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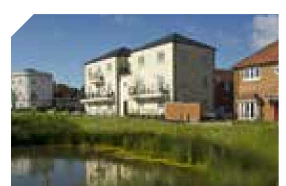
grainger plc

ANNUAL REPORT AND ACCOUNTS 2014

Leading in Residential



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 core business is currently the acquisition, management and sale of properties subject to regulated tenancies. Even at current levels we estimate that our reversionary business will generate over £120m of cash each year until 2030. We will continue to actively acquire these assets while they remain available and provide appropriate levels of return.

Our long term vision is to be the first and foremost truly national market rented landlord offering a high quality product and service that enables people to increase their housing choices. This entails a strong, recognised brand that will help people to move easily and seamlessly both from location to location, and through different price points.

Our report in brief

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 while 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.

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

We operate in the UK and in Germany. We own £2.0bn of residential property and manage 19,831 properties worth £3.2bn on our own behalf and for our investors and partners.

Grainger =

LEADERSHIP

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.

WE WILL MAINTAIN OUR LEADING POSITION IN THE RESIDENTIAL PROPERTY MARKET

Our strategy in action

We have delivered successfully against each of our four strategic objectives.

We were awarded Best Residential Asset Manager for the third year[1]; our Macaulay Walk development was named Best Development and Best Mixed Use Development[2]; our GRIP Fund was recognised for sustainability[3]; we achieved an EPRA Gold Award for sustainability reporting; our Wellelsey development achieved a Built for Life quality mark and our build to rent development, Young Street, won the Best Private Rented Sector design award[4].

The risks involved

The risks in delivering our strategy are actively managed and monitored.

Failure to meet our stakeholder expectations of us as a leader in the residential property market; our operational, financial or ethical performance undermines our excellent reputation. We protect against these risks by constantly engaging with our stakeholders and opinion formers seeking ways to enhance and improve our performance.

How we measure success

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

- 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.

Residential Awards
1 RESI Awards
2 Sunday Times' British Homes Awards
3 Sector Leader in the Global Real Estate Sustainability Benchmark
4 Housing Design Awards

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RETURNS

WE WILL LOCATE AND MANAGE OUR ASSETS TO DELIVER THE BEST RISK ADJUSTED RETURNS

Active asset management and a geographical focus on areas we believe will deliver the best returns have enabled Grainger to consistently outperform the market.

In 2014, we saw a 14.6% increase in value in our portfolio, compared to a combined average of 9.5% for the Halifax and Nationwide house price indices.

The main risks to our returns are a lack of suitable stock to purchase or a sustained inability to realise appropriate values on sales. These risks are managed via continuous monitoring of the market, the tight control of financial resources and our property management expertise to flex as conditions change.

Profit before tax

2013: **£64.3m**

£81.1M

HPI outperformance

12.0% Grainger vacant possession value uplift

9.5% Nationwide/Halifax average uplift

ROSE

2013: 25.2%

25.6%

NAV measures

Gross NAV	NNNAV
2013: **242p**	2013: **195p**
291p	242p

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BALANCE

WE WILL BALANCE THE SOURCES OF OUR INCOME THROUGH EXPLOITING CHANGING MARKET OPPORTUNITIES

Sales: Profit from sales increased by 14% and margins on sales of vacant properties rose strongly to 49.2%.

Rents: Gross rents reduced as expected due to assets sold or transferred to co-investment ventures in the previous year.

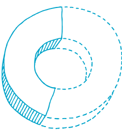
Fees: Fees from co-invested and co-managed vehicles remained consistent.

Our ability to identify opportunities and to consistently perform to all our stakeholder expectations is key to our ability to achieve the desired mix of income streams. We continue to closely control our on-going management of sales, rents & fees whilst building strategic relationships for our future.

Proportion of net rents and fees compared to trading profit

2013: **53.9%**

44.8%



Proportion of gross management fees to overheads

2013: **37.2%**

35.5%

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OPTIMISATION

WE WILL MAINTAIN AN APPROPRIATE CAPITAL STRUCTURE AND OPTIMISE OUR FINANCIAL AND OPERATIONAL GEARING TO MATCH MARKET CONDITIONS

Our consolidated loan to value now stands at 46.5%, LTV on the core portfolio is 42% and interest cover ratio on the core facility is 3.7 times.

The Group's average interest rate is 5.4%. During the year we further diversified our sources of debt by issuing £275m of bonds with a maturity date of December 2020 at an effective rate of 4.94%.

Our ability to access sufficient financial resources is important to our ability to implement our strategy, as we increase our investment in build to rent in order to drive our future returns. This will be managed through strong financial controls, clear and consistent communication with all our current and potential investors and financing partners.

Group LTV

2013: **48.0%**

46.5%

Efficiency

2013: **1.66%**

1.38%

Cash generated from sales rents fees

2013: **£431m**

£303M

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

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Financial highlights

Metric	2014	2013	Change
Gross NAV	291p	2013: 242p	↑
Profit before tax	£81.1m	2013: £64.3m	↑
NNNAV	242p	2013: 195p	↑
Net debt	£1,044m	2013: £959m	↑
Recurring profit*	£47.1m	2013: £37.0m	↑
Group LTV	46.5%	2013: 48%	↓
OPBVM**	£107.5m	2013: £107.6m	↓
Return on capital employed	17.0%	2013: 8.1%	↑
Growth in vacant possession value	12.0%	2013: 6.4%	↑
Return on shareholder equity	25.6%	2013: 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 109).

** OPBVM is operating profit before valuation movements and non-recurring items (see page 29 and note 3 to the accounts on page 109).

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

View
Our report in brief
←

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CHAIRMAN'S STATEMENT

Delivering shareholder returns

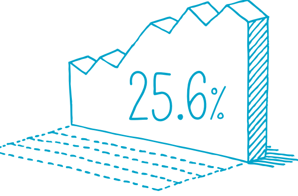
I am pleased to announce in my final statement as chairman of Grainger that the Company has once again had a strong period of performance and is on solid foundations for continuing growth.

Robin Broadhurst
Chairman

Total dividend

2.50p

Return on shareholder equity (ROSE)



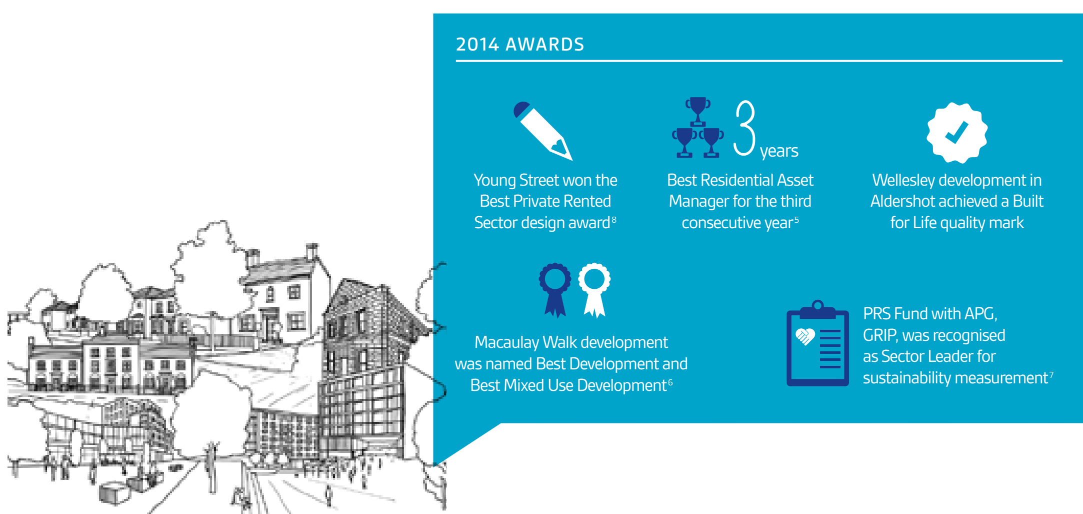
Corporate Responsibility targets achieved

10

During the year, our business has continued to produce strong growth in asset values and increased profits. We are also making good progress within the build to rent sector and towards our goal of substantially increasing our market rented assets across the country. In addition, our regulated tenancy and equity release businesses also performed strongly.

Dividend

The Company is declaring a final dividend of 1.89p per ordinary share (FY13: 1.46p) to be paid on 6 February 2015 to shareholders on the register at the close of business on 30 December 2014. The total dividend for the year will therefore be 2.50p per ordinary share (FY13: 2.04p), an increase of 22.6%. This reflects our performance in the year whilst maintaining capacity for accretive reinvestment in the business.



Board changes

As previously announced, I will be stepping down as chairman at the AGM in February 2015 and Ian Coull, who joined the Board in September 2014, will take over as chairman following that meeting.

I am also pleased to announce that Andrew Carr-Locke will be joining the Board as an independent non-executive director following the AGM in February 2015, subject to normal FCA confirmations. Andrew is a Fellow of the Chartered Institute of Management Accountants and has previously held directorships of a number of listed companies including as Group Finance Director at George Wimpey plc and as Executive Chairman of Countryside Properties plc.

I am confident that Ian will be a strong leader for the business, and that Andrew's experience and expertise will be of great value to the Company.

John Barnsley will also step down from the Board at the AGM, having been a Board director since 2003. I would like to thank John for his significant commitment and contribution to Grainger over those years.

Fair, balanced and understandable

The Board has concluded that the 2014 Annual Report is fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's performance, business model and strategy.

Concluding remarks

The last few years have been a period of significant achievement and success for the Company. It has been a privilege to work with so many skilled and committed individuals within the Company who do their jobs with great enthusiasm and with such enjoyment. I am pleased that this has been recognised by Grainger receiving a number of industry awards this year including: Best Residential Asset Manager for the third consecutive year[5]; Macaulay Walk was named Best Development and Best Mixed Use Development[6]; our market rented fund with APG, GRIP, was recognised as a Sector Leader for sustainability measurement[7]; our Wellesley development in Aldershot achieved a Built for Life quality mark and our build to rent development at Young Street won the Best Private Rented Sector design award[8]. These achievements are a direct result of the efforts of all of the staff at Grainger.

I will miss being part of the Company, but I know that it is also on solid foundations to achieve even greater things.

Robin Broadhurst
Chairman

20 November 2014

[5] RESI Awards
[6] Sunday Times' British Homes Awards
[7] Global Real Estate Sustainability Benchmark
[8] Housing Design Awards

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
7,536	£1,507M
Vacant possession value	**Reversionary surplus**
£1,929M	£422M

MARKET RENTED ASSETS

We rent these assets 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
3,779	£434M

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
8,516	£1,111M
Fees in 2014	**Share of profits and revaluation gains**
£12.3M	£37M

TOTAL ASSETS OWNED AND MANAGED

In total, therefore, and including development assets of £107m, we own and manage 19,831 properties with a market value of £3.2bn.

No. of units owned	Market value
11,315	£2,048M
No. of units owned and managed	**Market value**
19,831	£3,159M

Sales

Profit from sales

£88.6M

Strategic importance

The majority of our recurring sales revenues and profit on sales comes from the sale of properties when they fall vacant (normal sales) thereby releasing the 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 number of properties before sale.

Further sales revenue is generated by our development projects.

Our capabilities

Our sales revenue – a stable and reliable cash flow – and the associated profit will continue to be delivered through the predictable sales of our reversionary assets. The predictability of this revenue is enhanced by the granularity and liquidity of our asset base.

FUTURE FOCUS

Sales of reversionary assets will continue to generate revenue for many years to come. Our portfolio, excluding future acquisitions, will generate more than £120m per year from normal vacant sales until 2030. We have made an encouraging start to FY2015. At 31 October 2014 the Group sales pipeline (completed sales, contracts exchanged and properties in solicitors' hands) amounted to £76.6m (FY13: £52.3m).

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Rents

Net rents

£37.0M

Strategic importance

Rental income is a key income stream for our business. Like our sales income from trading, rental income is regular and predictable. 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.

In our market rented properties and those we manage for others, rents follow market trends.

Our capabilities

As the average length of tenure is around 20 months, we have regular opportunities to maximise rents through our market awareness, our proactive lettings team and our asset management activities.

FUTURE FOCUS

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.

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Fees

Gross fees and other income

£12.8M

Strategic importance

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 £12.8m in 2014.

Our fee income comes from ventures such as GRIP and Heitman and our partnership with the Ministry of Defence at Aldershot.

These ventures also build scale across our business, giving rise to scope for efficiency gains.

Our capabilities

The breadth and depth of our offering, our position in the residential market, and the expertise of our people provide a unique platform to generate and take advantage of fee-earning opportunities.

FUTURE FOCUS

We will continue to seek diverse opportunities to generate recurring income primarily through asset and property management activities within co-investment vehicles and management contracts.

Year-on-year levels may fluctuate depending on volume of work and recognition of profit shares.

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CHIEF EXECUTIVE'S REVIEW

Achieving targets

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.

Andrew Cunningham
Chief executive

NAV growth

291p +20%

NNNAV growth

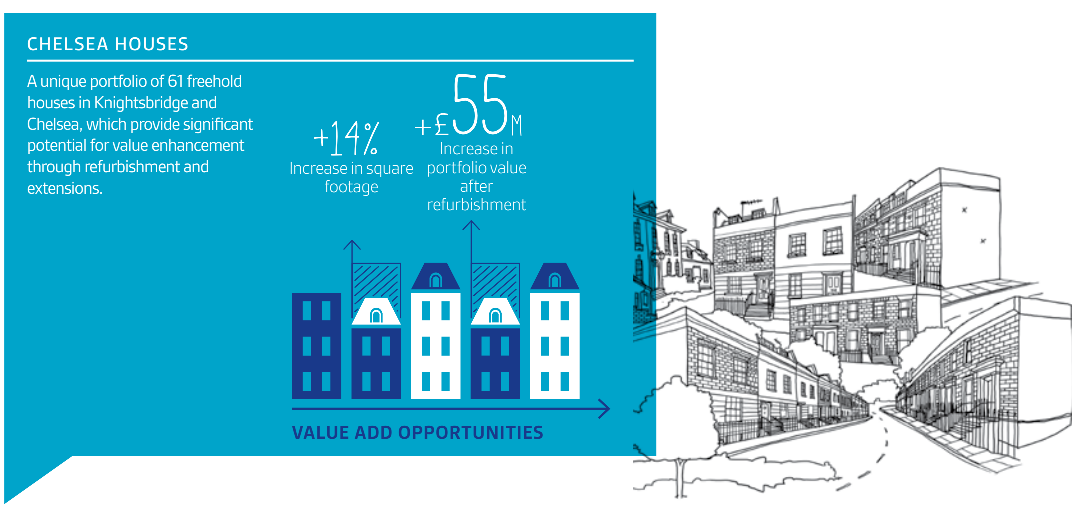
+24% 242p

UK portfolio market value growth

14.6%

Grainger has had another period of strong financial performance and we have created significant growth in the asset value of the Company. Our triple net asset value has risen 24% to 242p per share, and our gross net asset value has risen by 20% to 291p per share. Profit before tax increased 26% to £81.1m (FY13: £64.3m), while margins on sales of vacant properties rose strongly to 49.2% (FY13: 44.9%).

The market value of our portfolio once again outperformed the general market in capital value terms, increasing 14.6% compared to the 9.5% average of the Nationwide and Halifax indices. This achievement reflects the nature and geographic location of our assets and the benefits of our strong asset management capabilities, which have always been and will continue to be a key strategic focus.



Market commentary

As we indicated when announcing our half year results in May, we have seen strong house price growth over the year and, for the first time in many years, we have seen values in the UK increase in every region in which we operate. In addition, the performance of our portfolios have been supported by strong sales margins. We also continue to see growth in London, albeit at varying rates.

Sentiment within the housing market has been dampened by wider concerns about the economy combined with the possibility of interest rate rises, the mortgage market review and the Labour Party's proposed mansion tax, should they assume power after the next election. This political uncertainty and the outcome of the forthcoming election has likely been a factor in the reduction in house price inflation in some areas of London as well as reduced transaction levels.

There remains, however, a significant undersupply of housing in the UK and, along with a slowly improving economy, jobs market and expected population growth, this imbalance supports a positive house price inflation environment, albeit at more sustainable levels. In the regions we have seen positive momentum in terms of sales and capital values. Specifically, we expect to see a gradual improvement in those regions with stronger economic prospects. In our own experience in the south of England over recent months, we have seen the time to complete sales slightly increase and the number of viewings diminish; this has been most apparent in central London.

The business is well placed to respond to the market. Our assets have defensive qualities which help maintain strong values due to their size, type, location, pricing and condition. Moreover, it is important to note that, although 68% of our UK portfolios by value are in London and the South East of England, only 27% of our assets are located in Central London. In addition, we have 80 assets worth £2m and over at vacant possession value out of our UK portfolio of c.11,500 units.

Rent levels in the market rented sector remain robust, with stable increases seen throughout the year. The UK market rented properties which we manage strongly outperformed the market. According to the Office of National Statistics, the average private rent increases in the UK were 1% for the year to September 2014. Our portfolio saw like-for-like rent increases at both renewals (4.2%) and on new lets (9.1%). This outperformance is due to our active asset management, refurbishment investment programme and strong asset characteristics which are in high demand.

Although political manoeuvring in the run-up to the General Election, such as the proposal for a mansion tax, risk creating uncertainty over the next six months, it is encouraging to note that the main political parties are broadly supporting growth policies in terms of housing supply and institutional investment in the private rented sector, which is important to our longer term strategy.

CHIEF EXECUTIVE'S MARKET AND PERFORMANCE REVIEW CONTINUED

The Government and the Conservative Party are pursuing policies with the intention of supporting house building, the mortgage market and the private rented sector and Labour's Lyons Review of the housing market was broadly welcomed by the industry, setting a positive direction of travel for the formation of Labour's housing policies in the run-up to the election.

This backdrop continues to provide a good tailwind for institutional investor interest in the UK private rented sector, and we see clear opportunities for growth which we can leverage in order to further our long term strategic direction for the business.

Investment focus

As we have indicated previously, with our deleveraging programme now concluded, we are in a position to increasingly turn our attention to growing the business through purchases of reversionary assets and investment in build to rent opportunities. As such, we have been active in business development over the past year, with our strong team of experts pursuing a number of exciting opportunities.

We continue to believe that the regions provide increasingly attractive investment opportunities. In line with this, we have recently announced a new partnership agreement with Sigma Capital which provides us the exclusive option to acquire sites from their significant pipeline of build to rent developments outside of London, located across the UK in major regional cities.

We are also pleased to have been selected by the Greater London Authority, along with the London Pensions Fund Authority as part of a Bouygues-led consortium to develop 211 build to rent units in a scheme at Pontoon Dock in East London.

We acquired the Chelsea Houses Portfolio in April for £160m, a demonstration of our continued commitment to reversionary assets. The portfolio has significant potential for value enhancement through refurbishment and extension. Since acquisition, the portfolio has performed ahead of expectations and the vacant possession value of the portfolio has increased by 4.2%.

Strategy and future outlook

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.

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.

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 core business is the acquisition, management and sale of properties subject to regulated tenancies and other reversionary assets. (continued on page 16)

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.

LEADERSHIP

WE WILL MAINTAIN OUR LEADING POSITION IN THE RESIDENTIAL PROPERTY MARKET

We will seek recognition as a market leader by setting out our vision of the future in key areas that matter to us such as the PRS, House Price Inflation (HPI) and the position of the London housing market in the UK.

We will build on our core values to demonstrate through our behaviours, our people and and our brand what it means to aspire to leadership.

ACTION AND IMPACTS:

Market leadership will maximise the opportunities open to us, such as entry to tender positions, attracting the best staff and partners, and providing the credibility to have a meaningful input into govermment policy.

#2

RETURNS

WE WILL LOCATE AND MANAGE OUR ASSETS TO DELIVER THE BEST RISK ADJUSTED RETURNS

This is at the heart of Grainger as a property business.

We will constantly revisit capital allocations in terms of geographic diversity, asset type, investment criteria and length of hold.

We will be agile, buying assets in the right places for the right prices.

ACTION AND IMPACTS:

As leaders in the regulated tenancy and home reversion markets, we will continue to acquire these assets as appropriate. Growth in our market rented business will shift to a greater emphasis on build to rent projects. Our first significant step towards this, London Road, Barking, will launch in 2015.

#3

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 through the creation of joint ventures and fund management structures to generate recurring fee income.

ACTION AND IMPACTS:

It is our intention that market rented assets will make up an increasing proportion of our portfolio and income. As this progresses we will define the rate and scale of transformation.

#4

OPTIMISATION

WE WILL OPTIMISE OUR FINANCIAL AND OPERATIONAL GEARING TO MATCH MARKET CONDITIONS

We will continue to flex our sources of debt to support our evolving business model.

Having reduced our absolute levels of debt over the last two years, LTV will be our preferred measure going forward, reflecting the more dynamic business environment. Our current target level of gearing of 45% - 50% is appropriate in the medium term.

ACTION AND IMPACTS:

We will continue to manage the average cost of debt balanced with terms and tenor.

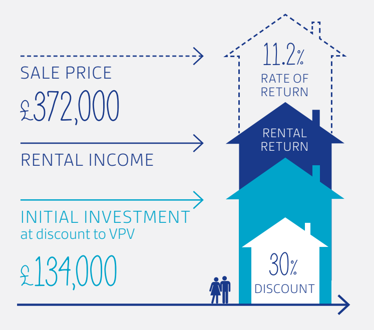
OUR STRATEGY IN ACTION

Reversionary leaders

Grainger is the UK's leading investor in residential reversionary assets. Our position and strong reputation provide us with unrivalled investment opportunities in the marketplace.

PEWSEY, WILTSHIRE

Grainger purchased a property in Pewsey, Wiltshire in September 2003 with a regulated tenant in situ for £134,000, approximately a 30% discount to the vacant possession value at that time. Throughout ownership, Grainger received a rental income. The property was vacated in January 2014 and sold in April 2014 for £372,000, generating an ungeared Internal Rate of Return (IRR) of 11.2%.

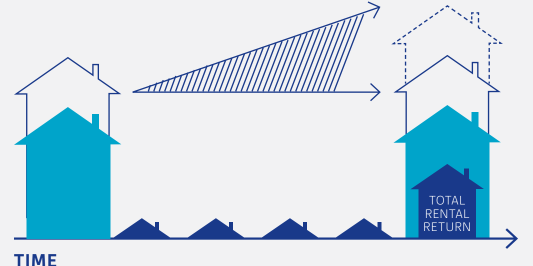


REVERSIONARY BUSINESS MODEL

In Grainger's reversionary business, we acquire a residential property with a sitting tenant at a discount to the property's vacant possession value (VPV). This is because the tenants have the right to live in the property for their entire life. Once the properties are vacated by the tenant we sell them, which generates sales profit.

Over time the value of our reversionary assets tend to appreciate due to house price inflation, and Grainger crystallises both the discount (also known as the 'reversionary surplus') and the house price inflation when the property is sold. In addition, we receive a sub-market rental payment over the hold period from our regulated tenancies.

VALUE CREATION



OUR REVERSIONARY PORTFOLIO

Within Grainger, there are primarily two types of reversionary assets: regulated tenancies and home reversions (a type of equity release product).

The portfolio is geographically diverse and spread across England however, 70% of this portfolio by value is located in London and the South East of England. By number of units, 43% are in London and the South East.

The average vacant possession value of an individual reversionary asset in our portfolio is £272,000. Grainger's reversionary portfolio is held at market value at £1.3bn.

The value of the 'reversionary surplus' that has not yet been crystallised in the portfolio is £503m or 120p, including our share of joint ventures and associates. This unrealised reversionary surplus is not reflected in our NAV or NNNAV measurements, but it is important to note that we capture this reversionary surplus on all the vacant sales of our reversionary assets.

STRATEGIC OBJECTIVES

LEADERSHIP
Grainger is a leading investor in reversionary assets in the UK and we are recognised in the marketplace as such.

RETURNS
Through active asset management, our unrivalled property and asset management platform, specialist sales team and our refurbishment division, we are able to maximise the total returns we generate from our reversionary assets.

BALANCE
While our reversionary business primarily generates sales income, our regulated tenancies also generate rental income. In addition, through several strategic partnerships, we manage reversionary asset portfolios on behalf of third parties and in return receive a profitable fee income.

OPTIMISATION
Our reversionary assets provide consistent, long term cashflows to the Group.

OUR STRATEGY IN ACTION

Creating places for tomorrow's communities

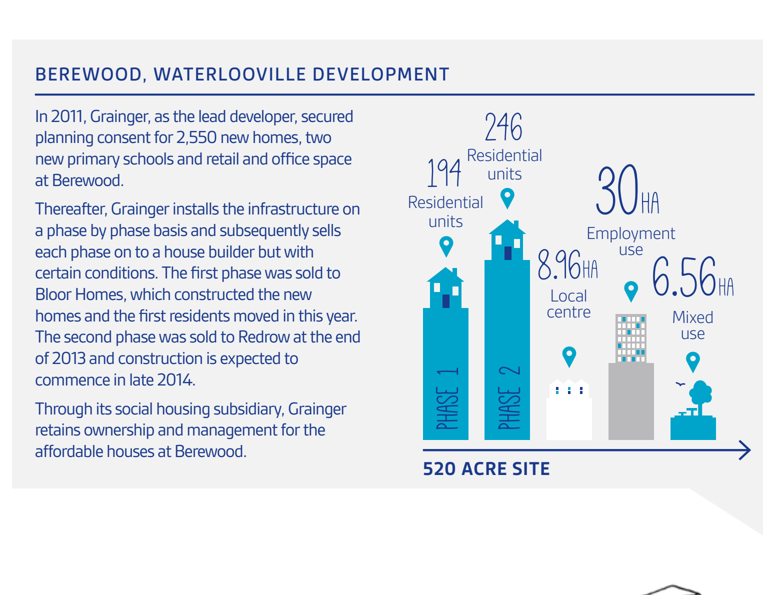
By using our experience as a long term landlord and manager, we leverage our in-house development skills creating new communities where we will have a long-term interest.

