement on impairment provisions against loans	<b>(4.2)</b>	(10.7)
Valuation deficit on investment properties	<b>(2.0)</b>	(0.8)
Transaction costs	<b>(3.8)</b>	–
Non-recurring overhead costs	<b>(0.8)</b>	(2.0)
	<b>1.3</b>	(9.3)

### Interest expense and similar charges

Our net interest charge has increased by £3.6m from £76.3m to £79.9m, the principal reason being debt either assumed or raised in connection with the acquisitions of the Grainger GenInvest LLPs and HI Tricomm and a write-off of brought forward loan costs on the refinancing.

Our profit before tax and before movements on derivatives was £54.1m compared to £18.8m in 2010.

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 in the full year has been to increase the group's fair value of derivatives liability in the consolidated statement of financial position from £128.3m to £154.3m with a charge through the consolidated income statement of £28.0m (2010: £39.6m).

Having taken account of these derivative movements profit before tax was £26.1m compared to a loss of £20.8m in 2010.

### Tax

During the year, the group successfully concluded discussions with HM Revenue & Customs ('HMR&C') on a number of outstanding tax matters for which credit had not previously been taken. The group's tax credit to income statement includes an exceptional tax credit of £10.2m relating to the agreement reached with HMR&C which assisted in giving an overall tax credit of £13.0m for the year.

## Financial review continued

### Earnings per share

Basic earnings per share is a profit of 9.5p (2010: 2.9p loss). A year-on-year reconciliation is shown below:

	£m	Pence per share
2010 Loss/(loss) per share	(10.8)	(2.9)
<b>Movements in:</b>		
OPBVM	32.0	7.9
Contribution from joint ventures and associates	(3.7)	(0.9)
Fair value of derivatives	11.6	2.8
Revaluation deficits on investment properties	(1.2)	(0.3)
Provisions against trading stock values and loans	1.8	0.4
Goodwill credit	12.5	3.1
Net interest payable	(3.6)	(0.9)
Taxation and other	0.5	0.3
<b>2011 Profit/earnings per share</b>	<b>39.1</b>	<b>9.5</b>

### Dividend for the year

After considering the investment and working capital needs of the business the directors have recommended a final dividend per share of 1.30p per ordinary share (2010: 1.30p) which equates to £5.3m (2010: £4.9m). This is in addition to the return to shareholders by way of a tender offer earlier in the year which amounted to £2.2m. Earnings cover dividends 7.4 times.

### Net asset value

We set out two measurements to better enable shareholders to compare our performance year-on-year.

	2011	2010	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	<b>216p</b>	200p	8.2%
Triple net asset value per share (NNNAV)			
– NAV per share adjusted for deferred and contingent tax on revaluation gains and for the fair value of derivatives	<b>153p</b>	140p	9.7%

### Reconciliation of NAV to NNNAV

	£m	Pence per share
<b>Gross NAV</b>	<b>900</b>	<b>216</b>
Deferred and contingent tax	(132)	(32)
Fair value of derivative adjustment net of tax	(130)	(31)
<b>NNNAV</b>	<b>638</b>	<b>153</b>

### The major movements in NAV in the year are:

	£m	Pence per share
<b>NAV at 30 September 2010</b>	<b>832</b>	<b>200</b>
Results after tax	39	9
Revaluation gains	57	14
Elimination of previously recognised surplus on sales	(45)	(11)
Dividends paid	(5)	(1)
Derivatives movement net of tax	29	7
Others	(7)	(2)
<b>NAV at 30 September 2011</b>	<b>900</b>	<b>216</b>

### The major movements in NNNAV in the year are:

	£m	Pence per share
<b>NNNAV at 30 September 2010</b>	<b>582</b>	<b>140</b>
Results after tax	39	9
Revaluation gains	57	14
Elimination of previously recognised surplus on sales	(45)	(11)
Dividends paid	(5)	(1)
Cash flow hedge reserve net of tax	9	2
Contingent tax	3	1
Others	(2)	(1)
<b>NNNAV at 30 September 2011</b>	<b>638</b>	<b>153</b>

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.

## Financial review continued

	Statutory balance sheet £m	Adjustments to market value, deferred tax and derivatives £m	Gross NAV balance sheet £m	Deferred and contingent tax £m	Derivatives £m	Triple NAV balance sheet £m
Investment property	820	–	820	–	–	820
CHARM	102	–	102	–	–	102
Trading stock	1,105	344	1,449	–	–	1,449
JV/Associates	59	–	59	–	(5)	54
Cash	91	–	91	–	–	91
Deferred tax	43	(40)	3	–	43	46
Other assets	24	7	31	–	–	31
<b>Total assets</b>	<b>2,244</b>	<b>311</b>	<b>2,555</b>	<b>–</b>	<b>38</b>	<b>2,593</b>
External debt	(1,545)	–	(1,545)	–	–	(1,545)
Derivatives	(154)	154	–	–	(168)	(168)
Deferred tax	(48)	48	–	(132)	–	(132)
Other liabilities	(110)	–	(110)	–	–	(110)
<b>Total liabilities</b>	<b>(1,857)</b>	<b>202</b>	<b>(1,655)</b>	<b>(132)</b>	<b>(168)</b>	<b>(1,955)</b>
<b>Net assets</b>	<b>387</b>	<b>513</b>	<b>900</b>	<b>(132)</b>	<b>(129)</b>	<b>638</b>
<b>30 September 2011 net assets per share (pence)</b>	<b>93</b>	<b>123</b>	<b>216</b>	<b>(32)</b>	<b>(31)</b>	<b>153</b>
30 September 2010 net assets per share (pence)	83	117	200	(34)	(26)	140

The European Public Real Estate Association ('EPRA') Best Practices Committee has recommended the calculation and use of an EPRA NAV and an EPRA NNNNAV. 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	1,025	351	1,376	922	2,298
Development	80	(7)	73	–	73
<b>Total September 2011</b>	<b>1,105</b>	<b>344</b>	<b>1,449</b>	<b>922</b>	<b>2,371</b>
Total September 2010	1,056	332	1,388	739	2,127

## Financial resources

The group has significantly refreshed and diversified its sources of finance during the year and up to the date of signing the Annual report and accounts. A total of £1.2bn of new debt has been secured for the purposes of refinancing existing debt and in connection with acquisitions. As at 30 September, this has resulted in an average maturity of the group's committed facilities of 5.5 years (2010: 3.5 years) and an average maturity of the group's drawn debt of 5.9 years (2010: 3.6 years).

The group has diversified its lender base with the addition of HSBC, Bank of America, Banco Santander, M&G and Partnership Assurance to its range of funders – at the same time securing large long-term commitments and continued support from its existing major lenders. Financing secured includes:

- A new forward start facility, signed with RBS, Lloyds, Barclays, Nationwide and HSBC, providing £840m of committed facilities which will be used to refinance the group's existing core facilities. £606m of the committed £840m has a five year tenor, maturing in July 2016. The balance of the facilities matures in three years (£166.5m maturing December 2014), seven years (£7.5m maturing July 2018) and nine years (£60m maturing July 2020).
- Committed facilities of £120m from HSBC and Banco Santander to fund the Grainger GenInvest portfolio acquired in March 2011. These are five year facilities, £108.8 of which matures in March 2016.
- £100m from the M&G UK Companies Financing Fund LP, used to pay down existing core facilities and with a 10 year maturity to March 2021.

- £69m from Bank of America funding the HI Tricomm portfolio acquired in February 2011. These are 17 year facilities, and have a final maturity date in 2028.
- £50m from Partnership Assurance provided through an innovative structure against certain of the group's retirement solutions assets, non-recourse to the rest of the group. This facility is repayable on a property-by-property basis as the assets are sold on vacancy, with interest rolling up. Thus the facility exactly matches the cash flow characteristics of this part of the business, with an expected average maturity of 11 years. These funds have been used to reduce the group's core facilities.

We announced on 24 November an agreement for a further £28.6m of debt provided by Partnership Assurance under similar terms to those mentioned above.

The group's existing core facilities were £1,093m on 30 September 2011, of which £927m were drawn. The group had free cash balances plus available overdraft of £48m and undrawn committed facilities of £166m at 30 September 2011. The core facilities have since been reduced to £1,043m, of which £877m were drawn as at 25 November 2011. The new forward start facility of £840m (which will be drawn to replace the existing facilities by 30 September 2012) together with existing free cash balances of £42m (as at 25 November 2011) will enable the group to repay the existing core facilities in the course of the current financial year. We have the flexibility through cash generation and new debt facilities to ensure the group can operate its business as planned and meet its strategic objectives.

Following these refinancings, the group's average effective cost of debt (based on

current LIBOR rates and on current debt hedging of 73%) will be 5.8% (2010: 5.0%).

The business has produced £254m 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 £71m of interest.

At the year end net debt levels had risen from £1,350m in 2010 to £1,454m which is an increase of £104m. The increase mainly comprises the addition of debt through the acquisitions noted above (£255m) offset by the cash generation referred to above net of property acquisitions and capital expenditure which generated in total net cash of £127m, with £28m of debt in Sovereign Reversions moving into a joint venture in the year. Year end net debt of £1,454m is £116m lower than at 31 March 2011 when net debt was £1,570m. The reduction is indicative of the ability of the business to generate very strong cash flows.

At 30 September 2011 gross debt was 73% hedged (2010: 75%) of which 5.0% was subject to caps.

During the year loan-to-value (LTV) on the core facility has fallen to 52% (2010: 54%). This compares to a minimum required LTV covenant of 75%.

At 30 September 2011 the interest cover ratio on the core facility stood at 3.1 times (2010: 2.4 times). This compares to an interest cover covenant of 1.35.



**Mark Greenwood**  
Finance director  
5 December 2011

## Corporate responsibility

“Grainger’s maturing approach is evidence of our commitment to being a CR leader within the UK residential sector.”

### Chief executive statement

Grainger is making strides towards being a Corporate Responsibility (CR) leader in the UK residential sector. The Executive Team and I strongly believe, and our stakeholders agree, that CR leadership is a hallmark of business resilience and maturity.

Over the last three years we have laid a solid foundation for integrating CR into the working practices of our long-established business. Key achievements during 2010/11 include estimating the carbon footprint of a large portion of our UK residential portfolio and making CR business as usual through benchmark performance measures. We demonstrate our commitment to transparency by improving our level of CR disclosure and actively engaging with stakeholders, from industry bodies, to tenants and contractors. 88% of the applicable 2010/11 CR targets that we committed to are fully achieved or are in progress.

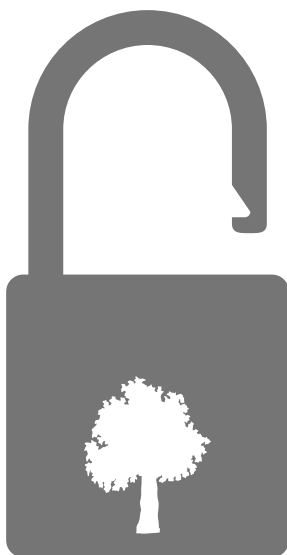
Our focus for the year ahead is on making sure our CR programme is embedded across all of our business activities. We are committing to ambitious targets in new areas of our business that will deliver economic, social and environmental value. In 2011/12, each executive board member will take responsibility for the delivery of a pillar of our strategic CR framework ETHOS<sup>1</sup>, driving our CR activities from the highest levels.

I am proud to report the progress we’ve made during 2010/11 and the direction Grainger plans to take over 2011/12.

As always, I welcome your comments and feedback.



**Andrew R Cunningham**  
Chief executive  
5 December 2011



<sup>1</sup> Please see our full CR report or our dedicated CR website [www.graingercr.com](http://www.graingercr.com) for more information.





**Top:** Grainger staff volunteer at the Vauxhall City Farm, London



**Bottom:** Grainger tenant, Acklington village, Northumberland

## Risks and opportunities

### 2011/12 Risks

Grainger regularly considers the changing landscape of sustainability risks and opportunities and has identified the following as key areas to manage.

- Legislation:** Climate change and environmental issues are set to continue to rise up the political agenda in the coming years. There is potential for there to be significant impact on our business through having to meet increasingly stringent legislative requirements. It is our intention to engage with Government to ensure that policy is appropriate for the private rented sector and that Government understands the complexities that varying tenure types and tenant demographics will have upon the likelihood of successfully improving the energy efficiency of existing housing stock.
- Physical:** Rising temperatures are seen as inevitable. 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, subsidence, increased weathering and other physical impacts such as damage to infrastructure. We already take some of these factors into account in our acquisition activities, though the time horizon for analysis varies. This year we intend to publish details of our processes and policies in this area.
- Energy costs:** Rising fossil fuel based energy costs have direct financial implications for companies and are also likely to impact customer demand for less energy-efficient housing in some markets. Energy efficiency information, such as Energy Performance Certificates, is expected to increasingly influence buying and renting decisions. We are committed to ensuring that we fully understand these impacts on our various portfolios and to transparency in our reporting.
- Reputation:** Stakeholders' expectations of how effectively and transparently Grainger manages its environmental and socio-economic impacts continue to grow. For investors in particular, it is important to demonstrate maturity by reporting meaningful metrics that link CR to business performance.



## Corporate responsibility continued

### 2011/12 Opportunities

Grainger proactively seeks opportunities to distinguish itself from its peers and to future-proof our assets in order to protect asset value and secure a long-term income stream for the business.

- **Legislation:** As the UK's largest listed residential landlord, we are in a unique position to actively engage with the Government, directly and through industry bodies. Grainger can influence and shape future sustainability policy to ensure it is both practical and cost-effective.
- **Physical:** If developed in partnership with industry, current Government proposals relating to minimum energy efficiency standards and the Green Deal, for example, offer Grainger a significant opportunity to upgrade our properties using third party funding.
- **Reputation:** Community engagement and investment are central to the planning process and are likely to become even more so with the Localism Bill. A proactive approach can win the trust and respect of stakeholders, increasing success with planning applications and attracting potential employees. With operations across the UK, Grainger's procurement policies can stimulate local economies. This year we are seeking to understand the make-up of our contractor base from a local vs. national supplier perspective.

- **Energy costs:** Externally, CR factors such as energy performance are increasingly valued into residential properties and investment is available to those companies that demonstrate strong leadership. Demand for high quality rented housing from tenants able to exercise choice is likely to rise as an increasing percentage of the UK population rent rather than buy.

These risks and opportunities should be viewed in the context of our risk disclosure on pages 39 to 41.

### Governance

The operations board maintains overall responsibility for CR – managing the risks associated with the delivery of our strategic objectives across multiple business units. It consists of the management team leading each business unit and shared service teams. Our chief operating officer chairs the monthly operations board meeting and reports on its activities to the main board of directors on a quarterly basis. From 2011/12, each executive board member will take responsibility for a pillar of our ETHOS strategy, driving CR from the highest levels. In 2010, we established the Green Projects Group to manage the opportunities and threats to Grainger arising from climate change. Chaired by our chief operating officer, this group is an example of how we are embedding our CR strategy further into the business.

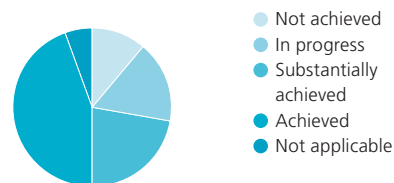
Specific target delivery is assigned to individuals and teams throughout Grainger and is now integrated into individuals' personal objectives each year. The operations board reviews progress against targets at least quarterly.

### 2010/11 Performance

In 2010/11, we set targets across all components of our sustainability strategy, aligning impact areas and business priorities through our ETHOS pillars.

A number of 2010/11 targets were in progress as of 30 September 2011. We will continue to work towards the achievement of all targets that were not completed this year.

### 2010/11 performance



## 2010/11 Grainger target performance summary by strategic focus

### 2010/11 Targets

Influencing the future	Protecting assets and income	Driving efficiency	Investing in communities & places	Responsibility to stakeholders
Identify the key sustainability policy issues presenting risks and opportunities for Grainger and develop Grainger policy positions.	Carry out sustainability assessments of a sample of properties and use to model portfolio carbon footprint and sustainability risks.	Update and further develop Grainger's Eco-Champions Action Plan based on two years of practical experience and best practice standards. Integrate with the Eco-Champions KPIs tracked in previous years to establish an overall standard for each office to achieve or beat this year.	Report on how each active development has incorporated consideration or development of renewable energy. Embed consideration of renewables into the acquisition, design and planning stages of development.	Align the 2010/11 report to GRI Standard level C.
Engage with Government and other stakeholders on key sustainability policy issues identified.	Carry out an analysis of which properties could take advantage of FITs, and which technologies are most suitable. Consider a pilot scheme.	With a view to reducing carbon emissions by 5% from 2009/10 levels, undertake an internal awareness campaign.	Identify a number of relevant benchmark KPIs that are most important to Grainger in driving sustainability for the development department. Identify the levels Grainger will aim to beat or achieve and add those for end of year reporting.	Conduct health and safety audits for 100% of Grainger's managing agents.
Building on existing initiatives, produce a responsible procurement framework to cover property services, refurbishment and new development.	Establish a customer engagement programme by 2011 (focusing specifically on sharing environmental information and on community improvement initiatives).	Provide Property Services with an internal quality management system.	Identify a number of relevant benchmark KPIs that are most important to Grainger in driving sustainability for the refurbishment department. Identify the levels Grainger will aim to beat or achieve and add those for end of year reporting.	Conduct health and safety audits for 100% of Grainger's contractors undertaking projects under CDM regulations.
	Investigate tenure specific customer satisfaction indicators. Where appropriate indicators are identified, report on these at the end of the year.	Report carbon emissions from common area electricity usage in a sample of flat blocks based on quarterly meter readings.		Implement a programme of activity to improve employee health and well-being in order to boost morale.

- Achieved
- Substantially achieved
- In progress
- Not achieved
- Not applicable

## Corporate responsibility continued

### Notable achievements and activities – carbon emissions

Grainger's first attempt to rigorously quantify and publish the carbon impact of its tenants' building-related energy use was completed this year. We have produced a statistical estimate (95% confidence level) of the carbon footprint of two major portfolios, being UK residential (excluding Grainger GenInvest) and G:res.

Our modelling, based on data taken from Energy Performance Certificates, showed that UK residential (excluding Grainger GenInvest) homes in use contribute approximately 37,000 tonnes of CO<sub>2</sub> per annum (+/- 3,000 tonnes). A majority of these properties are subject to regulated tenancy. G:res, primarily market-led units contributed 5,000 tonnes (+/- 120 tonnes). In contrast, Grainger's own offices and travel generate only approximately 677 tonnes CO<sub>2</sub>e.

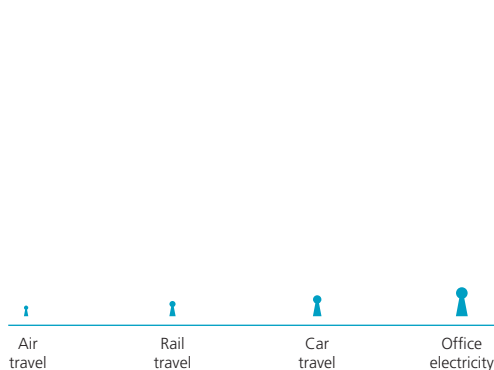
UK residential includes distinct property types. The majority of the units (5,700), on average, produced annually 5.7 to 6.7 tonnes of CO<sub>2</sub> each. However, a distinct subgroup of the portfolio of 550 units, is much more efficient, producing on average just 2.5-2.7. The G:res portfolio is also fairly efficient on average with carbon emissions of 3.0 to 3.2 tonnes per unit. That CO<sub>2</sub> from most UK residential units is, on average, twice that of the average G:res unit, clearly demonstrates the difference between property types within the two portfolios. UK residential figures are in line with estimates for average

housing stock in England (English Housing Survey). Grainger's UK residential portfolio is a fair proxy for the houses which Government aims to increase the efficiency of by 2020 (UK Climate Change Act 2008).

Grainger's understanding of the complex interaction between tenure type, tenant demographics and the market demand for various energy efficiency incentives, gives us a strong and credible basis to engage Government and others on shaping energy efficiency legislation and modelling its likely impact.

### Relative annual estimated carbon emissions of Grainger's business activities (CO<sub>2</sub>e) and emissions of portfolios it owns or manages (CO<sub>2</sub>)<sup>1, 2</sup>

#### Grainger business activities



#### Residential Portfolios



<sup>1</sup> CO<sub>2</sub> emission predictions provided by Energy Performance Certificate include heating, lighting and hot water. CO<sub>2</sub> from appliances such as ranges, refrigerators, televisions are not included in the calculation of building related emissions.

<sup>2</sup> The chart shown here illustrates the central estimate of emissions for Grainger's portfolio and does not include the full confidence interval range referenced in the text.





Over the next year we intend to further improve the quality and quantity of the data that we can capture, to refine our model and to explore ways to extend our modelling to other portfolios, particularly those within Retirement Solutions. We will also seek to use this data to engage with stakeholders and Government to understand and influence thinking in this vital area.

We continue to measure and report on the carbon emissions associated with our operations, including travel. Our office

and business car travel are by far the most significant areas of operational impact that we measure.

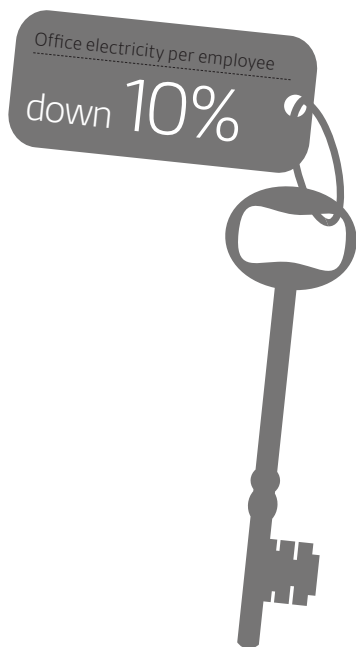
Grainger has a Green Travel Policy to reduce carbon emissions associated with business travel wherever possible. We will continue to promote this policy and green office practices among staff during 2011/12 to reduce our carbon impact. We also conducted a Green Travel Survey among staff during 2010/11 and will use the results to identify areas where Grainger could encourage the use of green forms of transport.

#### From 2009/10 to 2010/11

Measure	Progress
• Carbon emissions from office electricity	Carbon emissions from office electricity consumption increased marginally by <b>1%</b> .
• Annual electricity consumption	We are proud to note that four out of our seven offices achieved reductions in annual electricity consumption. For example, our Frankfurt and Putney offices managed reductions of <b>10%</b> and <b>5%</b> respectively.
• Carbon intensity per employee	We reduced our carbon intensity related to office electricity (per employee) by <b>10%</b> between 2009/10 and 2010/11 (employee numbers increased 12%).
• Carbon emissions from travel	Emissions associated with air, rail and car travel rose, air and car by over <b>10 tonnes</b> each.
• Efficiency of car fleet	Average efficiency of our fleet cars increased by <b>8%</b> .



## Corporate responsibility continued



### Carbon emissions<sup>1</sup>

Source	2007/8	2008/9	2009/10	2010/11
Tonnes of carbon emissions (CO <sub>2</sub> e) from office electricity consumption (lighting and small power) <sup>2</sup>	329	309	350	<b>352</b>
Tonnes of carbon emissions (CO <sub>2</sub> e) from energy use in common parts of residential portfolio	Not measured	Not measured	49	<b>Not measured</b>
Tonnes of carbon emissions (CO <sub>2</sub> e) from air travel	62	31	23	<b>35</b>
Tonnes of carbon emissions (CO <sub>2</sub> e) from rail travel	13	26	37	<b>41</b>
Tonnes of carbon emissions (CO <sub>2</sub> ) from car travel	Not measured	Not measured	228	<b>249</b>
Average carbon emissions level of cars in Grainger's fleet (g/km)	155	139	146	<b>134</b>

<sup>1</sup> Detailed data notes for carbon emission calculations are available in our online CR report, available at [www.graingercr.com](http://www.graingercr.com).

<sup>2</sup> All office electricity CO<sub>2</sub> figures prior to 2010/11 have been recalculated using the same emissions factor from DEFRA 2011 guidance to highlight energy efficiency changes in Grainger's operations.

## Notable achievements – other areas of performance and benchmark KPIs

### Protecting assets and income

- Our customers are increasingly satisfied with the repairs service provided by our contractors, both in terms of punctuality and overall level of service.

### Driving efficiency

- We reduced our annual electricity consumption at four out of our seven offices between 2009/10 and 2010/11 and our carbon intensity (per employee) by 10%.

### Investing in communities and places

- The number of staff involved in volunteering activities in company time doubled from 31 to 60.
- Grainger and staff donated £55,548 to charitable causes in 2010/11, even higher than our record value of £50,785 in 2009/10.

### Responsibility to stakeholders

- Over half of our technical or professional positions are filled by women and the percentage of senior management positions filled by women continues to increase (8% in 2007/08 and 16% in 2010/11).
- Grainger invested £625 in training per employee in 2010/11, lower than during our training drive in 2009/10, but higher than in 2007/08 and 2008/09.

- Almost all staff rate Grainger as a good employer, with 72% describing the company as extremely or very good.
- No reportable health and safety accidents or incidents among our employees, contractors or subcontractors.
- No health and safety fines or pollution incidents in the last year.

### CR focus areas for next year

- Investigating our CR impact through the supply chain.
- Continuing to embed CR across all business lines and at all levels.
- Influencing Government legislation and thinking regarding availability and sustainability of housing.
- Increasing our awareness of customer satisfaction through surveys and complaints procedure.
- Using our Centenary as a platform to increase impact of community based activities, particularly charitable giving and our work in Newcastle and to increase awareness of Grainger's capability to contribute to issues regarding the future of the residential sector – Grainger = Residential.
- Minimising the environmental and community impact of our active developments as schemes and major refurbishments get underway in 2011/12.

