grainger plc
Investing in homes since 1912

# grainger = residential

Annual Report and Accounts 2013

Directors' report

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## Financial highlights

**Gross NAV** — 2012: 223p

242p

**Profit before tax** — 2012: Loss of £1.7m

£64.3m

**NNNAV** — 2012: 157p

195p

**Net debt** — 2012: £1,194m

£959m

**Recurring profit*** — 2012: £34.6m

£37.0m

**Group LTV** — 2012: 55%

48%

**OPBVM**** — 2012: £126.4m

£107.6m

**Return on capital employed** — 2012: 5.9%

8.1%

**Growth in vacant possession value** — 2012: 2.8%

6.4%

**Return on shareholder equity** — 2012: 3.8%

25.2%

Profit before tax is the only recognised GAAP measure in the financial highlights above.
* Recurring profit is defined as profit before tax, valuation movements and non-recurring items (see note 3 to the accounts on page 108).
**OPBVM is operating profit before valuation movements and non-recurring items (see page 37 and note 3 to the accounts on page 108).

For more information visit our website
**www.graingerplc.co.uk**

Grainger is a specialist residential company.

Our objective is to be a leader in the residential market, delivering sustainable long-term returns to our investors and our partners from a combination of sales, rents and fee income.

Our strategy and our business reflect the changing dynamics of the residential market. We will use our core skills (trading, managing, investing, developing and fund management) and our agility to take advantage of the opportunities presented by these changes.

## Our business model

# grainger = residential

Through our business model we deliver strong returns from our reversionary and market rented assets and our residential expertise allows us to supplement these returns by generating management fee income.

Our expertise and the scale of our assets and operations enable us to generate sustainable income streams.

# Assets

## Reversionary assets

We acquire tenanted properties at a discount to vacant possession value and sell them when they become vacant. We continue to seek acquisition opportunities for reversionary assets.

| No. of units | Market value |
|---|---|
| 9,346 | £1,397m |
| **Vacant possession value** | **Reversionary surplus** |
| £1,849m | £452m |

## Market rented assets

We let at market rents and actively manage our assets to drive rental growth. We will grow our market rental business and develop purpose built residential rental assets to hold and manage for the long term.

| No. of units | Market value |
|---|---|
| 4,007 | £446m |

## Assets under management

We earn fees from our management of residential assets owned by third-parties or within co-investment vehicles. We will use our residential expertise to increase our fee income.

| Units under management | Market value |
|---|---|
| 8,216 | £953m |
| **Fees in 2013** | **Share of profits and revaluation gains** |
| £13m | £15m |

## Total assets owned and managed

In total, therefore, we own and manage 21,569 properties with a market value of £2.8bn.

| No. of units owned | Market value |
|---|---|
| 13,353 | £1,843m |
| **No. of units owned and managed** | **Market value** |
| 21,569 | £2,796m |

## Sales

### Profit from sales

£77.7m

The majority of our recurring sales revenues and profit on sale comes from the sale of properties when they fall vacant (normal sales) thereby releasing the inherent reversionary surplus. In addition, when we decide that a particular property or portfolio no longer offers attractive future value growth we sell these properties while occupied (tenanted sales). We also take advantage of opportunities for adding value by utilising our in-house expertise to refurbish a select number of properties before sale.

### A balanced risk profile

Our sales revenue – a stable and reliable cash flow – and the associated profit from sales will continue to be delivered through the predictable sales of our reversionary assets and through our development projects including Macaulay Walk, Berewood, Hortensia Road and Young Street.

### How we maintain success

Sales of reversionary assets will continue to generate profit on sale. Our 2013/14 financial year has started well. At 31 October the group sales pipeline (completed sales, contracts exchanged and properties in solicitors' hands) amounted to £52.3m with UK vacant sales values 6.3% above September 2013 valuations.

Read more on pages 24 and 25

## Rents

### Net rents

£48.5m

Rental income is a key income stream for our business. It is regular and predictable, complementing our sales from trading. Rental income is derived from both our reversionary and our market rented portfolios. Our opportunities to increase rent come largely from rent reviews on existing reversionary tenanted assets and renewals and new lets in our market rented portfolio.

### A balanced risk profile

In our market let properties and those we manage for others, rents follow market trends. As the average length of tenure is around 20 months we have regular opportunities to maximise rents (and related fees) through our market awareness, our proactive lettings team and our asset management activities. Application for rent increases on units in our regulated portfolio can be sought every two years based on increases in UK RPI plus 5%.

### How we maintain success

We expect the current momentum in the UK rental market to continue. Strong consumer demand should drive further rental growth and we will increase our presence and rental income through our new build-to-rent schemes.

Read more on pages 26 and 27

## Fees

### Gross fees and other income

£12.9m

A key strategic element of Grainger's business is to seek opportunities to generate recurring income. Over the past years we have been successful in increasing fee income from a number of different sources. Gross fee income was £12.5m in 2013, an increase of 24% compared to 2012, derived from asset and property management fees from our co-investment vehicles and management contracts.

### A balanced risk profile

Our fee income comes from ventures such as GRIP, our JVs with Moorfield and Heitman, our partnership with the Ministry of Defence at Aldershot and from our RAMP business in partnership with Lloyds Bank. The breadth and depth of our offering and our position in the residential market will enable us to generate new fee earning opportunities.

### How we maintain success

We have successfully increased fee income through a number of different ventures and across all business units. We will continue to seek diverse opportunities to generate recurring income.

Read more on pages 28 and 29

# **Our** report in brief

Grainger is the UK's largest listed specialist residential landlord and property manager.

We operate in the UK and in Germany. We own £1.8bn of residential property and manage 21,500 properties worth £2.8bn on our own behalf and for our investors and partners.

## Our business model:

Our business model is dedicated to ensuring that we are the first port of call for investors seeking exposure to the residential market.

- We acquire tenanted properties at a discount to vacant possession value, earn rent whilst we own them and sell them when they become vacant.
- We let properties at market value.
- We earn fees from our management of residential assets owned by third-parties or within co-investment vehicles.

These activities enable us to generate sustainable income streams from three sources.

Sales

Rents

Fees

Read more on pages 24 to 29

## Our strategic objectives:

We are a specialist residential business, focused on long-term success in this market.
We deliver our strategy through four key objectives.

### #1 grainger = leadership

We will maintain our leading position in the residential property market

### #2 grainger = returns

We will locate and manage our assets to deliver the best returns

### #3 grainger = balance

We will balance the sources of our income through exploiting changing market opportunities

### #4 grainger = optimisation

We will optimise our financial and operational gearing to match market conditions

## Our strategy in action:

We have delivered successfully against each of our four strategic objectives and created a scalable platform enabling us to compete effectively now and in the future.

## The risks involved:

The principal risks involved in delivering our strategy are actively managed and monitored against our risk appetite and policies put in place to guide our business managers.

## How we measure success:

Our success is measured through a clear set of KPIs monitoring achievement against our strategic objectives.

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**Strategy in action:** Repeated contributions to the development of the residential market. Recognised by our peers through the award of 'Asset Manager of the Year' again and 'Best Property Company – Residential'. New partnering arrangements established with APG, Heitman and Dorrington.

**Risks involved:** Main risks are failing to satisfy stakeholders through operational, financial and reputational performance. We protect against these risks by focusing on our service to tenants and clients, driving our financial performance against clear KPIs and engaging with opinion formers to influence and shape our markets.

**Measuring success:**

- Breadth and depth of our offering
- Peer recognition as experts in the residential sector
- Ability to create new business opportunities and attract high quality strategic partners

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**Strategy in action:** Active asset management and a geographical focus on areas we believe will deliver the best returns has enabled Grainger to consistently outperform the market. Currently, 60% of the UK portfolio is located in London and the South East, areas that have seen the strongest value growth.

**Risks involved:** The main risks are unavailability of stock or funds to purchase the stock. We mitigate against this through close contact with our market to identify opportunities and through maintenance of financial resources to execute transactions.

**Measuring success:**

**Profit before tax**

2012: loss of £1.7m

£64.3m

**HPI outperformance:**

6.4% Grainger vacant possession value uplift

5.6% Nationwide/Halifax average uplift

**NAV measures**

| | 2013 | 2012 |
|---|---|---|
| Gross NAV | 242p | 223p |
| NNNAV | 195p | 157p |

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**Strategy in action:**

**Sales:** Significant sales in 2013 include sales into co-investment vehicles.

**Rents:** Innovative transactions to increase exposure to the rental market such as 'build-to-rent' and 'Registered Provider' provision.

**Fees:** Continuing demand for our operational expertise from new high quality partners. We have grown our fee income in 2013.

**Risks involved:** To reduce the risk of lower non-trading income we are creating high yielding opportunities in build-to-rent and creating fee-generating co-investment vehicles with high quality partners.

**Measuring success:**

**Proportion of net rents and fees compared to trading profit**

53.9% (2012: 58.9%)

**Proportion of gross management fees to overheads**

37.2% (2012: 32.5%)

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**Strategy in action:** Reduction in financial gearing and a more efficient cost base in light of a reduction in owned assets and an increase in assets under management

**Risks involved:** To avoid the risk of sub-optimal operational gearing we have rationalised our repairs and maintenance service through a single outsourcing contract. Our financial gearing has been reduced through the increase in value of our assets (see 2 above) and managed deleveraging.

**Measuring success:**

**Group LTV**

48% (2012: 55%)

**Cash generated from sales rents fees**

£431m (2012: £353m)

**Efficiency**

1.66% (2012: 1.69%)

Property expenses and overheads net of fees/other income as a percentage of market value of assets under management

Read more on pages 12 to 19

Read more on pages 30 to 33

Read more on pages 20 and 21

# Strategic **objectives**

Our objective is to be a leader in the residential market, delivering sustainable long term returns to our investors and our partners from a combination of sales, rents and fee income.

## Our strategy looking forward:

## Actions and impacts:

### #1 grainger = leadership

We will maintain our leading position in the residential property market

We will continue to invest in our scalable owner manager platform, our capabilities, our skilled people, expert processes, and financial strength. This will create business opportunities across the residential market and attract high quality partners. We will continue to engage with others to push forward thinking about important issues that will take our industry forward and create better products and services to meet our stakeholders' needs and ambitions.

We will develop new and innovative products to create and exploit opportunities as the market changes.

### #2 grainger = returns

We will locate and manage our assets to deliver the best returns

All we do will be based on our two key principles – active asset management and geographical focus – that lead to outperformance. Our appetite to acquire regulated tenancy portfolios and individual regulated properties will continue. We will also focus on the development of purpose built residential rental stock (build-to-rent) in London and the South East and key regional cities. In some cases we will acquire stock by forward commitment to the developers.

We are currently active in the 'doughnut' zones around central London to acquire large scale build-to-rent opportunities.

### #3 grainger = balance

We will balance the sources of our income through exploiting changing market opportunities

The emerging more mature, customer focused private rental sector (PRS) will become a more significant part of our business. We will also increase our focus and our capabilities on the creation of joint ventures and fund management structures to generate recurring fee income. We will increase the proportion of our income from net rents and fees, towards 60% and ultimately to cover our interest costs.

At Berewood we will develop our own PRS stock to hold and manage for the long term and we are investigating similar potential at Aldershot.

### #4 grainger = optimisation

We will optimise our financial and operational gearing to match market conditions

Our current level of gearing of 45%–50% is appropriate in the medium term and LTV, rather than absolute debt levels, will be the more relevant measure for us going forward. We will also actively manage our average cost of debt downwards from its current level, towards 5.0%. With headroom of £292m, and mindful of maintaining appropriate leverage, we are now able to take advantage of opportunities that are aligned with our strategic objectives.

Going forward, whilst we will require purchases to meet strict investment criteria, we will be actively seeking and creating investment opportunities.

## Chairman's statement

# Delivering shareholder returns

Robin Broadhurst Chairman

The first year of our second century has seen strong increases in asset values and reduced debt.

As I wrote in my statement last year, Grainger continues to be uniquely placed to take a leading role in what is a dynamic and changing residential sector.

In the year our business has produced strong growth in asset values, substantially increased profit and generated cash to reduce debt. We have taken forward opportunities in the private rented sector and our first build-to-rent scheme at London Road, Barking is already under construction. We have also been creating new, and reinforcing existing, strategic alliances with high quality partners. These arrangements enhance our returns.

### Results

Triple net asset value ('NNNAV') rose 38p (24%) to 195p per share (2012: 157p). Gross net asset value rose 19p (9%) to 242p per share (2012: 223p).

The composition of our profit reflects our evolution into a lower geared business. Recurring profit has increased to £37.0m (2012: £34.6m), with reduced interest cost more than outweighing reduced operating profit on a less capital intensive asset base. Supported by strong valuation gains and positive movement on interest rate derivatives, our pre-tax profit rose significantly to £64.3m after a year-on-year favourable movement of £39.1m on derivatives (2012: loss of £1.7m).

In line with our stated strategy, we continued to reduce net debt which fell in the period by £235m from £1,194m to £959m. This reduction combined with our continued outperformance in UK asset values means that the group's consolidated loan to value ('LTV') is now 48% (2012: 55%). Since March 2011 we have reduced our net debt by a total of £611m whilst increasing our NNNAV by £152m (23%).

### Dividends

The directors have recommended a final dividend of 1.46p per ordinary share (2012: 1.37p) to be paid on 7 February 2014 to shareholders on the register at close of business on 20 December 2013. The total dividend for the year will therefore be 2.04p per ordinary share (2012:1.92p), an increase of 6.25%, following the interim dividend of 0.58p per ordinary share (2012: 0.55p). The dividend is covered 6.4 times by earnings.

### Board changes

As announced during the year, there have been two changes since 30 September 2012. Henry Pitman retired from the board at our Annual General Meeting on 6 February 2013 and I would like to take this opportunity to thank him for his contribution to the group during his six-year tenure. Simon Davies was appointed to the board on 20 November 2012 and we are already benefiting from his wealth of experience, including that gained during his 17 years at

## Chairman's statement
continued

Threadneedle Investments which included the roles of chief executive and chairman.

### Fair, balanced and understandable

The board has concluded that the 2013 Annual Report is fair, balanced and understandable and provides the necessary information for shareholders to assess the group's performance, business model and strategy.

### Review of business development and prospects

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 19, pages 22 to 29 and pages 34 to 41. Details of the group's KPI's are provided on pages 20 and 21. A description of the principal risks and uncertainties facing the group and how these are mitigated can be found on pages 30 to 33. Additional information on environmental matters, on employees, tenants and partners and on social and community matters is set out on pages 42 to 53.

### Outlook

The last few years have shown our ability to outperform when market conditions are challenging. Our results for 2013 show us continuing to outperform in strengthening markets.

The major housing market indices (Nationwide and Halifax) show that national UK house prices have strengthened on average over the twelve months to 30 September 2013 by 5.6%. Transaction volumes have also increased, with the Council of Mortgage Lenders (CML) reporting gross mortgage lending at an estimated £16.2bn in September 2013, 41% higher than September 2012. The UK economy is showing more general signs of growth with GDP showing an increase of 0.8% in Q3 2013, up by 1.5% from Q3 2012. The issues around the Euro, whilst not yet fully resolved, have abated and the September German election result, whilst a coalition is yet to be confirmed, is a sign of stability in the Eurozone's largest economy which bodes well for the future of assets which we own either directly or indirectly in Germany.

The Government support for the owner occupied market has been very evident in 2013. The Help to Buy scheme has enabled more buyers to access mortgage finance and this will continue as the scheme is expanded. Local housing market price performance will however continue to experience variations driven by housing supply and demand, which in turn is driven by the strength of the local economy.

The Government has also been increasing its support of the private rented sector, introducing two major financial incentive schemes to help stimulate growth and investment in the sector. These are the £1bn build-to-rent fund and £10bn of Government Housing Guarantees to support growth in the rental sector. In addition, it has also established a specialist Private Rented Sector (PRS) Taskforce to support growth in the sector, comprising experts from the private sector with residential experience including the secondment of a senior manager from Grainger. We will continue to engage closely with the Government and Taskforce and are confident that we will benefit from these financial incentive schemes in due course.

We have positioned the business both to take advantage of the positive changes in the owner occupied market (through our reversionary portfolio) and the private rented sector (through our market rental portfolio) including both assets on our balance sheet and in funds and joint ventures. Whilst taking this positive stance we have also further protected the group from the effect of any future cooling of the markets by reducing leverage.

### Strategy and financial position

Grainger is a specialist residential company. Our objective is to be a leader in the residential market, delivering sustainable long-term returns to our investors and our partners from a combination of sales, rents and fee income.

Our strategy and our business reflect the changing dynamics of the residential market and the current point in the market cycle. We will use our core skills (trading, managing, investing, developing and fund management) and our agility to take advantage of the opportunities presented by these changes.

In the past year we have managed the composition of profit between trading, rents and fees and attained another key objective of reducing net debt and LTV. The deleveraging resulted in a higher level of property sales in 2013 compared to 2012. Adjusting for the effect of profit from sales from tenanted property, the proportion of net rents and gross fees compared to rents, fees and trading profits from vacant sales in 2013 is 54% (2012: 59%). We intend to increase our income from net rents and fees over the coming years, taking advantage of the group's in-depth expertise and operating platforms.

Having achieved a net debt position of £959m and loan to value of 48% we are within a range of gearing of 45%–50% which we feel is appropriate in the medium term. We believe that LTV, rather than absolute debt levels, will be a more relevant measure through which we can manage the capital structure. Whilst mindful of maintaining appropriate leverage, we are now in a position, with headroom of £292m and on-going cash generation, to take advantage of opportunities that are aligned with the strategy outlined above so long as they generate acceptable returns for our shareholders. In this context we are pleased to confirm that we will pursue a progressive dividend policy.

Our centenary year has been another period of huge achievement. My thanks go to our highly skilled, enthusiastic and committed staff whose efforts have allowed us to reach this position.

We see 2014 as being a year of continuing strength in our markets and we anticipate another year of outperformance.

**Robin Broadhurst**
Chairman
7 November 2013

Chief executive's review

# Achieving our objectives

Andrew Cunningham Chief Executive Officer



We have seen another period of outperformance from our UK assets this year.

Margins on normal trading sales have increased as have net asset values and we have delivered on our target to reduce debt and gearing.

Our UK assets have again outperformed the national indices with their market value rising by 8.3% compared to the average increase of 5.6% in the Nationwide and Halifax indices. Within central and inner London the market value of our assets rose by 15.6% compared to an average increase of 9.5% in the Nationwide and Halifax indices for those regions.

### Market overview

The housing market continues to improve particularly beyond London and the South East which has already seen considerable house price growth. It is important that the Government ensures the increased purchasing ability of homebuyers is matched by an increase in housing supply to avoid excessive house price inflation although we currently see no signs of this.

The residential market continued to show regional variations in 2013. However there was an underlying upward trend in house prices across the whole of the UK according to the Land Registry, Nationwide and Halifax house price indices. For the first time since 2007, Nationwide's Q3 index showed annual house price growth in all 13 UK regions. In London and the South East, where 60% of our assets by market value are located we saw year-on-year growth of 10.7% in vacant possession values ('VPV') (2012: 6.0%).

There remains a significant mis-match between housing supply and demand in the UK, and the three major political parties in the UK recognise the need for a major increase in housing supply of all tenure types.

The UK Government has supported the housing market in a number of ways. In the home ownership mortgage market the Government has introduced two financial support measures – Funding for Lending and Help to Buy – which have led to an increase in the number of housing transactions over the last year. This, in turn, has boosted confidence among house-builders and developers and, according to the Purchasing Managers' Index (PMI), housing construction activity is at its highest point since November 2003.

Following the Montague Review, the Government has made significant strides in implementing policies to stimulate investment and growth in the sector. In particular, it has introduced a £1bn fund for the construction of build-to-rent developments and set aside £10bn of Housing Guarantees, whereby it will guarantee borrowers' liabilities against new rental homes. In addition, the Government has established the PRS Taskforce, a specialist group of private sector experts within Government, including a Grainger secondee, responsible for kick-starting

## Chief executive's review
continued

**Increase in residential UK portfolio market value**

8.3%

**Reversionary surplus including share of JV/associates**

£527m

With gearing in the range of 45–50% the group will take advantage of acquisition and investment opportunities.

investment in the private rented sector. We are well placed to take advantage of these financial incentive schemes and are in regular dialogue with the Government and the Taskforce.

The general political consensus in the UK in support for growth and investment in the private rented sector, particularly focused on large scale, institutional investors, was clearly demonstrated by a recent inquiry by the Communities and Local Government Select Committee. In the same report, the Committee found that rent controls would have a significant negative impact on the sector and called for increased supply of privately rented housing to combat affordability issues. In mid-October 2013, the Government responded to the Select Committee's inquiry and alongside its response published a draft Tenant's Charter for the private rented sector. The Tenants' Charter, which is evidence of the Government's ambition to drive up standards in the sector, is business-friendly and will help improve understanding among both the landlord and tenant communities.

As a result of all these initiatives, we have seen increased activity and investor interest in the UK's private rented sector as we and others have engaged with the Government to put into practice our shared aspirations for this increasingly important tenure type.

### Business overview

Grainger has three main sources of income: receipts from sales of assets that are vacant (2013: £116.4m, 2012: £127.9m) and tenanted and other asset sales (2013: £236.5m, 2012: £130.5m); rents (2013: net rents of £48.5m, 2012: £62.8m); and fees from co-invested and co-managed vehicles and other income (2013: £12.9m, 2012: £11.0m).

In addition, the contribution from our investment in joint ventures and associates before tax and non-recurring items, comprising our share of profit plus our share of revaluation surpluses, amounted to a strongly increased figure of £15.4m (2012: £3.5m).

We have used our skills in trading, managing, developing, fund management and investing in residential property to great effect in 2013 and have generated growth in the value of our property through our asset and property management expertise, both on our own behalf and that of our co-investors and partners.

### Trading

| | 2013 | 2012 |
|---|---|---|
| Profit from asset sales | £77.7m | £77.6m |
| Margins on vacant sales | 44.9% | 39.6% |
| Sales of tenanted and other sales | £236.5m | £130.5m |

Profit from total asset sales increased by £0.1m to £77.7m (2012: £77.6m). Margins on sales of vacant properties increased to 44.9% (2012: 39.6%) and sales of vacant properties were made at an average of 7.9% above September 2012 VPV (2012 excess to 2011 VPV: 6.1%). Sales of tenanted properties and other sales increased from 2012 by £106.0m to £236.5m (2012: £130.5m). Whilst we do not expect this scale of tenanted sales in 2014, this nonetheless re-emphasises the liquidity of our portfolio and the defensive quality of our assets as well as our ability to manage the scale of our investments.

### Managing

| | 2013 | 2012 |
|---|---|---|
| Rise in market values of UK Residential portfolio | 9.3% | 4.8% |
| Rise in market values of Retirement solutions portfolio | 5.9% | 1.0% |

Market values of our UK Residential portfolio rose by 9.3% (2012: 4.8%) and market values of our Retirement solutions portfolio rose by 5.9% (2012: 1.0%). We mobilised the outsourcing of UK repairs and maintenance to Kier in September 2013 which has resulted in run rate savings of approximately £2m p.a. We also sold a further 1,534 properties for Lloyds Bank under our RAMP proposition.

Our performance was again recognised by our peers when we won the award of 'Asset Manager of the Year' at the RESI Awards in May 2013 for the second year

in a row, and when we were awarded 'Best Property Company – Residential' at the Estates Gazette Awards in December 2012.

### Developing

| | 2013 | 2012 |
|---|---|---|
| Gross development value with detailed planning consent | £314m | £243m |

At Wellesley, Aldershot we act as development partner for the Defence Infrastructure Organisation. Our application to redevelop the former Aldershot Garrison for 3,850 homes was granted consent within a six-month timescale and work to facilitate the sale of the first phase has already commenced.

We also made progress on our Macaulay Walk scheme in Clapham. We have already pre-sold the social housing element to Networking Housing Group and we will commence sales of the 65 private houses/apartments and 30,000 sq. ft. office space in early 2014. The estimated gross development value is £58m.

We announced in October 2012 that we had agreed a 125 year contract with the Royal Borough of Kensington and Chelsea to construct and manage a development of affordable, private rented and private homes for sale. In August this year we submitted a detailed planning application for 84 units with a gross development value of circa £110m, of which approximately £60m is build-to-rent.

We submitted a detailed planning application (in joint venture with Helical Bar) for 196 private residential units as part of a mixed use scheme in Hammersmith. The scheme also includes 20,000 sq. ft. of retail/leisure and a 40,000 sq. ft. Council office. This has a gross development value of circa £150m.

At Berewood, the construction work is progressing on site and the first residents moved into the new community this summer. Further to the sale of Phase I to Bloor Homes in September 2012, Grainger sold Phase 2 to Redrow Homes in September this year. The sale comprised 14.4 acres of serviced land on which Redrow will build 248 homes. Total sales revenue from this site now amounts to £24.9m and we anticipate that the next phase will come to market in December 2014.

The development business will be a material contributor to group profit in 2014.

### Fund management and investing

| | 2013 | 2012 |
|---|---|---|
| Gross asset value of co-investment vehicles | £924m | £524m |
| Grainger net equity investment in the vehicles | £145.9m | £60.3m |
| Grainger share of profit and revaluation surplus | £15.4m | £3.5m |

In December 2012, we formed a strategic partnership with Heitman in Germany, allowing Grainger to retain a management mandate and earn a long-term recurring fee income. The gross asset value of this entity at 30 September 2013 is €253m (£212m) and Grainger's net equity investment is €22.5m (£18.8m).

We also formed GRIP, a strategic partnership with Dutch pension fund asset manager APG, in January 2013 to take over the G:res portfolio, keeping it under Grainger's property and asset management. GRIP is one of the largest PRS funds in the UK and has the ambition to continue to grow, through further acquisitions. The gross asset value of this entity is £429m and Grainger's net equity investment is £65.4m. As part of GRIP's acquisition strategy, Grainger retained management of its Tilt portfolio, through an arm's-length sale to GRIP, further increasing the recurring source of fee income from that vehicle in the process.

We formed a joint venture with Dorrington allowing Grainger to partly crystallise the capital growth in its Walworth Estate, South London, while maintaining a strategic long-term stake. The gross asset value of this entity is £136m and the Company's net equity investment is £36.1m.

### Operational and financial gearing

We have been taking actions in the year to reduce both the operational and financial gearing of the business. Property expenses, on a run rate basis as at 30 September 2013 compared to 30 September 2012 have fallen by £2.5m. We have reduced group net debt by £235m to £959m in the past 12 months. Over the same period growth NNNAV level is 38p (24%) to 195p since September 2012 when it was 157p. Growth at gross net asset value is 19p (9%) to 242p since 30 September 2012 when it was 223p.

Strategic objective:
#1

# grainger = leadership

Leading the market and creating new business opportunities

**Smith Dorrien building,**
Wellesley, Aldershot

## How we are delivering on our objective

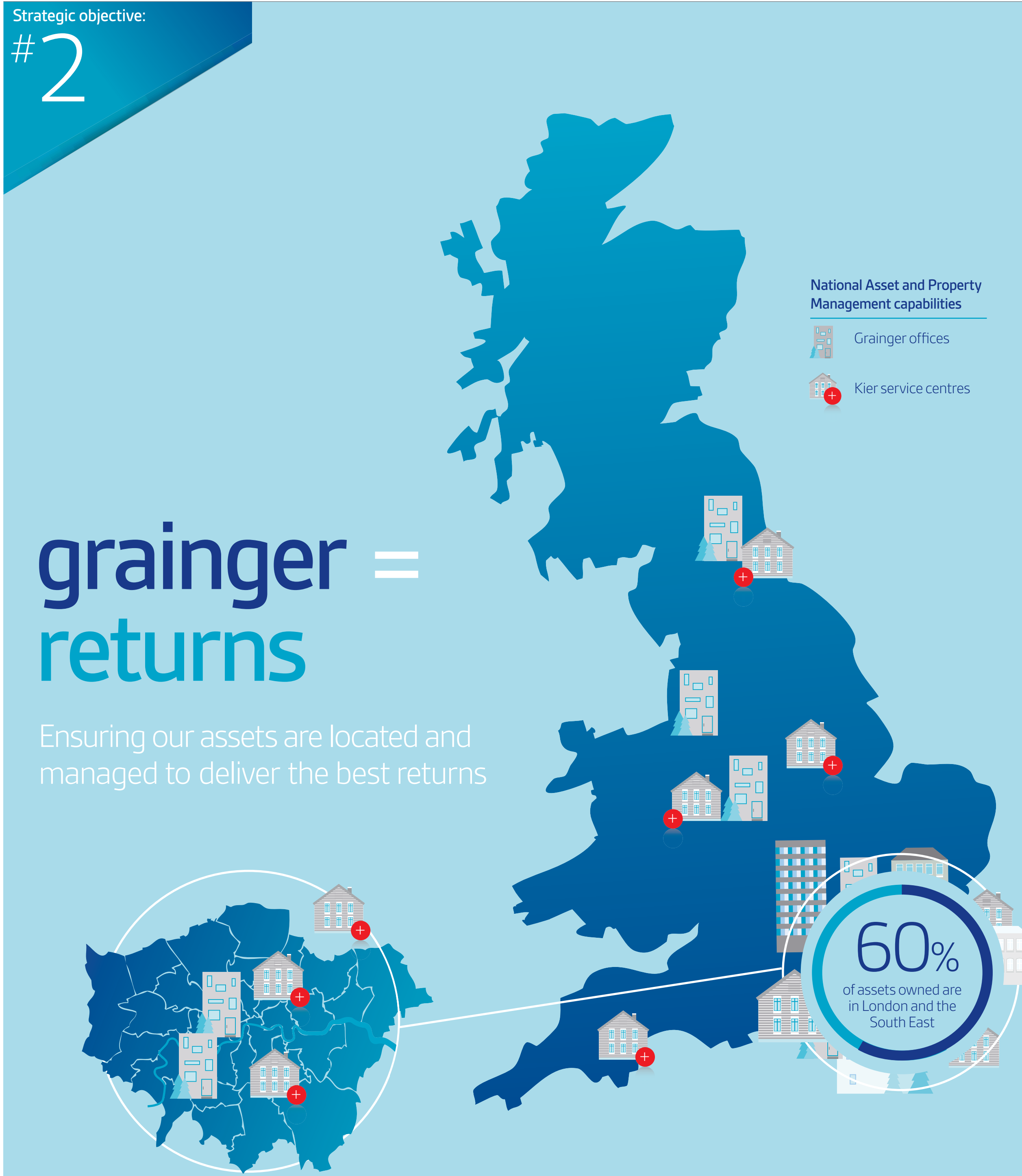
We continue to maintain our leading position in the UK residential sector through the breadth and depth of our offering, our thought leadership and expertise. Our leadership is recognised by our peers and our market leading position creates new business opportunities for us.

### Over the year we have:

- Maintained an open and regular dialogue with politicians and the Government over housing policy, particularly with regard to new Government support measures for the private rented sector and build-to-rent;
- Regularly submitted evidence to Government consultation and Select Committee inquiries on the housing market;
- Contributed to various industry and think tank research projects;
- Presented at over 20 conferences and seminars across the UK and Europe to provide expert insight into residential investment;
- Actively worked with leading industry bodies to help inform housing policy, such as the British Property Federation, the Urban Land Institute and the Royal Institution of Chartered Surveyors; and
- We have engaged with numerous think tanks and charity groups on housing issues, such as Shelter and the Resolution Foundation.

### Our efforts have been recognised:

- We were awarded Asset Manager of the Year at the RESI Awards for the second consecutive year.
- We won Best Property Company – Residential at the Estates Gazette Awards, and have subsequently been shortlisted for the award again this forthcoming year.
- We were a finalist at the Ethical Corporation awards for our activities around corporate responsibility.
- We have maintained our position on the FTSE4Good index, recognising our leading position regarding corporate responsibility.
- We have established new partnership arrangements in 2013 with APG, Heitman and Dorrington.



Strategic objective:
#2
grainger =
returns
Ensuring our assets are located and managed to deliver the best returns
National Asset and Property Management capabilities
Grainger offices
Kier service centres
60%
of assets owned are in London and the South East

## How we are delivering on our objective

Maximising returns from our assets by ensuring they are located in the best places and by actively managing them.

By using our skills, expertise and broad geographical reach in residential asset management, we are able to maximise the growth in capital values from our investments and ensure that our portfolios' valuations outperform the general market. In the UK, the growth in capital values of our portfolios consistently beat the leading national house price indices (Nationwide and Halifax).

In the year to 30 September 2013 these two indices showed an average rise of 5.6%. By contrast, the vacant possession value (VPV) in our combined UK portfolios rose by 6.4% whilst their market value rose by 8.3%. The valuations are supported by regular sales evidence (675 units of vacant properties) which on average were made at 7.9% in excess of September 2012 VPV.

This increase in market value equates to a total addition to net assets, before asset sales, of £144m. Within this, the VPV of our UK Residential portfolio, which benefits from a concentration weighted towards London and the South East of England, rose by 8.2%. The VPV of the more geographically diverse Retirement solutions assets rose by 2.3%.

The assets in our UK Residential business were sold, on average throughout 2013, after 107 days and at 10.4% above their September 2012 VPV. To achieve an average of just 107 days across over 800 individual sales highlights the residential management skills available within Grainger and demonstrates the liquidity of the portfolio.

Our current activities include residential management, trading, development, investment, fund management, accounting and reporting and this 'one-stop-shop' facility combined with our national geographic presence is a strong competitive advantage. The addition of our new subsidiary, Grainger Trust, a For Profit Registered Provider of social housing, also gives us access to this market where many of our future main competitors operate. Our geographic spread will enable us to seize opportunities that are difficult for most London-centric operators.

We will continue to emphasise this breadth as part of the Grainger = Residential strategic message.

### Grainger UK portfolio as at 30 September 2013

| | No. of units | Vacant possession value £m | Increase in vacant possession value % | Market value £m | % of market value |
|---|---|---|---|---|---|
| 1. Central London | 595 | 357 | 13.0 | 280 | 18 |
| 2. Inner London | 1,163 | 436 | 14.2 | 345 | 22 |
| 3. Outer London | 770 | 183 | 7.4 | 134 | 8 |
| 4. South East | 1,531 | 259 | 4.3 | 188 | 12 |
| **Total** | **4,059** | **1,235** | **10.7** | **947** | **60** |

Strategic objective:

#3

# grainger = balance

Balancing the sources of our income through exploiting changing market opportunities

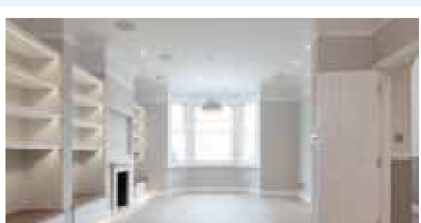
Young Street, Kensington

## How we are delivering on our objective

Due to the growth in the UK rental market there are an increasing number of opportunities for generating greater non-trading income. Over the past two years we have increased our non-trading income streams significantly which helps to cover our operational and finance costs.

**Grainger partners with APG, Europe's biggest pension fund asset manager, to create GRIP, one of the largest institutionally-backed UK private rented sector funds.**
This year, we joined together with APG as co-equity partners to create the GRIP fund, which initially purchased the £350m portfolio from G:res1, a fund set up by Grainger in 2005. In addition to a minority equity stake in the GRIP fund, Grainger also provides asset and property management services in return for a fee. This fund marks one of the biggest institutional investments in the UK private rented sector.

**In addition, during the year Grainger formed a co-investment vehicle with global real estate investment firm, Heitman**, to acquire a portfolio owned by Grainger and to invest in further German residential property.



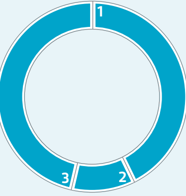
**Finlay St, London**
Improving sales margins through refurbishment – an extensive, high quality refurbishment of a property formally subject to a regulated tenancy.

**Other existing rent and fee income generators**
In addition to the new initiatives above – GRIP and the Heitman co-investment vehicle – we have a number of other key business ventures which generate non-trading income.

Our Residential Asset Management Platform – RAMP – with Lloyds Bank is a significant fee income driver. We provide strategic asset management to distressed residential property portfolios in administration or receivership across Britain.

We are the development partner to the Defence Infrastructure Organisation of the Ministry of Defence and the Homes and Communities Agency for Wellesley, the Aldershot urban extension in the South East of England which will comprise 3,850 new homes, two new schools, and new health and leisure facilities.

| Sources of income and profit | £m |
|---|---|
| 1. Net rent | 48 |
| 2. Gross fees | 13 |
| 3. Profits on sale of vacant property | 52 |
| | 113 |



Strategic objective:
# 4

# grainger = optimisation

Optimising our operational and financial gearing

## How we are delivering on our objective

As our business evolves, we are taking actions to secure the long-term future success of Grainger. As part of that, we have adjusted our capital structure to ensure it is an appropriate fit to the changing nature of our asset base and the profile of our income streams. This year we have delivered on our target to reduce our net debt to below £1bn, and our LTV to below 50%, and to implement efficiency and cost-saving measures.

### Reducing gearing and enhancing value

Throughout this process of de-gearing, we have been successful in both protecting and enhancing the value of our business. While achieving a reduction of £611m in net debt since March 2011, we have increased the business' NNNAV by 23%.

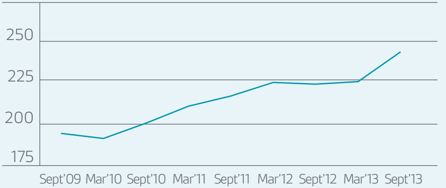
Last year we set out a target to reduce our net debt to below £1bn in the year, which we successfully achieved ahead of schedule in August. In addition, we wanted to reduce our LTV to below 50%. As at 30 September 2013 group LTV was 48%. We also set a target to reduce property expenses and overheads by 5% on a run rate basis comparing September 2013 to September 2012, which we have also achieved.

### Driving operational efficiency

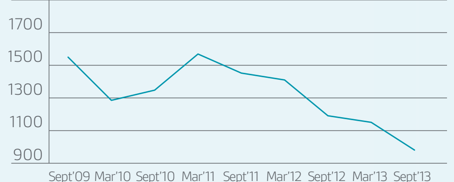
One way in which we have increased the efficiency in our business is through changing our supply chain. We have secured cost savings of approximately £2m on the day-to-day reactive repairs and maintenance works we undertake on our assets in Britain. We have done this by appointing a single supplier, Kier, to undertake all reactive repairs and maintenance across our entire UK portfolio. We have ensured that the new arrangement will provide greater efficiency and cost control, as well as an enhanced and more responsive service to our tenants.

We are also making improvements and upgrades to our IT and information systems and processes to prepare the business for continued future growth and to support our growing fund management business.

#### Gross net asset value (p)




#### Group net debt (£m)



Chief executive's review
continued

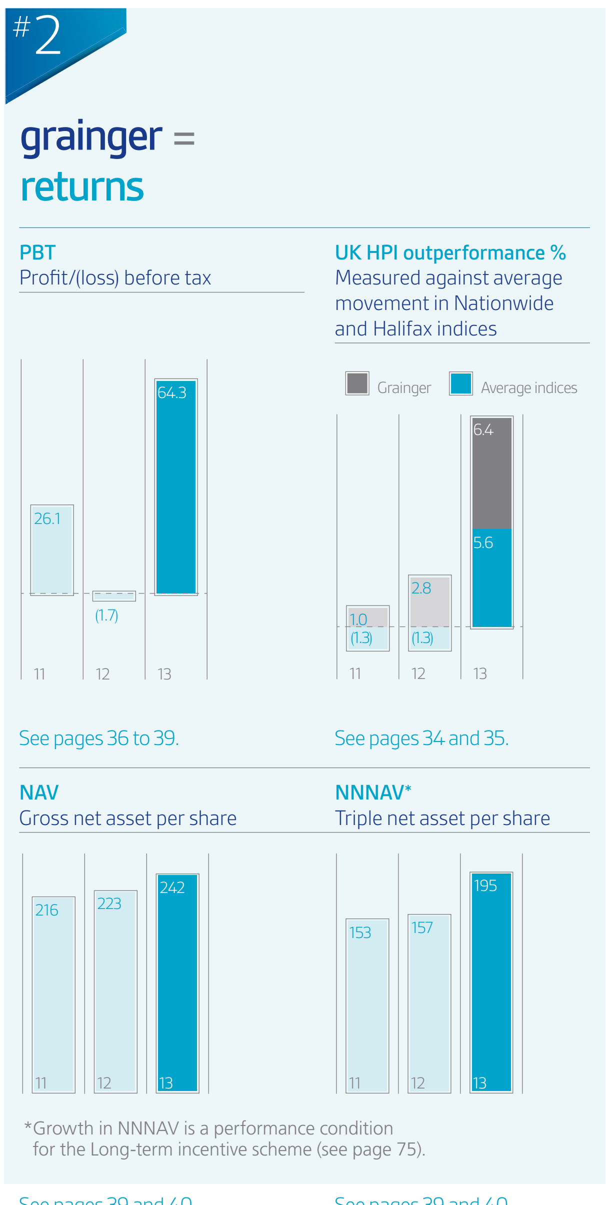
## Key performance indicators:

Our key performance indicators have been selected to provide a balance between financial and non-financial targets. They have been set to enable us to measure success against the group's strategic objectives and are used to help determine how the executive directors are remunerated.

#1

### grainger = leadership

| | |
|---|---|
| Breadth and depth of our offering | We offer a range of core skills<br>– residential management<br>– residential trading<br>– development<br>– investment and fund management<br>– registered provider<br>– accounting and reporting<br>In the UK these skills are provided through our national geographical presence |
| Peer recognition as experts in the residential sector | – residential awards<br>– members of key industry and sector representative bodies<br>– dialogue with politicians, Government, think tanks and charities on residential housing policy |
| Ability to create new business opportunities and attract high quality strategic partners | New partnership arrangements entered into in 2013:<br>– APG<br>– Heitman<br>– Dorrington |



#2

### grainger = returns



See pages 36 to 39.

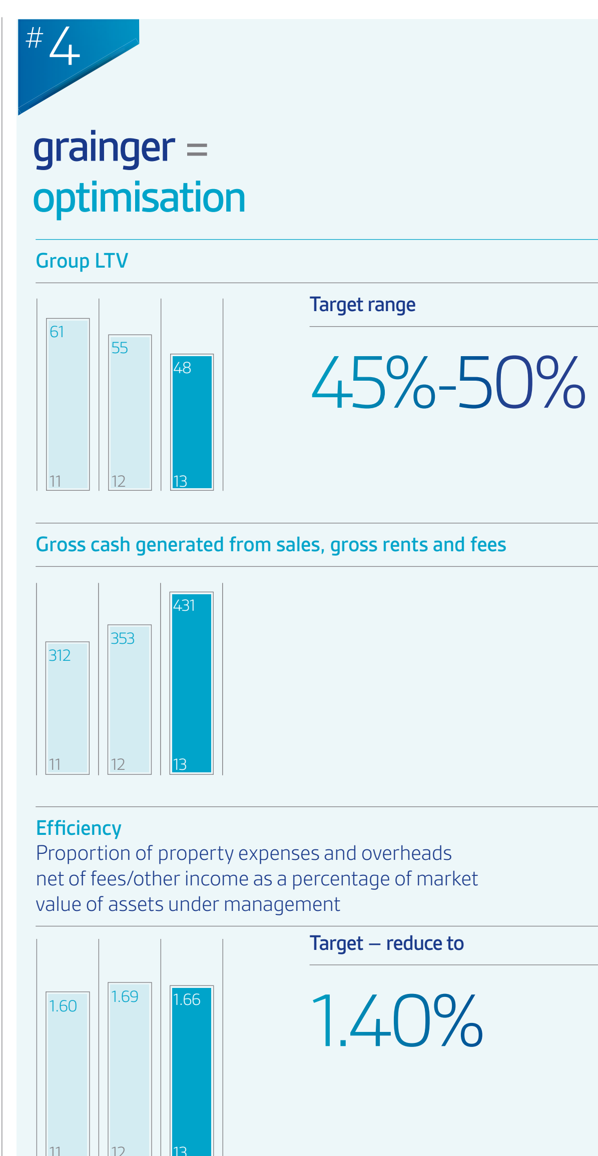
See pages 34 and 35.