BEREWOOD, WATERLOOVILLE DEVELOPMENT

In 2011, Grainger, as the lead developer, secured planning consent for 2,550 new homes, two new primary schools and retail and office space at Berewood.

Thereafter, Grainger installs the infrastructure on a phase by phase basis and subsequently sells each phase on to a house builder but with certain conditions. The first phase was sold to Bloor Homes, which constructed the new homes and the first residents moved in this year. The second phase was sold to Redrow at the end of 2013 and construction is expected to commence in late 2014.

Through its social housing subsidiary, Grainger retains ownership and management for the affordable houses at Berewood.



WELLESLEY, ALDERSHOT DEVELOPMENT

Wellesley differs from Berewood in that Grainger is the development partner, acting on behalf of the Defence Infrastructure Organisation (DIO), a part of the Ministry of Defence which still owns the site at Wellesley, Aldershot.

In this way, Grainger receives fees for providing the DIO with our expertise and skills in development, masterplanning, delivery and long term estate and property management, as well as a proportion of the profits from the sale of each phase to housebuilders.

Delivery of the development will take up to 20 years and will create up to 3,850 new homes, 35% of which will be for social rent or shared ownership.

Phases of the development sold to house builders

SALES

Private and affordable rented units

RENTS

Site management and joint partnership with Defence Infrastructure Organisation, HCA

FEES

STRATEGIC DEVELOPMENTS

Grainger's strategic land business is capable of delivering across all three of our income streams – sales, rents and fees.

Grainger takes the role of lead developer and takes responsibility for overall placemaking and masterplanning for the development.

Grainger applies for planning permission and once we have received planning consent, we install the necessary infrastructure such as roads, and will then sell on parcels (or 'oven ready' sites) of the development to house builders to build the specific phases in the scheme, generating sales income. The house builders are required to build to our designs, ensuring the whole scheme is delivered in a joined-up manner, allowing us to bring our vision to life.

At both Berewood and Wellesley, Grainger will retain management responsibility for the private rented sector (PRS) phases but also the affordable houses. These assets will provide a long term rental income stream to the business.

Grainger will use its existing asset and property platform to ensure the long term success of the new communities we are creating, as well as securing a long term income stream for the business.

STRATEGIC OBJECTIVES

LEADERSHIP
Grainger is recognised as a leader in delivering large and long term strategic land development projects. Our development, Wellesley, Aldershot received the Design Council's Built for Life quality mark (endorsed by the UK Government), which recognises high quality design in new residential developments.

RETURNS
Grainger's long term approach and ability to take an ongoing management role in these new communities allows us to maximise values over the course of the development and beyond.

BALANCE
Our strategic developments deliver all three income streams – sales, rents and fees.

OPTIMISATION
Our Wellesley project requires minimal funding from Grainger.

OUR STRATEGY IN ACTION

Building new rental communities

The number of households in the private rented sector (PRS) continues to steadily increase and Grainger is well placed to take advantage of this trend. We will build new rental communities that we will retain and rent out.

BUILD TO RENT

To support the future of our business, we plan to use our core skills of investment and management to take advantage of growth in the PRS and develop specially designed residential blocks for rent, which we will own and manage for the long term.

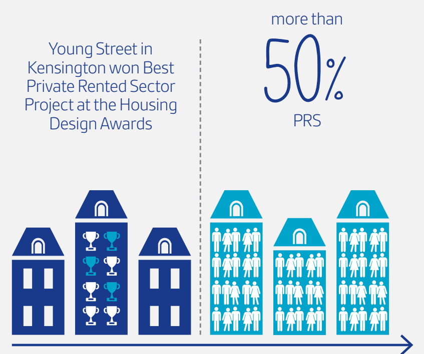
Our breadth of skills in the residential property sector means that we are one of a handful of companies in the UK with the ability to deliver large scale new rental communities from scratch, retain a long term financial interest in them, as well as manage them.

By approaching build to rent opportunities in an integrated fashion, we are able to identify, shape and successfully execute transactions better than most. Our unique platform and broad skillset means that not only are we competitive at a transactional level but also our newly built rental blocks are better designed, generate better returns, and the service we are able to provide the end user, our customers and tenants, is well above industry standards.

Grainger colleagues have been heavily involved in advancing this sector, including involvement in the London Mayor's Housing Taskforce, the UK Government's Montague Review and the UK Government's very own PRS Taskforce. In addition, Grainger was heavily involved in the production and publication of the UK's first build to rent Design Guide by the ULI.

ROYAL BOROUGH OF KENSINGTON AND CHELSEA

In 2012, Grainger was selected by the Royal Borough of Kensington and Chelsea to develop and manage two innovative housing schemes on council-owned land in the borough. Both schemes received planning consent this year. More than 50% of the homes across both sites will be purpose-built specifically for the PRS. One of the sites, Young Street in Kensington, won Best Private Rented Sector Project at the Housing Design Awards.



PONTOON DOCK

In September 2014, the Mayor of London, announced the appointment of the preferred delivery partner for a new development within Royal Docks, Pontoon Dock, East London. The selected consortium led by Bouygues Development alongside the London Pensions Fund Authority and Grainger will develop the 1.7 acre public car park into more than 200 homes. The site will provide 137 PRS, 42 affordable rent and 31 shared ownership homes.

137
PRS

42
Affordable rent

31
Shared ownership

P

1.7 ACRE

STRATEGIC OBJECTIVES

LEADERSHIP
We received the Best Build to Rent Development award at the Housing Design Awards (scheme: Young Street, RBKC), as well as Best Asset Manager for the third year in a row at the RESI Awards.

RETURNS
By using our experience in both asset and property management as well as development, we design our new build to rent developments with a view to increasing rental income and improving management efficiency, thereby increasing profit margins.

BALANCE
By increasing our portfolio of market rented assets we will grow our rental income.

OPTIMISATION
As the proportion of rented assets increase we will manage our LTV to an appropriate level.

Market rented assets will become a more significant part of our business over the medium term

GROSS NAV

291p

PBT

£81.1m

Strategy and Future Outlook (continued)

Even at current levels, we estimate our reversionary portfolio will generate over £120m of cash each year until 2030. The overall market for these assets is in gradual decline and this is why, over the years, we have increased our exposure to other forms of residential assets, for example home reversion assets in the UK and residential investments in Germany.

We are market leaders in both the regulated tenancy and home reversion markets and it is our intention to maintain those positions. We will continue to actively acquire those assets while they remain available and provide appropriate levels of return.

Changes to the residential landscape, in particular the development of the market rented sector, present a further opportunity for growth, building on our reputation and expertise and our existing operating and management platforms. Consequently, it is one of the areas in which we will invest over the next few years.

Our long term vision is to be the first (and foremost) truly national market rented landlord offering a high quality product and service that enables people to increase their housing choices; this entails a strong, recognised brand that will help people to move easily and seamlessly both from location to location, and through different price points.

We will grow this part of the business primarily through build to rent projects, integrating our core skills of asset and property management, with those of development.

Our geographic focus for investment will continue to be in the UK, ahead of anticipated value growth in the regions and in the 'doughnut' zones around central London.

We have had an encouraging start to the new financial year and are confident of delivering good levels of profitability in 2015. Our sales will continue to benefit from the realisation of the reversionary value embedded in our portfolio. In addition to our core rental and fee income, our development business is expected to see high levels of activity over the next three years, with existing schemes anticipated to generate on average c.£10-12m of profit per annum.

Grainger will continue to be highly cash generative, providing significant firepower to invest in market rental and fee generating opportunities, as well as our more traditional reversionary assets.

Our business provides shareholders with exposure to the housing market; a unique residential portfolio supported by an expert management platform; short term profitability from our opening sales pipeline and expected development profits; medium term value growth from our portfolio and the realisation of the £503m reversionary surplus; and significant long term opportunities from the market rented sector.

I would like to personally thank Robin Broadhurst who has been chairman for over seven years and a director of the Company for over ten. Over this period, Grainger has seen significant change and positive advancements, and together we have successfully worked through some challenging economic times. His constant support and counsel have been valuable and much appreciated. Likewise, my sincere thanks and best wishes go to John Barnsley, who leaves after many years of service with Grainger. We wish them both the very best for the future.

Andrew Cunningham

Andrew Cunningham
Chief executive

20 November 2014

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.

grainger = **LEADERSHIP**

BREADTH AND DEPTH OF OUR OFFERING

We offer a range of core skills:

– residential management
– residential trading
– development
– investment and fund management
– registered provider of affordable housing
– accounting and reporting

In the UK, these skills are provided through our national presence.

PEER RECOGNITION AS EXPERTS IN THE RESIDENTIAL SECTOR

We were awarded Best Residential Asset Manager for the third year running[9]; our Macaulay Walk development was named Best Development and Best Mixed Use Development[10]; our GRIP Fund was recognised for sustainability[11]; we achieved an EPRA Gold Award for sustainability reporting; our Wellelsey development achieved a Built for Life quality mark and our build to rent development, Young Street, won the Best Private Rented Sector design award[12].

Residential Awards
9 RESI Awards
10 Sunday Times' British Homes Awards
11 Sector Leader in the Global Real Estate Sustainability Benchmark
12 Housing Design Awards

ABILITY TO CREATE NEW BUSINESS OPPORTUNITIES AND ATTRACT HIGH QUALITY STRATEGIC PARTNERS

New partnership arrangements entered into in 2014 and post year end include:

– Pontoon Dock (read more on page 15);
– Sigma Capital (read more on page 8).

grainger = **RETURNS**

#2

PBT (£m)
Profit/(loss) before tax

12: (1.7)
13: 64.3
14: 81.1

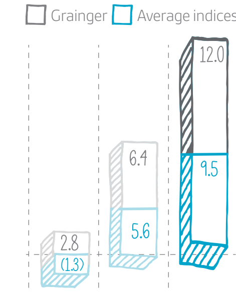
ROSE

2013: **25.2%**, 2012: **3.8%**

25.6%

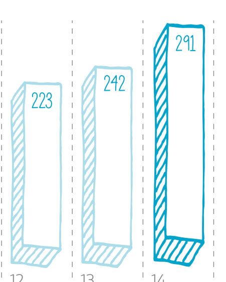
SEE P28 TO P31

UK HPI outperformance %
Measured against average movement in the Nationwide and Halifax indices

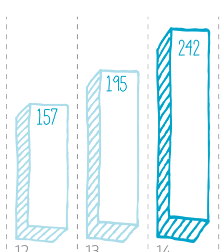


SEE P26 TO P27

NAV (p)
Gross net asset per share



NNNAV* (p)
Triple net asset per share



* Growth in NNNAV is a performance condition for the long-term incentive scheme (see pages 63 and 72).

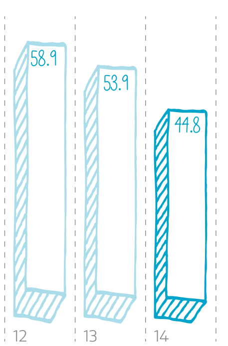
SEE P31 TO P32

SEE P31 TO P32

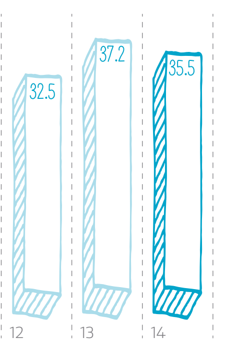
KEY PERFORMANCE INDICATORS CONTINUED

grainger = BALANCE #3

Proportion of net rents and fees to net rents and fees plus trading profit from vacant sales – %

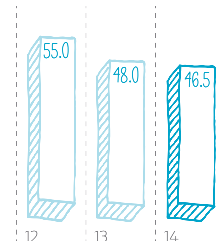


Proportion of gross management fees to overheads – %

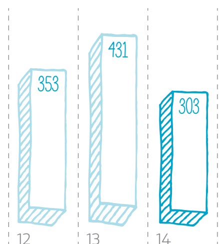


grainger = OPTIMISATION #4

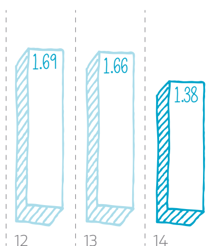
Group LTV – %



Gross cash generated from sales, gross rents and fees – £m

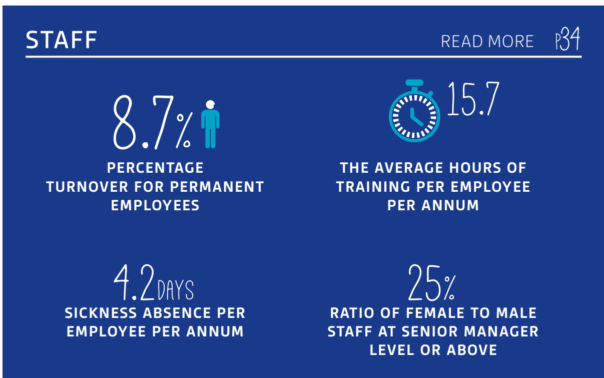


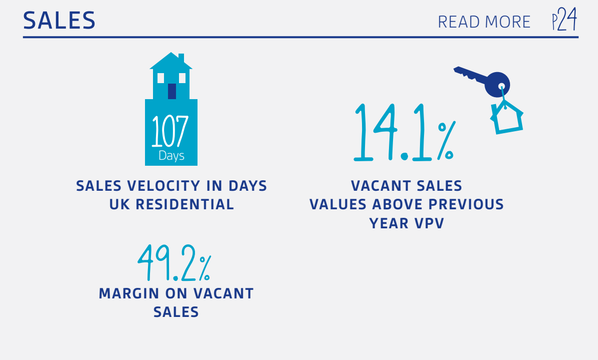
Efficiency
Proportion of property expenses and overheads net of fees/other income as a percentage of market value of assets under management – %

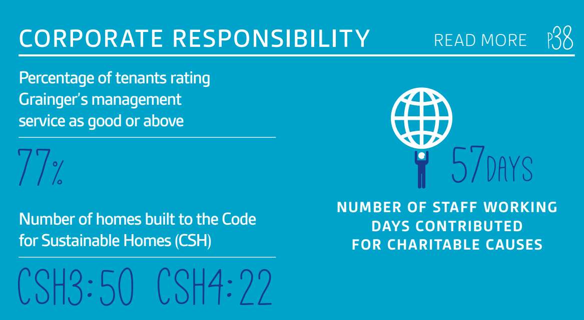


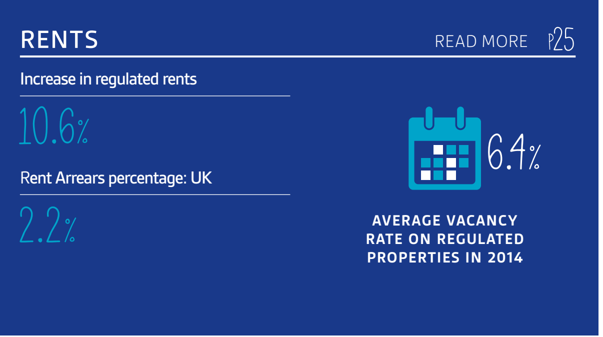
Operational measures

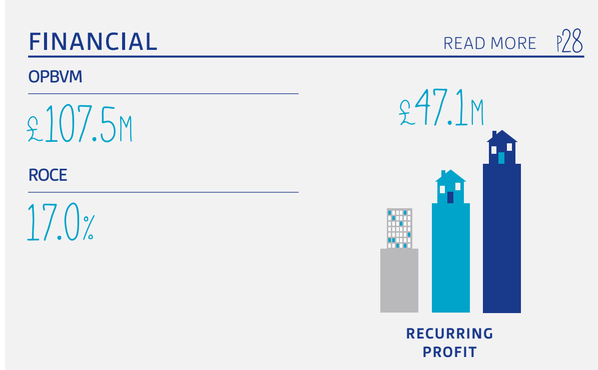
In addition to our strategic KPIs, there are a number of other performance measures that the Group actively monitors to assess the performance and direction of the business and which contribute to its overall performance as measured by the KPIs.











TREASURY

READ MORE P33

Interest cover ratio on core syndicate facility

3.7:1

Average cost of debt

5.4%

Average maturity of drawn debt

4.8YEARS

Hedging percentage

68%

Cash and headroom on facilities

£297M

Risk management approach

Our risk management approach is designed to provide high levels of assurance that risks are identified and assessed in a clear and informed way.

Through our risk management processes and activities, clear decision-making is encouraged at all levels of the business as to which risks we accept and how these are effectively managed.

Our risk management work increasingly extends to delivering enhanced performance by instituting stronger processes and controls across the Group's full range of activities.

Overall we continue to foster and embed a culture of risk management that is responsive, forward looking, consistent and accountable.

Figure 1: Grainger Risk Management Framework

RISK MANAGEMENT FRAMEWORK

Grainger risk management policy

↓

People risks
Market and strategy risk
Project assurance risk
Operational risk
Financial risk
Legal and regulatory risk
IT risk
Sustainability risk

↑

Independent monitoring
Risk based monitoring plan
External verification

Risk assessment

We assess risk across the Group using a systematic risk management framework (Figure 1) covering both external and internal factors.

The impact and probability of risks are determined and scored both gross (before controls) and net (after controls), which allows us to monitor the risk areas most heavily reliant on controls. A risk scoring matrix is used to ensure that a consistent approach is taken when assessing the overall impact to the Group. Likelihood is based on the frequency of occurrence in a rolling 12 month period.

These risk scores are documented in risk registers and maintained at project, business unit, divisional and Group levels. They change as new risks emerge and existing risks diminish, so that the registers reflect the current threats.

Grainger's Risk and Compliance function drives the risk management process and challenges the risk findings and reported controls. The Risk and Compliance function is managed by the group general counsel as part of the Legal, Risk and Governance Group, which also includes legal, health and safety and company secretarial functions. This group, along with the executive directors, are closely involved at critical stages in the process to review, challenge and debate the risks identified. A register of the top risks faced by the Group is produced through our bottom up and top down process.

The Board has overall responsibility for ensuring our risks are managed appropriately. The Board Risk and Compliance Committee (BRCC) has delegated authority from the Board and regularly reviews the Group's risk management approach and framework, the top risks, risk appetite and tolerances. During the year, actions have included:

- integrating sustainability risks in to the overall risk management framework;
- developing an assurance framework and a supporting 3 Lines of Defence model;
- running training workshops with senior managers;
- further enhancing internal e-learning in key risk areas;
- establishing a project office and detailed protocols for the management of all change and transactional projects.

PRINCIPAL RISKS TO THE GROUP'S STRATEGY AND OBJECTIVES

The following overview of the principal risks faced by Grainger are those deemed to be the most material to Grainger's strategic, business and financial objectives in the context of the current market conditions including an indication of those that may arise in the forthcoming year. The risks are set out in accordance with Grainger's strategic objectives. The symbols indicate the direction of movement of each risk in each period.

STRATEGIC OBJECTIVES

1 LEADERSHIP
2 RETURNS
3 BALANCE
4 OPTIMISATION

Primary strategic objective links	Risk description	Risk impact	Mitigation	2013	2014
2, 4	Deterioration and/ or instability of wider global economic markets	– Market uncertainty may cause drop in housing demand; asset and portfolio values fall; development risks increase; – Subsequent financial/ investment constraints.	– Reduced reliance on trading income; – Maintenance of financial headroom providing a cushion for market adjustments; – Continuous review by Board .	↘	→
3, 4	Long term flat or negative growth in the value of assets	– Unattractive to external investors and partners; – Poor shareholder returns.	– Maintain balance of income from sales, rents and fees; – Portfolios weighted towards areas of higher growth.	↘	→
1, 3, 4	Failure to determine the expectations of our stakeholders and wider population – customers, tenants, staff, partners and shareholders	– Value not maximised – Inability to attract or retain tenants, staff and/or partners; – Increased cost base; – Reputational damage.	– Active sustainability programme and targets; – Complaints process to learn from tenant concerns; – Tenant surveys; – Staff surveys and management engagement; – Values programme implemented in the year.	↘	↘
3, 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.	– Headroom maintained at agreed levels; – Diversification of sources/forms of Group finance; – Positive relationship management with banks and other sources; – Gearing maintained within a range of 45% to 50%.	→	↘
1, 2, 4	Failure to implement changes required to deliver PRS objectives	– Suboptimal delivery of strategy; investment does not deliver expected returns; investor and customer expectations not met.	– Medium term operational plan for delivery; comprehensive expert market analysis and product design.		→

Key

The principal risks faced by the Group are:

Significant High/Increasing Neutral/Emerging Low/Reducing

RISK MANAGEMENT APPROACH CONTINUED

Primary strategic objective links	Risk description	Risk impact	Mitigation	2013	2014
1, 4	Failure to anticipate and respond to changes in legislation or regulation that creates increased and costly obligations	– 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 that lobby Government and policy makers; – Specialist legal, compliance and corporate affairs teams that monitor legislative, regulatory and consultation papers; – Use external specialists to advise and maintain forward focus.		
1, 3, 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 – tenants, employees, contractors or visitors; – Possible legal action and/or fine; subsequent reputational damage.	– Health and Safety compliance plan in place to include asbestos, fire, gas, electrical and water management; – All contractors are 'Gas safe' registered; – Specific Health and Safety Director responsible for compliance monitoring plan; – Whistleblowing policy; – Monitoring by senior management and Executive; – Regular reporting to the main Board.		
1, 3	Multiple concurrent operational and change projects	– Over extension of people and resources; – Missed deadlines, increased costs; – Poor delivery performance.	– Awareness by executives and senior management; – Oversight by Board Risk and Compliance Committee; – Use of external expertise and resource to support where appropriate; – Development of Grainger Project Office with clear project protocols and specific Project Management skills.		
1, 2, 3, 4	Failure to evolve the business and develop our people to ensure we have the necessary resource with the right skills and behaviours to deliver our strategy	– Reduced ability to deliver to stakeholder expectations; mismanagement; – reduced control; – inability to grow market share of PRS.	– Succession plans are regularly reviewed; – Management Development Training; – Retention policies in place for key staff; – Annual benchmarking of reward; – Regular staff surveys; – Performance reviews and appraisals.		
1, 4	Failure to maintain adequate and secure IT infrastructure and systems to appropriately support the growth and strategy of the business	– Increased costs; risk of regulatory action if data lost; – inability to report on performance to the satisfaction of stakeholders; – reputational damage.	– High quality, competent IT team; – Use of external specialist advisers where required; – Availability and security overseen by senior managers, executive and Board.		

Key

The principal risks faced by the Group are:

Significant High/Increasing Neutral/Emerging Low/Reducing

Risk response

The executive is accountable to the Board for establishing and maintaining an appropriate system of internal control and for providing assurance to the Board and its committees that it has done so. All employees have responsibility for controls in their areas as part of their overall responsibility for achieving their objectives.

The Legal Risk and Governance group manages the operational risk management process and is made up of highly experienced professionals in law, risk, compliance and health and safety. This group provides advice, intervention and incident response across the wider business. It also advises the BRCC and the executive in the determination of the nature and extent of risks the Group is willing to take in achieving its strategic objectives. We treat each risk in one of four ways:

- tolerate (accept risk and take no further action);
- treat (reduce risk by completing appropriate actions to improve or implement controls);
- transfer (share or remove risk by partial or whole transfer to a third party);
- remove (avoid risk by ceasing or altering the activities giving rise to the risk occurring).

In addition to the detailed risk mapping process and assessment outlined above, there are a wide range of risk controls in place, including but not limited to:

- All change and transactional projects are run within a project framework overseen by a dedicated project office. This framework incorporates continuous risk assessment of each project through a log capturing risk, assumptions, issues and dependencies. The BRCC also reviews all significant projects and the project portfolio board reports.
- An assurance framework has been introduced (approved and reviewed by the Audit Committee) to facilitate and structure improved assurance activities and reporting. The Legal Risk and Governance group will work with this framework to provide oversight and assurance across all activities where appropriate. The framework will also assist the Audit Committee and the BRCC in determining the appropriateness of this assurance work and the controls and procedures.
- The Director of Health and Safety meets monthly with the group general counsel, the finance director and the property director to review and monitor all health and safety processes and incidents. Any health and safety incidents are also reported to the Board and the BRCC.
- Complaints are recorded and dealt with in accordance with a Group policy overseen by the Legal Risk and Governance group and the complaints register is reviewed by the BRCC.
- The group general counsel reports on all known potential reputational risk matters to the Board.
- Internal policies are written and refined through a standing cross-functional committee at the direction of the BRCC.
- The Group has a detailed business continuity plan in place, supported by a cross-functional senior management committee empowered to make decisions in the event of a potentially disruptive major incident. This committee meets twice yearly to review policies and test readiness to deal with a major incident. These plans have performed well in real and simulated incidents which have occurred to date.

The effectiveness of the internal control systems is challenged 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
- key project risks are reviewed by the BRCC;
- the BRCC approves all Group policies;
- complaint trends are overseen by the BRCC;
- oversight by the Audit Committee of the scope and results of the work of internal and external auditors and of any significant issues arising;
- Audit Committee review of accounting policies, assurance framework and the levels of delegated authority; and
- the Board and the Audit Committee are informed of material incidents including any fraudulent activity or significant whistleblowing event, and actions being taken to remedy any control weaknesses

The Board, through its own annual agenda plan and in approving those of the Audit Committee and the BRCC, determines the process for risk management and review including the frequency and scope of all assurance reports and areas for particular focus. The Board, Audit Committee and BRCC agenda plans are designed to ensure that all significant areas of actual and potential risk are reported on and considered in the course of the year.