## Advisor's statement

Upstream Sustainability Services, part of Jones Lang LaSalle, has advised Grainger plc on its Corporate Responsibility strategy for several years. This programme of work includes helping Grainger set its CR targets, and assessing target achievement at year end.

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 company's financial year (1 October 2010 – 30 September 2011). 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:

- Face-to-face meetings and telephone interviews with Grainger representatives responsible for target delivery.
- Detailed review of documentation and information submitted by Grainger and collected by Upstream over the year.

## Corporate responsibility continued

Each target is rated for achievement, based on the evidence received to validate completion. Upstream makes the following specific findings:

- The percentage of applicable targets either fully or partially achieved during 2010/11 was in line with 2009/10 at 88%.
- However, the percentage of applicable targets that Grainger fully achieved dropped from 70% in 2009/10 to 44% in 2010/11. Seven targets are currently in progress, although it is important to note that four of these are substantially achieved.
- Grainger performed well in the area of 'Influencing the future', achieving the two applicable targets. The sustainable procurement target was deemed not applicable due to Grainger's decision to adopt a case-by-case approach and use existing frameworks where appropriate.
- Under 'Protecting assets & income', Grainger's success this year in modelling the carbon footprint and sustainability risks of its UK residential portfolio is a significant achievement.
- The two 2010/11 targets that were not achieved sat within the 'Driving efficiency' pillar. Grainger has decided not to pursue an internal quality management system, as there is insufficient business need. However, Grainger has re-set itself a 2011/12 focus on the collection of electricity readings for the common parts areas of its flat block properties.

- Grainger aligned its CR report with GRI Level C this year. Grainger continues to increase transparency to gain the trust of its stakeholders.

Looking ahead to 2011/12, Upstream recommends that Grainger pay particular attention to its customer satisfaction ratings. Tenant satisfaction is a vital CR area for the business but has suffered during 2010/11.

Grainger aspires to be a Corporate Responsibility leader in the UK residential sector. Most of the company's global warming impact is from tenants living in Grainger's homes. We particularly commend the company for estimating the carbon footprint of its buildings from tenant use. Establishing a baseline is crucial to managing carbon emissions improvements. We eagerly look forward to how Grainger will use this data to drive change internally and in the wider residential sector.

Upstream fully recognises the resource challenges that Grainger faced during 2010/11 and commends the progress made in CR given the increased work load of property management staff in particular. Aligning Grainger's annual targets to its commercial priorities will continue to be essential in an ambitious, growth-oriented business where staff have many demands on their time.

Grainger has completed the first stage of the sustainability journey successfully, putting in place a strong foundation of CR policy and reporting. The next step is to win the hearts and minds of Grainger employees beyond the committed core who have driven CR achievements to date. We are encouraged that engagement with and support for the implementation of the CR strategy grew in the last year. Accountability is increasing throughout the business with the addition of CR targets into performance agreements. Executive board members are providing further momentum by taking responsibility for the success of each ETHOS pillar.

We look forward to seeing Grainger actively manage and increase business value from CR through its ambitious 2011/12 targets, which are clearly linked to core business strategy.

**Lora Brill**  
Senior sustainability consultant

**Jones Lang LaSalle,**  
Upstream Energy and Sustainability Services

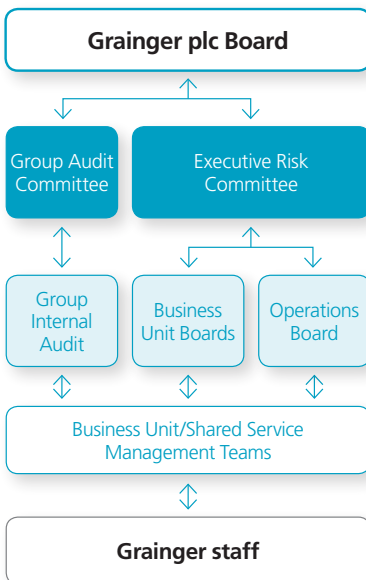
5 December 2011



## Risk management

Risk management facilitates business decision-making based on structured judgements.

### Risk reporting framework



Risk is a recognised part of the Group's every day activities. Risk management is viewed as the systematic identification and treatment of those risks that pose a threat to our business, people, assets, capital and reputation. It is a process used to identify risks across Grainger plc, its subsidiaries and associates (the 'group'). It assesses the potential impact of these risk events and then provides a method for addressing these impacts, to manage and mitigate threats. Risk management is an important component of corporate governance and helps to encourage continuous quality improvement.

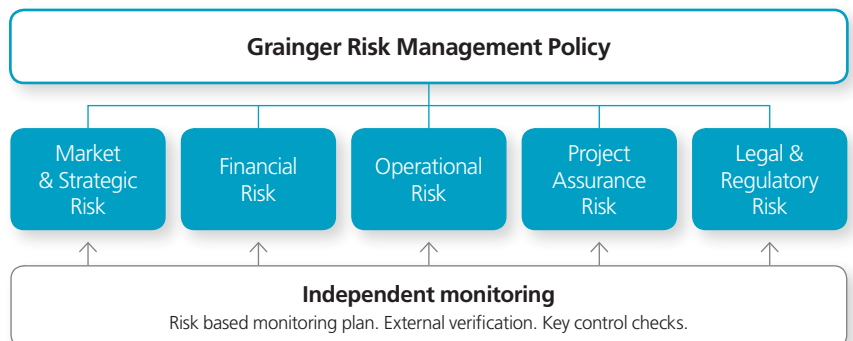
The Grainger plc board is ultimately responsible for the group's risk management framework. It regularly reviews the group's key risks and in the period to the year end date, has been supported in the discharge of this responsibility by various committees, specifically the audit committee and the executive risk committee. Subsequent to the year end a risk committee has been established under the chairmanship of Belinda Richards.

The risk reporting framework enables a two way approach to monitoring and reporting risk across the group.

The overall aim of risk management is to enable the business to base all material business decisions on judgements by competent people reached following a structured and documented review. The Risk Management Framework has been designed to support this policy and to incorporate the full range of risks faced across the group.

A categorisation of risk has been adopted to enable a rigorous and comprehensive approach to risk assessment. The categorisation adopted is intended to be relatively simple and easy to use and to best reflect the characteristics of the group and the risks it faces. Risks are categorised as Market & Strategy, Project Assurance, Operational, Financial and Legal & Regulatory. Responsibility for each risk category is assigned to one of the four executive directors.






### Risk management framework



## Risk management continued

### Principal risks

The principal risks faced by the Group are:

Risk and executive lead	Description and relevance to strategy	Mitigation and management action	Change in Net Risk in year
<b>Market &amp; Strategic Risk</b> Andrew Cunningham	Long term flat or negative House Price Inflation depresses income from sales.	<ul style="list-style-type: none"> <li>Rebalance owned portfolios towards areas of higher economic growth.</li> <li>Grow non-HPI dependent income streams.</li> </ul>	
	A rapid further decline in house prices and/or mortgage availability increases difficulties in maintaining sales income.	<ul style="list-style-type: none"> <li>Continue to grow alternative income streams.</li> <li>Focus sales on markets that are not mortgage dependent.</li> <li>Regular scenario planning and active management of debt levels.</li> </ul>	
<b>Financial Risk</b> Mark Greenwood	Limited availability of further capital constrains the growth of our business.	<ul style="list-style-type: none"> <li>Cash flow and funding needs are continuously monitored to ensure sufficient headroom available.</li> <li>Ongoing area of strategic priority, particularly building on our successful refinancing strategy and focusing on reducing our requirement for debt in the near to medium term.</li> </ul>	
	A significant misappropriation or fraud could damage the financial performance of the group and its reputation.	<ul style="list-style-type: none"> <li>Policies and procedures designed to control risk are in place and regularly monitored.</li> <li>New Bribery and Corruption policy and procedures introduced.</li> </ul>	
<b>Operational Risk</b> Peter Couch	Insufficient or inappropriate levels of suitably skilled staff hinder achievement of our strategic objectives.	<ul style="list-style-type: none"> <li>A comprehensive review of our remuneration structures and benchmarking against external markets has been carried out this year.</li> <li>Performance management procedures and annual appraisals are in place for all staff.</li> <li>Long-term incentive schemes for senior staff and opportunities for all staff to become equity owners through SIP and SAYE schemes.</li> </ul>	

Risk and executive lead	Description and relevance to strategy	Mitigation and management action	Change in Net Risk in year
<b>Operational Risk</b> continued	Inadequate assessment of and action planning for health and safety risks.	<ul style="list-style-type: none"> <li>We have dedicated and experienced Health and Safety staff to implement the company's management procedures, which include regular risk assessments and audits to pro-actively address health and safety risks areas including health and safety risks affecting our staff, contractors and tenants.</li> </ul>	
	Key third party contractor/supplier failure may lead to business disruption, additional costs and operational risks.	<ul style="list-style-type: none"> <li>Monitoring of supplier and subcontractor performance through regular assessments, market testing and maintenance of alternative sources of supply.</li> <li>We conduct extensive initial checks on new suppliers in accordance with their strategic importance to the company.</li> </ul>	
<b>Project Assurance Risk</b> Andrew Cunningham	Projects fail to deliver expected benefits through poor initiation or management.	<ul style="list-style-type: none"> <li>Project initiation is subject to appropriate governance and business case controls. Ongoing progress and management monitored at project and Operational Board level. Lessons learned exercises carried out on all projects prior to formal closedown.</li> </ul>	
<b>Legal and Regulatory Risk</b> Mark Greenwood	Significant regulatory changes may impact on the value of the group's assets, its strategy and profitability.	<ul style="list-style-type: none"> <li>Grainger is an active member of groups and committees (BPF, HBF, EPRA, CBI etc) which seek to influence Government and EEU policy.</li> <li>In-house teams (legal, compliance, corporate affairs etc) are tasked with identifying changes in legislation and regulation in order to identify potential impact and if necessary initiate lobbying activity.</li> </ul>	

We monitor the status of each of our principal risks and identify whether the net risk has increased, decreased or remains unchanged from last year. Net risk refers to the likelihood and impact of the risk after mitigating actions have been taken.

 No change in Net Risk     Increased Net Risk     Decreased Net Risk

## The Grainger board



**Robin Broadhurst\*** CVO, CBE, FRICS  
Chairman. Aged 65

Robin joined the board in February 2004 and was appointed chairman in February 2007. Previously European chairman of Jones Lang LaSalle, he is now a trustee and non-executive director of Grosvenor, property consultant to Sir Robert McAlpine Limited and a non-executive director of the British Library and Chelsfield Partners.

**Committee membership:**

Chairman of nominations committee.



**Andrew R Cunningham** FCA  
Chief executive. Aged 55

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 PricewaterhouseCoopers before joining Grainger. Andrew is a member of the British Property Federation's Policy Committee.



**Mark Greenwood** FCMA  
Finance director. Aged 52

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 by Carillion. From 2008 to 2010 Mark was finance director of the Middle East and North Africa business of Carillion plc.



**Robert R S Hiscox\*** ACII  
Aged 68

Robert was appointed a director of the company in March 2002. He is chairman of Hiscox Limited and was deputy chairman of Lloyd's from 1993 to 1995.

**Committee membership:**

Member of nominations and remuneration committees.



**John Barnsley\*** FCA  
Aged 63

John was appointed a director of the company in 2003. He is a non-executive director of Northern Investors Company plc, American Appraisal Associates LLP and LMS Capital plc and the chairman of Westover Medical Limited. Until December 2001 he was a senior partner at PricewaterhouseCoopers.

**Committee membership:**

Senior Independent Director, chairman of audit committee and member of nominations committee.



**Henry Pitman\***  
Aged 49

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

**Committee membership:**

Member of remuneration committee.

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### Nick Jopling

Executive director. Aged 50

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.



### Peter Couch

Executive director. Aged 53

Peter Couch was appointed to the board as executive director responsible for Grainger's retirement solutions business in June 2010. He also acts 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.



### Baroness Margaret Ford\*

Aged 53

Margaret was appointed a director of the company in July 2008. She has, since 2009, been the chairman of the Olympic Park Legacy Company. From 2007 to 2009, she was a managing director in the Royal Bank of Canada's Global Infrastructure Group and between 2002 and 2007 was chairman of English Partnerships.

**Committee membership:**

Member of audit committee and chairman of remuneration committee.



### Belinda Richards\*

Aged 53

Belinda was appointed a director in April 2011. Prior to joining the board she was Global Head of Deloitte's Merger Integration and Separation Advisory Services. She is also a non-executive director of Friends Life Group plc.

**Committee membership:**

Member of audit and remuneration committees. Chairman designate to risk committee.



### Tony Wray\*

Aged 50

Tony was appointed a director in October 2011. He has been the Chief Executive of FTSE 100 water company Severn Trent plc since 2007.

**Committee membership:**

Member of audit committee.

# Corporate governance report

## Compliance with the UK Corporate Governance 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 UK Corporate Governance Code (the 'Code'), published by the Financial Reporting Council. The board fully supports the principles set out in the Code and confirms that it has complied with all of the provisions of the Code throughout the financial year ended 30 September 2011.

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 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](http://www.graingerplc.co.uk) or from the company secretary on request.

## Board composition, structure and roles

At the date of this report the board consists of a non-executive chairman, the chief executive, the chief operating officer, the property director, the finance director and six non-executive directors.

Bill Tudor John resigned as a non-executive director on 9 February 2011.

Belinda Richards was appointed to the Board as an independent non-executive director on 05 April 2011 and Tony Wray was appointed as an independent non-executive director on 24 October 2011.

Referring to the findings of the Davies Report 'Women on Boards' we have over the last three and a half years appointed two women to the board as non-executive directors. As at 30 September 2011 33% of the non-executive directors and 20% of the total board were women. We would expect to at least

maintain these levels over the next few years subject always to there being suitable directors with the appropriate quality available.

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.

All of the non-executive directors are considered by the board to be independent.

We are aware that, for some investors, length of non-executive director's service beyond nine years will prejudice their independence.

Robert Hiscox who will be retiring from the board at the AGM in February 2012 has served as a director since March 2002 and John Barnsley, the senior independent director, has served on the board since February 2003.

The board believe that both Robert Hiscox and John Barnsley continue to exercise a degree of rigorous enquiry and intellectual challenge in respect of their roles as non-executive directors and as such continue to regard them as independent.

Their continuity of service has been, and continues to be of considerable benefit to the company through a period of significant change in both the executive and non-executive directors and provides an important knowledge link with the past and an in-depth understanding of the company which is considered to be highly beneficial to the board. Further, this enhanced duration of service is complimentary to the longer term business cycle applicable to the Grainger business model.

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 pages 42 and 43.

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](http://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 and is responsible for ensuring a constructive relationship between executive and non-executive directors and for fostering a culture of challenge and debate in the boardroom.

The chief executive is responsible for running the business and implementing the board's decisions. All executive directors report to him. Peter Couch, the group's chief operating officer, is 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 which also includes the finance and property directors.

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 the company's 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](http://www.graingerplc.co.uk) or from the company secretary on request. The non-executive directors meet periodically without the executive directors present. There were two such meetings in the year and an additional meeting of the non-executive directors without the chairman or the executive directors present.

Bill Tudor John was the senior independent director until his retirement from the Board at the AGM on 09 February 2011, when he was replaced as senior independent director by John Barnsley. The senior independent director 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. The senior independent director leads the annual performance review of the chairman.

### Meetings

There were six 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.

Three 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 three of the board meetings were held in the company's offices in Knightsbridge. The meeting on 28 June 2011 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.

All directors attended all board meetings during their relevant periods of office except for Robert Hiscox, Baroness Margaret Ford and Belinda Richards who were each not present at one meeting.

### Information Flow

The chairman, together with the company secretary, ensures that the directors receive clear 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.

## Corporate governance report continued

### Time commitment

The board is satisfied that the chairman and each of the non-executive directors committed sufficient time during the year to enable them to fulfil 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.

Belinda Richards was appointed in the year and received a comprehensive, tailored induction to the company. This consisted of the provision of a corporate handbook covering such items as matters reserved for the board, division of responsibility between the chairman and chief executive and the terms of reference of the various board committees as well as individual sessions with members of the senior management team. Belinda Richards was also taken on a property tour to enable her to see some of the company's properties – ranging from the core regulated portfolio through to some of the development activities.

Tony Wray is undertaking a similar induction process.

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

In previous years the board has undertaken formal evaluations, led by the chairman, of the performance of its board, its committees

and its individual directors. The 2011 review was undertaken by Independent Audit Limited (Independent Audit), an independent firm of consultants who specialise in board performance and corporate governance and who were appointed to undertake a thorough independent review of the board and its committees. The process involved a review of information provided to the board and committees followed by confidential interviews with the directors, the company secretary together with senior members of the management team, and observation of a board meeting and meetings of the remuneration, audit and nominations committees.

Independent Audit's report concluded that there was considerable evidence to show that the board and its committees are effective. Areas which will be developed further over the coming year include:

- Strategic messaging
- Risk related work
- Succession planning
- Board information

The board and its committees will monitor progress and continue their critical review of its effectiveness during the year ahead.

In accordance with the prevailing provisions of the Code, it is the current intention of the board that external facilitation of the board evaluation will be carried out every three years.

### Re-election of directors

Notwithstanding that the company's articles of association require the directors to offer themselves for re-election at least once every three years, in accordance with the recommendations of the Code all of the directors (except for Robert Hiscox) will be offering themselves for re-election at the Annual General Meeting in February 2012.

In light of the performance evaluations summarised above and the provisions of the company's articles of association, the board recommends that all of the directors be re-elected.

### Board committees

The board delegates some of its activities to the following committees each of which have written terms of reference, which are available on the company's web site, and which report back to the board. The company secretary acts as secretary to each of these committees.

### Audit committee and auditor independence

The audit committee comprised John Barnsley as chairman, Baroness Margaret Ford and one other non-executive director



for most of the year. Bill Tudor John was a member of the audit committee up to 09 February 2011 when he retired from the board. Belinda Richards and Tony Wray became members of the committee on 5 April 2011 and 22 November 2011 respectively.

The audit committee met four times in the year, in each case with all members of the committee present save that Bill Tudor John did not attend the meeting in November 2010. Both John Barnsley and Belinda Richards have the particular recent and relevant financial experience required by the Code.

In addition to the work referred to in the section 'Internal Control' below, 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.

The audit committee give careful consideration before appointing the auditors to provide non audit advice and regularly use other providers to ensure that independence and full value for money are achieved. £317,000 was paid to PricewaterhouseCoopers LLP for such services, the main element of which was £185,000 relating to financial due diligence work on acquisitions during the year. These fees were one-off in nature and are not expected to reoccur.

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

The audit committee reviewed the company's whistleblowing 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 risk and taxation. 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 audit committee meets with management without the auditors present and also with the auditors without management present.

#### Remuneration committee

The remuneration committee comprises four independent non-executive directors. Baroness Margaret Ford (chairman), Robert Hiscox, Henry Pitman and Belinda Richards. Belinda Richards joined the committee in May 2011.

The committee's main duties are to determine the basic salary, taxable benefits, terms and conditions of employment, including performance related payments, share options and pension benefits of the executive directors.

The committee is also responsible for the operation of the company's share options schemes and for monitoring the framework for the policy on, and levels of remuneration of the company's senior management.

## Corporate governance report continued

A separate executive directors' committee sets, after discussion with the chairman, the fees of the non-executive directors.

The report of the remuneration committee is set out on pages 50 to 56.

### Nominations committee

The nominations committee comprises Robin Broadhurst (chairman), John Barnsley and Robert Hiscox. John Barnsley joined the committee on 09 February 2011. Bill Tudor John was a member until 09 February 2011 when he retired from the board at the Annual General Meeting.

The nominations committee reviews the size, balance and constitution of the board, formulates plans for succession for both executive and non-executive directors and recommends to the board as to whether directors retiring by rotation should be nominated for re-election by the members.

Appointments to the board are recommended following an effective search, interview and evaluation process based on objective criteria.

The nominations committee meets as is necessary and met twice during the year under review

### Risk committee

Subsequent to 30 September 2011 it has been agreed to set up a risk committee under the chairmanship of Belinda Richards. Risk had previously been overseen by the audit committee.

### 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 out-turn 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.

### 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 and Mark Greenwood, chief executive and financial director respectively, have had the vast majority of these meetings and manage 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.

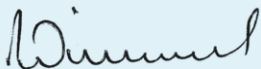
#### Share capital

Details of the major interests in the company's share capital are provided in the directors' report on page 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



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**Michael Windle**  
Company Secretary  
5 December 2011

# 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 currently comprises four independent non-executive directors, Baroness Margaret Ford (chairman), Robert Hiscox, Henry Pitman and Belinda Richards.

Belinda Richards joined the committee on 17 May 2011.

The remuneration committee met formally four times during the year. In each case with all members present save that Robert Hiscox did not attend the meeting in February 2011. 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 Long Term Incentive Scheme ('LTIS'). 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' share options and share awards are shown on pages 55 and 56 respectively and their shareholdings are shown within the table in the Directors' report on page 57. 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 and long-term share incentives; option schemes and other 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 remuneration committee also review the total level of salaries and bonuses paid to the group as a whole.

## Service contracts

Contract dates and unexpired terms for the directors as at 30 September 2011 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	17 months	3 months
John Barnsley	27 February 2003	5 months	3 months
Robert Hiscox	6 March 2002	5 months	3 months
Henry Pitman	1 May 2007	17 months	3 months
Baroness Margaret Ford	3 July 2008	29 months	3 months
Belinda Richards	5 April 2011	28 months	3 months

\* Calculated as at 30 September 2011 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 three-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 an approved 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. It was decided for the years commencing 1 October 2010 and 2011 respectively that the executive directors would receive no increase in their basic salaries, in light of market conditions. 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 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

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

Nick Jopling and Mark Greenwood will be eligible to participate in the SIP once they have been employed for the requisite period of eighteen months.

Amounts relating to directors' participation in the SIP and share options under the SAYE scheme are shown on pages 54 and 55.

## PERFORMANCE-RELATED REMUNERATION

As should be expected and in accordance with the Code, a significant element of executive directors' and senior management's potential remuneration is performance related. The combination of short and long-term incentives attempts 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.

### Revised arrangements for incentive schemes

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

Following this review the committee 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 set out below.

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.

### Annual cash bonus

Under the new annual bonus scheme that was introduced this year 75% of the performance measure was based on the following two financial measures – operating profit before valuation and return on shareholders' equity. The remaining 25% of the performance measure was based on an assessment of personal performance.

The assessment of the personal performance for the chief executive is undertaken by the chairman and for the other executive directors by the chief executive.

The maximum potential bonus for the chief executive is capped at a multiple of 150% of salary with the other executive directors maximum bonus being capped at 125% of salary.

Following an assessment of all of the above measures the total bonuses payable relative to their salary for the executive directors were 75% for the chief executive and 60% for the other directors.

## Report of the remuneration committee and directors' remuneration report continued

### Unwinding of previous bonus scheme

Up to the financial year ending 30 September 2010 Andrew Cunningham had participated in an arrangement introduced in 2003 whereby each year a notional provisional bonus amount was calculated by reference to the enhancement of the triple net asset value of Grainger, relative to a theoretical market comparator. The comparator movement was calculated with regard to the Nationwide and Halifax house price indices and also interest rates – using five-year swap rates.

The calculated amount was aggregated with the unpaid notional amounts from previous years and each year the remuneration committee considered the appropriate proportion, if any, of this aggregate notional sum to be approved for payment. The notional balance after any approved payment remained to be taken into account over future years. The maximum amount that could be transferred into the pool in any one year was 150% of salary and this could only be achieved under exceptional performance conditions.

As at 30 September 2010 the balance in the notional bonus pool stood at £545,621.

Following the review of bonus arrangements the remuneration committee agreed to close this bonus scheme and to replace it with an annual bonus scheme with the balance of the bonus pool, which had already been approved by the remuneration committee in previous years, being paid to Andrew Cunningham in five equal tranches between 2011 and 2015. The first payment of £109,124 was made in March 2011, reducing the balance in the pool at 30 September 2011 to £436,497.

### 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 LTIS was approved by shareholders in February 2007 and makes conditional awards of shares to reward performance and retain key staff over rolling three-year periods.

The awards are based upon the absolute levels of increase in both NNNAV and TSR. Up until 2010 two-thirds of the award was based on the absolute level of increase in NNNAV and one-third on the increase in absolute TSR, however, following the review of remuneration arrangements referred to above, the awards are with effect from 1 October 2010 now split equally between NNNAV and TSR, with the TSR target range having been adjusted from 8% – 16% to 5% – 15%, 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 period	Percentage of the TSR proportion of an award which will vest
TSR being less than or equal to 5% (previously 8%) compounded per annum, equivalent to 15.76% (previously 25.97%) growth in total over the TSR performance period.	0%
TSR being equal to or greater than 15% (previously 16%) compounded per annum, equivalent to 52.08% (previously 56.09%) growth in total over the TSR performance period.	100%
Between 5% compounded per annum and 15% 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 are able to 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 and/or development focused.

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

The initial conditional awards under the reviewed basis were made on 26 November 2010 with the awards made in the previous financial year having been made on the original basis.

### Total shareholder return

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.



This graph shows the value by 30 September 2011 of £100 invested in Grainger on 30 September 2006 compared with the value of £100 invested in the FTSE 250 Index and in the FTSE 350 Real Estate/Real Estate Investment & Services indices.