*Growth in NNNAV is a performance condition for the Long-term incentive scheme (see page 75).

See pages 39 and 40.

See pages 39 and 40.

#3
grainger =
balance
Proportion of net rents and fees to net rents and fees plus trading profit from vacant sales
59.2
58.9
53.9
11
12
13
Target – increase to
60%
Proportion of gross management fees to overheads
21.0
32.5
37.2
11
12
13
Target – increase to
50%


#4
grainger =
optimisation
Group LTV
61
55
48
11
12
13
Target range
45%-50%
Gross cash generated from sales, gross rents and fees
312
353
431
11
12
13
Efficiency
Proportion of property expenses and overheads net of fees/other income as a percentage of market value of assets under management
1.60
1.69
1.66
11
12
13
Target – reduce to
1.40%

Chief executive's review
continued

## Operational measures

In addition to our strategic KPIs there are a number of other performance measures that the group actively monitors to assess the performance and direction of the business and which contribute to its overall performance as measured by the KPIs.

### Staff

| Measure | Value |
|---|---|
| Percentage turnover for permanent employees | 13.6% |
| Sickness absence per employee per annum | 4.4 days |
| The average hours of training per employee per annum | 18.8 hours |
| Ratio of female to male staff at senior manager level or above | 26% |

See page 43.

### Corporate responsibility

| Measure | Value |
|---|---|
| Percentage of tenants rating Grainger's management service as good or above | 75% |
| Percentage of tenant complaints resolved at year end | 81% |
| Number of staff working days contributed for charitable causes | 41 days |

See page 49.

### Financial

| Measure | Value |
|---|---|
| OPBVM | £107.6m |
| Recurring profit | £37.0m |
| ROCE | 8.1% |
| ROSE | 25.2% |

See pages 36 and 37.

### Sales

| Measure | Value |
|---|---|
| Sales velocity in days – UK Residential | 107 days |
| Margin on vacant sales | 44.9% |
| Vacant sales values above previous year VPV | 7.9% |

See pages 15, 24 and 25.

### Rents

| Measure | Value |
|---|---|
| Increase in regulated rents | 10.8% |
| Rent Arrears percentage: UK | 1.9% |
| Average vacancy rate on regulated properties in 2013 | 6.8% |

See pages 26 and 27.

### Treasury

| Measure | Value |
|---|---|
| Interest cover ratio on core syndicate facility | 5.0:1 |
| Average maturity of drawn debt | 4.6 years |
| Average cost of debt | 5.7% |
| Hedging percentage | 68% |
| Cash and headroom on facilities | £292m |

See page 41.

LTV

48%

Net debt

£959m

A focus on the private rented sector will become a more significant part of our business in the future.

### Strategy and future outlook

In the past, our core business has been heavily focused on the long-term ownership and trading of reversionary assets, principally those subject to regulated tenancies. These assets have and will continue to provide predictable income from sales and rental income, and can provide opportunities to deliver low risk, above-market returns. They also benefit from enhanced value growth due to their London and South East weighting. Market dynamics suggest, however, that in the future there will be greater demand for a more mature, customer focused private rental market. Grainger's experience and expertise make it ideally suited to thrive in this market. This focus on the private rented sector will therefore become a more significant part of our business in the future.

Allied to growth in the rental market are increasing numbers of opportunities for the creation of joint ventures and fund management structures where we can leverage our core skills to create added value for our shareholders and partners and thereby generate recurring fee income for the business. We will continue to strengthen our capabilities in these areas.

In addition, the successful delivery of our strategy over recent years has created a scalable platform in terms of skilled people, expert processes and financial strength that enables us to compete effectively now and in the future across the residential market. Over this period, we have reduced our debt, achieved a balance of income between sales, rents and fees and increased our two net asset measures, NAV and NNNAV.

The four strands of our strategy remain: leading the market, ensuring our assets are located and managed to deliver the best returns, balancing the sources of our income and optimising our financial and operational gearing. As market conditions change so too will each of these strands to ensure an appropriate fit to the opportunities that will arise.

In some cases we will be able to acquire stock by forward commitment to the developers, as we have done at London Road, Barking with Bouygues Development UK. We are currently active in the 'doughnut' zones around central London to acquire similar but somewhat larger opportunities.

At Berewood, we are developing our own stock of PRS housing that we will hold and manage for the long term and we are investigating similar potential at Aldershot. These are examples of where we can accelerate the delivery of new homes on large development sites that we own or manage. As well as selling land with planning permission to house builders for the owner occupier market, we will build stock that we will commit to rent for the longer term. This has a number of advantages to Grainger: first, it allows us to complete large sites more quickly; secondly it ensures we will not compete with the house builders (the natural purchasers of our development plots); and, thirdly, it enables us to secure significant economies of scale in property management.

We are now operating within a range of gearing of 45%–50% which we consider is appropriate in the medium term. We will also actively manage our average cost of debt downwards from its current level, towards 5.0%, which will assist the relationship between rents and fees and interest costs.

After allowing for further vacant sales in the normal course of business, this means that the group is able to create and take advantage of acquisition and investment opportunities. As well as our appetite for regulated tenancy portfolios and individual regulated properties our focus will include the development of purpose built residential rental stock (build-to-rent) in London and the South East and, increasingly, in key regional city locations.

The company is now strongly positioned to take advantage of the current positive market conditions and we look forward to another successful year of forward momentum and value creation.

Andrew Cunningham
Chief executive officer
7 November 2013

# Sales

### Macaulay Walk development

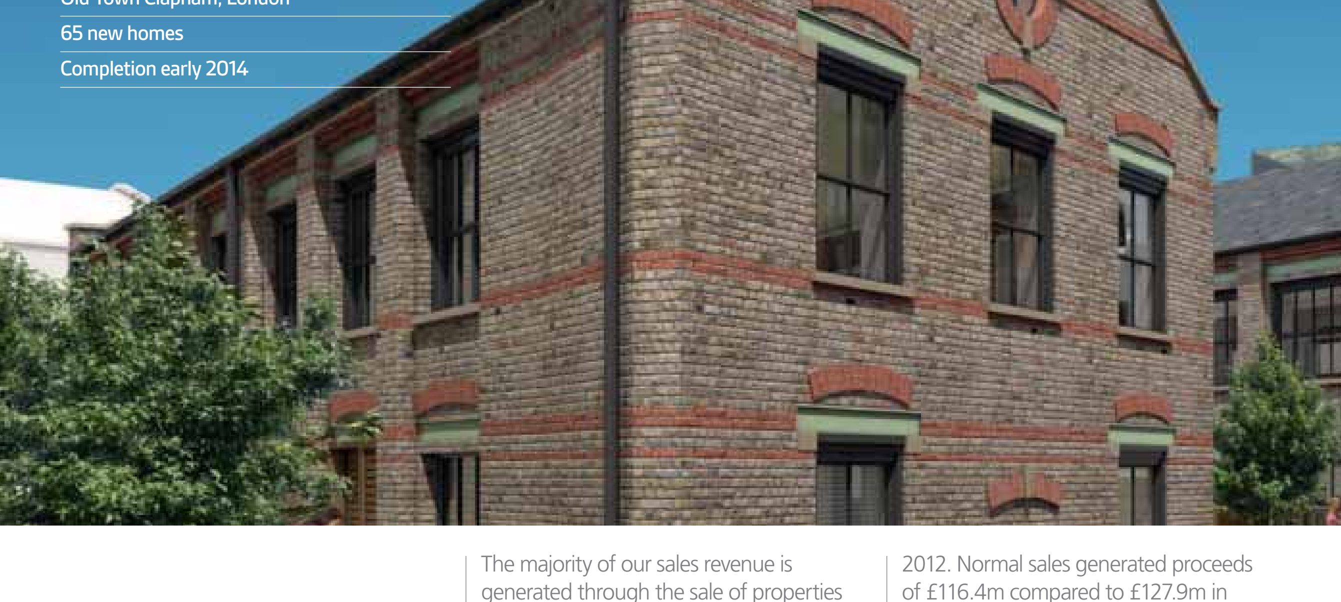
Macaulay Walk is a beautiful, mixed-use development in the heart of Clapham Old Town, London, providing a collection of well-designed one, two and three-bedroom homes, apartments, penthouses and offices.

Designed by award-winning Assael Architects, with interiors by prime residential interior specialists MMM, the development combines converted 19th century warehouse buildings with crisp, contemporary architecture, as well as offering modern flexible office space.

Old Town Clapham, London

65 new homes

Completion early 2014



Margins on vacant sales have increased to 44.9% from 39.6%. Vacant sales were made 7.9% above last year's valuations.

The majority of our sales revenue is generated through the sale of properties when they fall vacant (also known as normal sales). In addition, when we decide that a particular property or portfolio no longer offers attractive future value growth we sell these properties while occupied (tenanted sales). We also take advantage of opportunities to add value by utilising our in-house expertise to refurbish a select number of properties before sale.

This year, profit from sales of property was £77.7m, compared to £77.6m in the previous year. Total gross sales proceeds were £352.9m, compared to £258.4m in 2012. Normal sales generated proceeds of £116.4m compared to £127.9m in the previous year at margins of 44.9% (2012: 39.6%). Tenanted sales rose this year to £200.0m from £58.2m in 2012. These figures reiterate how well our properties continue to sell due to their low average value and un-refurbished nature.

Several large, one-off portfolio sales contributed to this year's sales of tenanted properties, an intentional result of our strategic objective both to reduce our debt and to remove less well performing property from the portfolio. Some investment sales, however, were sold

## Sales performance

| | Full year 2013 | | | Full year 2012 | | |
|---|---|---|---|---|---|---|
| | No. of units | Gross sales value (£m) | Profit (£m) | No. of units | Gross sales value (£m) | Profit (£m) |
| Trading sales on vacancy | | | | | | |
| UKR | 337 | 79.5 | 40.2 | 390 | 89.2 | 37.4 |
| RS | 338 | 36.9 | 12.0 | 323 | 38.7 | 13.3 |
| | 675 | 116.4 | 52.2 | 713 | 127.9 | 50.7 |
| Tenanted sales | 1,684 | 200.0 | 23.4 | 489 | 58.2 | 9.9 |
| Other sales | 17 | 3.5 | 1.4 | 8 | 29.0 | 12.5 |
| Residential total | 2,376 | 319.9 | 77.0 | 1,210 | 215.1 | 73.1 |
| Development | – | 15.0 | 1.9 | – | 18.9 | 3.4 |
| UK total | 2,376 | 334.9 | 78.9 | 1,210 | 234.0 | 76.5 |
| Germany | 245 | 18.0 | (1.2) | 294 | 24.4 | 1.1 |
| **Overall total** | **2,621** | **352.9** | **77.7** | 1,504 | 258.4 | 77.6 |
| Deduct: Sales of CHARM properties | 59 | 5.8 | 0.4 | 68 | 7.9 | 0.6 |
| Statutory sales and profit | 2,562 | 347.1 | 77.3 | 1,436 | 250.5 | 77.0 |

into third-party entities in which Grainger has an existing equity stake, allowing us both to repatriate capital and continue to share in the future upside of the assets' value. The sales value recorded is the share of proceeds sold externally and includes the sale of the Walworth Estate, with £56.0m being a 50% share of the full sales value, and the sale of the Tilt Estate to GRIP Fund, with £43.6m being a 75.1% share of the full sales value.

Our vacant sales revenue – a stable and reliable cash flow – will not only continue to be supported through the natural vacancy rate on our reversionary assets, but will also be supported by a number of forthcoming development projects including Berewood, Hortensia Road (RBKC), Macaulay Walk and Young Street (RBKC) in future years.

Our 2013/14 financial year has started well. As at 31 October 2013 our total group sales pipeline (completed sales, contracts exchanged and properties in solicitors' hands) amounted to £52.3m with UK vacant sales values 6.3% above September 2013 valuations (2012: £38.4m and 4.1% respectively).

# Rents

Cafe on the Tilt Estate

A beautiful and attractive place to live in East Dulwich, South London, 296 properties with a mixture of market rented accommodation and regulated tenancies. Situated around a private garden square for residents and with a local cafe and art gallery, this estate is a well sought after example of a vibrant place to live, centred around rental accommodation.

Tilt Estate, East Dulwich, London

296 properties

Rental income levels for the year have remained strong, underpinned by growing demand for renting in the UK. Gross rental income for the year was £71.3m, representing 25% of total group revenue.

Rental income is a regular and predictable income stream for our business. The main contributors to our rental income stream are our wholly-owned UK and German portfolios. Our opportunities to increase rent come largely from rent reviews of existing tenanted assets.

In our market let properties and those we manage on behalf of others, rents follow market trends and reflect the quality of the individual unit. As the average length of tenure is around 20 months, we have regular opportunities to ensure that we maximise rents (and our related fees) through our market awareness, the proactivity of our lettings team and our asset management activities.

Our regulated tenancy portfolio also provides a reliable rental income stream albeit at a lower gross yield than our market rented portfolio since the rents charged on our regulated tenancies are sub-market rents. Application can be made for rents on regulated tenancies to be re-registered every two years by local Government rent officers. Any rent increase is capped at the percentage change in UK RPI since the rent was last registered plus a percentage prescribed by law, which is currently 5%. In the past year our regulated tenancy portfolio generated £30m of gross rent.

Net rents

| | 2013 £m | 2012 £m |
|---|---|---|
| UK Residential | 37.2 | 41.8 |
| Germany | 8.7 | 17.1 |
| Retirement Solutions | 2.3 | 3.7 |
| Development | 0.3 | 0.2 |
| **Total** | **48.5** | 62.8 |



The UK rental market continues to grow with strong consumer demand and significant interest among international institutional investors. The UK private rented sector is beginning to show signs of maturity, with recent investments from major pension funds and the breakthrough of several build-to-rent schemes, including our development in Barking, East London. We expect this momentum to continue, providing future opportunities for leveraging our expertise and skills to generate further rental income.

Total net rents in the year amounted to £48.5m (2012: £62.8m). Our UK Residential portfolio generated net rental income in the year of £37.2m (2012: £41.8m), an anticipated reduction following the portfolio transfers into co-investment structures. Underlying rental levels per asset, however, remain strong. The German business delivered net rents, before property management expenses, of €11.6m (2012: €22.8m). Again, the reduction was anticipated and resulted from the transfer of the two Stuttgart portfolios into our co-investment vehicle with Heitman. Certain assets in the Retirement solutions portfolio also produce a net rental income and this amounted to £2.3m in the year (2012: £3.7m).

# Fees

### Canonbury Heights East

A block of apartments in Canonbury, North London, owned by our private rented sector fund, GRIP, backed by the Dutch pension fund asset manager, APG. The flat has recently been refurbished as part of GRIP's strategic reinvestment strategy for its portfolio.

**Canonbury Heights East, Canonbury, London**

**44 properties**

## Gross fee income for the year was £12.5m – an increase of 128% over the last three years.

A key strategic element of Grainger's business is to seek opportunities to generate recurring income, including fees. Over the past years we have been successful in increasing fee income through a number of different ventures. Fee income currently makes up 11% of Grainger's total income, and has increased by 128% over three years.

Gross fee income was £12.5m, an increase of 24% compared to £10.0m in 2012 and derives from asset and property management fees from our co-investment vehicles and management contracts. In addition, the group earned other income of £0.4m (2012: £1.0m).

The UK Residential division generated £0.5m in service charge management fees and £0.2m in other income. In Retirement solutions, management fees of £1.1m and other income of £0.1m were earned. Management fees relate to the management both of the assets owned by our Sovereign joint venture and the third-party assets managed under external management contracts with Sovereign.

During 2011 Grainger was appointed as development partner for Wellesley, the Aldershot Urban Extension, working with the Defence Infrastructure Organisation, part of the Ministry of Defence. This year this partnership generated a management fee income of £0.3m (2012: £0.3m). As land sales commence, our fees for this project will increase.

Fund and third-party management fees of £9.6m comprise management fees from RAMP and GRIP.

### Fees and other income

| | 2013 £m | 2012 £m |
|---|---|---|
| Fund and third party management | 9.6 | 8.3 |
| Retirement solutions | 1.1 | 1.0 |
| Germany | 0.8 | – |
| UK Residential | 0.5 | 0.2 |
| Development | 0.5 | 0.5 |
| Other income | 0.4 | 1.0 |
| **Total** | **12.9** | 11.0 |

# Risk management approach

## Risk management is an inherent part of the group's activities to provide assurance to our stakeholders.

Figure 1:
Grainger risk management framework

Appropriate risk management aids effective decision making and helps to ensure that the risks the business takes are adequately assessed and challenged. It helps to ensure that the appropriate rewards are achieved whilst retaining our overall resilience to risks.

Our overall risk management ambition is to foster and embed a culture of risk management that is responsive, forward looking, consistent and accountable.

Our capability continues to develop through on-going risk assessments across the group and post project reviews. On-going improvements to risk management performance can further aid the delivery of projects and increase the effectiveness of our operations.

### Risk assessment

Our risk management approach looks at risks arising in all parts of the group using both a bottom-up and a top-down approach. A systematic risk management framework and process (**Figure 1**) is used to consider both external factors arising from the environment within which we operate, and internal risks arising from the nature of our business, its controls and processes, and our management decisions.

Once identified, the impact and probability of risks are determined and scored at both a gross (before mitigation) and net (after mitigation) basis. A risk-scoring matrix is used to ensure that a consistent approach is taken when assessing the overall impact.

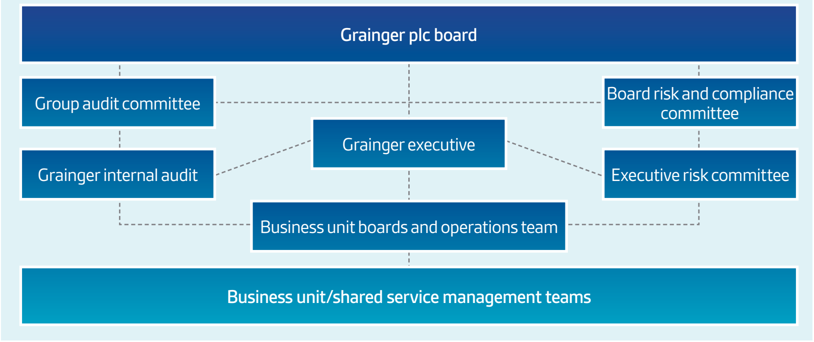
These risk scores are documented in risk registers. These are maintained at a project, business unit, divisional and group level. They change as new risks emerge and existing risks diminish, so that the registers reflect the current threats to the relevant strategic objectives. We review the group and divisional risk registers at least quarterly and more frequently, as required.

Grainger's risk and compliance function leads and supports the risk management process and also challenges the risk findings and reported controls. Executive directors, risk and compliance and other senior management form the executive risk committee (ERC) and are closely involved at critical stages in the process to review, challenge and debate the risks identified (**Figure 2**). The resultant output, which takes into account the reputational impact of any of the risks arising, is a list of top risks faced by the group.

In the forthcoming year we plan to adopt a more integrated approach to assessing and reporting our corporate social responsibility risks. We will bring sustainability risk within the group's risk management framework and aim to further integrate our reporting of these risks in future reports. We will also work in conjunction with the audit committee to create a group assurance framework.

The Grainger plc board risk and compliance committee (BRCC) has the board's delegated responsibility for the group's risk management framework. It regularly reviews the group's top risks and ratifies the risk appetite and tolerances on the key risk areas of the risk framework set by the executive. In addition to the risk assessment process above, the BRCC also spent time this year considering the emerging enterprise risks and opportunities that the group may face. The BRCC is supported in the discharge of this responsibility by various committees, specifically the audit committee and the executive risk committee, and by the risk and compliance and internal audit functions.

Figure 2: Grainger risk reporting framework



# Principal risks to the group's strategy and objectives

Figure 3 shows the principal risks faced by Grainger are those deemed to be the most material to Grainger's strategic, business and financial objectives.

The risks are set out in accordance with Grainger's risk framework but are in no particular order and so should not be taken as a suggestion of the level of risk posed.

**Strategic objectives**

1. Leading the market;
2. Ensuring assets are located and managed to deliver the best returns;
3. Balancing income sources; and
4. Optimise financial and operational gearing.

**Figure 3:**

| | Strategic objectives linkage | Risk description | Risk impact | Mitigation | Change from 2012 |
|---|---|---|---|---|---|
| Market and strategic (external) risks | 1; 2; 3; 4. | Deterioration of wider global economic markets | – Drop in housing demand or prices, particularly in London and the South East<br>– Asset and portfolio value falls<br>– Subsequent financial constraints | – Reduced reliance on trading income<br>– Maintenance of headroom against covenants providing a cushion for market adjustments<br>– Continuous review by board | Decreased risk |
| | 1; 2; 3; 4. | Long-term flat or negative growth in the value of assets | – Unattractive to external investors and partners<br>– Poor shareholder returns | – Maintain balance of income from sales, rents and fees<br>– Portfolios weighted towards areas of higher growth | Decreased risk |
| | 1. | Failure to determine the expectations of our stakeholders – customers, tenants, staff, partners and shareholders | – Value not maximised<br>– Inability to attract or retain tenants, staff and/or partners<br>– Increased cost base<br>– Reputational damage | – Active sustainability programme and targets<br>– Formal complaints process to learn from tenant concerns<br>– Tenant surveys<br>– Staff surveys and management engagement<br>– Values programme implemented in the year | Decreased risk |
| Project risk assurance | 4. | Multiple concurrent operational and change projects | – Overextension of people and resources<br>– Missed deadlines, increased costs<br>– Poor delivery performance | – Awareness by executives and senior management<br>– Oversight by board risk and compliance committee<br>– Use of external expertise and resource to support where appropriate<br>– Pursuing a more standardised approach to change and project management<br>– Up-skilling our internal resources | No change |

**Key**

The principal risks faced by the group are:

No change Increased risk Decreased risk

## Risk management approach
continued

**Figure 3:**

| | Strategic objectives linkage | Risk description | Risk impact | Mitigation | Change from 2012 |
|---|---|---|---|---|---|
| People risks | 1; 2; 3; 4. | Failure to attract, retain and develop our people to ensure we have the right skills to deliver our strategy | – Reduced ability to deliver to expectations | – Succession plans are regularly reviewed<br>– Management development training<br>– Retention policies in place for key staff<br>– Annual benchmarking of reward<br>– Regular staff surveys<br>– Performance reviews and appraisals | |
| Operational risks | 1; 4. | Inability to recover from a significant external event such as large scale terrorist attack, extreme weather, environmental disaster or civil emergency | – The inability to recover swiftly from a sudden, high impact event could lead to operational failures, contractual breaches, substantial costs and reputational damage | Documented business continuity plan:<br>– Strong tested IT and information security recovery processes<br>– Group insurance framework<br>– Externally audited | |
| | 1; 4. | A significant health and safety incident as a result of inadequate or inappropriately implemented health and safety procedures and controls within Grainger or its contractor/ supplier base | – Harm to people<br>– Possible legal action/ fine/reputational damage as a result of an incident | – Full utilities management plan in place which includes asbestos, fire, gas, electrical, water and project controls<br>– All contractors are 'Gas safe' registered<br>– Specific health and safety director responsible for compliance monitoring plan<br>– Updated whistleblowing policy<br>– Monitoring by senior management and executive<br>– Bi-annual report to the main board | |
| Financial funding risks | 1; 4. | Lack of availability of finance for the group to achieve its strategic objectives; inability to obtain sufficient funds either through debt or equity, at appropriate price and terms | – Reduced or severely limited ability to take advantage of business opportunities; unable to grow; unable to trade profitably | – Constant monitoring of headroom and capital structures<br>– Constant activity in establishing potential sources of funds and specialist skills<br>– Positive relationship management with banks and other sources<br>– Creation of co-ownership structures<br>– Gearing reduced to 48.0% as at 30 September 2013 | |

**Key**

The principal risks faced by the group are:

No change Increased risk Decreased risk

| Figure 3: | Strategic objectives linkage | Risk description | Risk impact | Mitigation | Change from 2012 |
| --- | --- | --- | --- | --- | --- |
| Legal and regulatory risks | 1; 3; 4. | Failure to anticipate and respond to changes in legislation or regulation that creates increased and costly obligations, e.g. Energy Act, GHG Reporting, AIFMD etc. | – Reduction in market opportunities; impact on ability to finance opportunities; up-front cost implications of building new systems and approached to meet obligations | – Active networking with key policy influencers and relevant industry groups who lobby government and policy makers<br>– Specialist legal, compliance and corporate affairs teams who monitor legislative, regulatory and consultation papers<br>– Use external specialists to advise and maintain forward focus | → |
| IT and technological risks | 1; 2; 3; 4. | Failure to maintain adequate IT infrastructure and systems to appropriately support the growth and strategy of the business | – Increased costs; inability to report on performance to the satisfaction of stakeholders | – Core Systems Design project underway to promote increased standardisation and improved controls<br>– Employment of high quality motivated IT staff<br>– Use of external specialist advisers where required<br>– Specialist project management<br>– Overseen by senior managers; executive and board | → |

**Emerging risks**

Emerging risks are those risks that have been identified as potential issues for the future although the extent of the risk is yet to be fully understood. A number of emerging risks have been identified by the board risk and compliance committee as follows and these will be monitored over the coming months:

- Cyber crime
- Increasing environmental, financial and landlord regulation

**Risk mitigation response**

All material risks and their associated controls, raised throughout the business, go through a process of review and challenge by the executive risk committee and ultimately the board risk and compliance committee.

This assessment of the effectiveness of the internal control systems is supplemented through the following regular reviews:

- discussion and approval by the board of the company strategy, plans and objectives and the risks to achieving them;
- approval by the board of budgets and forecasts, including those for both revenue and capital expenditure;
- key projects – the BRCC reviews the risks posed by these projects to achieving objectives, mitigating controls and actions;
- oversight by the audit committee of the scope and results of the work of internal auditors and the external auditors and of any significant issues arising;
- audit committee review of accounting policies and the levels of delegated authority; and
- the board and the audit committee are informed of material incidents such as material fraudulent activity or a significant whistleblowing event, and actions being taken to remedy any control weaknesses.

In 2014 we plan to increase management assessment on the quality of controls in place and introduce a comprehensive group risk assurance table.

# Asset performance

Combined UK portfolio increase in VPV

6.4%

Sales value above 2012 VPV

7.9%

## Asset performance

| | 2013 | |
|---|---|---|
| | VPV | Market value |
| Year-on-year HPI (Nationwide/Halifax) | 5.6% | |
| UK Residential portfolio VPV rise and market value rise | 8.2% | 9.3% |
| Retirement solutions portfolio VPV rise and market value rise | 2.3% | 5.9% |
| Combined UK Grainger VPV rise and market value rise | 6.4% | 8.3% |

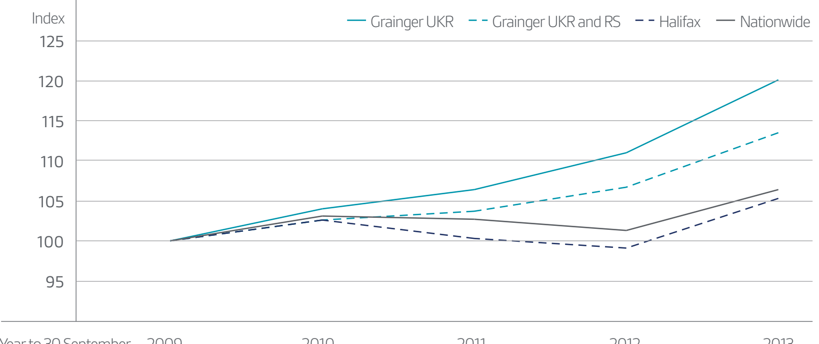
| | 2013 |
|---|---|
| Reversionary surplus in combined UK portfolio | £483m |
| Pence per share before tax | 116p |
| Reversionary surplus including share of joint ventures/ associates | £527m |
| Pence per share before tax | 127p |
| UK Residential portfolio excess on sale to September 2012 value | 10.4% |
| Retirement solutions portfolio excess on sale to September 2012 value | 2.8% |
| Average excess on sale to September 2012 value | 7.9% |

We continued to outperform the general housing market in 2013. In the year to 30 September 2013 the two major housing indices (Nationwide and Halifax) showed an average rise of 5.6%. By contrast, the vacant possession value (VPV) in our combined UK portfolios rose by 6.4% whilst their market value rose by 8.3%. The valuations are supported by normal sales (675 units of vacant properties) which on average were made at 7.9% in excess of September 2012 VPV.

Within this, the VPV of our UK Residential portfolio, which benefits from a concentration weighted towards London and the South East of England, rose by 8.2%. The VPV of the more geographically diverse Retirement solutions assets rose by 2.3%.

The assets in our UK reversionary business continue to sell above their previous valuation. On average our regulated tenancies, supported by selective refurbishment prior to sale, sold at values 10.4% above their September 2012 VPV. Without the benefit of pre-sale refurbishment, sales were at 6.3% above September 2012 VPV. Properties in our Retirement solutions business were sold at 2.8% above their September 2012 VPV.

## Performance of Grainger UK assets vs Halifax and Nationwide indices



**Mitre Road, London**
Part of the G:Invest portfolio and an excellent performing asset, highly sought after by prospective tenants.

Total reversionary surplus, including JV/associates, is £527m. This surplus is excluded from NAV and NNNAV and represents a future pipeline of profit.

We have been particularly selective in our acquisition activity during the year and have spent only £9.0m on property purchases (2012: £21.7m). Going forward, whilst we will require purchases to meet strict investment criteria, we will be actively seeking and creating investment opportunities.

Despite asset sales of £353m, the reversionary surplus attributable to our UK portfolio is £483m, 116p per share before tax and, including our share of the reversionary surplus in joint ventures and associates, is £527m, 127p per share before tax. This surplus, which does not include future house price inflation, represents the difference between the VPV and market value of our properties which we will realise on sale. This surplus is excluded from gross NAV and NNNAV and represents a pipeline of profit which will be realised with no planning or construction risk of any sort.

In the year ended 30 September 2013, the market value of our UK development portfolio increased by £7.8m before sales. This increase primarily relates to Macaulay Walk where completion of all phases of the development is expected in early 2014.

Our German portfolio increased in value by 0.9% over the last year although this uplift was partly negated by an increase in real estate taxes which serve to reduce the valuation increase to £0.4m. The two Stuttgart portfolios in our co-investment with Heitman saw increases in market value of 2.2% over the nine months to September 2013. The group's share of this increase amounted to £1.0m which has been taken through the income statement.

Grainger's equity investment in its joint ventures and associates amounts to £145.9m and principally comprises: our 24.9% investment in GRIP for which we provide property and asset management services, a 50% investment in Walworth Investment Property (WIP), our joint venture with Dorrington, which owns the Walworth Estate, our 25% investment in the two Stuttgart portfolios with Heitman, a 50% interest in the New Sovereign Reversions Ltd joint venture with Moorfield, a 50% interest in our joint ventures at Curzon Park, Prague and Hammersmith within the Development division, a 50% interest in our joint venture in Gebau and our remaining investment in G:res1 Limited.

## Financial review

# Improving our financial returns

Mark Greenwood Finance Director

Pre-tax profit increased to £64.3m. Group net debt fell by £235m in the year to £959m and group LTV fell from 55% to 48%.

**Our key performance indicators are:**

| | 2013 | 2012 |
|---|---|---|
| Gross net asset value per share (pence) | 242p | 223p |
| Triple net asset value per share (pence) | 195p | 157p |
| Operating profit before valuation movements and non-recurring items (OPBVM) | £107.6m | £126.4m |
| Recurring profit | £37.0m | £34.6m |
| Profit/(loss) before tax | £64.3m | £(1.7)m |
| Excess on sale of normal sales to previous valuation | 7.9% | 6.1% |
| Return on capital employed* | 8.1% | 5.9% |
| Return on shareholder equity** | 25.2% | 3.8% |

* 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.

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

**Income performance**

The table below summarises our operating profit before valuation movements and non-recurring items (OPBVM), recurring profit and profit before tax.

| | 2013 £m | 2012 £m |
|---|---|---|
| Profit on sale of assets | 77.7 | 77.6 |
| Net rents | 48.5 | 63.5 |
| Management fees/ other income | 12.9 | 11.0 |
| CHARM | 5.7 | 7.1 |
| Overheads/ other expenses | (37.2) | (32.8) |
| **OPBVM** | 107.6 | 126.4 |
| Finance costs, net | (71.3) | (90.7) |
| JVs and associates | 0.7 | (1.1) |
| **Recurring profit before tax** | 37.0 | 34.6 |
| Valuation movements including derivatives | 33.2 | (24.6) |
| Non-recurring items | (5.9) | (11.7) |
| **Profit/(loss) before tax** | 64.3 | (1.7) |

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NNNAV up 24% to

195p

Gross NAV up 9% to

242p

We have three income streams within OPBVM. These are sales of residential properties, rental income and management fees/other income. Within OPBVM we also include income from our CHARM asset, property expenses, overheads and other expenses. A summary of OPBVM by division and of the main movements in the year is set out below:

## Divisional analysis of OPBVM

| | Profit on sale of assets £m | Net rents £m | Management fees/other income £m | Overheads/ other £m | Total 2013 £m | Total 2012 £m |
|---|---|---|---|---|---|---|
| UK Residential portfolio | 64.5 | 37.2 | 0.7 | (7.8) | 94.6 | 94.7 |
| Retirement solutions portfolio | 12.5 | 2.3 | 1.2 | 3.0 | 19.0 | 22.3 |
| Fund and third-party management | – | – | 9.6 | (6.7) | 2.9 | 1.9 |
| Development assets | 1.9 | 0.3 | 0.5 | (1.5) | 1.2 | 2.8 |
| German residential portfolio | (1.2) | 8.7 | 0.9 | (3.7) | 4.7 | 15.7 |
| Group and other | – | – | – | (14.8) | (14.8) | (11.0) |
| **OPBVM 2013** | 77.7 | 48.5 | 12.9 | (31.5) | 107.6 | – |
| **OPBVM 2012** | 77.6 | 63.5 | 11.0 | (25.7) | – | 126.4 |

## Main movements within OPBVM

| | £m |
|---|---|
| 2012 OPBVM | 126.4 |
| Decrease in gross rents | (18.5) |
| Increase in residential profit on sale | 1.8 |
| Increase in gross management fee and other income | 1.9 |
| Decrease in interest income from CHARM | (1.6) |
| Decrease in development trading profit | (1.5) |
| Decrease in property expenses and overheads | 0.8 |
| Increase in other expenses | (1.7) |
| **2013 OPBVM** | 107.6 |

The major movements within OPBVM are:

- A decrease of £18.5m in gross rents. This has arisen, as predicted, primarily as a result of the transfer of assets into co-investment vehicles during the year, in Germany with Heitman, and with Dorrington and APG in the UK. This reduced gross rents by £12.9m, with the decrease of £10.5m in Germany being the major contributor to the fall in their OPBVM. Sales across the group have resulted in a reduction in gross rents of £6.6m, offset by £1.8m of rental increases.
- An increase of £1.8m in relation to profit on sale of residential property assets, primarily due to an increase in margin on vacant sales from 39.6% to 44.9%.
- An increase in gross management fees and other income of £1.9m arising primarily from RAMP, which generated an additional £1.3m of fee income, and the addition of fee income from our German co-investment vehicle within Heitman which contributed £0.8m.

## Interest income and expense

The net recurring interest charge has decreased by £19.4m from £90.7m in 2012 to £71.3m at 30 September 2013. This follows from the reduction in debt which was (on a daily average) £1,248m in 2013 (2012: £1,528m), and a lower average cost of debt of 5.7% (2012: 6.0%).

## Joint ventures and associates

Joint ventures and associates contributed a profit of £0.7m to recurring profit in the year (2012: loss of £1.1m).

## Financial review
continued

### Valuation and non-recurring items

Valuation and non-recurring items in 2013 compared with 2012 is analysed as follows:

| | 30 September 2013 £m | 30 September 2012 £m | Movement |
|---|---|---|---|
| Valuation | | | |
| Write down of inventories to net realisable value | 0.7 | (0.1) | 0.8 |
| Valuation gain on investment property | 2.9 | 2.1 | 0.8 |
| Goodwill impairment | (4.7) | – | (4.7) |
| Change in fair value of derivatives | 21.6 | (31.2) | 52.8 |
| Valuation gains on investment property in joint venture and associates before tax | 14.7 | 4.6 | 10.1 |
| Tax on valuation gains on investment property in joint ventures and associates | (2.3) | – | (2.3) |
| Change in fair value of derivatives of joint venture and associates | 0.3 | – | 0.3 |
| Non-recurring | | – | – |
| Net gain on purchase of Tricomm debt | 1.6 | – | 1.6 |
| Loss on disposal of subsidiary | (2.3) | – | (2.3) |
| Costs/charges/gains relating to GRIP/G:res | (2.6) | – | (2.6) |
| Write down of investment property in disposal group | – | (6.9) | 6.9 |
| Other non-recurring costs | (2.6) | (4.8) | 2.2 |
| | 27.3 | (36.3) | 63.6 |

### Tricomm debt settlement

On 27 March 2013 we purchased debt specifically associated with our Tricomm portfolio using our core group facilities. This was at a discount of 25% to the principal amount of £67m, resulting in a non-recurring profit and a reduction in group net debt of £15.3m along with an increase in NAV and NNNAV of 3.7p. The associated interest rate swap did not require settlement but we have transferred the movement on its mark to market since acquisition of £13.7m through our income statement in the period. The overall income statement impact is therefore a net gain of £1.6m.

This transaction follows our purchase of the portfolio in 2011 when we acquired net assets of £33.4m (which were reduced in full for the swap mark to market liability at the time of £8.6m) for a consideration of £18.5m leading to a profit on acquisition of £14.9m.

### Investment property valuation gain

There was a valuation uplift in 2013 of £2.9m relating primarily to the group's wholly-owned investment property in its UK Residential division. This compares to an uplift of £2.1m to 30 September 2012.

### Derivative movements

Fair value movements on derivatives is a credit of £21.6m excluding the Tricomm movement noted above. This includes a positive valuation gain of £31.8m and a further transfer from reserves to income statement of £10.2m relating to swaps settled during the current and prior periods.

The fair value of swaps at 30 September 2013 is a liability of £91.1m compared to £171.9m at 30 September 2012. The September 2012 balance included £21.7m relating to an agreed swap settlement and £4.8m included in liabilities associated with assets held-for-sale.

### Valuation gains in joint ventures/associates

Valuation gains within joint venture and associates amounted to £12.4m after deferred tax comprising gains from our joint venture and associate operations with Heitman, Dorrington and APG.

### Other

In addition to those items mentioned above the other non-recurring items in 2013 included costs, charges and gains, including the recycling of swaps, of £2.6m in relation to the transfer of assets from G:res to GRIP; a £2.3m loss on sale on our German co-investment vehicle with Heitman; and an impairment of goodwill of £4.7m on the sale of the Tilt portfolio to GRIP.

### Profit before tax

Having taken account of all of the above movements, profit before tax was £64.3m compared to a loss before tax of £1.7m in 2012. (See note 3 to the accounts for further analysis.)

### Tax

The group has an overall tax charge of £10.7m for the year, comprising an £11.8m UK tax charge and a £1.1m overseas tax credit.

The net reduction of £4.4m, from the expected charge of £15.1m, results primarily from a prior period credit of £7.5m relating to agreement of tax positions with the UK and German tax authorities, reduced by non-deductible expenditure totalling £2.7m.

The group works in an open and transparent manner with the tax authorities. HM Revenue & Customs has graded the group as a 'low risk' taxpayer. The group is committed to maintaining this status.

The group made net corporation tax payments totalling £16.4m in the year.

### Earnings per share

Basic earnings per share is a profit of 13.1p (2012: a profit of 0.1p). A year-on-year comparison is shown below:

| | £m | Pence per share |
|---|---|---|
| 2012 profit/earnings per share | 0.4 | 0.1 |
| **Movements in:** | | |
| OPBVM | (18.8) | (4.6) |
| Goodwill impairment | (4.7) | (1.2) |
| Contribution from joint ventures and associates excluding revaluation | (2.8) | (0.7) |
| Fair value of derivatives | 52.8 | 12.9 |
| Revaluation of investment properties including joint ventures and associates net of tax | 13.2 | 3.2 |
| Provisions against trading stock values and loans | 0.8 | 0.2 |
| Net interest payable | 22.0 | 5.4 |
| Taxation/other | (9.3) | (2.2) |
| **2013 profit/earnings per share** | **53.6** | **13.1** |

### Dividend for the year

After considering the investment and working capital needs of the business, the directors have recommended a final dividend of 1.46p per ordinary share (2012: 1.37p) which equates to £6.0m (2012: £5.6m). This is in addition to the interim dividend of 0.58p per ordinary share (2012: 0.55p). The total dividend for the year will therefore be 2.04p per ordinary share (2012: 1.92p) an increase of 6.25%. Earnings cover dividends by 6.4 times.

### Net asset values

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

| | 30 September 2013 | 30 September 2012 | 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 | 242p | 223p | 9% |
| Triple net asset value per share (NNNAV) – Gross NAV per share adjusted for deferred and contingent tax on revaluation gains and for the fair value of derivatives | 195p | 157p | 24% |

The European Public Real Estate Association ('EPRA') Best Practices Committee has recommended the calculation and use of an EPRA NAV and an EPRA NNNAV. The definitions of these measures are consistent with gross NAV and triple NAV as described and shown in this document.

## Financial review
continued

### Cash inflows from sales, rents, fees

£431m

### Consolidated LTV

48%

### Headroom

£292m

A reconciliation between the statutory balance sheet and the market value balance sheets for both gross NAV and NNNAV is set out in note 4 to the accounts.

### Reconciliation of gross NAV to NNNAV

| | £m | Pence per share |
|---|---|---|
| Gross NAV | 1,008 | 242 |
| Deferred and contingent tax | (113) | (27) |
| Fair value of derivatives adjustments net of tax | (84) | (20) |
| **NNNAV** | 811 | 195 |

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

| | £m | Pence per share |
|---|---|---|
| Gross NAV at 30 September 2012 | 929 | 223 |
| Profit after tax | 54 | 13 |
| Revaluation gains on trading stock | 126 | 30 |
| Elimination of previously recognised surplus on sales | (55) | (13) |
| Dividends paid | (8) | (2) |
| Impact of derivatives and hedging net of tax | (33) | (8) |
| Other | (5) | (1) |
| **Gross NAV at 30 September 2013** | 1,008 | 242 |

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

| | £m | Pence per share |
|---|---|---|
| NNNAV at 30 September 2012 | 654 | 157 |
| Profit after tax | 54 | 13 |
| Revaluation gains on trading stock | 126 | 30 |
| Elimination of previously recognised surplus on sales | (55) | (13) |
| Dividends paid | (8) | (2) |
| Cashflow hedge reserve net of tax | 29 | 7 |
| Contingent tax | (4) | (1) |
| Other | 15 | 4 |
| **NNNAV at 30 September 2013** | 811 | 195 |

The effect of HPI and our outperformance of it has been a major contributor to growth in asset value. An analysis of the sources of valuation growth split between the gain shown in the income statement and the gain included within our gross NAV and NNNAV movements is shown below:

| Division | Trading stock £m | Income statement £m | Total increase in value £m |
|---|---|---|---|
| UK Residential portfolio | 96 | 3 | 99 |
| Retirement solutions portfolio | 21 | – | 21 |
| Development | 8 | – | 8 |
| JV and associates | 1 | 15 | 16 |
| | 126 | 18 | 144 |

An increase in market value of 1% across the group's residential property including our share of joint ventures and associates leads to an increase in value of £20.4m before deferred and contingent tax and £16.0m after tax. This is equivalent to 5p per share on NAV and 4p per share on NNNAV.