Emerging risks and further developments

The BRCC considers emerging risks at every meeting and obtains regular reports on these. The Board also reviews emerging risk, particularly in the context of the Group's strategic objectives and wider political, legal and economic factors. In the coming year we intend to maintain and extend our risk management focus including by:

- further refining our risk scoring matrix and risk appetite tolerances;
- developing the application of the assurance framework to enhance controls at all levels of assurance;
- developing the project framework protocols to further enhance risk analysis in a number of areas, including resourcing and other non-financial risks.

GRAINGER =

Performance

Margins on vacant sales have increased to 49.2% from 44.9%. Vacant sales were made 14.1% above last year's valuations.

Gross rental income for the year was £57.4m, representing 18% of total Group revenue.

UK Residential & Retirement Solutions

Margins on sales of vacant properties increased to 49.2% (FY13: 44.9%) and sales of vacant properties were made at an average of 14.1% above September 2013 VPV (2013 excess to 2012 VPV: 7.9%).

Sales of tenanted properties and other sales decreased from 2013 by £100.4m to £103.1m (FY13: £203.5m). The main disposal in the year was the sale of a home reversion (Retirement Solutions) portfolio in January 2014 for £88m, which generated a profit of £9.9m. This represents the end of the deleveraging programme which Grainger has been working through in recent years.

Development

The Development business had a good year with £32.8m of sales and £12.3m of profit (FY13: £15.0m and £1.9m respectively). This performance was weighted towards the second half of FY14 which saw higher levels of activity that have continued into the first half of FY15.

Our Macaulay Walk development has been the key profit driver and has delivered an outstanding sales performance with 53 of a total of 57 private units now sold, exchanged or reserved at values between £800-£1300/sqft, significantly above expectations. Over the period, Macaulay Walk has delivered £11.6m of profit to the business, and we expect a similar level of profit in the new financial year which will be weighted toward the first half. The development won Best Mixed Use Scheme and Best Development (between 26-100 units) at the Sunday Times' British Homes Awards 2014.

We will shortly be entering the construction phase on our two schemes

Sales

	Full year 2014			Full year 2013		
	No. of units	Gross sales value (£m)	Profit (£m)	No. of units	Gross sales value (£m)	Profit (£m)
Trading sales on vacancy						
UK Residential	287	78.1	42.9	337	79.5	40.2
Retirement Solutions	364	45.2	17.7	338	36.9	12.0
	651	123.3	60.6	675	116.4	52.2
Tenanted Sales	1,331	96.6	10.4	1,684	200.0	23.4
Other Sales	27	6.5	5.5	17	3.5	1.4
Residential Total	2,009	226.4	76.5	2,376	319.9	77.0
Development	–	32.8	12.3	–	15.0	1.9
UK Total	2,009	259.2	88.8	2,376	334.9	78.9
Germany	191	15.2	(0.2)	245	18.0	(1.2)
Overall Total	2,200	274.4	88.6	2,621	352.9	77.7
Deduct: Sales of CHARM properties	(67)	(7.2)	(0.6)	(59)	(5.8)	(0.4)
Statutory sales and profit	2,133	267.2	88.0	2,562	347.1	77.3

with the Royal Borough of Kensington and Chelsea, Young Street and Hortensia Road.

At Berewood, we sold Phase 2 to Redrow Homes in September 2013, and anticipate that the next phase will come to market in 2015.

Over the next three years, our development activities on average are currently expected to generate £10-12m of profit per annum.

Germany

The £15.2m of sales (FY13: £18.0m) relates to general portfolio management and optimisation activities. A broadly breakeven profit result (-£0.2m) compares against a £1.2m loss in the prior year. As assets are held as investment property and are revalued annually, a breakeven result indicates that the sales prices achieved met the latest valuation.

Rents

We recorded an anticipated reduction in net rent following the recent portfolio transfers into co-investment structures and investment sales. Total net rents in the year amounted to £37.0m (FY13: £48.5m).

Our UK Residential portfolio generated net rental income in the year of £30.2m (FY13: £37.2m).

The German business delivered net rents of £5.1m (FY13: £8.7m).

Certain assets in the Retirement Solutions portfolio also produce a net rental income and this amounted to £1.5m in the year (FY13: £2.3m).

Despite the overall net rent decrease, the UK market rented properties which we manage saw like-for-like rent increases on new lets of 9.1% and on renewals of 4.2%, compared to the market average of 1% according to the Office of National Statistics. While rent levels generally follow market trends, more importantly they reflect the quality of the individual unit and benefit from our active management to maximise rental income.

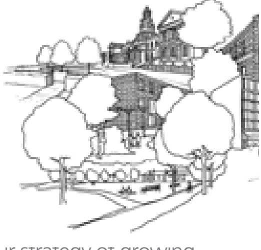
Across our entire portfolio, rental increases generated an additional £1.8m of gross rental income.

Net rents

	2014 £m	2013 £m
UK Residential	30.2	37.2
Retirement Solutions	1.5	2.3
Germany	5.1	8.7
Development	0.2	0.3
Net Rents	37.0	48.5

Refer to note 3 of the accounts on page 109 for a reconciliation to the statutory income statement.

Fees



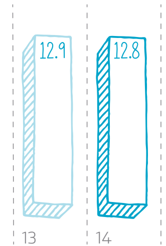
Allied to our strategy of growing our private rented sector offering are the opportunities we have developed for creating new joint ventures and fund management structures where we can leverage our core skills to create added value for shareholders and partners and generate fee income for Grainger.

The majority of fee income is derived from asset and property management fees from co-investment vehicles and management contracts. Overall, fees were stable year-on-year.

Retirement Solutions saw increased activity levels and fees following the commencement of services for Clifden Holdings Limited (the buyer of one of our home reversion portfolios in January). Development fees also increased. These relate to land sales at Wellesley, the Aldershot Urban Extension, working with the Defence Infrastructure Organisation, part of the Ministry of Defence.

Following a very positive 2013 for G:Ramp (our residential asset management agreement with Lloyds Banking Group), 2014 also benefited from performance fees, albeit at a lower level. These relate to the successful work-out of the bulk of the portfolios we have been managing, a reduced level of activity is therefore expected in 2015.

Fees and other income



GRAINGER =

Asset Performance

The total market value of assets under management at 30 September 2014 was £3.2bn, up from £2.8bn the previous year. 19,831 units were under management at the year-end (FY13: 21,569).

Group Performance

For the twelve months to 30 September 2014, Gross NAV increased by 20% to 291p and triple NAV by 24% to 242p.

(£m)	Gross NAV pence/share	NNNAV pence/share
30 September 2013	242	195
Profit after tax	18	18
Revaluation gain on trading stock	53	53
Elimination of previously recognised surplus on sales	(13)	(13)
Dividends paid	(2)	(2)
Impact of derivatives and hedging net of tax / Cashflow hedge reserve net of tax	(7)	1
Contingent tax	–	(8)
Other	–	(2)
30 September 2014	291	242

Grainger's reversionary surplus, which is the uplift from the reported market value of our properties to the vacant possession value, including our share of investments in joint ventures and associates, is valued at £503m, equivalent to 120p per share before tax (FY13: 127p, £527m). For our wholly owned assets, this is 109p per share (£455m) before tax (FY13: 116p, £483m). This surplus is based on current values (it excludes future house price inflation), is supplementary to our net asset calculations and highlights the additional latent value in Grainger's reversionary portfolio.

Market Value Analysis – Property Assets

	2014		2013	
	VPV £m	Market value £m	VPV £m	Market value £m
UK Residential Portfolio	1,793	1,448	1,451	1,145
Retirement Solutions Portfolio	454	345	613	435
Development Portfolio	107	107	84	84
UK Joint Ventures and Associates*	281	233	242	198
German Portfolios*	195	195	228	228
	2,830	2,328	2,618	2,090

*Includes Grainger share of assets held within joint ventures and associates

This is after the one-off valuation deficit of £5.9m relating to some of our German assets referred to below.

UK residential portfolios

	2014		2013	
	VPV	Market value	VPV	Market value
Year-on-year HPI (Nationwide and Halifax)	9.5%		5.6%	
Grainger's UK Residential portfolio	14.6%	15.9%	8.2%	9.3%
Grainger's Retirement Solutions portfolio	6.0%	9.4%	2.3%	5.9%
Grainger's combined UK portfolio	12.0%	14.6%	6.4%	8.3%

Our traditional reversionary UK residential portfolios have performed particularly strongly in 2014 and have again outperformed the wider UK residential market. In the year to 30 September 2014 the two major housing indices (Nationwide and Halifax) showed an average rise of 9.5%. By contrast, the vacant possession value (VPV) in our combined UK portfolios rose by 12.0% whilst their market value rose by 14.6%.

Within this, the VPV of our UK Residential portfolio, which benefited from a concentration weighted towards London and the South East of England, rose by 14.6%. The VPV of the more geographically diverse Retirement Solutions assets rose by 6.0%.

Development portfolio

As at 30 September 2014, the market value of our UK development portfolio increased to £107.2m (FY13: £84.3m), largely fuelled by the investment in our Macaulay Walk scheme (Clapham, London).

The gross development value, including joint ventures, with detailed planning consent is valued at £434m (FY13: £314m). This includes our 50% share of the King Street, Hammersmith development in conjunction with Helical Bar, which has a total gross development value of £180m, following the receipt of planning permission in November 2013, and two sites in the Royal Borough of Kensington and Chelsea which also received planning permissions within the period.

Co-investment vehicles

Grainger's equity investment in its joint ventures and associates equates to £177.2m and principally comprises:

- our 24.9% investment in GRIP, for which we provide property and asset management services, co-investing with APG;
- a 50% investment in Walworth Investment Properties Limited (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 Sovereign joint venture with Moorfield;
- and a 50% interest in the Hammersmith joint venture with Helical Bar.

The gross asset value of co-investment vehicles at 30 September 2014 was £1,016m (FY13: £924m). Grainger's total return from co-investment vehicles in the year amounted to 23.5%.

Germany

The overall German residential market has developed well and investor interest continues to be strong. In order to benefit from this interest and to further leverage its platform and assets, the Group intends to use existing German portfolios to form further co-investment vehicles with institutional partners to which it will provide asset management services. This relates mainly to the FRM portfolio. During the past year and following a thorough portfolio review, we have initiated an investment programme in order to ensure compliance with local regulations which will maximise the potential of the assets in respect of rents and occupancy. We believe it is right to invest in order to create a highly attractive entry possibility for institutional investors. The costs of this programme have been accounted for in the current year and have impacted profit before tax and net asset value by £5.9m.

Our Heitman associate in Germany has delivered a positive performance in 2014, supported by investment activity in Munich and other dynamic markets and our active asset management approach, returning in excess of 15% to Grainger in 2014.

The value of the assets Grainger manages in Germany, including the Heitman associate, has increased by 4.4% on a per sqm like-for-like basis. As at 30 September 2014, the market value of the wholly owned German portfolio was £148.4m (8% of our overall wholly owned portfolio; FY13: £178.3m). The reduction in market value follows sales of €18.6m (£15.2m) and the cost of additional investment outlined above.

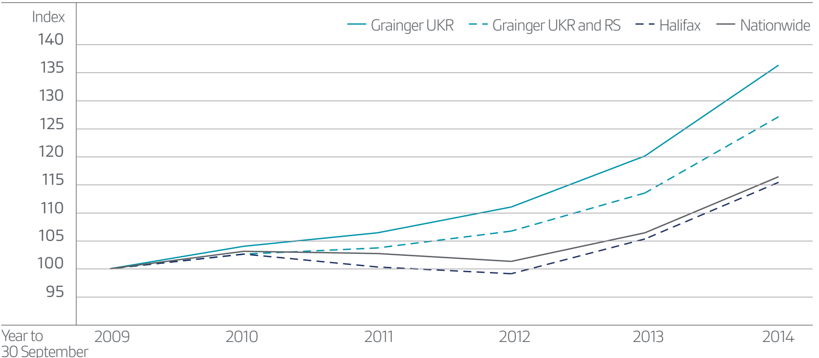
Purchases

Our strong cash generation supports reinvestment and we have spent £182m on property purchases, excluding development (FY13: £9.0m). The largest single element of this expenditure was the acquisition in April of the Chelsea Houses Portfolio. This portfolio has performed well in the five months since acquisition, with a growth in vacant possession value of 4.2%. Apart from its attractive reversionary characteristics and returns, the portfolio provides a significant number of value accretive refurbishment and redevelopment opportunities.

Assets under management

The total market value of assets under management at 30 September 2014 was £3,159m, up from £2,796m the previous year. 19,831 units were under management at the year-end (FY13: 21,569), with most of the reduction attributable to the successful conclusion of G:Ramp asset management activities.

Performance of Grainger UK assets vs Halifax and Nationwide indices



FINANCIAL REVIEW

Improving our financial returns

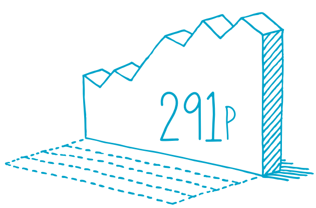
Pre-tax profit increased to £81.1m. It is very pleasing to be able to report a gross increase in market value of over £0.25bn on our directly and indirectly owned portfolio.

Mark Greenwood
Finance director

Return on capital employed

17.0%

Gross NAV up 20% to



Total market value increase

£264m

Our key measures of financial performance are:

	2014	2013
Gross net asset value per share (pence)	291p	242p
Triple net asset value per share (pence)	242p	195p
Operating profit before valuation movements and non-recurring items (OPBVM)	£107.5m	£107.6m
Recurring profit	£47.1m	£37.0m
Profit before tax	£81.1m	£64.3m
Excess on sale of normal sales to previous valuation	14.1%	7.9%
Return on capital employed *	17.0%	8.1%
Return on shareholder equity **	25.6%	25.2%

* Operating profit after net valuation movements (OPBVM) 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 triple asset value (NNNAV) in the year plus the dividend per share relating to each year as a percentage of opening NNNAV.

The table below summarises our OPBVM, recurring profit and profit before tax.

	2014 £m	2013 £m
Profit on sale of assets	88.6	77.7
Net rents	37.0	48.5
Management fees/ other income	12.8	12.9
CHARM	6.4	5.7
Overheads/other expenses	(37.3)	(37.2)
OPBVM	107.5	107.6
Net finance costs	(63.4)	(71.3)
Joint ventures and associates	3.0	0.7
Recurring Profit before tax	47.1	37.0
Valuation movements including derivatives	37.7	33.2
Non-recurring items	(3.7)	(5.9)
Profit before tax	81.1	64.3

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:

Main movements within OPBVM

	£m
2013 OPBVM	107.6
Decrease in gross rents	(13.9)
Increase in residential profit on sale	0.9
Increase in development trading profit	10.4
Increase in interest income from CHARM	0.3
Decrease in gross management fee and other income	(0.1)
Decrease in property expenses, overheads and other income and expenses	2.3
2014 OPBVM	107.5

The major movements within OPBVM are:

- A decrease of £13.9m in gross rents. This has arisen, as predicted, primarily as a result of the transfer of assets into co-investment vehicles in the prior year with Heitman for German assets, and with Dorrington and APG for UK assets. This reduced gross rents by £8.9m. Sales across the Group have resulted in a reduction in gross rents of £7.9m. This has been offset by £1.1m of additional rents from acquisitions in the year, primarily the Chelsea Houses Portfolio, and £1.8m of rental increases.
- An increase of £0.9m in relation to profit on sale of residential property assets, primarily due to an increase in margin on vacant sales from 44.9% to 49.2% and a reduction in tenanted sales as we reached the end of our deleveraging programme.
- An increase of £10.4m in relation to profit on sale of assets from our development division. In the year our Macaulay Walk site has come to market, realising profits of £11.6m based on completion of 34 of the 57 private units and 6 of the commercial units.

Interest income and expense

The net recurring interest charge has decreased by £7.9m from £71.3m in 2013 to £63.4m at 30 September 2014. This follows on from the reduction in debt which was (on a daily average) £1,101m in 2014 (FY13: £1,248m), and an average cost of debt at the period end including costs but excluding commitment fees of 5.4% (FY13: 5.9%).

Joint ventures and associates

Joint ventures and associates contributed a profit of £3.0m to recurring profit in the year (FY13: £0.7m) as we benefited from a full year of trading from our Heitman and Walworth ventures.

Divisional Analysis of OPBVM

	Profit on sale of assets £m	Net rents £m	Management fees/other income £m	Overheads/ other £m	Total 2014 £m	Total 2013 £m
UK Residential portfolio	48.9	30.2	0.4	(8.4)	71.1	94.6
Retirement Solutions portfolio	27.6	1.5	1.7	4.0	34.8	19.0
Fund and third party management	–	–	8.5	(6.1)	2.4	2.9
Development assets	12.3	0.2	1.1	(1.7)	11.9	1.2
German residential portfolio	(0.2)	5.1	1.0	(3.2)	2.7	4.7
Group and other	–	–	0.1	(15.5)	(15.4)	(14.8)
OPBVM 2014	88.6	37.0	12.8	(30.9)	107.5	–
OPBVM 2013						107.6

FINANCIAL REVIEW CONTINUED

Valuation and non-recurring items

Valuation and non-recurring items in 2014 compared with 2013 is analysed as follows:

	2014 £m	2013 £m	Movement
Valuation			
Adjustment of inventories to net realisable value	0.8	0.7	0.1
Valuation gain on investment property	7.4	2.9	4.5
One-off valuation deficit on German FRM investment property	(5.9)	–	(5.9)
Goodwill impairment	–	(4.7)	4.7
Change in fair value of derivatives	1.2	21.6	(20.4)
Valuation gains on investment property in joint venture and associates before tax	39.2	14.7	24.5
Tax on valuation gains on investment property in joint ventures and associates	(4.6)	(2.3)	(2.3)
Change in fair value of derivatives of joint venture and associates	(0.4)	0.3	(0.7)
	37.7	33.2	4.5
Non-recurring			
Profit/(loss) on disposal of subsidiary/joint venture	0.8	(2.3)	3.1
Impairment of Prague joint venture	(2.4)	–	(2.4)
Net gain on purchase of Tricomm debt	–	1.6	(1.6)
Costs/ charges/ gains relating to GRIP/ G:res	–	(2.6)	2.6
Other non-recurring costs	(2.1)	(2.6)	0.5
	(3.7)	(5.9)	2.2
Total	34.0	27.3	6.7

Investment property valuation gain

The net valuation uplift in 2014 totals £1.5m (FY13: £2.9m). Our UK portfolios, relating primarily to the Group's wholly owned investment property in its UK Residential division showed an uplift of £7.6m (FY13: £2.5m). In Germany, as stated previously, we are intending to start a programme of works on our FRM portfolio, the cost of which has been taken into account as part of the September valuations, resulting in a one-off downward valuation of £5.9m. The remaining German portfolios showed a deficit of £0.2m (FY13: surplus of £0.4m).

Derivative movements

Fair value movements on derivatives is a credit of £1.2m relating to the Group's derivative contracts, offset by a £0.4m charge relating to our share of derivatives within joint ventures and associates.

The fair value of swaps at 30 September 2014 is a liability of £48.0m compared to £91.1m at 30 September 2013.

Valuation gains in joint ventures/associates

Valuation gains within joint venture and associates amounted to £39.2m before deferred tax (FY13: £14.7m) comprising gains from our joint venture and associate operations with Heitman, Dorrington and APG.

Non-Recurring

The non-recurring items in 2014 included a £0.7m gain on sale of a subsidiary as part of the tenanted portfolio sale completed in January 2014 and a £0.1m gain on sale of our Gebau joint venture in October 2013. This is offset by a £2.4m loan impairment charge relating to our Prague investment, £1.3m of one-off property costs and provision increases relating to a small number of properties across the portfolio and £0.8m following the acquisition of the Chelsea Houses Portfolio.

Profit before tax

Having taken account of all of the above movements, profit before tax was £81.1m compared to a profit before tax of £64.3m in 2013. The most significant movements which contributed to the 26.1% increase were a £11.3m increase in profit from sales largely driven from development sales in the year, a £7.9m decrease in interest costs and a £4.6m increase in valuation gains from investment properties, offset by a reduction in net rents of £11.5m following the recent portfolio transfers into co-investment structures and investment sales.

Tax

The Group has an overall tax charge of £6.4m for the year, comprising a £7.3m UK tax charge and a £0.9m overseas tax credit.

The net reduction of £11.4m, from the expected charge of £17.8m, results from a prior period credit of £6.5m, a £4.2m reduction as tax on JV and Associates' profit is included above the tax line in the Income Statement and a £1.8m deferred tax credit following recognition of future capital losses against future capital gains, offset by non-deductible expenditure totalling £1.1m.

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 £7.2m in the year.

Earnings per share

Basic earnings per share is a profit of 18.1p (FY13: a profit of 13.1p). A year-on-year comparison is shown below:

	£m	Pence per share
2013 Profit/earnings per share	53.6	13.1
Movements in:		
OPBVM	(0.1)	–
Contribution from joint ventures and associates	2.2	0.5
Fair value of derivatives	(20.9)	(5.1)
Revaluation of investment properties	20.9	5.1
Net interest payable	7.9	1.9
Taxation/other	11.1	2.6
2014 Profit/ earnings per share	74.7	18.1

Dividend for the year

After considering the investment and working capital needs of the business, the directors have recommended a final dividend of 1.89p per ordinary share (FY13: 1.46p) which equates to £7.8m (FY13: £6.0m). This is in addition to the interim dividend of 0.61p per ordinary share (FY13: 0.58p). The total dividend for the year will therefore be 2.50p per ordinary share (FY13: 2.04p), an increase of 22.6%. Earnings cover dividends by 7.3 times.

Net asset values

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

	30 September 2014	30 September 2013	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	291p	242p	20%
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	242p	195p	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 NNNAV as described and shown in this document.

FINANCIAL REVIEW CONTINUED

Cash inflows from sales, rents, fees

£303M

Consolidated LTV

46.5%

Headroom

£297M

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	1,215	291
Deferred and contingent tax	(151)	(36)
Fair value of derivatives adjustments net of tax	(52)	(13)
NNNAV	1,012	242

The major movements in Gross NAV in the year are:

	£m	Pence per share
Gross NAV at 30 September 2013	1,008	242
Profit after tax	75	18
Revaluation gains on trading stock	223	53
Elimination of previously recognised surplus on sales	(55)	(13)
Dividends paid	(9)	(2)
Impact of derivatives and hedging net of tax	(29)	(7)
Other	2	–
Gross NAV at 30 September 2014	1,215	291

The major movements in NNNAV in the year are:

	£m	Pence per share
NNNAV at 30 September 2013	811	195
Profit after tax	75	18
Revaluation gains on trading stock	223	53
Elimination of previously recognised surplus on sales	(55)	(13)
Dividends paid	(9)	(2)
Cashflow hedge reserve net of tax	6	1
Contingent tax	(34)	(8)
Other	(5)	(2)
NNNAV at 30 September 2014	1,012	242

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	183	7	190
Retirement Solutions	24	1	25
Development	12	–	12
Joint venture and associates*	4	37	41
German Portfolios*	–	(4)	(4)
	223	41	264

* includes Grainger share of assets held within joint ventures and associates

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 £22.5m before deferred and contingent tax and £17.7m 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	926	584	1,510	431	1,941
Development	94	13	107	–	107
Total at 30 September 2014	1,020	597	1,617	431	2,048
Total at 30 September 2013	950	433	1,383	460	1,843

* Incudes property assets within held-for-sale

Financial resources, interest cost and derivative movements

	2014	2013
Net Debt	£1,044m	£959m
Consolidated Loan to Value	46.5%	48.0%
Core Loan to Value	42.0%	40.1%
Core interest Cover	3.7	5.0
Average maturity of drawn facilities	4.8 years	4.6 years
Headroom	£297m	£292m
Average cost of Debt[9]	6.0%	5.7%
Average cost of Debt at period end[10]	5.4%	5.9%

As at 30 September 2014 net debt was £1,044m, an increase of £85m from the 30 September 2013 level of £959m. Our consolidated loan to value now stands at 46.5% (FY13: 48.0%). LTV on the core facility was 42.0% (FY13: 40.1%) compared to a maximum allowable LTV covenant under that facility of 75%. The interest cover ratio on the core facility stood at 3.7 times (2013: 5.0 times) compared to a minimum interest cover covenant of 1.35 times.

As at 30 September 2014, the average maturity of the Group's drawn debt was 4.8 years (FY13: 4.6 years).

The Group has free cash balances of £50m plus available overdraft of £5m along with undrawn committed facilities of £242m. Thus, headroom totals £297m as at 30 September 2014 (FY13: £292m). There are no further significant repayments until March 2016.

The Group's average cost of debt at the period end, including costs but excluding commitment fees, was 5.4% (FY13: 5.9%). We will continue to manage the average cost of debt, balanced with terms and tenor.

At 30 September 2014, gross debt was 68% hedged (FY13: 68%) of which 4% was subject to caps (FY13: 3%).

During the year we further diversified our sources of debt by issuing £275m of bonds with a maturity date of December 2020 at an all in effective rate of 4.94%.

The business has produced £303m of cash from gross rents, property sales net of fees and fee and other income. The largest outflows of cash are £160m investment in the Chelsea Houses Portfolio, £35m to settle interest rate swaps required before issuance of our corporate bonds and £55m of interest.

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

20 November 2014

[9] Including costs and commitment fees
[10] Including costs excluding commitment fees

Our people, tenants and partners

The sustainability of our business depends on positive relationships with our stakeholders, including our people, tenants and partners.

Introduction

In addition to being a property business, we are also strongly committed to being a people focussed business. Our strength comes from the relationships that we have with each person and organisation with whom we work. We regard our tenants and our partners as customers.