— Grainger  
 — FTSE 250 Index  
 — FTSE 350 Real Estate/Real Estate Investment & Services indices

## Report of the remuneration committee and directors' remuneration report continued

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

### Directors' remuneration

Chairman and executive directors	Robin Broadhurst £'000	Andrew Cunningham £'000	Peter Couch £'000	Nick Jopling £'000	Mark Greenwood £'000	Rupert Dickinson £'000	Total £'000
<b>Non-performance-related remuneration</b>							
Salary and fees	140	420	265	325	260	–	1,410
Taxable benefits	–	20	34	16	16	–	86
Share incentive plan	–	6	6	–	–	–	12
<b>Total non-performance-related remuneration</b>	<b>140</b>	<b>446</b>	<b>305</b>	<b>341</b>	<b>276</b>	<b>–</b>	<b>1,508</b>
<b>Performance-related remuneration</b>							
Annual discretionary bonus	–	315	159	195	156	–	825
Unwinding of previous bonus scheme	–	109	–	–	–	–	109
<b>Total performance-related remuneration</b>	<b>–</b>	<b>424</b>	<b>159</b>	<b>195</b>	<b>156</b>	<b>–</b>	<b>934</b>
<b>Total remuneration for the year ended 30 September 2011</b>	<b>140</b>	<b>870</b>	<b>464</b>	<b>536</b>	<b>432</b>	<b>–</b>	<b>2,442</b>
Total remuneration for the year ended 30 September 2010	120	711	234	28	15	26	1,134
<b>Pension contributions into money purchase schemes</b>							
<b>Year ended 30 September 2011</b>	<b>–</b>	<b>58</b>	<b>41</b>	<b>49</b>	<b>34</b>	<b>–</b>	<b>182</b>
Year ended 30 September 2010	–	66	14	4	3	–	87

Non-executive directors	John Barnsley £'000	Baroness Margaret Ford £'000	Robert Hiscox £'000	Henry Pitman £'000	Bill Tudor John £'000	Belinda Richards £'000	Total £'000	Total all directors 2011 £'000
<b>Non-performance-related remuneration</b>								
Salary and fees	51	47	40	40	17	20	215	1,625
Taxable benefits	–	–	–	–	–	–	–	86
Share incentive plan	–	–	–	–	–	–	–	12
<b>Total non-performance-related remuneration</b>	<b>51</b>	<b>47</b>	<b>40</b>	<b>40</b>	<b>17</b>	<b>20</b>	<b>215</b>	<b>1,723</b>
<b>Performance-related remuneration</b>								
Annual discretionary bonus	–	–	–	–	–	–	–	825
Unwinding of previous bonus scheme	–	–	–	–	–	–	–	109
<b>Total performance-related remuneration</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>934</b>
<b>Total remuneration for the year ended 30 September 2011</b>	<b>51</b>	<b>47</b>	<b>40</b>	<b>40</b>	<b>17</b>	<b>20</b>	<b>215</b>	<b>2,657</b>
Total remuneration for the year ended 30 September 2010	50	39	35	35	46	–	205	1,339



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.

Belinda Richards was appointed to the board on 5 April 2011.

Bill Tudor John retired from the board on 9 February 2011.

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)	Exercise price	Andrew Cunningham		Peter Couch		Nick Jopling		Mark Greenwood		Total	
		30 Sept 2011	30 Sept 2010	30 Sept 2011	30 Sept 2010	30 Sept 2011	30 Sept 2010	30 Sept 2011	30 Sept 2010	30 Sept 2011	30 Sept 2010
<b>Non-performance-related (available to all staff)</b>											
SAYE Scheme											
1 February 2012 to 31 July 2012	37.7p	–	–	25	25	–	–	–	–	25	25
1 February 2014 to 31 July 2014	37.7p	44	44	–	–	–	–	–	–	44	44
<b>Performance-related (conditional awards)</b>											
HMRC Approved Executive Share Option Scheme											
26 November 2013 to 26 November 2020	94.4p	32	–	32	–	32	–	32	–	128	–
		76	44	57	25	32	–	32	–	197	69

The market price of the company's shares at the end of the financial year was 86.6p, and the range of the closing mid-market prices during the year was 86p to 133p.

## Report of the remuneration committee and directors' remuneration report continued

### Directors share awards

Ordinary shares of 5p each  
(thousands)

	Award date	Earliest vesting date	Andrew Cunningham		Peter Couch		Nick Jopling		Mark Greenwood		Total		
			30 Sept 2011	30 Sept 2010	30 Sept 2011	30 Sept 2010	30 Sept 2011	30 Sept 2010	30 Sept 2011	30 Sept 2010	30 Sept 2011	30 Sept 2010	
<b>Non-performance-related – miscellaneous</b>	i	12 Dec 2007	12 Dec 2010	–	–	–	26	–	–	–	–	–	26
<b>Non-performance-related – deferred bonus plan</b>	ii	3 Feb 2010	3 Feb 2011	–	–	<b>90</b>	90	–	–	–	–	<b>90</b>	90
<b>Performance-related (conditional awards)</b>													
<b>Long term incentive scheme</b>													
2007 Scheme (lapsed)	iii	9 Jan 2008	9 Jan 2011	–	284	–	153	–	–	–	–	–	437
2008 Scheme		23 Dec 2008	23 Dec 2011	<b>779</b>	779	<b>429</b>	429	–	–	–	–	<b>1,208</b>	1,208
2009 Scheme		9 Dec 2009	9 Dec 2012	<b>481</b>	481	–	–	–	–	–	–	<b>481</b>	481
2009 Scheme		29 Sept 2010	9 Dec 2012	–	–	–	–	<b>283</b>	283	<b>230</b>	230	<b>513</b>	513
2010 Scheme		26 Nov 2010	26 Nov 2013	<b>667</b>	–	<b>281</b>	–	<b>344</b>	–	<b>275</b>	–	<b>1,567</b>	–
Matching awards (conditional)													
2007 Scheme (lapsed)	iii	9 Jan 2008	9 Jan 2011	–	56	–	31	–	–	–	–	–	87
2008 Scheme		23 Dec 2008	23 Dec 2011	<b>156</b>	156	<b>86</b>	86	–	–	–	–	<b>242</b>	242
2009 Scheme		9 Dec 2009	9 Dec 2012	<b>96</b>	96	–	–	–	–	–	–	<b>96</b>	96
2009 Scheme		29 Sept 2010	9 Dec 2012	–	–	–	–	<b>23</b>	23	<b>10</b>	10	<b>33</b>	33
2010 Scheme		26 Nov 2010	26 Nov 2013	<b>133</b>	–	<b>84</b>	–	<b>39</b>	–	<b>10</b>	–	<b>266</b>	–
				<b>2,312</b>	1,852	<b>970</b>	815	<b>689</b>	306	<b>525</b>	240	<b>4,496</b>	3,213

i This award vested on 12 December 2010. The share price at the vesting date was 106.7p.

ii These shares were awarded to Peter Couch before his appointment as a director of the Company.

iii Performance conditions for the conditional share awards set to vest on 9 January 2011 were not met and therefore lapsed on that date.

On behalf of the board



**Baroness Margaret Ford**  
Chairman of the remuneration committee  
5 December 2011

# Directors' report

The directors present their report and the audited financial statements for the year ended 30 September 2011.

## 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, investment, development and management.

## Review of business development and prospects

The information that fulfils the requirements of the Business review can be found on pages 2 to 41, which are incorporated into this Directors' report by reference. A review of the performance and development of the business during the year, the position of the group at the year end and its future prospects, is set out in the sections of the Annual report from pages 2 to 29. Details of the group's KPIs are provided on page 6. A description of the principal risks and uncertainties facing the group and how these are mitigated can be found on pages 39 to 41. Additional information on environmental matters, on employees and social and community matters is set out on pages 30 to 38.

## Results for the year

The results of the group are set out in the consolidated income statement on page 62 which shows a profit for the financial year attributable to the owners of the company of £39.1m (2010: a loss of £10.8m).

## Dividends

Although no interim dividend was declared (2010: 0.5p), in June 2011 the directors distributed £2.2m by means of a tender buy-back of shares. This represented an effective dividend of 0.53p per share. The directors recommend the payment of a final dividend of 1.30p per share (2010: 1.20p), to be paid on 10 February 2012 making a total effective dividend for the year of 1.83p (2010: 1.70p) per share. Any shareholder wishing to participate in the Dividend Reinvestment Plan for the 2011 final dividend will need to ensure that their application form is returned to our registrars by 16 January 2012.

## Directors

The directors of the company who served during the year are listed on page 42 and 43 except for Tony Wray who was appointed to the board on 24 October 2011, and Bill Tudor John who retired from the board on 9 February 2011.

## Directors' and other interests

The interests of the directors in the shares of the company at 30 September 2011 and 30 November 2011, with comparative figures as at 1 October 2010 are as follows:

	Ordinary shares of 5p each (thousands)		
	1 Oct 2010	30 Sept 2011	30 Nov 2011
			Beneficial
Robin Broadhurst	90	<b>110</b>	110
Andrew Cunningham	1,092	<b>1,115</b>	1,115
John Barnsley	76	<b>103</b>	103
Robert Hiscox	150	<b>200</b>	200
Henry Pitman	102	<b>101</b>	101
Baroness Margaret Ford	14	<b>18</b>	18
Peter Couch	88	<b>121</b>	122
Nick Jopling	23	<b>82</b>	82
Mark Greenwood	10	<b>30</b>	30
	1,645	<b>1,880</b>	1,881

Details of directors' share options are given on page 55.

Save as disclosed above, as at 30 November 2011, the company is aware of the following interests amounting to 3% or more in the company's shares:

	Holding million	Holding %
Schroder Investment Management Limited	69.6	16.77
Standard Life Investments Limited	33.7	8.13
BlackRock Inc	18.7	4.50
Norges Bank Investment Management	16.8	4.04
BNP Paribas Investment Partners SA	13.7	3.30
Morgan Stanley Investment Management	13.0	3.13

## Directors' report continued

### 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 (IFRSs) 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 pages 42 and 43 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 profit of the group;
- the business review on pages 2 to 41 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.

### Corporate governance

A report on matters of corporate governance is set out on pages 44 to 49 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 their duties as director, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006. This cover was in place during the financial year and at the date of approval of these financial statements.

### 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 2011 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 22 days (2010: 21 days).

## Financial Risk Management

Details are included in note 25 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 2011 we either fully or partially achieved 88% of the applicable sustainability targets that we committed to meeting by that date. Further information is provided in the corporate responsibility report on pages 30 to 38.

## Charitable donations

During the year the group made charitable donations amounting to £17,500 (2010: £12,320). Grainger makes charitable donations in three ways. Firstly, we are a Foundation Partner member of LandAid, the property industry charity, and have committed to donating £10,000 per annum to LandAid for a period of three years of which this is the second year of contribution. Secondly, we match fund our staff's individual fundraising efforts up to a maximum of £100 per person per annum and we make occasional donations to specific events or good causes. We have not made any contributions for political purposes.

## Overseas operations

Our German portfolio continues to be centrally managed and controlled by our Luxembourg managers.

## Health and safety

Grainger has a well-developed Health and Safety Management System for the internal and external control of health and safety risks which is managed by the Director of Health and Safety. This includes the use of online risk management systems for the identification, mitigation and reporting of real time health and safety management information. The group health and safety committee consists of members from across the organisation and is chaired by the chief operating officer. The committee continues to monitor the delivery of legal compliance in health and safety through audit and implementation of improvements to enable us to become 'best in class'.

## 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 they ought to have taken as directors in order to make themselves 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.

## Directors' report continued

### Shares

A tender offer of 1 for every 238 shares was undertaken in June 2011. Following the general meeting to approve the tender offer a total of 1,484,890 ordinary shares were tendered at a price of 149p per share and purchased by the company for approximately £2.2m. These shares are now held in treasury. In September 2011 9,683 shares were issued pursuant to the exercise of share options under the group's SAYE scheme. 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 2011, the directors had unexpired power to repurchase up to 41,600,000 shares.

### Takeover directive

On a change of control, the core banking facilities (described in note 26 to the accounts) would become repayable should prior consent not be obtained, or should the debt not be 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 5 October 2011, the group signed an agreement for £50.3m of debt funding from Partnership Assurance provided through an innovative structure against certain of the group's Retirement Solutions assets, non-recourse to the rest of the group.

On 21 November 2011 the Group signed a further agreement with Partnership Assurance for an additional £28.6m of debt funding under similar terms to the initial £50.3m. These facilities are repayable on a property-by-property basis as the assets are sold on vacancy, with interest rolling up. In this way the facility exactly matches the cash flow characteristics of this part of the business, with an expected average maturity of 11 years. These funds are being used to reduce the group's core debt facilities.

By order of the board



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**Michael Windle**  
Company Secretary  
5 December 2011

# 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 2011 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 directors' responsibilities statement set out on page 58, 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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## 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 2011 and of its profit and cash flows for the year then ended;
- Have been properly prepared in accordance with IFRSs 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 matters prescribed by the Companies Act 2006

In our opinion:

- The information given in the directors' report for the financial year for which the group financial statements are prepared is consistent with the group financial statements; and
- The information given in the Corporate Governance Statement set out on pages 44 to 49 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:

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

- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit; or
- A corporate governance 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 49, in relation to going concern;
- The part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- Certain elements of the report to shareholders by the board on directors' remuneration.

## Other matter

We have reported separately on the parent company financial statements of Grainger plc for the year ended 30 September 2011 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

5 December 2011

## Consolidated income statement

For the year ended 30 September 2011	Notes	2011 £m	2010 £m
<b>Group revenue</b>	4, 5	<b>296.2</b>	244.5
Net rental income	6	<b>49.1</b>	40.8
Profit on disposal of trading property	7	<b>72.3</b>	52.8
Administrative expenses	9	<b>(13.0)</b>	(11.2)
Other income and expenses	10	<b>4.2</b>	5.9
Net gain on acquisition of subsidiary	41	<b>16.1</b>	2.8
Goodwill impairment	22	<b>(2.2)</b>	(1.5)
Profit on disposal of investment property	8	<b>1.1</b>	0.4
Profit on redemption of equity units in associate	19	–	1.0
Finance income from financial interest in property assets	21	<b>7.9</b>	2.5
(Write down)/write back of inventories to net realisable value	23	<b>(1.8)</b>	2.9
Provision for impairment of loans receivable net of write backs	20, 24	<b>(4.2)</b>	(10.7)
<b>Operating profit before net valuation deficits on investment property</b>		<b>129.5</b>	85.7
Net valuation deficits on investment property	17	<b>(2.0)</b>	(0.8)
<b>Operating profit after net valuation deficits on investment property</b>		<b>127.5</b>	84.9
Fair value movements on derivatives	25	<b>(28.0)</b>	(39.6)
Finance costs	13	<b>(82.6)</b>	(81.3)
Finance income	13	<b>2.7</b>	5.0
Share of profit of associates after tax	19	<b>4.4</b>	5.6
Share of profit of joint ventures after tax	20	<b>2.1</b>	4.6
<b>Profit/(loss) before tax</b>	12	<b>26.1</b>	(20.8)
Tax credit before exceptional item	14	<b>2.8</b>	10.0
Exceptional tax credit	14	<b>10.2</b>	–
Tax credit for the year	14	<b>13.0</b>	10.0
<b>Profit/(loss) for the year attributable to the owners of the company</b>	34	<b>39.1</b>	(10.8)



# Consolidated statement of comprehensive income

For the year ended 30 September 2011	Notes	2011 £m	2010 £m
Profit/(loss) for the year		<b>39.1</b>	(10.8)
Actuarial gain/(loss) on BPT Limited defined benefit pension scheme	28	<b>1.2</b>	(0.5)
Fair value movement on financial interest in property assets	21	<b>(0.3)</b>	3.1
Exchange adjustments offset in reserves		<b>(0.9)</b>	0.9
Changes in fair value of cash flow hedges		<b>13.2</b>	(1.4)
Other comprehensive income and expense for the year before tax		<b>13.2</b>	2.1
Tax relating to components of other comprehensive income	14	<b>(4.5)</b>	(0.7)
Other comprehensive income and expense for the year		<b>8.7</b>	1.4
Total comprehensive income and expense for the year attributable to the owners of the company		<b>47.8</b>	(9.4)
<b>Basic earnings/(loss) per share</b>	16	<b>9.5p</b>	(2.9)p
<b>Diluted earnings/(loss) per share</b>	16	<b>9.4p</b>	(2.9)p
<b>Dividend per share</b>	15	<b>1.83p</b>	1.70p

Included within comprehensive income is £8.8m (2010: £11.1m) relating to associates and joint ventures accounted for under the equity method.

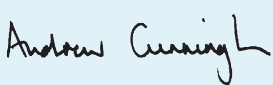
All of the above results relate to continuing operations.

# Consolidated statement of financial position

As at 30 September 2011	Notes	2011 £m	2010 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment property	17	<b>819.9</b>	634.7
Property, plant and equipment	18	<b>1.2</b>	1.3
Investment in associates	19	<b>34.6</b>	28.6
Investment in joint ventures	20	<b>23.9</b>	91.0
Financial interest in property assets	21	<b>102.3</b>	103.9
Deferred tax assets	14, 29	<b>42.7</b>	38.4
Goodwill	22	<b>5.3</b>	6.2
		<b>1,029.9</b>	904.1
<b>Current assets</b>			
Investment in associates	19	–	0.1
Inventories – trading property	23	<b>1,105.1</b>	989.9
Trade and other receivables	24	<b>18.3</b>	17.2
Derivative financial instruments	25	<b>0.2</b>	–
Cash and cash equivalents	26	<b>90.9</b>	91.5
Assets held for sale		–	70.7
		<b>1,214.5</b>	1,169.4
<b>Total assets</b>		<b>2,244.4</b>	2,073.5
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	26	<b>1,428.0</b>	1,361.7
Trade and other payables	27	<b>4.0</b>	4.0
Retirement benefits	28	<b>4.5</b>	6.0
Provisions for other liabilities and charges	27	<b>0.6</b>	0.8
Deferred tax liabilities	14, 29	<b>47.7</b>	52.6
		<b>1,484.8</b>	1,425.1
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	26	<b>116.7</b>	55.6
Trade and other payables	30	<b>76.4</b>	57.3
Current tax liabilities	14	<b>24.6</b>	27.8
Derivative financial instruments	25	<b>154.5</b>	128.3
Liabilities held for sale		–	34.1
		<b>372.2</b>	303.1
<b>Total liabilities</b>		<b>1,857.0</b>	1,728.2
<b>Net assets</b>		<b>387.4</b>	345.3

As at 30 September 2011	Notes	2011 £m	2010 £m
<b>EQUITY</b>			
<b>Capital and reserves attributable to the owners of the company</b>			
Issued share capital	31	<b>20.8</b>	20.8
Share premium		<b>109.8</b>	109.8
Merger reserve		<b>20.1</b>	20.1
Capital redemption reserve		<b>0.3</b>	0.3
Cash flow hedge reserve		<b>(34.4)</b>	(43.0)
Equity component of convertible bond		<b>5.0</b>	5.0
Available-for-sale reserve		<b>4.1</b>	4.2
Retained earnings	34	<b>261.6</b>	228.0
<b>Equity attributable to the owners of the company</b>		<b>387.3</b>	345.2
Non-controlling interests		<b>0.1</b>	0.1
<b>Total equity</b>		<b>387.4</b>	345.3

The financial statements on pages 62 to 144 were approved by the board of directors on 5 December 2011 and were signed on their behalf by:



**Andrew R Cunningham**

Director



**Mark Greenwood**

Director

Company registration number: 125575

## Consolidated statement of changes in equity

	Notes	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 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	34	–	–	–	–	–	–	–	(10.8)	–	(10.8)
Actuarial loss on BPT Limited defined benefit pension scheme	28	–	–	–	–	–	–	–	(0.5)	–	(0.5)
Fair value movement on financial interest in property assets	21	–	–	–	–	–	–	3.1	–	–	3.1
Exchange adjustments offset in reserves		–	–	–	–	–	–	–	0.9	–	0.9
Changes in fair value of cash flow hedges		–	–	–	–	(1.4)	–	–	–	–	(1.4)
Tax relating to components of other comprehensive income	29	–	–	–	–	–	–	(0.8)	0.1	–	(0.7)
Total comprehensive income and expense for the year	–	–	–	–	–	(1.4)	–	2.3	(10.3)	–	(9.4)
Issue of shares	31	–	0.1	–	–	–	–	–	–	–	0.1
Purchase of own shares	31, 34	–	–	–	–	–	–	–	(4.5)	–	(4.5)
Rights issue	31, 40	13.9	–	235.9	–	–	–	–	(13.1)	–	236.7
Transfer to retained earnings	40	–	–	(235.9)	–	–	–	–	235.9	–	–
Share-based payments charge	32	–	–	–	–	–	–	–	1.3	–	1.3
Dividends paid	15	–	–	–	–	–	–	–	(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

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	Notes	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 2010		20.8	109.8	20.1	0.3	(43.0)	5.0	4.2	228.0	0.1	345.3
Profit for the year	34	–	–	–	–	–	–	–	39.1	–	39.1
Actuarial gain on BPT Limited defined benefit pension scheme	28	–	–	–	–	–	–	–	1.2	–	1.2
Fair value movement on financial interest in property assets	21	–	–	–	–	–	–	(0.3)	–	–	(0.3)
Exchange adjustments offset in reserves		–	–	–	–	–	–	–	(0.9)	–	(0.9)
Changes in fair value of cash flow hedges		–	–	–	–	13.2	–	–	–	–	13.2
Tax relating to components of other comprehensive income	29	–	–	–	–	(4.6)	–	0.2	(0.1)	–	(4.5)
Total comprehensive income and expense for the year	–	–	–	–	–	8.6	–	(0.1)	39.3	–	47.8
Purchase of own shares	31, 34	–	–	–	–	–	–	–	(2.8)	–	(2.8)
Share-based payments charge	32	–	–	–	–	–	–	–	2.0	–	2.0
Dividends paid	15	–	–	–	–	–	–	–	(4.9)	–	(4.9)
<b>Balance as at 30 September 2011</b>		<b>20.8</b>	<b>109.8</b>	<b>20.1</b>	<b>0.3</b>	<b>(34.4)</b>	<b>5.0</b>	<b>4.1</b>	<b>261.6</b>	<b>0.1</b>	<b>387.4</b>

# Consolidated statement of cash flows

For the year ended 30 September 2011	Notes	2011 £m	2010 £m
<b>Cash flow from operating activities</b>			
Profit/(loss) for the year		39.1	(10.8)
Depreciation	18	0.6	0.7
Net gain on acquisition of subsidiary	41	(16.1)	(2.8)
Goodwill impairment	22	2.2	1.5
Net valuation deficits on investment property	17	2.0	0.8
Net finance costs	13	79.9	76.3
Share of profit of associates and joint ventures	19, 20	(6.5)	(10.2)
Profit on disposal of investment property	8	(1.1)	(0.4)
Provision for impairment of loans receivable net of write-backs	20, 24	4.2	10.7
Profit on redemption of equity units in associate	19	–	(1.0)
Share-based payment charge	32	2.0	1.3
Change in fair value of derivatives	25	28.0	39.6
Interest income from financial interest in property assets	21	(7.9)	(2.5)
Taxation	14	(13.0)	(10.0)
<b>Operating profit before changes in working capital</b>		<b>113.4</b>	93.2
Increase in trade and other receivables		(0.8)	(2.5)
Decrease in trade and other payables		(4.8)	(23.9)
Decrease in provisions for liabilities and charges		(0.2)	–
Decrease in trading property		71.7	42.5
<b>Cash generated from operations</b>		<b>179.3</b>	109.3
Interest paid		(73.1)	(80.2)
Taxation (paid)/refund	14	(4.4)	3.6
<b>Net cash inflow from operating activities</b>		<b>101.8</b>	32.7
<b>Cash flow from investing activities</b>			
Proceeds from sale of investment property	8	24.6	9.9
Proceeds from financial interest in property assets	21	9.2	10.8
Proceeds from redemption of equity units in associate	19	0.1	9.8
Interest received		1.9	1.7
Proceeds from disposal of interest in subsidiary	42	17.5	–
Acquisition of subsidiaries, net of cash acquired	41	(23.1)	(47.0)
Investment in associates and joint ventures	19, 20	(2.4)	(7.0)
Acquisition of investment property and property, plant and equipment	17, 18	(5.9)	(15.4)
<b>Net cash inflow/(outflow) from investing activities</b>		<b>21.9</b>	(37.2)

For the year ended 30 September 2011	Notes	2011 £m	2010 £m
<b>Cash flows from financing activities</b>			
Proceeds from the issue of share capital	40	–	236.7
Purchase of own shares	31	<b>(2.8)</b>	(4.5)
Proceeds from new borrowings		<b>220.0</b>	–
Repayment of borrowings		<b>(335.1)</b>	(139.4)
Settlement of derivative contract		–	(13.4)
Dividends paid	15	<b>(4.9)</b>	(7.4)
Payments to defined benefit pension scheme	28	<b>(0.6)</b>	(0.6)
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(123.4)</b>	71.4
Net increase in cash and cash equivalents		<b>0.3</b>	66.9
Cash and cash equivalents at the beginning of the year	26	<b>91.5</b>	28.3
Net exchange movements on cash and cash equivalents		<b>(0.9)</b>	(0.6)
<b>Total cash and cash equivalents at the end of the year</b>		<b>90.9</b>	94.6
Cash held in Sovereign Reversions Limited at the end of the year		–	(3.1)
<b>Cash and cash equivalents at the end of the year</b>	26	<b>90.9</b>	91.5

# 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 154. 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.

These financial statements for the year ended 30 September 2011 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 146 to 152.