### 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 | 872 | 427 | 1,299 | 460 | 1,759 |
| Development | 78 | 6 | 84 | – | 84 |
| **Total at 30 September 2013** | 950 | 433 | 1,383 | 460 | 1,843 |
| Total at 30 September 2012 | 1,023 | 364 | 1,387 | 843 | 2,230 |

* Incudes property assets within held-for-sale.

### Financial resources, interest cost and derivative movements

| | 2013 | 2012 |
|---|---|---|
| Net debt | £959m | £1,194m |
| Consolidated loan to value | 48% | 55% |
| Core loan to value | 40% | 48% |
| Core interest cover | 5.0 | 3.0 |
| Average maturity of drawn facilities | 4.6 years | 5.1 years |
| Headroom | £292m | £148m |
| Average cost of debt including costs | 5.7% | 6.1% |

We delivered early on our commitment to reduce net debt to below £1bn by the end of 2013. As at 30 September 2013 net debt was £959m, a reduction of £235m from the 30 September 2012 level of £1,194m and a reduction of £611m in the 30 months since 31 March 2011 when net debt was £1,570m. Our consolidated loan to value now stands at 48% (2012: 55%). LTV on the core facility was 40% (2012: 48%). This compares to a maximum allowable LTV covenant under that facility of 75%. The interest cover ratio on the core facility stood at 5.0 times (2012: 3.0 times). This compares to a minimum interest cover covenant of 1.35 times.

The reduction in debt is after £39m cash outflow on breaking certain 'fixed' rate swaps, investing £22.8m into our associate venture with APG and a rise in our Euro denominated debt of £9m through exchange rate movements. Notable factors which have served to reduce debt are strong vacant sales of £116m, transfers of assets into strategic alliances of £100m and sales of tenanted and other assets of £137m.

As at 30 September 2013, the average maturity of the group's committed facilities was 4.4 years (2012: 5.1 years) and the average maturity of the group's drawn debt was 4.6 years (2012: 5.5 years).

The group has free cash balances of £62m plus available overdraft of £5m along with undrawn committed facilities of £225m. Thus, headroom totals £292m as at 30 September 2013 (2012: £148m). This headroom is already sufficient, without any further actions, to repay the element of the core debt facility of £137m due in December 2014. There are no further significant repayments until March 2016.

The group's average interest rate, excluding costs as at 30 September 2013 (based on current Libor/Euribor rates and on current debt hedging), was 5.5% (2012: 6.0%).

The group's average cost of debt, including costs, through the year to 30 September was 5.7% (year to September 2012: 6.0%).

At 30 September 2013, gross debt was 68% hedged (2012: 85%) of which 3% was subject to caps (2012: 4%).

## Our headroom provides capacity for accretive re-investment in the business.

The business has produced £431m of cash from gross rents, property sales net of fees and fee and other income. The largest outflows of cash are £39m to settle swaps and £60m of interest.

We will also ensure we create options for ourselves as regards the medium to long-term financing for the group and act at appropriate times. These considerations will take into account diversification of funding sources (which may include accessing the debt capital markets), maturity profile, and average maturity as well as cost. This will include regular reviews of our level of interest rate hedging and in particular our portfolio of interest rate swaps.

Having fully considered the group's current trading, cash flow generation and debt maturity, the directors have concluded that it is appropriate to prepare the group financial statements on a going concern basis.

**Mark Greenwood**
Finance Director
7 November 2013

# Our **people, tenants and partners**

The successful delivery of our business model depends on strong relationships with a range of stakeholders. Our employees play a key role in building these relationships.

## Introduction

Grainger does not operate in isolation. As a business we depend upon the providers of our income: purchasers who buy our properties, tenants who rent our properties and co-investors and partners who provide the opportunities to generate fees. Our success comes from understanding their needs and objectives and using our expertise to create products and services that meet these needs at the right quality and price or deliver attractive returns at appropriate levels of risk.

A continuing emphasis is on engaging more closely with our tenants, increasing our focus on their needs and in particular increasing our understanding of the requirements of our PRS tenants and what they value, both in the property they wish to rent and the services they are seeking. Research into our existing tenants' perceptions is allied to work to design the future in our first PRS developments.

To support our income-generating activities, we need effective long-term relationships with suppliers and advisers. This year we have made strong progress in many areas, the most significant being the 10-year agreement with Kier Services for the provision of repairs and maintenance services to our UK properties. In Germany we have recently entered into an agreement with Treureal to provide property management services to our owned and managed portfolios.

A key part of the Business Improvement Programme in 2013 has been to focus the expertise of our staff on areas where we can add most value. Underpinning this is a commitment to developing the skills of our staff to keep pace with the changing requirements of the market and the organisation.

## Talent development

Our continued success depends on effective leadership and the expertise of our staff. Our skill requirements are constantly evolving to enable us to take advantage of the opportunities for growth and diversification within our business.

We are proud of our record in developing our staff by providing first-class learning and career opportunities, for those starting their career through to appointment at senior manager level.

Our Graduate Programme is in its second year with our trainee graduate surveyors having completed their first-year placements and making a valuable contribution to the business. Two graduates joined us in September 2013.

As a leader in the residential sector we believe we have a responsibility to engage with young people and encourage them to consider a career in residential property.

We have provided 36 weeks' work experience for 20 students, focusing on those from under-represented groups. We are working in partnership with the Royal Borough of Kensington and Chelsea and Reading University in giving students an insight into working in the sector. Our first apprentice has joined us, based in Aldershot.

We constantly look for opportunities for staff to broaden their skills and experience through internal job moves or short-term assignments. This year we have made internal appointments at senior manager and manager levels and supported the Government's PRS initiative through a secondment to the PRS Task Force.

# Our people

## Our aim is to continue to be an employer of choice for talented people, whatever their professional background.

### Achievements in 2013

**£825**

per employee invested in training

**23**

work experience placements provided during the year

### Leadership and staff development

We have established a partnership with Ashridge Business School in delivering our Leadership Programme. We launched our first Emerging Leaders programme in July, in addition to individual and group training for our senior managers.

It is our objective to increase the percentage of senior positions within Grainger that are held by women and our staff development programmes are a key tool toward achieving this ambition.

Further education investment continued with 17 members of staff being supported in gaining a professional qualification.

We are proud that this year our staff, on average, received training equivalent to almost 2½ days per person.

### Staff engagement

Staff from every function and office were involved in the development of our company values, introduced in July this year. We are now working to embed our values in our business operations and people processes.

This year we have also run stress management and emotional resilience courses to encourage a self-reliant approach to change in the workplace.

Staff turnover and absence are, *inter alia*, important indicators of levels of engagement. Our experience is normally below comparable industry levels, however this year our staff turnover figure has risen as the result of the transfer of staff to Kier Services under the new repairs and maintenance contract.

### Our people – our values

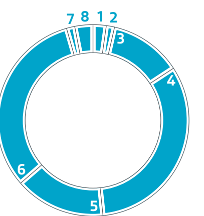
Our values underpin our behaviours and help create a resilient business.

### Employee profile

| Role | Male | Female |
|---|---|---|
| Non-executive directors | 4 | 2 |
| Executive directors | 4 | 0 |
| Senior managers | 24 | 9 |
| Managers | 51 | 37 |
| Associate | 13 | 28 |
| Support | 11 | 75 |
| Graduates | 3 | 1 |
| Off-site | 5 | 3 |
| | **115** | **155** |

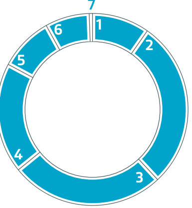
### Employee profile

| Role | No. of employees |
|---|---|
| 1. Non-executive directors | 6 |
| 2. Executive directors | 4 |
| 3. Senior managers | 33 |
| 4. Managers | 88 |
| 5. Associate | 41 |
| 6. Support | 86 |
| 7. Graduates | 4 |
| 8. Off-site | 8 |
| | **270** |




### Employee profile

| Role | No. of employees |
|---|---|
| 1. 18–25 years | 26 |
| 2. 26–33 years | 75 |
| 3. 34–41 years | 69 |
| 4. 42–49 years | 49 |
| 5. 50–57 years | 28 |
| 6. 58–65 years | 21 |
| 7. 65+ years | 2 |
| | **270** |



# Our tenants

Our tenants are the heart of our business; as the Private Rented Sector grows in importance so too will our focus on providing homes and services that meet their changing aspirations.

### Achievements in 2013

£71.3m

Gross rents

21,500

Units managed

### Understanding our tenants' needs

Just as our portfolios vary, so too do our tenants and their needs. As part of our objective to ensure that our products and services meet these needs, this year we have sought to engage more closely with our tenants in all portfolios and particularly to increase our understanding of existing and future PRS tenants.

In our regulated portfolio when we undertake capital works we discuss them more closely with our tenants and involve them wherever possible, for example in selecting the type of fittings, work-tops and units. We are also providing green tips and referring our tenants to grants where suitable.

For PRS tenants, as part of our increasing research programme, we have undertaken in-depth analysis of the move-in and move-out experience and are using this to identify areas for improvement.

In the GRIP portfolio, we have improved the refurbishment specification; installing 'A' rated appliances, low energy lighting and condensing boilers where possible to reduce day-to-day running costs for tenants and to improve the sustainability of the property.

The Kier repairs and maintenance contract is designed to provide services tailored to the needs of different tenant groups, for example scheduling evening repair visits for PRS tenants, while improving overall levels of service, for example through a single national call centre and scheduling an appointment with an operative on the first call to the call centre.

Finally we have extended our complaints procedure across all portfolios to match the standards of that offered in our FCA regulated business.

**Our properties – our tenants' lifestyle**

Our future will be shaped by ensuring that we understand our tenants' choices.

# Our partners

Our partners are key to our success; we create mutually beneficial relationships that enable us to create value for ourselves and our partners in the residential property market.

**Achievements in 2013**

£12.5m

Fee income

24%

Increase

Elsewhere in this report we highlight the new and existing partnerships in our funds, co-investment and development businesses. In support of these and other income-generating activities, the creation and maintenance of effective long-term relationships with suppliers and advisers is central to ensuring our sustainable profitability and to increasing efficiency. This year we have made significant strides forward in a number of areas.

At the start of the year we implemented our legal panel, which focused our use of legal advisers on their areas of expertise and improved our management of a crucial area of cost and expertise. In December we outsourced the process of inspection and valuation of our properties owned or managed by our Retirement solutions business to Allsop, enabling both an improvement in the use of internal resources and the efficiency with which the inspection and valuations are carried out. This emphasis on ensuring that we focus our people and our management time on those areas that add most value has been at the heart of our Business Improvement Programme and has been best exemplified by the announcement in May of the award of a 10-year contract to Kier for the provision of reactive repairs and maintenance services in the UK.

The core objectives of this agreement, the first large-scale and only national arrangement of its kind in the Private Rented Sector, are a reduction in the costs of these services both to Grainger, and to its co-investors, and an improvement in the quality of services provided to the tenants in the properties that we manage. In the longer term we hope to work closely with Kier on opportunities where our skills and interests are aligned.

In Germany, in parallel with the partnership arrangement with Heitman, we have undertaken a fundamental review of how best to take our business forward and ensure that we possess the capabilities and resources that we require to meet a new level of expectation and performance. Accordingly we have entered into a long-term arrangement with Treureal to provide property management services to our wholly and jointly-owned portfolios.

## Corporate responsibility

# How CR supports our business strategy

The CEO perspective from Andrew Cunningham

### Our values

As a responsible business, we take a long-term approach to what we do. We are proud to be and committed to continuing as the leader in the residential property sector.

**This means:**
We are always striving to be the best, whether it's improving how we do things or finding new opportunities that give us the edge in the residential market.

Our expertise is the key to our success, creating confidence in both ourselves and others.

At the heart of all of this is a mutual respect, whether it is for colleagues, customers, competitors, communities or our clients.

Looking back over the past year, our achievements demonstrate Grainger's commitment to embedding corporate responsibility into our everyday work and the competitive advantage behaving as a responsible business provides. Partners and investors like APG (see page 11 and page 17) and the Ministry of Defence (see page 29) have clear standards of corporate behaviour and responsibility – a robust corporate responsibility track record is on par with our status as a listed company, our large portfolio, and geographic diversity in making Grainger a partner of choice. Other organisations see those relationships and know we are a company of quality.

Our corporate responsibility (CR) programme is directly linked to our business model and four key strategic objectives: leadership, location, balance and optimisation. We set CR targets to manage risks and opportunities related to our strategic objectives and then embed these initiatives into our everyday work for long-term value creation. I'm pleased to report that we achieved 67% of our corporate responsibility targets this year. For example, in 2012/13:

**We defined the values necessary for Grainger to meet its customer demands:**
Our values are the foundation of our leadership of the residential property market. We defined the values that have been at the heart of Grainger for the last 100 years through a collaborative, bottom-up process with our employees. Our values will set the guidelines for behaviours and a framework to make good commercial and ethical decisions going forward. I also believe that they will help us to retain and attract the talented people needed to deliver our strategy (see pages 32 and 42). One of next year's CR targets is to embed our values throughout the business.

**We modelled the financial impact of sustainability risk:**
The UK government's 2012 Climate Change Risk Assessment identified damage to property due to flooding as a key risk and the Government's recent negotiations with the insurance industry also highlighted the financial impact of this risk for property owners. We undertook an extensive process of flood risk assessment for 13,500 UK properties this year. Flood risk is already considered in our sustainable investment policy, published in 2012. Understanding the financial impact of flood risk and actively managing it in our existing portfolio and acquisitions is part of how we manage our assets to deliver the best returns. Our flood risk database also feeds into business recovery plans for environmental disasters (see page 32).

**We improved our process for measuring tenant satisfaction (in the UK):**
We seek honest feedback from our tenants to continually improve our property management services, which makes us a desirable third-party portfolio manager. The 2012/13 phone customer survey pilot increased response rates to 88% and highlighted the move-in experience and customer communication as areas for improvement. We are extending this new process to additional portfolios in 2013/14 and have set ourselves a 2013/14 target to define and improve the PRS customer communication experience. These initiatives help us to manage the risk that we fail to determine the expectations of stakeholders (see page 31). And, the fees earned from our property management services are a key driver for greater balance in our income streams (see case study page 44).

**We increased the Energy Performance Certificate level of our units:**
We piloted a scheme to upgrade the EPC ratings of our portfolio through our regular refurbishment programme – instructing our contractors that this was a requirement of the refurbishment. Government regulation, from the Green Deal to the UK Energy Act, targets existing housing stock for improvements in energy efficiency in order to meet the UK's carbon reduction targets (see page 33). This will impact our ability to let lower rated units starting in 2018. In 2013/14, we will partner with Kier to implement property conditions assessments within our repairs and maintenance programme that will be the foundation of a multi-year EPC improvement programme. Preserving asset value for the long-term will enable us to continue to optimise our financial gearing.

**UK required sustainability reporting**
We are pleased to be able to make our first report of greenhouse gas (GHG) emissions this year in line with UK mandatory reporting regulations. Our total GHG footprint, reported in line with Defra's guidance on mandatory GHG reporting requirements, is 2,423 tonnes $CO_2e$.

More broadly, tenant carbon emissions from our UK Residential portfolio are an estimated 29,551 tonnes $CO_2$. Reporting of these Scope 3 emissions is not required by UK regulation, but our estimate makes clear that Grainger's mandatory GHG footprint is very small compared to tenant emissions from heating, lighting and hot water in the properties we own and manage. We are actively working to improve the energy efficiency of our existing homes through ECO funding and our refurbishment specifications.

There are several areas under our operational control for which we were not able to collect data this year. These are fully disclosed and explained in our GHG statement (see page 52).

We have judged that human rights are not a material risk for the business due to existing regulatory requirements in the UK and Germany and the nature of our supply chain. However, we will consider how Grainger can contribute to the advancement of human rights in 2013/14. For information on our staff diversity, please see Employee profile page 43.

## Our first report of greenhouse gas (GHG) emissions in line with UK mandatory reporting regulation is provided on pages 52 and 53.

**Looking forward**
One of the Grainger values is to take a long-term view and accordingly, corporate responsibility is increasingly a fully integrated part of our business. I intend to lead our CR programme away from a focus on detail, towards big picture solutions. We can update one process and eliminate a problem for 15,000 tenants, rather than solve each problem individually. I am proud to share highlights from the past year and our plans for the year ahead in this report, and in our CR report at www.graingercr.com.

**Andrew Cunningham**
CEO

## Delivering value through CR

Corporate responsibility
continued

## What we have achieved this year

### 2012/13 CR target progress

| Status | Total |
|---|---|
| 1. Achieved | 6 |
| 2. Partially achieved | 3 |
| 3. In progress | 2 |
| 4. Not achieved | 0 |

### Progress against CR targets in 2012/13

We are proud to have achieved 67% of our targets for 2012/13, in addition to completing 67% of targets that were partially achieved at the end of 2011/12. We are committed to completing the targets that were partially achieved in 2012/13 – on customer profiling, and improving Grainger's measurement of tenant satisfaction (achieved in our UK business though not in our German arm) and continuing our pilot to uprate EPCs on our UK properties. We have two two-year targets which are in progress and will be assessed in 2014.

**Key:**

Progress against targets

Achieved

Partially achieved

In progress

Not achieved

For full information on our current and future targets, performance and strategy, visit www.graingercr.com

## Progress against CR targets in 2012/13

| 2012/13 CR target | Strategic objective linkage | Final status |
|---|---|---|
| Improve Grainger's (UK and Germany) process and accuracy for measuring and managing tenant satisfaction with a robust baseline to be used from 2013/14. | 1; 3 | Partially achieved |
| Define the in-house customer-focused value, skills and behaviours necessary to enable Grainger to meet its customer needs. | 1; 3; 4 | Achieved |
| Identify and respond to current and future customer needs through research and customer profiling for property and asset management. | 1; 2; 3; 4 | Partially achieved |
| Include clauses on environmental, social and service quality criteria and reporting in all major supplier contracts. | 1; 4 | Achieved |
| Train managing agents on raising health and safety and environmental standards. | 1; 3; 4 | Achieved |
| Increase to EPC level E or above 10 Assured Shorthold Tenancy (AST) units and 10 regulated units that are currently F or G rated. Minimum target, which may be extended if initial results are positive. | 1; 4 | Partially achieved |
| Partner with Green Deal providers to test Green Deal on at least 10 Grainger units in 2013. Initial target, which may be exceeded if pilot is successful. | 1; 4 | Achieved |
| Model the financial impact of key sustainability risks such as carbon price on Grainger's business. | 2; 4 | Achieved |
| Report on global Scope 1 and 2 Greenhouse Gas (GHG) emissions in line with the requirements of UK mandatory reporting regulation. | 1; 4 | Achieved |
| Continue improving Grainger's GRESB score year-on-year in 2013 and 2014 – Target to be assessed in 2014. | 1; 4 | In progress |
| Earn an EPRA sustainability award for 2012/13 report – Target to be assessed in 2014. | 1 | In progress |

| 2011/12 CR target | Final status |
|---|---|
| Collect annual electricity, gas and water meter readings at all blocks for which Grainger purchases energy. | Partially achieved |
| Create a CR library on Grainger policies, achievements and FAQs for use in internal and external communications on Grainger's corporate responsibility approach. | Achieved |
| Publish an executive director approved policy outlining how Grainger values sustainability risks and opportunities in its investment process. | Achieved |

# Progress against key performance indicators in 2012/13

We use key performance indicators to track our continuing performance on previous corporate responsibility targets that are embedded into our business activities. The table below provides a summary of our most material KPIs. For full details on our corporate responsibility KPI performance, visit www.graingercr.com.

### Our properties

Our understanding of the EPC ratings of our portfolio continues to improve as more EPCs are commissioned each year. F and G rated properties are concentrated in our regulated portfolio – these units are generally sold upon vacancy rather than re-let. Whilst this means that the impact of the 2018 lettings ban for F and G properties is minimal, we launched a pilot to uprate properties through refurbishment in 2012/13 and will extend this in partnership with Kier in 2013/14. Our Considerate Constructors Scheme scores demonstrate continuous improvement in operating our development sites in a manner which respects local communities.

### Supply chain and customers

Customers consistently rate Grainger and our contractors' customer service as good or satisfactory, but we aim to improve these KPIs over the next year. Our new partnership with Kier introduces a single, national repairs hotline and service level promises for repairs. Also, we are working to improve tenant satisfaction through new move-in procedures and changes to customer communication. The company-wide customer complaints procedure introduced in 2011 means that all complaints received are logged and carefully reviewed by management, including the executive board.

The percentage of applicable complaints received and resolved during the financial year has increased to 81% and the number of complaints has decreased from 60 to 54. We will be reviewing how we measure and report 'resolution' of complaints in 2013/14 as part of our on-going efforts to improve customer service.

### Community investment

In 2011/12 we made a large increase in our volunteering and charitable donations as part of our centenary celebrations. These have returned to more normal levels in 2012/13. The greater dip in staff volunteering was due to high demands on staff time for business purposes. We aim to increase the level of volunteering back to an equivalent of 30% of staff volunteering one day in 2013/14.

### KPI

| | 2010/11 | 2011/12 | 2012/13 | 1-year trend |
|---|---|---|---|---|
| **Our properties** | | | | |
| EPC energy efficiency ratings (% of properties)[1] | A–C: 47%<br>D–E: 42%<br>F–G: 10% | A–C: 36%<br>D–E: 44%<br>F–G: 20% | A–C: 36%<br>D–E: 47%<br>F–G: 17% | ↑ |
| Average Considerate Constructors Scheme (CCS) score[2] | 71% | 78% | 79% | ↑ |
| **Supply chain** | | | | |
| Customers rating contractors' service at good or above %[3] | 98% | 87% | 84% | ↓ |
| **Customers** | | | | |
| Proportion of tenants rating Grainger's management service as good or above (%)[4] | 61% | 77% | 75% | ↓ |
| Percentage of tenant complaints fully resolved (% as of year end)[5] | Not measured | 73% | 81% | ↑ |
| **Community investment** | | | | |
| Total donated to charities (total cash and in-time contributions, £)[6] | £55,548 | £69,411 | £51,597 | ↓ |
| Number of staff working days contributed for charitable causes | 56 | 86 | 41 | ↓ |
| Number of staff involved in volunteering activities during company time | 60 | 78 | 41 | ↓ |

1 Includes all properties in EPC database for UK Residential and GRIP (2,316 as of 30 September 2013 up from 2,287 in 2011/12).
2 Major refurbishments and development sites. Figures for previous years have been restated as percentages due to change in the CCS scoring methodology – UK only.
3 Existing market rented and regulated tenants – UK only.
4 In the customer survey process introduced in 2012/13, the wording of this question was changed slightly to "very satisfied or quite satisfied" with service provided by Grainger – UK only.
5 All complaints via the executive and through Grainger website – UK only.
6 Includes corporate donations, money raised by employees for charitable causes (including activities by employees in their own time), staff time contributed through volunteering and money donated by staff through payroll giving.

## Corporate responsibility
continued

Case study

# Reporting our corporate responsibility performance

We believe that transparent disclosure of our corporate responsibility performance is part of our leadership role in the residential sector. We disclose performance through a range of industry recognised standards and benchmarks. One of the challenges we face in responding to investor surveys is the difficulty in collecting environmental data for a residential portfolio dominated by single family residences. In 2013/14, we plan to engage with organisations that measure sustainability in real estate to drive appropriate reporting for the residential sector.

- We improved our corporate score in the Global Real Estate Sustainability Benchmark (GRESB) by 9% and aim to improve further in 2014 with expanded environmental performance indicators. The GRIP fund submitted a separate GRESB response for the first time in 2013 and has agreed a roadmap to ensure it outperforms its peer group average next year.
- Grainger has expanded its reporting against EPRA sustainability best practice recommendations (see page 51).
- We scored 78 for disclosure and level C for performance in the Carbon Disclosure Project 2013, outperforming the UK and FTSE 350 averages and significantly improving on our score from 2012.
- We continue to be listed in the FTSE4Good Index.

And, for the first time we are reporting GHG emissions in line with UK mandatory reporting regulations (see page 52). Next year we will begin to report emissions from our German portfolio.

CARBON DISCLOSURE PROJECT

Case study

# The role of corporate responsibility in the GRIP fund

Grainger's co-equity partnership with APG, Europe's biggest pension fund asset manager and a leading sustainable investor, to create GRIP, one of the largest institutionally-backed UK private rented sector funds is an opportunity to further improve our corporate responsibility standards and performance.

"We are aiming to create a unique, sector leading GRIP product – a totally better quality service (unit type, finish, repairs, customer communication, environmental efficiency) in the private rented sector. Sustainability is one important facet of that overall product. What we're doing with sustainability is not a tick box exercise, it's about improving the asset performance and making a product that gives better choice to tenants."
Paul Ruston, GRIP asset manager, Grainger plc

"APG takes ESG criteria into consideration in our due diligence process for real estate investment. We use the annual Global Real Estate Sustainability Benchmark (GRESB) survey and results for measuring, monitoring and comparing the sustainability performance of our property investments. We are engaging with GRIP to use its 2013 GRESB performance to highlight potential areas for improvement, and to target advances for the next reporting year. Grainger's GRIP fund management has responded proactively over the last nine months, targeting smart metering, quarterly energy reporting, tenant communications and capital works to improve the sustainability performance of a strategic portfolio of private rented sector blocks."
Sander Paul Van Tongeren, senior sustainability specialist global real estate and infrastructure, APG Asset Management.

"APG see corporate responsibility as a competitive advantage and part of the extensive due diligence process they conducted was into our CR performance. APG are very serious about CR and, as when a footballer plays with a top team, he or she gets better; by interacting with APG, we will improve."
Andrew Cunningham, CEO, Grainger plc

**GRIP fund**
A newly refurbished property in the GRIP fund.

# Summary of EPRA sustainability performance measures

The following table provides an overview of the EPRA sustainability performance measures that Grainger is able to report on, an explanation for those that we cannot report on, outlines our plans to expand our data collection in 2013/14 to be able to report more fully against the recommendations next year and includes directions on where to find each indicator in our reporting. We have significantly expanded our reporting this year to include water, waste and energy for our portfolio. We are reporting on an operational control approach, in line with our reporting for UK mandatory GHG reporting. We are not reporting on any energy or water sub-metered to tenants, as this is outside our Scope 1 and 2 boundaries. Since this is the first year that we are reporting most measures, we are only able to comment on trends in office energy use. Energy use in both our like-for-like and all offices decreased slightly (2% and 3% respectively). We expect further decreases next year when we combine our two London offices.

For our full EPRA sustainability best practice recommendations reporting table, see page 168.

## EPRA sustainability best practice recommendations compliance table

| EPRA sustainability performance measure | Compliance self assessment: Property investment portfolio | | | Compliance self assessment: Own office occupation | Grainger commentary | Where measure is reported |
|---|---|---|---|---|---|---|
| | German assets | UK residential assets | GRIP assets | Own office occupation | | Pages |
| 3.1 **Total energy consumption from electricity** [GRI: EN4] | ✗ | ✓ | ✓ | ✓ | Not gathered for our German property investment portfolio due to a transfer in property management. We will commence collecting data for this portfolio in 2013/14. | 168 to 172 |
| 3.2 **Total energy consumption from district heating and cooling** [GRI: EN4] | ✗ | N/A | N/A | N/A | There is no Grainger-obtained district heating and cooling for our UK property investment portfolio and there is no district heating and cooling consumption sub-metered to Grainger from our landlord for our UK and German occupied offices. | 168 to 172 |
| 3.3 **Total energy consumption from fuels** [GRI: EN3] | ✗ | ✓ | ✓ | N/A | Not gathered for our German property investment portfolio due to a transfer in property management. We will commence collecting data for this portfolio in 2013/14. There is no fuel consumption sub-metered to Grainger from our landlord for our UK and German occupied offices. | 168 to 172 |
| 3.4 **Building energy intensity** [GRI: CRESS – CRE1] | ✗ | ✓ | ✓ | ✓ | The intensity measure used for property investment portfolio is kWh per £m value of assets under management. The intensity measure used for own occupied offices is kWh per employee. | 168 to 172 |
| 3.5 **Total direct greenhouse gas (GHG) emissions** [GRI: EN16] | ✗ | ✓ | ✓ | ✓ | Direct GHG emissions includes emissions from fuel combustion from our property investment portfolio only. We have not included emissions from our vehicle fleet in reporting of own operations. Please see our mandatory GHG statement for a full footprint figure. | 168 to 172 |
| 3.6 **Total indirect greenhouse gas (GHG) emissions** [GRI: EN16] | ✗ | ✓ | ✓ | ✓ | Indirect GHG emissions include Scope 2 GHG emissions from purchased electricity and Scope 3 GHG emissions from transmission and distribution losses associated with purchased electricity for our UK property investment portfolio and our UK and Germany occupied offices. | 168 to 172 |
| 3.7 **Greenhouse gas intensity from building energy** [GRI: CRESS – CRE 3] | ✗ | ✓ | ✓ | ✓ | Greenhouse gas intensity from building energy includes Scope 1 and 2 GHG emissions only. The intensity measure used for property investment portfolio is kg/$CO_2$e per £m value of assets under management. The intensity measure used for own occupied offices is kg/$CO_2$e per employee. | 168 to 173 |
| 3.8 **Total water withdrawal by source** [GRI: EN8] | ✗ | ✓ | ✓ | ✗ | Not gathered for our own occupied offices due to landlord metering arrangement. Not gathered for our German property investment portfolio. | 173 |
| 3.9 **Building water intensity** [GRI: CRESS – CRE2] | ✗ | ✓ | ✓ | ✗ | Not gathered for our offices due to landlord metering arrangement. Not gathered for our German property investment portfolio. The intensity measure used for property investment portfolio is m3 per £m value of assets under management. | 173 |
| 3.10 **Total weight of waste by disposal route** [GRI: EN22] | ✗ | N/A | ✓ | — | We do not provide waste management for our UK Residential portfolio. Waste data was not gathered for our German occupied office or property investment portfolio. | 174 |
| 3.11 **Percentage of waste by disposal route** | ✗ | N/A | ✓ | — | We do not provide waste management for our UK Residential portfolio. Waste data was not gathered for our German occupied office or property investment portfolio. | 174 |

**Key:**

Fully reported ✓ Partially reported — Not reported ✗

Corporate responsibility
continued

# Grainger plc mandatory greenhouse gas emissions reporting

Global GHG emissions data for period 1 October 2012 to 30 September 2013[1]

| Emissions from | Tonnes of $CO_2e$ |
|---|---|
| Combustion of fuel and operation of facilities | 1,467 |
| Electricity, heat, steam and cooling purchased for own use | 956 |
| Total footprint | 2,423 |
| Company's chosen intensity measurement: | |
| Emissions reported above, per £m value of assets under management: | 0.98 per £m value of AUM |
| Emissions reported above, per owned unit[2]: | 0.18 per owned unit |
| Emissions reported above, per employee[3]: | 8.97 per employee |

Scope 3 Global GHG emissions data for period 1 October 2012 to 30 September 2013

| Emissions from | Tonnes of $CO_2e$ |
|---|---|
| Developments (contractor electricity and fuel use) | 239 |
| Electricity transmission and distribution losses | 81 |
| Business travel (air and rail in UK and Germany) | 140 |

| | Tonnes of $CO_2$ |
|---|---|
| Estimated tenant energy use, calculated from a sample of Energy Performance Certificates, (EPCs) and reported in $CO_2$ only. | 29,551 |

1 As this is the first year of Mandatory GHG reporting, there is no comparison year reported.
2 This is the number of owned units in the UK; in future years this will also include the number of owned units in Germany.
3 Total number of employees in Grainger plc at 30 September 2013.

### Methodology

We have used the main requirements of the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and ISO14064 Part 1; data gathered for our on-going reporting under the Carbon Disclosure Project; energy consumption data for our UK properties and emission factors from the UK Government's Conversion Factors for Company Reporting 2013.

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. We have used the Operational Control consolidation method. These sources fall within our consolidated financial statement. We do not have responsibility for any emission sources that are not included in our consolidated statement.

### Limitations to data collection

#### UK Residential

We have not reported emissions from the properties in our GInvest portfolio or from units undergoing small-scale refurbishment as we do not have energy consumption data for the reporting year – we are working to improve data collection for future reporting.

#### Fund and third-party management

We have not reported emissions from the properties in our WIP portfolio as we do not have energy consumption data for the reporting year – we are working to improve data collection for future reporting.

#### German Residential

We have not reported emissions from the properties in our German residential portfolio as we do not have energy consumption data for the reporting year – we are working to improve data collection for future reporting and will report on our German properties next year.

| | |
|---|---|
| Scope 1 | Landlord-obtained gas consumed in common areas and by tenants on an unmetered basis. |
| | Fuel consumption in vehicles owned or leased by Grainger plc. |
| Scope 2 | Landlord-obtained electricity consumed in common areas and by tenants on an unmetered basis. |
| | Electricity consumed by Grainger plc. that is sub-metered by its landlord in offices which it occupies as a tenant. |
| Scope 3 | Contractor-obtained energy used in developments and refurbishments, where available. |
| | Grainger employees' business travel; 'grey fleet' travel. |
| | Tenant-obtained energy consumption (estimated from the properties' EPC certificate). |
| Not included | Waste treatment and disposal. |
| | Water consumption. |
| | Staff commuting. |
| | Landlord-obtained energy consumed by tenants on a metered basis (scenario not currently applicable). |

### Estimation

For properties where some consumption is known, missing periods of consumption have been estimated using the daily average of known consumption. 37% of the total energy use has been estimated using this methodology. 12 out of 204 properties have been excluded from the analysis because we have not been able to record any consumption.

Grainger has used a database of over 2,000 EPCs produced between 2008 and 2013 across the UK Residential and GRIP portfolios to estimate tenant carbon dioxide emissions. Every EPC has an estimate of the unit's annual carbon footprint for heating, lighting and hot water based on the unit's predicted energy consumption. We have taken an average of emissions for each portfolio so that the average reflects the portfolio's characteristics (e.g. flats, single family dwellings, etc.) The respective averages have been multiplied by the number of units per portfolio and the results summed to produce an estimate of emissions for UK Residential. We first published an estimate of tenant emissions using this methodology in our 2010/11 Annual report and have updated it to reflect the addition of new EPCs and changes in the composition of our portfolio in each succeeding year.

### Intensity metrics

We have used the market value of assets under management as our main intensity measurement as this is also what we use to measure our business efficiency KPI as reported in this Strategic report. We have also used the number of UK units that we own and the number of our employees. We have chosen these metrics to align with our financial reporting.

Our reported carbon footprint will be larger in the 2013/14 reporting year because we will be able to obtain data for those parts of our portfolio that are missing in 2012/13.

## Advisor's statement

Upstream Sustainability Services, a division of Jones Lang LaSalle has been engaged since 2005 as advisors to Grainger plc on its corporate responsibility (CR) strategy and implementation. Our programme of work includes assisting Grainger plc with setting CR targets and reviewing performance against these targets at year end. Due to Upstream's long-standing relationship with Grainger plc, the review of target achievement and this statement itself cannot be considered entirely independent.

Jones Lang LaSalle's observations and recommendations are based on independent analysis of documents, interviews and/or other secondary evidence provided by Grainger plc and relevant third-parties. Reasonable efforts were made to check the quality, accuracy and credibility of all available information but this did not include site visits or audits on primary data (e.g. meter readings and invoices). Consequently, this statement does not represent formal assurance or verification of the corporate responsibility content of Grainger plc's 2012/13 Annual report and accounts.

### Summary of target performance

Grainger achieved 6 (67%) and partially achieved 3 (33%) corporate responsibility targets in the year to 30 September 2013. The company also completed two targets which were partially achieved at the end of 2011/12 and made significant progress in the final outstanding 2011/12 target to collect annual electricity, gas and water meter readings at all blocks for which Grainger purchases energy. Two targets are in progress and will be assessed in 2013/14.

### Observations and recommendations

- Grainger continued to embed CR throughout its operations in 2012/13 and built on the achievement of previous CR targets to implement more concrete CR initiatives throughout its supply chain and business activities. The long-term value of Grainger's CR programme will depend on the company's ability to capitalise on lessons learned through targets and related initiatives to implement new ways of thinking and doing business.
- As one of the first companies to report in compliance with mandatory greenhouse gas reporting under the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013, we commend Grainger for significantly improving the data collection coverage for its UK residential portfolio. Grainger has not been able to report on emissions from its German portfolio for 2012/13 due to a change in property manager. We recommend Grainger integrates reporting of energy consumption into arrangements with its new German property manager and continues to expand and improve its UK reporting next year.
- Grainger has made significant progress in measuring tenant satisfaction and identifying areas to improve its supply chain and tenant communication for UK private rented sector tenants. Implementing a similar programme in Germany has proved challenging this year.
- The process of defining the company values through an extensive process of staff engagement is clear evidence that Grainger continues to engage with its employees on being a responsible business, building on the CR Innovation Day in 2012.
- Looking ahead, Grainger is demonstrating its commitment to risk management by incorporating sustainability risks into its corporate risk register. In line with best practice standards and the requirements of the new Global Reporting Initiative G4 standard, we recommend Grainger conducts a materiality review to identify the most significant sustainability risks and opportunities and incorporates these into the corporate risk register. The materiality review should include both the UK and German businesses, to ensure greater alignment in approach to corporate responsibility going forward.

**Lora Brill, associate director.**
Upstream Sustainability Services,
Jones Lang LaSalle
7 November 2013

# The Grainger board

The board is responsible to the company's shareholders for the long-term success of the group, its strategy, values and its governance.

## Robin Broadhurst, CVO, CBE, FRICS
Non-executive chairman Aged 67

**Appointment**
Appointed to the board in February 2004 and became chairman in February 2007.

**Experience**
Robin was previously European chairman at Jones Lang LaSalle and served as trustee and non-executive director at Grosvenor for 11 years. He is a property consultant to Sir Robert McAlpine Limited and is a non-executive director of Chelsfield Partners.

**Committee membership**
Chairman of nominations committee
Member of remuneration committee

## Andrew Cunningham, FCA, FRICS
Chief executive Aged 57

**Appointment**
Appointed to the board as finance director in 1996 and became deputy chief executive in 2002 and chief executive in 2009.

**Experience**
Andrew is a chartered accountant and before joining Grainger was a partner in a predecessor firm of PricewaterhouseCoopers. He is a member of the British Property Federation policy committee and in 2012 was appointed a Fellow of the Royal Institute of Chartered Surveyors. He is a member of the advisory boards of the Cambridge University Land Economy Department and the Durham University Business School.

**Committee membership**
None

## John Barnsley
Non-executive director Aged 65

**Appointment**
Appointed to the board in 2003 and became senior independent director in February 2011.

**Experience**
John is a non-executive director of Northern Investors Company plc, American Appraisal Associates LLP and The Hippodrome Casino Ltd. Until December 2001 he was a senior partner at PricewaterhouseCoopers.

**Committee membership**
Senior independent director
Member of audit committee
Member of risk committee
Member of nominations committee

## Baroness Margaret Ford
Non-executive director Aged 55

**Appointment**
Appointed to the board in 2008.

**Experience**
Margaret is chairman of Barchester Healthcare and STV Group Plc and is also a non-executive director of Segro plc and Taylor Wimpey plc. She was chairman of the Olympic Park Legacy Company from 2009 to 2012, was a managing director in the Royal Bank of Canada's Global Infrastructure Group from 2007 to 2009, and between 2002 and 2007 was chairman of English Partnerships.

**Committee membership**
Chairman of remuneration committee
Member of audit committee
Member of nominations committee

## Mark Greenwood, FCMA
Finance director Aged 54

### Appointment
Appointed to the board as finance director in September 2010.

### Experience
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.

### Committee membership
Member of risk committee

## Nick Jopling, FRICS
Executive director Aged 52

### Appointment
Appointed to the board in 2010 as executive director with responsibility for property.

### Experience
Nick was previously with CB Richard Ellis where he was executive director of residential. He is the chairman of the Urban Land Institute's UK Residential Council and was a member of Sir Adrian Montague's committee which reviewed the Barriers to Institutional Investment in Private Rented Homes.

### Committee membership
None

## Peter Couch
Executive director, chief operating officer Aged 55

### Appointment
Appointed to the board as executive director responsible for Grainger's retirement solutions business in 2010.

### Experience
Prior to joining Grainger in 2005 Peter spent most of his career in the financial services sector and held several senior roles within the AMP Group.

### Committee membership
None

## Belinda Richards
Non-executive director Aged 55

### Appointment
Appointed to the board in 2011.

### Experience
Belinda was previously global head of Deloitte's Merger Integration and Separation Advisory Services and is also a non-executive director of Resolution plc and Balfour Beatty Plc.

### Committee membership
Chairman of audit committee
Member of risk committee

## Tony Wray
Non-executive director Aged 52

### Appointment
appointed to the board in 2011.

### Experience
Tony has been the chief executive of FTSE 100 water company Severn Trent plc since 2007, having joined their board in 2005. He is also a member of the Water UK board and has held director roles within Transco and National Grid Transco.

### Committee membership
Chairman of risk committee
Member of audit committee

## Simon Davies
Non-executive director Aged 53

### Appointment
Appointed to the board in 2012.

### Experience
Simon retired from the role of executive chairman at Threadneedle Asset Management in 2012 after five years in the position, having previously been chief executive (1999–2007) and chief investment officer (1995–1998). He is currently chairman of JP Morgan Overseas Investment Trust plc and is also a director of Old Mutual Wealth Management Limited.

### Committee membership
Member of risk committee
Member of remuneration committee

## Corporate governance

# What does it mean to Grainger?

**Robin Broadhurst** Non-executive chairman

The board of Grainger is committed to maintaining high standards of corporate governance and have implemented in full the changes to the UK Corporate Governance Code introduced this year.

The directors and I see good governance as fundamental to effective management of the business and delivery of long-term shareholder value.

## Chairman's introduction

### Compliance with the UK Corporate Governance Code

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 2013.

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.

### Composition and independence

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 directors' service beyond nine years will prejudice their independence. John Barnsley, the senior independent director, has served on the board since February 2003.

The board and myself believe that John Barnsley continues to exercise a degree of rigorous enquiry and intellectual challenge in respect of his role as non-executive director and as such continue to regard him as independent. His 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 complementary 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 54 and 55.

In accordance with the UK Corporate Governance Code, all the directors will stand for re-election at the AGM.

### Diversity

Grainger believes that a diverse culture is a key factor in driving its success, and supports the Davies Report's aspiration to promote greater female representation on listed company boards.

As at 30 September 2013, the Grainger board had two female non-executive directors, Baroness Margaret Ford and Belinda Richards, representing 20% of board membership. Margaret and Belinda bring invaluable skills to the composition of the board, and as and when board appointments arise, we will look to follow the procedures recommended by the Davies Report and by the Code to maintain a balanced board.

### Board evaluation

As reported last year, an independent evaluation of the Grainger board was carried out in 2011. This year I have personally carried out an evaluation of the board, considering the recommendations from 2011 and 2012. Further details are available on page 60.

### Shareholder engagement

The board regards it as important to maintain an active dialogue with our shareholders. Further details regarding this engagement with our shareholders are set out on page 61.