As a long term investor in homes and communities, we know that it is critical to build and maintain open and positive relationships. Such relationships are with our tenants, whose homes are our assets, the communities in which we invest and operate, our suppliers and our partners. One of our core values is our long term approach, and ensuring we have a strong and sustainable future requires us to earn a 'licence to operate', which is granted implicitly by our stakeholders. If we ignore our key stakeholders, and their concerns, this could be challenged. It is therefore no surprise that maintaining and nurturing these relationships is a key focus in our business.

Our focus on engagement and customer service is ever increasing as our business evolves and grows. Over the years we will continue to invest in understanding the needs and experiences of our existing customers as well as our future customers and tenants.

Our increasing emphasis on understanding our customers' needs and building our business to focus on meeting current and future needs has been a major theme for the business over the past year and will continue in the years ahead. Our efforts have taken place on many fronts.

We have partnered with the leading market research organisation, Mindfolio, in order to gain greater insight into the experiences and expectations of our future customers. Specifically, we research what they would like to see in design and management on our new build to rent developments. In addition, we have increased the surveys we undertake with existing customers so that we can better understand their experiences.

It is equally important that everyone in Grainger shares this customer focus and understands how we are putting this focus into practice. Accordingly, we have started a programme of training and testing, particularly for our front-line staff, aimed at measuring and consequently improving customer service within Grainger.

Our people

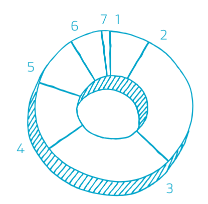
The foundation of our business is our people and we aspire to be the best team in residential.

Investing in our employees and ensuring they are engaged, motivated and well informed gives us the competitive advantage that helps keep us at the forefront of our industry. They are the key to our success and the driving force behind moving the business forward.

Achievements in 2014

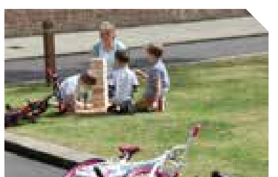
80 training and briefing sessions were held for staff

21 work experience placements provided



Employee profile

Age	No. of employees
1. 18–25 years	23
2. 26–33 years	83
3. 34–41 years	78
4. 42–49 years	43
5. 50–57 years	32
6. 58–65 years	19
7. 65+ years	4
	282



Supporting our people

In addition to the specific focus on the customer, we continue to invest heavily in developing the skills and careers of our employees.

Over the year we have held more than 80 training and briefing sessions for staff, covering technical, professional, systems, project management, finance, presentation and negotiation, media and health and safety skills. Where possible, we use the expertise of colleagues within the business to share their knowledge with others through a series of Lunch & Learn events. Leadership and management development is a key part of our ongoing effort to invest in the continued and ongoing success of our business into the future. Our investment in this area includes coaching, leadership profiling and development planning, management training, and specialist business programmes including at Insead, London Business School and IREBS Real Estate Academy in Germany.

Further education is always an important part of our talent development programme, and this year we supported 12% of staff members (32) in acquiring professional qualifications.

We also focus our attention on those entering business at a younger age and we are pleased to have supported 21 individuals for work experience placements and our Graduate Recruitment Programme continues to be highly sought after with more than 200 applicants for the two vacancies we have annually.

Engaging staff to support our strategic priorities

The best way to support positive business growth is through a motivated and informed workforce. In order to achieve this, our staff engagement activities centre around telling our Company's story in the most compelling and relevant way possible, and bringing it to life through personal experiences. We leverage off an active events programme, including conferences, roadshows and town hall meetings.

Each year, we hold a strategy conference for the senior management team where we discuss and debate our strategic objectives. Following this, each senior manager discusses key findings from the strategy conference with each of their teams. This cascading process is followed up by a roadshow hosted by our CEO and other executives for all staff across our offices in the UK and Germany.

One way we have found success in terms of communicating to staff in an engaging way is through the use of real case studies from around the business to demonstrate how our Company values and business initiatives come to life in real day to day scenarios. This year we also focused on utilising video more to discuss our Company values as well as highlighting each of the respective job roles and responsibilities of every senior manager across the business.

We also use our Corporate Responsibility programme as a way to engage employees, letting them choose a charity of their choice when volunteering, or we support them in their personal charitable endeavours through a charity match funding programme.

Employee profile

Role	Male	Female	Total
Non-executive Directors	5	2	7
Grainger Trust Non-executive directors	1	1	2
Executive directors	3	0	3
Senior managers	29	10	39
Managers	51	43	94
Associate	17	41	58
Support	9	59	68
Graduates	2	2	4
Off-site	4	3	7
	121	161	282

Our **tenants**

It is crucial that we continue to listen and respond to our customers.

As our business evolves along with the market, we will continue to increase our focus on our tenants. Increasing demand for renting and increased market competition means that we need to continue to be able to attract and retain customers.

We recognise the need to continually improve our knowledge and understanding of our customer base – what their experiences are, if they are satisfied with the service they receive and what their preferences and desires are. We have set our corporate responsibility targets accordingly and have increased and improved the surveys we undertake with our tenants. We ask them how they were doing when they first move in, after repairs and towards the end of their tenancy.

This year, we began asking our prospective future tenants what they want. Working with our market research partner, Mindfolio, we have undertaken a series of research surveys to try to find out broadly what future renters want from their landlord and accommodation, but also specifically what they would like to see at our specific new build to rent development projects.

The insight we've gathered from this initiative has helped us to restructure our service offering as well as the design of our buildings and management strategies. Our plan is to continue to increase the use of market insight to help us improve our offering to our customers, existing and prospective.

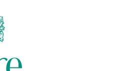
As an organisation that firmly has its sights set on the future, we commissioned a research report alongside ADAM Urbanism to explore emerging social trends in Britain and their impact on the built environment. The report, "Tomorrow's Home", was launched at the Royal Institute of British Architects and provides some robust evidence for changing needs and preferences affecting urban design, master-planning and residential architecture.

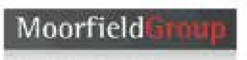
Another good example of our customer focus over the year is our forthcoming accreditation as one of the first major corporate landlords to the London Rental Standard, an initiative by the Greater London Authority to help drive improved standards in the private rented sector.

Lastly, Grainger colleagues played a key role in helping the Urban Land Institute's UK Residential Council produce the UK's first ever guide to design for build to rent developments. The guide has a strong focus on the customer – what they want in terms of rental accommodation, what differences renters want compared to owner occupiers, and the best way to manage a rental apartment block. It truly puts the customer at the heart of the design and management of these new innovative types of buildings.

Our **partners**

It is important that we are fully aligned with those organisations we work with in order to achieve our collective goals.





The relationships we have with each of our partners is critical to the success of both organisations. Together we are able to achieve more for our stakeholders.

Grainger has over several years built up a strong set of partners across the business. Our approach to partnerships is one that builds on one of our Company's values: long term. By establishing long term partnerships with reputable organisations with complementary values and ambitions, we are able to generate additional value for our shareholders as well as customers.

The synergies and cross pollination between our organisations means that we are able to achieve more than we would have been able to apart.

Each partnership has been set up in direct alignment to our corporate strategy, whether it be geographical, asset oriented, income stream related or driving improved services and efficiencies.

In the past year, we have been working to strengthen existing relationships and we have also established new ones.

An example of strengthening an existing relationship is with Bouygues. Following our agreement to purchase from Bouygues the 100 unit build to rent development at London Road, Barking in 2013, we will be working together at another exciting build to rent project at Pontoon Dock, East London where we were selected by the London Mayor to develop 211 new homes for rent.

This project also brought with it one of our most recent new partners, the London Pensions Fund Authority, which is the majority equity investor of the project. Both Bouygues, as contractor, and LPFA, as majority investor, have similar ambitions to us to deliver good quality homes for real people for the long term.

Our partnership with APG, which is the PRS Fund, GRIP, has achieved a major milestone this year. It was recognised for its sustainability credentials by being selected as the Sector Leader by the Global Real Estate Sustainability Benchmark (GRESB). Not only was this a fantastic achievement for the fund but also for the residential sector in the UK, since this is one of the first times the sector has been recognised in this area.

HOW CR SUPPORTS OUR BUSINESS STRATEGY

Corporate responsibility and our business strategy

Embedding our values as our business strategy evolves.

Andrew Cunningham
Chief executive

Chief executive's statement

Last year, we defined the values that make Grainger what it is today: a company that thinks long term, constantly seeks improvement, provides unparalleled expertise, fosters mutual respect and creates confidence in our people and partners.

This year, we focused on embedding these values so that they underpin everything we do. Thanks to the significant involvement of staff in their creation, our values were not a surprise to anyone that knows our Company and are now more alive than ever.

The theme of 'embedding' is also one that has been occurring in our approach to CR during the last year. For example, seven of our fourteen 2014 CR targets will become 'business as usual' practices going forward (see page 40). A further seven targets will continue into next year, as Grainger's targets are often long-term strategic initiatives. I am pleased to report that overall we achieved 71% of our targets for this year. Significant achievements included:

Targets achieved in 2014

71%

We achieved GRESB 'Green Star' status for our GRIP Fund

After taking part in the Global Real Estate Sustainability Benchmark (GRESB) survey for several years, we have become a member of GRESB as part of our commitment to exercising leadership in our chosen areas of activity. I am also pleased to report that we have improved our performance for a second year running and achieved Green Star status for our GRIP Fund.

We won an EPRA Gold award for our public reporting of sustainability data

Having decided to report against the European Public Real Estate Association's (EPRA) best practice recommendations for sustainability reporting in 2013, I am also pleased to announce that this year we won an EPRA Gold award for our corporate sustainability reporting, in a challenging year when only 40% of companies that were assessed managed to improve their score.

We have undertaken sector leading market research into tenants' needs

The private rented market is changing. New demographics and rental patterns will bring new challenges and expectations. Grainger will have an increasing amount of market rented properties and understanding tenants' needs is key to providing the quality service we aim to deliver.

Research has focused on needs, communication methods and the definition of robust tenant satisfaction metrics that can be analysed and used to demonstrate real improvements.

We have implemented a portfolio-wide Property Conditions Assessment Programme

This ambitious programme of work is being carried out to assess all of Grainger's properties against a wide range of criteria. This will enable improvements to the stock, including EPC upgrades and other sustainability improvements, to be achieved in the most cost effective manner possible. In 2014, the assessments commenced, and for next year the focus will be on using the data gathered to plan future activity.

It has been interesting to witness that of all our values, 'long term' is the one which resonates the most with our employees and our stakeholders, particularly our long term partners such as: Kier (our property maintenance partner), the Royal Borough of Kensington & Chelsea (our 125 year partner for private rented homes), the Ministry of Defence (where we are creating new communities in Aldershot) and our investors such as APG. Our role as an 'enabler' or 'facilitator' of thriving communities is also one which comes to the fore when thinking long term. The growth of the market rent and build to rent sector will lead to new forms of communities that have not been seen before in the UK, with different needs and challenges to existing tenures.

CR remains a key part of our long term approach and we intend to take a step back and adopt an increasingly future orientated approach within our CR strategy and targets. In particular, as our business strategy continues to evolve towards meeting the demands of tenants with choice and a greater emphasis on operational income (as the market rent sector grows), our CR strategy will adjust to accommodate this. For instance, our responsibilities to our customers and to creating an exceptional customer experience, and the sustainability of our homes, will differentiate our product in an increasingly competitive market.

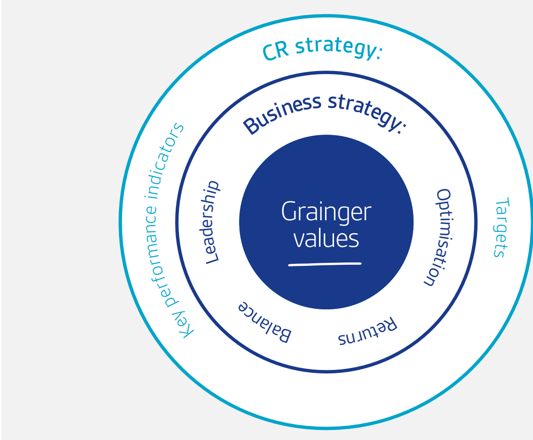
Conclusion

Finally, CR continues to be a way in which we demonstrate leadership, one of the four objectives of our business strategy. Whether through our participation and continued high performance in awards and benchmarks such as EPRA (see page 43) and GRESB (see page 42) or through contributions to Government reviews and initiatives, we remain comfortable with being the leader within the residential property market financially but also on important issues like CR. It therefore gives me great pride to share more details about our achievements from the past year and our plans for the long term in this report and our CR report at: www.graingercr.com.

Andrew Cunningham
Chief executive

20 November 2014

DELIVERING VALUE THROUGH CORPORATE RESPONSIBILITY



Of all our values, 'long term' is the one that resonates most with our employees and our stakeholders.

HOW CR SUPPORTS OUR BUSINESS STRATEGY CONTINUED

WHAT WE HAVE ACHIEVED THIS YEAR

2014 CR TARGET PROGRESS

Status	Key	Total
Achieved	✓	10
Partially Achieved	▭	3
Not Achieved	✗	1

Grainger's approach to CR targets is both strategic and long term. Whereas specific actions are defined for a year, many targets are defined as longer strategic objectives that span several years. In addition, many produce outcomes that are embedded into the business structure. In this way, the targets set a framework for the assimilation of new challenges in sustainability and managing long term change.

We are happy to report that we have achieved this year's work in 10 of our 14 targets, and are committed to continuing unfinished actions into next year. Only one target was not achieved.

Seven of our targets will continue with further work into next year, and seven will become business as usual actions.

FUTURE TARGET ACTIONS

Status	Key	Total
Business as Usual	⇧	7
Continues in 2015	⇨	7

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

PROGRESS AGAINST CR TARGETS IN 2014

CR targets commenced in 2014	2014 status	Future status
Measure and improve tenant satisfaction in G:Invest and Walworth portfolios between 2013 and 2014.	▭	⇨
Define and improve the PRS tenant communication experience.	✓	⇨
Implement the agreed Property Conditions Assessment Programme as part of the repairs and maintenance activities in 2014 and use the results to develop a standard process and schedule for sustainability improvements, including, but not limited to, EPC ratings.	✓	⇨
Implement Embedding Plan for Grainger's company values.	✓	⇧
Create a joint multi-year strategy with Kier to implement Grainger and Kier's aligned CR priorities in property maintenance.	▭	⇨
Report on the GHG emissions generated by Kier in delivering services for Grainger in 2014 and set a target to reduce footprint in 2015.	✓	⇨
Integrate Grainger's EMS fully into our procurement processes.	▭	⇨
Incorporate the reporting of Sustainability risks within the Group's risk management framework.	✓	⇧
Actively contribute to organisations that measure sustainability in real estate to drive the residential perspective.	✓	⇧

CR targets commenced in 2013	2014 status	Future status
Continue improving Grainger's GRESB score year on year in 2013 and 2014.	✓	⇧
Earn an EPRA sustainability award for 2013 report.	✓	⇧
Report on global Scope 1 & 2 Greenhouse Gas (GHG) emissions in line with the requirements of UK mandatory reporting regulation.	✓	⇧
Improve Grainger's (UK & Germany) process and accuracy for measuring and managing tenant satisfaction with a robust baseline to be used from 2014.	✗	⇨
Identify and respond to current and future tenant needs through research and tenant profiling for property and asset management.	✓	⇧

PROGRESS AGAINST KEY PERFORMANCE INDICATORS IN 2014

Grainger maintains a record of a wide range of non-financial key performance indicators. Many of these relate to embedding previous CR targets. A sample of our operational measures are reported below, and further information can be found at www.graingercr.com.

Our properties

Our ongoing improvement in the Energy Performance Certificate ratings of our properties ensures both timely preparation for the implementation of the Energy Act in 2018, but also our focus on continued improvement and efficiency in our operations.

Grainger continues to expand its activities in the build to rent sector. Last year we completed a total of 105 homes, with 50 of these built to Code for Sustainable Homes Level 3, 22 built to Level 4 and the remainder to EcoHomes Very Good. This represents a standard far in excess of the industry norm. However, building to Code also ensures a quality that is important in future-proofing our stock.

All our sites are registered with the Considerate Constructors Scheme. This year our performance has reduced from previous years as we have undertaken a number of refurbishments and we are reviewing how we can improve our average score when undertaking these more challenging types of project.

Supply Chain & Customers

Significant efforts have been spent in 2014 to better understand our customers' expectations, particularly in a more competitive rental market. This culminated in the launch of our 'Tomorrow's Home' research report and improvements such as a new tenant handbook and move- in checklist, which should continue the upwards trend in tenant satisfaction with our property management demonstrated this year.

Community investment

Although our financial donations to charities have fallen from a historic high in 2012 during our centenary celebrations, the number of staff days contributed to charitable causes and the number of staff participating in volunteering both increased in 2014. This is partly due to an all-staff volunteering day held in Birmingham, but also due to a concerted campaign to embed our values in the business during 2014, highlighting Grainger's history of corporate responsibility and our 'long term' outlook, as well as our increasing role as an 'enabler' of communities through community activity.

Operational measures

	2014	2013	1-year trend
Our properties			
Average EPC energy efficiency rating (% of properties)[1]	A-C 46%	A–C 37%	
	D-E 43%	D–E 47%	⇧
	F-G 11%	F–G 16%	
Average Considerate Constructors Scheme (CCS) score[2]	67%	79%	⇩
Number of new homes built to the Code for Sustainable Homes[3]	CSH 3: 50 CSH 4: 22	–	N/A
Supply chain			
Customers rating contractors' service at good or above (%)[4]	77%	84%	⇩
Customers			
Proportion of tenants rating Grainger's management service as good or above (%)[5]	77%	75%	⇧
Community investment			
Total donated to charities (total cash and in-time contributions (£))[6]	£39,947	£51,597	⇩
Number of staff working days contributed for charitable causes	57	41	⇧
Number of staff involved in volunteering activities during Company time	62	41	⇧

1 Based on all EPCs commissioned by Grainger since 2006 – UK only.
2 Grainger registers all major refurbishment and development sites – UK only.
3 In addition to new homes built to Code for Sustainable Homes, there were 4 offices built to BREEAM Very Good and 33 homes built to Eco Homes Very Good.
4 Existing market rented and regulated tenants – UK only. In 2014, this KPI was amended to report responses in relation to services performed by Grainger's repairs and maintenance contractor, Kier, based on a sample of 1,366 surveys.
5 Based on the percentage of respondents who said they were 'very satisfied' with the service provided by Grainger in letting and exit surveys – 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.

HOW CR SUPPORTS OUR BUSINESS STRATEGY CONTINUED

WHAT WE HAVE ACHIEVED THIS YEAR

Grainger's commitment to long term improvement in sustainability is reflected in our performance in several corporate sustainability benchmarks. Our continuous improvement captures the results of a wide array of initiatives across our portfolios. Grainger actively contributes to the development of these benchmarks to ensure that the specific challenges of the residential sector are properly reflected in their analysis, and also to share Grainger's expertise in this area.

Grainger GRESB results

Our commitment to long term improvement is reflected in achieving Green Star status for our GRIP Fund and three years of consistent improvement in the performance of the overall Company.

GRESB takes a holistic approach to analysing our corporate policies, portfolio performance and construction activities and captures a wide range of actions across our operations.

	2014	2013
Management & Policy	72	76
Implementation & Performance	48	19
New Construction	64	27

Grainger CDP Results

Grainger has participated in the CDP (formerly known as the Carbon Disclosure Project) since 2006. In assessing a company's management of climate change, the CDP focusses on associated risks and opportunities.

This year, Grainger has embedded sustainability risks into our corporate risk management framework, thus ensuring an integrated approach to management. This is reflected in the improvement in our Disclosure score in 2014.

	2014	2013
Disclosure	88	78
Performance	C	C

GOVERNMENT ECO SCHEME

Grainger has actively pursued a programme of building fabric upgrades under the Government ECO scheme. To date, 337 properties have benefited from these works, including loft insulation on 277 properties in the Walworth Estate, London and boiler replacements in properties in Newcastle, York and Liverpool.

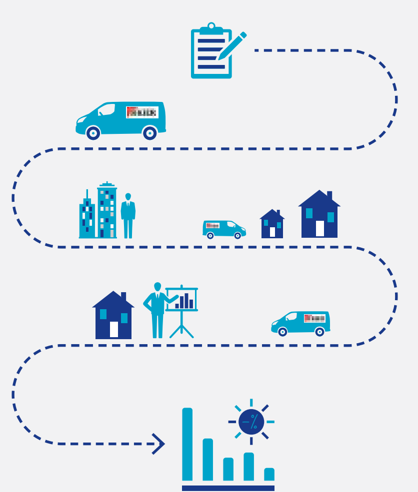
We have also pioneered the use of smart meters on our GRIP portfolio in partnership with the Smart Meter Delivery Body, achieving 69.5% coverage of our sites, ahead of the Government's target for all properties to have smart meters installed by 2020.

As well as improving the quality of our homes for our tenants and helping to implement Government policy, these case studies also helped to improve our score under GRESB, demonstrating the link between practical improvements in sustainability and investor benchmarks such as GRESB.

CASE STUDY

As part of Grainger's long term partnership with Kier, Scope 3 Greenhouse Gas emissions data is being collected and reported through the CDP and other channels. Scope 3 emissions are those indirectly related to our operations, such as from our customers or in this case, our supply chain. Some companies are not yet able to accurately report these emissions. However, our approach to CR goes beyond our own operations to ensure the resilience of our supply chain. The engagement with Kier is one example of this and means that we are accurately reporting emissions from Kier's depots, their vehicles used to carry out repairs on Grainger properties and even from Kier staff based in our own offices.

For 2015, a target to reduce these emissions will be identified, which will further expand the accuracy of our carbon reporting and also drive efficient delivery of our repairs.



EPRA award

Grainger is delighted to have received an EPRA Gold award for the quality of our sustainability data reporting. This award confirms our commitment to following industry best practice and to making our CR reporting as clear and transparent as our reporting on all other aspects of our performance.

Our performance was particularly enhanced this year as we are able to report two years of data and show improvement over time. In addition, we have further increased the scope of data collection by including our German portfolio in our sustainability reporting.

"To have won an EPRA award within two years of being included in the assessment, and to be one of only 16 companies to win a Gold award among 86 that were assessed, is particularly satisfying as a practical demonstration of two core company values: 'improve' and 'leadership'."

Dave Butler, Director – strategy & change

HOW CR SUPPORTS OUR BUSINESS STRATEGY CONTINUED

SUMMARY OF EPRA SUSTAINABILITY PERFORMANCE MEASURES

This table provides an overview of the EPRA sustainability performance measures that Grainger is able to report on, and an explanation of where data cannot be reported.

We have once again expanded our data collection in 2014, this time to include our German portfolio. The remaining data gaps cannot presently be closed due to metering arrangements, and therefore from 2015 Grainger will focus on analysing trend data to identify opportunities to improve our performance on an intensity basis.

EPRA sustainability best practice recommendations compliance table

		Compliance self-assessment			
EPRA sustainability performance measure		Property investment portfolio			Offices
		German assets	UK Residential assets	GRIP assets	Own office occupation
Elec-Abs	Total electricity consumption	✓	✓	✓	✓
Elec-LfL	Like-for-like total electricity consumption	N/A	✓	✓	✓
DH&C-Abs	Total district heating & cooling consumption	N/A	N/A	N/A	N/A
DH&C-LfL	Like-for-like total district heating & cooling consumption	N/A	N/A	N/A	N/A
Fuels-Abs	Total fuel consumption	N/A	✓	✓	N/A
Fuels-LfL	Like-for-like total fuel consumption	N/A	✓	✓	N/A
Energy-Int	Building energy intensity	✓	✓	✓	✓
GHG-Dir-Abs	Total direct greenhouse gas (GHG) emissions	N/A	✓	✓	N/A
GHG-Indir- Abs	Total indirect greenhouse gas (GHG) emissions	✓	✓	✓	✓
GHG-Dir-LfL	Like-for-like total direct greenhouse gas (GHG) emissions	N/A	✓	✓	N/A
GHG-Indir- LfL	Like-for-like total indirect greenhouse gas (GHG) emissions	N/A	✓	✓	✓
GHG-Int	Greenhouse gas (GHG) intensity from building energy consumption	✓	✓	✓	✓
Water-Abs	Total water consumption	✗	✓	✓	✗
Water-LfL	Like-for-like total water consumption	N/A	✓	✓	N/A
Water-Int	Building water intensity	✗	✓	✓	✗
Waste-Abs	Total weight of waste by disposal route	✗	N/A	✓	▭
Waste-LfL	Like-for-like total weight of waste by disposal route	N/A	N/A	N/A	✓
Cert-Tot	Type and number of sustainably certified assets	✓	✓	✓	N/A

Key

Fully reported ✓ Partially reported ▭ Not reported ✗

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 consumed by our tenants, as this is outside our Scope 1 and 2 boundaries.

As this is the second year with data coverage for our UK portfolio, we are able to comment on trends in energy use for the first time. We continue to report on trend data relating to our office energy, which has been significantly affected this year through the consolidation of our two London offices.