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 and financial interest in property assets.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of the events and amounts involved, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.

### (b) Basis of consolidation

#### i) Subsidiaries

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

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

#### ii) Goodwill and impairment

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of the acquisition is measured as the fair value of the assets given 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 within this caption on the statement of financial position. Goodwill on acquisition of joint ventures and associates is included in investments in joint ventures and associates.

Goodwill is allocated to cash generating units for the purpose of impairment testing and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.



### iii) Joint ventures and associates

Joint ventures are those entities over whose activities the group has joint control, established by contractual agreement. Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating decisions of the investee but is not control or joint control over those policies.

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 other comprehensive income. Where the group's interest has been reduced to £nil, additional losses are provided for, and a liability is recognised, only to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the joint venture or associate. 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 resulting in gains or losses for the group are recorded in equity. 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.

IFRS 8, 'Operating Segments' ('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 five such segments as follows:

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

All of the above segments are UK based except European tenanted residential which has its assets and tenants based in Germany and Development which includes assets based in the Czech Republic. More detail is given relating to each of the above segments, and their geographical split on pages 4 to 22 of the Business review and in note 4.

## Notes to the financial statements continued

### 1 Accounting policies continued

The group has a segment director responsible for the performance of each of these five segments and the group reports key financial information to the CODM on the basis of these five segments. Each of these five segments operates 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 properties 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.

Gross net asset value is defined as the market value of net assets before deduction for deferred tax on property revaluations and before adjustments for the fair value of derivatives.

Triple net asset value is defined as gross net asset value adjusted for deferred and contingent tax on revaluation gains and for mark to market adjustments.

Information relating to the group's operating segments and the two net asset value measures is set out in note 4.

#### (d) Share capital

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

#### (e) Foreign currency translation

##### i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in pounds Sterling, which is the 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. Foreign exchange gains and losses are recognised within the consolidated statement of comprehensive income.

##### 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 other comprehensive income 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 interest expense and similar charges. 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 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.

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 that is recorded through the income statement is as follows: i) the carrying value of the assets is increased by the effective interest rate and ii) the carrying value of the assets is revised to the net present value of the updated projected 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 'finance income from financial interest in property assets'. Cash received from the instrument in the year is deducted from the carrying value of the asset.

Differences between the updated projected cash flows using the effective interest rate applicable at acquisition compared to updated projected 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 other comprehensive income with a corresponding adjustment to the carrying value of the assets. 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 and introducer fees incurred during acquisition together with improvement costs. Net realisable value is the net sale proceeds which the group expects on sale of a property with vacant possession.

Land and property held within the development segment of the business, including house-building sites, are shown in the financial statements at the lower of cost and net realisable value. Cost represents the acquisition price including legal and other professional costs associated with the acquisition together with subsequent development costs net of amounts transferred to costs of sale. Net realisable value is the expected net sales proceeds of the developed property.

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

## Notes to the financial statements continued

### 1 Accounting policies continued

#### (j) Cash and cash equivalents

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

#### (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 during the year. 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 recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### (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. The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date by a qualified actuary, also under the Projected Unit Credit Method, for the purpose of determining the amounts to be reflected in the group's financial statements under IAS 19.

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

There are no current or past service costs as the scheme is closed to new members and employee contributions. Interest on pension scheme liabilities and the expected return on pension scheme assets are reflected in the income statement each year. Actuarial gains and losses net of deferred income tax are reflected in the consolidated statement of 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 ('SIP') 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. For market based conditions, the probability of vesting is taken into account in the fair value calculation and no revision is made to the number of shares or options expected to vest. For non-market conditions, each year the group revises its estimate of the number of options or shares that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement with a corresponding adjustment to equity.

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

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

**(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 on our three primary income streams as follows:

**i) Income from property trading**

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

**ii) Rental income**

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

**iii) Management fee income**

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

In addition, income is recognised as follows on service charges and investments:

**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 receivables and payables are shown net in the balance sheet.

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.

**Income from investments**

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

**Group revenue**

Group revenue set out in note 5, comprises gross rental income, service charge income on a principal basis, gross proceeds, before sales costs, from the sale of trading properties and management fee and other income.

## Notes to the financial statements continued

### 1 Accounting policies continued

#### (n) Leases

##### i) Group as lessor

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

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

##### ii) Group as lessee

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

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

#### (o) Derivative financial instruments

##### Derivatives

The group uses derivative instruments to help manage its interest rate risk. In accordance with its treasury policy, the group does not hold or issue derivatives for trading purposes. Derivatives are classified as current assets and current liabilities.

The derivatives are recognised initially at fair value. Subsequently, the gain or loss on re-measurement 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 re-performed at each period end to ensure that the hedge remains highly effective.

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

##### Fair value estimation

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

#### (p) 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 that 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 available-for-sale is the financial interest in property assets. Derivative financial instruments not in hedge accounting relationships are classified as fair value through profit and loss.

### (q) At fair value through profit or loss financial asset

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.

### (r) 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.

### (s) 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.

### (t) 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.

### (u) Trade payables

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

### (v) 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.

### (w) Dividends

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

### (x) Assets held for sale

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

## Notes to the financial statements continued

### 1 Accounting policies continued

#### (y) Acquisition of and investment in own shares

The group acquires its own shares to enable it to meet its obligations under the various share schemes in operation. 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 34).

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.

#### (z) Impact of standards and interpretations issued

##### i) New standards and interpretations in the year

At the date of approval of these financial statements, the following interpretations 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 2010.

##### International Financial Reporting Interpretations Committee ('IFRIC') interpretations

- IFRIC 15 'Arrangement for construction of real estates' clarifies when IAS 18 'Revenue Recognition' and IAS 11 'Construction contracts' should be applied to particular transactions.
- IFRIC 18 'Transfer of assets from customers' clarifies the accounting for arrangements where an item of property, plant and equipment that is provided by the customer is used to provide an ongoing service.
- IFRIC 19 'Extinguishing financial liabilities with equity instruments' clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the creditor issuing its own equity instruments to the debtor.

##### Amendments to existing standards

- Amendment to IFRS 2 'Share-based payment' was updated to confirm that contribution of a business on the formation of a joint venture and common control transactions are not within its scope.
- Amendment to IFRS 5 'Non-current assets held for sale and discontinued operations' confirmed the disclosure requirements required under IAS 1 'Presentation of Financial Statements' paragraphs 15 and 125.
- Amendment to IFRS 8 'Operating Segments' which removes the automatic requirement to report a measure of total assets for each reportable segment. Total assets continue to be reported within note 4 of these financial statements as this measure is regularly provided to the chief operating decision maker.
- Amendment to IAS 1 'Presentation of Financial Statements' was updated to clarify the definition of a current liability where classification is derived from the lack of an unconditional right to defer settlement more than 12 months from the statement of financial position date.
- Amendment to IAS 7 'Statement of Cash Flows' which restricts the eligibility of expenditure for inclusion as investing activity cash flows to those expenditures which result in recognised assets in the statement of financial position only.
- Amendment to IAS 17 'Leases' to remove the presumption that leases of land were operating leases unless title transferred to the lessee at the end of the lease.
- Amendment to IAS 18 'Revenue Recognition' to provide guidance for when an entity is acting as principal or agent. This has not resulted in any changes in accounting policy for the group.
- Amendment to IAS 38 'Intangible Assets' to confirm measurement of intangible assets in business combinations.
- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement' to confirm the scope of the standard excludes forward contracts to enter into a business combination and clarify the definition of external parties for hedge accounting.



### Amendments to existing interpretations

- Amendment to IFRIC 9 'Reassessment of Embedded Derivatives' to confirm the scope of the interpretation excludes business combinations.
- Amendment to IFRIC 16 'Hedges of a Net Investment in a Foreign Currency' to remove the restriction that the foreign entity being hedged may not hold the hedging instrument.

These standards and amendments to these standards and interpretations have had no material financial impact on these financial statements.

### ii) 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: classification and measurement' which has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.
- IFRS 10 'Consolidated financial statements' which identifies the concept of control as the determining factor of whether an entity should be included within the consolidated financial statements.
- IFRS 11 'Joint arrangements' includes revised definitions of joint arrangements which focus on the rights and obligations over the legal form. The standard removes the option of proportional consolidation.
- IFRS 12 'Disclosure of interests in other entities' requires disclosure of all interests in other entities.
- IFRS 13 'Fair value measurement' provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements.
- IAS 27 (revised 2011) 'Separate Financial Statements' and IAS 28 (revised 2011) 'Associates and joint ventures' include the provisions on separate financial statements which are not included in IFRS 10.

#### International Financial Reporting Interpretations Committee ('IFRIC') interpretations

- IFRIC 14 'Prepayments of a minimum funding requirement' applies only to entities required to make minimum funding contributions to a defined benefit pension plan.

#### Amendments to existing standards and interpretations

- Annual improvements 2010 covering changes to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13.
- IAS 24 'Related Party Disclosures' has been amended to remove the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party.
- IFRS 7 'Financial Instruments: Disclosures' includes changes to promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures of transfers of financial assets.
- IFRS 1 'First time Adoption' amends fixed dates and includes guidance on implementations affected by hyperinflation.
- IAS 12 'Income taxes' introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value.
- IAS 19 'Employee benefits' introduces a requirement to group items presented in Other comprehensive income on the basis of whether they are potentially recycled to income statement.

## Notes to the financial statements continued

### 1 Accounting policies continued

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 with the exception of IAS 24 and IFRIC 14.

The directors are currently considering the potential impact arising from the future adoption of these standards and interpretations listed above.

### 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. The group performs sensitivity analysis as part of the risk management process. Accordingly the sensitivities applied in the critical accounting estimates and assumptions are relative to the risk assessment and materiality of each balance.

#### Valuation of residential property

The group's residential trading property is carried in the balance sheet at the lower of cost and net realisable value. The group's investment property is carried in the balance sheet at fair value. The group does, however, in its principal net asset value measures, NAV and NNNAV, include trading stock at market value. The market value of the group's property which, in the case of investment property, is the same as fair value, is established as set out below.

i) The group's own in-house qualified surveying team provide a vacant possession value for the majority of the group's UK based property as at 30 September 2011. A structured sample of these in-house valuations are reviewed by Allsop LLP, an external independent valuer. Valuing the large number of properties in the portfolio is a significant task. For this reason it is undertaken on an external inspection basis only. Invariably, when the in-house valuations are compared to those of the external valuer, around 85% 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 as the directors' valuation. Overall, across all of the properties valued by Allsop LLP, the directors' valuations were approximately 1.0% lower than the Allsop LLP values.

Allsop LLP has provided the directors with the following opinion on the directors' valuation of the group's UK property, Property held in the core residential and retirement solutions portfolios was valued as at 30 September 2011 by Grainger's in-house surveyors. These valuations were reviewed and approved by the directors. Allsop LLP has undertaken a comprehensive review of the directors' valuation and they are satisfied with the process by which the in-house valuations were conducted. As part of the review, Allsop LLP valued approximately 50% of the core residential portfolio and approximately 33% of the retirement solutions portfolio, independently of the group. Based on the results of that review Allsop LLP has concluded that they have a high degree of confidence in those directors' valuations.

Allsop LLP also recommend the discount to apply to the vacant possession valuations to establish the market value of each property. For property in UK residential the discounts are established by tenancy type and are based on evidence gathered by Allsop LLP from recent transactional market evidence. For property in retirement solutions the discounts recommended by Allsop LLP are on a property-by-property basis taking into account a number of factors, primarily the estimated period until vacant possession may arise and the appropriate discount rate.

The directors have adopted all of the recommendations made by Allsop LLP in relation to the discounts.

For the property held in the group balance sheet as investment property, the valuation process as set out above gave a market value of £187.5m. A net valuation deficit of £4.4m has been taken through the income statement in relation to this property. The remaining property is held in the group's balance sheet as trading property at the lower of cost and net realisable value of £839.8m.

ii) All of the property owned by the group in the Grainger GenInvest portfolio and which is now wholly owned (see note 41(iii)) was valued as at 30 September 2011 by Allsop LLP who are external independent valuers.

The aggregate of the market values of the properties at 30 September 2011 was £298.6m, subject to the assumption that the dwellings would be sold individually, in their existing condition, and subject to any existing leases or tenancies. The valuers opinion of market value was primarily derived using comparable recent market transactions on arm's-length terms. Part of the property is held in the group's balance sheet as investment property with a market value of £104.9m at 30 September 2011. The remaining property is held in the group's balance sheet as trading property at the lower of cost and net realisable value of £184.2m. The net gain on valuation of the investment property in this portfolio was £3.3m which has been taken through the income statement.

iii) The whole of the property portfolio in Germany was valued at 30 September 2011 by Cushman and Wakefield LLP who are external independent valuers. The Germany portfolio is virtually all held in the group balance sheet as investment property and has a market value at 30 September 2011 of €489.3m (£421.4m). The net deficit on valuation of the Germany portfolio was £1.6m which has been taken through the income statement. The remaining property is held in the group's balance sheet as trading property at the lower of cost and net realisable value of €1.1m (£0.9m).

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.

iv) Allsop LLP has also valued as at 30 September 2011 the property assets owned by Tricomm Housing Limited and let under a long-term lease arrangement with the Secretary of State for Defence under a PFI Project Agreement. Allsop LLP has provided a 'calculation of worth' which is defined as 'the value of a property to a particular owner, investor or class of investors for identified investment or operational objectives'. The 'calculation of worth' has been made in accordance with RICS Valuation Standards, is based on a discounted cash flow model, and results in a worth of £106.1m as at 30 September 2011. The property is held in the group balance sheet as investment property at this figure. A gain on valuation of £0.7m since acquisition (see note 41) has been taken through the income statement.

v) The group has a 21.96% interest in G:res which has invested in investment property. Valuations of 100% of the G:res portfolio were carried out in two parts as at 31 December 2010 and 30 June 2011 by external valuers, Allsop LLP and DTZ Debenham Tie Leung Limited. In aggregate, the valuation of the individual dwellings at 30 June 2011 was £384.3m. After full consideration of house price movements in those areas where G:res property assets are situated the group's directors made no adjustment to the 30 June 2011 valuations, other than for sales and purchases, in assessing the group's share of G:res net assets for the purposes of the group's accounts to 30 September 2011. For every 1% movement in the market value of the G:res investment property the group's share of the movement would amount to £0.8m.

All of the external valuers in the UK mentioned above have made full disclosure, as required by RICS Valuation Standards UKVS 4, of the extent and duration of their work for, and fees earned by them from, the company, which in all cases are less than 5% of their total fees.

### 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 the valuations carried out by its own in-house qualified surveying team. As stated above, a structured sample of the in-house valuations was reviewed 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 2011 to write down properties expected to be sold ultimately at vacant possession value. The provision has been assessed on what the group considers to be reasonable assumptions. These allow for no change to property prices in 2012 followed by growth in house prices of 2.5% in 2013 with price increases thereafter in line with conservative historical house price growth rates. The assumptions also allow for an annual vacancy rate of 6.5%. 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 2011 against projected investment sales.

In aggregate a charge of £0.8m has been made in the 2011 income statement (credit of £2.3m in 2010 income statement) to adjust the book value of trading properties to the lower of cost and net realisable value and at the year end the group is holding a provision of £4.4m (2010: £3.6m) in its balance sheet.

## Notes to the financial statements continued

### 2 Critical accounting estimates and assumptions continued

Land and property held within the development segment of the business, 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 and property is sold without development, net realisable value is the current market value net of associated selling costs. The current market value of the group's land and property held within the development segment has been assessed by Knight Frank LLP who are external valuers. Their valuation is on the basis of market value as defined in the RICS Valuation Standards.

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 2011 are based upon the current intentions of the directors. In addition, estimates at 30 September 2011 of project profitability are based on assumptions regarding projected build costs and sales proceeds for those sites where development is expected to occur. In some cases these projections are made without the benefit of planning permission having been agreed. The assumptions made may or may not be borne out in practice. It is possible therefore that the net realisable value provision required should be more than or less than that made.

A charge of £1.0m has been made in the 2011 income statement (credit of £0.6m in 2010) 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 2011 would either increase the valuation by £5.6m or reduce the valuation by £5.8m.

Consideration has been given to the effective interest rate to adopt for the valuation. We have concluded that the effective interest rate as at 30 September 2011 should be the same as the rate adopted at 30 September 2010 which is 0.85% lower than the effective interest rate when the financial interest was acquired. A 1% change to the discount rate would either increase the carrying value by £7.2m or reduce the carrying value by £6.4m.

#### Distinction between investment and trading property

The group considers the intention at the outset when each property is acquired in order to classify the property as either an investment or a trading property. Where the intention is to either trade the property or where the property is held for immediate sale upon receiving vacant possession within the ordinary course of business, the property is classified as trading property.

Where the intention is to hold the property for its long-term rental yield and/or capital appreciation, the property is classified as an investment property.

#### Income taxes

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

During the year, the group concluded its discussions with HM Revenue & Customs in connection with a number of outstanding tax matters. Further information is provided in note 14.

## Going concern

The directors are required to make an assessment of the group's ability to continue to trade as a going concern for the foreseeable future. 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 2011 the LTV was 52% compared to a default level of 75% and the interest cover ratio was 3.1 times compared to a minimum requirement of 1.35 times. The group has other bank debt on which there are also covenant requirements. As at 30 September 2011, the group is operating comfortably within these requirements. The directors have reviewed the group's financial projections covering a minimum period of at least 12 months beyond the date of signing of these financial statements, and which include covenant compliance forecasts. These projections show that the group will comfortably meet its covenant requirements.

ii) Banking facilities – The group's existing core facilities were £1,093m on 30 September 2011, of which £927m were drawn. The group had free cash balances plus available overdraft of £48m and undrawn committed facilities of £166m at 30 September 2011. As a result of securing £50.3m of debt financing from Partnership Assurance on 5 October 2011, the core facilities have since been reduced to £1,043m, of which £877m were drawn as at 25 November 2011. The new forward start facility of £840m (which will be drawn to replace the existing facilities by 30 September 2012) together with existing free cash balances of £42m (as at 25 November 2011) will enable the group to repay the existing core facilities in the course of the current financial year.

In addition to the above, the group is actively engaging with a number of interested lenders to provide additional funding and an agreement for a further £28.6m of debt financing from Partnership Assurance was concluded on 21 November 2011.

As has been demonstrated over the past few years, the group is able to generate strong cash flows even in very difficult general market conditions. The group's cash flow projections confirm that the group will remain well within its facilities for a minimum period of at least 12 months beyond the date of signing of these financial statements.

## Notes to the financial statements continued

### 3 Analysis of profit/(loss) before tax

The results for the years ended 30 September 2010 and 2011 respectively have been significantly affected by valuation movements and non-recurring items, although the impact of these items in 2010 was greater than it has been in 2011. The table below provides further analysis of the consolidated income statement showing the results of trading activities separately from these other items.

	2011				2010			
	Trading £m	Valuation £m	Non- recurring £m	Total £m	Trading £m	Valuation £m	Non- recurring £m	Total £m
<b>Group revenue</b>	<b>296.2</b>	–	–	<b>296.2</b>	244.5	–	–	244.5
Net rental income	49.9	–	(0.8)	49.1	40.8	–	–	40.8
Profit on disposal of trading property	72.3	–	–	72.3	52.8	–	–	52.8
Administrative expenses	(13.0)	–	–	(13.0)	(9.2)	–	(2.0)	(11.2)
Other income and expenses	8.0	–	(3.8)	4.2	5.9	–	–	5.9
Net gain on acquisition of subsidiary	–	16.1	–	16.1	–	2.8	–	2.8
Goodwill impairment	–	(2.2)	–	(2.2)	–	(1.5)	–	(1.5)
Profit on disposal of investment property	1.1	–	–	1.1	0.4	–	–	0.4
Profit on redemption of equity units in associate	–	–	–	–	1.0	–	–	1.0
Finance income from financial interest in property assets	7.9	–	–	7.9	2.5	–	–	2.5
(Write down)/write back of inventories to net realisable value	–	(1.8)	–	(1.8)	–	2.9	–	2.9
Provision for impairment of loans receivable net of write-backs	–	(4.2)	–	(4.2)	–	(10.7)	–	(10.7)
<b>Operating profit before net valuation deficits on investment property</b>	<b>126.2</b>	<b>7.9</b>	<b>(4.6)</b>	<b>129.5</b>	94.2	(6.5)	(2.0)	85.7
Net valuation deficits on investment property	–	(2.0)	–	(2.0)	–	(0.8)	–	(0.8)
<b>Operating profit after net valuation deficits on investment property</b>	<b>126.2</b>	<b>5.9</b>	<b>(4.6)</b>	<b>127.5</b>	94.2	(7.3)	(2.0)	84.9
Fair value movements on derivatives	–	(28.0)	–	(28.0)	–	(39.6)	–	(39.6)
Finance costs	(79.0)	–	(3.6)	(82.6)	(82.2)	–	0.9	(81.3)
Finance income	2.7	–	–	2.7	5.0	–	–	5.0
Share of profit of associates after tax	0.2	4.2	–	4.4	–	5.6	–	5.6
Share of profit of joint ventures after tax	(1.8)	3.9	–	2.1	(2.3)	6.9	–	4.6
<b>Profit/(loss) before tax</b>	<b>48.3</b>	<b>(14.0)</b>	<b>(8.2)</b>	<b>26.1</b>	14.7	(34.4)	(1.1)	(20.8)

The non-recurring charge of £3.8m under 'other income and expenses' relates primarily to costs incurred on acquisitions made in the year and other transaction costs.

The non-recurring charge of £3.6m under 'Finance costs' relates to the refinancing carried out in the year.

## 4 Segmental information

IFRS 8, 'Operating Segments' ('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 five segments and is treating all of these as reportable segments. The segments are: UK residential; retirement solutions; 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 five segments and the group reports key financial information to the CODM on the basis of these five segments. Each of these five segments operate within a different part of the overall residential market.

The title 'All other segments' has been included in the tables below to reconcile the segments to the figures reviewed by the CODM. Inter-segment sales, services and property management are charged at prevailing market prices with reference to external contracts in place.

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 in the prior year resulted in several changes to the group's segmental information. Major changes were to 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. In the current year we have included segmental information relating to the previously disclosed Property Services segment within UK residential and fund management and residential investments on the grounds of materiality as outlined within IFRS 8.

Further information regarding the products and services from which reportable segments derive their revenues is set out on pages 4 to 22 of the Annual report.

## 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.

#### 2011 Income statement

(€m)	UK residential	Retirement solutions	Fund management/ residential investments	UK and European development	German residential	All other segments	Total
<b>Group revenue</b>							
<b>Segment revenue-external</b>	<b>200.6</b>	<b>25.9</b>	<b>6.3</b>	<b>22.8</b>	<b>40.6</b>	–	<b>296.2</b>
<b>Segment revenue-internal</b>	–	–	<b>7.4</b>	–	–	–	<b>7.4</b>
Net rental income	<b>29.0</b>	<b>3.8</b>	–	–	<b>17.1</b>	–	<b>49.9</b>
Profit on disposal of trading property	<b>50.9</b>	<b>7.4</b>	–	<b>14.0</b>	–	–	<b>72.3</b>
Administrative expenses	–	–	–	–	–	<b>(13.0)</b>	<b>(13.0)</b>
Other income and expenses	<b>0.5</b>	<b>0.5</b>	<b>6.3</b>	<b>0.4</b>	<b>0.3</b>	–	<b>8.0</b>
Profit/(loss) on disposal of investment property	<b>0.3</b>	<b>(0.1)</b>	–	–	<b>0.9</b>	–	<b>1.1</b>
Finance income from financial interest in property assets	–	<b>7.9</b>	–	–	–	–	<b>7.9</b>
Internal recharges	<b>3.5</b>	<b>(0.8)</b>	<b>(2.7)</b>	–	–	–	–
<b>Operating profit before net valuation deficits on investment property</b>	<b>84.2</b>	<b>18.7</b>	<b>3.6</b>	<b>14.4</b>	<b>18.3</b>	<b>(13.0)</b>	<b>126.2</b>
Net trading interest payable	<b>(2.9)</b>	<b>(3.2)</b>	<b>1.2</b>	<b>0.1</b>	<b>(13.9)</b>	<b>(57.6)</b>	<b>(76.3)</b>
Share of trading loss of joint ventures and associates after tax	–	<b>(0.1)</b>	<b>(1.0)</b>	<b>(0.5)</b>	–	–	<b>(1.6)</b>
<b>Trading profit before tax, valuation and non-recurring items</b>							<b>48.3</b>
Write down of inventories to net realisable value	<b>(0.8)</b>	–	–	<b>(1.0)</b>	–	–	<b>(1.8)</b>
Net valuation gains/(deficits) on investment property	<b>4.7</b>	<b>(5.1)</b>	–	–	<b>(1.6)</b>	–	<b>(2.0)</b>
Fair value movements on derivatives	–	–	<b>(0.8)</b>	–	<b>(1.6)</b>	<b>(25.6)</b>	<b>(28.0)</b>
Provision for impairment of loans receivable net of write-backs	–	–	<b>3.3</b>	<b>(5.2)</b>	–	<b>(2.3)</b>	<b>(4.2)</b>
Net gain on acquisition of subsidiary	<b>16.1</b>	–	–	–	–	–	<b>16.1</b>
Goodwill impairment	<b>(0.9)</b>	–	–	–	<b>(1.3)</b>	–	<b>(2.2)</b>
Share of valuation gains in joint ventures and associates after tax	–	–	<b>8.1</b>	–	–	–	<b>8.1</b>
Other net non-recurring items	<b>(2.3)</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.8)</b>	<b>(4.6)</b>	<b>(8.2)</b>
<b>Profit before tax</b>							<b>26.1</b>



## 2010 Income Statement

(£m)	UK residential	Retirement solutions	Fund management/ residential investments	UK and European development	German residential	All other segments	Total
<b>Group revenue</b>							
<b>Segment revenue-external</b>	155.2	25.6	5.5	19.7	38.5	–	244.5
<b>Segment revenue-internal</b>	–	–	7.1	–	–	–	7.1
Net rental income	19.2	4.1	–	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)	5.5	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
Finance income from financial interest in property assets	–	2.5	–	–	–	–	2.5
Internal recharges	4.5	(0.7)	(3.8)	–	–	–	–
<b>Operating profit before net valuation deficits on investment property</b>	69.4	12.2	2.7	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)
<b>Trading profit before tax, valuation and non-recurring items</b>							14.7
Reversal of write down of inventories to net realisable value	2.3	–	–	0.6	–	–	2.9
Net valuation gains/(deficits) on investment property	5.2	(3.4)	–	–	(2.6)	–	(0.8)
Fair value movements on 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)
<b>Loss before tax</b>							(20.8)

## Notes to the financial statements continued

### 4 Segmental information continued

Segmental revenue from external customers is derived as follows:

£255.6m from UK customers (2010: £206.0m)

£40.6m from Germany (2010: £38.5m). There are no other material revenue streams from external customers in foreign countries.

Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts are located as follows:

£462.9m within the UK (2010: £319.1m)

£422.0m in Germany (2010: £442.7m)

The majority of the group's properties are held as trading stock and are therefore shown in the statutory balance sheet at the lower cost and net realisable value. This does not reflect the market value of the assets and, accordingly, our key balance sheet measures of net asset value includes 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.

#### 2011 Segment net assets

(£m)	UK residential	Retirement solutions	Fund management/ residential investments	UK and European development	German residential	All other segments	Total
Total segment net assets (statutory)	886.9	385.0	37.6	84.1	132.8	(1,139.0)	387.4
Total segment net assets (NAV)	1,227.3	437.7	41.0	72.3	151.4	(1,029.7)	900.0
Total segment net assets (NNNAV)	1,112.2	414.3	37.6	75.3	132.7	(1,133.9)	638.2

## 2011 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
Investment property	819.9	–	819.9	–	–	819.9
CHARM	102.3	–	102.3	–	–	102.3
Trading stock	1,105.1	344.0	1,449.1	–	–	1,449.1
JV/Associates	58.5	0.4	58.9	–	(4.6)	54.3
Cash	90.9	–	90.9	–	–	90.9
Deferred tax	42.7	(39.7)	3.0	–	43.2	46.2
Derivatives	0.2	(0.2)	–	–	0.2	0.2
Other assets	24.8	6.4	31.2	–	–	31.2
<b>Total assets</b>	<b>2,244.4</b>	<b>310.9</b>	<b>2,555.3</b>	<b>–</b>	<b>38.8</b>	<b>2,594.1</b>
External debt	(1,544.7)	–	(1,544.7)	–	–	(1,544.7)
Derivatives	(154.5)	154.5	–	–	(168.4)	(168.4)
Deferred tax	(47.7)	47.2	(0.5)	(132.2)	–	(132.7)
Other liabilities	(110.1)	–	(110.1)	–	–	(110.1)
<b>Total liabilities</b>	<b>(1,857.0)</b>	<b>201.7</b>	<b>(1,655.3)</b>	<b>(132.2)</b>	<b>(168.4)</b>	<b>(1,955.9)</b>
<b>Net assets</b>	<b>387.4</b>	<b>512.6</b>	<b>900.0</b>	<b>(132.2)</b>	<b>(129.6)</b>	<b>638.2</b>

## Notes to the financial statements continued

### 4 Segmental information continued

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 2011 (£m)	UK residential portfolio	Retirement solutions	Fund management/ residential investments	UK and European development	German residential	All other segments	Total
<b>NNNAV assets</b>							
Investment property	320.9	77.6	–	–	421.4	–	819.9
Investment in associates	–	–	34.6	–	–	–	34.6
Investment in joint ventures	–	19.3	–	–	0.4	–	19.7
Financial interest in property assets	–	102.3	–	–	–	–	102.3
Goodwill	5.3	–	–	–	–	–	5.3
Inventories – trading property	1,081.1	294.6	–	72.5	0.9	–	1,449.1
Trade and other receivables	1.4	1.9	2.8	5.9	2.6	3.7	18.3
Cash and cash equivalents	19.3	1.1	0.4	0.2	25.8	44.1	90.9
Property, plant and equipment	–	–	–	–	0.2	1.0	1.2
Deferred tax asset	2.1	2.9	–	1.5	0.1	39.6	46.2
Derivative financial instruments	–	–	–	–	0.1	0.1	0.2
Value of own shares held	–	–	–	–	–	6.4	6.4
<b>Total segment NNNAV assets</b>	<b>1,430.1</b>	<b>499.7</b>	<b>37.8</b>	<b>80.1</b>	<b>451.5</b>	<b>94.9</b>	<b>2,594.1</b>
<b>NNNAV liabilities</b>							
Interest-bearing loans and borrowings	193.0	32.4	–	–	287.4	1,031.9	1,544.7
Trade and other payables	8.8	27.8	0.2	7.8	8.3	27.5	80.4
Retirement benefits	–	–	–	–	–	4.5	4.5
Current tax liabilities	–	–	–	–	–	24.6	24.6
Provisions for other liabilities and charges	–	–	–	–	–	0.6	0.6
Deferred and contingent tax liabilities	116.1	13.4	–	(3.0)	5.9	0.3	132.7
Derivative financial instruments	–	11.8	–	–	17.2	139.4	168.4
<b>Total segment NNNAV liabilities</b>	<b>317.9</b>	<b>85.4</b>	<b>0.2</b>	<b>4.8</b>	<b>318.8</b>	<b>1,228.8</b>	<b>1,955.9</b>
<b>Net NNNAV assets</b>	<b>1,112.2</b>	<b>414.3</b>	<b>37.6</b>	<b>75.3</b>	<b>132.7</b>	<b>(1,133.9)</b>	<b>638.2</b>

## 2010 Segment net assets

(£m)	UK residential	Retirement solutions	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
Investment property	634.7	–	634.7	–	–	634.7
CHARM	103.9	–	103.9	–	–	103.9
Trading stock	989.9	331.5	1,321.4	–	–	1,321.4
JV/Associates	119.6	2.8	122.4	–	(7.0)	115.4
Cash	91.5	–	91.5	–	–	91.5
Deferred tax	38.4	(36.5)	1.9	–	40.0	41.9
Assets held for sale	70.7	–	70.7	–	–	70.7
Other assets	24.8	6.6	31.4	–	–	31.4
<b>Total assets</b>	<b>2,073.5</b>	<b>304.4</b>	<b>2,377.9</b>	<b>–</b>	<b>33.0</b>	<b>2,410.9</b>
External debt	(1,417.3)	–	(1,417.3)	–	–	(1,417.3)
Derivatives	(128.3)	128.3	–	–	(141.1)	(141.1)
Deferred Tax	(52.6)	53.8	1.2	(142.1)	–	(140.9)
Liabilities held for sale	(34.1)	–	(34.1)	–	–	(34.1)
Other liabilities	(95.9)	–	(95.9)	–	–	(95.9)
<b>Total liabilities</b>	<b>(1,728.2)</b>	<b>182.1</b>	<b>(1,546.1)</b>	<b>(142.1)</b>	<b>(141.1)</b>	<b>(1,829.3)</b>
<b>Net assets</b>	<b>345.3</b>	<b>486.5</b>	<b>831.8</b>	<b>(142.1)</b>	<b>(108.1)</b>	<b>581.6</b>

## Notes to the financial statements continued

### 4 Segmental information continued

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	Fund management/ residential investments	UK and European development	German residential	All other segments	Total
<b>NNNAV assets</b>							
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
Deferred Tax asset	–	2.7	–	–	0.1	39.1	41.9
Assets held for sale	–	70.7	–	–	–	–	70.7
Value of own shares held	–	–	–	–	–	6.6	6.6
<b>Total segment NNAV assets</b>	<b>1,077.3</b>	<b>553.5</b>	<b>108.6</b>	<b>83.6</b>	<b>459.9</b>	<b>128.0</b>	<b>2,410.9</b>
<b>NNNAV liabilities</b>							
Interest-bearing loans and borrowings	–	34.6	–	–	297.3	1,085.4	1,417.3
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	15.3	(2.5)	(2.5)	2.6	49.8	140.9
Derivative financial instruments	–	10.1	–	–	22.1	108.9	141.1
Liabilities held for sale	–	34.1	–	–	–	–	34.1
<b>Total segment NNNAV liabilities</b>	<b>84.0</b>	<b>120.2</b>	<b>(2.5)</b>	<b>7.6</b>	<b>328.7</b>	<b>1,291.3</b>	<b>1,829.3</b>
<b>Net NNNAV assets</b>	<b>993.3</b>	<b>433.3</b>	<b>111.1</b>	<b>76.0</b>	<b>131.2</b>	<b>(1,163.3)</b>	<b>581.6</b>

## 5 Group revenue

	2011 £m	2010 £m
Gross rental income (see note 6)	<b>86.3</b>	75.6
Service charge income on a principal basis (see note 6)	<b>10.1</b>	7.2
Proceeds from sale of trading property (see note 7)	<b>191.8</b>	155.1
Management fee and other income (see note 10)	<b>8.0</b>	6.6
	<b>296.2</b>	244.5

Proceeds from sale of trading property are before deducting fees on sale of trading property of £4.5m (2010: £4.1m) included within note 7.

## 6 Net rental income

	2011 £m	2010 £m
Gross rental income	<b>86.3</b>	75.6
Service charge income on a principal basis	<b>10.1</b>	7.2
Property repair and maintenance costs	<b>(22.4)</b>	(19.9)
Service charge expense on a principal basis	<b>(11.6)</b>	(10.0)
Property operating expenses (see note 9)	<b>(13.3)</b>	(12.1)
	<b>49.1</b>	40.8

There are no contingent rents recognised within net rental income in 2011 and 2010 relating to properties where the group acts as a lessor of assets under operating leases.

## 7 Profit on disposal of trading property

	2011 £m	2010 £m
Proceeds from sale of trading property	<b>187.3</b>	151.0
Carrying value of trading property sold	<b>(108.2)</b>	(90.8)
Other sales costs (see note 9)	<b>(6.8)</b>	(7.4)
	<b>72.3</b>	52.8

## 8 Profit on disposal of investment property

	2011 £m	2010 £m
Proceeds from sale of investment property	<b>24.6</b>	9.9
Carrying value of investment property sold	<b>(23.5)</b>	(9.5)
	<b>1.1</b>	0.4

## Notes to the financial statements continued

### 9 Administrative expenses

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:

	2011 £m	2010 £m
Total group expenses	<b>33.1</b>	30.7
	<b>2011 £m</b>	2010 £m
Property operating expenses (see note 6)	<b>13.3</b>	12.1
Costs directly attributable to the disposal of trading property (see note 7)	<b>6.8</b>	7.4
Administrative expenses	<b>13.0</b>	11.2
	<b>33.1</b>	30.7

### 10 Other income and expenses

	2011 £m	2010 £m
Property and asset management fee income	<b>6.9</b>	5.5
Crop store and agricultural income	–	0.3
Other sundry income	<b>1.1</b>	0.8
Cost on acquisition of subsidiary undertakings	<b>(2.4)</b>	(0.7)
Other sundry expenses	<b>(1.4)</b>	–
	<b>4.2</b>	5.9

### 11 Employees

	2011 £m	2010 £m
Wages and salaries	<b>13.9</b>	11.7
Termination benefits	<b>0.2</b>	2.1
Social security costs	<b>1.3</b>	1.2
Other pension costs – defined contribution scheme (see note 28)	<b>0.8</b>	0.7
Share-based payments (see note 32)	<b>2.0</b>	1.3
	<b>18.2</b>	17.0

Interest on net pension scheme liabilities amounted to £0.3m in 2011 (2010: £0.3m) and is included within finance costs (see note 13).



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

	<b>2011 Number</b>	2010 Number
UK tenanted residential	<b>258</b>	238
UK development	<b>6</b>	4
European tenanted residential	<b>10</b>	12
	<b>274</b>	254

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 54 to 56.

### Key management compensation

	<b>2011 £m</b>	2010 £m
Salaries and short-term employee benefits	<b>4.0</b>	3.0
Termination benefits	<b>0.2</b>	–
Post-employment benefits	<b>0.3</b>	0.2
Share-based payments	<b>0.9</b>	0.4
	<b>5.4</b>	3.6

Key management figures shown include both the executive and non-executive directors as well as senior managers who are members of the operations board.

## 12 Profit/(loss) before tax

	<b>2011 £m</b>	2010 £m
Profit/(loss) before tax is stated after charging/(crediting):		
Depreciation on fixtures, fittings and equipment (see note 18)	<b>0.6</b>	0.7
Impairment of goodwill (see note 22)	<b>2.2</b>	1.5
Net gain on acquisition of subsidiary (see note 41)	<b>(16.1)</b>	(2.8)
Bad debt expense	<b>0.7</b>	1.4
Foreign exchange (gains)/losses	<b>(0.8)</b>	1.0
Operating lease payments	<b>1.6</b>	1.7
Auditors' remuneration – Audit fees	<b>0.1</b>	0.1
Auditors' remuneration – Other fees	<b>0.5</b>	0.8

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 two to eleven 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 38.

## Notes to the financial statements continued

### 12 Profit/(loss) before tax continued

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

#### Auditors' remuneration

	2011 £'000	2010 £'000
<b>Audit fees</b>		
Fees payable to the company's auditors for the audit of the company's annual accounts	<b>146</b>	146
Fees payable to the company's auditors and their associates for other services to the group:		
The audit of the company's subsidiaries pursuant to legislation	<b>122</b>	131
<b>Total Audit fees</b>	<b>268</b>	277
<b>Other fees</b>		
Tax services	<b>90</b>	205
Other services	<b>227</b>	382
<b>Total Other fees</b>	<b>317</b>	587
<b>Total fees</b>	<b>585</b>	864

During the year, £90,000 was paid by the group to PricewaterhouseCoopers LLP for taxation services during the year. The audit committee give careful consideration before appointing the auditors to provide taxation advice and regularly use other providers to ensure that independence and full value for money are achieved. A further £227,000 was paid for other services, the main element of which was £185,000 relating to financial due diligence work on acquisitions made by the group during the year. These fees were one-off in nature.

## 13 Finance costs and income

	2011 £m	2010 £m
<b>Finance costs</b>		
Bank loans and mortgages	71.9	75.0
Non-bank Financial Institution	2.8	–
Convertible bond	1.7	1.7
Other finance costs	2.9	0.1
Foreign exchange (gains)/losses on financing activities	(0.8)	1.0
Loan issue costs – amortisation and write-off	3.8	3.2
Interest on net pension scheme liabilities (see note 28)	0.3	0.3
	<b>82.6</b>	<b>81.3</b>
<b>Finance income</b>		
Interest receivable from associates and joint ventures (see note 36)	1.2	2.4
Bank deposits	1.5	2.6
	<b>2.7</b>	<b>5.0</b>
Net finance costs	<b>79.9</b>	<b>76.3</b>

## 14 Taxation

	2011 £m	2010 £m
<b>Current tax</b>		
Corporation tax on profits	11.9	4.1
Adjustments relating to prior years	(11.3)	(4.2)
	<b>0.6</b>	<b>(0.1)</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(8.4)	(12.3)
Adjustments relating to prior years	(5.2)	2.4
	<b>(13.6)</b>	<b>(9.9)</b>
<b>Income tax credit for the year</b>	<b>(13.0)</b>	<b>(10.0)</b>

During the year ended 30 September 2011, the group concluded its discussions with HM Revenue & Customs in connection with a number of outstanding tax matters. This has resulted in a non-recurring exceptional credit of £10.2m within the prior year tax credits of £16.5m. The balance of £6.3m relates to the agreement that capital losses are available to reduce deferred tax on investment property revaluations, giving a credit of £2.8m, the settlement of overseas tax positions, giving a credit of £2.6m, and a credit of £0.9m in respect of the deficit on the BPT Limited pension scheme.

The group works in an open and transparent manner and maintains a regular dialogue with HM Revenue & Customs. This approach is consistent with the 'low risk' rating we have been awarded by HM Revenue & Customs and to which the group is committed.

## Notes to the financial statements continued

### 14 Taxation continued

Movements in taxation during the year are set out below:

	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 other comprehensive income £m	Closing balance £m
<b>2011 Movement in taxation</b>							
<b>Current tax</b>	<b>27.8</b>	<b>(4.4)</b>	<b>0.7</b>	<b>0.6</b>	<b>(0.1)</b>	<b>–</b>	<b>24.6</b>
<b>Deferred tax</b>							
Trading property uplift to fair value on acquisition	41.5	–	–	(3.7)	–	–	37.8
Investment property revaluation	9.2	–	1.2	(3.2)	–	–	7.2
Accelerated capital allowances	0.4	–	1.0	(0.1)	–	–	1.3
Short-term temporary differences	(21.6)	–	–	(6.6)	–	–	(28.2)
Actuarial deficit on BPT Limited pension scheme	(0.5)	–	–	–	–	0.3	(0.2)
Equity component of available-for-sale financial asset	1.5	–	–	–	–	(0.1)	1.4
Fair value movement in cash flow hedges and exchange adjustments	(16.3)	–	(2.3)	–	–	4.3	(14.3)
	<b>14.2</b>	<b>–</b>	<b>(0.1)</b>	<b>(13.6)</b>	<b>–</b>	<b>4.5</b>	<b>5.0</b>
<b>Total tax – 2011 movement</b>	<b>42.0</b>	<b>(4.4)</b>	<b>0.6</b>	<b>(13.0)</b>	<b>(0.1)</b>	<b>4.5</b>	<b>29.6</b>

	Opening balance £m	Repayments received in the year £m	Transfers £m	Acquired in the year £m	Movements recognised in income £m	Exchange adjustments £m	Movements recognised in other comprehensive income £m	Closing balance £m
<b>2010 Movement in taxation</b>								
<b>Current tax</b>	24.4	3.6	–	0.1	(0.1)	(0.2)	–	27.8
<b>Deferred tax</b>								
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 temporary 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)
	<b>21.1</b>	<b>–</b>	<b>–</b>	<b>2.4</b>	<b>(9.9)</b>	<b>(0.1)</b>	<b>0.7</b>	<b>14.2</b>
<b>Total tax – 2010 movement</b>	<b>45.5</b>	<b>3.6</b>	<b>–</b>	<b>2.5</b>	<b>(10.0)</b>	<b>(0.3)</b>	<b>0.7</b>	<b>42.0</b>

The tax credit for the year of £13.0m (2010: credit of £10.0m) comprises:

	2011 £m	2010 £m
UK taxation	<b>(11.5)</b>	(8.6)
Overseas taxation	<b>(1.5)</b>	(1.4)
	<b>(13.0)</b>	(10.0)

The main rate of Corporation Tax in the UK changed from 28% to 26% with effect from 1 April 2011 and will change to 25% from 1 April 2012. Accordingly the group's profits for this accounting period are taxed at an effective rate of 27% and should be taxed at 25.5% in the 2012 period. The change in tax rate has resulted in a £0.8m credit to the income statement in the current year.

The tax credit for the year is different to the charge for the year derived by applying the standard rate of corporation tax in the UK of 27% (2010: 28%) to the profit/(loss) before tax. The differences are explained below:

	2011 £m	2010 £m
Profit/(loss) before tax	<b>26.1</b>	(20.8)
Profit/(loss) before tax at a rate of 27% (2010: 28%)	<b>7.0</b>	(5.8)
Expenses not deductible for tax purposes	<b>1.8</b>	2.0
Goodwill credit not taxable	<b>(3.8)</b>	(0.4)
Impact of tax rate change	<b>(0.8)</b>	(0.9)
Other losses and non-taxable items	<b>(0.7)</b>	(3.0)
Adjustment in respect of prior periods	<b>(16.5)</b>	(1.9)
Total income tax credit in the income statement (see above)	<b>(13.0)</b>	(10.0)

As shown in note 29, deferred tax has been taken directly to other comprehensive income in relation to the actuarial gain or 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. The tax effect is shown separately within the statement of other comprehensive income on page 63.

#### Factors that may affect future tax charges

In addition to the changes in rates of Corporation Tax disclosed above, a number of changes to the UK Corporation Tax system are proposed. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% from 1 April 2014. These further changes have not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The effect of the changes expected to be enacted would be to increase the deferred tax liability provided at the balance sheet date by £0.1m. This £0.1m increase in the deferred tax liability would increase profit by £0.4m and decrease other comprehensive income by £0.5m. This increase in the deferred tax liability is due to the reduction in the corporation tax rate from 25% to 23% by 1 April 2014.

## Notes to the financial statements continued

### 15 Dividends

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

	2011 £m	2010 £m
Ordinary dividends on equity shares:		
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
Final dividend for the year ended 30 September 2010 – 1.20p per share	<b>4.9</b>	–
	<b>4.9</b>	7.4

The directors took the decision to return cash to shareholders by way of a share buyback rather than by paying an interim dividend for 2011 and a tender offer of 1 for every 238 shares at 149p was announced in May 2011. Pursuant to the tender offer a total of 1,484,890 ordinary shares were tendered at a price of 149p per share and were purchased by the company in June 2011 for £2.2m. This was equivalent to 0.53p per share.

A final dividend in respect of the year ended 30 September 2011 of 1.30p per share amounting to £5.3m will be proposed at the 2012 Annual General Meeting. If approved, this dividend will be paid on 10 February 2012 to shareholders on the register at close of business on 9 December 2011.

### 16 Earnings/(loss) per share

#### Basic

Basic earnings/(loss) per share is calculated by dividing the profit or loss attributable to the owners 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 earnings/(loss) 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 2011 was the end of the contingency period. The profit/(loss) 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, they are excluded from the calculation of diluted earnings/(loss) per share.

	30 September 2011			30 September 2010		
	Profit for the year £m	Weighted average number of shares (thousands)	Earnings per share pence	Loss for the year £m	Weighted average number of shares (thousands)	Loss per share pence
<b>Basic earnings/(loss) per share</b>						
Profit/(loss) attributable to equity holders	39.1	410,003	9.5	(10.8)	375,687	(2.9)
<b>Effect of potentially dilutive securities</b>						
Share options and contingent shares	–	5,472	(0.1)	–	–	–
<b>Diluted earnings/(loss) per share</b>						
Profit/(loss) attributable to equity holders	39.1	415,475	9.4	(10.8)	375,687	(2.9)

## 17 Investment property

	2011 £m	2010 £m
Opening balance	634.7	654.3
Additions:		
Acquisitions arising from business combinations (see note 41)	207.8	–
Acquisitions	–	13.0
Subsequent expenditure	5.4	2.1
Disposals	(23.5)	(9.5)
Net valuation deficits	(2.0)	(0.8)
Exchange adjustments	(2.5)	(24.4)
<b>Closing balance</b>	<b>819.9</b>	<b>634.7</b>

The group has valued all of its investment property as at 30 September 2011 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'. The fees paid to the independent valuers were not on a contingent basis.

A revaluation deficit of £2.0m has arisen on valuation of investment property to fair value as at 30 September 2011 (2010: deficit of £0.8m) and this has been taken to the income statement.

The historical cost of the group's investment property as at 30 September 2011 is £824.8m (2010: £638.0m).

Rental income from investment property during the year was £49.7m (2010: £41.7m).

Direct property repair and maintenance costs arising from investment property that generated rental income during the year was £12.4m (2010: £10.8m).

Direct operating expenses arising from investment property that did not generate rental income during the year amounted to nil (2010: nil).

The reduction in value of £2.5m (2010: £24.4m) relates to an exchange movement on the group's German residential property. This reflects the movement in the sterling/euro exchange rate between the respective year end dates.

## Notes to the financial statements continued

### 18 Property, plant and equipment

	Total 2011 £m	Total 2010 £m
<b>Cost</b>		
Opening cost	5.0	5.1
Additions	0.5	0.3
Disposals	–	(0.4)
<b>Closing cost</b>	<b>5.5</b>	5.0
<b>Accumulated depreciation</b>		
Opening accumulated depreciation	3.7	3.2
Charge for the year	0.6	0.7
Disposals	–	(0.2)
<b>Closing accumulated depreciation</b>	<b>4.3</b>	3.7
<b>Net book value:</b>		
<b>Closing net book value</b>	<b>1.2</b>	1.3
Opening net book value	1.3	1.9

All Property, plant and equipment relates to fixtures, fittings and equipment.

### 19 Investment in associates

	2011 £m	2010 £m
Opening balance	28.7	33.2
Share of profit	4.4	5.6
Profit on redemption of equity units	–	1.0
Proceeds on redemption of equity units	(0.1)	(9.8)
Acquisition of additional equity in G:res	0.3	–
Share of change in fair value of cash flow hedges taken through other comprehensive income	1.3	(1.3)
Closing balance	34.6	28.7
Disclosed as:		
Non-current assets	34.6	28.6
Current assets	–	0.1
Closing balance	34.6	28.7

In January 2009 the investors in Schroder ResPUT agreed to a controlled liquidation of the fund. The liquidation was completed by 31 March 2011. The equity stake in G:res1 Limited was increased from 21.63% to 21.96% during the year at a cost of £0.3m.