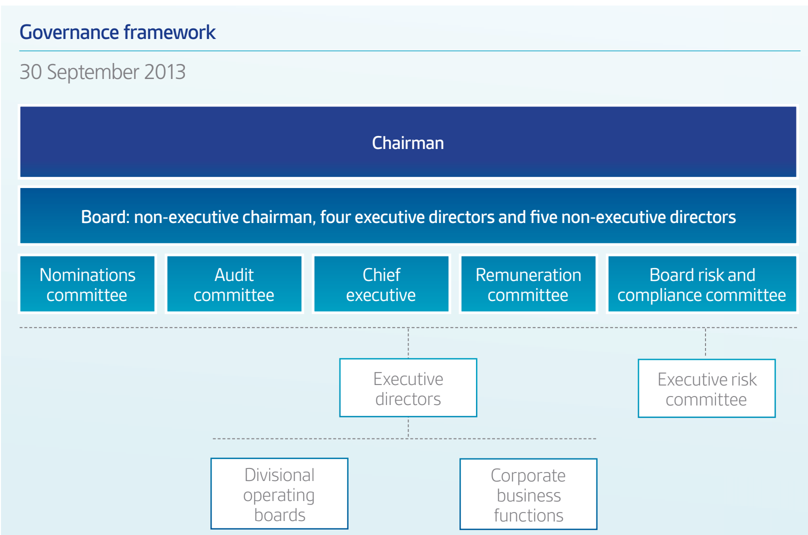
**Robin Broadhurst**
Non-executive chairman
7 November 2013

# Leadership

### The board

The board is responsible to the company's shareholders for the long-term success of the group, its strategy, values and its governance.

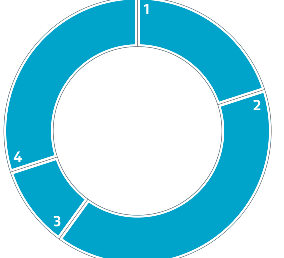
### The role of the board




The board provides leadership of the group and, either directly or through the operation of committees of directors and delegated authority, applies independent judgement on matters of strategy, performance, resources (including key appointments) and standards of behaviour. The board sets the group's strategic objectives and approves and monitors business plans and budgets submitted by the executive directors and senior management. The written statement of matters reserved to the board is reviewed and approved annually by the board and a copy is available on the group's website www.graingerplc.co.uk or from the company secretary on request.

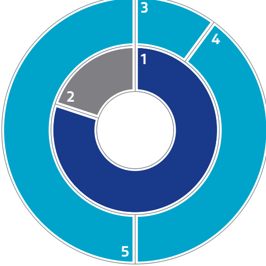
### Length of service

| | 30 September 2013 |
|---|---|
| 1. One–Two years | 2 |
| 2. Two–Three years | 4 |
| 3. Four–Six years | 1 |
| 4. More than six years | 3 |




### Balance of directors

| | 30 September 2013 |
|---|---|
| 1. Male | 8 |
| 2. Female | 2 |
| 3. Chairman | 1 |
| 4. Executive directors | 4 |
| 5. Non-executives | 5 |



## Corporate governance
continued

### The directors
As at the date of this report the directors of the company are:

#### Chairman
- Robin Broadhurst

#### Executive directors
- Andrew Cunningham
- Peter Couch
- Mark Greenwood
- Nick Jopling

#### Non-executive directors
- John Barnsley (senior independent director)
- Baroness Margaret Ford
- Belinda Richards
- Tony Wray
- Simon Davies

Simon Davies was appointed to the board on 20 November 2012. Henry Pitman retired from the board following the conclusion of the company's AGM on 6 February 2013.

### Chairman and chief executive
The posts of chairman and chief executive are separate and their roles and responsibilities are clearly established, set out in writing and agreed by the board. A copy of the written statement of roles is available on the group's website www.graingerplc.co.uk or from the company secretary on request. The chairman is responsible for running the board and ensuring its effectiveness. The chief executive reports to the chairman, as does the company secretary on matters of corporate governance. The chairman is the guardian of the board's decision making 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. He chairs a weekly meeting with the other executive directors, all of whom report directly to him, and, together with the executive directors, holds monthly meetings with each of the divisional boards to review all operational issues.

### Non-executive 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 to
- Satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible.

A copy of the standard letter of appointment for a non-executive director is available on the group's website www.graingerplc.co.uk or from the company secretary on request. The non-executive directors meet periodically without the executive directors present. There have been two such meetings since 1 October 2012 and an additional meeting of the non-executive directors without the chairman or the executive directors present where the chairman's performance was discussed.

### Senior independent director
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.

# Effectiveness

### 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, UK Residential, funds and the new registered provider business;
- The group's debt and capital structure;
- The group's financial results;
- Dividend policy;
- Regulatory and governance issues; and
- The development of the group's people.

Five of the meetings were preceded, the evening before, by an informal meeting allowing more time to debate issues in depth. One of these was held together with members of the senior management team. Two of the board meetings were held at the company's head office in Newcastle upon Tyne, two in the company's London office, one at the company's office in Putney and one at the company's office in Frankfurt. During the course of these meetings the directors have heard presentations from divisional directors on the following matters:

- The business improvement programme.
- Grainger's properties in and around London.
- The strategy and operational activities of Grainger's business in Germany.
- Fund management.
- Property and asset management.

### Attendance table

| Executive directors | Meetings attended | Meetings eligible to attend |
|---|---|---|
| Andrew Cunningham | 6 | 6 |
| Peter Couch | 6 | 6 |
| Nick Jopling | 6 | 6 |
| Mark Greenwood | 6 | 6 |

| Non-executive directors | Meetings attended | Meetings eligible to attend |
|---|---|---|
| Robin Broadhurst | 5 | 6 |
| John Barnsley | 6 | 6 |
| Henry Pitman | 2 | 2 |
| Baroness Margaret Ford | 6 | 6 |
| Belinda Richards | 5 | 6 |
| Tony Wray | 6 | 6 |
| Simon Davies | 6 | 6 |

### Board committees

The board has established four principal board committees to which it has delegated certain of its responsibilities. They are the audit committee, remuneration committee, nominations committee and the board risk and compliance committee. The roles, membership and activities of these committees are described in more detail later in the Corporate governance statement.

### 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 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 management information 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. The board also received presentations from various business units.

### 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.

### Induction and 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.

Simon Davies 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 in both the Newcastle and London offices. He was also taken on a property tour to enable him to see some of the company's properties – ranging from the UK residential regulated portfolio through to some of the development activities.

Training and updating in relation 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.

## Corporate governance continued

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

The 2013 annual evaluation of the board and its committees was led by the chairman through individual meetings with each of the directors, in advance of which, each director had completed a series of questionnaires relating to the composition and running of the board and its committees. The company secretary collated the evaluation results and these were considered by the chairman and the company secretary and reported back to the board. These were positive and indicated that the board, its committees and individual directors were all operating effectively.

The review of the chairman's performance, which was led by the senior independent director, concluded that the chairman's leadership and performance were considered to have been of a high standard.

No major areas were highlighted within this review process but the board intend to continue to develop themes arising from previous reviews, specifically on:

- strategic messaging;
- board information; and
- succession.

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 an external facilitation of the board evaluation will be carried out in 2014, the last external evaluation having been undertaken in 2011.

### 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 will be offering themselves for re-election at the AGM in February 2014. 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.

## Accountability

### 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 risk and compliance 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,

which includes the results of our associate and joint ventures, which are subject to the same internal controls as within the group. 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 monthly management information pack is prepared 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 executive directors 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 reviewing and approving 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.

### Going concern

The group closely monitors its future anticipated cash flows and compliance with its banking covenants. Based on these forecasts and the sensitivities which have been run on different scenarios 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.

### 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 finance director respectively, have had the vast majority of these meetings and manage the group's investor relations programme with the head of corporate affairs. Some of the key issues raised were the progress of our debt reduction programme, the growing importance of the private rented sector and the role that Grainger can play in it and Grainger's fund management business and the prospects for growth of that business. Feedback is always sought following such meetings and this feedback is presented to the board.

The chairman and Baroness Ford, the chairman of the remuneration committee, also met with the corporate governance officers of the company's major shareholders in advance of the AGM where the keys issues discussed were the company's policy for director's remuneration and succession. 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 the directors intend to be in attendance at the AGM in February 2014 and to be available to answer questions. All shareholders have the opportunity to attend the AGM, 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 to lodge their votes through the CREST system.

### Substantial shareholdings

As at 31 October 2013, the company is aware of the following interests amounting to 3% or more in the company's shares:

| | Holding million | Holding % |
|---|---|---|
| Schroder Investment Management Ltd | 78.1 | 18.74 |
| BlackRock Investment Management Ltd | 23.0 | 5.53 |
| Henderson Global Investors | 20.6 | 4.95 |
| Scottish Widows Investment Partnership | 13.9 | 3.33 |
| Norges Bank Investment Management Ltd | 13.0 | 3.12 |
| Franklin Templeton Fund Management Ltd | 13.0 | 3.12 |

# Audit committee report

## The audit committee currently comprises four independent non-executive directors.

Belinda Richards took over the role of chairman of the committee from John Barnsley in February 2013.

**Belinda Richards**
Committee chairman

### Attendance table

| Committee member | Member since | Meetings attended | Meetings eligible to attend |
|---|---|---|---|
| Belinda Richards (Committee chairman) | April 2011 | 4 | 4 |
| John Barnsley | February 2003 | 4 | 4 |
| Baroness Margaret Ford | July 2008 | 3 | 4 |
| Tony Wray | November 2011 | 4 | 4 |

Both John Barnsley and Belinda Richards have recent and relevant financial experience as required by the UK Corporate Governance Code. Biographical details relating to each of the committee members is shown on pages 54 and 55.

### Committee meetings

The committee met four times during the year. The meetings are attended by the committee members and, by invitation, the finance director, representatives from the external auditors and the internal audit manager. Once a year, the committee meets separately with the external auditors and with management without the other being present. The chairman of the committee has regular quarterly meetings with the internal audit manager.

### Role and responsibilities

- Monitoring the integrity of the annual and interim financial statements, the accompanying reports to shareholders and corporate governance statements.
- Reporting to the board on the appropriateness of our accounting policies and practices.
- In conjunction with the board risk and compliance committee reviewing and monitoring the effectiveness of the group's internal control and risk-management systems, including reviewing the process for identifying, assessing and reporting all key risks.
- Managing the internal audit function and approving their terms of reference and their forward audit plan.
- To make recommendations to the board in relation to the appointment and removal of the external auditors and to approve their remuneration and terms of engagement;
- To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration, relevant UK professional and regulatory requirements;
- To develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as the steps to be taken;
- To report to the board on how it has discharged its responsibilities; and
- To oversee the whistleblowing provisions of the group and to ensure they are operating effectively.

### Activities of the committee

- Reviewed and discussed with the external auditors the key accounting considerations and judgements reflected in the group's results for the six month period ending 31 March 2013.
- Reviewed and agreed the external auditors' audit strategy memorandum advance of their audit for the year ending 30 September 2013.
- Discussed the report received from the external auditors regarding their audit in respect of the year ending 30 September 2013, which report included comments on their findings on internal control and a statement on their independence and objectivity.
- Reviewed the group's whistleblowing policy and satisfied themselves that this met FCA rules and good standards of corporate governance.
- Received reports from internal audit covering various aspects of the group's operations, controls and processes.
- Reviewed a summary of the group's insurance arrangements and discussed the insurance philosophy adopted by the group.
- Reviewed and approved the register of non-audit assignments undertaken by the external auditors in the year ending 30 September 2013.
- Reviewed the audit committee's terms of reference.
- During the year the committee agreed to outsource the management of the internal audit function. After considering several providers, Deloitte was engaged.

### Significant areas

The significant areas considered by the committee and discussed with the external auditors during the year were:

- Property valuations: We received reports from management on the assumptions to be used in valuing the group's property assets. In considering the proposals we reviewed the valuations and, for reversionary assets, the suggested discount rates provided by the external valuers, and confirmed that they were sufficiently independent from the group. Management's recommendations in relation to the directors' valuations were scrutinised against external evidence and the verification work completed by the external valuers. We were content after due challenge and debate with the assumptions and judgements applied.
- Valuation of derivatives: Throughout the period we reviewed accounting papers in relation to the management of the group's derivatives, including the impact of swap cancellations and any hedge ineffectiveness.
- Presumed risk of fraud in revenue recognition and management override of controls: The committee considered the presumed risks of fraud as defined by auditing standards and was content that there were no issues arising.
- Accounting for substantial transactions: We considered the accounting treatment of substantial transactions including any judgemental areas. This included the formation of co-investment vehicles with Heitman, APG and Dorrington, the purchase of debt at a discount from the Bank of America and scrutiny of sales by the group into co-investment vehicles.
- Financial statements: We considered the presentation of the financial statements, and in particular, the analysis between recurring and non-recurring items. We were satisfied with management's presentation.

### External audit

The group's external auditors are PricewaterhouseCoopers LLP. The audit committee is responsible for reviewing the independence and objectivity of the external auditors, and ensuring this is safeguarded notwithstanding any provision of any other services to the group.

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

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

## Audit committee report
continued

PricewaterhouseCoopers LLP operates a five-year rotation policy for audit partners.
- Different teams are utilised on all other assignments undertaken by the auditors. Before any such assignments can commence teams must obtain approval of the audit committee. This approval confirms that sufficient and appropriate safeguards are put in place to ensure that auditor independence is retained.

The audit committee give careful consideration before appointing the auditors to provide other services. The group regularly use other providers to ensure that independence and full value for money are achieved. Other services are generally limited to work that is closely related to the annual audit or where the work is of such a nature that a detailed understanding of the business is necessary.

PricewaterhouseCoopers LLP have remained in place as auditors for a considerable number of years and the audit contract has not been put out to tender in the last 10 years. Their performance is reviewed annually by the committee. As part of its review the committee notes that the Group Audit Partner was rotated in 2012 and the current audit partner's five-year term will end in 2017. The committee considered the appropriateness of putting in place a tender process. This included assessing the Corporate Governance Code requirements to tender the external audit contracts at least every 10 years, the change in the chair of the committee during the year and the committee's assessment of the external auditors' effectiveness and independence. The review concluded that a tender was not in the group's interests at this time.

The committee note that current FRC transitional guidance indicates that the company should tender the audit, at the latest, at the time of the next audit partner rotation currently scheduled for 2017. We may, however, put the audit out to tender at any time before this date. There are no contractual obligations restricting our choice of external auditors and no auditor liability agreement has been entered into.

During the year, £85,000 was paid by the group to PricewaterhouseCoopers LLP for taxation services. A further £93,000 was paid for other services, the main element of which was £81,000 relating to the non-statutory audit of the completion balance sheet relating to the formation of the Heitman co-investment vehicle.

# Nominations committee report

The nominations committee comprises the chairman and two independent non-executive directors.

Robin Broadhurst
Committee chairman

**Attendance table 2013**

| Committee member | Member since | Meetings attended | Meetings eligible to attend |
|---|---|---|---|
| Robin Broadhurst (Committee chairman) | February 2005 | 2 | 2 |
| John Barnsley (Senior independent director) | February 2011 | 2 | 2 |
| Baroness Margaret Ford (Independent non-executive director) | February 2012 | 1 | 2 |

### Key responsibilities

The key responsibilities of the committee are to:

- Review the size, balance and constitution of the board including the diversity and balance of skills, knowledge and experience of the non-executive directors.
- Consider succession planning for directors and other senior executives.
- Identify and nominate for the approval of the board candidates to fill board vacancies.
- Review annually the time commitment required of non-executive directors.
- Make recommendations for the board, in consultation with the respective committee chairman regarding membership of the audit, remuneration and risk and compliance committees.

### Main activities of the committee during the year and subsequent to the year end

The committee met twice during the year to 30 September 2013.

The key matters considered at these meetings were:

### Board composition

- Reviewed the composition of the board including the range of skills, level of experience and balance between executive and non-executive directors.
- Reviewed the membership of the various board committees. Following this review the following changes were made:
  - Belinda Richards took over the role of chairman of the audit committee from John Barnsley, who remained on the committee.
  - Tony Wray replaced Belinda Richards as chairman of the board risk and compliance committee.
  - Simon Davies, following his appointment to the board in November 2012 joined both the remuneration and board risk and compliance committees.

### Senior independent director

Having considered carefully the roles of all the directors it was determined that, having regard to the length of time that John Barnsley had been on the board, it would be sensible to change the senior independent director. It was subsequently agreed, after consultation with some of the company's major shareholders that Baroness Margaret Ford should replace John Barnsley as senior independent director with effect from the conclusion of the Annual General Meeting in 2014.

### Succession planning

Kept under review the succession plans for both the executive and non-executive directors and the level of senior management immediately below board level.

# Remuneration committee report

### Attendance table

| Committee member | Member since | Meetings attended | Meetings eligible to attend |
|---|---|---|---|
| Baroness Margaret Ford (Committee chairman) | January 2010 | 4 | 4 |
| Robin Broadhurst | February 2013 | 2 | 2 |
| Simon Davies | February 2013 | 2 | 2 |
| Henry Pitman | Retired from committee February 2013 | 1 | 2 |
| Belinda Richards | Retired from committee February 2013 | 1 | 2 |

The remuneration committee currently comprises three independent non-executive directors.

Robin Broadhurst and Simon Davies were appointed to the committee in February 2013 to replace Belinda Richards and Henry Pitman.

**Baroness Margaret Ford**
Committee chairman

**Dear Shareholder**
This is the first new style of remuneration report since the passage of the Enterprise and Regulatory Reform Act 2013.

Grainger's style of reporting had already anticipated many of the changes required by the Act and so we have pleasure in complying with the additional detail required in the new reporting requirements and would confirm that there have been no changes to the policy in the current year. We believe that this will provide even more assurance for shareholders that our approach to remuneration is considered, fair and fully aligned with shareholder interests.

The report is set out in two sections: the annual report on remuneration on pages 67 to 71, and the remuneration policy on pages 72 to 79.

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

**Baroness Margaret Ford**
Chairman of the remuneration committee

# Annual report on remuneration

## Single total figure of remuneration for each director.

The details set out on pages 67 to 69 of this report have been audited by PricewaterhouseCoopers LLP.

| | a | b | | c | | | d | e | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Share | Bonus | | | LTIS | | |
| 2013 | Salary & fees £'000 | Taxable benefits £'000 | incentive plan £'000 | Annual[1] £'000 | Legacy £'000 | DBP[2] £'000 | awards vesting £'000 | Pension costs £'000 | Total £'000 |
| **Chairman and executive directors** | | | | | | | | | |
| Robin Broadhurst | 140 | – | – | – | – | – | – | – | 140 |
| Andrew Cunningham | 420 | 17 | 6 | 396 | 109 | – | – | 63 | 1,011 |
| Peter Couch | 265 | 33 | 6 | 195 | – | 140 | – | 40 | 679 |
| Mark Greenwood | 260 | 16 | 6 | 195 | – | – | – | 39 | 516 |
| Nick Jopling | 325 | 16 | 6 | 247 | – | – | – | 49 | 643 |
| | 1,410 | 82 | 24 | 1,033 | 109 | 140 | – | 191 | 2,989 |
| **Non-executive directors** | | | | | | | | | |
| John Barnsley | 49 | – | – | – | – | – | – | – | 49 |
| Baroness Margaret Ford | 47 | – | – | – | – | – | – | – | 47 |
| Henry Pitman | 14 | – | – | – | – | – | – | – | 14 |
| Belinda Richards | 47 | – | – | – | – | – | – | – | 47 |
| Tony Wray | 45 | – | – | – | – | – | – | – | 45 |
| Simon Davies | 35 | – | – | – | – | – | – | – | 35 |
| | 237 | – | – | – | – | – | – | – | 237 |
| **Total** | 1,647 | 82 | 24 | 1,033 | 109 | 140 | – | 191 | 3,226 |
| 2012 | | | | | | | | | |
| **Chairman and executive directors** | | | | | | | | | |
| Robin Broadhurst | 140 | – | – | – | – | – | – | – | 140 |
| Andrew Cunningham | 420 | 18 | 6 | 117 | 109 | – | 155 | 63 | 888 |
| Peter Couch | 265 | 34 | 6 | 62 | – | – | 85 | 40 | 492 |
| Mark Greenwood | 260 | 16 | 2 | 61 | – | – | – | 44 | 383 |
| Nick Jopling | 325 | 16 | 2 | 76 | – | – | – | 49 | 468 |
| | 1,410 | 84 | 16 | 316 | 109 | – | 240 | 196 | 2,371 |
| **Non-executive directors** | | | | | | | | | |
| John Barnsley | 52 | – | – | – | – | – | – | – | 52 |
| Baroness Margaret Ford | 47 | – | – | – | – | – | – | – | 47 |
| Robert Hiscox | 14 | – | – | – | – | – | – | – | 14 |
| Henry Pitman | 40 | – | – | – | – | – | – | – | 40 |
| Belinda Richards | 46 | – | – | – | – | – | – | – | 46 |
| Tony Wray | 38 | – | – | – | – | – | – | – | 38 |
| | 237 | – | – | – | – | – | – | – | 237 |
| **Total** | 1,647 | 84 | 16 | 316 | 109 | – | 240 | 196 | 2,608 |

1 The performance related annual bonus is based on performance measures, as disclosed in the policy table on page 73, 37.5% of which relate to operating profit before valuation movements and non-recurring items (OPBVM), 37.5% to return on shareholder equity (ROSE) and 25% to an assessment of the personal performance of the directors. The final bonus payable for the year included 66.2% (2012: 62.1%) of the OPBVM element and 100% (2012: nil) of the ROSE element.
2 This relates to the deferred bonus plan where Peter Couch was awarded shares in 2010, before he was appointed as a director. This share award vested during the year.

## Remuneration committee report
continued

### Scheme interests awarded during the year

| | LTIS share awards | | Matching awards | |
|---|---|---|---|---|
| | Number | Face value £'000 | Number | Face value £'000 |
| Andrew Cunningham | 554,675 | 630 | 110,935 | 126 |
| Peter Couch | 233,315 | 265 | 69,994 | 79 |
| Mark Greenwood | 228,913 | 260 | 68,674 | 78 |
| Nick Jopling | 286,141 | 325 | 84,496 | 96 |

The face value is based on a price of 113.58p being the average share price from the five business days immediately preceding the award which was made on 8 December 2012.

The awards are contingent upon satisfying the performance criteria, as detailed on page 75, in the three years to 8 December 2015.

### Statement of directors' shareholding and share interests
### Performance share awards

| | | Awards granted | Maximum award | Awards vested | Awards lapsed | Maximum outstanding awards at 30 Sep 2013 | Market price at date of vesting (p) | Market price at date of exercise (p) | Vesting date |
|---|---|---|---|---|---|---|---|---|---|
| Andrew Cunningham | LTIS Shares | 9-Dec-09 | 480,695 | – | 480,695 | – | – | – | 9-Dec-12 |
| | | 26-Nov-10 | 667,231 | – | – | 667,231 | – | – | 26-Nov-13 |
| | | 2-Dec-11 | 625,496 | – | – | 625,496 | – | – | 2-Dec-14 |
| | | 8-Dec-12 | 554,675 | – | – | 554,675 | – | – | 8-Dec-15 |
| | Matching shares | 9-Dec-09 | 96,139 | – | 96,139 | – | – | – | 9-Dec-12 |
| | | 26-Nov-10 | 133,446 | – | – | 133,446 | – | – | 26-Nov-13 |
| | | 2-Dec-11 | 125,099 | – | – | 125,099 | – | – | 2-Dec-14 |
| | | 8-Dec-12 | 110,935 | – | – | 110,935 | – | – | 8-Dec-15 |
| Peter Couch | LTIS Shares | 26-Nov-10 | 280,660 | – | – | 280,660 | – | – | 26-Nov-13 |
| | | 2-Dec-11 | 263,105 | – | – | 263,105 | – | – | 2-Dec-14 |
| | | 8-Dec-12 | 233,315 | – | – | 233,315 | – | – | 8-Dec-15 |
| | Matching shares | 26-Nov-10 | 13,168 | – | – | 13,168 | – | – | 26-Nov-13 |
| | | 2-Dec-11 | 78,931 | – | – | 78,931 | – | – | 2-Dec-14 |
| | | 8-Dec-12 | 69,994 | – | – | 69,994 | – | – | 8-Dec-15 |
| Mark Greenwood | LTIS Shares | 21-Sep-10 | 230,129 | – | 230,129 | – | – | – | 9-Dec-12 |
| | | 26-Nov-10 | 275,365 | – | – | 275,365 | – | – | 26-Nov-13 |
| | | 2-Dec-11 | 258,141 | – | – | 258,141 | – | – | 2-Dec-14 |
| | | 8-Dec-12 | 228,913 | – | – | 228,913 | – | – | 8-Dec-15 |
| | Matching shares | 21-Sep-10 | 10,000 | – | 10,000 | – | – | – | 9-Dec-12 |
| | | 26-Nov-10 | 10,498 | – | – | 10,498 | – | – | 26-Nov-13 |
| | | 2-Dec-11 | 10,000 | – | – | 10,000 | – | – | 2-Dec-14 |
| | | 8-Dec-12 | 68,674 | – | – | 68,674 | – | – | 8-Dec-15 |

## Non-performance share awards

| | | Awards granted | Maximum award | Awards vested | Awards lapsed | Maximum outstanding awards at 30 Sep 2013 | Market price at date of vesting (p) | Market price at date of exercise (p) | Vesting date |
|---|---|---|---|---|---|---|---|---|---|
| Nick Jopling | LTIS Shares | 21-Sep-10 | 283,235 | – | 283,235 | – | – | – | 9-Dec-12 |
| | | 26-Nov-10 | 344,206 | – | – | 344,206 | – | – | 26-Nov-13 |
| | | 2-Dec-11 | 322,676 | – | – | 322,676 | – | – | 2-Dec-14 |
| | | 8-Dec-12 | 286,141 | – | – | 286,141 | – | – | 8-Dec-15 |
| | Matching shares | 21-Sep-10 | 22,615 | – | 22,615 | – | – | – | 9-Dec-12 |
| | | 26-Nov-10 | 38,888 | – | – | 38,888 | – | – | 26-Nov-13 |
| | | 2-Dec-11 | 40,000 | – | – | 40,000 | – | – | 2-Dec-14 |
| | | 8-Dec-12 | 84,496 | – | – | 84,496 | – | – | 8-Dec-15 |
| Peter Couch | Deferred Bonus shares | 3-Feb-10 | 90,615 | 90,615 | – | – | 131.7 | 154.4 | 3-Feb-13 |

## Share options

| | | | Granted in Year | | Exercised during year | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Share options at 1 Oct 2012 | Number | Grant price (p) | Number | Exercise price (p) | Market price on exercise (p) | Gains on exercise of share options (£) | Share options at 30 Sep 2013 | Exercise price (p) | Earliest exercise date | Latest exercise date |
| Andrew Cunningham | SAYE | 44,415 | – | – | – | – | – | – | 44,415 | 37.70 | 1-Feb-14 | 31-Jul-14 |
| | CSOP | 31,772 | – | – | – | – | – | – | 31,772 | 94.42 | 26-Nov-13 | 26-Nov-20 |
| Peter Couch | SAYE | 13,062 | – | – | – | – | – | – | 13,062 | 68.90 | 1-Sep-15 | 1-Mar-16 |
| | CSOP | 31,772 | – | – | – | – | – | – | 31,772 | 94.42 | 26-Nov-13 | 26-Nov-20 |
| Mark Greenwood | SAYE | 13,062 | – | – | – | – | – | – | 13,062 | 68.90 | 1-Sep-15 | 1-Mar-16 |
| | CSOP | 31,772 | – | – | – | – | – | – | 31,772 | 94.42 | 26-Nov-13 | 26-Nov-20 |
| Nick Jopling | SAYE | 21,770 | – | – | – | – | – | – | 21,770 | 68.90 | 1-Sep-17 | 1-Mar-18 |
| | CSOP | 31,772 | – | – | – | – | – | – | 31,772 | 94.42 | 26-Nov-13 | 26-Nov-20 |

The closing trade share price on 30 September 2013 was 174.8p. The highest trade share price during the year was 187.5p and the lowest was 105.1p.

## Directors' shareholdings

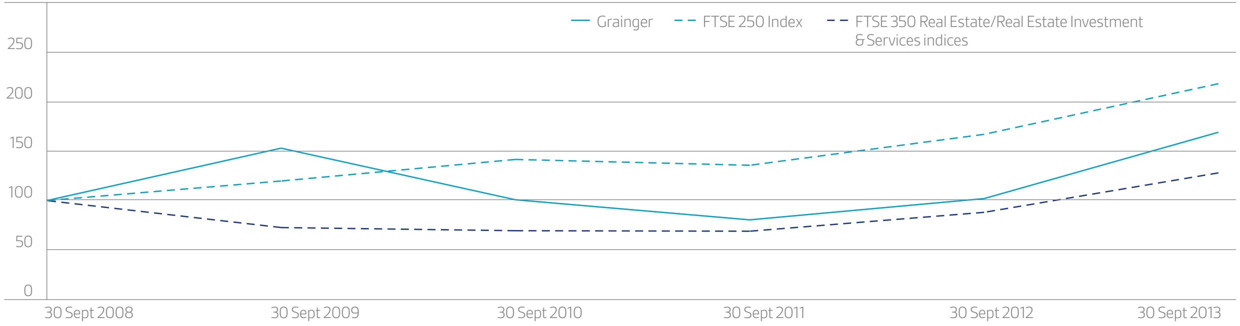
| | Ordinary shares of 5p each (thousands) | | |
|---|---|---|---|
| | | | Beneficial |
| | 1 Oct 2012 | 30 Sep 2013 | 31 Oct 2013 |
| Andrew Cunningham | 1,194 | 1,164 | 1,164 |
| Peter Couch | 193 | 247 | 247 |
| Nick Jopling | 166 | 171 | 171 |
| Mark Greenwood | 83 | 109 | 109 |
| Robin Broadhurst | 121 | 131 | 131 |
| John Barnsley | 103 | 103 | 103 |
| Baroness Margaret Ford | 18 | 40 | 40 |
| Belinda Richards | – | – | – |
| Tony Wray | 10 | 10 | 10 |
| Simon Davies | – | 100 | 100 |
| | 1,888 | 2,075 | 2,075 |

## Remuneration committee report
continued

# Performance graph and table

### 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.




### CEO single figure

| | | CEO single figure of total remuneration £'000 | Annual variable element award rates against maximum opportunity % | Long-term incentive vesting rates against maximum opportunity % |
|---|---|---|---|---|
| 2013 | Andrew Cunningham | 1,011 | 63 | 0 |
| 2012 | Andrew Cunningham | 888 | 19 | 16 |
| 2011 | Andrew Cunningham | 928 | 50 | 0 |
| 2010 | Andrew Cunningham | 777 | 43 | 0 |
| 2009* | Andrew Cunningham | 583 | 22 | 0 |
| | Rupert Dickinson | 582 | 0 | 0 |

*Andrew Cunningham was acting CEO for most of 2009 due to the absence through illness of Rupert Dickinson.

### Percentage change in remuneration of CEO and employees

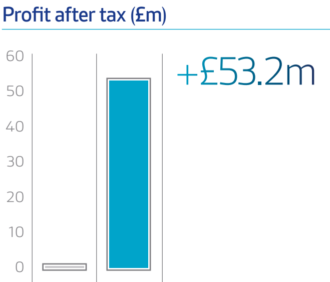
The percentage change in remuneration between 2013 and 2012 for the CEO and for all employees in the group was:

| | |
|---|---|
| CEO | 41% |
| Employee population | 23% |

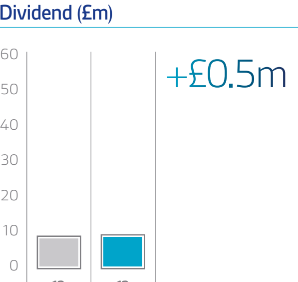
### Relative importance of spend or pay

The difference in actual expenditure between 2012 and 2013 on remuneration for all employees in comparison to profit after tax and distributions to shareholders by way of dividend are set out in the tabular graphs below:

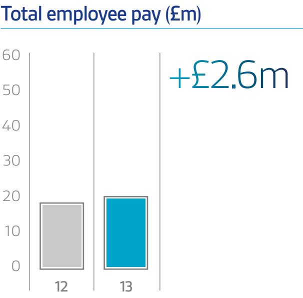
Profit after tax (£m)




Dividend (£m)




Total employee pay (£m)




### Statement of implementation of remuneration policy in the current financial year

Subject to increasing the salaries of the executive directors by 2.5% with effect from 1 January 2014, and the basic fees payable to the non-executive directors by £2,000 p.a. with effect from 1 October 2013, there are no changes to the way that the remuneration policy will be implemented in the current year.

### Details of the remuneration committee, advisers to the committee and their fees

The remuneration committee currently comprises three independent non-executive directors.

Details of the directors who were members of the committee during the year are disclosed on page 66.

| Committees advisers | Fees for committee assistance £'000 |
|---|---|
| The company secretary and the HR director attend all of the committee meetings. | |
| Aon Hewitt Limited (formerly Hewitt New Bridge Street Limited) provide advice to the committee on market practice, governance and performance analysis. They don't provide any other services to the company. | 12 |

### Statement of voting at general meeting

At the AGM held on 6 February 2013 the Directors' Remuneration Report received the following votes from shareholders.

| | Total number of votes | % of votes cast |
|---|---|---|
| For | 257,717,424 | 91 |
| Against | 24,886,079 | 9 |
| Total votes cast (for and against) | 282,603,503 | 100 |
| Votes withheld | 1,472,138 | – |
| Total votes cast (including withheld votes) | 284,075,641 | – |

## Remuneration committee report
continued

# Remuneration policy
The tables below summarise the main elements of the remuneration packages for the executive directors.

| | Base salary |
|---|---|
| Purpose and link to strategy | To provide a competitive level of non-variable remuneration aligned to market practice for similar sized organisations; to reflect the seniority of the post and expected contribution to the delivery of the company's strategy. |
| Operation | Basic salaries are reviewed by the remuneration committee annually with uplifts effective from 1 January being by reference to cost of living, responsibilities and market rates, as for all employees. |
| Opportunity | The basic salaries for the executive directors will be increased by 2.5% with effect from 1 January 2014 in line with the standard increase that will be applied to all staff. |
| Performance metrics | N/A |
| Changes in year | None |

| | Benefits |
|---|---|
| Purpose and link to strategy | To aid recruitment and retention of high-quality executives. |
| Operation | – Car allowance<br>– Private medical insurance<br>– Life assurance<br>– Ill health income protection<br>– Travel insurance<br>– Health check up<br>  – Andrew Cunningham annual<br>  – Others biannual |
| Opportunity | N/A |
| Performance metrics | N/A |
| Changes in year | None |

| | Pension |
|---|---|
| Purpose and link to strategy | To aid recruitment and retention of high-quality executives. |
| Operation | The group will pay a pension allowance or contribute into a personal pension arrangement for all of the executive directors.<br>If appropriate a salary sacrifice arrangement can apply. |
| Opportunity | The pension contribution or allowance is based on 15% of basic salary. |
| Performance metrics | N/A |
| Changes in year | None |

| Bonus | Annual bonus |
|---|---|
| Purpose and link to strategy | To incentivise performance over a 12-month period based on a balanced scorecard performance agreement, with two financial performance measures plus an assessment of personal performance agreed with the remuneration committee. |
| Operation | Performance measures are based on:<br>– 37.5% – operating profit before valuation movements and non-recurring items (OPBVM)<br>– 37.5% – return on shareholders' equity (ROSE)<br>– 25% – assessment of personal performance |
| Opportunity | Maximum bonus potential is capped at:<br>– 150% of salary for the chief executive<br>– 125% of salary for the other executive directors |
| Performance metrics | OPBVM (37.5%) – Actual OPBVM is compared to the budgeted figure that is approved by the board.<br><br>Budget less 10% – 0% vests<br>Budget achieved – 60% vests<br>Budget plus 20% – 100%<br>Calculated on a pro rata basis.<br><br>ROSE (37.5%) – The calculation of ROSE is:<br>$\frac{\text{Closing NNNAV + dividends paid}}{\text{Opening NNNAV}}$<br>Less than or equal to 5% – 0% vests<br>Greater than 15% – 100% vests<br>Calculated on a pro rata basis.<br><br>Personal performance (25%) – Personal performance is assessed against individual personal objectives that are set at the beginning of the financial year.<br><br>The chairman assesses the performance of the chief executive, and the chief executive assesses the performance of the other executive directors. |
| Changes in year | None |

## Remuneration committee report
continued

| Bonus | Legacy bonus |
|---|---|
| Purpose and link to strategy | To incentivise delivery of sustained performance over the longer term. |
| Operation | **Legacy Bonus Scheme**<br>Up to the financial year ended 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 market comparator movement was calculated with regard to the Nationwide and Halifax house price indices and also interest rates – using five-year swap rates.<br><br>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.<br><br>As at 30 September 2010 the balance in the notional bonus pool stood at £545,621. Following a review of bonus arrangements in 2011 the remuneration committee agreed to close this bonus scheme as it did not feel that it was sufficiently transparent and the deferred nature of the payments was not in line with good practice. However a bonus pool remained in respect of Andrew Cunningham. This reflected performance between 2003 and 2010, had been fully earned and had been approved by shareholders. |
| Opportunity | The legacy bonus is being paid out in five equal tranches, beginning in 2011. The third instalment of £109,124 was paid in March 2013. The balance in the bonus pool at 30 September 2013 was £218,249. |
| Performance metrics | As above. |
| Changes in year | N/A |

| | Long-term incentive scheme ('LTIS') |
|---|---|
| Purpose and link to strategy | – To incentivise delivery of sustained performance over the longer term.<br>– To encourage greater shareholder alignment through personal investment in the company's shares. |
| Operation | The awards are based upon the absolute levels of increase in both NNNAV and TSR. 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. |
| Opportunity | The awards are capped at 150% of basic salary for the chief executive and at 100% of basic salary for the other three directors.<br><br>There is also a matching awards element to the scheme, where participants are able to pledge shares of equivalent value to 30% of their basic salary. To the extent that performance criteria are met, these shares will be matched one-for-one at the end of the three-year performance period. |
| Performance metrics | Awards are split equally between NNNAV and TSR. |

| TSR Performance Conditions (50%) | Percentage of the TSR element of an award which will vest |
|---|---|
| **Growth in TSR over 3 years** | |
| TSR<br>The base threshold for vesting is 5% with the maximum at 15% | |
| Less than 5% | Nil |
| Between 5% and 15% | Pro rata vesting |
| More than 15% | 100% |

| NNNAV Performance Conditions (50%) | Percentage of the NNNAV element of an award which will vest |
|---|---|
| **Growth in NNNAV over a three-year period relative to the average of the Halifax and Nationwide indices by a factor of:** | |
| NNNAV Base threshold for vesting where NNNAV growth exceeded the average Halifax and Nationwide indices by a factor of 1.5. The maximum level occurs at a factor of 3. | |
| Less than 1.5 | Nil |
| Between 1.5 and 3 | Pro rata vesting |
| Greater than 3 | 100% |

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 the performance criteria outlined above are met, these shares will be matched one-for-one at the end of the three-year period.

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.

| Changes in year | None |
|---|---|

## Remuneration committee report
continued

| | The Grainger plc Company Share Option Plan ('CSOP') |
|---|---|
| Purpose and link to strategy | To aid recruitment and retention of high-quality executives. |
| Operation | The CSOP is approved by HMRC under schedule 4 of ITEPA.<br><br>The remuneration committee has discretion to grant options under the CSOP, which awards will be subject to the same performance conditions as apply to the LTIS above.<br><br>The exercise price per ordinary share under an option is determined by the remuneration committee at the time of grant but may not be less than the greater of (i) the market value of an ordinary share as at the date of grant and (ii) in the case of an option to subscribe for ordinary shares, the nominal value of an ordinary share. |
| Opportunity | Each director's participation is limited so that the aggregate market value of ordinary shares subject to all options (calculated as at the date of grant of each option) held by that individual and granted under the CSOP or any other HMRC approved company share option plan operated by the company or any associated company, shall not exceed £30,000 (or such other amount as may be permitted by HMRC from time to time). |
| Performance metrics | These are the same as those outlined for the LTIS above. |
| Changes in year | None |

| | Savings related share schemes |
|---|---|
| Purpose and link to strategy | To encourage employees to make a long-term investment in the company's shares. |
| Operation | All employees, including the executive directors, are eligible to participate in the company's save as you earn ('SAYE') scheme and share incentive plan ('SIP'), both of which are approved by HMRC and subject to the limits prescribed. |
| Opportunity | – SAYE: Participants may invest up to £250 per month for three or five year periods in order to purchase shares at the end of the contractual period at a discount of 20% to the market price of the shares at the commencement of the saving period.<br>– SIP: Participants can invest up to £125 per month in shares in the company, and the company will then subject to certain limits, double that investment. The company may also allocate free shares annually on a percentage of basic pay, subject to a maximum of £3,000. |
| Performance metrics | N/A |
| Changes in year | None |

### Approach to recruitment remuneration

When setting the remuneration package for a new executive director, the committee will apply the same principles and implement the policy as set out in the above tables.

Base salary will be set at a level appropriate to the role and the experience of the director being appointed. This may include agreement on future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate.

In relation to external appointments, the committee may structure an appointment package that it considers appropriate to recognise awards or benefits that will or may be forfeited on resignation from a previous position, taking into account timing and valuation and such other specific matters as it considers relevant. This may take the form of cash and/or share awards. The policy is that the maximum payment under any such arrangements (which may be in addition to the normal variable remuneration) should be no more than the committee considers is required to provide reasonable compensation to the incoming director.

If the director will be required to relocate in order to take up the position, it is the company's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the committee.

In the case of an employee who is promoted to the position of director, it is the company's policy to honour pre-existing award commitments in accordance with their terms.

Non-executive director appointments will be through letters of appointment. Non-executive directors' base fees, including those of the chairman, will be set at a competitive market level, reflecting experience, responsibility and time commitment. Fees will be reviewed bi-annually. Additional fees are payable for the chairmanship of audit, risk and remuneration committees and for the additional responsibilities of the senior independent director.

It was agreed at the biennial review undertaken in 2012 that the fees would be reviewed again in 2013. Following this review undertaken by the executive committee during the year it was agreed that the basic fees payable to the non-executive directors would be increased by £2,000 p.a. with effect from 1 October 2013.

Non-executive directors do not receive any performance-related remuneration, or any benefits.