For our full EPRA sustainability best practice recommendations reporting table, see pages 170 to 177 and www.graingercr.com

Grainger commentary	Where measure is reported
	Pages
This year we are able to report full coverage for all of our portfolios, including our German property investment portfolio.	171 & 173
This year we are able to report on like-for-like electricity consumption for our UK properties.	171 & 175
District heating & cooling is not applicable for our property investment portfolio or our offices.	N/A
As above.	N/A
This year we are able to report full coverage for all of our portfolios. Fuel consumption is not applicable in our offices or our German property investment portfolio.	171 & 173
As above.	171 & 175
The intensity measure used for our property investment portfolio is kWh per £m value of assets under management. The intensity measure used for our own occupied offices is kWh per employee.	171 & 173
Direct GHG emissions include emissions from fuel combustion from our property investment portfolio only. Please see our mandatory GHG statement for a full footprint figure.	172 & 173
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.	172 & 173
This year we are able to report full coverage for all of our portfolios. Fuel consumption is not applicable in our office or our German property investment.	172 & 175
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.	172 & 175
Greenhouse gas intensity from building energy includes Scope 1 and 2 GHG emissions only. The intensity measure used for our property investment portfolio is kg/CO_2e per £m value of assets under management. The intensity metric used for our own occupied offices is kg/CO_2e per employee.	172 & 174
Not gathered for our own offices due to landlord metering arrangement. Not gathered for our German property investment portfolio.	174
As above.	175
The intensity metric used for our property investment portfolio is m^3 per £m value of assets under management.	174
We do not provide waste management for our UK Residential portfolio. Waste data was not gathered for our German office or property investment portfolio.	176
The GRIP Fund was created in January 2013 therefore there is not two full years of data to report.	176
Type and number of sustainably certified assets are reported in our Key Performance Indicators at www.graingercr.com	www.graingercr.com

GRAINGER PLC MANDATORY GREENHOUSE GAS EMISSIONS REPORTING

For 2014 we have expanded the scope of data collection to include our G:Invest portfolio, Walworth portfolio and our German assets. The increase in our Scope 1 and 2 emissions reflects this increased scope.

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 CDP, energy consumption data and emissions factors from the UK Government's Conversion Factors for Company Reporting 2014.

We have reported on all emissions 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 emissions sources that are not included in our consolidated statement.

Scope 1 Data

This includes landlord-obtained gas consumed in common areas and by tenants on an unmetered basis as well as fuel consumption in vehicles owned or leased by Grainger plc.

Scope 2 Data

This includes landlord-obtained electricity consumed in common areas and by tenants on an unmetered basis as well as electricity consumed by Grainger plc in its own offices.

Scope 1 & 2 Global GHG emissions data for the financial year:

Emissions from	2014	2013	Trend[1]
Combustion of fuels and operation of facilities	1,650 tCO_2e	1,467 tCO_2e	⇧
Electricity, heat, steam and cooling for own use	1,546 tCO_2e	956 tCO_2e	⇧
Total footprint	3,196 tCO_2e	2,423 tCO_2e	⇧
Company's chosen intensity measurement:			
Emissions reported above per £m value of assets under management	1.01 per £m value of AUM	0.98 per £m value of AUM	⇧
Emissions reported above per owned unit[2]	0.16 per owned unit	0.18 per owned unit	⇩
Emissions reported above per employee[3]	11.33 per employee	8.97 per employee	⇧

Scope 3 Global GHG emissions data for the financial year:

Emissions from	2014	2013	Trend
Developments (contractor electricity and fuel use)	904 tCO_2e	239 tCO_2e	⇧
Repairs and maintenance (contractor fuel use)	187 tCO_2e	–	N/A
Electricity transmission and distribution losses	115 tCO_2e	81 tCO_2e	⇧
Business travel (air and rail in the UK and Germany)	128 tCO_2e	140 tCO_2e	⇩
Estimated tenant energy use[4]	26,883 tCO_2	29,551 tCO_2	⇩

1 Note that for 2014, Grainger has expanded the scope of data collection meaning that Scope 1 and 2 emissions figures are not strictly comparable to 2013.
2 This is the number of owned units on the last day of the financial year within the scope of data collection. For 2013, this data excludes the German portfolio, but these are included in 2014.
3 Total number of employees in Grainger plc on the last day of the financial year, 30 September 2014.
4 This has been estimated based on sample of Energy Performance Certificates (EPCs) and reported in CO_2 only.

Estimation

Missing periods of consumption for properties has been estimated using the daily or weekly average of known consumption. Properties have been excluded from the analysis where we have not been able to record any consumption.

Grainger uses a database of more than 2,000 EPCs produced between 2006 and 2014 across the UK Residential and GRIP portfolios to estimate tenant emissions. The EPC carbon footprint is taken across a representative sample of properties, and this is multiplied out to produce an estimate for the whole UK portfolio.

Limitations to data collection

We have not reported on emissions relating to small-scale refurbishment as they are not considered material. Emissions related to water consumption, waste treatment and disposal and staff commuting are also not included.

Intensity metrics

We have used three intensity metrics: the market value of assets under management, the number of units owned and the number of employees in line with our financial reporting.

ADVISER'S STATEMENT

Grainger has engaged Upstream Sustainability Services, a division of JLL, as advisers on its corporate responsibility strategy and implementation since 2005. 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.

JLL'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 CR content of Grainger plc's 2014 Annual report and accounts.

Summary of target performance

Most of Grainger's targets are set as multi-year strategic objectives, but each have specific actions to achieve within a reporting year. Grainger has achieved 10 of its 14 targets in 2014, and a further three were partially achieved. One target, relating to tenant satisfaction in the German portfolio, was not achieved owing to a change in property manager and this has been deferred to next year.

Observations and recommendations

Grainger has made significant progress this year in reporting on the CR performance of its German portfolio, particularly in relation to closing gaps in its carbon emissions data. The new approach developed to improve the customer's experience in Grainger's UK portfolio should also be expanded into its German portfolio during the next reporting year to ensure the two portfolios are aligned in their approach to CR issues. This expansion should include the measurement of tenant satisfaction in a consistent way.

Grainger and Kier have begun their long-term partnership with some excellent examples of collaboration around CR, such as a community fund (for residents to access funding for community projects) and window box scheme (funding for residents to plant window boxes on their balconies) pilots. However, operational factors, such as insurance and risk issues, still need to be resolved before these pilots can be fully rolled out. The development of a wider strategy over the next two years will help to ensure that future collaboration is as effective as possible and aligned with each company's CR priorities.

Grainger has ensured that its suppliers take into consideration environmental requirements when delivering services to Grainger. Now that these requirements have been established within agreed contracts, we recommend that consideration is given as to how compliance with these requirements can be assessed, reported and factored into future procurement decisions.

Grainger has clearly demonstrated its commitment to 'leadership' within the residential sector through achieving GRESB Green Star status for its GRIP Fund and an EPRA Gold award for the reporting of its sustainability data. Looking forward, now that the Company has cemented its position as a leader in CR under these benchmarks, consideration should be given as to how other leaders report on CR issues, for example by using the Global Reporting Initiative's G4 standard or the International Integrated Reporting Council's Integrated Reporting standard. Such an exercise may also give rise to the question as to whether Grainger continues to use the term 'corporate responsibility' or 'CR', or instead moves towards using the broader term of 'sustainability' in line with many of its fellow leaders.

Philip Hirst
Associate director
Upstream Sustainability Services
JLL

20 November 2014

Strategic Report Approval

The Strategic Report on pages 2 to 47 has been approved by the Board of Directors and signed on their behalf by

A. McGhin.

Adam McGhin
Company Secretary

CORPORATE GOVERNANCE

What does Corporate Governance mean to Grainger?

The Board of the Company is committed to providing effective leadership and promoting the highest standards. At our core, the relationship we have with our many thousands of tenants is the foundation on which our reputation depends.

Robin Broadhurst
Non-executive chairman

Chairman's introduction

The continuing development of existing systems and controls balanced with the grant of appropriate discretion to our staff is the key to successfully establishing the accountability and responsibility of the whole Grainger team. Excellent communications, together with a team approach promoting a culture of self-discipline, is infinitely superior to the issuing and receiving of orders.

Within this context, the Board's job is to exercise judgement in all matters of leadership, governance and risk to create confidence within the Company and ensure that its reputation for its commercial, profit driven approach with integrity is understood by all the Company's stakeholders.

From my perspective as chairman of Grainger, good governance means having a diverse, strong and robust Board that constructively challenges the executive directors, but is supportive in helping them implement the agreed strategy of the Company.

The culture of the Board is based on mutual respect for each of its members and promotes a free flowing dialogue, with me, as chairman, encouraging participation by every member. It needs to be purposeful but sufficiently relaxed to be conducive to making good decisions with a consensus. I find that the best test of success is that when each meeting is concluded every participant feels that the process was not long winded and adequate time was spent on the key areas for debate resulting in unanimous agreement. In addition to our usual Board meetings, the Board met in May 2014 for a strategy discussion facilitated by an external independent adviser. The proposed strategy was developed further in June 2014 with the involvement of approximately 40 members of Grainger's senior management team. This process provided useful feedback in helping develop the Company's five year strategy and the budget for the forthcoming financial year.

Details of the agreed strategy are set out within the Strategic Report on pages 2 to 47.

I will be stepping down as chairman and as a director at the Company's AGM in February 2015 when John Barnsley, who has been a huge asset to the Board over the last twelve years will also be stepping down. In order to retain stability and to ensure ongoing continuity during this transition, various changes to the Board Committees were made to smooth this process. Both myself and John Barnsley stepped down from the Nominations Committee in February 2014 and were replaced by Belinda Richards and Tony Wray with Baroness Margaret Ford replacing myself as chairman of the committee. At the same time Margaret also replaced John Barnsley as senior independent director and she has led the full external process to find directors to replace John and myself. Ian Coull joined the Board on 23 September 2014 as a non-executive director and subject to his re-election as a director at the AGM in February 2015 will take over from me as chairman at the conclusion of that meeting. Andrew Carr-Locke will be joining the Board in February 2015.

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 2014.

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 has served on the Board since February 2003. The Board and myself believe that John Barnsley has always exercised 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 of considerable benefit to the Company through a period of significant change in both the executive and non-executive directors and has provided an important knowledge link with the past and an in-depth understanding of the Company that 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 50 and 51.

In accordance with the UK Corporate Governance Code, all the directors, with the exception of myself and John Barnsley who are retiring from the Board, 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 2014, 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

This year, an independent evaluation of the Grainger Board was carried out by Advanced Boardroom Excellence following on from the internal assessments, led by myself, undertaken in 2012 and 2013. The report indicated that the Board came out well in overall effectiveness with particular strengths in challenge and debate, Board committees and quality of Board discussions. Areas for potential development were board information, the decision making process and succession and development plans. Further details are available on pages 54 and 55.

Shareholder engagement

The Board regards it as important to maintain an active dialogue with our shareholders.

Andrew Cunningham, the chief executive, and Mark Greenwood, the finance director, had regular meetings with the company's shareholders and analysts while myself and Baroness Margaret Ford met with the corporate governance representatives of our major shareholders in advance of the Annual General Meeting in February 2014.

Further details regarding our engagement with our shareholders are set out on page 56

Robin Broadhurst
Non-executive chairman

THE GRAINGER BOARD

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 68

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
Member of Remuneration Committee

Andrew Cunningham
FCA, FRICS

CHIEF EXECUTIVE AGED 58

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 66

Appointment
Appointed to the Board in 2003 and was senior independent director from February 2011 to February 2014.

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
Member of Audit Committee
Member of Risk Committee

Baroness Margaret Ford

NON-EXECUTIVE DIRECTOR AGED 56

Appointment
Appointed to the Board in 2008 and became senior independent director in February 2014.

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
Senior Independent Director
Chairman of Remuneration Committee
Chairman of Nominations Committee
Member of Audit Committee

Mark Greenwood
FCMA

FINANCE DIRECTOR AGED 55

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 53

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 that reviewed the Barriers to Institutional Investment in Private Rented Homes.

Committee membership
None

Ian Coull

NON-EXECUTIVE DIRECTOR AGED 64

Appointment
Appointed to the Board in September 2014.

Experience
Ian was chairman of Galliford Try plc from 2011 until October 2014. He was Chief Executive of SEGRO plc from 2003 to 2011 and prior to this, a main Board director of J Sainsbury plc. He was a non-executive director of Pendragon plc from December 2010 to January 2013. He is currently a non-executive director of London Scottish International Ltd , a senior adviser to Oaktree Capital Management and Stonehaven Search, a member of The Duchy of Lancaster Council and of the Government's Property Advisory Panel.

Committee membership
None

Belinda Richards

NON-EXECUTIVE DIRECTOR AGED 56

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 Friends Life Group plc and Balfour Beatty Plc.

Committee membership
Chairman of Audit Committee
Member of Risk Committee
Member of Nominations Committee

Tony Wray

NON-EXECUTIVE DIRECTOR AGED 53

Appointment
Appointed to the Board in 2011.

Experience
Tony was the chief executive of FTSE 100 water company Severn Trent plc from 2007 to 2014, having joined its board in 2005. He has also held director roles within Transco and National Grid Transco.

Committee membership
Chairman of Risk Committee
Member of Audit Committee
Member of Nominations Committee

Simon Davies

NON-EXECUTIVE DIRECTOR AGED 55

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 Sound Oil plc and is also a director of Old Mutual Wealth Management Limited and LCHClearnet Group Limited.

Committee membership
Member of Risk Committee
Member of Remuneration Committee

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.

The executive directors

Oversee the day-to-day running of the business, ensuring strategic coordination and alignment.

The Project Portfolio Board

Monitors and coordinates projects across Grainger.

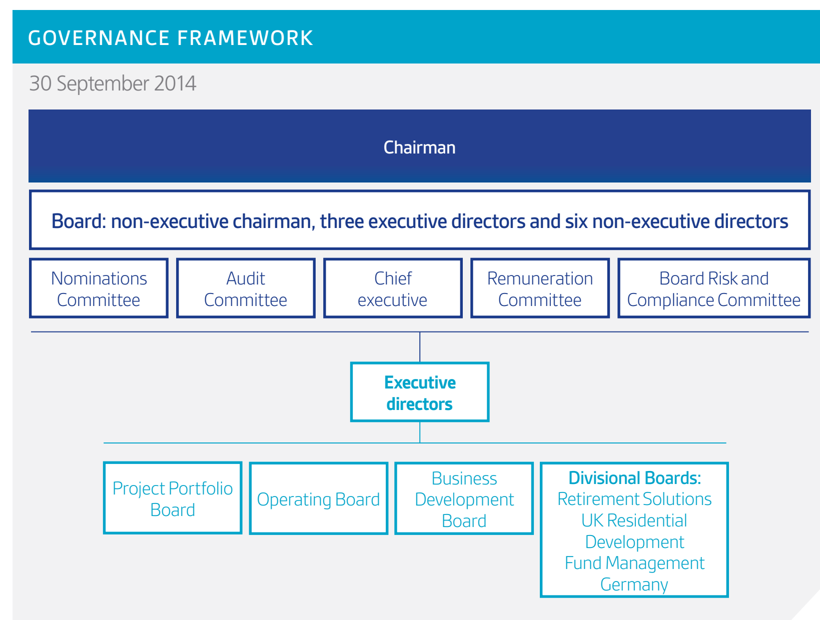
The Operating Board

Ensures that Grainger's central support functions and general operations are fit-for-purpose and, where relevant, able to provide Grainger with a potential source of competitive advantage.

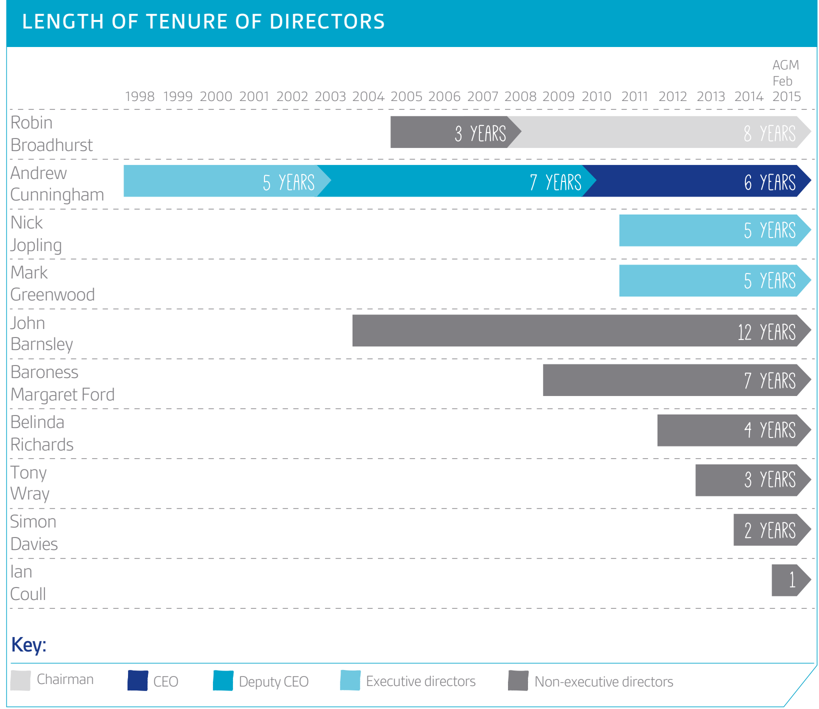
The Business Development Board

Supports the executive directors in setting the overall strategic direction of the business and in identifying strategic business development opportunities.

GOVERNANCE FRAMEWORK



LENGTH OF TENURE OF DIRECTORS



The directors

As at the date of this report the directors of the Company are:

Chairman
– Robin Broadhurst

Executive directors
– Andrew Cunningham
– Mark Greenwood
– Nick Jopling

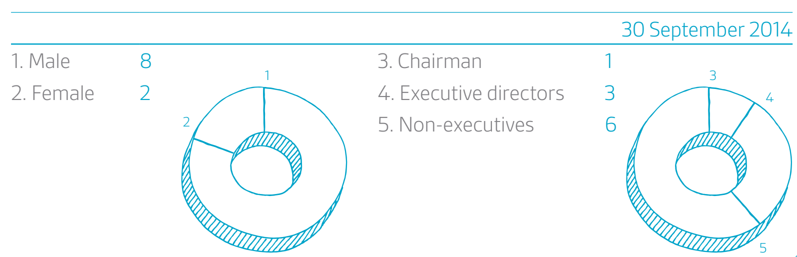
Non-executive directors
– Baroness Margaret Ford (senior independent director)
– John Barnsley
– Belinda Richards
– Tony Wray
– Simon Davies
– Ian Coull

Ian Coull was appointed to the Board on 23 September 2014.
Peter Couch retired from the Board on 31 January 2014.

Balance of directors

30 September 2014

1. Male	8
2. Female	2
3. Chairman	1
4. Executive directors	3
5. Non-executives	6



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, both 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 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 2013 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 setting out how it was performing and details of strategic issues arising. In the year the range of subjects discussed included:

– Strategy;

– Performance of business divisions;

– The Group's debt and capital structure and hedging/swaps policy;

– The Group's financial results;

– Dividend policy;

– Regulatory and governance issues; and

– The development of the Group's people.

CORPORATE GOVERNANCE CONTINUED

Three of the meetings were preceded, the evening before, by an informal meeting allowing more time to debate issues in depth. One meeting preceded the Company's strategy conference attended by members of the senior management team. Two of the Board meetings were held at the Company's head office in Newcastle upon Tyne, three in the Company's London office and one at its Wellesley development in Aldershot. During the course of these meetings, the directors have heard presentations from divisional directors on the following matters:

- Talent development
- Strategic land
- Future of regulated tenancies
- Future of home reversions
- PRS – strategic objectives

Attendance table

Executive directors	Meetings attended	Meetings eligible to attend
Andrew Cunningham	6	6
Peter Couch	1	1
Nick Jopling	6	6
Mark Greenwood	6	6

Non-executive directors	Meetings attended	Meetings eligible to attend
Robin Broadhurst	6	6
John Barnsley	6	6
Baroness Margaret Ford	5	6
Belinda Richards	6	6
Tony Wray	6	6
Simon Davies	5	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 from the chief executive 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 that 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. Ian Coull was appointed in the year and received a comprehensive, tailored induction to the company. This involved meeting with the company secretary to go through the Board Handbook which includes sections on directors duties, corporate governance, Company policies and the use of the Companys electronic Board portal. He also received briefings from the chief executive regarding Grainger's business operations as well as having individual sessions with members of the senior management team in the Newcastle, London and Frankfurt offices. He was also shown some of the Company's properties near each of these offices.

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.

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 2014 review was undertaken by Advanced Boardroom Excellence ('ABE') an independent firm of consultants who specialises in Board performance and corporate governance and which was appointed to undertake a thorough independent review of the Board and its committees. The process involved a review of information provided to the Board and committees followed by confidential interviews with the directors and the company secretary, and observation of a Board meeting and meetings of the Remuneration, Audit, Risk and Nominations committees. The key findings and action points arising from ABE's report are as follows:

	Debate	Board Information and Decision Making	Succession and Development Plans	Board Committees	Culture and Relationships
Findings	– The level of challenge was good. – There was emphatically felt to be no danger of 'groupthink', given the collection of strong personalities. – There is an air of robust challenge at the Grainger Board and the majority of directors were very positive about the quality of Board discussions. – The Board needs to explore options for providing additional external stimulus to the strategy debate.	– NEDs were comfortable that nothing was being hidden and that they would be given any information they asked for. – The chairman was praised for his role in ensuring that everyone had the opportunity to have their say.	– Board succession has been and continues to be a high priority activity. – Board succession planning is well considered with good briefings and sounding out of major shareholders. – The induction of directors is reasonably effective, but needs to be formally documented and more structured.	– The committees were working effectively. – Committee structures are revisited annually by the chairman and company secretary to review the effectiveness and composition of the committees. – Board members engage in committee business and draw on their skills, experience, knowledge and, where appropriate, independence.	– Directors expressed a high degree of confidence in standards of integrity and professionalism, led by the chairman and chief executive. – There was felt to be a strong sense of 'The Grainger Way', praising the Company culture. – The Grainger Board currently has good skills, experience and knowledge within its NED population and NEDs are able to provide the appropriate level of challenge to the executive team. – The chief executive encouraged NEDs to have access to the wider executive team.
Action points	– Chairman and CEO to consider having more presentations from external professionals.	– Adopt a consistent, focussed and succinct approach to format of board information. – Review the decision making process to establish a more structured approach.	– Formally document the existing director induction process.	– Seek ways to continue to build upon the current exemplary work of the Committees.	

The Board and its committees will monitor progress and continue their critical review of its effectiveness during the year ahead. In accordance with the prevailing provisions of the Code, it is the current intention of the Board that external facilitation of the Board evaluation will be carried out every three years.

Re-election of directors

Notwithstanding that the Company's articles of association require the directors to offer themselves for re-election at least once every three years, in accordance with the recommendations of the Code all of the directors, with the exception of Robin Broadhurst and John Barnsley who are retiring from the Board, will be offering themselves for re-election at the AGM in February 2015. 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 and up to the date of approval of the Annual report and accounts. 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 that 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 that 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 more than 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 strong growth in values in the UK property portfolios, Grainger's view on the likely future growth in UK HPI and the growing importance of the PRS and the role that Grainger can play in it. Feedback is always sought following such meetings and this feedback is presented to the Board.

The chairman, company secretary, 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 directors' 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 2015 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 30 September 2014 and 31 October 2014 (being the latest practicable date prior to the date of this report), the Company is aware of the following interests amounting to 3% or more in the Company's shares:

	30 September 2014		31 October 2014	
	Holding million	Holding %	Holding million	Holding %
Schroder Investment Management Ltd				
with voting rights	73.7	17.6	71.2	17.1
without voting rights	12.9	3.1	13.6	3.2
BlackRock Investment Management Ltd	27.7	6.6	31.8	7.6
Henderson Global Investors	14.9	3.6	14.9	3.6
Aberforth Partners	13.0	3.1	13.0	3.1
State Street Global Advisers Ltd	12.9	3.1	13.1	3.1

Audit Committee report

The Audit Committee currently comprises four independent non-executive directors.

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	4	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.

Committee meetings

The Committee met four times during the year. The meetings were attended by the Committee members, the company secretary 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 the Group's 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.

– 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 2014.
- Reviewed and agreed the external auditors' audit strategy memorandum in advance of their audit for the year ending 30 September 2014.
- Discussed the report received from the external auditors regarding their audit in respect of the year ending 30 September 2014, 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 itself that this met FCA rules and good standards of corporate governance.
- Reviewed and agreed the forward internal audit plans and monitored the progress against those plans at each meeting.
- Formalised and agreed the scope, delivery and implementation of the Group wide assurance framework.
- Received reports from internal audit covering various aspects of the Group's operations, controls and processes in both the UK and Germany.
- Reviewed and approved the register of non-audit assignments undertaken by the external auditors in the year ending 30 September 2014.
- Organised the audit tender process (see section below).
- Reviewed the Audit Committee's terms of reference.
- Financial statements: 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.

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 the external valuers 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 by overstatement 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.
- Considered the accounting treatment of substantial transactions including any judgemental areas. This included the sale of the home reversion portfolio to Clifden Holdings Limited in January 2014, and the recoverability of any outstanding consideration.

External audit

The Group's current 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, 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. 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
During the year, £76,000 was paid by the group to PricewaterhouseCoopers LLP for taxation services. A further £74,000 was paid for other services, which was made up of payments relating to comfort letters on the prospectus to be issued relating to the bond issuance on the Irish Stock Exchange, as well as work over the systems migration.

Audit tender process

During the year, the Audit Committee determined to undertake a competitive tender process. Ten firms were considered, including PricewaterhouseCoopers LLP, our incumbent auditors, that were assessed against predetermined criteria agreed by the Audit Committee. Having assessed these firms a short list of three firms was selected. Whilst PricewaterhouseCoopers LLP declined to join the tender process there were no reasons that needed to be brought to the attention of shareholders. All three firms met the chief executive, the chairman of the Audit Committee, the executive directors and key senior managers within the business and were given access to an electronic data room with all relevant company information.

The three firms then made presentations to the Audit Committee panel, which presentations were scored against pre-set parameters. At the conclusion of this process it was agreed that KPMG LLP were the panel's preferred choice and that the committee would recommend to the main Board that KPMG LLP be appointed as the Company's auditor for the year ending 30 September 2015. The Board subsequently ratified this recommendation. The appointment of KPMG LLP will be recommended to shareholders for approval at the 2015 Annual General Meeting.