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As at 30 September 2011, the group's interest in associates was as follows:

	% of ordinary share capital/ units held	Country of incorporation
G:res1 Limited	21.96	Jersey

The accounting period end of G:res 1 Limited is 31 December 2011. Their results for 12 months to 30 September 2011 and their financial position as at that date have been equity accounted in these accounts as the three month period is considered to be material.

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:

	2011	2010		
	G:res 1 Limited £m	G:res 1 Limited £m	ResPUT £m	Total £m
Non-current assets	<b>83.9</b>	79.0	–	79.0
Current assets	<b>5.5</b>	5.7	0.1	5.8
Non-current liabilities	<b>(53.2)</b>	(54.4)	–	(54.4)
Current liabilities	<b>(1.6)</b>	(1.7)	–	(1.7)
Net assets	<b>34.6</b>	28.6	0.1	28.7
Revenues	<b>4.7</b>	4.4	–	4.4
Profit (including share of gain on revaluation of investment property)	<b>4.4</b>	5.5	0.1	5.6

## Notes to the financial statements continued

### 20 Investment in joint ventures

	Net assets £m	Loans £m	Goodwill £m	Total £m
At 1 October 2009	(3.3)	81.3	2.7	80.7
Loans advanced	–	9.3	–	9.3
Provision for impairment of loans receivable	–	(4.9)	–	(4.9)
Share of profit	4.6	–	–	4.6
Goodwill impairment arising on investment in Gebau Vermogen GmbH (see note 22)	–	–	(1.4)	(1.4)
Exchange adjustment	–	(0.1)	–	(0.1)
Share of change in fair value of cash flow hedges taken through other comprehensive income	2.8	–	–	2.8
At 30 September 2010	4.1	85.6	1.3	91.0
Loans advanced	–	3.3	–	3.3
Provision for impairment of loans receivable	–	(1.9)	–	(1.9)
Share of profit	2.1	–	–	2.1
Consolidation adjustment	(1.3)	–	–	(1.3)
Net assets acquired through sale of subsidiary into a joint venture	19.2	–	–	19.2
Net assets disposed of through transfer to subsidiary	(7.5)	(80.9)	–	(88.4)
Goodwill impairment arising on investment in Gebau Vermogen GmbH (see note 22)	–	–	(1.3)	(1.3)
Exchange adjustment	(0.1)	–	–	(0.1)
Share of change in fair value of cash flow hedges taken through other comprehensive income	1.3	–	–	1.3
<b>At 30 September 2011</b>	<b>17.8</b>	<b>6.1</b>	<b>–</b>	<b>23.9</b>

The provision for impairment of loans receivable in 2011 of £1.9m (2010: £4.9m) comprises the release of £3.3m of the provision made against the group's mezzanine loan to Grainger GenInvest No.2 (2006) LLP prior to the group's acquisition of the remaining 50% equity in that company (see note 41) and a £5.2m provision against the group's investment in its Czech Republic joint ventures.

These amounts are included within the provision for impairment on loans receivable net of write backs on the face of the consolidated income statement.

The net assets disposed of through transfer to a subsidiary of £88.4m represents the group's share of net assets and its loans to the two Grainger GenInvest LLP's which became subsidiaries of Grainger on 22 March 2011 (see note 41).

On 12 October 2010 a 50% interest in Sovereign Reversions Limited (formerly Sovereign Reversions plc) was sold to MREF II Equity Release Limited, a wholly-owned subsidiary of Moorfield Real Estate Fund II for consideration of £17.5m. The remaining net assets of £19.2m were transferred into investment in joint ventures. The consolidation adjustment of £1.3m represents our 50% share of interest and management fees receivable from the Sovereign Reversions joint venture. This amount has been deducted from other income and expenses and finance income in the consolidated income statement and share of profit of joint ventures after tax increased by the same amount.

Of the loans advanced of £3.3m (2010: £9.3m) only £2.1m (2010: £7.0m) was advanced in cash. The remaining £1.2m (2010: £2.3m) relates to interest income earned from the Grainger Geninvest LLP's (2011: prior to 22 March 2011) that was not received in cash.

A 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 still assessing the long-term impact with our advisers and aim to collaborate with other affected owners in the area. A provision of £4.9m was made in our 2010 year end accounts against the carrying value of our joint venture investment to write down the value of our investment to £nil and this provision is still being held. 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 2011, the group's interest in joint ventures was as follows:

	% of ordinary share capital held	Country of incorporation
Curzon Park Limited	50	United Kingdom
King Street Developments (Hammersmith) Limited	50	United Kingdom
Sovereign Reversions 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 2011. The results for 12 months to 30 September 2011 and the 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 2012. The results for 12 months to 30 September 2011 and the 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. In relation to the two Grainger GenInvest LLP's, the revenues and profits relate to the period from 1 October 2010 to 22 March 2011 when the group acquired the remaining 50% equity (see note 41).

## Notes to the financial statements continued

## 20 Investment in joint ventures continued

## 2011 Summarised income statement

	2011								Total £m
	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	Sovereign Reversions Limited £m	Gebau Vermogen GmbH £m		
Net rental income and other income	0.3	1.7	–	–	–	–	–	2.0	
Administration and other expenses	–	–	–	–	–	(0.4)	–	(0.4)	
Profit on disposal of investment property	0.1	–	–	–	–	0.6	–	0.7	
Operating profit before valuation gains	0.4	1.7	–	–	–	0.2	–	2.3	
Net valuation gains on investment property	1.7	2.2	–	–	–	–	–	3.9	
Operating profit after valuation gains	2.1	3.9	–	–	–	0.2	–	6.2	
Interest payable	(0.6)	(2.7)	(0.2)	(0.3)	–	(0.4)	–	(4.2)	
Change in fair value derivatives	–	–	–	–	–	(0.2)	–	(0.2)	
Profit/(loss) before tax	1.5	1.2	(0.2)	(0.3)	–	(0.4)	–	1.8	
Taxation	–	–	–	–	–	0.3	–	0.3	
Profit/(loss) after tax	1.5	1.2	(0.2)	(0.3)	–	(0.1)	–	2.1	

## 2011 Summarised balance sheet

	2011						Total £m
	Czech Republic combined £m	Curzon Park Limited £m	King Street Developments (Hammersmith) Limited £m	Sovereign Reversions Limited £m	Gebau Vermogen GmbH £m		
Current assets	14.8	18.6	2.0	36.6	0.7	72.7	
Total assets	14.8	18.6	2.0	36.6	0.7	72.7	
Non-current liabilities	–	(21.1)	–	(16.7)	(0.4)	(38.2)	
Current liabilities	(12.6)	–	(2.0)	(2.1)	–	(16.7)	
Net assets/(liabilities)	2.2	(2.5)	–	17.8	0.3	17.8	

## 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 gains	1.0	3.2	–	–	–	0.2	4.4	
Net valuation gains on investment properties	4.7	2.2	–	–	–	–	6.9	
Operating profit after valuation gains	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	

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.

## 21 Financial interest in property assets

	2011 £m	2010 £m
Opening balance	<b>103.9</b>	109.1
Cash received from the instrument	<b>(9.2)</b>	(10.8)
Amounts taken to income statement	<b>7.9</b>	2.5
Amounts taken to other comprehensive income before tax	<b>(0.3)</b>	3.1
<b>Closing balance</b>	<b>102.3</b>	103.9

## Notes to the financial statements continued

### 21 Financial interest in property assets

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 2011 we have revised our assessment of the projected future cash flows from the instrument. This has contributed to a decrease in the fair value of £0.3m (2010: increase of £3.1m) before tax which has been taken through the statement of other comprehensive income and the available-for-sale reserve.

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.

The CHARM portfolio is considered to be a Level 3 financial asset as defined by IFRS 7. The key assumptions used to value the asset are set out within note 2 'Critical accounting estimates and assumptions', and the financial asset is included within the fair value hierarchy within note 25.

### 22 Goodwill

	2011 £m	2010 £m
Opening balance	6.2	5.9
Arising on prior year acquisition	–	0.4
Impairment charge taken to income statement	(0.9)	(0.1)
<b>Closing balance</b>	<b>5.3</b>	<b>6.2</b>

Goodwill arising in the prior year of £0.4m relates to the group's acquisition of PHA Limited on 31 March 2010 (see note 42).

The total goodwill impairment charge in the income statement comprises:

	2011 £m	2010 £m
Impairment charge as shown above	(0.9)	(0.1)
Impairment charge relating to Gebau Vermogen GmbH (see note 20)	(1.3)	(1.4)
	<b>(2.2)</b>	<b>(1.5)</b>

## 23 Inventories – trading property

	2011 £m	2010 £m
Residential trading property	<b>1,024.9</b>	908.5
Development trading property	<b>80.2</b>	81.4
	<b>1,105.1</b>	989.9

The market value of inventories as at 30 September 2011 was £1,449.1m (2010: £1,321.4m).

Provisions of £1.8m against the net realisable value of residential trade property have been charged to the consolidated income statement in the year. (2010: credit to income statement of £2.9m). 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 7 'Profit on disposal of trading property' and amounted to £108.2m (2010: £90.8m).

It is not possible for the group to identify which properties will be sold within the next twelve months. The size of the group's property portfolio does result in a relatively predictable vacancy rate. However, it is not possible to predict in advance the specific properties that will become vacant. Trading property is shown as a current asset in the consolidated statement of financial position.

## 24 Trade and other receivables

	2011 £m	2010 £m
Trade receivables	<b>11.5</b>	8.8
Deduct: Provision for impairment of trade receivables	<b>(2.1)</b>	(2.0)
Trade receivables – net	<b>9.4</b>	6.8
Other receivables	<b>17.7</b>	16.0
Deduct: Provision for impairment of other receivables	<b>(12.9)</b>	(10.6)
Other receivables – net	<b>4.8</b>	5.4
Prepayments	<b>4.1</b>	5.0
	<b>18.3</b>	17.2

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

Other receivables includes a loan of £nil net of an impairment provision of £12.9m (2010: loan of £1.6m net of an impairment provision of £10.6m) made to the Mornington Capital Special Situations Co-investment Fund 1 Limited Partnership ('Mornington'). The increase in the provision arises from a revision of the cash flow projections. The increase in the balance before provision arises from the addition of unpaid interest receivable and foreign exchange movements. No further cash investment has been made in the year. 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 reasonable 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 £3.2m (2010: £2.4m) made to Clarins Limited 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 £4.3m on sale of the developed property. The loan is secured by a charge on the property being developed.

## Notes to the financial statements continued

### 24 Trade and other receivables continued

As at 30 September 2011, tenant arrears of £2.1m within trade receivables were impaired and fully provided for (2010: £2.0m). The individually impaired receivables are based on a review of outstanding arrears and an assessment of collectability. The ageing of these receivables is:

	2011 £m	2010 £m
Up to two months	0.1	0.1
Three months or more	2.0	1.9
	<b>2.1</b>	2.0

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

	2011 £m	2010 £m
Up to two months	2.7	2.5

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

	2011 £m	2010 £m
Pounds Sterling	15.7	13.1
Euros	2.6	4.1
	<b>18.3</b>	17.2

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

	2011 £m	2010 £m
Opening balance	2.0	2.2
Provision for receivables impairment during the year	0.7	2.2
Receivables written off during the period as not recoverable	(0.6)	(1.6)
Unused amounts reversed	–	(0.8)
Closing balance	<b>2.1</b>	2.0



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 6). Amounts provided for are generally written off when there is no expectation of recovering additional cash.

The loan due from Mornington included within other receivable has been fully impaired and the provision made in the year of £2.3m (2010: £5.8m) is included within the provision for impairment on loans 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 £4.0m (2010: £3.7m) 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.

## 25 Financial risk management and derivative financial instruments

### Financial risk management

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

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

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

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

## Notes to the financial statements continued

### 25 Financial risk management and derivative financial instruments continued

#### Categories of financial instruments

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

	2011						
	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	–	–	–	102.3	102.3	102.3	–
Trade and other receivables	14.2	–	–	–	14.2	14.2	–
Derivative financial instruments	–	0.2	–	–	0.2	0.2	–
Cash and cash equivalents	90.9	–	–	–	90.9	90.9	–
<b>Total financial assets</b>	<b>105.1</b>	<b>0.2</b>	<b>–</b>	<b>102.3</b>	<b>207.6</b>	<b>207.6</b>	<b>–</b>
		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
<b>Non-current liabilities</b>							
Interest-bearing loans and borrowings	–	–	–	1,428.0	1,428.0	1,441.9	13.9
Trade and other payables	–	–	–	4.0	4.0	4.0	–
Provisions for other liabilities and charges	–	–	–	0.6	0.6	0.6	–
<b>Current liabilities</b>							
Interest-bearing loans and borrowings	–	–	–	116.7	116.7	116.7	–
Trade and other payables	–	–	–	18.2	18.2	18.2	–
Derivative financial instruments	–	91.8	62.7	–	154.5	154.5	–
<b>Total financial liabilities</b>	<b>–</b>	<b>91.8</b>	<b>62.7</b>	<b>1567.5</b>	<b>1,722.0</b>	<b>1,735.9</b>	<b>13.9</b>
<b>Total net financial assets/(liabilities)</b>	<b>105.1</b>	<b>(91.6)</b>	<b>(62.7)</b>	<b>(1,465.2)</b>	<b>(1,514.4)</b>	<b>(1,528.3)</b>	<b>(13.9)</b>

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	–
<b>Total financial assets</b>	<b>103.7</b>	<b>–</b>	<b>–</b>	<b>103.9</b>	<b>207.6</b>	<b>207.6</b>	<b>–</b>
		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
<b>Non-current liabilities</b>							
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	–
<b>Current liabilities</b>							
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	–
<b>Total financial liabilities</b>	<b>–</b>	<b>72.7</b>	<b>55.6</b>	<b>1,437.9</b>	<b>1,566.2</b>	<b>1,578.9</b>	<b>12.7</b>
<b>Total net financial assets/(liabilities)</b>	<b>103.7</b>	<b>(72.7)</b>	<b>(55.6)</b>	<b>(1,334.0)</b>	<b>(1,358.6)</b>	<b>(1,371.3)</b>	<b>(12.7)</b>

The fair value adjustment relates to the group's fixed rate loan with Lloyds TSB Bank plc, the liability component of the convertible bond, and the group's fixed rate loans with UniCredit Bank AG 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 consolidated statement of financial position.

## Notes to the financial statements continued

### 25 Financial risk management and derivative financial instruments continued

#### Credit risk

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

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

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

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 2011 amounted to £90.9m (2010: £91.5m). Deposits were placed with financial institutions with A- or better credit ratings.

At 30 September 2011, the fair value of all interest rate derivatives which had a positive value was £0.2m (2010: nil). For 2011 balances, all the counterparties have investment grade credit ratings.

At 30 September 2011, the largest combined credit exposure to a single counterparty arising from money market deposits and interest rate swaps was £246.8m (2010: £291.7m) which represents 11.0% (2010: 14.1%) of total assets.

At 30 September 2011, the loan advanced to Mornington Capital Special Situations Co-investment Fund 1 Limited Partnership was impaired on the basis of discounted future cash flows (see note 24).

#### Liquidity risk

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

Although the group's core funding is supported by covenants requiring certain levels of loan to value with respect to the entities in the group of obligors and to maintaining a certain level of interest cover at the group level the loan is not secured directly against any property allowing operational flexibility. The group has operated well within its covenants during 2011 and as at 30 September 2011 (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 and other sources to allow for operational flexibility and to meet committed expenditure.

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 pages 115 and 116. 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
<b>At 30 September 2011</b>					
Interest-bearing loans and borrowings	173.3	62.9	1,240.7	447.2	1,924.1
Cash flow hedges	23.2	18.5	17.8	11.2	70.7
Derivatives at fair value through profit and loss	12.0	12.9	35.7	35.8	96.4
Trade and other payables	56.3	4.0	–	–	60.3
Provision for liabilities and charges	0.1	0.1	0.4	0.4	1.0

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
<b>At 30 September 2010</b>					
Interest-bearing loans and borrowings	92.0	90.1	1,185.4	198.2	1,565.7
Cash flow hedges	22.4	19.9	20.6	1.3	64.2
Derivatives at fair value through profit and loss	10.5	11.7	28.7	18.4	69.3
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

### 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
<b>At 30 September 2011</b>					
Interest-bearing loans and borrowings (see note 26)	116.7	8.9	1,082.0	337.1	1,544.7
Foreign exchange impact of forward rates	–	–	(0.4)	(0.4)	(0.8)
Interest	52.0	49.4	148.1	107.0	356.5
Unamortised borrowing costs	4.6	4.6	11.0	3.5	23.7
Financial liability cash flows shown above	173.3	62.9	1,240.7	447.2	1,924.1

## Notes to the financial statements continued

### 25 Financial risk management and derivative financial instruments continued

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 30 September 2010					
Interest-bearing loans and borrowings (see note 26)	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

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

#### Maturity of committed undrawn borrowing facilities

	2011 £m	2010 £m
Expiring:		
Within one year	<b>171.2</b>	5.0
Between one and two years	–	–
Between two and five years	–	188.1
Total	<b>171.2</b>	193.1

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 significantly 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 value at fair value. These are as follows:

Level 1 – quoted prices in active markets for identified assets and 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 assets and liabilities that are not based on observable market data.

The fair value of swaps and other financial instruments is derived from the present value of future cash flows discounted at rates obtained by means of the current yield curve appropriate for those instruments. As all significant inputs required to value the swaps are observable, they all fall within level 2.

The CHARM portfolio falls within level 3, inputs not based on observable market data. Note 21 provides a reconciliation of movements and amounts recognised in the income statement and other comprehensive income. The basis of valuation and the sensitivity to changes in the key valuation assumptions are documented in note 2, 'Critical accounting estimates and assumptions'.

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

	2011		2010	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Level 3				
Financial interest in property assets	<b>102.3</b>	–	103.9	–
Level 2				
Interest rate swaps – in cash flow hedge accounting relationships	–	<b>62.7</b>	–	55.6
Interest rate swaps – not in cash flow hedge accounting relationships	<b>0.2</b>	<b>91.8</b>	–	72.7
	<b>102.5</b>	<b>154.5</b>	103.9	128.3

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 2011 was £986.5m (2010: £932.2m).

All of the financial derivatives included in the above table were valued by external consultants, J.C. Rathbone Associates 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 are taken directly to the income statement. However, where cash flow hedges have been viewed as being effective, and have been designated as such, any gains or losses have been taken to other comprehensive income through the cash flow hedge reserve.

A valuation was carried out at 30 September 2011 by external consultants, J.C. Rathbone Associates 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 2011 £m	Fair value at 30 September 2011 £m
Fixed rate loan facilities	<b>80.8</b>	<b>94.7</b>

	Book value at 30 September 2010 £m	Fair value at 30 September 2010 £m
Fixed rate loan facilities	83.8	96.5

### 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 2011, 73% (2010: 75%) of the group's net borrowings were economically hedged to fixed or capped rates.

## Notes to the financial statements continued

### 25 Financial risk management and derivative financial instruments continued

At 30 September 2011, the weighted average interest rate of the group's fixed rate debt is 4.2% (2010: 4.2%). The weighted average period for which the rate is fixed is 17.9 years (2010: 18.3 years).

At 30 September 2011 the fixed interest rates on the interest rate swap contracts vary from 2.805% to 5.26% (2010: 3.51% to 5.26%) with a weighted average rate of 4.5% (2010: 4.6%) and a weighted average maturity of 7.0 years (2010: 7.0 years).

At 30 September 2011 the weighted average interest rate of the group's variable rate debt is 2.9% (2010: 1.9%). The weighted average debt maturity is 5.0 years (2010: 2.7 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 £4.6m (2010: £4.1m). Similarly a 1% decrease would increase annual profits by £4.4m (2010: £4.1m).

Based on the group's interest rate profile at the balance sheet date a 1% increase in interest rates would decrease the group's equity by £3.4m (2010: £3.0m). Similarly a 1% decrease would increase the group's equity by £3.2m (2010: £3.0m).

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 interest yield curve. Where the group's swaps qualify as effective hedges under IAS 39, these movements in fair value are recognised directly in other comprehensive income rather than the income statement.

As at 30 September 2011, the market value of derivatives designated as cash flow hedges under IAS 39, is a net liability of £62.7m (2010: net liability of £55.6m). The fair value movement on derivatives not in hedge accounting relationships and amounts reclassified from equity to the income statement amounted, in aggregate, to a charge of £28.0m (2010: charge of £39.6m) in the income statement analysed as follows:

	2011 £m	2010 £m
Fair value movement on derivatives not designated as cash flow hedges	<b>18.8</b>	33.4
Amounts reclassified from equity to the income statement	<b>9.2</b>	6.2
	<b>28.0</b>	39.6

At 30 September 2011, the market value of derivatives not designated as cash flow hedges under IAS 39, is a net liability of £91.6m (2010: net liability of £72.7m). The cash flows occur and enter in the determination of profit and loss until the maturity of the hedged debt.

The table below summarises debt hedged at 30 September 2011.

#### Cash flow hedged debt

	2011 £m	2010 £m
Cash flow hedges maturing:		
Within one year	<b>24.1</b>	75.0
Between one and two years	<b>298.8</b>	13.0
Between two and five years	<b>553.2</b>	789.0
Over five years	<b>110.4</b>	55.2
	<b>986.5</b>	932.2



## Interest rate profile – including the effect of derivatives

	2011			2010		
	Sterling £m	Euro £m	Total £m	Sterling £m	Euro £m	Total £m
Fixed rate	56.8	24.0	80.8	58.6	25.2	83.8
Hedged rate	712.9	349.7	1,062.6	630.0	366.0	996.0
Variable rate	364.2	60.8	425.0	292.9	54.3	347.2
	<b>1,133.9</b>	<b>434.5</b>	<b>1,568.4</b>	981.5	445.5	1,427.0

## Foreign exchange risk

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

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

	2011 Euro £m	2010 Euro £m	2011 Czech Koruna £m	2010 Czech Koruna £m
Gross foreign currency assets	451.2	459.7	2.2	7.5
Gross foreign currency liabilities	(461.1)	(475.4)	–	–
<b>Net exposure</b>	<b>(9.9)</b>	<b>(15.7)</b>	<b>2.2</b>	<b>7.5</b>

As at 30 September 2011 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 £0.3m (2010: £0.2m) and equity by £1.0m (2010: £1.6m).

As at 30 September 2011 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 £0.5m (2010: £0.3m) and equity by £0.2m (2010: £0.8m).

## 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. On 30 September 2011 the group signed a new Forward Start Facility providing £840m of committed facilities which will be used to refinance the group's existing core facilities. In addition, the group has signed two debt financing agreements with Partnership Assurance since the year end securing an aggregate amount of £78.9m of new financing. More information is provided in note 2 'Critical accounting estimates and assumptions'.

## 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 2011 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 £0.8m (2010: £0.9m).

## Notes to the financial statements continued

### 25 Financial risk management and derivative financial instruments continued

There is no effect on equity as a result of a change in house prices as in accordance with IAS 39 AG8 changes to future cash flows are recognised through the income statement.

We have considered the impact of changes to the vacation rate used in the cash flow model. However, we do not consider this to be a material risk and actual experience to date has been very close to the vacation assumption adopted in the model.

#### 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 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 the 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 covenants and projected future levels to monitor anticipated compliance and available headroom against key thresholds. For the group as a whole the board does not have a specific loan to value target but it is reviewed in the context of the board's view of markets, the prospects of and risks relating to the portfolio and the recurring cash flows of the business.

The group monitors its cost of debt and weighted average cost of capital (WACC) on a regular basis. At 30 September 2011, the weighted average cost of debt was 5.8% (2010: 5.0%) and the WACC was 4.91% (2010: 5.66%). Investment and development opportunities are evaluated using a risk adjusted 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.

### 26 Financial assets and liabilities

#### i) Interest-bearing loans and borrowings

	2011 £m	2010 £m
<b>Current liabilities</b>		
Bank loans	<b>116.3</b>	49.8
Loan notes	–	5.5
Mortgages	<b>0.4</b>	0.3
	<b>116.7</b>	55.6
<b>Non-current liabilities</b>		
Bank loans	<b>1,285.7</b>	1,318.6
Non-bank financial institution	<b>98.9</b>	–
Mortgages	<b>20.9</b>	21.5
Convertible bond	<b>22.5</b>	21.6
	<b>1,428.0</b>	1,361.7
<b>Total interest-bearing loans and borrowings</b>	<b>1,544.7</b>	1,417.3

The group's core banking facility as at 30 September 2011 was £1,093m of which £927m was drawn. Committed but undrawn amounts under the group's core banking facility were therefore £166m.

In addition, the group had free cash balances plus available overdraft facilities of £48m as at 30 September 2011. The group signed a new £840m Forward Start Facility on 30 September 2011 which is available for drawdown at any time up to 30 September 2012. When this is drawn, it will be used to repay the amount drawn on the group's core banking facility.

As disclosed further in note 2 on page 83, the group has signed two debt financing agreements with Partnership Assurance since the year end securing an aggregate amount of £78.9m of new debt financing. This new debt is being used to reduce the core banking facility mentioned above.

The group has sufficient flexibility through cash generation and these new facilities to ensure that it can operate its business as planned and meet its strategic objectives.