### Directors' service agreements and letters of appointment

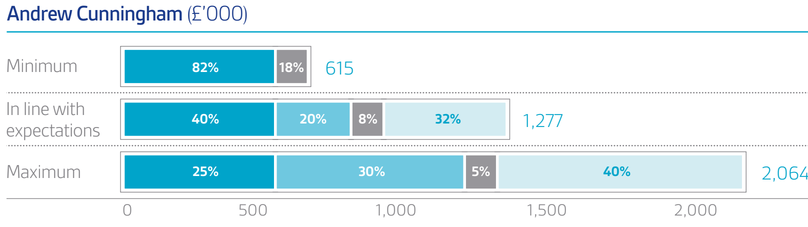
| Executive directors | Contract commencement date | Notice period |
|---|---|---|
| Andrew Cunningham | October 2009 | 12 months |
| Peter Couch | June 2010 | 12 months |
| Nick Jopling | September 2010 | 6 months |
| Mark Greenwood | September 2010 | 6 months |

| Non-executive directors | Date of initial appointment |
|---|---|
| Robin Broadhurst | February 2004 |
| John Barnsley | February 2003 |
| Baroness Margaret Ford | July 2008 |
| Belinda Richards | April 2011 |
| Tony Wray | October 2011 |
| Simon Davies | November 2012 |

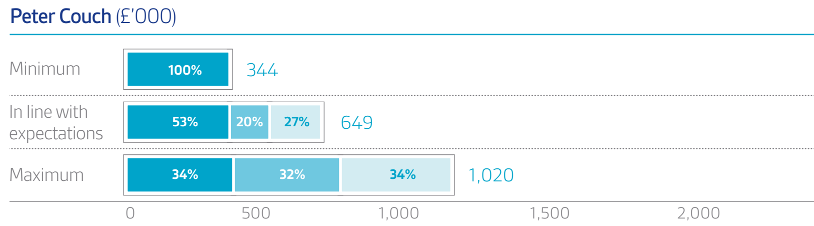
# Remuneration committee report
continued

## Illustration of the application of the remuneration policy

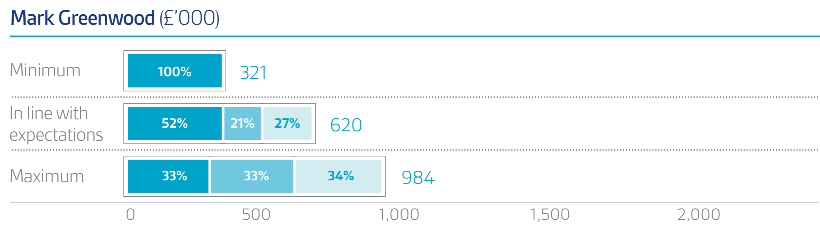
### Andrew Cunningham (£'000)



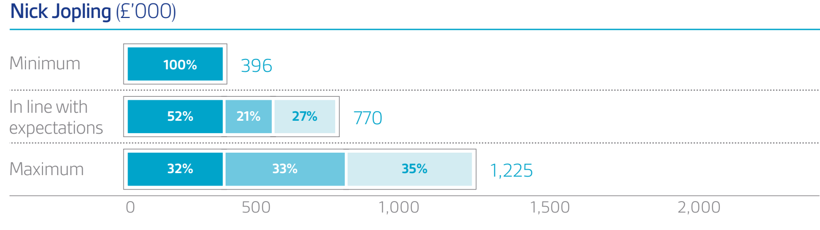

### Peter Couch (£'000)



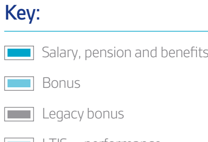

### Mark Greenwood (£'000)




### Nick Jopling (£'000)




### Key:




## Provision on payment for loss of office

If an executive director's employment is to be terminated, the committee's policy in respect of the contract of employment, in the absence of a breach of the service agreement by the director, is to agree a termination payment based on the value of base salary and contractual pension amounts and benefits that would have accrued to the director during the contractual notice period. The policy is that, as is considered appropriate at the time, the departing director may work, or be placed on garden leave, for all or part of his notice period, or receive a payment in lieu of notice in accordance with the service agreement. The committee will consider mitigation to reduce the termination payment to a leaving director when appropriate to do so, having regard to the circumstances.

In addition, where the director may be entitled to pursue a claim against the company in respect of his/her statutory employment rights or any other claim arising from the employment or its termination, the company will be entitled to negotiate settlement terms (financial or otherwise) with the director that the committee considers to be reasonable in all the circumstances and in the best interests of the company and to enter into a Settlement Agreement with the director to effect both the terms agreed under the Service Agreement and any additional statutory or other claims, including bonus payments and to record any agreement in relation to bonus and/or share awards, in line with the policies described above.

The company has an enhanced redundancy policy allowing redundancy amounts to be calculated by reference to actual basic weekly salary and the policy may be extended to executive directors where relevant.

The committee will consider whether a departing director should receive an annual bonus in respect of the financial year in which the termination occurs or in respect of any period of the financial year following termination for which the director has been deprived of the opportunity to earn annual bonus. If the employment ends by reason of redundancy, retirement with the agreement of the company, ill health or disability or death, the director may be considered for a bonus payment. If the termination is for any other reason, any bonus payment would only be at the discretion of the committee. It is the committee's policy to ensure that any such bonus payment reflects the departing director's performance and behaviour towards the company.

Any bonus payment will normally be delayed until the performance conditions have been determined for the relevant period and may be time pro rated, where appropriate.

The committee will consider whether share awards, including matching share awards, held by the director under the company's long-term incentive plan should lapse or vest. Any determination by the committee will be in accordance with the rules of the relevant plan, which have been approved by shareholders. In summary, the plan rules provide that awards can vest if employment ends by reason of redundancy, retirement, ill health or disability, death or change of ownership. Vesting of awards will normally be in accordance with the normal performance cycle of the relevant awards, with vesting subject to satisfaction of the relevant performance conditions. Any awards which vest will normally be time pro rated. The committee will have discretion to allow a higher level of vesting if appropriate.

If employment ends for any other reason, the plan rules permit the committee to exercise its discretion. In doing so, the policy is that it will take account of all relevant circumstances, in particular, having regard to the performance of the company, the director's performance and behaviour towards the company during the performance cycle of the relevant awards. Options under the company's HMRC approved share option scheme (CSOP) may be exercised early. The policy is that the committee should retain the ability to exercise discretion in accordance with the rules but that performance conditions would be assessed in the advance of early exercise. Options may also be exercised in connection with a change of control or other corporate events and again the policy is that performance conditions would be assessed as at the date of the early exercise event.

It is the company's policy to honour pre-existing award commitments in accordance with their terms.

Where the executive director participates in one or more of the company's all-employee share schemes, his awards may vest or be exercisable on or following termination, where permissible, in accordance with the rules of the plan.

Non-executive directors' appointments may be terminated without compensation.

### Other directorships

The board has an approved policy on other directorships. This permits a full-time executive director to hold one non-executive directorship, 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.

### Shareholding guidelines for executive directors

The committee believes that it is important for a significant investment to be made by each executive director in the shares of the company and has established share ownership guidelines for the Grainger executive directors.

These guidelines state that executive directors are expected and encouraged to build over a five-year period a shareholding, equivalent in value to at least one year's salary.

Current levels of share ownership by the executive directors are as follows.

The values were calculated as at 31 October 2013 when the share price was 194.5p. These values do not include the value of the shares that will vest on 26 November 2013.

| | Current holding (thousands) | Value at 31 October 2013 £'000 | % of current salary | Date by which guideline target to be achieved |
|---|---|---|---|---|
| Andrew Cunningham | 1,164 | 2,264 | 539% | N/A |
| Peter Couch | 247 | 480 | 181% | N/A |
| Mark Greenwood | 109 | 212 | 82% | 2015 |
| Nick Jopling | 171 | 333 | 102% | N/A |

# Board risk and compliance committee report

## Attendance table

| Committee member | Member since | Meetings attended | Meetings eligible to attend |
|---|---|---|---|
| Tony Wray (Committee chairman) | May 2012 | 5 | 5 |
| John Barnsley | May 2012 | 3 | 5 |
| Belinda Richards | May 2012 | 5 | 5 |
| Mark Greenwood | May 2012 | 5 | 5 |
| Simon Davies | February 2013 | 3 | 3 |

The board risk and compliance committee currently comprise three independent non-executive directors and one executive director.

Tony Wray took over the role of chairman of the committee from Belinda Richards in February 2013.

**Tony Wray**
Committee chairman

The committee usually meets four times during the year. The meetings are attended by the committee members and by invitation the chief operating officer and the group's risk and compliance manager.

At each meeting the committee review the quarterly risk and compliance report prepared by the Risk and Compliance Manager together with the quarterly complaints and Top Risk and Projects reports.

Other areas reviewed at the regular quarterly meetings included risks associated with the retirement solutions business, block management and the core systems review project together with risk briefings prepared by departmental managers. These briefings included reports on people risk and embedding risk management, tax risks, the IT security policy and a legal regulatory update.

The purpose of these detailed reviews is to highlight the principal risks and processes of each division at a more detailed level and to ensure that the risk mitigation plans are robust.

A fifth meeting was held during the year which looked specifically at risk mitigation planning over change processes within the group.

The Retirement solutions business is regulated by the FCA. The committee oversees compliance with regulatory obligations and receives regular updates on proposed future regulatory developments.

The culture of risk awareness, and effective risk management, is becoming more embedded in the way that Grainger thinks and operates at all levels within the business. This focus will be critical in protecting our outstanding reputation in the market as we move forward.

# Other disclosures

### 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.

### Results for the year

The results of the group are set out in the consolidated income statement on page 87 which shows a profit for the financial year attributable to the owners of the company of £53.6m (2012: £0.4m).

### Dividends

An interim dividend of 0.58p (2012: 0.55p) per share was paid on 5 July 2013. The directors recommend the payment of a final dividend of 1.46p per share (2012: 1.37p), to be paid on 7 February 2013 making a total dividend for the year of 2.04p (2012: 1.92p) per share. Any shareholder wishing to participate in the Dividend Reinvestment Plan for the 2013 final dividend will need to ensure that their application form is returned to our registrars by 13 January 2014.

### Share Capital

During the year 148,278 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 2013, the directors had unexpired power to repurchase up to 41,600,000 shares.

### 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 54 and 55 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 strategic report on pages 2 to 53 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.

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

## Other disclosures
continued

### 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.

### Financial risk management
Details are included in note 29 to the financial statements.

### Corporate responsibility (CR)
Our approach to CR is based on our assessment of the potential risk and opportunity to our business. In the year ended 30 September 2013, the group achieved 67% and partially achieved 33% of the applicable CR targets that it committed to meeting by that date. Further information is provided in the corporate responsibility report on pages 46 to 53.

### International operations
Our German portfolio continues to be centrally managed and controlled from our overseas offices.

### 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 the group 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 and group will be proposed at the next AGM.

### Takeover directive
On a change of control, the core banking facilities (described in note 28 to the accounts) will become repayable should alternative terms for continuing the facilities not be agreed with the lenders within 45 days. There are no other material matters relating to a change of control of the company following a takeover bid.

The directors have confirmed approval of the Director's report.

By order of the board

**Michael Windle**
Company Secretary
7 November 2013

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

## Report on the group financial statements

### Our opinion
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 2013 and of the group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (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.

This opinion is to be read in the context of what we say below.

### What we have audited
The group financial statements, which are prepared by Grainger plc, comprise:
- the Consolidated statement of financial position as at 30 September 2013;
- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Consolidated statement of changes in equity and Consolidated statement of cash flows for the year then ended; and
- the notes to the group financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union.

### What an audit of financial statements involves
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). 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 and Accounts (the 'Annual report') to identify material inconsistencies with the audited group financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

# Independent auditors' report
continued

## Overview of our audit approach

### Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the group financial statements as a whole to be £5.8m. In arriving at this value, we have considered the average Operating Profit before valuation movements and non-recurring items (OPBVM) over a three-year period, to account for volatility in the measure arising from fluctuations in trading. We believe OPBVM is the most appropriate measure of recurring group performance.

We agreed with the audit committee that we would report to them misstatements identified during our audit above £0.3m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Overview of the scope of our audit

The group reports its operating results and financial position along five business lines being UK residential, Retirement solutions, Fund and third party management, UK & European development and German residential. The group financial statements are a consolidation of the business lines detailed above and centralised functions (see note 4 to the financial statements).

The accounting books and records for all business lines and centralised functions, with the exception of the German residential business, are located in the UK at the group's Head Office in Newcastle upon Tyne. The accounting books and records for the German residential business line are located in Frankfurt.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at the two locations, Newcastle upon Tyne and Frankfurt. Accordingly, we analysed financial statement line items and disclosures individually for the transactions posted in the UK and Germany, and tailored our testing across each location, together with additional procedures performed at the group level Treasury function, to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole.

Additional procedures performed at the group level Treasury function concerned testing of balances and disclosures relating to Cash and cash equivalents, Derivative financial instruments, Interest-bearing loans and borrowings and the Cash flow hedge reserve.

### Areas of particular audit focus

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of audit focus identified by our audit. We discussed these areas of focus with the audit committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 63.

| Area of focus | How the scope of our audit addressed the area of focus |
|---|---|
| **Valuation of investment and trading properties** | |
| We focused on this area because the group's property assets in the UK and Germany represent the majority of assets in the Consolidated statement of financial position.<br><br>Property valuations are subject to a high degree of judgement as they are calculated from a number of different assumptions specific to each individual property or development site.<br><br>A relatively small percentage change in valuations of individual properties, in aggregate, could result in a material impact to the financial statements. (Refer also to note 2 to the financial statements.) | We checked that the property database information supplied to external valuers by management was consistent with the underlying property records held by the group and tested during our audit.<br><br>Our assessment of the net realisable value of trading properties held as inventories and the fair value of investment properties focused upon the critical accounting assumptions disclosed in note 2 to the financial statements, including the discount applied to the vacant value for each tenanted property in establishing its market value.<br><br>We identified and challenged those assumptions that had the greatest impact on property valuations and reperformed calculations made by the directors and external valuers in arriving at the year end valuations recorded in the financial statements.<br><br>Our challenge of the assumptions involved performing sensitivity analyses to determine the extent of change in those assumptions that either individually or collectively would be required for the valuations to be materially misstated. Having done so we considered the likelihood of such a movement in those key assumptions arising. |
| **Valuation of derivative financial instruments** | |
| We focused on this area as the valuations of derivative financial instruments are derived through cash flow models, which can be complex with a number of different inputs. (Refer also to note 29 to the financial statements.)<br><br>The group holds a number of these instruments, and a relatively small error in the calculation of their values, in aggregate, could result in a material impact on the financial statements. | We developed valuations using our own models, based on contracts originating from the group's derivative counterparties, for a number of year-end derivative positions and compared these valuations to those calculated by the directors. |
| **Risk of fraud in revenue recognition** | |
| ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition.<br><br>We focused on the risk that revenue may have been recognised for all revenue streams for transactions that had not occurred. | Our testing of revenue transactions, to assess whether a service had been provided or a sale had occurred, focused on understanding whether cash had been received and reading extracts of the related contracts – for example a property sale completion statement, a rental contract or an asset or property management contract.<br><br>Where revenue was recorded through journal entries, we performed testing to establish whether a service had been provided or a sale had occurred in the financial year to support this recognition. |
| **Risk of management override of internal controls** | |
| ISAs (UK & Ireland) require that we consider this. | We assessed the overall control environment of the group, including the arrangements for staff to 'whistle-blow' inappropriate actions, and interviewed senior management and the group's internal audit function.<br><br>We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors that may represent a risk of material misstatement due to fraud (including but not limited to property valuations).<br><br>We also tested journal entries to determine the rationale for manual adjustments. |

Independent auditors' report
continued

### Going concern

Under the Listing Rules we are required to review the directors' statement, on page 61, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the group's financial statements using the going concern basis of accounting. The going concern basis presumes that the group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's ability to continue as a going concern.

## Opinions on matters prescribed by the Companies Act 2006

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

## Other matters on which we are required to report by exception

### Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

### Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made, and under the Listing Rules we are required to review certain elements of the report to shareholders by the board on directors' remuneration. We have no exceptions to report arising from these responsibilities.

### Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review.

On page 8 of the Annual report, as required by the Code Provision C.1.1, the directors state that they consider the Annual report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's performance, business model and strategy. On page 63, as required by C3.8 of the Code, the audit committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the directors is materially inconsistent with our knowledge of the group acquired in the course of performing our audit; or
- the section of the Annual report describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

We have no exceptions to report arising from this responsibility.

### Other information in the Annual report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual report is:

- materially inconsistent with the information in the audited group financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 81, 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 ISAs (UK & 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.

## Other matter

We have reported separately on the parent company financial statements of Grainger plc for the year ended 30 September 2013 and on the information in the Directors' remuneration report that is described as having been audited.

**David Snell (Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

7 November 2013

# Consolidated income statement

| For the year ended 30 September 2013 | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **Group revenue** | 4, 5 | 283.2 | 311.4 |
| Net rental income | 6 | 48.5 | 62.8 |
| Profit on disposal of trading property | 7 | 75.5 | 74.0 |
| Administrative expenses | 9 | (33.6) | (31.0) |
| Other income | 10 | 12.9 | 11.0 |
| Other expenses | 11 | (6.3) | (3.4) |
| Goodwill impairment | 23 | (4.7) | – |
| Profit on disposal of investment property | 8 | 1.8 | 3.0 |
| Income from financial interest in property assets | 22 | 6.1 | 7.7 |
| Profit on acquisition of equity in associate | 20 | 2.1 | – |
| Loss on disposal of subsidiary | 39 | (2.3) | – |
| Write back/(down) of inventories to net realisable value | 24 | 0.7 | (0.1) |
| **Operating profit before net valuation gains on investment property** | | 100.7 | 124.0 |
| Net valuation gains on investment property | 18 | 2.9 | 2.1 |
| Write down of investment property in disposal group | 39 | – | (6.9) |
| **Operating profit after net valuation gains and write downs on investment property** | | 103.6 | 119.2 |
| Change in fair value of derivatives | 29 | 7.9 | (31.2) |
| Finance costs | 14 | (73.3) | (95.3) |
| Finance income | 14 | 17.3 | 2.1 |
| Share of profit of associates after tax | 20 | 1.0 | 4.5 |
| Share of profit/(loss) of joint ventures after tax | 21 | 7.8 | (1.0) |
| **Profit/(loss) before tax** | 13 | 64.3 | (1.7) |
| Tax (charge)/credit for the year | 15 | (10.7) | 2.1 |
| **Profit for the year attributable to the owners of the company** | 34 | 53.6 | 0.4 |
| **Basic earnings per share** | 17 | 13.1p | 0.1p |
| **Diluted earnings per share** | 17 | 12.8p | 0.1p |

# Consolidated statement of comprehensive income

| For the year ended 30 September 2013 | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| Profit for the year | 34 | 53.6 | 0.4 |
| *Items that will not be transferred to consolidated income statement:* | | | |
| Actuarial gain/(loss) on BPT Limited defined benefit pension scheme | 30 | 0.7 | (2.0) |
| *Items that will be reclassified subsequently to consolidated income statement:* | | | |
| Fair value movement on financial interest in property assets | 22 | (0.3) | (0.4) |
| Exchange adjustments offset in reserves | | 0.5 | (0.6) |
| Changes in fair value of cash flow hedges | | 36.2 | 14.1 |
| **Other comprehensive income and expense for the year before tax** | | 37.1 | 11.1 |
| *Tax relating to components of other comprehensive income:* | | | |
| Tax relating to items that will not be transferred to consolidated income statement | 15 | (0.2) | 0.5 |
| Tax relating to items that will be reclassified subsequently to consolidated income statement | 15 | (7.2) | (2.9) |
| **Other comprehensive income and expense for the year after tax** | | 29.7 | 8.7 |
| **Total comprehensive income and expense for the year attributable to the owners of the company** | | 83.3 | 9.1 |

Included within other comprehensive income is £2.4m (2012: £5.0m) relating to associates and joint ventures accounted for under the equity method.

# Consolidated statement of financial position

| As at 30 September 2013 | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| ASSETS | | | |
| **Non-current assets** | | | |
| Investment property | 18 | 354.1 | 525.9 |
| Property, plant and equipment | 19 | 0.6 | 0.8 |
| Investment in associates | 20 | 88.2 | 41.2 |
| Investment in joint ventures | 21 | 57.7 | 19.2 |
| Financial interest in property assets | 22 | 96.3 | 99.0 |
| Deferred tax assets | 15 | 20.1 | 44.5 |
| Intangible assets | 23 | 1.4 | 5.3 |
| | | 618.4 | 735.9 |
| **Current assets** | | | |
| Inventories – trading property | 24 | 949.6 | 1,023.4 |
| Trade and other receivables | 25 | 43.1 | 35.6 |
| Cash and cash equivalents | 29 | 90.3 | 73.3 |
| Assets classified as held-for-sale | 39 | 9.9 | 222.1 |
| | | 1,092.9 | 1,354.4 |
| **Total assets** | | 1,711.3 | 2,090.3 |
| LIABILITIES | | | |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 28 | 1,006.6 | 1,240.1 |
| Retirement benefits | 30 | 4.1 | 5.8 |
| Provisions for other liabilities and charges | 26 | 0.4 | 0.5 |
| Deferred tax liabilities | 15 | 25.7 | 37.8 |
| | | 1,036.8 | 1,284.2 |
| **Current liabilities** | | | |
| Interest-bearing loans and borrowings | 28 | 42.4 | 27.3 |
| Trade and other payables | 27 | 58.7 | 88.4 |
| Provisions for other liabilities and charges | 26 | 2.9 | – |
| Current tax liabilities | 15 | 13.9 | 24.4 |
| Derivative financial instruments | 29 | 91.1 | 145.4 |
| Liabilities associated with assets held-for-sale | 39 | – | 129.7 |
| | | 209.0 | 415.2 |
| **Total liabilities** | | 1,245.8 | 1,699.4 |
| **Net assets** | | 465.5 | 390.9 |

## Consolidated statement of financial position
continued

| As at 30 September 2013 | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **EQUITY** | | | |
| **Capital and reserves attributable to the owners of the company** | | | |
| Issued share capital | 31 | 20.8 | 20.8 |
| Share premium | | 109.8 | 109.8 |
| Merger reserve | | 20.1 | 20.1 |
| Capital redemption reserve | | 0.3 | 0.3 |
| Cash flow hedge reserve | | (5.5) | (24.5) |
| Equity component of convertible bond | | 5.0 | 5.0 |
| Available-for-sale reserve | | 3.8 | 3.9 |
| Retained earnings | 34 | 311.1 | 255.4 |
| **Equity attributable to the owners of the company** | | 465.4 | 390.8 |
| Non-controlling interests | | 0.1 | 0.1 |
| **Total equity** | | 465.5 | 390.9 |

The financial statements on pages 87 to 159 were approved by the board of directors on 7 November 2013 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 2012 | | 20.8 | 109.8 | 20.1 | 0.3 | (24.5) | 5.0 | 3.9 | 255.4 | 0.1 | 390.9 |
| Profit for the year | 34 | – | – | – | – | – | – | – | 53.6 | – | 53.6 |
| Actuarial gain on BPT Limited defined benefit pension scheme | 30 | – | – | – | – | – | – | – | 0.7 | – | 0.7 |
| Fair value movement on financial interest in property assets | 22 | – | – | – | – | – | – | (0.3) | – | – | (0.3) |
| Exchange adjustments offset in reserves | | – | – | – | – | – | – | – | 0.5 | – | 0.5 |
| Changes in fair value of cash flow hedges | | – | – | – | – | 36.2 | – | – | – | – | 36.2 |
| Tax relating to components of other comprehensive income | 15 | – | – | – | – | (7.4) | – | 0.2 | (0.2) | – | (7.4) |
| Total comprehensive income and expense for the year | | – | – | – | – | 28.8 | – | (0.1) | 54.6 | – | 83.3 |
| Reclassification | 34 | – | – | – | – | (9.8) | – | – | 9.8 | – | – |
| Purchase of own shares | 31,34 | – | – | – | – | – | – | – | (3.0) | – | (3.0) |
| Share-based payments charge | 32 | – | – | – | – | – | – | – | 2.3 | – | 2.3 |
| Dividends paid | 16 | – | – | – | – | – | – | – | (8.0) | – | (8.0) |
| **Balance as at 30 September 2013** | | 20.8 | 109.8 | 20.1 | 0.3 | (5.5) | 5.0 | 3.8 | 311.1 | 0.1 | 465.5 |

## Consolidated statement of changes in equity
continued

| | 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 2011 | | 20.8 | 109.8 | 20.1 | 0.3 | (34.4) | 5.0 | 4.1 | 261.6 | 0.1 | 387.4 |
| Profit for the year | 34 | – | – | – | – | – | – | – | 0.4 | – | 0.4 |
| Actuarial gain on BPT Limited defined benefit pension scheme | 30 | – | – | – | – | – | – | – | (2.0) | – | (2.0) |
| Fair value movement on financial interest in property assets | 22 | – | – | – | – | – | – | (0.4) | – | – | (0.4) |
| Exchange adjustments offset in reserves | | – | – | – | – | – | – | – | (0.6) | – | (0.6) |
| Changes in fair value of cash flow hedges | | – | – | – | – | 14.1 | – | – | – | – | 14.1 |
| Tax relating to components of other comprehensive income | 15 | – | – | – | – | (4.2) | – | 0.2 | 1.6 | – | (2.4) |
| Total comprehensive income and expense for the year | – | – | – | – | – | 9.9 | – | (0.2) | (0.6) | – | 9.1 |
| Purchase of own shares | 31, 34 | – | – | – | – | – | – | – | (0.5) | – | (0.5) |
| Proceeds from SAYE shares | 34 | – | – | – | – | – | – | – | 0.4 | – | 0.4 |
| Share-based payments charge | 32 | – | – | – | – | – | – | – | 2.1 | – | 2.1 |
| Dividends paid | 16 | – | – | – | – | – | – | – | (7.6) | – | (7.6) |
| **Balance as at 30 September 2012** | | 20.8 | 109.8 | 20.1 | 0.3 | (24.5) | 5.0 | 3.9 | 255.4 | 0.1 | 390.9 |

# Consolidated statement of cash flows

| For the year ended 30 September 2013 | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit for the year | | 53.6 | 0.4 |
| Depreciation | 19 | 0.2 | 0.4 |
| Goodwill impairment | 23 | 4.7 | – |
| Write down of investment property in disposal group | 39 | – | 6.9 |
| Net valuation gains on investment property | 18 | (2.9) | (2.1) |
| Net finance costs | 14 | 56.0 | 93.2 |
| Loss on disposal of subsidiary | 39 | 2.3 | – |
| Share of profit of associates and joint ventures | 20, 21 | (8.8) | (3.5) |
| Profit on disposal of investment property | 8 | (1.8) | (3.0) |
| Profit on acquisition of equity in associate | 20 | (2.1) | – |
| Share-based payment charge | 32, 34 | 2.3 | 2.1 |
| Change in fair value of derivatives | 29 | (7.9) | 31.2 |
| Interest income from financial interest in property assets | 22 | (6.1) | (7.7) |
| Taxation | 15 | 10.7 | (2.1) |
| Operating profit before changes in working capital | | 100.2 | 115.8 |
| Increase in trade and other receivables | | (7.6) | (13.5) |
| Decrease in trade and other payables | | (3.5) | (3.8) |
| Decrease in provisions for liabilities and charges | | (0.8) | (0.1) |
| Decrease in trading property | | 73.8 | 78.3 |
| Cash generated from operations | | 162.1 | 176.7 |
| Interest paid | | (60.3) | (78.1) |
| Taxation paid | 15 | (16.4) | (12.0) |
| Payments to defined benefit pension scheme | 30 | (1.1) | (1.0) |
| Net cash inflow from operating activities | | 84.3 | 85.6 |
| **Cash flow from investing activities** | | | |
| Proceeds from sale of investment property | 8 | 219.9 | 48.3 |
| Proceeds from financial interest in property assets | 22 | 8.5 | 10.6 |
| Proceeds from sale of subsidiary | | 45.0 | 3.5 |
| Interest received | | 0.5 | 0.7 |
| Distributions received | 20, 21 | 1.4 | – |
| Investment in associates and joint ventures | 20, 21 | (57.8) | (0.5) |
| Acquisition of investment property | 18 | (4.3) | (5.5) |
| Acquisition of property, plant and equipment and intangible assets | 19, 23 | (0.9) | – |
| Net cash inflow from investing activities | | 212.3 | 57.1 |

# Consolidated statement of cash flows
continued

| For the year ended 30 September 2013 | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Proceeds from SAYE options | 34 | – | 0.4 |
| Purchase of own shares | 31, 34 | (3.0) | (0.5) |
| Proceeds from new borrowings | | 150.1 | 79.0 |
| Payment of loan costs | | – | (10.5) |
| Settlement of derivative contracts | | (39.3) | (1.2) |
| Repayment of borrowings | | (380.0) | (215.5) |
| Dividends paid | 16 | (8.0) | (7.6) |
| Net cash outflow from financing activities | | (280.2) | (155.9) |
| **Net increase/(decrease) in cash and cash equivalents** | | 16.4 | (13.2) |
| Cash and cash equivalents at the beginning of the year | 29 | 73.3 | 90.9 |
| Net exchange movements on cash and cash equivalents | | 0.6 | (1.8) |
| Total cash and cash equivalents at the end of the year | | 90.3 | 75.9 |
| **Cash held in assets classified as held-for-sale at the end of the year** | 39 | – | (2.6) |
| Cash and cash equivalents at the end of the year | 28 | 90.3 | 73.3 |

# Notes to the financial statements



## 1 Accounting policies

### (a) Basis of preparation

Grainger plc is a company incorporated and domiciled in the UK. It is a public limited liability company listed on the London Stock Exchange and the address of the registered office is given on page 175. 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 2013 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 160 to 166.

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, and corresponding income statement accounts, 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 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.

# Notes to the financial statements
continued

## 1 Accounting policies continued

**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.

Dilution gains and losses arising on investment in associates and joint ventures are recognised in the income statement.

### (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 and third-party management;
- UK and European development; and
- German residential.

All of the above segments are UK based except German residential which has its assets and tenants based in Germany and UK and European Development which includes assets based in the Czech Republic. More detail is given relating to each of the above segments in note 4.

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 statements of financial position measures of net asset value. These are Gross net asset value ('NAV') and Triple net asset value ('NNNAV') measures. Further detail is provided 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 statement of financial position 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 statement of financial position 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.

Where specific investment properties have been identified as being for sale within the next 12 months their fair value is shown under assets classified as held-for-sale within current assets.

In general, however, it is not possible for the group to identify which properties will be sold within the next 12 months. Although the size of the group's property portfolio does result in a relatively predictable vacancy rate, it is not possible to predict in advance the specific properties that will become vacant.

### (g) 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 '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.

# Notes to the financial statements
continued

## 1 Accounting policies continued

### (h) Inventories – trading property

Tenanted residential properties held-for-sale in the normal course of business are shown in the financial statements as a current asset 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 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.

### (i) Cash and cash equivalents

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

### (j) 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. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position 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.

### (k) 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 statement of financial position 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 statement of financial position 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 statement of financial position is the present value of the defined benefit obligation at the statement of financial position 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.

### (l) 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 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.

**iv) Performance fee income** Performance fee income is recognised in line with contract provisions when the revenue can be reliably measured, and there is reasonable certainty that the performance criteria will be met.

# Notes to the financial statements
continued

## 1 Accounting policies continued

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 statement of financial position.

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.

### (m) 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 statement of financial position 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 statement of financial position. 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.

### (n) 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.

### (o) Derecognition of financial assets and liabilities
Derecognition is the point at which the group removes an asset or a liability from its statement of financial position. 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.

### (p) 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 statement of financial position date.

### (q) 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 statement of financial position. 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.

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

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

### (t) 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.

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

# Notes to the financial statements
continued

## 1 Accounting policies continued

### (v) Assets and associated liabilities classified as held-for-sale
Where a group of assets are to be disposed of by sale 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 the assets are available-for-sale in their present condition, the sale is highly probable and it is expected to be completed within one year from the date of classification.

### (w) 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.

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.

### (x) Impact of standards and interpretations issued
**i) New and amended standards issued 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 2012. There are no new standards, amendments or interpretations that are effective for the first time for the current financial year that have had a material impact on the group.

**ii) New and amended standards**
- IAS 1, 'Financial Statement Presentation' has been amended and introduced the requirement to group items presented in 'other comprehensive income' on the basis of whether they are potentially reclassable to profit or loss subsequently (reclassification adjustments). The group has adopted this revised presentation in these financial statements.
- IAS 12, 'Deferred Tax: Recovery of Underlying Assets' introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognised on a sales basis, unless an entity has a business model that would indicate the investment property will be consumed in the business.

**iii) New and amended standards not yet effective**
At the date of authorisation of these financial statements, there were a number of new standards, amendments to existing standards and interpretations in issue that have not been applied in preparing these consolidated financial statements. The group has no plan to adopt these standards earlier than the effective date. Those that are most relevant to the group are set out below.
- IAS 19, 'Employee benefits', was amended in June 2011 and is effective for annual periods beginning on or after 1 January 2013. For defined benefit plans, the group will change its measurement principles by replacing the interest costs and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability including the IFRIC 14 Liability. There will also be a corresponding change in the amount recognised in other comprehensive income, so that the net impact on total comprehensive income and net assets will be nil. If this standard had been applied to the year ended 30 September 2013, it is estimated the income statement charge would have been increased by approximately £0.1m.
- IFRS 10, 'Consolidated Financial statements', which establishes a single control model that applies to all entities including special purpose entities and requirements management to exercise judgement over which entities are required to be consolidated. IFRS 10 is effective for annual periods beginning on or after 1 January 2014.
- IFRS 11, 'Joint arrangements', under IFRS 11 the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore subsequent accounting. IFRS 11 is effective for annual periods beginning on or after 1 January 2014.

- IFRS 12, 'Disclosures of interests in other entities' brings together all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2014.
- IFRS 13, 'Fair value measurement', provides consistency by making available a single source of guidance on how fair value is measured. IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. IFRS 13 is effective for annual periods beginning on or after 1 January 2013.

In addition, as part of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement', the IASB has issued the phases of IFRS 9 covering the classification and measurement of financial assets and the accounting for financial liabilities. The other phases, covering hedge accounting and impairment, are still to be completed. In December 2011, the IASB decided that IFRS 9 will be effective for annual periods beginning on or after 1 January 2015. The date for EU adoption is not yet known.

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

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.

The directors consider that a +/- 1% (2012: 1%) movement in interest rates, a +/- 10 percentage point (2012: 10 percentage point) movement in sterling exchange rates and a +/- 1 percentage point (2012: 1 percentage point) movement in house prices represents a reasonable possible change.

### Valuation of residential property

The group's residential trading property is carried in the statement of financial position at the lower of cost and net realisable value. The group's investment property is carried in the statement of financial position 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 detailed below.

## Notes to the financial statements
continued

### 2 Critical accounting estimates and assumptions continued

The results and the basis of each valuation and their impact on both the statutory financial statements and market value for the group's net asset value measures are set out below:

| | UK Residential ('UKR') £m | Retirement solutions ('RS') £m | Fund and third-party management ('Funds') £m | UK and European Developments ('Dev') £m | German Residential ('Germany') £m | Total £m | % of properties for which external valuer provides valuation % |
|---|---|---|---|---|---|---|---|
| Trading property | 645.5 | 226.4 | – | 77.7 | – | 949.6 | |
| Investment property *** | 135.6 | 50.1 | – | – | 178.3 | 364.0 | |
| Financial asset | – | 96.3 | – | – | – | 96.3 | |
| Total statutory book value | 781.1 | 372.8 | – | 77.7 | 178.3 | 1,409.9 | |
| Allsop LLP | | | | | | | |
| Directors in-house valuation | 751.7 | – | – | – | – | 751.7 | 51% |
| RS | – | 435.3 | – | – | – | 435.3 | 100% |
| Grainger invest | 287.4 | – | – | – | – | 287.4 | 100% |
| Investment valuation | 105.9 | – | – | – | – | 105.9 | 100% |
| Cushman and Wakefield LLP | – | – | – | – | 178.3 | 178.3 | 100% |
| CBRE Limited | – | – | – | 84.3 | – | 84.3 | 100% |
| Total assets at market value | 1,145.0 | 435.3 | – | 84.3 | 178.3 | 1,842,9 | |
| Trading property | 1,009.4 | 288.9 | – | 84.3 | – | 1,382.6 | |
| Investment property *** | 135.6 | 50.1 | – | – | 178.3 | 364.0 | |
| Financial asset | – | 96.3 | – | – | – | 96.3 | |
| Total assets at market value | 1,145.0 | 435.3 | – | 84.3 | 178.3 | 1,842.9 | |
| Statutory book value | 781.1 | 372.8 | – | 77.7 | 178.3 | 1,409.9 | |
| Market value uplift* | 363.9 | 62.5 | – | 6.6 | – | 433.0 | |
| Net revaluation gain recognised in the Income Statement for wholly owned properties | 2.2 | 0.3 | – | – | 0.4 | 2.9 | |
| Net revaluation gain relating to joint ventures and associates ** | – | – | 13.7 | – | 1.0 | 14.7 | |
| Net revaluation gain recognised in period** | 2.2 | 0.3 | 13.7 | – | 1.4 | 17.6 | |

* The market value uplift is the difference between the statutory book value and the market value of the group's properties. Refer to note 4 for market value net asset measures.

** Includes group share of joint ventures and associates revaluation gain before tax

*** Includes investment property classified as held-for-sale

**i) Directors in-house Valuation**

The group's own in-house qualified surveying team provided a vacant possession value for the majority of the group's UKR properties as at 30 September 2013. A structured sample of these in-house valuations was 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, a high proportion, this year around 77%, 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 1.4% lower than the Allsop LLP values.

Allsop LLP has provided the directors with the following opinion on the directors' valuation: 'Property held in the UK Residential portfolios was valued as at 30 September 2013 by Grainger's in-house surveyors. These valuations were reviewed and approved by the directors. Allsop LLP has undertaken a comprehensive review of the directors' valuation and they are satisfied with the process by which the in-house valuations were conducted. As part of the review, Allsop LLP valued approximately 50% of the UK Residential portfolio, independently of the in-house surveyors. 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. The directors have adopted all of the recommendations made by Allsop LLP in relation to the discounts.

#### ii) Grainger Invest ('GInvest')

All of the property owned by the group in the GInvest portfolio was valued as at 30 September 2013 by Allsop LLP who are external independent valuers.

The market values of the properties subject to the assumption that the dwellings would be sold individually, in their existing condition, and subject to any existing leases or tenancies was provided by Allsop LLP. The valuer's opinion of market value was primarily derived using comparable recent market transactions on arm's-length terms.

#### iii) Investment Valuation

Allsop LLP has also valued as at 30 September 2013 the property assets owned by the group and let under a long-term lease arrangement with the Secretary of State for Defence under a PFI Project Agreement. Allsop LLP has provided an Investment Valuation, formerly described as Calculation of Worth, which is defined as 'the value of an asset to the owner or a prospective owner for individual investment or operational objectives'. The Investment Valuation has been made in accordance with RICS Valuation Professional Standards, and is based on a discounted cash flow model.

#### iv) Retirement Solutions

All of the property owned by the group in the Retirement Solutions portfolio was valued as at 30 September 2013 by Allsop LLP who are external independent valuers. Allsop LLP undertake a Red Book valuation of approximately a third of the portfolio in accordance with the RICS Valuation – Professional Standards Global and UK Edition (as amended) including an internal inspection. Using the results of the internal inspection programme as a base, Allsop LLP inspect an additional sample of the Retirement Solutions portfolio externally in order for Allsop LLP to have seen a sample of 50% of the Retirement Solutions portfolio within the previous 12 months as at every 30 September year-end valuation date. To value the remaining properties within the Retirement Solutions portfolio Allsop LLP undertake a valuation using desktop valuation methodology, based wherever possible on a physical inspection which will have been undertaken at a minimum of 23 months prior to the year-end date.

Allsop LLP also recommend the discount to apply to the vacant possession valuations to establish the market value of each property. 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.

#### v) Cushman and Wakefield – German Residential

The whole of the property portfolio in Germany was valued as at 30 September 2013 by Cushman and Wakefield LLP who are external independent valuers. 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.

# Notes to the financial statements
continued

## 2 Critical accounting estimates and assumptions continued

### vi) CBRE – UK and European Development

The current market value of the group's land and property held within the development segment has been assessed by CBRE Limited who are external independent valuers. Their valuation is on the basis of fair value as defined in the RICS Professional Valuation Standards (2013) where fair value is the same as market value.

### vii) Joint ventures and associates

The valuation methodology for assets held within joint ventures and associates is as described above for each of the divisions with the exception of assets held within the GRIP Unit Trust ('GRIP') and Walworth Investment Properties Limited ('WIP'), both of which are shown within the Funds division. WIP is valued on the same basis as the Grainger Invest portfolio. Valuations of 100% of the GRIP portfolio were carried out at 30 June 2013 by external valuers, Savills (UK) Limited. In aggregate, the valuation of the individual dwellings as at 30 June 2013 was £348.3m. After full consideration of house price movements in those areas where GRIP property assets are situated the group's directors made an adjustment to the 30 June 2013 valuations based on the movement in house price indices to 30 September 2013 and an adjustment for sales, purchases and capital expenditure, in assessing the group's share of GRIP net assets for the purposes of the group's accounts to 30 September 2013. The group's share of the revaluation gain based on the indexed revaluation was £1.5m. For every 1% movement in the market value of the GRIP investment property the group's share of the movement would amount to £1.0m.

The directors consider the valuations provided by external valuers to be representative of fair value.

As required by RICS Valuation Professional Standards, all of the external valuers in the UK mentioned above have made full disclosure of the extent and duration of their work for, and fees earned by them from, the group, 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 statement of financial position at the lower of cost and net realisable value.

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 2013 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 a 3.8% growth in property prices in 2014 followed by growth in house prices of 4.1% in 2015 with price increases thereafter in line with conservative historical house price growth rates. The assumptions also allow for an annual vacancy rate of 7.0%. 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 2013 against projected investment sales.

In aggregate a credit of £0.9m has been made in the 2013 income statement (2012: charge of £0.1m) 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 £3.5m (2012: £4.4m) in its statement of financial position. A 1% increase/decrease in house prices would increase/decrease the provision by £0.1m. A 1% increase/decrease in annual vacancy rate assumptions would increase/decrease the provision by £0.1m.

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.

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 2013 are based upon the current intentions of the directors. In addition, estimates at 30 September 2013 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 any net realisable value provision required should be more than or less than that made.

A charge of £0.2m has been made in the 2013 income statement (2012: £nil) in adjusting 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(g) above. The key assumptions affecting the carrying value are house price inflation and the effective interest rate.

The fair value of our interest has decreased as cash flows are realised and this decrease of £0.3m (2012: £0.4m) has been recognised in the statement of other comprehensive income and the available-for-sale reserve.

The assumptions adopted with regard to house prices are 2.5% for 2014, 3.5% in 2015, rising to 4% thereafter. A change of 1% to average house price inflation over the 10-year period from 1 October 2013 would either increase the valuation by £5.1m or reduce the valuation by £4.6m. At 30 September 2013 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 statement of financial position date would increase/(decrease) the group's profit before tax by approximately £0.8m (2012: £0.8m).

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

Consideration has been given to the current market value of the financial asset based on our assessment of a market discount rate. We have concluded that the discount rate as at 30 September 2013 should be the same as the rate adopted at 30 September 2012 which is 0.85% lower than the effective interest rate when the financial interest was acquired. A 1% change to this discount rate would either increase the carrying value by £5.4m or reduce the carrying value by £5.9m.

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.

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.

### 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.

### 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 2013 the LTV was 40.1% compared to a default level of 75% and the interest cover ratio was 5.0 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 2013, 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 £810.5m on 30 September 2013, of which £596.8m were drawn. The group had free cash balances plus available overdraft of £67m and undrawn committed facilities of £225m (in total, 'headroom') of £292m at 30 September 2013. The next maturity on the core facility is in December 2014 when a repayment of £137m is required. The directors have reviewed the available headroom of the group, and confirmed that even without any further management actions, the group has sufficient resources to meet future repayments as they fall due.

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 before tax

The results for the years ended 30 September 2012 and 2013 respectively have been affected by valuation movements and non-recurring items. The table below provides further analysis of the consolidated income statement showing the results of trading activities separately from these other items.