Internal Audit

Internal Audit undertake audits across Grainger using a risk based methodology and in accordance with the changing risk profile of the Company. Individual audits are supported as appropriate by specialist skills and subject matter expertise. Audits are identified during an annual audit planning cycle, which is informed by the results of current and previous audit testing, the Company's strategy and performance, the risk management process and the plans of other assurance providers.
Additional audits are identified during the year in response to changing priorities and requirements.

All Internal Audit findings are graded, appropriate remedial actions, responsibilities and timescales are agreed with management, and progress monitored and reported.

Internal Audit's plans and resources are considered and monitored by the Audit Committee, together with all internal control findings and remedial actions. Internal Audit have a direct reporting line to the Chair of the Audit Committee. The effectiveness of internal audit is assessed by review of their reports, meetings with the Head of Internal Audit without management being present and holding separate meetings with the finance director to assess his views on their effectiveness.

Nominations Committee report

The Nominations Committee currently comprises three independent non-executive directors.

Baroness Margaret Ford
Committee chairman

ATTENDANCE TABLE

Committee member	Member since	Meetings attended	Meetings eligible to attend
Baroness Margaret Ford (Committee chairman)	February 2002[1]	3	3
Robin Broadhurst	February 2005[1]	1	1
John Barnsley	February 2011[2]	1	1
Belinda Richards	February 2014	2	2
Tony Wray	February 2014	2	2

1 Baroness Margaret Ford became chairman of the Committee in February 2014 when Robin Broadhurst retired from the Committee.
2 John Barnsley retired from the Committee in February 2014.

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 chairmen regarding membership of the Audit, Remuneration and Risk and Compliance committees.

Main activities of the committee during the year

The Committee met formally three times during the year to 30 September 2014.

Board composition and membership of Board Committees

- 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 its review in November 2013 it was agreed that, with effect from the AGM in February 2014, Robin Broadhurst and John Barnsley would stand down from the Nominations Committee and be replaced by Belinda Richards and Tony Wray. Baroness Margaret Ford would succeed Robin Broadhurst as the chairman of the committee. After reviewing the membership of the Audit, Risk and Remuneration Committees and noting that they were all working well it was agreed that the memberships of those committees should remain unchanged.

Senior independent director

Having considered the composition of the Board and its committees and after consultation with major shareholders, it was agreed that Baroness Margaret Ford should replace John Barnsley as senior independent director after the AGM in February 2014 which would allow her to lead the process to appoint the non executive directors to replace Robin Broadhurst and John Barnsley who were scheduled to retire from the Board after the AGM in February 2015.

Appointments to the Board

Chairman

- The Nominations Committee oversaw the selection process of Ian Coull as chairman with effect from the AGM in February 2015 and his appointment as a non-executive director with effect from September 2014.
- The Zygos Partnership were appointed as advisers to the Committee and were asked to compile a long list of potential candidates. Zygos have worked previously with the Board on other non-executive and executive appointments and do not provide any other services to the Company.
- The Committee determined that the candidate brief was for a successful business leader in the property or related sector, with main Board experience and strong credentials in strategy and driving business growth.
- A shortlist of three candidates was agreed by the Committee, all of whom were then interviewed by the Committee chairman and each member of the committee. The chief executive was also involved in the interview process and the HR director attended all of the interviews.
- The Committee then met formally to discuss the candidates. The unanimous recommendation of the Committee to the Board following this meeting was that Ian Coull be appointed as a non-executive director from September 2014. After the AGM in February 2015 Ian Coull will take over as chairman of the Board when Robin Broadhurst retires and will replace Margaret Ford as chairman of Nominations Committee.

Non-Executive Director

- As John Barnsley will be retiring from the Board in February 2015 Zygos were also commissioned to search for a non-executive director to join the Board in February 2015.
- The Committee indicated that the candidate brief was for someone with strong recent and relevant financial experience.
- A shortlist of four candidates was agreed from the initial long list of potential candidates identified by Zygos.
- Having interviewed all short listed candidates the Committee then met formally to discuss the candidates. The unanimous recommendation of the committee to the Board following this meeting was that Andrew Carr-Locke be appointed as a non-executive director from February 2015.

Remuneration Committee report

The Remuneration Committee currently comprises three independent non-executive directors.

Baroness Margaret Ford
Committee chairman

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	4	4
Simon Davies	February 2013	4	4

Dear Shareholder

The Remuneration Committee met four times during the year and has operated the remuneration policy exactly in line with the policy approved by shareholders at the AGM in February 2014. Consequently, there are no changes to report to our policy and the Board is satisfied that all of our arrangements are operating in a way that reflects the performance of the Company and are designed to reflect the long term success of the Company.

LTIS

In November 2013, 100% of the LTIS awards that had been granted in 2010 vested, which reflected the strong performance of the Company since the awards were granted with Total Shareholder Return showing an annual compound increase of 21% and NNNAV increasing by 39% against the 4% increase in the Halifax and Nationwide Home Price Indices. Prior to the vesting of these awards, LTIS awards had only vested twice in the last nine years as follows:

Date of vesting	Date of grant	Percentage vesting
December 2011	December 2008	16%
January 2006	January 2003	66%

The LTIS does not currently include the ability to recover sums paid following a vesting event or the facility to withhold the payment of any sums due to be paid (e.g. as a result of a misstatement of the Company's audited financial results). During the course of the current financial year, in light of developments in best practice, the Committee intends to review the appropriateness of including these provisions in a manner that is appropriately tailored to Grainger's business.

Bonus

While the maximum bonus potential is capped at 150% of salary for the chief executive and 125% of salary for the other executive directors the Committee would like to stress that it would only be in exceptional circumstances that the bonus payments would be geared to this maximum level. In 2014, as was the case in the previous three years, the bonus performance assessments were linked to 120% of salary for the chief executive and 100% for the other executive directors. The final bonus payable for 2014 included 67.7% (2013:66.2%) of the OPBVM element and 100% (2013:100%) of the ROSE element. The annual bonus arrangements do not currently include the ability to recover sums paid or the facility to withhold the payment of any sums due to be paid (e.g. as a result of a misstatement of the Company's audited financial results). As noted above in relation to the LTIS, during the course of the current financial year the Committee intends to review the appropriateness of including these provisions in a manner that is appropriately tailored to Grainger's business.

Salary

The base salaries of the executive directors were increased by 2.5% with effect from 1 January 2014 in line with the standard increase that applied to all staff. Prior to this increase, Andrew Cunningham's base salary had remained unchanged since October 2009 and the salaries for Nick Jopling and Mark Greenwood had not changed since they joined the Board in 2010.

Payments for Loss of Office

Peter Couch left the company on 31 January 2014. On the cessation of his employment, as a good leaver, he was entitled to receive the value of his salary and contractual benefits, including pension payments, which would have accrued to him during his twelve months' notice period. These payments are being made to him on a monthly basis and may be mitigated in line with the remuneration policy. No bonus was paid to him in respect of the 2014 financial year. He also received a severance payment calculated in accordance with the Company's standard policy that is applicable to all staff. In the event that any of the Long Term Incentive Scheme ('LTIS') share awards that were outstanding as at 30 September 2013 vest the number of shares that he would receive will be pro rated to the date of cessation of employment in accordance with the rules of the LTIS, which have been approved by shareholders. All of the conditional share awards granted to him under the LTIS on 9 December 2013 lapsed in full on the cessation of his employment with the Company.

Baroness Margaret Ford
Chairman of Remuneration Committee

Remuneration policy in summary

Grainger's remuneration policy is designed to attract, motivate and retain high calibre individuals to enable the Group to operate in the interests of the long term success of the Company and to reward significant outperformance of expectations. It aligns the director's interests with those of shareholders through the use of share based incentives and by encouraging directors to maintain a reasonable shareholding in the group.

The annual bonus plan and the Long Term Incentive Scheme ('LTIS') link remuneration to the short-term and long-term Key Performance Indicators and Operational Measures in the following manner:

Strategy		Remuneration		
Objective	Key Performance Indicator or Operational Measure	Measure	Weighting (Annual Bonus)	Weighting (LTIS)
Grainger = **RETURNS** Locate and manage our assets to deliver the best risk adjusted returns	OPBVM	Profit (OPBVM v Budget)	37.5%	
	ROSE	ROSE	37.5%	
	ROCE	3 yr Growth in Total Shareholder Return (TSR)		50%
	NNNAV/UK HPI	NNNAV (growth relative to HPI, as measured by Nationwide and Halifax)		50%
Grainger = **LEADERSHIP** Maintain our leading position in the residential property market	– Breadth of skills – Peer recognition as experts – Ability to create new business opportunities	Specific measures reflected in executive directors' annual performance agreements that would typically embrace the following measures:		
Grainger = **BALANCE** Balance our sources of income through exploiting changing market opportunities and continue to focus on the sales / rents / fees proposition	Balance targets – Rents and fees – Gross management fees	– Group LTV – Efficiency targets – Average cost of debt – Balance of income – Corporate responsibility targets	25%	
Grainger = **OPTIMISATION** Maintain an appropriate Capital Structure and optimise financial and operational gearing to match market conditions	LTV targets – Cash flow targets – Efficient cost structure			

REMUNERATION COMMITTEE REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION

Single total figure of remuneration for each director.

The details set out on pages 64 to 67 of this report have been audited by PricewaterhouseCoopers LLP.

	a		b	c			d	e	
				Bonus					
2014	Salary & fees £'000	Taxable benefits £'000	Share incentive plan £'000	Annual[1] £'000	Legacy £'000	DBP[2] £'000	LTIS awards vesting[3] £'000	Pension costs £'000	Total £'000
Chairman and executive directors									
Robin Broadhurst	140	–	–	–	–	–	–	–	140
Andrew Cunningham	428	16	6	409	109	–	1,617	64	2,649
Peter Couch	89	11	4	–	–	–	594	13	711
Mark Greenwood	265	16	6	203	–	–	577	40	1,107
Nick Jopling	331	16	6	254	–	–	774	50	1,431
	1,253	59	22	866	109	–	3,562	167	6,038
Non-executive directors									
John Barnsley	45	–	–	–	–	–	–	–	45
Baroness Margaret Ford	55	–	–	–	–	–	–	–	55
Belinda Richards	50	–	–	–	–	–	–	–	50
Tony Wray	50	–	–	–	–	–	–	–	50
Simon Davies	42	–	–	–	–	–	–	–	42
Ian Coull	1	–	–	–	–	–	–	–	1
	243	–	–	–	–	–	–	–	243
Total	1,496	59	22	866	109	–	3,562	167	6,281
2013									
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

1 The performance related annual bonus is based on performance measures, as disclosed in the policy table on page 71, 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 67.7% (2013:66.2%) of the OPBVM element and 100% (2013:100%) 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 2013.
3 Share price at date of grant 94p, share price at date of vesting 202p.

Scheme interests awarded during the year

	LTIS share awards		Matching awards	
	Number	Face value £'000	Number	Face value £'000
Andrew Cunningham	311,234	630	62,246	126
Peter Couch	130,915[1]	265	39,274[1]	79
Mark Greenwood	128,445	260	38,533	78
Nick Jopling	160,557	325	48,167	97

The face value is based on a price of 202.42p being the average share price from the five business days immediately preceding the award that was made on 9 December 2013.

The awards are contingent upon satisfying the performance criteria, as detailed on page 72, in the three years to 9 December 2016.

1 Peter Couch's LTIS awards lapsed in full when he left the Company on 31 January 2014.

Payments for loss of office

Peter Couch left the Company on 31 January 2014.

On the cessation of his employment he was entitled to receive the following:

i. £271,625 in lieu of his entitlement to twelve months' notice pay. This is being paid on a monthly basis over the notice period.
ii. £70,518 redundancy entitlement which has been calculated in accordance with the Company's standard redundancy policy.
iii. £40,743 in lieu of twelve months' employer pension contribution.
iv. £15,000 in lieu of twelve months' car allowance.

ii, iii, and iv were paid to Peter Couch when he left the Company.

REMUNERATION COMMITTEE REPORT CONTINUED

Statement of directors' shareholding and share interests

Performance share awards

		Awards granted	Maximum award	Awards vested	Awards lapsed	Maximum outstanding awards at 30 Sep 2014	Market price at date of vesting (p)	Vesting date
Andrew Cunningham	LTIS Shares	26-Nov-10	667,231	667,231	–	–	202	26-Nov-13
		02-Dec-11	625,496	–	–	625,496	–	02-Dec-14
		08-Dec-12	554,675	–	–	554,675	–	08-Dec-15
		09-Dec-13	311,234	–	–	311,234	–	09-Dec-16
	Matching shares	26-Nov-10	133,446	133,446	–	0	202	26-Nov-13
		02-Dec-11	125,099	–	–	125,099	–	02-Dec-14
		08-Dec-12	110,935	–	–	110,935	–	08-Dec-15
		09-Dec-13	62,246	–	–	62,246	–	09-Dec-16
Peter Couch	LTIS Shares	26-Nov-10	280,660	280,660	–	–	202	26-Nov-13
		02-Dec-11	263,105	–	73,218	189,887	–	02-Dec-14
		08-Dec-12	233,315	–	144,464	88,851	–	08-Dec-15
		09-Dec-13	130,915	–	130,915	–	–	09-Dec-16
	Matching shares	26-Nov-10	13,168	13,168	–	–	202	26-Nov-13
		02-Dec-11	78,931	–	21,965	56,966	–	02-Dec-14
		08-Dec-12	69,994	–	43,339	26,655	–	08-Dec-15
		09-Dec-13	39,274	–	39,274	–	–	09-Dec-16
Mark Greenwood	LTIS Shares	26-Nov-10	275,365	275,365	–	–	202	26-Nov-13
		02-Dec-11	258,141	–	–	258,141	–	02-Dec-14
		08-Dec-12	228,913	–	–	228,913	–	08-Dec-15
		09-Dec-13	128,445	–	–	128,445	–	09-Dec-16
	Matching shares	26-Nov-10	10,498	10,498	–	–	202	26-Nov-13
		02-Dec-11	10,000	–	–	10,000	–	02-Dec-14
		08-Dec-12	68,674	–	–	68,674	–	08-Dec-15
		09-Dec-13	38,533	–	–	38,533	–	09-Dec-16
Nick Jopling	LTIS Shares	26-Nov-10	344,206	344,206	–	–	202	26-Nov-13
		02-Dec-11	322,676	–	–	322,676	–	02-Dec-14
		08-Dec-12	286,141	–	–	286,141	–	08-Dec-15
		09-Dec-13	160,557	–	–	160,557	–	09-Dec-16
	Matching shares	26-Nov-10	38,888	38,888	–	–	202	26-Nov-13
		02-Dec-11	40,000	–	–	40,000	–	02-Dec-14
		08-Dec-12	84,496	–	–	84,496	–	08-Dec-15
		09-Dec-13	48,167	–	–	48,167	–	09-Dec-16

Share options

			Granted in Year		Lapsed in year	Exercised during year							
		Share options at 1 Oct 2013	Number	Grant price (p)	Number	Number	Exercise price (p)	Market price on exercise (p)	Gains on exercise of share options (£)	Share options at 30 Sep 2014	Exercise price (p)	Earliest exercise date	Latest exercise date
Andrew Cunningham	SAYE	44,415	–	–	–	44,415	37.70	225.00	83,189	–	–	–	–
	SAYE	–	17,331	173.10	–	–	–	–	–	17,331	173.10	01-Sep-19	01-Mar-20
	CSOP	31,772	–	–	–	31,772	94.42	199.70	33,450	–	–	–	–
Peter Couch	SAYE	13,062	–	–	4,717	8,345	68.90	212.00	11,942	–	–	–	–
	CSOP	31,772	–	–	–	31,772	94.42	199.70	33,450	–	–	–	–
Mark Greenwood	SAYE	13,062	–	–	–	–	–	–	–	13,062	68.90	01-Sep-15	01-Mar-16
	SAYE	–	5,199	173.10	–	–	–	–	–	5,199	173.10	01-Sep-17	01-Mar-18
	CSOP	31,772	–	–	–	31,772	94.42	197.00	32,592	–	–	–	–
Nick Jopling	SAYE	21,770	–	–	–	–	–	–	–	21,770	68.90	01-Sep-17	01-Mar-18
	SAYE	–	8,665	173.10	–	–	–	–	–	8,665	173.10	01-Sep-19	01-Mar-20
	CSOP	31,772	–	–	–	31,772	94.42	234.20	44,411	–	–	–	–

The closing trade share price on 30 September 2014 was 185.5p. The highest trade share price during the year was 250.0p and the lowest was 171.0p.

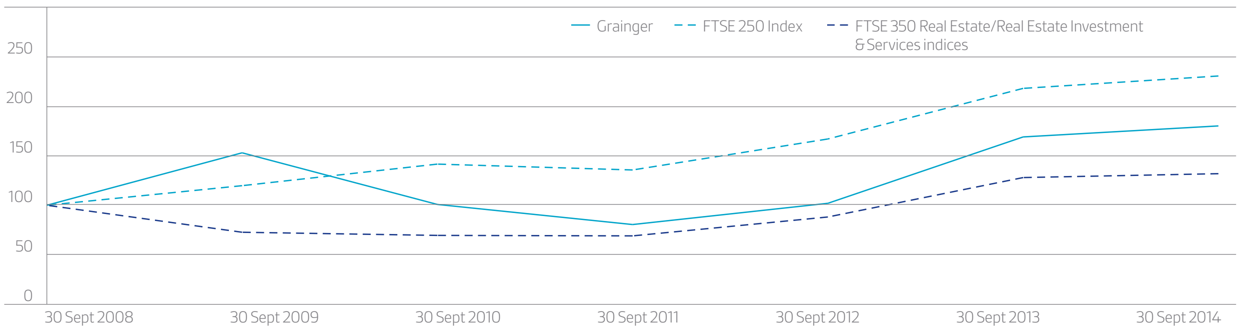
Directors' shareholdings

	Ordinary shares of 5p each (thousands)		
			Beneficial
	1 Oct 2013	30 Sep 2014	31 Oct 2014
Andrew Cunningham	1,164	1,424	1,424
Nick Jopling	171	402	402
Mark Greenwood	109	306	306
Robin Broadhurst	131	131	131
John Barnsley	103	103	103
Baroness Margaret Ford	40	40	40
Belinda Richards	–	–	–
Tony Wray	10	10	10
Simon Davies	100	100	100
Ian Coull	–	–	–
	1,828	2,516	2,516

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.



Chief executive single figure

		Chief executive single figure of total remuneration £'000	Annual variable element award rates against maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
2014	Andrew Cunningham	2,649	64	100
2013	Andrew Cunningham	1,011	63	–
2012	Andrew Cunningham	888	19	16
2011	Andrew Cunningham	928	50	–
2010	Andrew Cunningham	777	43	–
2009*	Andrew Cunningham	583	22	–
	Rupert Dickinson	582	0	–

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

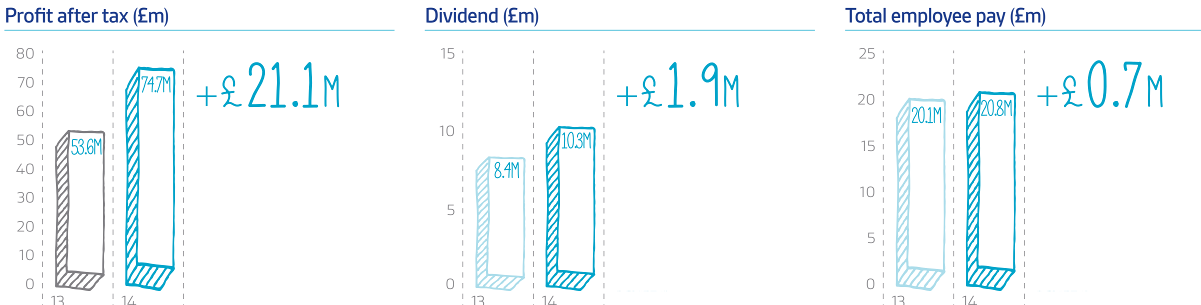
Percentage change in remuneration of CEO and employees

The percentage change in remuneration between 2013 and 2014, excluding LTIS and pension contributions, for the chief executive and for all other employees in the Group was as follows:

Chief executive	2%
Employee population	4%

Relative importance of spend or pay

The difference in actual expenditure between 2013 and 2014 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:



Statement of implementation of remuneration policy in the current financial year

Subject to increasing the salaries of the executive directors in line with the company wide increases with effect form 1 January 2015, 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 62.

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 5 February 2014 the Directors' Remuneration Report and the Director's Remuneration Policy received the following votes from shareholders:

	Directors' remuneration report		Directors' remuneration policy	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For	267,625,281	93	216,275,016	89
Against	21,638,526	7	27,612,838	11
Total votes cast (for and against)	289,263,807	100	243,887,854	100
Votes withheld	14,528,397	–	59,904,350	–
Total votes cast (including withheld votes)	303,792,204	–	303,792,204	–

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 with effect from 1 January 2015 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 Private medical insurance Life assurance Ill health income protection Travel insurance Health check up Andrew Cunningham annual 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. 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

	Annual bonus
Purpose and link to strategy	To incentivise performance over a 12-month period based on a balanced scorecard performance agreement which is aligned to: Leadership Corporate Strategy Innovation/growth External relationships/reputation with two financial performance measures that are linked to the strategic objectives of the Company and the KPIs through which those objectives are monitored plus an assessment of personal performance against objectives that are set for the executive directors that reflect the business targets and priorities for each year.

	Annual bonus
Operation	Performance measures are based on: 37.5% – operating profit before valuation movements and non-recurring items (OPBVM) 37.5% – return on shareholders' equity (ROSE) 25% – assessment of personal performance
Opportunity	Maximum bonus potential is capped at: 150% of salary for the chief executive 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. Budget less 10% – 0% vests Budget achieved – 60% vests Budget plus 20% – 100% vests Calculated on a pro rata basis. **ROSE (37.5%)** – The calculation of ROSE is: $\frac{\text{Closing NNNAV + dividends paid}}{\text{Opening NNNAV}}$ Less than or equal to 5% – 0% vests Greater than 15% – 100% vests Calculated on a pro rata basis **Personal performance (25%)** – Personal performance is assessed against individual personal objectives that are set at the beginning of the financial year. 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

Bonus	Legacy bonus
Purpose and link to strategy	To incentivise delivery of sustained performance over the longer term.
Operation	**Legacy Bonus Scheme** 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. The calculated amount was aggregated with the unpaid notional amounts from previous years and each year the Remuneration Committee considered the appropriate proportion, if any, of this aggregate notional sum to be approved for payment. The notional balance, after any approved payment, remained to be taken into account over future years. The maximum amount that could be transferred into the pool in any one year was 150% of salary and this could only be achieved under exceptional performance conditions. As at 30 September 2010, the balance in the notional bonus pool stood at £545,621. Following 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 fourth instalment of £109,124 was paid in March 2014. The balance in the bonus pool at 30 September 2014 was £109,125, which will be paid in March 2015.
Performance metrics	As above.

REMUNERATION COMMITTEE REPORT CONTINUED

	Annual bonus
Changes in year	N/A

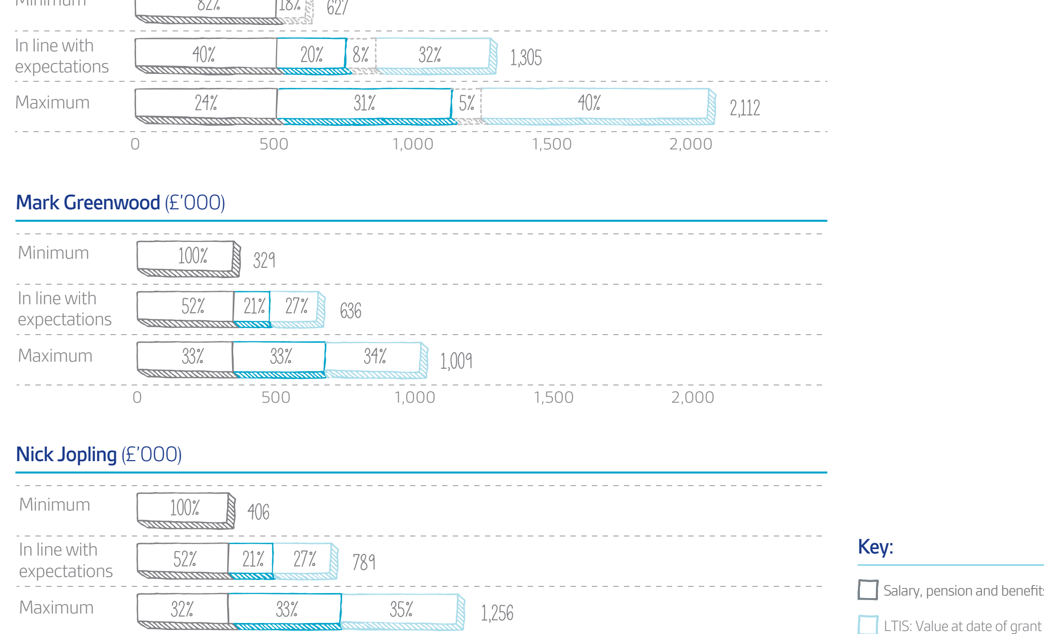
	Long-Term Incentive Scheme ('LTIS')	
Purpose and link to strategy	To incentivise delivery of sustained performance over the longer term.	
Operation	**To encourage greater shareholder alignment through personal investment in the Company's shares.**	
Opportunity	The awards are based upon the absolute levels 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.	
Performance metrics	Awards are split equally between NNNAV and TSR.	
	TSR Performance Conditions (50%)	Percentage of the TSR element of an award that will vest
	Growth in TSR over 3 years	
	TSR 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 that 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	

	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.
	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.
	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.

	Long-Term Incentive Scheme ('LTIS')
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).