#### (a) Analysis of bank loans

	2011 £m	2010 £m
Bank loans – Pounds Sterling	1,011.2	954.1
Bank loans – Euro	413.2	423.7
	<b>1,424.4</b>	1,377.8

Sterling bank loans include variable rate loans bearing interest at rates between 0.9% and 3.8% above LIBOR and Euro bank loans include variable rate loans bearing interest at rates between 0.6% and 2.4% above EURIBOR. Fixed rate loans bear interest at rates between 5.2% and 7.5%.

The weighted average interest rate on bank loans as at 30 September 2011 was 5.9% (2010: 5.1%). Bank loans are secured by fixed and floating charges over specific property and other assets of the group.

#### (b) Analysis of non-bank financial institutions

	2011 £m	2010 £m
Variable rate – Pounds Sterling	100.0	–

The variable rate loan from M & G UK Companies Financing Fund LP is secured by floating charges over the assets of the group. The loan bears interest at 4% over LIBOR.

#### (c) Analysis of loan notes

	2011 £m	2010 £m
Fixed Rate – Pounds Sterling	–	0.3
Floating rate – Pounds Sterling	–	5.2
	–	5.5

The outstanding loan notes at the start of the year of £5.5m were virtually all repaid during the year with the balance as at 30 September 2011 having reduced to £48,000.

## Notes to the financial statements continued

### 26 Financial assets and liabilities continued

#### (d) Mortgages

	2011 £m	2010 £m
Mortgages – Euro	<b>21.3</b>	21.8

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%.

#### (e) Convertible bond

	2011 £m	2010 £m
Opening balance	<b>21.9</b>	21.3
Early conversion during the year	–	–
Amortised during the year	<b>0.8</b>	0.6
Closing balance (Pounds Sterling)	<b>22.7</b>	21.9

The analysis of the loans and borrowings in the above tables (a) to (e) is before deducting unamortised issue costs of £23.7m (2010: £9.7m) 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, £1.1m within two to five years and £19.9m after more than five years. The effective interest rate on borrowings during the year was 5.4% (2010: 5.6%).

The maturity profile of the group's debt, net of finance costs and including the new £840m forward start facility signed on 30 September 2011 is as follows:

	2011 £m	2010 £m
Within one year	<b>116.7</b>	55.6
Between one and two years	<b>8.9</b>	51.4
Between two and five years	<b>1,082.0</b>	1,144.9
Over five years	<b>337.1</b>	165.4
	<b>1,544.7</b>	1,417.3

**ii) Financial assets**

The group has the following cash and cash equivalents at 30 September 2011:

	2011 £m	2010 £m
Pounds Sterling	<b>64.8</b>	77.7
Euros	<b>25.9</b>	13.6
Czech Koruna	<b>0.2</b>	0.2
	<b>90.9</b>	91.5

Cash and cash equivalents can be analysed as follows:

	2011 £m	2010 £m
Cash at bank	<b>23.4</b>	22.7
Short-term deposits	<b>67.5</b>	68.8
	<b>90.9</b>	91.5

Short-term deposits totalling £nil (2010: £5.4m) with an average maturity of three months are held as cash collateral. These have an effective interest rate of nil (2010: 0.6%).

Included within 2011 year end cash balances is £11.7m (2010: £7.5m) 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 £67.5m was placed on deposit (2010: £63.4m) at effective interest rates between 0.75% and 1.23% (2010: 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 2011 (2010: £5m).

## Notes to the financial statements continued

### 27 Non-current liabilities

	2011 £m	2010 £m
<b>i) Trade and other payables</b>		
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.

	2011 £m	2010 £m
<b>ii) Provisions for other liabilities and charges</b>		
Other	0.6	0.8

### 28 Pension costs

#### Defined contribution scheme

The group operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the group in independently administered funds. Pension arrangements for directors are disclosed in the report of the remuneration committee and the directors' remuneration report on page 51 and page 54. The pension cost charge in these financial statements represents contributions payable by the group. The charge of £0.8m (2010: £0.7m) is included within employee remuneration in note 11.

#### Defined benefit scheme

In addition to the above, the group also operates a final salary defined benefit pension scheme, the BPT Limited Retirement Benefits Scheme. The assets of the scheme are held separately in funds administered by trustees and are invested with Friends 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. The last actuarial valuation issued was as at 1 July 2007 although the valuation as at 1 July 2010 is substantially complete as at the date of these financial statements. 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 accrual ceased (or date of leaving if earlier).

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 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 provisional actuarial valuation carried out as at 1 July 2010 but have been updated to 30 September 2011 by a qualified independent actuary.

### Principal actuarial assumptions under IAS 19

	2011	2010
Discount rate	<b>5.30% p.a.</b>	4.90% p.a.
Price inflation	<b>3.40% p.a.</b>	3.10% p.a.
Salary increases	<b>4.40% p.a.</b>	4.60% p.a.
Rate of increase of pensions in payment	<b>5.00% p.a.</b>	5.00% p.a.
Rate of increase for deferred pensioners	<b>3.40% p.a.</b>	3.10% p.a.
	<b>Year commencing 1 October 2011</b>	Year commencing 1 October 2010
Expected return on assets	<b>4.80% p.a.</b>	5.00% p.a.

The overall expected return on assets assumption of 4.80% p.a. as at 30 September 2011 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;
- Cash, current Bank of England base rate; and
- Insured pensioner policies, in line with the discount rate.

## Notes to the financial statements continued

### 28 Pension costs continued

#### Demographic assumptions

	2011	2010
Mortality tables for pensioners	<b>100% of S1PA1c year of birth tables allowing for a minimum improvement factor of 1.25% for males and 0.75% for females each year</b>	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
Mortality tables for non-pensioners	<b>As for pensioners</b>	As for pensioners

#### Life expectancies

	30 September 2011		30 September 2010	
	Males	Females	Males	Females
Life expectancy for a current 65 year old	<b>87.7 years</b>	<b>90.1 years</b>	88.2 years	90.3 years
Life expectancy at age 65 for a current 55 year old	<b>89.0 years</b>	<b>90.9 years</b>	89.5 years	91.1 years

#### Market value of scheme assets and expected rates of return

The assets of the scheme are invested in a diversified portfolio as follows:

	30 September 2011			30 September 2010		
	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	<b>5.9</b>	<b>32%</b>	<b>5.5%</b>	6.2	33%	6.1%
Bonds	<b>7.9</b>	<b>42%</b>	<b>5.1%</b>	7.5	40%	4.4%
Properties	<b>0.4</b>	<b>2%</b>	<b>5.5%</b>	0.3	2%	6.1%
Other	<b>0.5</b>	<b>3%</b>	<b>0.5%</b>	0.5	3%	0.5%
Insurance policies	<b>3.9</b>	<b>21%</b>	<b>5.3%</b>	4.1	22%	4.9%
Total value of assets	<b>18.6</b>	<b>100%</b>		18.6	100%	
The actual return on assets over the period was	<b>0.4</b>			2.0		

The assets of the scheme are held with Friends 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 5.5% in 2011 and 6.1% in 2010 are 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**

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Market value of scheme assets	<b>18.6</b>	18.6	16.7	15.2	14.0
Present value of scheme liabilities	<b>(23.1)</b>	(24.6)	(22.5)	(17.3)	(16.7)
Scheme deficit at 30 September	<b>(4.5)</b>	(6.0)	(5.8)	(2.1)	(2.7)

**History of assets, liabilities, experience gains and losses**

	2011	2010	2009	2008	2007
Gains/(losses) arising on scheme liabilities:					
Due to experience	<b>£0.1m</b>	–	–	£1.3m	–
Percentage of defined benefit obligation	<b>0.4%</b>	–	–	7.5%	–
Due to change of basis	<b>£1.7m</b>	£(1.6)m	£(5.0)m	£1.7m	£2.0m
Percentage of defined benefit obligation	<b>7.4%</b>	(6.5)%	(22.2)%	9.8%	12.0%
Experience adjustments:					
Gains/(losses) arising on scheme assets	<b>£(0.6)m</b>	£1.1m	£1.0m	£(2.6)m	–
Percentage of scheme assets	<b>(3.2)%</b>	5.9%	6.0%	(17.1)%	–

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

	2011 £m	2010 £m
Present value of projected defined benefit obligation at the start of the year	<b>24.6</b>	22.5
Interest on pension scheme liabilities	<b>1.2</b>	1.2
Actuarial (gain)/loss	<b>(1.8)</b>	1.6
Benefits paid	<b>(0.9)</b>	(0.7)
Present value of projected defined benefit obligation at the end of the year	<b>23.1</b>	24.6

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

	2011 £m	2010 £m
Market value of scheme assets at the start of the year	<b>18.6</b>	16.7
Expected return on scheme assets	<b>0.9</b>	0.9
Employer contributions	<b>0.6</b>	0.6
Actuarial (loss)/gain	<b>(0.6)</b>	1.1
Benefits paid	<b>(0.9)</b>	(0.7)
Market value of scheme assets at the end of the year	<b>18.6</b>	18.6

## Notes to the financial statements continued

### 28 Pension costs continued

#### Pension cost recognised in the income statement

	2011 £m	2010 £m
Interest on pension scheme liabilities	1.2	1.2
Expected return on pension scheme assets	(0.9)	(0.9)
Total pension cost	0.3	0.3

The total pension cost shown above has been included within Finance costs (see note 13).

#### Actuarial gain/(loss) recognised in the consolidated statement of comprehensive income

	2011 £m	2010 £m
Actual return less expected return on assets	(0.6)	1.1
Gain/(loss) on change of assumptions	1.8	(1.6)
Total actuarial gain/(loss) before tax	1.2	(0.5)

The actuarial gain shown in the above tables of £1.2m (2010: loss of £0.4m) has been included in the consolidated statement of comprehensive income (see page 63).

#### Future funding obligation

The last actuarial valuation of the scheme was performed by the Actuary for the Trustees as at 1 July 2007. As a result of this valuation the group agreed a recovery plan with the Trustees to run over seven years to pay annual deficit contributions of £580,200. Based on this plan the company 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 2011. The next actuarial valuation of the scheme as at 1 July 2010 is currently being finalised. Following completion of this valuation, the contributions required to be paid by the group are likely to increase.

#### 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% p.a.	decrease in deficit of £0.4m
Inflation increased by 0.1% p.a.	increase in deficit of £0.1m
Life expectancies increased by one year	increase in deficit of £0.7m

The cumulative amount of actuarial losses recognised in the consolidated statement of comprehensive income before deferred taxation is £1.0m (2010: £2.2m).

## 29 Deferred tax

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

	2011 £m	2010 £m
Opening balance	14.2	21.1
Acquisition of subsidiaries in the year	(0.1)	2.4
Recognised in the income statement	(13.6)	(9.9)
Recognised in other comprehensive income:		
Actuarial gain/ (loss) on BPT pension scheme	0.3	(0.1)
Fair value movement in cash flow hedges and exchange adjustments	4.3	–
Equity component of available-for-sale financial asset	(0.1)	0.8
Exchange adjustments	–	(0.1)
Closing balance	5.0	14.2

Deferred tax balances are disclosed as follows:

Deferred Tax assets- non-current assets	42.7	38.4
Deferred Tax liabilities- non-current liabilities	(47.7)	(52.6)
Deferred tax	(5.0)	(14.2)

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 £84.9m (2010: £88.4m).

Information relating to group's deferred tax is being shown gross to identify both the deferred tax asset and deferred tax liability rather than the net liability shown in previous years. Comparatives have also been restated.

It is not possible for the group to identify the timing of movements in deferred tax between those expected within one year and those expected in greater than one year. This is because movements in the main balances, both assets and liabilities, will be determined by factors outside the control of the group, namely the vacation date of properties and interest yield curve movements. However, given the long-term nature of our property ownership, we anticipate that the balance will predominantly be crystallised in a period greater than one year.

## 30 Trade and other payables

	2011 £m	2010 £m
Deposits received	4.0	3.7
Trade payables	12.7	10.9
Taxation and social security	1.5	1.2
Accruals and deferred income	58.2	41.5
	76.4	57.3

Trade payables includes £nil (2010: £0.6m) relating to acquisitions of property where contracts have either been unconditionally exchanged or notarised.

Accruals and deferred income includes £20.1m (2010: £22.7m) of rent received in advance relating to lifetime leases.

## Notes to the financial statements continued

### 31 Share capital

	2011 £m	2010 £m
<b>Authorised</b>		
500,000,000 (2010: 500,000,000) ordinary shares of 5p each	<b>25.0</b>	25.0
<b>Allotted, called-up and fully paid:</b>		
416,372,103 (2010: 416,362,420) ordinary shares of 5p each	<b>20.8</b>	20.8

The group paid £0.6m to the share incentive plan during the year for the purchase of matching shares and free shares in the scheme. In addition, the group returned £2.2m to shareholders by way of a tender offer for shares during the year (see note 15). The total cost of acquiring own shares of £2.8m (2010: £4.5m) has been deducted from retained earnings within shareholders' equity (see note 34).

As at 30 September 2011, share capital included nil (2010: 46,803) shares held by The Grainger Trust Employee Trustee Company Limited, 5,833,401 (2010: 5,976,623) shares held by The Grainger Employee Benefit Trusts and 1,506,300 (2010: 21,410) shares held by Grainger plc as treasury shares. The total of these shares is 7,339,701 (2010: 6,044,836) with a nominal value of £366,985 (2010: £302,242) and a market value as at 30 September 2011 of £6.4m (2010: £6.6m).

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

	Number	Nominal value £'000
At 1 October 2009	138,798,113	6,940
Issue of shares under the rights issue	277,553,406	13,878
Options exercised under the SAYE scheme	10,901	–
At 30 September 2010	416,362,420	20,818
Options exercised under the SAYE scheme	9,683	–
<b>At 30 September 2011</b>	<b>416,372,103</b>	<b>20,818</b>

## Share options

Certain senior executives hold options to subscribe for shares in the company under the long-term incentive scheme ('LTIS'). In addition, the company operates a SAYE share option scheme available to employees. The number of shares subject to options as at 30 September 2011, 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 December 2009.

Year of grant	Exercise price (pence)	Exercise period	2011 number	2010 number
<b>Long-term Incentive Scheme (LTIS)</b>				
2003	111.0	2006 – 13	<b>20,814</b>	20,814
			<b>20,814</b>	20,814
<b>HMR &amp; C Approved Executive Share Option Scheme</b>				
2011	94.4	2013 – 20	<b>127,088</b>	–
			<b>127,088</b>	–
<b>SAYE share options</b>				
2007	262.8	2010 – 13	–	1,003
2008 (A)	97.1	2011 – 14	<b>100,872</b>	124,110
2008 (B)	37.7	2012 – 14	<b>2,086,814</b>	2,166,864
2009	68.3	2012 – 15	<b>127,788</b>	133,903
2010	90.8	2013 – 16	<b>102,998</b>	113,304
2011	98.7	2014 – 17	<b>99,722</b>	–
			<b>2,518,194</b>	2,539,184
Total share options			<b>2,666,096</b>	2,559,998

## Notes to the financial statements continued

### 31 Share capital continued

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

	Opening position	Exercised	Granted	Lapsed	Closing position
<b>LTIS schemes</b>					
2003	20,814	–	–	–	<b>20,814</b>
	20,814	–	–	–	<b>20,814</b>
Weighted average exercise price (pence per share)	111.0	–	–	–	<b>111.0</b>
<b>HMR &amp; C Approved Executive Share Option Scheme</b>					
2011	–	–	127,088	–	<b>127,088</b>
	–	–	127,088	–	<b>127,088</b>
Weighted average exercise price (pence per share)	–	–	94.4	–	<b>94.4</b>
<b>SAYE scheme</b>					
2007	1,003	–	–	(1,003)	–
2008 (A)	124,110	(9,683)	–	(13,555)	<b>100,872</b>
2008 (B)	2,166,864	–	–	(80,050)	<b>2,086,814</b>
2009	133,903	–	–	(6,115)	<b>127,788</b>
2010	113,304	–	–	(10,306)	<b>102,998</b>
2011	–	–	99,722	–	<b>99,722</b>
	2,539,184	(9,683)	99,722	(111,029)	<b>2,518,194</b>
Weighted average exercise price (pence per share)	40.6	97.1	98.7	53.6	<b>46.2</b>

For those share options exercised during the year, the weighted average share price at the date of exercise was 86.6p (2010: 139.7p). For share options outstanding at the end of the year, the weighted average remaining contractual life is 2.4 years. (2010: 3.0 years). There were 56,638 (2010: 21,817) share options exercisable at the year end with a weighted average exercise price of 102.2p (2010: 118.0p).

## 32 Share-based payments

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

For LTIS awards granted before September 2010, one-third are subject to an absolute total shareholder return performance condition measured over three years from the date of grant and two-thirds are subject to annual growth in Net Net Net Asset Value ('NNNAV') measured over three years from the date of grant. For the LTIS awards granted on 26 November 2010 one-half are subject to an absolute total shareholder return performance condition measured over three years from the date of grant and one-half are subject to annual growth in Net Net Net Asset Value ('NNNAV') compared to the growth in the Halifax and Nationwide House Price indices all measured over three years from the date of grant. Awards subject to an absolute total shareholder return performance, which is a market based performance condition, have been valued at fair value using a Monte Carlo simulation valuation model. Awards subject to growth in NNNAV, which is a non-market based performance condition, have been valued at fair value using a Black-Scholes valuation model.

Awards granted under the DBP have no specific performance conditions other than the company meeting its target for operating profit before valuation movements and non-recurring items (OPBVM) and continued employment by the group. There is a three-year vesting period from the date of grant. One third of the awards vest at the end of each year. Participants can choose to exercise their awards on vesting or to retain their awards within the plan until the end of the third year at which point a 50% matching element is added to their award entitlement. There are currently two schemes in operation commencing on 3 February 2010 and 6 December 2010 respectively.

Awards under the DBP have been valued based on the share price at the date of the award less the dividend yield at the award date as there is no entitlement to dividends during the vesting period.

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

Awards under the SIP scheme have been based on the share price at the date of the award.

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. 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 SAYE options granted during the year are set out in the tables below. Conditional share awards over a total of 545,979 shares granted to Nick Jopling and Mark Greenwood on 21 September 2010 are also shown. These were not disclosed in last year's annual report as no share-based payment charge was made in 2010 relating to these awards on grounds of immateriality given the proximity of the awards to the group's financial year end.

## Notes to the financial statements continued

### 32 Share-based payments continued

#### LTIS

Share awards:

Award date	21 September 2010 Market based	21 September 2010 Non-market based	26 November 2010 Market based	26 November 2010 Non-market based
Number of shares on grant	<b>181,993</b>	<b>363,986</b>	<b>917,246</b>	<b>917,246</b>
Exercise price (£)	–	–	–	–
Vesting period from date of grant (years)	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
Exercise period after vesting (years)	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>
Share price at grant (£)	<b>1.130</b>	<b>1.130</b>	<b>0.944</b>	<b>0.944</b>
Expected risk free rate (%)	<b>5.31</b>	–	<b>1.35</b>	<b>1.35</b>
Expected dividend yield (%)	<b>0.90</b>	–	<b>1.54</b>	<b>1.54</b>
Expected volatility (%)	<b>26.00</b>	–	<b>55.7</b>	<b>55.7</b>
Fair value (£)	<b>0.433</b>	<b>1.130</b>	<b>0.549</b>	<b>0.902</b>

#### DBP

Share awards:

Award date	6 December 2010
Number of shares on grant	<b>665,642</b>
Exercise price (£)	–
Vesting period from date of grant (years)	<b>1 to 3</b>
Exercise period after vesting (years)	<b>3</b>
Share price at grant (£)	<b>0.893</b>
Dividend yield (£)	<b>0.017</b>
Fair value (£)	<b>0.876</b>



SAYE	14 July 2011 3-year scheme	14 July 2011 5-year scheme
Number of shares on grant	70,031	29,691
Exercise price (£)	0.987	0.987
Vesting period from date of grant (years)	3	5
Expected exercise date	31 Oct 2014	31 Oct 2016
Share price at grant (£)	1.234	1.234
Expected risk free rate (%)	0.82	1.48
Expected dividend yield (%)	2.17	2.17
Expected volatility (%)	63.0	41.0
Fair value (£)	0.298	0.234

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 £2.0m (2010: £1.3m).

Movements in options and options exercisable as at 30 September 2011 are shown in note 31.

### 33 Changes in equity

The consolidated statement of changes in equity is shown on pages 66 and 67. Further information relating to the merger reserve and cash flow hedge reserve is provided below. Movements on the retained earnings reserve are set out in note 34.

#### 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 share 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 was subsequently transferred to retained earnings. 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

### 34 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
<b>Balance as at 1 October 2009</b>	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	–	–	–	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	–	–	–	–	(7.4)	(7.4)
<b>Balance as at 30 September 2010</b>	2.9	(7.8)	(13.1)	2.7	243.3	228.0
Profit for the year	–	–	–	–	39.1	39.1
Actuarial gain on BPT pension scheme net of tax	–	–	–	–	0.8	0.8
Net exchange adjustment offset in reserves	–	–	–	(0.6)	–	(0.6)
Purchase of own shares	–	–	(2.8)	–	–	(2.8)
Award of shares from own shares	(0.7)	–	0.7	–	–	–
Share-based payments charge	2.0	–	–	–	–	2.0
Dividends	–	–	–	–	(4.9)	(4.9)
<b>Balance as at 30 September 2011</b>	<b>4.2</b>	<b>(7.8)</b>	<b>(15.2)</b>	<b>2.1</b>	<b>278.3</b>	<b>261.6</b>

#### 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 2011, the group owned its own shares as follows: nil (2010: 46,803) shares held by The Grainger Trust Employee Trustee Company Limited, 5,833,401 (2010: 5,976,623) shares held by The Grainger Employee Benefit Trusts and 1,506,300 (2010: 21,410) shares held by Grainger plc as treasury shares. The total of these shares is 7,339,701 (2010: 6,044,836) with a nominal value of £366,985 (2010: £302,242) and a market value as at 30 September 2011 of £6.4m (2010: £6.6m).

Details relating to the rights issue and transfer from merger reserve are set out in notes 33 and 40.

### 35 List of principal subsidiaries

The directors consider that providing details of all subsidiaries, joint ventures and associates as at 30 September 2011 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, are material to the group. A full list will be appended to the next annual return.

Name of undertaking	Proportion of nominal value of ordinary issued shares held by:		Incorporated	Activity
	Group %	Company %		
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
Grainger Unit Holder Number 1 Limited	100	100	England & Wales	Investment Company
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
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 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 Invest No. 1 LLP	100		England & Wales	Property Trading
Grainger Invest No. 2 LLP	100		England & Wales	Property Trading and Investment
Tricomm Housing Limited	100		England & Wales	Property Investment
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

### 36 Related party transactions

The group held a 50% interest in Grainger GenInvest LLP and Grainger GenInvest No 2 (2006) LLP at 1 October 2010. The remaining 50% equity in both entities were acquired by the group on 22 March 2011 (see note 41). Prior to the acquisition, the group provided a number of services to both partnerships and received 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 for the portion of the year where the Grainger share was 50% are as follows:

	2011 Fees recognised £'000	2011 Year end balance £'000	2010 Fees recognised £'000	2010 Year end balance £'000
Asset adviser fee	298	–	691	201
Sales fee	26	–	49	5
Commercial management fee	7	–	28	8
Treasury fee	15	–	30	9
	<b>346</b>	<b>–</b>	<b>798</b>	<b>223</b>

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

	Balance as at 30 September 2011 £m	Balance as at 30 September 2010 £m	2011 Interest receivable £m	2010 Interest receivable £m
Grainger GenInvest LLP – 8.5% fixed interest loan note	–	8.5	0.3	0.7
Grainger GenInvest No 2 (2006) LLP – 11.0% fixed interest loan note	–	5.5	0.2	0.3
Grainger GenInvest No 2 (2006) LLP – mezzanine loan at LIBOR plus 4%	–	79.0	1.9	3.8
	<b>–</b>	<b>93.0</b>	<b>2.4</b>	<b>4.8</b>

Interest receivable is included within interest receivable from associates and joint ventures shown in note 13. The difference of £1.2m between the figure shown above of £2.4 and the amount shown in note 13 of £1.2m 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 group held a 50% interest in Curzon Park Limited as at 30 September 2011. The group has provided a loan to Curzon Park Limited as at 30 September 2011 of £13.2m (2010: £12.8m). The loan is repayable on demand.

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The group held a 22.0% interest in G:res1 Limited as at 30 September 2011. The group provides a number of services to the fund and receives a property management fee, a lettings and renewal fee, and an asset management fee. Amounts recognised in the income statement and the outstanding balance at the year end are as follows:

	2011 Fees recognised £'000	2011 Year end balance £'000	2010 Fees recognised £'000	2010 Year end balance £'000
Property management fees	1,657	528	1,421	748
Lettings and renewal fees	202	80	183	58
Asset management fees	2,658	835	2,302	1,242
	<b>4,517</b>	<b>1,443</b>	3,906	2,048

The group held a 21.8% interest in the Schroder Residential Property Unit Trust as at 1 October 2010, which was subject to a controlled liquidation completed by 31 March 2011. As a result fee income in 2011 is considerably lower than in 2010. Amounts recognised in the income statement and the outstanding balance at the year end are as follows:

	2011 Fees recognised £'000	2011 Year end balance £'000	2010 Fees recognised £'000	2010 Year end balance £'000
Property management fees	–	–	2	–
Lettings and renewal fees	2	–	11	–
Asset management fees	–	–	44	–
Sales fees	–	–	118	–
	<b>2</b>	<b>–</b>	175	–

The group held a 50% interest in New Sovereign Reversions Limited as at 30 September 2011. The group has provided a loan to Sovereign Reversions Limited, a wholly owned subsidiary of New Sovereign Reversions Limited, as at 30 September 2011 of £1.5m. The loan is repayable on demand and bears interest at LIBOR plus 7% per annum.