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| (£m) | Trading | Valuation | Non-recurring | Total | Trading | Valuation | Non-recurring | Total |
| **Group revenue** | 283.2 | – | – | 283.2 | 311.4 | – | – | 311.4 |
| Net rental income | 48.5 | – | – | 48.5 | 63.5 | – | (0.7) | 62.8 |
| Profit on disposal of trading property | 75.5 | – | – | 75.5 | 74.0 | – | – | 74.0 |
| Administrative expenses | (33.6) | – | – | (33.6) | (31.0) | – | – | (31.0) |
| Other income | 12.9 | – | – | 12.9 | 11.0 | – | – | 11.0 |
| Other expenses | (3.6) | – | (2.7) | (6.3) | (1.8) | – | (1.6) | (3.4) |
| Goodwill impairment | – | (4.7) | – | (4.7) | – | – | – | – |
| Profit on disposal of investment property | 1.8 | – | – | 1.8 | 3.0 | – | – | 3.0 |
| Income from financial interest in property assets | 6.1 | – | – | 6.1 | 7.7 | – | – | 7.7 |
| Profit on acquisition of equity in associate | – | – | 2.1 | 2.1 | – | – | – | – |
| Loss on disposal of subsidiary | – | – | (2.3) | (2.3) | – | – | – | – |
| Write back/(down) of inventories to net realisable value | – | 0.7 | – | 0.7 | – | (0.1) | – | (0.1) |
| Operating profit before net valuation gains on investment property | 107.6 | (4.0) | (2.9) | 100.7 | 126.4 | (0.1) | (2.3) | 124.0 |
| Net valuation gains on investment property | – | 2.9 | – | 2.9 | – | 2.1 | – | 2.1 |
| Write down of investment property in disposal group | – | – | – | – | – | – | (6.9) | (6.9) |
| Operating profit after net valuation gains on investment property | 107.6 | (1.1) | (2.9) | 103.6 | 126.4 | 2.0 | (9.2) | 119.2 |
| Change in fair value of derivatives | – | 21.6 | (13.7) | 7.9 | – | (31.2) | – | (31.2) |
| Finance costs | (73.3) | – | – | (73.3) | (92.8) | – | (2.5) | (95.3) |
| Finance income | 2.0 | – | 15.3 | 17.3 | 2.1 | – | – | 2.1 |
| Share of profit of associates after tax | 0.7 | 4.9 | (4.6) | 1.0 | (0.1) | 4.6 | – | 4.5 |
| Share of profit/(loss) of joint ventures after tax | – | 7.8 | – | 7.8 | (1.0) | – | – | (1.0) |
| **Profit/(loss) before tax** | 37.0 | 33.2 | (5.9) | 64.3 | 34.6 | (24.6) | (11.7) | (1.7) |

Profit/(loss) before tax in the trading columns above of £37.0m (2012: £34.6m) is the recurring profit of the group.

The non-recurring gain of £15.3m under 'finance income' and £13.7m charge under 'changes in fair value of derivatives' relate to the purchase at a discount of bank debt from Bank of America and recycling of the associated swap. The non-recurring charges of £2.7m (2012: £1.6m) under 'other expenses' primarily relate to transaction costs. The £2.1m gain shown under 'profit on acquisition of equity in associate' and £4.6m charge under 'share of profit of associates after tax' relates to the transfer of assets from G:Res to GRIP. The £2.3m loss on sale of subsidiary relates to our German co-investment vehicle with Heitman.

The prior year non-recurring charge of £0.7m under 'net rental income' relates to a specific provision made against a one-off structural issue at one of our properties. The prior year non-recurring charge of £6.9m relates to the disposal group of assets transferred into a co-investment vehicle post year end as explained further in note 39. The prior year non-recurring charge of £2.5m under 'Finance costs' includes interest payable on overdue tax of £1.5m.

## 4 Segmental information

Information relating to the group's operating segments is set out in the tables below:

### 2013 Income statement

| (£m) | UK residential | Retirement solutions | Fund and third-party management | UK and European development | German residential | Other | Total |
|---|---|---|---|---|---|---|---|
| **Group revenue** | | | | | | | |
| **Segment revenue-external** | 204.7 | 31.1 | 9.6 | 15.7 | 22.1 | – | 283.2 |
| Net rental income | 37.2 | 2.3 | – | 0.3 | 8.7 | – | 48.5 |
| Profit on disposal of trading property | 61.8 | 11.8 | – | 1.9 | – | – | 75.5 |
| Administrative expenses | (7.8) | (2.7) | (4.2) | (1.3) | (3.2) | (14.4) | (33.6) |
| Other income | 0.7 | 1.2 | 9.6 | 0.5 | 0.9 | – | 12.9 |
| Other expenses | – | – | (2.5) | (0.2) | (0.5) | (0.4) | (3.6) |
| Profit on disposal of investment property | 2.7 | 0.3 | – | – | (1.2) | – | 1.8 |
| Income from financial interest in property assets | – | 6.1 | – | – | – | – | 6.1 |
| **Operating profit before net valuation deficits on investment property** | 94.6 | 19.0 | 2.9 | 1.2 | 4.7 | (14.8) | 107.6 |
| Net trading interest payable | (9.0) | (9.3) | 0.9 | (0.2) | (5.8) | (47.9) | (71.3) |
| Share of trading profit/(loss) of joint ventures and associates after tax | – | – | 0.9 | (0.2) | – | – | 0.7 |
| **Trading profit before tax, valuation and non-recurring items** | | | | | | | 37.0 |
| Write back of inventories to net realisable value | 1.0 | – | – | (0.3) | – | – | 0.7 |
| Net valuation gains on investment property | 2.2 | 0.3 | – | – | 0.4 | – | 2.9 |
| Goodwill Impairment | (4.7) | – | – | – | – | – | (4.7) |
| Profit on acquisition of equity in associate | – | – | 2.1 | – | – | – | 2.1 |
| Loss on disposal of subsidiary | – | – | – | – | (2.3) | – | (2.3) |
| Change in fair value of derivatives | – | – | – | – | – | 21.6 | 21.6 |
| Share of valuation gains in joint ventures and associates after tax | – | – | 12.0 | – | 0.7 | – | 12.7 |
| Net gain on purchase of debt | 1.6 | – | – | – | – | – | 1.6 |
| Other net non-recurring items | (1.5) | – | (5.0) | – | (0.7) | (0.1) | (7.3) |
| **Profit before tax** | | | | | | | 64.3 |

# Notes to the financial statements
continued

## 4 Segmental information continued

### 2012 Income statement

| (£m) | UK residential | Retirement solutions | Fund and third-party management | UK and European development | German residential | Other | Total |
|---|---|---|---|---|---|---|---|
| **Group revenue** | | | | | | | |
| **Segment revenue-external** | 211.4 | 35.5 | 8.3 | 19.6 | 36.6 | – | 311.4 |
| Net rental income | 42.5 | 3.7 | – | 0.2 | 17.1 | – | 63.5 |
| Profit on disposal of trading property | 57.6 | 12.7 | – | 3.4 | 0.3 | – | 74.0 |
| Administrative expenses | (8.6) | (2.9) | (4.6) | (1.3) | (2.6) | (11.0) | (31.0) |
| Other income and expenses | 1.0 | 1.1 | 6.5 | 0.5 | 0.1 | – | 9.2 |
| Profit on disposal of investment property | 2.2 | – | – | – | 0.8 | – | 3.0 |
| Income from financial interest in property assets | – | 7.7 | – | – | – | – | 7.7 |
| **Operating profit before net valuation deficits on investment property** | 94.7 | 22.3 | 1.9 | 2.8 | 15.7 | (11.0) | 126.4 |
| Net trading interest payable | (10.0) | (8.3) | – | 1.4 | (12.7) | (61.1) | (90.7) |
| Share of trading loss of joint ventures and associates after tax | – | (0.7) | (0.1) | (0.3) | – | – | (1.1) |
| **Trading profit before tax, valuation and non-recurring items** | | | | | | | 34.6 |
| Write down of inventories to net realisable value | (0.1) | – | – | – | – | – | (0.1) |
| Net valuation gains/(deficits) on investment property | 8.2 | (3.3) | – | – | (2.8) | – | 2.1 |
| Change in fair value of derivatives | – | – | – | – | – | (31.2) | (31.2) |
| Share of valuation gains in joint ventures and associates after tax | – | – | 4.6 | – | – | – | 4.6 |
| Other net non-recurring items | (0.9) | – | – | (0.1) | (8.5) | (2.2) | (11.7) |
| **Loss before tax** | | | | | | | (1.7) |

Segmental revenue from external customers is derived as follows:
£261.1m from UK customers (2012: £274.8m)
£22.1m from Germany (2012: £36.6m).
There are no other material revenue streams from external customers in foreign countries.

Non-current assets other than financial instruments and deferred tax assets are located as follows:
£410.6m within the UK (2012: £422.2m)
£191.5m in Germany (2012: £170.2m).

The majority of the group's properties are held as trading stock and are therefore shown in the statutory statement of financial position at the lower of cost and net realisable value. This does not reflect the market value of the assets and, accordingly, our key statement of financial position measures of net asset value include trading stock at market value. The two principal net asset value measures reviewed by the CODM are gross net asset value ('NAV') and triple net asset value ('NNNAV').

NAV is the statutory net assets plus the adjustment required to increase the value of trading stock from its statutory accounts value of the lower of cost and net realisable value, to its market value. In addition, the statutory statement of financial position 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 statement of financial position.

### 2013 Segment net assets

| (£m) | UK residential | Retirement solutions | Fund and third-party management | UK and European development | German residential | Other | Total |
|---|---|---|---|---|---|---|---|
| Total segment net assets (statutory) | 164.5 | 131.6 | 68.6 | 57.0 | 91.5 | (47.7) | 465.5 |
| Total segment net assets (NAV) | 546.1 | 198.4 | 71.1 | 59.4 | 100.9 | 32.1 | 1,008.0 |
| Total segment net assets (NNNAV) | 455.7 | 172.4 | 68.6 | 58.9 | 91.5 | (36.2) | 810.9 |

# Notes to the financial statements
continued

## 4 Segmental information continued

### 2013 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 | 354.1 | – | 354.1 | – | – | 354.1 |
| CHARM | 96.3 | – | 96.3 | – | – | 96.3 |
| Trading stock | 949.6 | 433.0 | 1,382.6 | – | – | 1,382.6 |
| Joint ventures and associates | 145.9 | 1.3 | 147.2 | (3.5) | (0.4) | 143.3 |
| Cash | 90.3 | – | 90.3 | – | – | 90.3 |
| Deferred tax | 20.1 | (18.3) | 1.8 | – | 20.9 | 22.7 |
| Assets held-for-sale | 9.9 | – | 9.9 | – | – | 9.9 |
| Other assets | 45.1 | 11.5 | 56.6 | – | – | 56.6 |
| **Total assets** | 1,711.3 | 427.5 | 2,138.8 | (3.5) | 20.5 | 2,155.8 |
| External debt | (1,049.0) | – | (1,049.0) | – | (13.0) | (1,062.0) |
| Derivatives | (91.1) | 91.1 | – | – | (91.1) | (91.1) |
| Deferred tax | (25.7) | 23.9 | (1.8) | (110.0) | – | (111.8) |
| Other liabilities | (80.0) | – | (80.0) | – | – | (80.0) |
| **Total liabilities** | (1,245,8) | 115.0 | (1,130.8) | (110.0) | (104.1) | (1,344.9) |
| **Net assets** | 465.5 | 542.5 | 1,008.0 | (113.5) | (83.6) | 810.9 |

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 2013 (£m) | UK residential portfolio | Retirement solutions | Fund and third-party management | UK and European development | German residential | Other | Total |
|---|---|---|---|---|---|---|---|
| **NNNAV assets** | | | | | | | |
| Investment property | 135.6 | 46.2 | – | – | 172.3 | – | 354.1 |
| Investment in associates | – | – | 69.4 | – | 18.8 | – | 88.2 |
| Investment in joint ventures | – | 15.8 | 36.2 | 2.7 | 0.4 | – | 55.1 |
| Financial interest in property assets | – | 96.3 | – | – | – | – | 96.3 |
| Intangibles | 0.5 | – | – | – | 0.4 | 0.5 | 1.4 |
| Inventories – trading property | 1,009.4 | 288.9 | – | 84.3 | – | – | 1,382.6 |
| Trade and other receivables | 6.0 | 2.4 | 2.2 | 28.1 | 2.5 | 1.9 | 43.1 |
| Cash and cash equivalents | 31.7 | 5.3 | 1.0 | 3.9 | 8.1 | 40.3 | 90.3 |
| Property, plant and equipment | – | – | – | – | – | 0.6 | 0.6 |
| Deferred tax asset | – | 2.7 | 0.1 | – | 1.0 | 18.9 | 22.7 |
| Assets classified as held-for-sale | – | 3.9 | – | – | 6.0 | – | 9.9 |
| Value of own shares held | | – | – | – | – | 11.5 | 11.5 |
| **Total segment NNNAV assets** | 1,183.2 | 461.5 | 108.9 | 119.0 | 209.5 | 73.7 | 2,155.8 |
| **NNNAV liabilities** | | | | | | | |
| Interest-bearing loans and borrowings | (622.8) | (247.3) | (40.2) | (49.6) | (102.1) | – | (1,062.0) |
| Trade and other payables | (9.8) | (24.9) | (0.1) | (10.0) | (6.6) | (10.2) | (61.6) |
| Retirement benefits | – | – | – | – | – | (4.1) | (4.1) |
| Current tax liabilities | (0.6) | (3.1) | – | – | (0.8) | (9.4) | (13.9) |
| Provisions for other liabilities and charges | – | – | – | – | – | (0.4) | (0.4) |
| Deferred and contingent tax liabilities | (94.3) | (13.8) | – | (0.5) | (3.2) | – | (111.8) |
| Derivative financial instruments | – | – | – | – | (5.3) | (85.8) | (91.1) |
| **Total segment NNNAV liabilities** | (727.5) | (289.1) | (40.3) | (60.1) | (118.0) | (109.9) | (1,344.9) |
| **Net NNNAV assets** | 455.7 | 172.4 | 68.6 | 58.9 | 91.5 | (36.2) | 810.9 |

# Notes to the financial statements
continued

## 4 Segmental information continued

### 2012 Segment net assets

| (£m) | UK residential | Retirement solutions | Fund and third-party management | UK and European development | German residential | Other | Total |
|---|---|---|---|---|---|---|---|
| Total segment net assets (statutory) | 838.8 | 287.3 | 44.1 | 90.6 | 118.4 | (988.3) | 390.9 |
| Total segment net assets (NAV) | 1,181.3 | 341.1 | 45.9 | 86.8 | 132.4 | (858.7) | 928.8 |
| Total segment net assets (NNNAV) | 1,080.6 | 307.0 | 44.1 | 87.6 | 118.2 | (983.1) | 654.4 |

### 2012 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 | 525.9 | – | 525.9 | – | – | 525.9 |
| CHARM | 99.0 | – | 99.0 | – | – | 99.0 |
| Trading stock | 1,023.4 | 364.0 | 1,387.4 | – | – | 1,387.4 |
| Joint ventures and associates | 60.4 | (1.3) | 59.1 | – | (2.8) | 56.3 |
| Cash | 73.3 | – | 73.3 | – | – | 73.3 |
| Deferred tax | 44.5 | (40.2) | 4.3 | – | 46.1 | 50.4 |
| Assets held-for-sale | 222.1 | – | 222.1 | – | – | 222.1 |
| Other assets | 41.7 | 6.3 | 48.0 | – | – | 48.0 |
| **Total assets** | 2,090.3 | 328.8 | 2,419.1 | – | 43.3 | 2,462.4 |
| External debt | (1,267.4) | – | (1,267.4) | – | – | (1,267.4) |
| Derivatives | (145.4) | 145.4 | – | – | (171.2) | (171.2) |
| Deferred tax | (37.8) | 37.2 | (0.6) | (120.0) | – | (120.6) |
| Liabilities held-for-sale | (129.7) | 4.8 | (124.9) | – | (4.8) | (129.7) |
| Other liabilities | (119.1) | 21.7 | (97.4) | – | (21.7) | (119.1) |
| **Total liabilities** | (1,699.4) | 209.1 | (1,490.3) | (120.0) | (197.7) | (1,808.0) |
| **Net assets** | 390.9 | 537.9 | 928.8 | (120.0) | (154.4) | 654.4 |

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

### Segment assets and liabilities for NNNAV

| 30 September 2012 (£m) | UK residential portfolio | Retirement solutions | Fund and third-party management | UK and European development | German residential | Other | Total |
|---|---|---|---|---|---|---|---|
| **NNNAV assets** | | | | | | | |
| Investment property | 308.5 | 47.7 | – | – | 169.7 | – | 525.9 |
| Investment in associates | – | – | 41.2 | – | – | – | 41.2 |
| Investment in joint ventures | – | 15.3 | – | (0.6) | 0.4 | – | 15.1 |
| Financial interest in property assets | – | 99.0 | – | – | – | – | 99.0 |
| Goodwill | 5.3 | – | – | – | – | – | 5.3 |
| Inventories – trading property | 1,029.6 | 287.6 | – | 70.2 | – | – | 1,387.4 |
| Trade and other receivables | 3.3 | 2.6 | 2.7 | 22.3 | 1.7 | 3.0 | 35.6 |
| Cash and cash equivalents | 26.4 | 7.9 | 0.7 | 2.9 | 10.3 | 25.1 | 73.3 |
| Property, plant and equipment | – | – | – | – | 0.1 | 0.7 | 0.8 |
| Deferred tax asset | 2.0 | 5.6 | – | 1.1 | 0.1 | 41.6 | 50.4 |
| Assets classified as held-for-sale | – | 24.9 | – | – | 197.2 | – | 222.1 |
| Value of own shares held | – | – | – | – | – | 6.3 | 6.3 |
| **Total segment NNNAV assets** | 1,375.1 | 490.6 | 44.6 | 95.9 | 379.5 | 76.7 | 2,462.4 |
| **NNNAV liabilities** | | | | | | | |
| Interest-bearing loans and borrowings | 181.2 | 116.6 | – | 0.1 | 115.0 | 854.5 | 1,267.4 |
| Trade and other payables | 11.5 | 28.0 | 0.5 | 9.1 | 4.4 | 34.9 | 88.4 |
| Retirement benefits | – | – | – | – | – | 5.8 | 5.8 |
| Current tax liabilities | – | – | – | – | – | 24.4 | 24.4 |
| Provisions for other liabilities and charges | – | – | – | – | – | 0.5 | 0.5 |
| Deferred and contingent tax liabilities | 101.8 | 14.8 | – | (0.9) | 4.9 | – | 120.6 |
| Liabilities associated with assets held-for-sale | – | – | – | – | 129.7 | – | 129.7 |
| Derivative financial instruments | – | 24.2 | – | – | 7.3 | 139.7 | 171.2 |
| **Total segment NNNAV liabilities** | 294.5 | 183.6 | 0.5 | 8.3 | 261.3 | 1,059.8 | 1,808.0 |
| **Net NNNAV assets** | 1,080.6 | 307.0 | 44.1 | 87.6 | 118.2 | (983.1) | 654.4 |

# Notes to the financial statements
continued

## 5 Group revenue

| | 2013 £m | 2012 £m |
|---|---|---|
| Gross rental income (see note 6) | 71.3 | 89.8 |
| Service charge income on a principal basis (see note 6) | 5.7 | 9.0 |
| Proceeds from sale of trading property (see note 7) | 193.3 | 201.6 |
| Management fee and other income (see note 10) | 12.9 | 11.0 |
| | 283.2 | 311.4 |

## 6 Net rental income

| | 2013 £m | 2012 £m |
|---|---|---|
| Gross rental income | 71.3 | 89.8 |
| Service charge income on a principal basis | 5.7 | 9.0 |
| Property repair and maintenance costs | (21.7) | (25.6) |
| Service charge expense on a principal basis | (6.8) | (10.4) |
| | 48.5 | 62.8 |

There are no contingent rents recognised within net rental income in 2013 and 2012 relating to properties where the group acts as a lessor of assets under operating leases. A significant proportion of the group's non-cancellable operating leases relate to Regulated Tenancies and Lifetime Leases under which tenants have the right to remain in a property for the remainder of their lives. It is therefore not possible to estimate the timing of future minimum lease payments.

## 7 Profit on disposal of trading property

| | 2013 £m | 2012 £m |
|---|---|---|
| Gross proceeds from sale of trading property | 193.3 | 201.6 |
| Selling costs | (5.1) | (5.6) |
| Net proceeds from sale of trading property | 188.2 | 196.0 |
| Carrying value of trading property sold | (112.7) | (122.0) |
| | 75.5 | 74.0 |

## 8 Profit on disposal of investment property

| | 2013 £m | 2012 £m |
|---|---|---|
| Gross proceeds from sale of investment property | 153.8 | 48.9 |
| Selling costs | (1.9) | (0.6) |
| Net proceeds from sale of investment property | 151.9 | 48.3 |
| Carrying value of investment property sold: | | |
| – Investment property | (122.2) | (45.3) |
| – Assets classified as held-for-sale | (27.9) | – |
| | 1.8 | 3.0 |

During the year the group has sold investment properties into joint ventures and associates as noted in notes 20 and 21. The total proceeds and carrying value disclosed above have been adjusted to reflect the proportion of the sale that relates to an external party only. The adjustment to carrying value amounts to £68.0m, resulting in a carrying value of £190.2m as shown in note 18.

## 9 Administrative expenses

| | 2013 £m | 2012 £m |
|---|---|---|
| Total group expenses | 33.6 | 31.0 |

## 10 Other income

| | 2013 £m | 2012 £m |
|---|---|---|
| Property and asset management fee income | 12.5 | 10.0 |
| Other sundry income | 0.4 | 1.0 |
| | 12.9 | 11.0 |

## 11 Other expenses

| | 2013 £m | 2012 £m |
|---|---|---|
| External costs relating to fee income | 2.4 | 1.8 |
| Non-recurring transaction expenses | 2.7 | 1.6 |
| Business improvement costs | 1.2 | – |
| | 6.3 | 3.4 |

# Notes to the financial statements
continued

## 12 Employees

| | 2013 £m | 2012 £m |
|---|---|---|
| Wages and salaries | 15.0 | 12.9 |
| Termination benefits | 0.2 | 0.1 |
| Social security costs | 1.7 | 1.5 |
| Other pension costs – defined contribution scheme (see note 30) | 0.9 | 0.9 |
| Share-based payments (see note 32) | 2.3 | 2.1 |
| | 20.1 | 17.5 |

Interest on net pension scheme liabilities amounted to £0.1m in 2013 (2012: £0.3m) and is included within finance costs (see note 14).

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

| | 2013 Number | 2012 Number |
|---|---|---|
| UK residential portfolio | 96 | 64 |
| Retirement solutions | 17 | 18 |
| UK and European development | 10 | 7 |
| German residential | 10 | 8 |
| Shared services | 119 | 171 |
| Group | 15 | 16 |
| | 267 | 284 |

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

### Key management compensation

| | 2013 £m | 2012 £m |
|---|---|---|
| Salaries and short-term employee benefits | 6.5 | 5.6 |
| Post-employment benefits | 0.4 | 0.4 |
| Share-based payments | 1.6 | 1.4 |
| | 8.5 | 7.4 |

Key management figures shown include executive and non-executive directors and all internal directors of specific functions.

## 13 Profit/(loss) before tax

| | 2013 £m | 2012 £m |
|---|---|---|
| Profit/(loss) before tax is stated after charging/(crediting): | | |
| Depreciation on fixtures, fittings and equipment (see note 19) | 0.2 | 0.4 |
| Impairment of goodwill (see note 23) | 4.7 | – |
| Bad debt expense (see note 25) | 0.2 | 0.2 |
| Foreign exchange losses | (0.2) | – |
| Operating lease payments (see note 37) | 1.5 | 1.7 |
| Auditors' remuneration (see below) | 0.5 | 0.7 |

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

### Auditors' remuneration

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Audit fees** | | |
| Fees payable to the company's auditors for the audit of the company's annual accounts | 124 | 120 |
| 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 | 143 | 139 |
| **Total audit fees** | 267 | 259 |
| **Other assurance services** | 85 | – |
| **Services relating to taxation** | | |
| Tax services | 85 | 64 |
| **Other services not covered above** | 8 | 368 |
| **Total non-audit services** | 178 | 432 |
| **Total fees** | 445 | 691 |

During the year, £85,000 was paid by the group to PricewaterhouseCoopers LLP for taxation services. A further £93,000 was paid for other services, the main element of which was £81,000 relating to the non-statutory audit of the completion balance sheet relating to the formation of the Heitman co-investment vehicle. The prior year other services primarily related to the preparation of a financial due diligence report in relation to the group's German business for which the fee charged was £325,000.

Details of the group's policy on the use of the group's auditors for other services, the reasons why the firm was used rather than another supplier and how the auditor's independence and objectivity was safeguarded are set out in the Audit committee report on pages 62 to 64. No services were provided pursuant to contingent fee arrangements.

# Notes to the financial statements
continued

## 14 Finance costs and income

| | 2013 £m | 2012 £m |
|---|---|---|
| **Finance costs** | | |
| Bank loans and mortgages | 56.2 | 76.5 |
| Non-bank Financial Institution | 10.4 | 10.1 |
| Convertible bond | 1.8 | 1.8 |
| Other finance costs | 0.1 | 2.5 |
| Foreign exchange losses on financing activities | 0.2 | – |
| Loan issue costs – amortisation and write-off | 4.5 | 4.1 |
| Interest on net pension scheme liabilities (see note 30) | 0.1 | 0.3 |
| | 73.3 | 95.3 |
| **Finance income** | | |
| Interest receivable from associates and joint ventures (see note 36) | 1.4 | – |
| Other interest receivable | 0.4 | 1.3 |
| Bank deposits | 0.2 | 0.8 |
| Gain on purchase of debt | 15.3 | – |
| | 17.3 | 2.1 |
| **Net finance costs** | 56.0 | 93.2 |

## 15 Taxation

| | 2013 £m | 2012 £m |
|---|---|---|
| **Current tax** | | |
| Corporation tax on profit/(loss) | 19.7 | 13.2 |
| Adjustments relating to prior years | (13.8) | (1.2) |
| | 5.9 | 12.0 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | (1.3) | (12.6) |
| Adjustments relating to prior years | 6.3 | (1.7) |
| Impact of tax rate change | (0.2) | 0.2 |
| | 4.8 | (14.1) |
| **Income tax charge/(credit) for the year** | 10.7 | (2.1) |

The 2013 net adjustments relating to prior years of £7.5m include the release of a provision for £5.1m where the tax liability has now been extinguished. A potential and corresponding deferred tax asset existed but was un-provided at the prior year end and will now not arise. Therefore, there is a credit of £5.1m to the group's tax charge for the period, with no corresponding deferred tax debit, reducing the group's tax charge by 7.9%. In addition, a prior year credit of £2.4m arose following the agreement of loss availability and settlement of other tax positions during the year.

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.

Movements in taxation during the year are set out below:

| 2013 Movement in taxation | Opening balance £m | Payments made in the year £m | Transfers £m | Movements recognised in income £m | Exchange adjustments £m | Movements recognised in other comprehensive income £m | Closing balance £m |
|---|---|---|---|---|---|---|---|
| **Current tax** | 24.4 | (16.4) | – | 5.9 | – | – | 13.9 |
| **Deferred tax** | | | | | | | |
| Trading property uplift to fair value on acquisition | 29.5 | – | – | (10.6) | – | – | 18.9 |
| Investment property revaluation | 6.1 | – | – | (1.5) | 0.3 | – | 4.9 |
| Accelerated capital allowances | 0.7 | – | – | 0.1 | – | – | 0.8 |
| Short-term temporary differences | (32.6) | – | 0.2 | 16.8 | – | – | (15.6) |
| Actuarial gain/(deficit) on BPT Limited pension scheme | (0.7) | – | – | – | – | 0.2 | (0.5) |
| Equity component of available-for-sale financial asset | 1.2 | – | – | – | – | (0.2) | 1.0 |
| Fair value movement in cash flow hedges and exchange adjustments | (10.9) | – | (0.2) | – | (0.1) | 7.3 | (3.9) |
| | (6.7) | – | – | 4.8 | 0.2 | 7.3 | 5.6 |
| **Total tax – 2013 movement** | 17.7 | (16.4) | – | 10.7 | 0.2 | 7.3 | 19.5 |

| | 2013 £m | 2012 £m |
|---|---|---|
| Deferred tax balances are disclosed as follows: | | |
| Deferred tax assets: non-current assets | 20.1 | 44.5 |
| Deferred tax liabilities: non-current liabilities | (25.7) | (37.8) |
| **Deferred tax** | (5.6) | 6.7 |

Deferred tax has been predominantly calculated at a rate of 20% (2012: 23%).

In addition to the above the group has a contingent tax liability representing the difference between the carrying value of trading properties in the statement of financial position and their market value. This contingent tax, which is not provided in the accounts, amounts to £86.1m (2012: £82.9m).

No benefit has been recognised in respect of unexpired trading losses carried forward with a tax value of £nil (2012: £2.1m); or deductible temporary differences with a tax value of £1.1m (2012: £1.3m).

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.

# Notes to the financial statements
continued

## 15 Taxation continued

| 2012 Movement in taxation | Opening balance £m | Payments made in the year £m | Movements recognised in income £m | Exchange adjustments £m | Movements recognised in other comprehensive income £m | Closing balance £m |
|---|---|---|---|---|---|---|
| **Current tax** | 24.6 | (12.0) | 12.0 | (0.2) | – | 24.4 |
| **Deferred tax** | | | | | | |
| Trading property uplift to fair value on acquisition | 37.8 | – | (8.3) | – | – | 29.5 |
| Investment property revaluation | 7.2 | – | (0.8) | (0.3) | – | 6.1 |
| Accelerated capital allowances | 1.3 | – | (0.6) | – | – | 0.7 |
| Short-term temporary differences | (28.2) | – | (4.4) | – | – | (32.6) |
| Actuarial deficit on BPT Limited pension scheme | (0.2) | – | – | – | (0.5) | (0.7) |
| Equity component of available-for-sale financial asset | 1.4 | – | – | – | (0.2) | 1.2 |
| Fair value movement in cash flow hedges and exchange adjustments | (14.3) | – | – | 0.3 | 3.1 | (10.9) |
| | 5.0 | – | (14.1) | – | 2.4 | (6.7) |
| **Total tax – 2012 movement** | 29.6 | (12.0) | (2.1) | (0.2) | 2.4 | 17.7 |

The tax charge for the year of £10.7m (2012: credit of £2.1m) comprises:

| | 2013 £m | 2012 £m |
|---|---|---|
| UK taxation | 11.8 | 1.0 |
| Overseas taxation | (1.1) | (3.1) |
| | 10.7 | (2.1) |

The main rate of Corporation Tax in the UK changed from 24% to 23% with effect from 1 April 2013 and will change to 21% from 1 April 2014 and 20% from 1 April 2015. Accordingly the group's results for this accounting period are taxed at an effective rate of 23.5% and should be taxed at 22% in the 2014 period. The change in tax rate has resulted in a £0.2m credit to the income statement in the current year.

The tax charge for the year is different to the charge for the year derived by applying the standard rate of corporation tax in the UK of 23.5% (2012: 25%) to the profit before tax. The differences are explained below:

| | 2013 £m | 2012 £m |
|---|---|---|
| Profit/ (loss) before tax | 64.3 | (1.7) |
| Profit/ (loss) before tax at a rate of 23.5% (2012: 25%) | 15.1 | (0.4) |
| Expenses not deductible for tax purposes | 1.6 | 1.1 |
| Goodwill impairment not tax deductible | 1.1 | – |
| Impact of tax rate change | (0.2) | 0.2 |
| Other losses and non-taxable items | 0.6 | (0.1) |
| Adjustment in respect of prior periods | (7.5) | (2.9) |
| | 10.7 | (2.1) |

As shown above, 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 consolidated statement of other comprehensive income on page 88.

**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 have been proposed or enacted. A further reduction in the main rate has been enacted, reducing the main rate to 20% from 1 April 2015. This reduction has been reflected in the deferred tax items in the balance sheet which are predominantly measured at this 20% rate. This change is not therefore expected to further impact future tax charges.

## 16 Dividends

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

| | 2013 £m | 2012 £m |
|---|---|---|
| Ordinary dividends on equity shares: | | |
| Final dividend for the year ended 30 September 2011 – 1.30p per share | – | 5.3 |
| Interim dividend for the year ended 30 September 2012 – 0.55p per share | – | 2.3 |
| Final dividend for the year ended 30 September 2012 – 1.37p per share | 5.6 | – |
| Interim dividend for the year ended 30 September 2013 – 0.58p per share | 2.4 | – |
| | 8.0 | 7.6 |

A final dividend in respect of the year ended 30 September 2013 of 1.46p per share amounting to £6.0m will be proposed at the 2014 AGM. If approved, this dividend will be paid on 7 February 2014 to shareholders on the register at close of business on 20 December 2013. The 2013 interim dividend of 0.58p per share was paid in July 2013. This gives a total dividend for 2013 of 2.04p per share (2012: 1.92p per share).

# Notes to the financial statements
continued

## 17 Earnings per share

### Basic
Basic earnings 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'), Deferred Bonus Plan ('DBP') and SAYE schemes.

### Diluted
Diluted earnings per share is calculated by adjusting the weighted average number of shares in issue by the dilutive effect of ordinary shares that the company may potentially issue relating to its convertible bond and its share option schemes and contingent share awards under the LTIS and DBP, based upon the number of shares that would be issued if 30 September 2013 was the end of the contingency period. The profit for the year is adjusted to add back the after tax interest cost on the debt component of the convertible bond. Where the effect of the above adjustments is antidilutive, as it is in relation to the convertible bond, they are excluded from the calculation of diluted earnings per share. Further details in relation to the redemption of the convertible bond are set out in note 28.

| | 30 September 2013 | | | 30 September 2012 | | |
|---|---|---|---|---|---|---|
| | Profit for the year £m | Weighted average number of shares (thousands) | Earnings per share pence | Profit for the year £m | Weighted average number of shares (thousands) | Earnings per share pence |
| **Basic earnings per share** | | | | | | |
| Profit attributable to equity holders | 53.6 | 410.808 | 13.1 | 0.4 | 409,937 | 0.1 |
| **Effect of potentially dilutive securities** | | | | | | |
| Share options and contingent shares | – | 7.234 | (0.3) | – | 4,971 | – |
| **Diluted earnings per share** | | | | | | |
| Profit attributable to equity holders | 53.6 | 418.042 | 12.8 | 0.4 | 414,908 | 0.1 |

## 18 Investment property

| | 2013 £m | 2012 £m |
|---|---|---|
| Opening balance | 525.9 | 819.9 |
| Additions | 4.3 | 5.5 |
| Disposals | (190.2) | (45.3) |
| Write down of investment property in disposal group (see note 39) | – | (6.9) |
| Transfer to assets classified as held-for-sale | (1.3) | (218.1) |
| Net valuation gains | 2.9 | 2.1 |
| Exchange adjustments | 12.5 | (31.3) |
| **Closing balance** | 354.1 | 525.9 |

The group has valued all of its investment property as at 30 September 2013 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 gain of £2.9m has arisen on valuation of investment property to fair value as at 30 September 2013 (2012: gain of £2.1m) and this has been taken to the income statement.

The historical cost of the group's investment property as at 30 September 2013 is £365.5m (2012: £534.2m).

Rental income from investment property during the year was £32.7m (2012: £46.7m).

Direct property repair and maintenance costs arising from investment property that generated rental income during the year was £9.2m (2012: £12.4m).

The increase in value of £12.5m (2012: decrease £31.3m) 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, and is shown within other comprehensive income.

## 19 Property, plant and equipment

| | Total 2013 £m | Total 2012 £m |
|---|---|---|
| **Cost** | | |
| Opening cost | 5.5 | 5.5 |
| Additions | 0.1 | – |
| Reclassification to intangible assets | (0.3) | |
| **Closing cost** | 5.3 | 5.5 |
| **Accumulated depreciation** | | |
| Opening accumulated depreciation | 4.7 | 4.3 |
| Charge for the year | 0.2 | 0.4 |
| Reclassification to intangible assets | (0.2) | |
| **Closing accumulated depreciation** | 4.7 | 4.7 |
| **Net book value:** | | |
| **Closing net book value** | 0.6 | 0.8 |
| Opening net book value | 0.8 | 1.2 |

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

# Notes to the financial statements
continued

## 20 Investment in associates

| | 2013 £m | 2012 £m |
|---|---|---|
| **Opening balance** | 41.2 | 34.6 |
| Share of profit | 1.0 | 4.5 |
| Further Investment | 55.5 | – |
| Dividends received | (48.2) | – |
| Loans advanced to associates | 35.6 | – |
| Exchange movements | 0.1 | – |
| Share of change in fair value of cash flow hedges taken through other comprehensive income | 3.0 | 2.1 |
| **Closing balance** | 88.2 | 41.2 |

On 10 December 2012 the group acquired a 21.0% interest in MH Grainger JV Sarl, a co-investment vehicle set up to acquire a portfolio of German residential assets previously wholly owned by the group.

During the period the group increased its holding in G:res1 Limited from 21.96% to 26.2%, recognising a gain of £1.1m.

On 21 January 2013, the GRIP Unit Trust was formed between the group and APG Strategic Real Estate Pool ('APG') and the group acquired a 27.2% interest. GRIP then acquired the full residential property portfolio previously owned by G:res1 Limited. £1.0m of the consideration due to G:Res1 was paid by GRIP directly to shareholders of G:Res1 Limited.

On 6 August 2013, the group diluted its share in GRIP to 24.9% as APG contributed a disproportionate share of the equity finance when GRIP acquired the Tilt estate portfolio of properties from the group.

Of the £48.2m dividends received, £44.1m were reinvested into GRIP, £3.3m were declared but not paid at 30 September 2013 and the remaining £0.8m was received in cash.

As stated above, the group made a profit on acquisition of equity in associate of £2.1m and this has been shown as a separate item in the consolidated income statement.

| | 2013 £m | 2012 £m |
|---|---|---|
| Increased holding in G:Res1 Limited | 1.1 | – |
| Payment to G:Res1 shareholders | 1.0 | – |
| | 2.1 | – |

As at 30 September 2013, the group's interest in associates was as follows:

| | % of ordinary share capital/ units held | Country of incorporation |
|---|---|---|
| G:res1 Limited | 26.2 | Jersey |
| GRIP Unit Trust | 24.9 | Jersey |
| MH Grainger JV Sarl* | 21.0 | Luxembourg |

* Grainger FRM GmbH holds a 20.969% interest in the equity of MH Grainger JV Sarl which owns 94.9% of the equity of Grainger Stuttgart Portfolio one GmbH and Grainger Stuttgart Portfolio two GmbH ('Stuttgart Portfolios'). Grainger FRM GmbH holds a direct interest of 5.1% in the equity of the Stuttgart Portfolios. Overall, therefore, Grainger FRM GmbH has an interest of 25% in the equity of the Stuttgart Portfolios.

The accounting period end of all associates is 31 December 2013. Their results for the 12 months/period to 30 September 2013 and their financial position as at that date have been equity accounted in these accounts.

The group's share of the aggregated assets, liabilities, revenues and profit or loss of associates is shown below:

| | 2013 £m | 2012 £m |
|---|---|---|
| Non-current assets | 152.1 | 81.6 |
| Current assets | 11.7 | 4.8 |
| Non-current liabilities | (71.1) | (43.4) |
| Current liabilities | (4.5) | (1.8) |
| Net assets | 88.2 | 41.2 |
| Revenues | 6.0 | 4.7 |
| Profit (including share of gain on revaluation of investment property) | 1.0 | 4.5 |

### Reconciliation to cash flow

| | Associates (note 20) | | | Joint Ventures (note 21) | | | |
|---|---|---|---|---|---|---|---|
| | Investment into associates £m | Cash distribution received £m | Loans advanced to associates £m | Net assets acquired through sale of assets into joint venture £m | Distributions received £m | Loans advanced to joint ventures £m | Consolidated statement of cashflows £m |
| As shown in above notes | 55.5 | (48.2) | 35.6 | 21.4 | (0.6) | 9.7 | – |
| **Non-cash movements** | | | | | | | |
| Dividend converted to loan | – | 3.3 | (3.3) | – | – | – | – |
| Reinvested into MH Grainger JV Sarl from sale of subsidiary | (16.7) | – | – | – | – | – | – |
| Reinvested into GRIP Unit Trust | (11.9) | 44.1 | (32.2) | – | – | – | – |
| Capitalised interest and exchange movements | – | – | – | – | – | (0.5) | – |
| **Total after non-cash adjustments** | 26.9 | (0.8) | 0.1 | 21.4 | (0.6) | 9.2 | – |
| Loan advancements/(repayments) | – | – | 0.6 | – | – | (0.4) | – |
| **Total cashflows** | 26.9 | (0.8) | 0.7 | 21.4 | (0.6) | 8.8 | – |
| **Presented as:** | | | | | | | |
| Additional investments | 26.9 | – | 0.7 | 21.4 | – | 8.8 | 57.8 |
| Distributions received | – | (0.8) | – | – | (0.6) | – | (1.4) |

# Notes to the financial statements
continued

## 21 Investment in joint ventures

| | Net assets £m | Loans £m | Total £m |
|---|---|---|---|
| At 1 October 2011 | 17.8 | 6.1 | 23.9 |
| Loans advanced | – | 0.5 | 0.5 |
| Loans repaid | – | (1.6) | (1.6) |
| Share of loss | (1.0) | – | (1.0) |
| Exchange adjustment | (0.4) | (0.3) | (0.7) |
| Distributions received | (1.9) | – | (1.9) |
| **At 30 September 2012** | 14.5 | 4.7 | 19.2 |
| Loans advanced | – | 9.7 | 9.7 |
| Decrease in provisions against loans | – | 0.3 | 0.3 |
| Net assets acquired through sale of assets into a joint venture | 21.4 | – | 21.4 |
| Share of profit | 7.8 | – | 7.8 |
| Reclassification of loss to other expenses | (0.3) | – | (0.3) |
| Exchange adjustment | 0.1 | 0.1 | 0.2 |
| Distributions received | (0.6) | – | (0.6) |
| **At 30 September 2013** | 42.9 | 14.8 | 57.7 |

On 13 May 2013 the group formed a 50:50 joint venture, Walworth Investment Properties Limited ('WIP'), to acquire a portfolio of South London residential properties previously wholly-owned by the group.

On 17 October 2013 the group disposed of our 50% interest in Gebau Vermogen GmbH to our joint venture partners, for a consideration of €0.5m (£0.4m).

Loans advanced of £9.7m relate to loans advanced to WIP (2012: Loans repaid by the group's Sovereign joint venture of £1.6m). Distributions received of £0.6m (2012: £1.9m) relate to dividends received from the Sovereign joint venture.

At 30 September 2013, 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 |
| New Sovereign Reversions Limited | 50 | United Kingdom |
| Walworth Investment Properties 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 28 February. The results for the 12 months to 30 September 2013 and the financial position as at that date have been equity accounted in these accounts.

The accounting period end of King Street Developments (Hammersmith) Limited end is 31 March. The results for the 12 months to 30 September 2013 and the financial position as at that date have been equity accounted in these accounts.

A White Paper on the proposed High Speed Rail Network from London to Birmingham (HS2), was presented to Parliament on 11 March 2010 by the Secretary of State for Transport. This indicated that the potential route would cover at least part of our development site (held in joint venture with Development Securities plc) at Curzon Park in Birmingham. In January 2012, the Government confirmed their intention to proceed with HS2. In July 2013 the Appeal Court rejected all legal challenges to HS2. The group, in conjunction with our joint venture partner, are liaising with HS2 and the Department of Transport to discuss the impact on, and a revised plan for, the site. A provision was made in prior years against the carrying value of our joint venture investment to write down its value to £nil. During the current year the joint venture has commenced repayment of its bank loan, funded by loans from its shareholders. Grainger's loan of £2.6m made during the year ended 30 September 2013 is included within 'Investments in joint ventures'. In view of the continuing uncertainty relating to the future of the Curzon Park site, it is difficult to estimate the net realisable value of the site or the period over which value may be realised. However the directors believe no further impairment provision is required at the statement of financial position date. Should Grainger's share of the value of the site, together with any compensation received, be insufficient to repay its share of the remaining bank loan in the joint venture entity and the carrying value of the group's investment, the group may incur further charges in respect of its obligations to the joint venture and the bank.

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.