	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 £500 per month (or such other amount as may be permitted by HMRC from time to time) 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. SIP: Participants can invest up to £150 per month (or such other amount as may be permitted by HMRC from time to time) 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 £3,600 (or such other amount as may be permitted by HMRC from time to time).
Performance metrics	N/A
Changes in year	HMRC increased the allowances relating to the SAYE and SIP schemes in April 2014.

Illustration of the application of the remuneration policy



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 proceding 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
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	
Ian Coull	September 2014	

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 their 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 an 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 scheme 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 2014 when the share price was 189p. These values do not include the value of any shares that might vest on 2 December 2014.

	Current holdings (thousands)	Value at 31 October 2014 £'000	% of current salary
Andrew Cunningham	1,424	2,691	629%
Mark Greenwood	306	578	218%
Nick Jopling	402	760	230%

Board Risk and Compliance Committee report

The Board Risk and Compliance Committee currently comprise four independent non-executive directors and one executive director.

Tony Wray
Committee chairman

ATTENDANCE TABLE

Committee member	Member since	Meetings attended	Meetings eligible to attend
Tony Wray (Committee Chairman)	May 2012	4	4
John Barnsley	May 2012	4	4
Belinda Richards	May 2012	4	4
Mark Greenwood	May 2012	4	4
Simon Davies	February 2013	4	4

The Committee met four times during the year. The meetings were attended by the Committee members, the company secretary and by invitation, the Group's risk and compliance manager, the group general counsel and the internal audit manager.

The Committee operates a forward agenda plan. At each meeting, the Committee reviews the quarterly risk and compliance report prepared by the risk and compliance manager together with the quarterly complaints and Top Risk and Projects reports. The Committee also regularly discusses emerging risks.

Other areas reviewed in the last year include risks associated with block management, the supply chain and core systems review projects together with risk briefings prepared by departmental managers. These briefings included reports on people risk and the embedding of risk management, business continuity planning, the project management capability within the business and a legal and regulatory update.

The purpose of these briefings is to provide the Committee with a more comprehensive insight into the principal risks and processes within the Group and ensure that the risk mitigation plans are robust.

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 effectiveness of the Committee was reviewed as part of the overall independent Board evaluation process.

The culture of risk awareness, and effective risk management through the further development of the risk assurance framework, continues to become 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

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.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. Each of the directors, whose names and functions are listed on pages 50 and 51 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 47 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.

OTHER DISCLOSURES CONTINUED

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

Directors' indemnities and insurance

We have in place contractual entitlements for the directors of the Company and of its subsidiaries to claim indemnification by the Company in respect of certain liabilities which might be incurred by them in the course of their duties as directors. These arrangements, which constitute qualifying third party indemnity provision and qualifying pension scheme indemnity provision, have been established in compliance with the relevant provisions of the Companies Act 2006. They include provision for the Company to fund the costs incurred by directors in defending certain claims against them in relation to their duties as directors of the company or its subsidiaries. The Company also maintains an appropriate level of directors' and officers' liability insurance.

Financial risk management

Details are included in note 29 to the financial statements.

Corporate responsibility

Our approach to CR is based on our assessment of the potential risk and opportunity to our business. In the year ended 30 September 2014, the Group achieved 71% and partially achieved 21% of the applicable CR targets that it committed to meeting by that date. Further information is provided in the CR report on pages 38 to 47.

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. 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.

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 Directors' report.

By order of the Board.

A. McGhin.

Adam McGhin
Company secretary

Independent auditors' report

TO THE MEMBERS OF GRAINGER PLC

REPORT ON THE GROUP FINANCIAL STATEMENTS

Our opinion

In our opinion, Grainger plc's Group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 30 September 2014 and of its 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.

What we have audited

Grainger plc's financial statements comprise:

- the Consolidated statement of financial position as at 30 September 2014;
- the Consolidated income statement and the Consolidated statement of comprehensive income for the year then ended;
- the Consolidated statement of cash flows for the year then ended;
- the Consolidated statement of changes in equity 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.

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts 2014 (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.

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

Our audit approach

Materiality

- Overall Group materiality: £5.8m, which represents 5% of average operating profit before valuation movements and non-recurring items (OPBVM) over a three year period.

Audit Scope

- The scope of our Group audit was determined through assessment of the location of the underlying accounting books and records, of which there are two distinct components: the head office in Newcastle upon Tyne, and the German residential business in Frankfurt.
- The head office was assessed as a full scope component, with audit procedures performed over all material account balances combined with testing of Group account balances managed centrally from this location, including treasury line items
- Specific audit procedures were performed over account balances in the German residential business, based on our assessment of the risk of material misstatement by both their nature and value. This work involved visiting and performing audit procedures at the Group's Frankfurt office on those account balances at this location that contributed significantly to the Group's financial performance and/or position.

Areas of focus

- Valuation of investment properties and inventories (trading properties).
- Valuation of derivative financial instruments.
- Recoverability of deferred consideration from the disposal of the former subsidiary Equity Release (Increments) Limited ("ERIL").
- Risk of fraud in revenue recognition through the posting of manual entries.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there is evidence of bias by the directors that may represent a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below together with an explanation of how we tailored our audit to address these specific areas. This is not a complete list of all risks identified by our audit.

INDEPENDENT AUDITORS' REPORT CONTINUED

Area of focus	How our audit addressed the area of focus
Valuation of investment properties and inventories (trading properties) *Refer to page 58 (Audit Committee report), pages 97-98 (Accounting policies), pages 103-107 (Critical accounting estimates and assumptions) and note 2 to the financial statements.* The Group's property assets, which are located in both the UK and Germany and recorded as either Investment properties or Inventories, represent the majority of assets in the Consolidated statement of financial position, amounting to £1.4bn. The Group's property portfolios are not uniform in nature, and therefore a number of different assumptions are made by the Group's in-house valuers and/or independent valuers appointed by the Group in determining fair value. The key assumptions which affect fair value and which we focussed on in our audit were: – **UK residential properties** – the estimated vacant possession value, based on comparable sales in the same locality and the external and internal condition of the property; and the appropriate discount/haircut applied to the estimated vacant value based on the type of tenure in place by the current occupant, as calculated by the external independent valuers. Where such properties are recorded as Inventories, we also focussed on the additional key assumptions relating to future expected house price inflation and the vacancy rate (which is used as a proxy for estimating the period of time until vacant possession and sale) in assessing the appropriateness of the net realisable values arrived at by the directors. – **Retirement solutions properties** – the assumptions in arriving at vacant possession value and assessing net realisable value (where recorded as inventories) are the same as for UK residential properties. However the discount to vacant possession value to arrive at market value is property specific (instead of a standard discount being applied by tenure type). Individual property discounts are calculated by the external independent valuers and requires estimation of the period until the Group can obtain vacant possession and application of an appropriate discount rate. – **Developments** – where the directors' intention is to realise sale on completion of a development, the significant assumptions affecting market value relate to total projected revenues and total projected costs as prepared by the directors and assessed by external independent valuers. Where the intention is to sell without development, the market value in its current condition as assessed by the external independent valuers (based on comparable sales) is the key assumption. All developments are recorded as inventories.	We agreed that property information supplied to external independent valuers by management (including details of the current tenant, type of tenure, type of property and address) for a sample from all portfolios was consistent with the underlying property records held by the Group and tested during our audit. We read all year end valuation reports provided by external organisations who were engaged by the Group to conduct valuations for the purpose of these financial statements. We confirmed valuations had been performed on bases consistent with practices approved by the Royal Institution of Chartered Surveyors ("RICS"); and assessed whether these external organisations had appropriate qualifications and expertise to undertake such valuations and that the definition of fair value adopted by both the directors and these organisations was consistent with definitions in IFRSs as adopted by the European Union. We also read the reports and associated terms of engagement between the Group and the external organisations to identify any apparent matters which might have affected the independence and objectivity of the organisations, or limitations imposed on them, in their performance of these valuations. In assessing vacant possession values of the UK residential properties, we attended a meeting between management and the external independent valuer at which we discussed those properties where the initial directors' in-house and the external independent valuers's valuations were not within our independently determined acceptable tolerance/range. We assessed whether additional evidence presented in arriving at the final directors' valuations for those properties agreed by both parties was appropriate, and where provided by management whether this was robustly challenged by the external independent valuers where appropriate. For assessing market values of UK residential and Retirement solution properties, we also assessed whether the discounts applied to vacant possession value were appropriate. We utilised our knowledge and experience of discounts normally observed in both markets for sales of tenanted properties and, specifically for the Retirement solutions portfolio, our independently derived longevity assumptions. We also recalculated the application of these discounts to vacant possession values to identify any error in management's calculations and completed sensitivity analyses to determine the extent of a change in assumptions that collectively would be required for the valuations to be materially misstated. Having done so we considered the likelihood of such a change arising. In auditing the net realisable value calculations for the UK residential and Retirement solution portfolios, we independently re-performed management's calculations to identify errors in the input data or calculations. We also evaluated the house price inflation and vacancy assumptions with reference to our independently derived house price inflation estimates and historic average vacancy rates on the portfolios. We further assessed for any likely material error by performing sensitivity analyses on these two assumptions in these models.

Area of focus	How our audit addressed the area of focus
– **German residential** – the multiple of net rental income (inverse yield) which is applied to the individual properties in arriving at their market value, using an income capitalisation approach. The rent multiple is dependent on a number of factors including the property's location, size and condition and calculated directly by the external independent valuers. All properties in Germany are recorded as investment properties. Each of the key assumptions for the Group's portfolios discussed above require significant estimation, and are used where market value or net realisable value cannot be observed directly through realisation via sale to a third party. The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuations when aggregated could result in material misstatement, is why we have given specific audit focus and attention to this area.	For Developments, we focussed on sites where market valuation of the site in its current state suggested the potential need for a provision to bring the site down to its net realisable value (where the valuation on the basis provided by the external independent valuers was lower than the cost recorded in the balance sheet). Where management's intention is to develop out such sites, we obtained management's project appraisal model detailing the total projected revenues and costs and tested the model to ensure that there were no apparent material errors in underlying calculations of expected profit. We assessed the underlying assumptions within such models with reference to evidence from previous sales at the site (where available) together with a comparison of development spending in current and prior years to original estimates. We also performed sensitivity analyses to assess the change in assumptions that would be required to eliminate the development profit and result in recognition of a provision, as well as assessing the likelihood of such changes arising. Our work on the German residential market valuations involved assessment of the rent multiples applied across the different properties utilising our knowledge of the German property market. We also factored into our testing evidence of any defects or required repairs to properties and costs required to rectify them, as provided to the external independent valuers, performing work to ensure such costs were supported by independent evidence and complete. Where remedial work was identified as being required, we checked that this had been accounted for in the valuations recorded in the financial statements.

Area of focus	How our audit addressed the area of focus
Valuation of derivative financial instruments *Refer to page 58 (Audit Committee report), page 108 (Critical accounting estimates and assumptions) and pages 138 to 144 (Financial risk management and derivative financial instruments) (see note 29 to the financial statements).* The Group's operations are funded through a number of variable-rate loan facilities through a number of different lenders in both the UK and Germany. As a result, the Group is exposed to changes in interest rates on these facilities. The directors have sought to mitigate this risk through the use of a number of derivative financial instruments in the form of floating to fixed interest rate swaps, collars and caps to hedge the risk of future movements in interest rates on these loans. Changes in current and future interest rate expectations since the inception of these instruments have resulted in an aggregate fair value attributable to the contracts of £48.0m, which are recorded as liabilities in the balance sheet and a resulting fair value movement compared to the prior year recorded in the income statement as a loss/gain of £1.2m.	We agreed models and fair values derived for each derivative financial instrument by the external consultants to the values recorded in the financial statements. A sample of derivative contracts were obtained from the Group and the key terms of these contracts, being the nominal value, the floating and fixed interest rates and the frequency and timing of payments were used to determine independent valuations for these instruments at the balance sheet date using our own models. Within our models we used externally available sources to determine our own estimates independently of the Group for interest yield curves, discount rates and an estimate of the appropriate credit risk adjustment for the Group in arriving at our estimates of fair value. We compared our independently determined fair values to those calculated by the external consultants for the same instruments to evaluate whether any differences arising were within our accepted tolerance thresholds and estimated the potential aggregate fair value difference across the portfolio of instruments as a whole.

INDEPENDENT AUDITORS' REPORT CONTINUED

Area of focus	How our audit addressed the area of focus
The directors engage external consultants to determine the fair value of each individual derivative financial instrument at the balance sheet date. The key assumptions in the valuation of these instruments are: – the interest yield curve (estimate of future interest rates) used to estimate future cash flows for the floating element of these contracts; – determination of the appropriate discount rate to apply to all of the future cash flows; and – for instruments that are "out of the money" (i.e. liabilities) assumptions regarding the Group's creditworthiness used in calculating credit risk adjustments applied in arriving at the fair value of the instruments and required to comply with accounting standards. We focussed on this area as the use of specific models and the level of judgement that needs to be applied in determining appropriate assumptions in such models to derive fair values increases the risk of error. As there are a number of these instruments with combined fair values that are highly material , a relatively small rate of error in the calculation of their values, in aggregate, could result in material misstatement of the financial statements.	

Area of focus	How our audit addressed the area of focus
Recoverability of deferred consideration from the disposal of the former subsidiary Equity Release (Increments) Limited ("ERIL") *Refer to page 58 (Audit Committee report), page 134 (Trade and other receivables) and page 140 (Financial risk management and derivative financial instruments).* On 9 January 2014, the Group completed the sale of a number of residential units previously owned as home reversion plans in its Retirement Solutions portfolio and the sale of the former subsidiary ERIL to a third party. The terms of the sale involved payment of 60% of the agreed consideration on this date, with the remaining 40% due for payment within one calendar year of completion. At the balance sheet date, an asset of £35.0m was recorded within trade and other receivables relating to this deferred consideration. The directors' assessment of the likelihood of settlement is a key factor in determining recoverable value for this consideration. The directors are of the view that no impairment write-down of the asset receivable is warranted based on their assessment that this will be fully recovered. In arriving at this assessment the directors have reviewed by the financial position of the buyer and their ability to pay the determined amount on the due date, taking into account the security provided for the benefit of the Group in the event of non-payment of the outstanding receivable, which the directors consider is robust. The magnitude of the receivable in addition to the reliance placed by the directors on security arrangements in assessing recoverability is why we have focussed on this receivable.	We read the sale and purchase agreement for the disposal of ERIL, and the properties included as part of this sale, to ascertain the extent of protections security provided to the Group in the event of non-repayment by the purchaser. We also inquired of management as to other security arrangements in place, which were relied upon by the directors in their assessment of the recoverability of this receivable, contained in side agreements. Where security side agreements were identified we read the agreement to ascertain the extent of security provided. In assessing the likelihood of repayment, we obtained the unaudited management accounts of the purchaser to form an independent view as to whether the purchaser has sufficient funds available at the date of these financial statements, or assets which could be used as security to raise sufficient funds at this date, to meet its obligations to the Group. We read correspondence to and from the purchaser and the Group to confirm no inconsistencies between this correspondence and the assessment of recoverability arrived at by the directors. We also read minutes of meetings of the Group for any apparent inconsistencies. Both of these procedures were carried out up to the date of approval of these financial statements.

Area of focus	How our audit addressed the area of focus
Risk of fraud in revenue recognition through the posting of manual entries *Refer to page 58 (Audit Committee report) and pages 99-100 for disclosures of the relevant accounting policies for recognition of revenue and a list of revenue streams.* ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition. We have analysed the risk based on our knowledge of the standard processes followed for recording revenue entries in the accounting books and records for each revenue stream individually. The Group has four revenue streams, being Rental income, Service Charge income, Proceeds from sale of trading properties and management fee income (see note 5 to the financial statements). The process for recording rental income, service charge income and property disposals are highly standardised, closely controlled and relatively straightforward to reconcile to cash receipts and receivables. Rental and service charge income are also predictable. Management fee income involves more judgement for certain contracts, particularly those involving performance related fees in assessing the timing of revenue recognition however this is not a significant revenue stream to the Group. We focused on the risk that revenue may have been recognised for all revenue streams for transactions that had not occurred. Use of manual journal entries represents an opportunity for standardised revenue entry processes to be bypassed. Such entries may not be picked up through management's controls and and therefore present a heightened risk that they may not be supported by an underlying transaction (e.g. no actual sale of a property or no service provided for a fee income entry).	We utilised computer assisted auditing techniques to obtain a complete population of manual journal entries in the accounting books and records of the Group. From this population we applied risk weightings to each manual journal entry. Our weightings were tailored to identify all manual journal entries increasing recorded revenues as well as any manual journal entries which suggested settlement of revenue via non-standard means (i.e. not through settlement directly to cash or to receivables and then to cash) which are regarded as higher risk. High risk entries were substantively tested to determine the rationale for the manual adjustment with evidence obtained to confirm that either a service had been provided or a sale had occurred supporting the recognition of the associated revenue recorded via these entries.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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 these business lines 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. The head office in Newcastle upon Tyne and the Frankfurt operations were therefore identified as the two components for scoping our audit of the Group financial statements and, in establishing the overall approach to our audit, we determined the type of work that needed to be performed at these two locations.

Accordingly, due to the financial significance of the books and records located at the head office, we performed an audit of all material account balances and other financial information at this location, together with additional procedures performed for account balances and other financial information managed centrally from the head office, which included audit procedures performed over treasury line items: Cash and cash equivalents, Derivative financial instruments, Interest-bearing loans and borrowings and the Cash flow hedge reserve. Centralised audit procedures were also performed over Inventories, Taxation, Equity and Investments in joint ventures and

associates together with the assessment of management's going concern assumption.

We also determined it necessary to perform specific audit procedures over account balances and other financial information in the German residential business where we identified a significant risk of material misstatement to the group financial statements or where this component significantly contributed to the amount recorded in the group financial statements. As a result we performed audit procedures on Investment properties and Service charge income and expenditure, and performed procedures to address the risk of override of controls by local management in Frankfurt. We visited the group's Frankfurt office in order to obtain the audit evidence required from these procedures.

The performance of audit procedures at these locations, combined with the centralised testing, enabled us to conclude whether sufficient and appropriate evidence had been obtained as a basis of our opinion on the group financial statements as a whole.

Materiality

The scope of our audit is influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and 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 financial statements as a whole as follows:

Overall Group materiality

£5.8m (2013: £5.8m).

How we determined it

5% of the average Operating profit before valuation movements and non-recurring items (OPBVM) over a three year period. Adjustments to Profit before tax in the Consolidated income statement in arriving at OPBVM for current and prior years are disclosed in note 3 to the financial statements.

Rationale for benchmark applied

In our view, OPBVM continues to be the most appropriate benchmark for determining materiality because it provides a consistent basis that eliminates the volatility of valuation adjustments on the Group's properties and derivative financial instruments and the impact of non-recurring transactions. We have also used a three year average to further adjust for the effects of volatility in trading in any single year.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.3m (2013: £0.3m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 56, 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 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.

OTHER REQUIRED REPORTING

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

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 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 – otherwise misleading.	We have no exceptions to report arising from this responsibility.
The statement given by the directors on page 3, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), 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 is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
The section of the Annual Report on page 58, as required by provision C.3.8 of the Code, 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.

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 to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not 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 parent company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

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 77, the directors are responsible for the preparation of the 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 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.

What an audit of financial statements involves

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.

We primarily focus 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.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited 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.

OTHER MATTER

We have reported separately on the Parent Company financial statements of Grainger plc for the year ended 30 September 2014 and on the information in the directors' Remuneration Report that is described as having been audited.

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

20 November 2014

Consolidated income statement

For the year ended 30 September 2014	Notes	2014 £m	2013 £m
Group revenue	4, 5	319.1	283.2
Net rental income	6	35.9	48.5
Profit on disposal of trading property	7	87.2	75.5
Administrative expenses	9	(34.7)	(33.6)
Fees and other income	10	12.8	12.9
Other expenses	11	(3.6)	(6.3)
Goodwill impairment	23	–	(4.7)
Profit on disposal of investment property	8	0.8	1.8
Income from financial interest in property assets	22	7.0	6.1
Profit on acquisition of equity in associate	20	–	2.1
Profit/(loss) on disposal of subsidiary	3	0.7	(2.3)
Profit on disposal of joint venture	21	0.1	–
Write back of inventories to net realisable value	24	0.8	0.7
Impairment of joint venture	21	(2.4)	–
Operating profit before net valuation gains on investment property		104.6	100.7
Net valuation gains on investment property	18	1.5	2.9
Operating profit after net valuation gains on investment property		106.1	103.6
Change in fair value of derivatives	29	1.2	7.9
Finance costs	14	(66.3)	(73.3)
Finance income	14	2.9	17.3
Share of profit of associates after tax	20	21.1	1.0
Share of profit of joint ventures after tax	21	16.1	7.8
Profit before tax	13	81.1	64.3
Tax charge for the year	15	(6.4)	(10.7)
Profit for the year attributable to the owners of the Company	34	74.7	53.6
Basic earnings per share	17	18.1p	13.1p
Diluted earnings per share	17	17.9p	12.8p

Consolidated statement of comprehensive income

For the year ended 30 September 2014	Notes	2014 £m	2013 £m
Profit for the year	34	74.7	53.6
Items that will not be transferred to consolidated income statement:			
Actuarial gain on BPT Limited defined benefit pension scheme	30	0.9	0.7
Items that will be reclassified subsequently to consolidated income statement:			
Fair value movement on financial interest in property assets	22	1.0	(0.3)
Exchange differences on translating foreign operations	34	(0.3)	0.5
Changes in fair value of cash flow hedges		5.4	36.2
Other comprehensive income and expense for the year before tax		7.0	37.1
Tax relating to components of other comprehensive income:			
Tax relating to items that will not be transferred to consolidated income statement	15	(0.1)	(0.2)
Tax relating to items that will be reclassified subsequently to consolidated income statement	15	(1.5)	(7.2)
Other comprehensive income and expense for the year after tax		5.4	29.7
Total comprehensive income and expense for the year attributable to the owners of the Company		80.1	83.3

Included within other comprehensive income is a charge of £0.9m (2013: credit of £2.4m) relating to associates and joint ventures accounted for under the equity method.

Consolidated statement of financial position

As at 30 September 2014	Notes	2014 £m	2013 £m
ASSETS			
Non-current assets			
Investment property	18	332.9	354.1
Property, plant and equipment	19	2.1	0.6
Investment in associates	20	103.5	88.2
Investment in joint ventures	21	73.6	57.7
Financial interest in property assets	22	94.5	96.3
Deferred tax assets	15	12.2	20.1
Intangible assets	23	2.2	1.4
		621.0	618.4
Current assets			
Inventories – trading property	24	1,020.2	949.6
Trade and other receivables	25	74.9	43.1
Cash and cash equivalents	29	74.4	90.3
Assets classified as held-for-sale	39	3.4	9.9
		1,172.9	1,092.9
Total assets		1,793.9	1,711.3
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	28	1,085.0	1,006.6
Retirement benefits	30	2.2	4.1
Provisions for other liabilities and charges	26	0.3	0.4
Deferred tax liabilities	15	25.8	25.7
		1,113.3	1,036.8
Current liabilities			
Interest-bearing loans and borrowings	28	33.1	42.4
Trade and other payables	27	54.5	58.7
Provisions for other liabilities and charges	26	0.8	2.9
Current tax liabilities	15	6.5	13.9
Derivative financial instruments	29	48.0	91.1
		142.9	209.0
Total liabilities		1,256.2	1,245.8
Net assets		537.7	465.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION CONTINUED

As at 30 September 2014	Notes	2014 £m	2013 £m
EQUITY			
Capital and reserves attributable to the owners of the Company			
Issued share capital	31	20.9	20.8
Share premium		110.4	109.8
Merger reserve		20.1	20.1
Capital redemption reserve		0.3	0.3
Cash flow hedge reserve		(1.4)	(5.5)
Equity component of convertible bond		–	5.0
Available-for-sale reserve		4.6	3.8
Retained earnings	34	382.7	311.1
Equity attributable to the owners of the Company		537.6	465.4
Non-controlling interests		0.1	0.1
Total equity		537.7	465.5

The financial statements on pages 87 to 159 were approved by the Board of Directors on 20 November 2014 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 2013		20.8	109.8	20.1	0.3	(5.5)	5.0	3.8	311.1	0.1	465.5
Profit for the year	34	–	–	–	–	–	–	–	74.7	–	74.7
Actuarial gain on BPT Limited defined benefit pension scheme	30	–	–	–	–	–	–	–	0.9	–	0.9
Fair value movement on financial interest in property assets	22	–	–	–	–	–	–	1.0	–	–	1.0
Exchange adjustments offset in reserves		–	–	–	–	–	–	–	(0.3)	–	(0.3)
Changes in fair value of cash flow hedges		–	–	–	–	5.4	–	–	–	–	5.4
Tax relating to components of other comprehensive income	15	–	–	–	–	(1.3)	–	(0.2)	(0.1)	–	(1.6)
Total comprehensive income and expense for the year		–	–	–	–	4.1	–	0.8	75.2	–	80.1
Repayment of convertible bond		–	–	–	–	–	(5.0)	–	5.0	–	–
Award of SAYE shares		0.1	0.6	–	–	–	–	–	–	–	0.7
Purchase of own shares	31,34	–	–	–	–	–	–	–	(2.1)	–	(2.1)
Share-based payments charge	32	–	–	–	–	–	–	–	2.0	–	2.0
Dividends paid	16	–	–	–	–	–	–	–	(8.5)	–	(8.5)
Balance as at 30 September 2014		20.9	110.4	20.1	0.3	(1.4)	–	4.6	382.7	0.1	537.7

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 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 cash flows

For the year ended 30 September 2014	Notes	2014 £m	2013 £m
Cash flow from operating activities			
Profit for the year		74.7	53.6
Depreciation and amortisation	19, 23	0.9	0.2
Goodwill impairment	23	–	4.7
Net valuation gains on investment property	18	(1.5)	(2.9)
Net finance costs	14	63.4	56.0
(Profit)/loss on disposal of subsidiary		(0.7)	2.3
Profit on disposal of joint venture		(0.1)	–
Share of profit of associates and joint ventures	20, 21	(37.2)	(8.8)
Profit on disposal of investment property	8	(0.8)	(1.8)
Profit on acquisition of equity in associate	20	–	(2.1)
Share-based payment charge	32, 34	2.0	2.3
Change in fair value of derivatives	29	(1.2)	(7.9)
Interest income from financial interest in property assets	22	(7.0)	(6.1)
Tax	15	6.4	10.7
Operating profit before changes in working capital		98.9	100.2
Increase in trade and other receivables		(31.3)	(7.6)
Decrease in trade and other payables		(6.2)	(3.5)
Decrease in provisions for liabilities and charges		(3.2)	(0.8)
(Increase)/decrease in trading property		(65.9)	73.8
Cash (used)/generated from operations		(7.7)	162.1
Interest paid		(54.5)	(60.3)
Tax paid	15	(7.2)	(16.4)
Payments to defined benefit pension scheme	30	(1.1)	(1.1)
Net cash (outflow)/inflow from operating activities		(70.5)	84.3
Cash flow from investing activities			
Proceeds from sale of investment property		22.1	219.9
Proceeds from financial interest in property assets	22	9.8	8.5
Proceeds from sale of subsidiary		–	45.0
Interest received		1.7	0.5
Distributions received	20, 21	4.3	1.4
Investment in associates and joint ventures	20, 21	(5.1)	(57.8)
Acquisition of investment property	18	(3.4)	(4.3)
Acquisition of property, plant and equipment and intangible assets	19, 23	(2.7)	(0.9)
Net cash inflow from investing activities		26.7	212.3

CONSOLIDATED STATEMENT OF CASH FLOWS CONTINUED

For the year ended 30 September 2014	Notes	2014 £m	2013 £m
Cash flows from financing activities			
Awards of SAYE options		0.6	–
Purchase of own shares	31, 34	(2.1)	(3.0)
Proceeds from new borrowings		381.2	150.1
Issue of corporate bond		275.8	–
Repayment of convertible bond		(24.3)	–
Payment of loan costs		5.1	–
Settlement of derivative contracts		(35.3)	(39.3)
Repayment of borrowings		(561.5)	(380.0)
Dividends paid	16	(8.5)	(8.0)
Net cash inflow/(outflow) from financing activities		31.0	(280.2)
Net (decrease)/increase in cash and cash equivalents		(12.8)	16.4
Cash and cash equivalents at the beginning of the year	29	90.3	73.3
Net exchange movements on cash and cash equivalents		(3.1)	0.6
Cash and cash equivalents at the end of the year	29	74.4	90.3

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 179. 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 2014 have been prepared in accordance with EU endorsed International Financial Reporting Standards ('IFRSs'), IFRS IC 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 162 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, financial interest in property assets and assets classified as held-for-sale.