The group provides management services to the New Sovereign Reversions Limited group for which it receives a management fee. Amounts recognised in the income statement and outstanding balances at the year end are as follows:

	2011 Fees recognised £'000	2011 Year end balance £'000	2010 Fees recognised £'000	2010 Year end balance £'000
Asset management fees	1,190	235	–	–

Details of key management compensation are provided in note 11.

## 37 Capital commitments

As at 30 September 2011, the group and its joint ventures and associates had capital commitments of £nil (2010: £nil).

## Notes to the financial statements continued

### 38 Operating lease commitments

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

	2011 £m	2010 £m
Operating lease payments due:		
Not later than one year	1.4	1.5
Later than one year and not later than five years	3.5	4.6
Later than five years	0.7	1.4
	<b>5.6</b>	<b>7.5</b>

The group expects to receive £0.1m under non-cancellable sub-leases (2010: £0.8m).

### 39 Contingent liabilities

The properties in certain subsidiary companies forming a 'guarantee group' provide the security for the group's core debt facility.

Barclays Bank Plc and Lloyds TSB Bank Plc have provided guarantees under performance bonds relating to the group's UK development division. As at 30 September 2011 total guarantees amounted to £2.1m (2010: £2.4m).

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. However, it is unlikely that any future payments will fall due until at least 2015 and any payments made will be spread over a number of years.

As explained in more detail in note 20, there is uncertainty relating to the future of the site of 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.

### 40 Rights issue

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 share 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. Costs of issue which totalled £13.1m have been taken directly to reserves.

## 41 Acquisitions in the year

### i) Acquisition of HI Tricomm Holdings Limited

On 4 February 2011 Grainger acquired the HI Tricomm Holdings Limited ('HITHL') group including its trading subsidiary Tricomm Housing Limited ('THL') from Invista Castle Limited.

The main reason for the acquisition was reflective of Grainger's strategy to diversify its assets into selective areas of value or growth. THL owns a high quality portfolio of 317 freehold houses in five separate locations around the Bristol and Portsmouth areas and the assets are high yielding. The houses are let under a long-term lease arrangement with the Secretary of State for Defence until 2028 providing a consistent revenue stream.

The fair value at acquisition of the total consideration transferred amounted to £6.8m.

The acquisition has been treated as a business combination and resulted in a gain on acquisition of £14.9m. This gain on acquisition arose due to it being a bargain purchase reflecting the particular situation of the vendors and their requirement to dispose of HITHL quickly.

The identifiable assets and liabilities acquired were as follows:

	£m
<b>Assets</b>	
Investment Property	<b>105.4</b>
Cash and cash equivalents	<b>5.4</b>
Trade and other receivables	<b>0.8</b>
Deferred tax assets	<b>2.3</b>
	<b>113.9</b>
<b>Liabilities</b>	
Interest bearing loans and borrowings	<b>67.6</b>
Trade and other payables	<b>2.1</b>
Deferred tax liabilities	<b>2.2</b>
Loan notes payable	<b>9.5</b>
Amounts payable to Invista Castle Limited	<b>2.2</b>
Derivative Financial Instruments	<b>8.6</b>
	<b>92.2</b>
Net assets acquired	<b>21.7</b>
Fair value of consideration paid	<b>6.8</b>
Gain on acquisition	<b>14.9</b>

Investment property acquired of £105.4m represents its fair value. For the acquired trade and other receivables the above values represent the fair values. They are the expected amounts receivable and, at the acquisition date, there are no amounts not expected to be collected. Trade and other payables primarily represent amounts payable for bank interest, corporation tax and VAT. There was no contingent consideration and there are no contingent liabilities that have not been recognised.

In addition to the consideration of £6.8m for the share capital of HITHL, Grainger settled on acquisition the amount of £2.2m payable to Invista Castle Limited by the HITHL group and Grainger also acquired a loan note receivable plus accrued interest thereon totalling £9.5m from Invista Castle Limited. The loan note payable was part of the liabilities acquired as shown in the above table. All three amounts together made up the total consideration of £18.5m which was paid in cash.

## Notes to the financial statements continued

### 41 Acquisitions in the year continued

The post acquisition revenue and profit before tax included in the group's consolidated income statement for year to 30 September 2011 were £5.9m and £2.0m respectively.

#### ii) Acquisition of 50% equity in Grainger GenInvest LLP's

On 22nd March, Grainger acquired the 50% interest of Genesis Housing Group in the two Grainger GenInvest LLP's thereby becoming the sole owner of both entities.

The main reason for the acquisition is as part of Grainger's strategy to diversify its assets into selective areas of value or growth. The partnerships own c.1,650 properties in Central London where we believe there are good prospects for long term capital appreciation.

The fair value at acquisition of the total consideration transferred amounted to £15.0m and was paid in cash. This consideration was paid to acquire the remaining 50% equity in Grainger GenInvest LLP. No consideration was paid for the remaining 50% equity in Grainger GenInvest No. 2 (2006) LLP. The acquisition has been treated as a business combination and resulted in a gain on acquisition of Grainger GenInvest LLP of £1.2m. This gain on acquisition arose due to it being a bargain purchase and reflected the particular situation of the vendor and the requirement to re-finance the debt in the two LLP's.

The identifiable assets and liabilities acquired were as follows:

	£m
<b>Assets</b>	
Investment Property	102.4
Trading Property	186.9
Cash and cash equivalents	5.0
	<b>294.3</b>
<b>Liabilities</b>	
Interest bearing loans and borrowings	187.0
Trade and other payables	2.7
Interest bearing loans due to Grainger	72.2
	<b>261.9</b>
Net assets acquired	<b>32.4</b>
50% of net assets acquired	<b>16.2</b>
Fair value of consideration paid	<b>15.0</b>
Gain on acquisition	<b>1.2</b>

Investment and trading property acquired of £289.3m in aggregate, represents its fair value.

Trade and other payables primarily represent amounts payable to external suppliers and for bank interest.

There was no contingent consideration and there are no contingent liabilities that have not been recognised.

The post acquisition revenue and profit before tax included in the group's consolidated income statement for year to 30 September 2011 were £6.6m and £4.6m respectively.



### iii) Pro forma full year information

We have set out below a pro forma summary presenting the group as if both of the above acquisitions had taken place on 1 October 2010 instead of the actual acquisition dates. The pro forma figures for group revenue and group profit before tax include the additional net rent from the acquired entities, assume that the refinancing of Grainger GenInvest took place on 1 October 2010 rather than on acquisition on 22 March 2011 and also assume that the gains on acquisition were the same as shown above despite the earlier assumed acquisition date. The pro forma information is provided for comparative purposes only and does not necessarily reflect the actual results that would have occurred.

	£m
Revenue	<b>304.6</b>
Profit before tax	<b>28.3</b>

## 42 Acquisitions in the prior year

### i) Acquisition of PHA Limited

On 31 March 2010 the group acquired 100% of the equity in PHA Limited, a company which owned 162 residential properties located in Devon. The total consideration for the purchase was £15.4m paid in cash. The acquisition was 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
<b>Assets</b>	
Inventories – trading property	<b>17.2</b>
Cash and cash equivalents	<b>0.4</b>
Other current assets	<b>0.1</b>
	<b>17.7</b>
<b>Liabilities</b>	
Corporation tax	<b>0.2</b>
Deferred tax	<b>2.4</b>
Other current liabilities	<b>0.1</b>
	<b>2.7</b>
Net assets acquired	<b>15.0</b>
Fair value of consideration paid	<b>15.4</b>
Goodwill arising (see note 22)	<b>0.4</b>

The post acquisition revenue and profit of PHA Limited included within the group's 2010 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 to be consolidated in the 2010 group accounts would have been £1.0m and £0.6m respectively.

## Notes to the financial statements continued

### 42 Acquisitions in the prior year continued

#### ii) Acquisition of Sovereign Reversions Limited (formerly 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 was £73.1m and £34.4m respectively. The fair value of net assets acquired was therefore £38.7m. The resulting gain on acquisition of £4.5m was credited to the 2010 income statement in line with IFRS 3 (Revised).

The purchase was made with the subsequent 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.

Subsequent to the 2010 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 provided for the resulting loss of £1.7m in its 2010 financial statements. In accordance with IFRS 5 all of the assets and liabilities of Sovereign at 30 September 2010 were classified as a disposal group held-for-sale. This is because the disposal group met 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 2010 consolidated statement of financial position are total assets of £70.7m and total liabilities of £34.1m relating to Sovereign. These balances comprised the following:

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

A net gain of £2.8m, comprising the gain on acquisition of £4.5m and impairment loss of £1.7m were credited to the 2010 consolidated statement of comprehensive income and are shown in the segmental analysis in note 4 within the retirement solutions segment.

The Sovereign assets and liabilities are shown as part of the retirement solutions segment in note 4.

Following the formation of the joint venture on 12 October 2010 the remaining 50% interest in Sovereign is now shown within note 20 of these financial statements.

### 43 Post balance sheet events

On 5 October 2011, the group signed an agreement for £50.3m of debt funding from Partnership Assurance provided through an innovative structure against certain of the group's Retirement Solutions assets, non-recourse to the rest of the group. On 21 November 2011 the group signed a further agreement with Partnership Assurance for an additional £28.6m of debt funding under similar terms to the initial £50.3m. These facilities are repayable on a property-by-property basis as the assets are sold on vacancy, with interest rolling up. In this way the facility exactly matches the cash flow characteristics of this part of the business, with an expected average maturity of 11 years. These funds are being used to reduce the group's core debt facilities.

# 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 2011 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 directors' responsibilities statement set out on page 58, 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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## 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 2011;
- 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 2011.

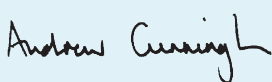
**Bowker Andrews** (*Senior Statutory Auditor*)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Newcastle upon Tyne

5 December 2011

## Parent company balance sheet

As at 30 September 2011	Notes	2011 £m	2010 £m
<b>Fixed assets</b>			
Investments	2	<b>806.4</b>	348.2
		<b>806.4</b>	348.2
<b>Current assets</b>			
Investment in associates	2	–	0.1
Trade and other receivables	3	<b>11.4</b>	130.2
Cash at bank and in hand		<b>33.1</b>	48.9
		<b>44.5</b>	179.2
<b>Creditors: amounts falling due within one year</b>	4	<b>218.5</b>	14.5
<b>Net current (liabilities)/assets</b>		<b>(174.0)</b>	164.7
<b>Total assets less current liabilities</b>		<b>632.4</b>	512.9
<b>Creditors: amounts falling due after more than one year</b>			
Convertible bond	5	<b>22.5</b>	21.6
Interest-bearing loans and borrowings	6	<b>98.9</b>	–
<b>Net assets</b>		<b>511.0</b>	491.3
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Called-up equity share capital	7	<b>20.8</b>	20.8
Share premium	8	<b>109.8</b>	109.8
Capital redemption reserve	8	<b>0.3</b>	0.3
Equity component of convertible bond	8	<b>5.0</b>	5.0
Profit and loss account	8	<b>375.1</b>	355.4
<b>Total shareholders' funds</b>		<b>511.0</b>	491.3

The financial statements on pages 146 to 152 were approved by the board of directors on 5 December 2011 and were signed on their behalf by:



**Andrew R Cunningham**  
Director



**Mark Greenwood**  
Director

# 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, 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 £25.4m (2010: £0.9m). On an historical cost basis the profit for the year would have been £25.4m (2010: £0.9m). 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) Investment in subsidiaries

Investments in subsidiaries are carried at historical cost less provision for impairment based upon an assessment of the net recoverable amount of each investment. To the extent that the assessment of recoverable amount improves impairment provisions are reversed.

### (d) 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 profit and loss account, 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.

### (e) 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.

### (f) 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 direct to equity.

### (g) 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 £4.68. 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 continued

### 1 Accounting policies continued

#### (h) Share-based payments

Under the share-based compensation arrangements set out in note 1(l)(iii) on page 75 and note 32 on pages 133 to 135, 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 Investments

Valuation	Investment in subsidiaries £m	Investment in Schroder Residential Property Unit Trust £m	Total £m
At 1 October 2010	348.2	0.1	348.3
Additions	438.6	–	438.6
Disposals	–	(0.1)	(0.1)
Impairment write-back	19.6	–	19.6
<b>At 30 September 2011</b>	<b>806.4</b>	<b>–</b>	<b>806.4</b>

In January 2009 the investors in Schroder ResPUT agreed to a controlled liquidation of the fund. The liquidation was completed by 31 March 2011 and the group's investment fully repaid.

The additions in the year relate primarily to a further investment of £160.0m in Grainger Finance Company Limited, an investment of £103.0m in Grainger Europe (No. 2) Limited, £91.0m in Bromley Property Holdings Limited, £42.9m in Atlantic Metropolitan (UK) Limited and £29.5m relates to an investment in Reversions Financing Limited. The balance of £12.2m comprises other smaller investments in group subsidiaries.

The investments made by the parent company have in most instances been passed down the group in order to facilitate the acquisitions made during the year (see note 41).

The additions also include a capital contribution during the year of £2.0m in respect of share-based payment awards granted to subsidiary employees.

After an assessment of net recoverable value there has been a net reversal of impairment provisions, made in prior years, of £19.6m.

A list of the principal subsidiaries of the company is given in note 35 on page 137.

### 3 Trade and other receivables

	2011 £m	2010 £m
Amounts owed by group undertakings	11.2	130.1
Other receivables	0.2	0.1
	<b>11.4</b>	130.2

Receivables in both 2011 and 2010 are all due within one year.

### 4 Creditors: amounts falling due within one year

	2011 £m	2010 £m
Amounts owed to group undertakings	216.2	12.6
Other taxation and social security	1.1	1.0
Accruals and deferred income	1.2	0.9
	<b>218.5</b>	14.5

### 5 Convertible bond

	2011 £m	2010 £m
Opening balance	21.9	21.3
Amortised during the year	0.8	0.6
	<b>22.7</b>	21.9
Unamortised issue costs	(0.2)	(0.3)
Liability component at 30 September 2010	<b>22.5</b>	21.6

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.

### 6 Interest-bearing loans and borrowings

	2011 £m	2010 £m
Variable rate – Pounds Sterling	<b>98.9</b>	–

The variable rate loan from M & G UK Companies Financing Fund LP is secured by floating charges over the assets of the group. The loan bears interest at 4% over LIBOR.

## Notes to the parent company financial statements continued

### 7 Share capital

	2011 £m	2010 £m
<b>Authorised</b>		
500,000,000 (2010: 500,000,000) ordinary shares of 5p each	<b>25.0</b>	25.0
<b>Allotted, called-up and fully paid</b>		
416,372,103 (2010: 416,362,420) ordinary shares of 5p each	<b>20.8</b>	20.8

The group paid £0.6m to the share incentive plan during the year for the purchase of matching shares and free shares in the scheme. In addition, the group returned £2.2m to shareholders by way of a tender offer for shares during the year. The total cost of acquiring our shares of £2.8m (2010: £4.5m) has been deducted from retained earnings within shareholders' equity (see note 8).

As at 30 September 2011, share capital included nil (2010: 46,803) shares held by The Grainger Trust Employee Trustee Company Limited, 5,833,401 (2010: 5,976,623) shares held by The Grainger Employee Benefit Trusts and 1,506,300 (2010: 21,410) shares held by Grainger plc as treasury shares. The total of these shares is 7,339,701 (2010: 6,044,836) with a nominal value of £366,985 (2010: £302,242) and a market value as at 30 September 2011 of £6.4m (2010: £6.6m).

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

	Number	Nominal value £'000
At 1 October 2009	138,798,113	6,940
Issue of shares under the rights issue	277,553,406	13,878
Options exercised under the SAYE scheme	10,901	–
At 30 September 2010	416,362,420	20,818
Options exercised under the SAYE scheme	9,683	–
<b>At 30 September 2011</b>	<b>416,372,103</b>	<b>20,818</b>

Details of share options granted by the company are provided in note 31 on page 132.

### 8 Reserves

	Share premium £m	Capital redemption reserve £m	Equity component of convertible bond £m	Profit and loss account £m
At 1 October 2010	109.8	0.3	5.0	355.4
Retained profit for the year	–	–	–	25.4
Share-based payment charge	–	–	–	2.0
Purchase of own shares	–	–	–	(2.8)
Dividends paid	–	–	–	(4.9)
<b>At 30 September 2011</b>	<b>109.8</b>	<b>0.3</b>	<b>5.0</b>	<b>375.1</b>



## 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 15 on page 100.

### 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)	Exercise price	Andrew Cunningham		Peter Couch		Nick Jopling		Mark Greenwood		Total	
		30 Sept 2011	30 Sept 2010	30 Sept 2011	30 Sept 2010	30 Sept 2011	30 Sept 2010	30 Sept 2011	30 Sept 2010	30 Sept 2011	30 Sept 2010
<b>Non-performance-related (available to all staff)</b>											
SAYE Scheme											
1 February 2012 to 31 July 2012	37.7p	–	–	25	25	–	–	–	–	25	25
1 February 2014 to 31 July 2014	37.7p	44	44	–	–	–	–	–	–	44	44
<b>Performance-related (conditional awards)</b>											
HMRC Approved Executive Share Option Scheme											
26 November 2013 to 26 November 2020	94.4p	32	–	32	–	32	–	32	–	128	–
		76	44	57	25	32	–	32	–	197	69

The market price of the company's shares at the end of the financial year was 86.6p, and the range of the closing mid-market prices during the year was 86p to 133p.

## 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	Andrew Cunningham		Peter Couch		Nick Jopling		Mark Greenwood		Total		
			30 Sept 2011	30 Sept 2010	30 Sept 2011	30 Sept 2010	30 Sept 2011	30 Sept 2010	30 Sept 2011	30 Sept 2010	30 Sept 2011	30 Sept 2010	
<b>Non-performance-related – miscellaneous</b>	i	12 Dec 2007	12 Dec 2010	–	–	–	26	–	–	–	–	–	26
<b>Non-performance-related – deferred bonus plan</b>	ii	3 Feb 2010	3 Feb 2011	–	–	<b>90</b>	90	–	–	–	–	<b>90</b>	90
<b>Performance-related (conditional awards)</b>													
<b>Long-term incentive scheme</b>													
2007 Scheme (lapsed)	iii	9 Jan 2008	9 Jan 2011	–	284	–	153	–	–	–	–	–	437
2008 Scheme		23 Dec 2008	23 Dec 2011	<b>779</b>	779	<b>429</b>	429	–	–	–	–	<b>1,208</b>	1,208
2009 Scheme		9 Dec 2009	9 Dec 2012	<b>481</b>	481	–	–	–	–	–	–	<b>481</b>	481
2009 Scheme		29 Sept 2010	9 Dec 2012	–	–	–	–	<b>283</b>	283	<b>230</b>	230	<b>513</b>	513
2010 Scheme		26 Nov 2010	26 Nov 2013	<b>667</b>	–	<b>281</b>	–	<b>344</b>	–	<b>275</b>	–	<b>1,567</b>	–
Matching awards (conditional)													
2007 Scheme (lapsed)	iii	9 Jan 2008	9 Jan 2011	–	56	–	31	–	–	–	–	–	87
2008 Scheme		23 Dec 2008	23 Dec 2011	<b>156</b>	156	<b>86</b>	86	–	–	–	–	<b>242</b>	242
2009 Scheme		9 Dec 2009	9 Dec 2012	<b>96</b>	96	–	–	–	–	–	–	<b>96</b>	96
2009 Scheme		29 Sept 2010	9 Dec 2012	–	–	–	–	<b>23</b>	23	<b>10</b>	10	<b>33</b>	33
2010 Scheme		26 Nov 2010	26 Nov 2013	<b>133</b>	–	<b>84</b>	–	<b>39</b>	–	<b>10</b>	–	<b>266</b>	–
				<b>2,312</b>	1,852	<b>970</b>	815	<b>689</b>	306	<b>525</b>	240	<b>4,496</b>	3,213

i This award vested on 12 December 2010. The share price at the vesting date was 106.7p.

ii These shares were awarded to Peter Couch before his appointment as a director of the Company.

iii Performance conditions for the conditional share awards set to vest on 9 January 2011 were not met and therefore lapsed on that date.

#### Audit fees

The audit fee for the year was £8,000 (2010: £8,000).

## Five-year record for the year ended 30 September 2011

	IFRS				
	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m
Revenue	229.3	246.2	302.2	244.5	<b>296.2</b>
Gross rental income	52.7	70.7	77.9	75.6	<b>86.3</b>
Gross proceeds from property sales	180.8	169.6	207.2	160.9	<b>211.9</b>
Operating profit before valuation and non-recurring items (OPBVM)	89.0	106.0	78.8	94.2	<b>126.2</b>
Profit/(loss) before taxation	77.5	(112.1)	(170.0)	(20.8)	<b>26.1</b>
Profit/(loss) after taxation	60.9	(77.4)	(122.0)	(10.8)	<b>39.1</b>
Dividends taken to equity	7.6	8.3	5.2	7.4	<b>4.9</b>
	Pence	Pence	Pence	Pence	<b>Pence</b>
Earnings/(loss) per share	15.0	(19.1)	(29.5)	(2.9)	<b>9.5</b>
Dividends per share	2.0	2.0	1.3	1.7	<b>1.8</b>
	Pence	Pence	Pence	Pence	<b>Pence</b>
Gross net asset value per share	320.7	227.9	194.0	199.8	<b>216.2</b>
Triple net asset value per share	252.6	180.7	141.0	139.7	<b>153.3</b>
Share price at 30 September	255.3	114.1	170.0	109.8	<b>86.6</b>
	%	%	%	%	<b>%</b>
Return on capital employed	12.1	(11.4)	(4.3)	5.3	<b>6.5</b>
Return on shareholder equity	27.1	(36.1)	(33.7)	0.6	<b>11.1</b>

Where relevant adjustment has been made to historical figures to reflect the impact of the rights issue in December 2009.

## Shareholders' information

### Financial calendar

Annual General Meeting	8 February 2012
Payment of 2011 final dividend	10 February 2012
Announcement of 2012 interim results	May 2012
Announcement of 2012 final results	November 2012

### Share price

During the year ended 30 September 2011, the range of the closing mid-market prices of the company's ordinary shares were:

Price at 30 September 2011	87p
Lowest price during the year	86p
Highest price during the year	133p

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](http://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](http://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.

### Company secretary and registered office

Michael Windle  
Citygate  
St James' Boulevard  
Newcastle upon Tyne  
NE1 4JE

**Company registration number 125575**

# Advisers

## Solicitors

Dickinson Dees  
St Ann's Wharf  
112 Quayside  
Newcastle upon Tyne  
NE1 3DX

Freshfields Bruckhaus Deringer  
65 Fleet Street  
London  
EC4Y 1HS

DWF  
West 1  
Wellington Street  
Leeds  
LS1 1BA

## Financial public relations

FTI Consulting  
Holborn Gate  
26 Southampton Buildings  
London  
WC2A 1PB

## Banking

Clearing Bank and Facility Agent  
Barclays Bank PLC

## Other bankers

Lloyds TSB Bank plc

The Royal Bank of Scotland plc

Allied Irish Banks plc

The Governor and Company of the  
Bank of Scotland

National Australia Bank Limited

Nationwide Building Society

Eurohypo AG

Deutsche Pfandbriefbank AG

The Governor and Company of the  
Bank of Ireland

GE Real Estate Finance Limited

Svenska Handelsbanken AB

SEB AG

UniCredit Bank AG

HSH Nordbank AG

Sparkasse

Bank of America N.A.

HSBC Bank plc

M&G UK Companies Financing Fund LP

## Independent auditors

PricewaterhouseCoopers LLP  
89 Sandyford Road  
Newcastle upon Tyne  
NE1 8HW

## Stockbrokers

JP Morgan Cazenove Limited  
20 Moorgate  
London  
EC2R 6DA

Brewin Dolphin Securities  
Times Central  
Gallowgate  
Newcastle upon Tyne  
NE1 4SR

## Registrars and transfer office

Capita Registers plc  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
West Yorkshire  
HD8 0LA

# Glossary of terms

## Property

### Assured periodic tenancy ('APT')

Market-rented tenancy arising from succession from regulated. Tenant has security of tenure.

### Assured shorthold tenancy ('AST')

Market-rented tenancy where landlord may obtain possession if appropriate notice served.

### Assured tenancy ('AT')

Market-rented tenancy where tenant has right to renew.

### Investment value ('IV') or market value

Open market value of a property subject to relevant 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.

### 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.

### 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 NNNNAV.

### 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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# Corporate addresses

## Newcastle

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

## London

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

## Birmingham

Elm House  
Edgbaston Park  
351 Bristol Road  
Birmingham  
B5 7SW

## Putney

1st Floor  
SWISH Building  
73-75 Upper Richmond Road  
London  
SW15 2SR

## Manchester

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

## Ipswich

42a Barrack Square  
Martlesham Heath  
Ipswich  
Suffolk  
IP5 3RF

## Luxembourg

16 Avenue Pasteur  
L-2310  
Luxembourg

## Germany

Weissfrauenstrasse 12-16  
Entrance: Friedenstrasse 6-10  
60311 Frankfurt am Main  
Hesse  
Germany

## Malta

Verdala Business Centre  
Level 2, TG Complex  
Brewery Street  
Mriehel  
Malta