### 2013 Summarised income statement

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Czech Republic combined £m | Curzon Park Limited £m | King Street Developments (Hammersmith) Limited £m | New Sovereign Reversions Limited £m | Gebau Vermogen GmbH £m | Walworth Investment Properties Limited £m | Total £m |
| Net rental income and other income | – | – | – | – | 2.5 | 0.7 | 3.2 |
| Administration and other expenses | – | – | – | (0.4) | (2.5) | – | (2.9) |
| Profit on disposal of properties | – | – | – | 0.7 | – | 0.1 | 0.8 |
| **Operating profit** | – | – | – | 0.3 | – | 0.8 | 1.1 |
| Net revaluation gains on investment property | – | – | – | – | – | 9.8 | 9.8 |
| Interest payable | (0.3) | (0.2) | – | (0.7) | – | (0.7) | (1.9) |
| Change in fair value derivatives | – | – | – | 0.3 | – | 0.1 | 0.4 |
| **(Loss)/profit before tax** | (0.3) | (0.2) | – | (0.1) | – | 10.0 | 9.4 |
| Taxation | – | – | – | 0.1 | – | (2.0) | (1.9) |
| **(Loss)/profit after tax** | (0.3) | (0.2) | – | – | – | 8.0 | 7.5 |

# Notes to the financial statements
continued

## 21 Investment in joint ventures continued

### 2013 Summarised statement of financial position

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Czech Republic combined £m | Curzon Park Limited £m | King Street Developments (Hammersmith) Limited £m | New Sovereign Reversions Limited £m | Gebau Vermogen GmbH £m | Walworth Investment Properties Limited £m | Total £m |
| Trading and investment property | 13.4 | 18.6 | 2.8 | 27.7 | – | 66.3 | 128.8 |
| Current assets | 1.3 | – | 0.1 | 1.4 | 0.6 | 1.7 | 5.1 |
| **Total assets** | 14.7 | 18.6 | 2.9 | 29.1 | 0.6 | 68.0 | 133.9 |
| Non-current liabilities | (6.1) | (5.4) | (2.9) | (12.7) | – | (30.0) | (57.1) |
| Current liabilities | (7.1) | (16.3) | – | (1.8) | (0.2) | (8.5) | (33.9) |
| **Net assets/(liabilities)** | 1.5 | (3.1) | – | 14.6 | 0.4 | 29.5 | 42.9 |

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.

### 2012 Summarised income statement

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Czech Republic combined £m | Curzon Park Limited £m | King Street Developments (Hammersmith) Limited £m | New Sovereign Reversions Limited £m | Gebau Vermogen GmbH £m | Total £m |
| Net rental income and other income | – | – | – | – | 4.9 | 4.9 |
| Administration and other expenses | – | – | – | (0.5) | (4.9) | (5.4) |
| Profit on disposal of trading property | – | – | – | 0.7 | – | 0.7 |
| **Operating profit** | – | – | – | 0.2 | – | 0.2 |
| Interest payable | – | (0.3) | – | (0.7) | – | (1.0) |
| Change in fair value derivatives | – | – | – | (0.2) | – | (0.2) |
| **Loss before tax** | – | (0.3) | – | (0.7) | – | (1.0) |
| Taxation | – | – | – | – | – | – |
| **Loss after tax** | – | (0.3) | – | (0.7) | – | (1.0) |

**2012 Summarised statement of financial position**

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Czech Republic combined £m | Curzon Park Limited £m | King Street Developments (Hammersmith) Limited £m | New Sovereign Reversions Limited £m | Gebau Vermogen GmbH £m | Total £m |
| Trading property | 12.9 | 18.6 | – | 29.8 | – | 61.3 |
| Current assets | 0.6 | – | 2.2 | 1.5 | 0.5 | 4.8 |
| **Total assets** | 13.5 | 18.6 | 2.2 | 31.3 | 0.5 | 66.1 |
| Non-current liabilities | (5.4) | (19.1) | – | (14.3) | (0.1) | (38.9) |
| Current liabilities | (6.4) | (2.3) | (2.2) | (1.8) | – | (12.7) |
| **Net assets/(liabilities)** | 1.7 | (2.8) | – | 15.2 | 0.4 | 14.5 |

## 22 Financial interest in property assets

| | 2013 £m | 2012 £m |
|---|---|---|
| Opening balance | 99.0 | 102.3 |
| Cash received from the instrument | (8.5) | (10.6) |
| Amounts taken to income statement | 6.1 | 7.7 |
| Amounts taken to other comprehensive income before tax | (0.3) | (0.4) |
| **Closing balance** | 96.3 | 99.0 |

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.

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 29.

## 23 Intangible assets

| Goodwill | 2013 £m | 2012 £m |
|---|---|---|
| Opening balance | 5.3 | 5.3 |
| Impairment charge taken to income statement | (4.7) | – |
| **Closing balance** | 0.6 | 5.3 |

Goodwill is tested annually for impairment based on a value in use calculation. The current year impairment charge relates entirely to goodwill which arose on the acquisition of the Tilt Estate. Following the sale of this portfolio to GRIP, as discussed in note 20, the goodwill was fully impaired.

# Notes to the financial statements
continued

## 23 Intangible assets continued

| IT Software | 2013 £m | 2012 £m |
|---|---|---|
| Opening balance | – | – |
| Reclassified from property, plant and equipment | 0.1 | – |
| Additions | 0.7 | – |
| **Closing balance** | 0.8 | – |

## 24 Inventories – trading property

| | 2013 £m | 2012 £m |
|---|---|---|
| Residential trading property* | 871.9 | 953.6 |
| Development trading property | 77.7 | 69.8 |
| | 949.6 | 1,023.4 |

* Residential trading property comprises assets held within the UK Residential and Retirement Solutions divisions).

The market value of inventories as at 30 September 2013 was £1,382.6m (2012: £1,387.4m).

Provisions of £0.7m against the net realisable value of residential trade property have been written back to the consolidated income statement in the year (2012: charge of £0.1m). Further details are given in note 2 'Critical accounting estimates and assumptions'.

It is not possible for the group to identify which other properties will be sold within the next 12 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.

## 25 Trade and other receivables

| | 2013 £m | 2012 £m |
|---|---|---|
| Trade receivables | 31.3 | 27.4 |
| Deduct: Provision for impairment of trade receivables | (1.3) | (1.4) |
| **Trade receivables – net** | 30.0 | 26.0 |
| Other receivables | 7.4 | 4.9 |
| Prepayments | 5.7 | 4.7 |
| | 43.1 | 35.6 |

Trade receivables includes deferred consideration receivable of £13.5m (2012:£11.8m) from sales within our Development division at our previously held Gateshead College site and land sales at the Berewood site.

Other receivables include a loan of £4.3m (2012: £3.8m) 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 on sale of the developed property. The loan is secured by a charge on the property being developed.

The fair values of trade and other receivables are considered to be equal to their carrying amounts. The credit quality of financial assets that are neither past due nor impaired is discussed in note 29, 'financial risk management and derivative instruments'.

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

| | 2013 £m | 2012 £m |
|---|---|---|
| Opening balance | 1.4 | 2.1 |
| Provision for receivables impairment during the year | 0.8 | 0.8 |
| Receivables written off during the period as not recoverable | (0.7) | (0.9) |
| Unused amounts reversed | (0.2) | (0.6) |
| **Closing balance** | 1.3 | 1.4 |

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

| | 2013 £m | 2012 £m |
|---|---|---|
| Pound Sterling | 40.6 | 33.9 |
| Euros | 2.5 | 1.7 |
| | 43.1 | 35.6 |

## 26 Provisions

| | Current | | Non-current | |
|---|---|---|---|---|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| **Provisions for other liabilities and charges** | | | | |
| Opening balance | – | – | 0.5 | 0.6 |
| Transfer from other payables | 0.7 | – | – | – |
| Addition | 3.1 | – | – | – |
| Utilisation | (0.7) | – | (0.1) | (0.1) |
| Released | (0.2) | – | – | |
| Closing balance | 2.9 | – | 0.4 | 0.5 |

The group holds a provision of £0.4m (2012:£0.6m) which relates to the estimated cost of providing private medical insurance to former directors of BPT Limited.

In addition a provision of £2.5m (2012: £nil) relates to maintenance liabilities arising on certain of the group's freehold properties. We expect such obligations to be settled within 12 months of the statement of financial position date.

The remaining provision of £0.4m relates to costs associated with the exit from our Gebau Vermogen GmbH joint venture (see note 21) and will be settled within 12 months of the statement of financial position date.

# Notes to the financial statements
continued

## 27 Trade and other payables

| | 2013 £m | 2012 £m |
|---|---|---|
| Deposits received | 2.1 | 2.6 |
| Trade payables | 10.4 | 13.8 |
| Taxation and social security | 3.1 | 5.5 |
| Accruals and deferred income | 43.1 | 40.8 |
| Other payables | – | 21.7 |
| Deferred consideration payable | – | 4.0 |
| | 58.7 | 88.4 |

Accruals and deferred income includes £14.9m (2012: £17.3m) of rent received in advance relating to lifetime leases. It is not possible for the group to identify which properties will become vacant within the next 12 months and therefore to identify the proportion of rent received in advance which is expected to be released to the income statement within the next 12 months.

Other payables in 2012 of £21.7m related to the settlement value of the interest rate swap contracts which were agreed in September 2012 and settled in October 2012.

## 28 Interest-bearing loans and borrowings

| | 2013 £m | 2012 £m |
|---|---|---|
| **Current liabilities** | | |
| Bank loans | 12.6 | 21.0 |
| Non-bank financial institution | 5.2 | 6.0 |
| Mortgages | 0.3 | 0.3 |
| Convertible bond | 24.3 | – |
| | 42.4 | 27.3 |
| **Non-current liabilities** | | |
| Bank loans | 810.5 | 1,023.0 |
| Non-bank financial institution | 176.5 | 174.9 |
| Mortgages | 19.6 | 18.9 |
| Convertible bond | – | 23.3 |
| | 1,006.6 | 1,240.1 |
| **Total interest-bearing loans and borrowings** | 1,049.0 | 1,267.4 |

The analysis of the loans and borrowings in the below tables (a) to (d) is before deducting unamortised issue costs of £12.9m (2012: £19.0m) relating to the raising of the loan finance.

### (a) Analysis of bank loans

| | 2013 £m | 2012 £m |
|---|---|---|
| Bank loans – Pounds Sterling | 655.1 | 830.6 |
| Bank loans – Euro | 179.9 | 231.2 |
| | 835.0 | 1,061.8 |

Sterling bank loans include variable rate loans bearing interest at rates between 2.0% and 3.8% above LIBOR and Euro bank loans include variable rate loans bearing interest at rates between 0.8% and 3.5% above EURIBOR. Fixed rate loans bear interest at rates between 5.2% and 6.3%.

The weighted average variable interest rate on bank loans as at 30 September 2013 was 2.7% (2012: 2.9%). 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

| | 2013 £m | 2012 £m |
|---|---|---|
| Fixed rate – Pound Sterling | 82.6 | 81.9 |
| Variable rate – Pound Sterling | 100.0 | 100.0 |
| | 182.6 | 181.9 |

The fixed rate loan is secured by specific assets within the Retirement solutions division and bears interest at 7.2%. The variable rate loan is secured by floating charges over the assets of the group and bears interest at 4.0% over LIBOR.

### (c) Mortgages

| | 2013 £m | 2012 £m |
|---|---|---|
| Mortgages – Euro | 19.9 | 19.2 |

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

### (d) Convertible bond

| | 2013 £m | 2012 £m |
|---|---|---|
| Opening balance | 23.5 | 22.7 |
| Amortised during the year | 0.8 | 0.8 |
| **Closing balance (Pound Sterling)** | 24.3 | 23.5 |

# Notes to the financial statements
continued

## 28 Interest-bearing loans and borrowings continued

### 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 and EURIBOR are reset for the following interest period.

The fixed rate UK bank loan, mortgages and non-bank financial institution debt are at fixed rates of interest which do not reprice. The £112m, 3.625% convertible bond due 12 May 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. 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. The nominal value remaining on the bond is £24.9m.

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

| | 2013 £m | 2012 £m |
|---|---|---|
| Within one year | 42.4 | 27.3 |
| Between one and two years | 149.4 | 39.5 |
| Between two and five years | 601.8 | 903.7 |
| Over five years | 255.4 | 296.9 |
| Total non-current interest bearing loans and borrowings | 1,006.6 | 1,240.1 |
| | 1,049.0 | 1,267.4 |

## 29 Financial risk management and derivative financial instruments

### 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:

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | – | – | – | 96.3 | 96.3 | 96.3 | – |
| Trade and other receivables excluding prepayments | 37.4 | – | – | – | 37.4 | 37.4 | – |
| Cash and cash equivalents | 90.3 | – | – | – | 90.3 | 90.3 | – |
| **Total financial assets** | 127.7 | – | – | 96.3 | 224.0 | 224.0 | – |

| | Loans and receivables/ cash and cash equivalents £m | Liabilities at fair value through profit and loss £m | Derivatives used for hedging £m | Other financial liabilities at amortised cost £m | Total book value £m | Fair value £m | Fair value adjustment £m |
|---|---|---|---|---|---|---|---|
| **Non-current liabilities** | | | | | | | |
| Interest-bearing loans and borrowings | – | – | – | 1,006.6 | 1,006.6 | 1,018.8 | 12.2 |
| Provisions for other liabilities and charges | – | – | – | 3.3 | 3.3 | 3.3 | – |
| **Current liabilities** | | | | | | | |
| Interest-bearing loans and borrowings | – | – | – | 42.4 | 42.4 | 43.2 | 0.8 |
| Trade and other payables | – | – | – | 15.6 | 15.6 | 15.6 | – |
| Derivative financial instruments | – | 80.8 | 10.3 | – | 91.1 | 91.1 | – |
| **Total financial liabilities** | – | 80.8 | 10.3 | 1,067.9 | 1,159.0 | 1,172.0 | 13.0 |
| **Total net financial assets/(liabilities)** | 127.7 | (80.8) | (10.3) | (971.6) | (935.0) | (948.0) | (13.0) |

The fair value adjustment relates to the group's fixed rate loans with Lloyds Bank plc and Partnership Assurance Group 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

## 29 Financial risk management and derivative financial instruments continued

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | – | – | – | 99.0 | 99.0 | 99.0 | – |
| Trade and other receivables excluding prepayments | 30.9 | – | – | – | 30.9 | 30.9 | – |
| Cash and cash equivalents | 73.3 | – | – | – | 73.3 | 73.3 | – |
| **Total financial assets** | 104.2 | – | – | 99.0 | 203.2 | 203.2 | – |

| | Loans and receivables/ cash and cash equivalents £m | Liabilities at fair value through profit and loss £m | Derivatives used for hedging £m | Other financial liabilities at amortised cost £m | Total book value £m | Fair value £m | Fair value adjustment £m |
|---|---|---|---|---|---|---|---|
| **Non-current liabilities** | | | | | | | |
| Interest-bearing loans and borrowings | – | – | – | 1,240.1 | 1,240.1 | 1,266.0 | 25.9 |
| Provisions for other liabilities and charges | – | – | – | 0.5 | 0.5 | 0.5 | – |
| **Current liabilities** | | | | | | | |
| Interest-bearing loans and borrowings | – | – | – | 27.3 | 27.3 | 27.3 | – |
| Trade and other payables | – | – | – | 47.6 | 47.6 | 47.6 | – |
| Derivative financial instruments | – | 94.7 | 50.7 | – | 145.4 | 145.4 | – |
| **Total financial liabilities** | – | 94.7 | 50.7 | 1,315.5 | 1,460.9 | 1,486.8 | 25.9 |
| **Total net financial assets/(liabilities)** | 104.2 | (94.7) | (50.7) | (1,216.5) | (1,257.7) | (1,283.6) | (25.9) |

### 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 Audit. Group treasury reports to the board risk and compliance 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.

### 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. 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 has entered into sales contracts within the Development division under which a proportion of the consideration is deferred. Each purchaser is subject to financial due diligence prior to sale and the group retains a legal charge over the land until full and final settlement is received. At 30 September 2013 £13.5m (2012: £11.8m) was outstanding from two counterparties.

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.

Tenant deposits of £2.1m (2012: £2.6m) are held which provide some security against rental arrears and property dilapidations caused by the tenant. In addition the loan to Clarins Limited is secured against the property to which the development relates. The group does not hold any other collateral as security. Of the net trade receivables balance of £30.0m, we consider £25.6m to be not due and not impaired. Of the £7.4m other receivables balance, £4.2m is considered not due and not impaired.

As at 30 September 2013, tenant arrears of £1.3m within trade receivables were impaired and fully provided for (2012: £1.4m). The individually impaired receivables are based on a review of outstanding arrears and an assessment of collectability. The ageing of these receivables is:

| | 2013 £m | 2012 £m |
|---|---|---|
| Up to two months | 0.1 | 0.1 |
| Three months or more | 1.2 | 1.3 |
| | 1.3 | 1.4 |

## Notes to the financial statements
continued

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

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 statement of financial position date or there is a history of regular payment, are as follows:

| | 2013 £m | 2012 £m |
|---|---|---|
| Up to two months | 1.4 | 1.7 |

The credit risk on liquid funds and derivative financial instruments is managed through the group's policies of monitoring counterparty exposure, monitoring the concentration of credit risk through the use of multiple counterparties and the use of counterparties of good financial standing. At 30 September 2013, the fair value of all interest rate derivatives which had a positive value was £nil (2012: £nil).

At 30 September 2013, the combined credit exposure arising from cash held at banks, money market deposits and interest rate swaps was £90.3m (2012: £73.3m) which represents 5.2% (2012: 3.5%) of total assets. Deposits were placed with financial institutions with A- or better credit ratings.

The group has the following cash and cash equivalents:

| | 2013 £m | 2012 £m |
|---|---|---|
| Pound Sterling | 82.0 | 62.7 |
| Euros | 8.1 | 10.4 |
| Czech Koruna | 0.2 | 0.2 |
| | 90.3 | 73.3 |

Cash and cash equivalents can be analysed as follows:

| | 2013 £m | 2012 £m |
|---|---|---|
| Cash at bank | 52.8 | 31.7 |
| Short-term deposits | 37.5 | 41.6 |
| | 90.3 | 73.3 |

Included within 2013 year end cash balances is £8.6m (2012: £11.5m) 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 £37.5m was placed on deposit (2012: £41.6m) at effective interest rates between 0.30% and 0.42% (2012: 0.05% and 1.59%). 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 2013 (2012: £5m).

#### 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 2013 and as at 30 September 2013 (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 business is very cash generative from its sales of vacant properties, gross rents and management fees. In adverse trading conditions, tenanted 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 statement of financial position 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 statement of financial position for borrowings, derivative financial instruments, trade and other payables and provisions for liabilities and charges. A reconciliation to the statement of financial position amounts is given below. Trade and other payables due within 12 months equal their carrying balances as the impact of discounting is not significant. The cash flows are calculated using yield curves for floating rate interest-bearing liabilities. Foreign currency related cash flows are calculated by means of the forward rates relevant to each maturity date.

| | Less than 1 year £m | Between 1 and 2 years £m | Between 2 and 5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|---|
| **At 30 September 2013** | | | | | |
| Interest-bearing loans and borrowings | 98.3 | 198.0 | 687.2 | 409.7 | 1,393.2 |
| Cash flow hedges | 3.6 | 3.8 | 2.9 | – | 10.3 |
| Derivatives at fair value through profit and loss | 12.4 | 16.7 | 27.0 | 24.7 | 80.8 |
| Trade and other payables | 43.8 | – | – | – | 43.8 |
| Provision for liabilities and charges | 2.5 | 0.4 | – | – | 2.9 |

| | 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 2012 | | | | | |
| Interest-bearing loans and borrowings | 68.5 | 79.8 | 988.7 | 421.4 | 1,558.4 |
| Cash flow hedges | 18.3 | 10.3 | 13.3 | 12.5 | 54.4 |
| Derivatives at fair value through profit and loss | 14.6 | 14.8 | 34.5 | 34.5 | 98.4 |
| Trade and other payables | 71.1 | – | – | – | 71.1 |
| Provision for liabilities and charges | 0.1 | 0.1 | 0.4 | 0.3 | 0.9 |

### Reconciliation of maturity analysis

| | Less than 1 year £m | Between 1 and 2 years £m | Between 2 and 5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|---|
| **At 30 September 2013** | | | | | |
| Interest-bearing loans and borrowings (see note 28) | 42.4 | 149.4 | 601.8 | 255.4 | 1,049.0 |
| Foreign exchange impact of forward rates | (0.6) | (0.9) | 0.8 | 0.5 | (0.2) |
| Interest | 52.1 | 45.7 | 81.1 | 152.6 | 331.5 |
| Unamortised borrowing costs | 4.4 | 3.8 | 3.5 | 1.2 | 12.9 |
| Financial liability cash flows shown above | 98.3 | 198.0 | 687.2 | 409.7 | 1,393.2 |

## Notes to the financial statements
continued

### 29 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 2012 | | | | | |
| Interest-bearing loans and borrowings (see note 28) | 27.3 | 39.5 | 903.7 | 296.9 | 1,267.4 |
| Foreign exchange impact of forward rates | (0.8) | (0.9) | (1.8) | – | (3.5) |
| Interest | 37.5 | 36.6 | 80.7 | 120.7 | 275.5 |
| Unamortised borrowing costs | 4.5 | 4.6 | 6.1 | 3.8 | 19.0 |
| Financial liability cash flows shown above | 68.5 | 79.8 | 988.7 | 421.4 | 1,558.4 |

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

**Maturity of committed undrawn borrowing facilities**

| | 2013 £m | 2012 £m |
|---|---|---|
| Expiring: | | |
| Within one year | – | 5.0 |
| Between one and two years | 10.8 | – |
| Between two and five years | 183.7 | 79.9 |
| Over five years | 30.0 | 37.5 |
| | 224.5 | 122.4 |

**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 group internally measures its market risk exposure by running various sensitivity analyses. The directors consider that a +/- 1 percent (2012: 1 percent) movement in interest rates, a +/- 10 percentage point (2012: 10 percentage point) movement in sterling and a +/- 1 percentage point (2012: 1 percentage point) movement in house prices represents a reasonable possible change. 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 valued 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 22 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.

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Assets £m | Liabilities £m | Assets £m | Liabilities £m |
| Level 3 | | | | |
| Financial interest in property assets | 96.3 | – | 99.0 | – |
| Level 2 | | | | |
| Interest rate swaps – in cash flow hedge accounting relationships | – | 10.3 | – | 50.7 |
| Interest rate swaps – not in cash flow hedge accounting relationships | – | 80.8 | – | 94.7 |
| | 96.3 | 91.1 | 99.0 | 145.4 |

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

The notional principal amount of the outstanding interest rate swap contracts as at 30 September 2013 was £532.4m (2012: £973.1m).

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 2013 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 2013 £m | Fair value at 30 September 2013 £m |
|---|---|---|
| Fixed rate loan facilities | 161.5 | 174.5 |

| | Book value at 30 September 2012 £m | Fair value at 30 September 2012 £m |
|---|---|---|
| Fixed rate loan facilities | 162.9 | 188.8 |

# Notes to the financial statements
continued

## 29 Financial risk management and derivative financial instruments continued

### 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 2013, 68% (2012: 84%) of the group's net borrowings were economically hedged to fixed or capped rates.

At 30 September 2013, the weighted average interest rate of the group's fixed rate debt is 6.3% (2012: 6.3%). The weighted average period for which the rate is fixed is 15.0 years (2012: 11.7 years).

At 30 September 2013 the fixed interest rates on the interest rate swap contracts vary from 0.67% to 5.38% (2012: 0.67% to 5.38%) with a weighted average rate of 3.4% (2012: 4.6%) and a weighted average maturity of 7.3 years (2012: 5.7 years).

At 30 September 2013 the weighted average interest rate of the group's variable rate debt is 2.9% (2012: 4.8%). The weighted average debt maturity is 4.6 years (2012: 4.6 years).

Based on the group's interest rate profile at the statement of financial position date a 1% increase in interest rates would decrease annual profits by £2.8m (2012: £2.6m). Similarly a 1% decrease would increase annual profits by £2.8m (2012: £2.6m).

Based on the group's interest rate profile at the statement of financial position date a 1% increase in interest rates would decrease the group's equity by £2.1m (2012: £1.9m). Similarly a 1% decrease would increase the group's equity by £2.1m (2012: £1.9m).

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 2013, the market value of derivatives designated as cash flow hedges under IAS 39, is a net liability of £10.3m (2012: net liability of £50.7m). The total ineffectiveness of cash flow hedges recognised within the income statement totals a gain of £0.8m (2012: loss of £0.2m). 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 credit of £7.9m (2012: charge of £31.2m) in the income statement analysed as follows:

| | 2013 £m | 2012 £m |
|---|---|---|
| Fair value movement on derivatives not designated as cash flow hedges | 31.8 | (24.6) |
| Amounts reclassified from equity to the income statement | (23.9) | (6.6) |
| | 7.9 | (31.2) |

At 30 September 2013, the market value of derivatives not designated as cash flow hedges under IAS 39, is a net liability of £80.8m (2012: net liability of £94.7m). 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 2013.

### Cash flow hedged debt

| | 2013 £m | 2012 £m |
|---|---|---|
| Cash flow hedges maturing: | | |
| Within one year | 147.6 | 291.4 |
| Between one and two years | 75.7 | 384.4 |
| Between two and five years | 99.5 | 229.7 |
| Over five years | 209.6 | 67.6 |
| | 532.4 | 973.1 |

### Interest rate profile – including the effect of derivatives

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Sterling £m | Euro £m | Total £m | Sterling £m | Euro £m | Total £m |
| Fixed rate | 139.7 | 21.8 | 161.5 | 141.7 | 21.2 | 162.9 |
| Hedged rate | 501.8 | 61.4 | 563.2 | 756.4 | 150.9 | 907.3 |
| Variable rate | 220.6 | 116.6 | 337.2 | 137.9 | 78.3 | 216.2 |
| | 862.1 | 199.8 | 1,061.9 | 1,036.0 | 250.4 | 1,286.4 |

### Foreign exchange risk

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

The group's statement of financial position translation exposure is summarised below:

| | 2013 Euro £m | 2012 Euro £m | 2013 Czech Koruna £m | 2012 Czech Koruna £m |
|---|---|---|---|---|
| Gross foreign currency assets | 92.4 | 379.4 | 1.6 | 1.4 |
| Gross foreign currency liabilities | (100.3) | (393.5) | – | – |
| **Net exposure** | (7.9) | (14.1) | 1.6 | 1.4 |

As at 30 September 2013, 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 (2012: £0.7m) and equity by £0.8m (2012: £1.4m).

As at 30 September 2013 it is estimated that a general increase/decrease of 10 percentage points in the value of Sterling against the Czech Koruna would decrease/increase the group's profit before tax by approximately £nil (2012: £nil) and equity by £0.6m (2012: £0.1m).

# Notes to the financial statements
continued

## 29 Financial risk management and derivative financial instruments continued

### 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 7 September 2012, the group drew down its new Forward Start Facility providing £840m of committed facilities, which has subsequently reduced to a facility of £810.5m, and this was used to refinance the group's existing core facilities. 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.

### 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 current capital structure of the group comprises a mix of debt and equity. Debt is both current and non-current interest bearing loans and borrowings as set out in the consolidated statement of financial position. Equity comprises issued share capital, reserves and retained earnings as set out in the consolidated statement of changes in equity.

Group loans and borrowings have associated covenant requirements with respect to loan to value and interest cover ratios. The board regularly reviews all current and projected future levels to monitor anticipated compliance and available headroom against key thresholds. Loan to value 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 is now operating within a range of gearing of 45% – 50% which it considers to be appropriate in the medium term.

The group monitors its cost of debt and weighted average cost of capital (WACC) on a regular basis. At 30 September 2013, the weighted average cost of debt was 5.7% (2012: 6.1%) and the WACC was 6.65% (2012: 5.08%). 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 Conduct Authority and therefore have externally applied capital adequacy requirements; however, these do not have any material impact on the group as a whole.

## 30 Pension costs

### Defined contribution scheme

The group operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the group in independently administered funds. Pension arrangements for directors are disclosed in the report of the remuneration committee and the Directors' remuneration report on pages 66 to 79. The pension cost charge in these financial statements represents contributions payable by the group. The charge of £0.9m (2012: £0.9m) is included within employee remuneration in note 12.

### 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 2010. The valuation as at 1 July 2013 is currently being considered and will be completed within the 18 month statutory deadline.

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 2010, was based on the main actuarial assumptions of an investment return of 5.0% per annum, salary increases of 4.0% per annum and inflation-linked increases to pensions in deferment of 3.0% per annum. The scheme assets were valued at £17.6m and scheme liabilities at £23.6m, a funding level of 75%. The funding level for the scheme at the previous valuation as at 1 July 2007 was 85%. The actuary also undertook a section 179 valuation as at 1 July 2010 as required by the Pension Protection Fund. The funding level on a section 179 valuation basis was 120%. 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 actuarial valuation carried out as at 1 July 2010, which was updated to 30 September 2013, by a qualified independent actuary.

### Principal actuarial assumptions under IAS 19

| | 2013 | 2012 |
|---|---|---|
| Discount rate | 4.50% p.a. | 4.20% p.a. |
| Retail Price Index (RPI) inflation | 3.50% p.a. | 2.80% p.a. |
| Consumer Price Index (CPI) inflation | 2.50% p.a. | 1.80% p.a. |
| Salary increases | 4.50% p.a. | 3.80% p.a. |
| Rate of increase of pensions in payment | 5.00% p.a. | 5.00% p.a. |
| Rate of increase for deferred pensioners | 2.50% p.a. | 1.80% p.a. |

| | Year commencing 1 October 2013 | Year commencing 1 October 2012 |
|---|---|---|
| Expected return on assets | 5.30% p.a. | 4.40% p.a. |

# Notes to the financial statements
continued

## 30 Pension costs continued

The overall expected return on assets assumption of 5.30% p.a. as at 30 September 2013 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 and property, net dividend yield plus RPI inflation plus an allowance for future real dividend growth (net of investment expenses)
- cash, current Bank of England base rate
- insured pensioner policies, in line with the discount rate

### Demographic assumptions

| | 2013 | 2012 |
|---|---|---|
| Mortality tables for pensioners | 100% of S1PAlc year of birth tables allowing for a minimum improvement factor of 1.25% for males and 0.75% for females each year | 100% of S1PAlc year of birth tables allowing for a minimum improvement factor of 1.25% for males and 0.75% for females each year |
| Mortality tables for non-pensioners | As for pensioners | As for pensioners |

### Life expectancies

| | 30 September 2013 | | 30 September 2012 | |
|---|---|---|---|---|
| | Male | Female | Male | Female |
| Life expectancy for a current 65 year old | 88.0 years | 90.2 years | 87.9 years | 90.1 years |
| Life expectancy at age 65 for an individual aged 45 in 2013 | 90.5 years | 91.8 years | 90.3 years | 91.7 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 2013 | | | 30 September 2012 | | |
|---|---|---|---|---|---|---|
| | 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 | 7.9 | 35% | 8.0% | 6.8 | 31% | 7.9% |
| Bonds | 8.8 | 38% | 4.4% | 9.1 | 42% | 4.0% |
| Properties | 0.4 | 2% | 8.0% | 0.4 | 2% | 7.9% |
| Other | 1.7 | 7% | 0.5% | 1.0 | 5% | 0.5% |
| Insurance policies | 4.1 | 18% | 4.5% | 4.4 | 20% | 4.2% |
| **Total value of assets** | 22.9 | 100% | | 21.7 | 100% | |
| The actual return on assets over the period was | 0.8 | | | 2.9 | | |

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 in 2013 is based upon the net dividend yield on the FTSE All Share Index plus RPI inflation, plus a real dividend growth assumption of 1.5% p.a. The return on bonds in 2013 is based on the iBoxx AA rated Sterling Corporate Bond Index for bonds with a term greater than 15 years.

### Defined benefit obligations, scheme assets and scheme deficit

| | 2013 £m | 2012 £m | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|---|---|
| Market value of scheme assets | 22.8 | 21.7 | 18.6 | 18.6 | 16.7 |
| Present value of scheme liabilities | (26.9) | (27.5) | (23.1) | (24.6) | (22.5) |
| **Scheme deficit at 30 September** | (4.1) | (5.8) | (4.5) | (6.0) | (5.8) |

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

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Gains/(losses) arising on scheme liabilities: | | | | | |
| Due to experience | – | – | £0.1m | – | – |
| Percentage of defined benefit obligation | – | – | 0.4% | – | – |
| Due to change of basis | £0.9m | £(4.0)m | £1.7m | £(1.6)m | £(5.0)m |
| Percentage of defined benefit obligation | 3.3% | (14.5)% | 7.4% | (6.5)% | (22.2)% |
| Experience adjustments: | | | | | |
| Gains/(losses) arising on scheme assets | £(0.2)m | £2.0m | £(0.6)m | £1.1m | £1.0m |
| Percentage of scheme assets | (0.9)% | 9.2% | (3.2)% | 5.9% | 6.0% |

# Notes to the financial statements
continued

## 30 Pension costs continued

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

| | 2013 £m | 2012 £m |
|---|---|---|
| Present value of projected defined benefit obligation at the start of the year | 27.5 | 23.1 |
| Interest on pension scheme liabilities | 1.1 | 1.2 |
| Actuarial (gain)/loss | (0.9) | 4.0 |
| Benefits paid | (0.8) | (0.8) |
| **Present value of projected defined benefit obligation at the end of the year** | 26.9 | 27.5 |

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

| | 2013 £m | 2012 £m |
|---|---|---|
| Market value of scheme assets at the start of the year | 21.7 | 18.6 |
| Expected return on scheme assets | 1.0 | 0.9 |
| Employer contributions | 1.1 | 1.0 |
| Actuarial (loss)/gain | (0.2) | 2.0 |
| Benefits paid | (0.8) | (0.8) |
| **Market value of scheme assets at the end of the year** | 22.8 | 21.7 |

### Pension cost recognised in the income statement

| | 2013 £m | 2012 £m |
|---|---|---|
| Interest on pension scheme liabilities | 1.1 | 1.2 |
| Expected return on pension scheme assets | (1.0) | (0.9) |
| | 0.1 | 0.3 |

The total pension cost shown above has been included within Finance costs (see note 14).

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

| | 2013 £m | 2012 £m |
|---|---|---|
| Actual return less expected return on assets | (0.2) | 2.0 |
| Gain/(loss) on change of assumptions | 0.9 | (4.0) |
| Actuarial gain/(loss) | 0.7 | (2.0) |

The actuarial gain shown in the above table of £0.7m (2012: loss of £2.0m) has been included in the consolidated statement of comprehensive income on page 88.

### Future funding obligation

The last actuarial valuation of the scheme was performed by the Actuary for the Trustees as at 1 July 2010. As a result of this valuation the group agreed a recovery plan with the Trustees to pay additional contributions to clear the deficit by 31 January 2020. Based on this plan the company expects to pay £1.1m, including the standard expense charges payable under the Managed Fund policy, to the scheme during the year beginning 1 October 2013.

### Sensitivity analysis

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

| | |
|---|---|
| Discount rate movement of 0.1% p.a. | Increase/ decrease in deficit of £0.5m |
| Inflation movement of 0.1% p.a. | Increase/ decrease in deficit of £0.1m |
| Life expectancies movement of one year | Increase/ decrease in deficit of £0.8m |

The cumulative amount of actuarial losses recognised in the consolidated statement of comprehensive income before deferred taxation is £2.3m (2012: £3.0m).

## 31 Share capital

| | 2013 £m | 2012 £m |
|---|---|---|
| **Allotted, called-up and fully paid:** | | |
| 416,529,484 (2012: 416,381,206) ordinary shares of 5p each | 20.8 | 20.8 |

During the year the Grainger Employee Benefit Trust acquired 1,400,000 shares at a cost of £2.4m (2012: £nil). The group also paid £0.6m to the share incentive plan during the year for the purchase of matching shares and free shares in the scheme. The total cost of acquiring own shares of £3.0m (2012: £0.5m) has been deducted from retained earnings within shareholders' equity.

As at 30 September 2013, share capital included 5,097,428 (2012: 4,375,984) shares held by The Grainger Employee Benefit Trust and 1,506,300 (2012: 1,506,300) shares held by Grainger plc as treasury shares. The total of these shares is 6,603,728 (2012: 5,882,284) with a nominal value of £330,186 (2012: £294,114) and a market value as at 30 September 2013 of £11.5m (2012: £6.3m).

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

| | Number | Nominal value £'000 |
|---|---|---|
| At 1 October 2011 | 416,372,103 | 20,818 |
| Options exercised under the SAYE scheme | 9,103 | 1 |
| At 30 September 2012 | 416,381,206 | 20,819 |
| Options exercised under the SAYE scheme | 148,278 | 7 |
| **At 30 September 2013** | 416,529,484 | 20,826 |

# Notes to the financial statements
continued

## 31 Share capital continued

### 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 2013, the periods in which they were granted and the periods in which they may be exercised are given below.

| Year of grant | Exercise price (pence) | Exercise period | 2013 number | 2012 number |
|---|---|---|---|---|
| **Long-term Incentive Scheme (LTIS)** | | | | |
| 2003 | 111.0 | 2006–13 | – | 20,814 |
| | | | – | 20,814 |
| **HMR & C Approved Executive Share Option Scheme (CSOP)** | | | | |
| 2011 | 94.4 | 2013–20 | 127,088 | 127,088 |
| | | | 127,088 | 127,088 |
| **SAYE share options** | | | | |
| 2008 (A) | 97.1 | 2011–14 | 8,713 | 38,220 |
| 2008 (B) | 37.7 | 2012–14 | 1,100,602 | 1,180,549 |
| 2009 | 68.3 | 2012–15 | 20,956 | 53,837 |
| 2010 | 90.8 | 2013–16 | 30,648 | 78,415 |
| 2011 | 98.7 | 2014–17 | 49,022 | 49,022 |
| 2012 | 68.9 | 2015–18 | 626,956 | 660,916 |
| 2013 | 115.1 | 2016–19 | 109,758 | – |
| | | | 1,946,655 | 2,060,959 |
| Total share options | | | 2,073,743 | 2,208,861 |

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

| | Opening position | Exercised | Granted | Lapsed | Closing position |
|---|---|---|---|---|---|
| **LTIS schemes** | | | | | |
| 2003 | 20,814 | – | – | (20,814) | – |
| Weighted average exercise price (pence per share) | 111.0 | – | – | 111.0 | – |
| **HMR & C Approved Executive Share Option Scheme (CSOP)** | | | | | |
| 2011 | 127,088 | – | – | – | 127,088 |
| Weighted average exercise price (pence per share) | 94.4 | – | – | – | 94.4 |
| **SAYE scheme** | | | | | |
| 2008 (A) | 38,220 | (29,507) | – | – | 8,713 |
| 2008 (B) | 1,180,549 | (71,444) | – | (8,503) | 1,100,602 |
| 2009 | 53,837 | (10,100) | – | (22,781) | 20,956 |
| 2010 | 78,415 | (47,327) | – | (440) | 30,648 |
| 2011 | 49,022 | – | – | – | 49,022 |
| 2012 | 660,916 | – | – | (33,960) | 626,956 |
| 2013 | – | – | 109,758 | – | 109,758 |
| | 2,060,959 | (158,378) | 109,758 | (65,684) | 1,946,655 |
| Weighted average exercise price (pence per share) | 53.1 | 66.6 | 115.1 | 64.8 | 55.1 |

For those share options exercised during the year, the weighted average share price at the date of exercise was 171.2p (2012: 103.7p). For share options outstanding at the end of the year, the weighted average remaining contractual life is 2.0 years (2012: 2.8 years). There were 30,515 (2012: 30,914) share options exercisable at the year end with a weighted average exercise price of 92.6p (2012: 97.0p).

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 the LTIS awards granted after 30 September 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 average 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.

# Notes to the financial statements
continued

## 32 Share-based payments

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 three schemes in operation commencing 6 December 2010, 16 December 2011 and 21 December 2012 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 share awards and SAYE options granted during the year are set out in the tables below.

Share awards:

| | LTIS | | DBP | SAYE | |
|---|---|---|---|---|---|
| Award date | 10 December 2012 Market based | 10 December 2012 Non-market based | 21 December 2012 | 11 July 2013 3-year scheme | 11 July 2013 5-year scheme |
| Number of shares on grant | 818,572 | 818,572 | 135,212 | 90,201 | 19,547 |
| Exercise price (£) | – | – | – | 1.151 | 1.151 |
| Vesting period from date of grant (years) | 3 | 3 | 1-3 | 3 | 5 |
| Exercise period after vesting (years) | 7 | 7 | 7 | – | – |
| Share price at grant (£) | 1.14 | 1.14 | 1.17 | 1.38 | 1.38 |
| Expected risk free rate (%) | 0.36 | 0.36 | n/a | 0.54 | 1.41 |
| Expected dividend yield (%) | 1.38 | 1.38 | 1.38 | 1.01 | 1.01 |
| Expected volatility (%) | 58.97 | 58.97 | n/a | 51.70 | 51.70 |
| Fair value (£) | 0.65 | 1.09 | 1.16 | 0.86 | 0.99 |

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 £2.3m (2012: £2.1m).

Movements in options and options exercisable as at 30 September 2013 are shown in note 31.

## 33 Changes in equity

The consolidated statement of changes in equity is shown on pages 91 and 92. 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.

### 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.

## 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 |
|---|---|---|---|---|---|---|
| **Balance as at 30 September 2011** | 4.2 | (7.8) | (15.2) | 2.1 | 278.3 | 261.6 |
| Profit for the year | – | – | – | – | 0.4 | 0.4 |
| Actuarial loss on BPT Limited pension | – | – | – | – | (1.5) | (1.5) |
| Exchange adjustments offset in reserves | – | – | – | 0.5 | – | 0.5 |
| Purchase of own shares | – | – | (0.5) | – | – | (0.5) |
| Award of shares from own shares | (0.9) | – | 0.9 | – | – | – |
| Proceeds from SAYE shares | – | – | 0.4 | – | – | 0.4 |
| Share-based payments charge | 2.1 | – | – | – | – | 2.1 |
| Dividends | – | – | – | – | (7.6) | (7.6) |
| **Balance as at 30 September 2012** | 5.4 | (7.8) | (14.4) | 2.6 | 269.6 | 255.4 |
| Profit for the year | – | – | – | – | 53.6 | 53.6 |
| Actuarial gain on BPT Limited pension | – | – | – | – | 0.5 | 0.5 |
| Exchange adjustments offset in reserves | – | – | – | 0.5 | – | 0.5 |
| Reclassification | – | – | – | – | 9.8 | 9.8 |
| Purchase of own shares | – | – | (3.0) | – | – | (3.0) |
| Award of shares from own shares | (1.0) | – | 1.0 | – | – | – |
| Share-based payments charge | 2.3 | – | – | – | – | 2.3 |
| Dividends | – | – | – | – | (8.0) | (8.0) |
| **Balance as at 30 September 2013** | 6.7 | (7.8) | (16.4) | 3.1 | 325.5 | 311.1 |

### Reclassification

Following an internal review, a net amount after taxation of £9.8m previously shown as a credit within the cash flow hedge reserve, has been reclassified as a credit to retained earnings in the year ended 30 September 2013. The results for 2009 have been restated in the five year record on page 175. There is no impact on either the current or prior year results and the reclassification has no impact on the group's net assets, net asset values or cash flows.

### 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.

# Notes to the financial statements
continued

## 34 Movement in retained earnings continued

### Investment in own shares reserve
As at 30 September 2013, share capital included 5,097,428 (2012: 4,375,984) shares held by The Grainger Employee Benefit Trust and 1,506,300 (2012: 1,506,300) shares held by Grainger plc as treasury shares. The total of these shares is 6,603,728 (2012: 5,882,284) with a nominal value of £330,186 (2012: £294,114) and a market value as at 30 September 2013 of £11.5m (2012: £6.3m).

## 35 List of principal subsidiaries

The directors consider that providing details of all subsidiaries, joint ventures and associates as at 30 September 2013 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.

| | Proportion of nominal value of ordinary issued shares held by: | | | |
|---|---|---|---|---|
| Name of undertaking | Group % | Company % | Incorporated | Activity |
| Northumberland & Durham Property Trust Limited | 100 | | England & Wales | Property Trading |
| Grainger Residential Management Limited | 100 | 100 | England & Wales | Property Management |
| Grainger Asset Management Limited | 100 | 100 | England & Wales | Asset Management |
| Grainger Unitholder No. 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 | Investment 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 GmbH | 100 | | Germany | Property Investment |
| Grainger Recklinghausen Portfolio two GmbH | 100 | | Germany | Property Investment |
| Francono Rhein-Main GmbH | 100 | | Germany | Property Investment |
| Grainger Invest No. 1 LLP | 100 | | England & Wales | Property Trading and Investment |
| Grainger Invest No. 2 LLP | 100 | | England & Wales | Property Trading and Investment |
| Tricomm Housing Limited | 100 | | England & Wales | Property Investment |
| Grainger Treasury Property (2006) LLP | 100 | | England & Wales | Investment Partnership |
| 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.

## 36 Related party transactions

During the year ended 30 September 2013 the group transacted with its joint ventures and associates (details of which are set out in notes 20 and 21). The related party transactions recognised in the Income Statement and Statement of Financial Position are as follows:

As described in note 20, on 6 August 2013, the group sold a portfolio of assets to GRIP for £58.4m. On 13 May 2013 the group formed a 50:50 joint venture, Walworth Investment Properties Limited, which acquired a portfolio of assets from the group for £112m.

The group provides a number of services to its joint ventures and associates including property and asset management services. In addition the group utilises the services of Gebau Vermogen GmbH to provide property management services for parts of its German portfolio. The fees received/(paid) in respect of these services are set out below:

| | 2013 Fees recognised £'000 | 2013 Year end balance £'000 | 2012 Fees recognised £'000 | 2012 Year end balance £'000 |
|---|---|---|---|---|
| GRes1 Limited | 1,062 | 687 | 2,766 | 2,397 |
| GRIP Unit Trust | 1,902 | – | – | – |
| MH Grainger Sarl JV | 790 | – | – | – |
| New Sovereign Reversions Limited | 1,073 | 271 | 1,052 | 166 |
| Walworth Investment Properties Limited | 19 | 19 | – | – |
| Gebau Vermogen GmbH | (913) | (2) | (997) | (52) |
| | 3,933 | 975 | 2,821 | 2,511 |

| | 2013 Interest recognised £'000 | 2013 Year end loan balance £m | 2013 Interest Rate % | 2012 Interest recognised £'000 | 2012 Year end loan balance £m | 2012 Interest Rate % |
|---|---|---|---|---|---|---|
| GRIP Unit Trust | 756 | 0.3 | 4.75 | – | – | – |
| MH Grainger Sarl JV | 534 | 11.6 | 8.00 | – | – | – |
| New Sovereign Reversions Limited* | (7) | (0.4) | LIBOR + 2.35 | 17 | – | LIBOR + 7.00 |
| Czech Republic combined** | 73 | 6.2 | 1.25 | 74 | 5.9 | 1.25 |
| Curzon Park Limited** | – | 16.1 | Nil | – | 13.5 | Nil |
| King Street Developments (Hammersmith) Limited | – | 2.9 | Nil | – | 2.1 | Nil |
| Walworth Investment Properties Limited | 180 | 6.7 | 7.00 | – | – | – |
| | 1,536 | 43.4 | | 91 | 21.5 | |

* The loan to the New Sovereign Reversions Limited group was repaid in full in January 2012. The group received a loan from the New Sovereign Reversions Limited group of £0.4m during the year.

** The amount disclosed above is the gross loan amount. Some provisions have been provided against the loans, see note 21 for details of carrying value. Accordingly interest, where charged, has not been recognised in the Income Statement in either year although the amounts involved are immaterial.

The group's key management are the only other related party. Details of key management compensation are provided in note 12.

# Notes to the financial statements
continued

## 37 Operating lease commitments

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

| | 2013 £m | 2012 £m |
|---|---|---|
| Operating lease payments due: | | |
| Not later than one year | 1.3 | 1.3 |
| Later than one year and not later than five years | 2.3 | 2.5 |
| Later than five years | 0.4 | 0.4 |
| | 4.0 | 4.2 |

The group expects to receive £nil under non-cancellable sub-leases (2012: £nil). Operating lease payments represent the lease payments made in the year relating to renting of office space used by the group, car leases under contract hire arrangements and operating lease payments relating to office equipment such as photocopiers. Leases relating to office space used by the group have initial terms of varying lengths, between one to five 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.

## 38 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 has provided guarantees under performance bonds relating to the group's UK development division. As at 30 September 2013 total guarantees amounted to £1.8m (2012: £1.8m).

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 21, 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.

## 39 Assets classified as held-for-sale

The group has identified certain of its investment properties as held-for-sale in accordance with the criteria set out in IFRS 5.

The group announced on 9 November 2012, that it had signed an agreement with Heitman, to create a new company to acquire two wholly-owned subsidiaries of the group. These assets were classified as a disposal group with the assets and liabilities shown as held-for-sale as at 30 September 2012.

A write down of £6.9m (€8.4m), before tax, was recognised in the 2012 Consolidated Income Statement representing the director's assessment of the loss on revaluation to fair value, under IAS 40, of the investment property in the disposal group based on the transaction. A reduction in deferred tax liabilities of £1.7m (€2.1m) arose in relation to the loss on revaluation. The net income statement impact after tax was therefore £5.2m (€6.3m). These assets were sold when the transaction completed on 10 December 2012.

## 39 Assets classified as held-for-sale continued

In 2013 additional costs relating to the sale of £2.3m were recognised in the Income Statement.

In addition, investment property in the Retirement Solutions portfolio with a value of £24.9m was identified as held-for-sale at 30 September 2012. All but £3.9m of these assets were sold in the year and the remaining assets are being actively marketed. Investment property within the FRM portfolio, with a value of €7.2m (£6.0m) is expected to be sold in December 2013 and accordingly has been classified as held-for-sale. Investment property with a value of €19.1m (£15.3m) was classified as held-for-sale at 30 September 2012. Sales of assets with a value of €6.7m were made in the year but the remaining €12.4m not sold are no longer being actively marketed and have been transferred back to investment property.

Included on the face of the consolidated statement of financial position are total assets of £9.9m (2012:£222.1m) and total liabilities associated with those assets of £nil (2012: £129.7m) classified as held-for-sale. These balances comprise the following:

| | 2013 £m | 2012 £m |
|---|---|---|
| **Total assets** | | |
| Disposal Group | | |
| Investment property | – | 177.9 |
| Cash and cash equivalents | – | 2.6 |
| Trade and other receivables | – | 1.4 |
| | – | 181.9 |
| Investment property – Germany portfolio | 6.0 | 15.3 |
| Investment property – Retirement Solutions portfolio | 3.9 | 24.9 |
| | 9.9 | 222.1 |
| **Total liabilities** | | |
| Disposal Group | | |
| Interest bearing loans and borrowings | – | 120.9 |
| Trade and other payables | – | 4.0 |
| Derivative financial instruments | – | 4.8 |
| | – | 129.7 |

## 40 Capital Commitments

The group has current commitments under a number of its development projects totalling £37.9m as at 30 September 2013 (2012: £34.0m).

# Independent auditors' report
## on the parent company financial statements

## Report on the parent company financial statements

### Our opinion
In our opinion the parent company financial statements:
- give a true and fair view of the state of the parent company's affairs as at 30 September 2013;
- 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.

This opinion is to be read in the context of what we say below.

### What we have audited
The parent company financial statements, which are prepared by Grainger plc, comprise:
- the parent company balance sheet as at 30 September 2013; and
- the notes to the parent company financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

### What an audit of financial statements involves
We conducted our audit in accordance with International Standards on Auditing (UK & Ireland) ('ISAs (UK & Ireland)'). 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 and accounts to identify material inconsistencies with the audited parent company financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinions on matters prescribed by the Companies Act 2006

In our opinion:

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

## Other matters on which we are required to report by exception

### Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

### Other information in the Annual report

Under International Standards on Auditing ('ISAs (UK & Ireland)'), we are required to report to you if, in our opinion, information in the Annual report is:

- materially inconsistent with the information in the audited parent company financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the parent company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

## Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 81, 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 'ISAs (UK & 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

## Other matter

We have reported separately on the group financial statements of Grainger plc for the year ended 30 September 2013.

**David Snell**
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

7 November 2013

# Parent company balance sheet

| As at 30 September 2013 | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 2 | 911.6 | 841.4 |
| | | 911.6 | 841.4 |
| **Current assets** | | | |
| Debtors | 3 | 29.2 | 20.9 |
| Cash at bank and in hand | | 30.7 | 13.8 |
| | | 59.9 | 34.7 |
| **Creditors: amounts falling due within one year** | 4 | 407.0 | 283.0 |
| **Net current liabilities** | | (347.1) | (248.3) |
| **Total assets less current liabilities** | | 564.5 | 593.1 |
| **Creditors: amounts falling due after more than one year** | | | |
| Convertible bond | 5 | 24.3 | 23.3 |
| Interest-bearing loans and borrowings | 6 | 99.1 | 99.0 |
| **Net assets** | | 441.1 | 470.8 |
| | | | |
| **Capital and reserves** | | | |
| Called-up share capital | 7 | 20.8 | 20.8 |
| Share premium account | 8 | 109.8 | 109.8 |
| Capital redemption reserve | 8 | 0.3 | 0.3 |
| Equity component of convertible bond | 8 | 5.0 | 5.0 |
| Profit and loss account | 8 | 305.2 | 334.9 |
| **Total shareholders' funds** | | 441.1 | 470.8 |

The financial statements on pages 162 to 166 were approved by the board of directors on 7 November 2013 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 under the historical cost convention, in accordance with the Companies Act 2006 and applicable UK accounting standards.

The company has taken the exemption allowed under section 408 of the Companies Act 2006 from the requirement to present its own profit and loss account. The loss for the year was £21.0m (2012 loss: £34.6m). 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) Taxation

Corporation tax is provided on taxable profits or losses at the current rate.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

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

### (e) Own shares including treasury shares

Transactions of 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.

### (f) 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.

### (g) Share-based payments

Under the share-based compensation arrangements set out in note 1(k)(iii) on page 99 and note 32 on page 154, 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.

# Notes to the parent company financial statements
continued

## 2 Investments

| Cost of Investment | 2013 £m | 2012 £m |
|---|---|---|
| At 1 October | 939.2 | 896.8 |
| Additions | 79.6 | 42.4 |
| Disposals | – | – |
| **At 30 September** | 1,018.8 | 939.2 |
| Impairments | | |
| Opening balance | 97.8 | 90.4 |
| Additional provision | 17.9 | 7.8 |
| Write back | (8.5) | (0.4) |
| **At 30 September** | 107.2 | 97.8 |
| **Net carrying value** | 911.6 | 841.4 |

The directors believe that the carrying value of the investments is supported by their underlying net assets.

The additions in the year relate to a further investment of £29.7m in Atlantic Metropolitan (UK) Limited, £36.6m in Bromley Property Holdings Limited, £9.8m in Grainger Europe (No. 4) Limited and £1.2m in Grainger (603) Limited.

The investments made by the parent company have, in most instances, been passed down the group in order to facilitate group restructuring.

The additions also include a capital contribution during the year of £2.3m in respect of share-based payment awards granted to subsidiary employees.

After an assessment of net recoverable value a net impairment provision of £9.4m has been made.

A list of the principal subsidiaries of the company is given in note 35 on page 156.

## 3 Debtors

| | 2013 £m | 2012 £m |
|---|---|---|
| Amounts owed by group undertakings | 28.8 | 20.8 |
| Other debtors | 0.4 | 0.1 |
| | 29.2 | 20.9 |

Debtors in both 2013 and 2012 are all due within one year.

Included within amounts owed by group undertakings is an unsecured loan with a year end balance of £28.8m (2012: £20.8m). The loan bears interest at LIBOR plus margin plus costs, which averaged 3.3% in the year (2012: 3.3%), and is repayable on demand but is not expected to be repaid within the next 12 months.

## 4 Creditors: amounts falling due within one year

| | 2013 £m | 2012 £m |
|---|---|---|
| Amounts owed to group undertakings | 406.2 | 278.2 |
| Other taxation and social security | – | 3.8 |
| Accruals and deferred income | 0.8 | 1.0 |
| | 407.0 | 283.0 |

Amounts owed to group undertakings bear interest at a rate of 3.3% plus LIBOR per annum and are repayable on demand.

## 5 Convertible bond

| | 2013 £m | 2012 £m |
|---|---|---|
| Opening balance | 23.3 | 22.7 |
| Amortised during the year | 0.9 | 0.8 |
| | 24.2 | 23.5 |
| Unamortised issue costs | 0.1 | (0.2) |
| **Closing balance** | 24.3 | 23.3 |

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. The nominal value remaining on the bond is £24.9m.

## 6 Interest-bearing loans and borrowings

| | 2013 £m | 2012 £m |
|---|---|---|
| Variable rate – Pounds Sterling | 99.1 | 99.0 |

The variable rate loan is secured by floating charges over the assets of the group. The loan bears interest at 4% over LIBOR. The amount due in more than 5 years is £99.1m (2012: £99.0m).

# Notes to the parent company financial statements
continued

## 7 Share capital

| | 2013 £m | 2012 £m |
|---|---|---|
| **Allotted, called-up and fully paid** | | |
| 416,529,484 (2012: 416,381,206) ordinary shares of 5p each | 20.8 | 20.8 |

During the year the Grainger Employee Benefit Trust acquired 1,400,000 shares at a cost of £2.4m (2012: £nil). The group also paid £0.6m to the share incentive plan during the year for the purchase of matching shares and free shares in the scheme. The total cost of acquiring own shares of £3.0m (2012: £0.5m) has been deducted from retained earnings within shareholders' equity.

As at 30 September 2013, share capital included 5,097,428 (2012: 4,375,984) shares held by The Grainger Employee Benefit Trust and 1,506,300 (2012: 1,506,300) shares held by Grainger plc as treasury shares. The total of these shares is 6,603,728 (2012: 5,882,284) with a nominal value of £330,186 (2012: £294,114) and a market value as at 30 September 2013 of £11.5m (2012: £6.3m).

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

| | Number | Nominal value £'000 |
|---|---|---|
| At 1 October 2011 | 416,372,103 | 20,818 |
| Options exercised under the SAYE scheme | 9,103 | 1 |
| At 30 September 2012 | 416,381,206 | 20,819 |
| Options exercised under the SAYE scheme | 148,278 | 7 |
| **At 30 September 2013** | 416,529,484 | 20,826 |

Details of share options and awards granted by the company are provided in note 31 on pages 152 and 153 and discussed within the Remuneration committee's report on pages 66 and 79.

## 8 Reserves

| | Share premium £m | Capital redemption reserve £m | Equity component of convertible bond £m | Profit and loss account £m |
|---|---|---|---|---|
| **At 1 October 2012** | 109.8 | 0.3 | 5.0 | 334.9 |
| Retained loss for the year | – | – | – | (21.0) |
| Share-based payment charge | – | – | – | 2.3 |
| Purchase of own shares | – | – | – | (3.0) |
| Dividends paid | – | – | – | (8.0) |
| **At 30 September 2013** | 109.8 | 0.3 | 5.0 | 305.2 |

## 9 Other information

### Dividends
Information on dividends paid and declared is given in note 16 of the group accounts on page 123.

### Directors' share options and share awards
Details of the directors' share options and of their share awards are set out in the Remuneration report.

# EPRA performance measures

The EPRA Best Practise Recommendations issued in 2010 identified 5 key performance measures. The measures are deemed to be of importance for investors in property companies and aim to encourage more consistent and widespread disclosure.

The EPRA measures are defined below:

| | Definition |
|---|---|
| **1) EPRA Earnings** | Recurring earnings from core operational activities. Property trading is not considered to be a core activity of property investment companies therefore this measure excludes results from property sales. |
| **2) EPRA NAV** | Net Asset Value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model. This measure is in line with the NAV as defined and disclosed in note 4 of the group accounts. |
| **3) EPRA Triple Net Asset Value (NNNAV)** | EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes. This measure is in line with the Triple NAV as defined and disclosed in note 4 of the group accounts. |
| **4i) EPRA Net initial yield (NIY)** | Annualised rental income based on cash rents at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs. |
| **4ii) EPRA 'topped-up' yield** | This measure incorporates an adjustment to EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents). |
| **5) EPRA Vacancy Rate** | Estimated Market Rent Value (ERV) of vacant space divided by ERV of the whole portfolio. |
| **6) EPRA Cost Ratios** | This measure includes all administrative and operating expenses including the share of joint ventures' overheads and operating expenses, net of any service fees. This measure should be calculated and shown as both including direct vacancy costs and excluding direct vacancy costs. |

The group is supportive of the EPRA initiative however, we believe that four of the EPRA measures are not appropriate to the group and its current operations.

EPRA Earnings exclude profits from sales of property which is a core element of the group's earnings, contributing £78m (2012: £77m) to earnings in the year. Accordingly, we believe that this measure does not provide a useful indication of the performance of the group.

The EPRA NIY and 'topped-up' yields do not take into account the reversionary aspect of our portfolio. The UK reversionary portfolio has a reversionary surplus of £483m not included within earnings or adjusted for within this measure. This represents a 'pipeline' of future added value but without any material planning, development or construction risk. A significant portion of our reversionary portfolio relates to home reversion assets which do not generate a rental income. Therefore we do not believe that this measure is appropriate for our business.

The EPRA Vacancy Rate focuses on rental values of vacant space at a point in time which would not accurately reflect the experience of our portfolio. The group's business model in relation to its reversionary portfolio is to sell assets on vacancy, therefore the EPRA Vacancy Rate is not an appropriate measure of performance.

The EPRA Cost Ratios are a measure of the ratio of administrative and operating costs as a percentage of gross rental income and require specific inclusions and exclusions. We have adopted our own efficiency measure which shows our administrative and operating costs net of fee income as a proportion of the value of assets under management. We believe this provides a useful high level assessment of how efficient the business is and so we prefer this measure and have therefore adopted it as a Key Performance Indicator.

# EPRA Sustainability Performance Measures

## 3.1–3.7 Absolute and like-for-like energy and GHG emissions for Own Office Occupation

| | | UK | | | |
|---|---|---|---|---|---|
| | | 2011/12 | | 2012/13 | |
| | | Consumption | Coverage of applicable properties | Consumption | Coverage of applicable properties |
| **3.1, 3.2, 3.3: Energy (kWh) GRI: EN4/EN3** | | | | | |
| Own offices | Total electricity submetered to Grainger by its landlord | 621,153 | | 601,694 | |
| | Total energy consumption from district heating and cooling submetered to Grainger by its landlord | – | 6 of 6 | – | 7 of 7 |
| | Total energy consumption from fuels submetered to Grainger by its landlord | – | | – | |
| Grand total | Total electricity submetered to Grainger by its landlord | 621,153 | | 601,694 | |
| | Total energy consumption from district heating and cooling submetered to Grainger by its landlord | – | 6 of 6 | – | 7 of 7 |
| | Total energy consumption from fuels submetered to Grainger by its landlord | – | | – | |
| **3.4: Building Energy Intensity (kWh per employee per year) GRI: CRESS – CRE1** | | | | | |
| Building Energy Intensity | Building Energy Intensity for all energy submetered to Grainger by its landlord | Not available | | 2,350 | |
| **3.5, 3.6: GHG Emissions (tonnes $CO_2$e) GRI: EN16** | | | | | |
| Own offices | Total direct GHG emissions [GHG Protocol Scope 1] | – | | – | |
| | Total indirect GHG emissions [GHG Protocol Scope 2] | 277 | 6 of 6 | 268 | 7 of 7 |
| | Total indirect GHG emissions [GHG Protocol Scope 3] | 24 | | 23 | |
| Grand total | Total direct GHG emissions [GHG Protocol Scope 1] | – | | – | |
| | Total indirect GHG emissions [GHG Protocol Scope 2] | 277 | 6 of 6 | 268 | 7 of 7 |
| | Total indirect GHG emissions [GHG Protocol Scope 3] | 24 | | 23 | |
| **3.7: Building GHG Intensity (kg $CO_2$e per employee per year) GRI: CRESS – CRE3** | | | | | |
| Building GHG Intensity | Building GHG Intensity [GHG Protocol Scopes 1 and 2] | Not available | | 1,047 | |

### Methodology

We have reported on all EPRA Sustainability Performance Measures, using the EPRA Best Practices Recommendations on Sustainability Reporting, the main requirements of the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from the UK Government's Conversion Factors for Company Reporting 2013. We have used the Operational Control boundary approach for all Sustainability Performance Measures. Data is reported for our property investment portfolio and own occupied offices. Our property investment portfolio includes our UK Residential portfolio and the GRIP fund. We have not reported energy consumption and GHG emissions from the properties in our GInvest portfolio and in our WIP portfolio as we do not have energy consumption data for the reporting year – we are working to improve data collection for future reporting. We have not reported energy consumption and GHG emissions from the properties in our German residential portfolio as we do not have energy consumption data for the reporting year – we are working to improve data collection for future reporting and will report on our German properties next year. Grainger only reports on landlord-obtained energy, water and waste consumption. Data on tenant consumption is not available, however we report estimated tenant carbon dioxide emissions in our mandatory greenhouse gas statement.

## 3.1–3.7 Absolute and like-for-like energy and GHG emissions for Own Office Occupation continued

| | | Germany | | | |
|---|---|---|---|---|---|
| | | 2011/12 | | 2012/13 | |
| | | Consumption | Coverage of applicable properties | Consumption | Coverage of applicable properties |
| **3.1, 3.2, 3.3: Energy (kWh) GRI: EN4/EN3** | | | | | |
| Own offices | Total electricity submetered to Grainger by its landlord | 39,807 | | 43,205 | |
| | Total energy consumption from district heating and cooling submetered to Grainger by its landlord | – | 1 of 1 | – | 1 of 1 |
| | Total energy consumption from fuels submetered to Grainger by its landlord | – | | – | |
| Grand total | Total electricity submetered to Grainger by its landlord | 39,807 | | 43,205 | |
| | Total energy consumption from district heating and cooling submetered to Grainger by its landlord | – | 1 of 1 | – | 1 of 1 |
| | Total energy consumption from fuels submetered to Grainger by its landlord | – | | – | |
| **3.4: Building Energy Intensity (kWh per employee per year) GRI: CRESS – CRE1** | | | | | |
| Building Energy Intensity | Building Energy Intensity for all energy submetered to Grainger by its landlord | Not available | | 3,086 | |
| **3.5, 3.6: GHG Emissions (tonnes $CO_2e$) GRI: EN16** | | | | | |
| Own offices | Total direct GHG emissions [GHG Protocol Scope 1] | – | | – | |
| | Total indirect GHG emissions [GHG Protocol Scope 2] | 18 | 1 of 1 | 20 | 1 of 1 |
| | Total indirect GHG emissions [GHG Protocol Scope 3] | 1 | | 1 | |
| Grand total | Total direct GHG emissions [GHG Protocol Scope 1] | – | | – | |
| | Total indirect GHG emissions [GHG Protocol Scope 2] | 18 | 1 of 1 | 20 | 1 of 1 |
| | Total indirect GHG emissions [GHG Protocol Scope 3] | 1 | | 1 | |
| **3.7: Building GHG Intensity (kg $CO_2e$ per employee per year) GRI: CRESS – CRE3** | | | | | |
| Building GHG Intensity | Building GHG Intensity [GHG Protocol Scopes 1 and 2] | Not available | | 1,422 | |

**Energy and Greenhouse Gases Notes**

Greenhouse gas emissions are calculated using the UK Government's Conversion Factors for Company Reporting 2013. 2011/12 greenhouse gas emissions data has been restated using the 2013 conversion factors. Transmission and distribution losses are reported as Scope 3 emissions. Greenhouse gas emissions are reported as metric tonnes $CO_2e$ (t $CO_2e$) and greenhouse gas intensity is reported as kilogrammes of $CO_2$ equivalent (kg $CO_2e$). Greenhouse gas emissions from Germany electricity consumption and transmission and distribution are reported in carbon dioxide ($CO_2$) only per the UK Government's Conversion Factors for Company Reporting 2013. Germany Scope 1 emissions use the emissions factors based on UK natural gas calculations, as the greenhouse gas content of natural gas varies only marginally over time and between regions. Scope 3 emissions are for transmission and distribution losses associated with purchased electricity only and do not include business travel or supply chain emissions. For more information on our scope 3 greenhouse gas emissions please refer to our mandatory greenhouse gas statement.

## EPRA Sustainability Performance Measures
continued

### 3.1–3.7 Absolute and like-for-like energy and GHG emissions for Own Office Occupation continued

UK and Germany

| | | 2011/12 | | 2012/13 | | |
|---|---|---|---|---|---|---|
| | | Consumption | Coverage of applicable properties | Consumption | Coverage of applicable properties | % Change 2011/12 –2012/13 |
| **3.1, 3.2, 3.3: Energy (kWh) GRI: EN4/EN3** | | | | | | |
| Own offices | Total electricity submetered to Grainger by its landlord | 660,960 | 7 of 7 | 644,899 | 8 of 8 | (2%) |
| | Total energy consumption from district heating and cooling submetered to Grainger by its landlord | – | | – | | Not applicable |
| | Total energy consumption from fuels submetered to Grainger by its landlord | – | | – | | Not applicable |
| Grand total | Total electricity submetered to Grainger by its landlord | 660,960 | 7 of 7 | 644,899 | 8 of 8 | (2%) |
| | Total energy consumption from district heating and cooling submetered to Grainger by its landlord | – | | – | | Not applicable |
| | Total energy consumption from fuels submetered to Grainger by its landlord | – | | – | | Not applicable |
| **3.4: Building Energy Intensity (kWh per employee per year) GRI: CRESS – CRE1** | | | | | | |
| Building Energy Intensity | Building Energy Intensity for all energy submetered to Grainger by its landlord | 2,295 | | 2,389 | | Not applicable |
| **3.5, 3.6: GHG Emissions (tonnes $CO_2e$) GRI: EN16** | | | | | | |
| Own offices | Total direct GHG emissions [GHG Protocol Scope 1] | – | 7 of 7 | – | 8 of 8 | Not applicable |
| | Total indirect GHG emissions [GHG Protocol Scope 2] | 295 | | 288 | | (2%) |
| | Total indirect GHG emissions [GHG Protocol Scope 3] | 25 | | 24 | | (3%) |
| Grand total | Total direct GHG emissions [GHG Protocol Scope 1] | – | 7 of 7 | – | 8 of 8 | Not applicable |
| | Total indirect GHG emissions [GHG Protocol Scope 2] | 295 | | 288 | | (2%) |
| | Total indirect GHG emissions [GHG Protocol Scope 3] | 25 | | 24 | | (3%) |
| **3.7: Building GHG Intensity (kg $CO_2e$ per employee per year) GRI: CRESS – CRE3** | | | | | | |
| Building GHG Intensity | Building GHG Intensity [GHG Protocol Scopes 1 and 2] | 1,025 | | 1,067 | | Not applicable |

#### Data coverage notes

Only electricity which is submetered to Grainger's offices is included in our reporting. Other energy is provided through a service charge by the landlord. No energy is submetered by Grainger to other tenants. The data disclosed in the absolute and like-for-like analysis for the two-year period provides 100% coverage of all eligible assets. No assets have been excluded due to missing data.

Grainger does not gather or report water consumption for its offices due to metering arrangements with the landlord.

The intensity metric used to measure building energy intensity and greenhouse gas intensity is the number of UK and German employees respectively. This figure includes non-executive directors.

2011/12 greenhouse gas emissions data has been restated using the 2013 UK Government (DEFRA) conversion factors for UK and Germany.

## 3.1–3.7 Absolute and like-for-like energy and GHG emissions for Own Office Occupation continued

| | | Total like-for-like | | | |
|---|---|---|---|---|---|
| | | 2011/12 | 2012/13 | No. of assets | % Change 2011/12 –2012/13 |
| **3.1, 3.2, 3.3: Energy (kWh) GRI: EN4/ EN3** | | | | | |
| **Own offices** | Total electricity submetered to Grainger by its landlord | 628,077 | 609,133 | 5 of 5 | (3%) |
| | Total energy consumption from district heating and cooling submetered to Grainger by its landlord | – | – | | Not applicable |
| | Total energy consumption from fuels submetered to Grainger by its landlord | – | – | | Not applicable |
| **Grand total** | Total electricity submetered to Grainger by its landlord | 628,077 | 609,133 | 5 of 5 | (3%) |
| | Total energy consumption from district heating and cooling submetered to Grainger by its landlord | – | – | | Not applicable |
| | Total energy consumption from fuels submetered to Grainger by its landlord | – | – | | Not applicable |
| **3.4: Building Energy Intensity (kWh per employee per year) GRI: CRESS – CRE1** | | | | | |
| **Building Energy Intensity** | Building Energy Intensity for all energy submetered to Grainger by its landlord | Not applicable | Not applicable | Not applicable | Not applicable |
| **3.5, 3.6: GHG Emissions (tonnes $CO_2e$) GRI: EN16** | | | | | |
| **Own offices** | Total direct GHG emissions [GHG Protocol Scope 1] | – | – | 5 of 5 | Not applicable |
| | Total indirect GHG emissions [GHG Protocol Scope 2] | 280 | 272 | | (3%) |
| | Total indirect GHG emissions [GHG Protocol Scope 3] | 23 | 23 | | (3%) |
| **Grand total** | Total direct GHG emissions [GHG Protocol Scope 1] | – | – | 5 of 5 | Not applicable |
| | Total indirect GHG emissions [GHG Protocol Scope 2] | 280 | 272 | | (3%) |
| | Total indirect GHG emissions [GHG Protocol Scope 3] | 23 | 23 | | (3%) |
| **3.7: Building GHG Intensity (kg $CO_2e$ per employee per year) GRI: CRESS – CRE3** | | | | | |
| **Building GHG Intensity** | Building GHG Intensity [GHG Protocol Scopes 1 and 2] | Not applicable | Not applicable | Not applicable | Not applicable |

## EPRA Sustainability Performance Measures
continued

### 3.1–3.9 Absolute energy, GHG emissions and water withdrawal for owned assets by portfolio; Building Energy, GHG emissions and Water intensity by portfolio

| | | UK | |
|---|---|---|---|
| | | 2012/13 | |
| | | Consumption | Coverage of applicable properties |
| **3.1, 3.2, 3.3: Energy (kWh) GRI: EN4/EN3** | | | |
| **UK Residential portfolio** | Grainger-obtained electricity | 889,607 | 122 of 134 |
| | Total energy consumption from district heating and cooling | – | Not applicable |
| | Total energy consumption from Grainger-obtained fuels | 5,070,870 | 5 of 6 |
| | Grainger-obtained natural gas | 5,070,870 | |
| **GRIP Fund** | Grainger-obtained electricity | 608,124 | 69 of 70 |
| | Total energy consumption from district heating and cooling | – | Not applicable |
| | Total energy consumption from Grainger-obtained fuels | 611,291 | 5 of 5 |
| | Grainger-obtained natural gas | 611,291 | |
| **Grand total** | Grainger-obtained electricity | 1,497,731 | 191 of 204 |
| | Total energy consumption from district heating and cooling | – | Not applicable |
| | Total energy consumption from Grainger-obtained fuels | 5,682,161 | 10 of 11 |
| | Grainger-obtained natural gas | 5,682,161 | |

**Data coverage notes**

We report on Grainger-obtained electricity, fuel and water consumption for applicable properties with common areas; exclusions due to missing data are listed in detail below. Grainger does not report on energy or water consumption submetered to tenants. Landlord-obtained energy and water data were not gathered for our portfolio prior to 2012/13. We are segmenting our reporting by fund rather than geography, since all reported assets are located in the UK. In 2013/14, we will commence collecting energy consumption data for our German portfolio.

Figures for the coverage of applicable properties are year end figures. The Tilt Estate was acquired by the GRIP fund on the 6 August 2013 and includes 40 properties with Grainger-obtained electricity. The GRIP fund includes one commercial property which was sold on 20 August 2013. One property was sold from the UK residential portfolio on 17 May 2013.

We have used the market value of assets under management as our main intensity measurement as this is also what we use to measure our business efficiency KPI as reported in our Strategic Report.

**Energy and GHG Emissions:**

UK Residential portfolio: Consumption from assets subsequently transferred to the GRIP Fund is included in UK Residential Grainger-obtained electricity and fuels for the period from October to December 2012. Twelve properties are excluded from the calculation of Grainger-obtained electricity because insufficient data was gathered. One property is excluded from Grainger-obtained natural gas because insufficient data was gathered. The GlassHouse, Putney was sold on 17 May 2013. Where the unit of measurement for natural gas consumption is not known, consumption has been calculated using 100s of cubic feet as the default unit of measurement to avoid understating consumption.

GRIP Fund: Annual consumption is reported as the portfolio stood at year end for the period from January to September 2013. One property is excluded from the calculation of Grainger-obtained natural gas because insufficient data was gathered. Ability House was sold on 20 August 2013. The TILT Estate was acquired on 6 August and includes 40 applicable properties. Where the unit of measurement for natural gas consumption is not known, consumption has been calculated using 100s of cubic feet as the default unit of measurement to avoid understating consumption.

## 3.1–3.9 Absolute energy, GHG emissions and water withdrawal for owned assets by portfolio; Building Energy, GHG emissions and Water intensity by portfolio continued

| | | UK 2012/13 Consumption | UK 2012/13 Coverage of applicable properties |
|---|---|---|---|
| **3.4: Building Energy Intensity (kWh per £m value of assets under management per year) GRI: CRESS – CRE1** | | | |
| Building Energy Intensity | | 2,912 | Not applicable |
| **3.5, 3.6: GHG Emissions (metric tonnes $CO_2e$) GRI: EN16** | | | |
| UK Residential portfolio | Total direct GHG emissions [GHG Protocol Scope 1] | 933 | 5 of 6 |
| | Total indirect GHG emissions [GHG Protocol Scope 2] | 396 | 122 of 134 |
| | Total indirect GHG emissions [GHG Protocol Scope 3] | 34 | 122 of 134 |
| GRIP Fund | Total direct GHG emissions [GHG Protocol Scope 1] | 113 | 5 of 5 |
| | Total indirect GHG emissions [GHG Protocol Scope 2] | 271 | 69 of 70 |
| | Total indirect GHG emissions [GHG Protocol Scope 3] | 23 | 69 of 70 |
| Grand total | Total direct GHG emissions [GHG Protocol Scope 1] | 1,046 | 10 of 11 |
| | Total indirect GHG emissions [GHG Protocol Scope 2] | 667 | 191 of 204 |
| | Total indirect GHG emissions [GHG Protocol Scope 3] | 57 | 191 of 204 |
| **3.7: Building GHG Intensity (kg/$CO_2e$ per £m value of assets under management per year) GRI: CRESS – CRE3** | | | |
| GHG Intensity | Greenhouse gas intensity for all Grainger-obtained building energy [GHG Protocol Scopes 1 and 2] | 695 | Not applicable |
| **3.8: Water Withdrawal ($m^3$) GRI: EN8** | | | |
| UK Residential portfolio | Grainger-obtained water withdrawal | 7,170 | 1 of 2 |
| GRIP Fund | Grainger-obtained water withdrawal | 21,500 | 5 of 6 |
| Grand total | Total water withdrawal | 28,670 | 6 of 6 |
| **3.9: Building Water Intensity ($m^3$ per £m value of assets under management per year) GRI: CRESS – CRE2** | | | |
| Building Water Intensity | Building Water intensity for all Grainger-obtained water | 12 | Not applicable |

**Water:**

UK Residential portfolio: Consumption from assets subsequently transferred to the GRIP Fund is included in UK Residential Grainger-obtained water withdrawal for the period from October to December 2012. One property is excluded because insufficient data was gathered.

GRIP Fund: Annual consumption is reported as the portfolio stood at year end for the period from January to September 2013. One property is excluded because insufficient data was gathered. Ability House was sold on 20 August 2013.

## EPRA Sustainability Performance Measures
continued

### 3.10 and 3.11 Total weight of waste by disposal route and proportion of waste by disposal route for owned assets and own occupied offices

| | | UK | | |
|---|---|---|---|---|
| | | 2012/13 Metric tonnes | 2012/13 % of total | Coverage of applicable properties |
| **3.10 and 3.11: Waste (metric tonnes and proportion by weight %) GRI: EN22** | | | | |
| GRIP Fund | Total | 202 | | |
| | Recycled | 65 | 32% | |
| | Incineration (with and without energy recovery) | 103 | 51% | 11 of 13 |
| | Landfill (non-hazardous) | 34 | 17% | |
| | Hazardous Waste Treatment Facility | – | – | |
| Grand total | Total | 202 | | |
| | Recycled | 65 | 32% | |
| | Incineration (with and without energy recovery) | 103 | 51% | 11 of 13 |
| | Landfill (non-hazardous) | 34 | 17% | |
| | Hazardous Waste Treatment Facility | – | – | |
| Own office occupation | Total | 25 | | |
| | Recycled | 15 | 60% | |
| | Incineration (with and without energy recovery) | – | – | 5 of 7 |
| | Landfill (non-hazardous) | 10 | 40% | |
| | Hazardous Waste Treatment Facility | – | – | |

**Data coverage notes**

**Assets**

Waste management is not provided by Grainger for its UK Residential portfolio, so there is no data to report.

Waste data is gathered for all properties in the GRIP Fund portfolio where Grainger has waste management contracts in place, excluding Bethnal Green and West Tenter Street where it was not possible to convert the available waste data into weight.

Waste weight in metric tonnes is calculated from bin volume in litres using the WRAP waste conversion factor 20 03 01 for mixed municipal waste, rather than actual weight measurements at each property. Proportion of waste by disposal route is based on statistics for each applicable waste management contractor as a whole and is not specific to Grainger properties.

**Own occupied offices**

Waste data was not gathered for our German office. Our Martlesham office closed in 2013 and was excluded. Our Birmingham office relocated during the financial year and waste data was estimated for the year based on actual waste data collected at the new office occupied since February 2013.

Annual figures are estimated from an audit of actual waste weight produced by each office on two separate days during the financial year. Total weight was calculated for the 255 working days per year, excluding bank holidays and weekends.

# Five year record

For the year ended 30 September 2013

| | 2009 £m | 2010 £m | 2011 £m | 2012 £m | 2013 £m |
|---|---|---|---|---|---|
| Revenue | 302.2 | 244.5 | 296.2 | 311.4 | 283.2 |
| Gross proceeds from property sales | 212.7 | 165.3 | 217.0 | 250.5 | 347.1 |
| Gross rental income | 77.9 | 75.6 | 86.3 | 89.8 | 71.3 |
| Gross fee income | 5.7 | 5.5 | 6.9 | 10.0 | 12.5 |
| Operating profit before valuation and non-recurring items (OPBVM) | 78.8 | 94.2 | 126.2 | 126.4 | 107.6 |
| Profit/(loss) before taxation | (157.3) | (20.8) | 26.1 | (1.7) | 64.3 |
| Profit/(loss) after taxation | (122.2) | (10.8) | 39.1 | 0.4 | 53.6 |
| Dividends taken to equity | 5.2 | 7.4 | 4.9 | 7.6 | 8.0 |

| | Pence | Pence | Pence | Pence | Pence |
|---|---|---|---|---|---|
| Earnings/(loss) per share | (27.1) | (2.9) | 9.5 | 0.1 | 13.1 |
| Dividends per share | 1.3 | 1.7 | 1.8 | 1.9 | 2.0 |

| | Pence | Pence | Pence | Pence | Pence |
|---|---|---|---|---|---|
| Gross net asset value per share | 194.0 | 199.8 | 216.2 | 223.0 | 242.0 |
| Triple net asset value per share | 141.0 | 139.7 | 153.3 | 157.1 | 194.7 |
| Share price at 30 September | 170.0 | 109.8 | 86.6 | 107.7 | 174.8 |

| | % | % | % | % | % |
|---|---|---|---|---|---|
| Return on capital employed | (3.8) | 5.3 | 6.5 | 5.9 | 8.1 |
| Return on shareholder equity | (33.7) | 0.6 | 11.1 | 3.8 | 25.2 |

Where relevant adjustment has been made to historical figures to reflect the impact of the rights issue in December 2009 and the adjustment referred to in note 34.

# Shareholders' information

## Financial calendar

| | |
|---|---|
| AGM | 5 February 2014 |
| Payment of 2013 final dividend | 7 February 2014 |
| Announcement of 2014 interim results | May 2014 |
| Announcement of 2014 final results | November 2014 |

## Share price

During the year ended 30 September 2013, the range of the closing mid-market prices of the company's ordinary shares were:

| | |
|---|---|
| Price at 30 September 2013 | 174.8p |
| Lowest price during the year | 105.1p |
| Highest price during the year | 187.5p |

Daily information on the company's share price can be obtained on our website www.graingerplc.co.uk or by telephone from FT Cityline on 09058 171 690. Please note that FT Cityline is a chargeable service.

## Capital gains tax

The market value of the company's shares for capital gains tax purposes at 31 March 1982 was 2.03p.

## Website

Website address www.graingerplc.co.uk

## Shareholders' enquiries

All administrative enquiries relating to shareholdings (for example, notification of change of address, loss of share certificates, dividend payments) should be addressed to the company's registrar at:
Capita IRG Plc
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire
HD8 0LA

## Share dealing service

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

For further information on this service, or to buy or sell shares, please contact:

www.capitadeal.com – online dealing

0870 458 4577 – telephone dealing

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

## Company secretary and registered office

Michael Windle
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

## Company registration number 125575

# Advisers

**Solicitors**
Freshfields Bruckhaus Deringer
65 Fleet Street
London
EC4Y 1HS

**Financial public relations**
FTI Consulting
Holborn Gate
26 Southampton Buildings
London
WC2A 1PB

**Banking**
Clearing Bank and Facility Agent
Barclays Bank PLC

**Other bankers**
Allied Irish Banks plc
Deutsche Pfandbriefbank AG
HSBC Bank plc
HSH Nordbank AG
Hypothekenbank Frankfurt AG
Lloyds Bank plc
M&G UK Companies Financing Fund LP
Nationwide Building Society
Santander UK plc
SEB AG
The Royal Bank of Scotland plc
UniCredit Bank AG
Aaeral Bank AG
Corealcredit Bank AG
InvestKredit Bank AG
NRW Bank

**Independent auditors**
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
89 Sandyford Road
Newcastle upon Tyne
NE1 8HW

**Stockbrokers**
JP Morgan Cazenove Limited
25 Bank Street
London
E14 5JP

Numis Securities Limited
10 Paternoster Square
London
EC4M 7LT

**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 a regulated tenancy. Tenant has security of tenure.

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

**Assured tenancy ('AT')**
Market-rented tenancy where tenant has the 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 the right of occupation until possession is forfeited (usually on death). If the tenant retains an equity interest in the property this is a partial life tenancy.

**PRS**
Private rented sector.

**Regulated tenancy**
Tenancy regulated under the 1977 Rent Act. Rent (usually sub-market) is set by the rent officer and the 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' or 'VPV')**
Open market value of a property free from any tenancy.

## 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 trading property 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 fair value of 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.

**Recurring Profit**
Profit before tax before valuation movements and non-recurring items.

**Operating Profit before Valuation Movements ('OPBVM')**
Operating profit before valuation movements and non-recurring items.

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 were 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 the 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 NNNAV in the year plus the dividend per share relating to each year as a percentage of opening NNNAV.

**Swap**
Financial instrument to protect against interest rate movements.

**Total shareholder return ('TSR')**
Return attributable to shareholders on the basis of share price growth with dividends reinvested.

**Weighted average cost of capital ('WACC')**
The weighted average cost of funding the group's activities through a combination of shareholders' funds and debt.

## Corporate

**IFRS**
International Financial Reporting Standards, mandatory for UK-listed companies for accounting periods ending on or after 31 December 2005.

## Corporate addresses

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