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 control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated 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.

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.

1 ACCOUNTING POLICIES CONTINUED

Investments in joint ventures and associates are accounted for by the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss after the date of acquisition. The Group's investment in joint ventures and associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

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. An operating 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 operating 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.

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 'Other' 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 'Finance costs'. 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. The majority of investment property falls within Level 2 of the fair value hierarchy as defined by IFRS 13. Further details are given in note 29.

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 are expected to sell 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.

1 ACCOUNTING POLICIES CONTINUED

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.

(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 that 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 tax.

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 tax 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. The defined benefit obligation is valued by projecting the best estimate of future benefit outgo (allowing for future salary increases for active members, revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the statement of financial position date.

There are no current or past service costs as the scheme is closed to new members and employee contributions. The net interest amount, calculated by applying the discount rate to the net defined benefit liability, is 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.

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 are 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 was a compound financial instrument and the carrying amount was allocated to its equity and liability components in the Group statement of financial position. The liability component was determined by measuring the fair value of a similar liability that did 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 was deducted from the fair value of the compound financial instrument as a whole and the residual element was assigned to the equity component. The liability element was subsequently measured at amortised cost using the effective interest rate method. The nominal value of the bond was repaid in full in May 2014 with no option to convert taken.

(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.

1 ACCOUNTING POLICIES CONTINUED

(v) Assets classified as held-for-sale

Assets are 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 2013. 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 19, 'Employee benefits', has been amended and for defined benefit plans, the Group has changed 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 has also been a corresponding change in the amount recognised in other comprehensive income, so that the net impact on total comprehensive income and net assets is £nil.
- IFRS 10, 'Consolidated Financial statements', 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 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 12, 'Disclosures of interests in other entities', brings together all the disclosure requirements about the Group's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.
- 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. The revised disclosures are detailed in note 29. Investment property has been included within the fair value hierachy, but this has not resulted in any impact on total comprehensive income or net assets.

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.

- IFRS 9, 'Financial Instruments', replaces IAS 39 and sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 is effective for annual periods beginning on or after 1 January 2018.
- IFRS 15, 'Revenue from contracts', replaces both IAS 11 and IAS 19 as well as SIC 31, IFRIC 13, IFRIC 15 and IFRIC 18 and establishes a single, comprehensive framework for revenue recognition. IFRS 15 is effective for annual periods beginning on or after 1 January 2017.

All the above IFRSs, IFRIC interpretations and amendments to existing standards are still to be 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% (2013: 1%) movement in interest rates, a +/- 10 percentage point (2013: 10 percentage point) movement in Sterling exchange rates and a +/- 1 percentage point (2013: 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.

The valuation methodologies described below determine the fair value of property. Further details are included within note 29. As trading property is only shown at market value within the NAV and NNAV measures it is excluded from note 29. The directors believe that, were the market value of trading property included, it would fall within Level 2 of the fair value hierarchy as defined by IFRS 13.

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 ('Development') £m	German residential ('Germany') £m	Total £m	% of properties for which external valuer provides valuation %
Trading property	788.4	137.4	–	94.4	–	1,020.2	
Investment property ***	140.1	47.8	–	–	148.4	336.3	
Financial asset	–	94.5	–	–	–	94.5	
Total statutory book value	928.5	279.7	–	94.4	148.4	1,451.0	
Allsop LLP							
Directors in-house valuation	995.5	–	–	–	–	995.5	51%
RS	–	344.6	–	–	–	344.6	100%
Grainger Invest	343.1	–	–	–	–	343.1	100%
Tricomm investment valuation	109.1	–	–	–	–	109.1	100%
Cushman and Wakefield LLP	–	–	–	–	148.4	148.4	100%
CBRE Limited	–	–	–	107.2	–	107.2	100%
Total assets at market value	1,447.7	344.6	–	107.2	148.4	2,047.9	
Trading property	1,307.6	202.3	–	107.2	–	1,617.1	
Investment property ***	140.1	47.8	–	–	148.4	336.3	
Financial asset	–	94.5	–	–	–	94.5	
Total assets at market value	1,447.7	344.6	–	107.2	148.4	2,047.9	
Statutory book value	928.5	279.7	–	94.4	148.4	1,451.0	
Market value uplift*	519.2	64.9	–	12.8	–	596.9	
Net revaluation gain recognised in the income statement for wholly owned properties	6.4	1.2	–	–	(6.1)	1.5	
Net revaluation gain relating to joint ventures and associates **	–	–	37.0	–	2.2	39.2	
Net revaluation gain recognised in year**	6.4	1.2	37.0	–	(3.9)	40.7	

* 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 2014. 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 75%, 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 1.33% higher 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 2014 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 Group. Based on the results of that review Allsop LLP has concluded that they have a high degree of confidence in those directors' valuations.' Allsop LLP also recommend the discount to apply to the vacant possession valuations to establish the market value of each property. For property in UK residential the discounts are established by tenancy type and are based on evidence gathered by Allsop LLP from recent transactional market evidence. 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 2014 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, which is deemed to be the highest and best use, 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) Tricomm investment valuation

Allsop LLP has also valued as at 30 September 2014 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 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 (2014), and is based on a discounted cash flow model.

Significant unobservable inputs within the valuation relate to assumptions for house price inflation and the discount rates to apply to the cash flows. The assumptions adopted for house prices are 4% in 2015 to 2018, 3.5% in 2019 and 3% thereafter. The discount rates applied to the cash flows range between 4.9% and 9.5%.

iv) Retirement solutions

All of the property owned by the Group in the Retirement solutions portfolio was valued as at 30 September 2014 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.

2 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS CONTINUED

v) Cushman and Wakefield – German residential

The whole of the property portfolio in Germany was valued as at 30 September 2014 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 IFRS 13.

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 (2014) 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'), Walworth Investment Properties Limited ('WIP') and MH Grainger JV Sarl, all of which are shown within the Funds division. WIP is valued on the same basis as the GInvest portfolio. MH Grainger Sarl is valued on the same basis as the German residential portfolio. Valuations of 100% of the GRIP portfolio were carried out at 30 June 2014 by external valuers, Savills (UK) Limited. In aggregate, the valuation of the individual dwellings as at 30 June 2014 was £457.9m for all assets still held at September. 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 2014 valuations based on the movement in house price indices to 30 September 2014 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 2014. The Group's share of the revaluation gain based on the indexed revaluation was £4.5m. For every 1% movement in the market value of the GRIP investment property the Group's share of the movement would amount to £1.2m.

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 2014 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 4.8% growth in property prices in 2015 followed by growth in house prices of 4.4% in 2016, 3.9% in the following two years to 2018 with price increases thereafter in line with conservative historical house price growth rates. The assumptions also allow for an annual vacancy rate of 7.6%. 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 2014 against projected investment sales.

In aggregate a credit of £0.5m has been made in the 2014 income statement (2013: credit of £0.9m) to adjust the book value of trading properties to the lower of cost. 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 2014 are based upon the current intentions of the directors. In addition, estimates at 30 September 2014 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 credit of £2.7m has been made in the 2014 income statement (2013: charge of £0.2m) in adjusting the book value of development stock to net realisable value. In addition a charge of £2.4m relating to a loan receivable secured against property (refer to note 25) has been taken to the income statement (2013: £nil).

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 an increase of £1.0m (2013: decrease of £0.3m) in the fair value 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 4.0% for 2015 and 2016, 3.5% to 2018, rising to 4.0% thereafter. A change of 1% to average house price inflation over the 10-year period from 1 October 2014 would either increase the valuation by £4.6m or reduce the valuation by £4.3m. At 30 September 2014 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 £0.7m (2013: £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 2014 should be the same as the rate adopted at 30 September 2013 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 £7.8m or reduce the carrying value by £6.8m.

We have considered the impact of changes to the vacation rate used in the cash flow model, and in the current year have made a change to the vacation rate based on updated mortality tables and experience of the portfolio. The income statement impact was to reduce profit by £1.7m.

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.

2 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS CONTINUED

Derivative financial instruments

Fair value measurements for derivative financial instruments are obtained from quoted market prices and/or valuation models as appropriate. When not directly observable in active markets, the fair value of derivative contracts must be computed internally based on internal assumptions as well as directly observable market information, including forward and yield curves for commodities, currencies and interest. Changes in internal assumptions and forward curves could materially impact the internally computed fair value of derivative contracts, particularly long-term contracts, resulting in corresponding impact on income or loss in the consolidated income statement. The Group utilise an external independent valuer, J C Rathbone Associates Limited, to provide recommendations on the internal assumptions which have been fully adopted by the directors.

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 2014 the LTV was 42% compared to a default level of 75% and the interest cover ratio was 3.7 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 2014, 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 £703.9m on 30 September 2014, of which £457.1m were drawn. The Group had free cash balances plus available overdraft of £55.5m and undrawn committed facilities of £241.6m, in total, 'headroom', of £297.1m at 30 September 2014. The next maturity on the core facility is in December 2014 when a repayment of £30m 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.

3 ANALYSIS OF PROFIT BEFORE TAX

The results for the years ended 30 September 2013 and 2014 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.

	2014				2013			
(£m)	Trading	Valuation	Non-recurring	Total	Trading	Valuation	Non-recurring	Total
Group revenue	319.1	–	–	319.1	283.2	–	–	283.2
Net rental income	37.0	–	(1.1)	35.9	48.5	–	–	48.5
Profit on disposal of trading property	87.2	–	–	87.2	75.5	–	–	75.5
Administrative expenses	(34.7)	–	–	(34.7)	(33.6)	–	–	(33.6)
Fees and other income	12.8	–	–	12.8	12.9	–	–	12.9
Other expenses	(2.6)	–	(1.0)	(3.6)	(3.6)	–	(2.7)	(6.3)
Goodwill impairment	–	–	–	–	–	(4.7)	–	(4.7)
Profit on disposal of investment property	0.8	–	–	0.8	1.8	–	–	1.8
Income from financial interest in property assets	7.0	–	–	7.0	6.1	–	–	6.1
Profit on acquisition of equity in associate	–	–	–	–	–	–	2.1	2.1
Profit/(loss) on disposal of subsidiary	–	–	0.7	0.7	–	–	(2.3)	(2.3)
Profit on disposal of joint venture	–	–	0.1	0.1	–	–	–	–
Write back of inventories to net realisable value	–	0.8	–	0.8	–	0.7	–	0.7
Impairment of joint venture	–	–	(2.4)	(2.4)	–	–	–	–
Operating profit before net valuation gains on investment property	107.5	0.8	(3.7)	104.6	107.6	(4.0)	(2.9)	100.7
Net valuation gains on investment property	–	1.5	–	1.5	–	2.9	–	2.9
Operating profit after net valuation gains on investment property	107.5	2.3	(3.7)	106.1	107.6	(1.1)	(2.9)	103.6
Change in fair value of derivatives	–	1.2	–	1.2	–	21.6	(13.7)	7.9
Finance costs	(66.3)	–	–	(66.3)	(73.3)	–	–	(73.3)
Finance income	2.9	–	–	2.9	2.0	–	15.3	17.3
Share of profit of associates after tax	3.0	18.1	–	21.1	0.7	4.9	(4.6)	1.0
Share of profit of joint ventures after tax	–	16.1	–	16.1	–	7.8	–	7.8
Profit before tax	47.1	37.7	(3.7)	81.1	37.0	33.2	(5.9)	64.3

Profit before tax in the trading columns above of £47.1m (2013: £37.0m) is the recurring profit of the Group.

The £0.7m non-recurring profit on sale of subsidiary relates to the profit on sale of Equity Release (Increments) Limited to Clifden Holdings Limited in January 2014. The £0.1m profit on sale of joint venture relates to the sale of the Group's 50% share of Gebau Vermogen GmbH to our joint venture partners in October 2013. The £2.4m impairment of joint venture relates to the Group's investment in CCZ a.s., CCY a.s. and Prazsky Project a.s. The Group incurred costs of £0.8m following the acquisition of the Chelsea Houses portfolio shown within other expenses. The £1.1m non-recurring costs presented within net rental income relate to a provision for contractor remedial costs which we expect to be recouped.

3 ANALYSIS OF PROFIT BEFORE TAX CONTINUED

The prior year 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 prior year non-recurring charges of £2.7m under 'other expenses' primarily relate to transaction costs. The prior year £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 prior year £2.3m loss on sale of subsidiary relates to our German co-investment vehicle with Heitman.

4 SEGMENTAL INFORMATION

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

2014 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	136.8	123.1	8.5	34.1	16.5	0.1	319.1
Net rental income	30.2	1.5	–	0.2	5.1	–	37.0
Profit on disposal of trading property	47.8	27.1	–	12.3	–	–	87.2
Administrative expenses	(8.3)	(2.3)	(4.6)	(1.6)	(3.1)	(14.8)	(34.7)
Fees and other income	0.4	1.7	8.5	1.1	1.0	0.1	12.8
Other expenses	(0.1)	(0.1)	(1.5)	(0.1)	(0.1)	(0.7)	(2.6)
Profit on disposal of investment property	1.1	(0.1)	–	–	(0.2)	–	0.8
Income from financial interest in property assets	–	7.0	–	–	–	–	7.0
Operating profit before net valuation gains on investment property	71.1	34.8	2.4	11.9	2.7	(15.4)	107.5
Net trading interest payable	(8.4)	(9.1)	1.6	(1.0)	(2.7)	(43.8)	(63.4)
Share of trading profit/(loss) of joint ventures and associates after tax	–	0.6	2.6	(0.1)	(0.1)	–	3.0
Trading profit before tax, valuation and non-recurring items							47.1
Write back of inventories to net realisable value	0.5	–	–	0.3	–	–	0.8
Net valuation gains on investment property	6.4	1.2	–	–	(6.1)	–	1.5
Impairment of joint venture	–	–	–	(2.4)	–	–	(2.4)
Profit on disposal of subsidiary	–	0.7	–	–	–	–	0.7
Profit on disposal of joint venture	–	–	–	–	0.1	–	0.1
Change in fair value of derivatives	–	–	(0.2)	–	(0.1)	1.5	1.2
Share of valuation gains in joint ventures and associates after tax	–	–	33.2	–	1.0	–	34.2
Other net non-recurring items	(2.0)	–		–	(0.1)	–	(2.1)
Profit before tax							81.1

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)
Fees and 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 gains 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

Segmental revenue from external customers is derived as follows:
£302.6m from UK customers (2013: £261.1m)
£16.5m from Germany (2013: £22.1m).
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:
£444.4m within the UK (2013: £410.6m)
£166.7m in Germany (2013: £191.5m).

4 SEGMENTAL INFORMATION CONTINUED

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.

2014 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)	216.2	135.1	87.4	56.1	83.2	(40.3)	537.7
Total segment net assets (NAV)	768.0	207.3	92.7	65.3	91.7	(9.8)	1,215.2
Total segment net assets (NNNAV)	631.5	176.9	87.4	63.5	83.2	(30.7)	1,011.8

2014 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	332.9	–	332.9	–	–	332.9
Investment in associates	103.5	(0.4)	103.1	–	0.4	103.5
Investment in joint ventures	73.6	9.4	83.0	(7.7)	(0.5)	74.8
Financial interest in property assets	94.5	–	94.5	–	–	94.5
Intangible assets	2.2	–	2.2	–	–	2.2
Inventories – trading property	1,020.2	596.9	1,617.1	–	–	1,617.1
Trade and other receivables	74.9	–	74.9	–	–	74.9
Cash and cash equivalents	74.4	–	74.4	–	–	74.4
Property, plant and equipment	2.1	–	2.1	–	–	2.1
Deferred tax asset	12.2	(9.6)	2.6	–	13.1	15.7
Assets classified as held-for-sale	3.4	–	3.4	–	–	3.4
Value of own shares held	–	9.6	9.6	–	–	9.6
Total assets	1,793.9	605.9	2,399.8	(7.7)	13.0	2,405.1
Interest-bearing loans and borrowings	(1,118.1)	–	(1,118.1)	–	(17.5)	(1,135.6)
Trade and other payables	(54.5)	–	(54.5)	–	–	(54.5)
Retirement benefits	(2.2)	–	(2.2)	–	–	(2.2)
Current tax liabilities	(6.5)	–	(6.5)	–	–	(6.5)
Provisions for other liabilities and charges	(1.1)	–	(1.1)	–	–	(1.1)
Deferred and contingent tax liabilities	(25.8)	23.6	(2.2)	(143.2)	–	(145.4)
Derivative financial instruments	(48.0)	48.0	–	–	(48.0)	(48.0)
Total liabilities	(1,256.2)	71.6	(1,184.6)	(143.2)	(65.5)	(1,393.3)
Net assets	537.7	677.5	1,215.2	(150.9)	(52.5)	1,011.8

4 SEGMENTAL INFORMATION CONTINUED

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

Segment assets and liabilities for NNNAV

30 September 2014 (£m)	UK residential portfolio	Retirement solutions	Fund and third-party management	UK and European development	German residential	Other	Total
NNNAV assets							
Investment property	140.1	44.3	–	–	148.5	–	332.9
Investment in associates	–	–	86.2	–	17.3	–	103.5
Investment in joint ventures	–	18.5	52.0	4.3	–	–	74.8
Financial interest in property assets	–	94.5	–	–	–	–	94.5
Intangible assets	0.5	–	–	1.0	–	0.7	2.2
Inventories – trading property	1,307.5	202.4	–	107.2	–	–	1,617.1
Trade and other receivables	5.8	37.8	0.8	25.4	2.3	2.8	74.9
Cash and cash equivalents	52.6	7.9	3.6	(6.4)	7.9	8.8	74.4
Property, plant and equipment	–	–	–	–	–	2.1	2.1
Deferred tax asset	–	3.5	–	–	–	12.2	15.7
Assets classified as held-for-sale	–	3.4	–	–	–	–	3.4
Value of own shares held	–	–	–	–	–	9.6	9.6
Total segment NNNAV assets	1,506.5	412.3	142.6	131.5	176.0	36.2	2,405.1
NNNAV liabilities							
Interest-bearing loans and borrowings	(746.9)	(193.8)	(55.0)	(59.4)	(80.4)	(0.1)	(1,135.6)
Trade and other payables	(7.6)	(26.5)	(0.1)	(6.8)	(5.1)	(8.4)	(54.5)
Retirement benefits	(2.2)	–	–	–	–	–	(2.2)
Current tax liabilities	(0.6)	–	–	–	(0.1)	(5.8)	(6.5)
Provisions for other liabilities and charges	(0.8)	–	–	–	–	(0.3)	(1.1)
Deferred and contingent tax liabilities	(103.2)	(15.1)	–	(1.8)	(3.0)	(22.3)	(145.4)
Derivative financial instruments	(13.7)	–	(0.1)	–	(4.2)	(30.0)	(48.0)
Total segment NNNAV liabilities	(875.0)	(235.4)	(55.2)	(68.0)	(92.8)	(66.9)	(1,393.3)
Net NNNAV assets	631.5	176.9	87.4	63.5	83.2	(30.7)	1,011.8

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

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
Investment in associates	88.2	(0.3)	87.9	–	0.3	88.2
Investment in joint ventures	57.7	1.6	59.3	(3.5)	(0.7)	55.1
Financial interest in property assets	96.3	–	96.3	–	–	96.3
Intangible assets	1.4	–	1.4	–	–	1.4
Inventories – trading property	949.6	433.0	1,382.6	–	–	1,382.6
Trade and other receivables	43.1	–	43.1	–	–	43.1
Cash and cash equivalents	90.3	–	90.3	–	–	90.3
Property, plant and equipment	0.6	–	0.6	–	–	0.6
Deferred tax asset	20.1	(18.3)	1.8	–	20.9	22.7
Assets classified as held-for-sale	9.9	–	9.9	–	–	9.9
Value of own shares held	–	11.5	11.5	–	–	11.5
Total assets	1,711.3	427.5	2,138.8	(3.5)	20.5	2,155.8
Interest-bearing loans and borrowings	(1,049.0)	–	(1,049.0)	–	(13.0)	(1,062.0)
Trade and other payables	(58.7)	(2.9)	(61.6)	–	–	(61.6)
Retirement benefits	(4.1)	–	(4.1)	–	–	(4.1)
Current tax liabilities	(13.9)	–	(13.9)	–	–	(13.9)
Provisions for other liabilities and charges	(3.3)	2.9	(0.4)	–	–	(0.4)
Deferred and contingent tax liabilities	(25.7)	23.9	(1.8)	(110.0)	–	(111.8)
Derivative financial instruments	(91.1)	91.1	–	–	(91.1)	(91.1)
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

4 SEGMENTAL INFORMATION CONTINUED

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

Segment assets and liabilities for NNNAV

30 September 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
Intangible assets	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

5 GROUP REVENUE

	2014 £m	2013 £m
Gross rental income (see note 6)	57.4	71.3
Service charge income on a principal basis (see note 6)	4.2	5.7
Proceeds from sale of trading property (see note 7)	244.7	193.3
Management fee and other income (see note 10)	12.8	12.9
	319.1	283.2

6 NET RENTAL INCOME

	2014 £m	2013 £m
Gross rental income	57.4	71.3
Service charge income on a principal basis	4.2	5.7
Property repair and maintenance costs	(20.4)	(21.7)
Service charge expense on a principal basis	(5.3)	(6.8)
	35.9	48.5

There are no contingent rents recognised within net rental income in 2014 or 2013 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

	2014 £m	2013 £m
Gross proceeds from sale of trading property	244.7	193.3
Selling costs	(6.1)	(5.1)
Net proceeds from sale of trading property	238.6	188.2
Carrying value of trading property sold	(151.4)	(112.7)
	87.2	75.5

8 PROFIT ON DISPOSAL OF INVESTMENT PROPERTY

	2014 £m	2013 £m
Gross proceeds from sale of investment property	22.5	153.8
Selling costs	(0.6)	(1.9)
Net proceeds from sale of investment property	21.9	151.9
Carrying value of investment property sold:		
– Investment property	(12.5)	(122.2)
– Assets classified as held-for-sale	(8.6)	(27.9)
	0.8	1.8

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

9 ADMINISTRATIVE EXPENSES

	2014 £m	2013 £m
Total Group administrative expenses	34.7	33.6

10 FEES AND OTHER INCOME

	2014 £m	2013 £m
Property and asset management fee income	12.3	12.5
Other sundry income	0.5	0.4
	12.8	12.9

11 OTHER EXPENSES

	2014 £m	2013 £m
External costs relating to fee income	0.9	2.4
Non-recurring transaction expenses	2.5	2.7
Business improvement costs	0.2	1.2
	3.6	6.3

12 EMPLOYEES

	2014 £m	2013 £m
Wages and salaries	15.7	15.0
Termination benefits	0.5	0.2
Social security costs	1.3	1.7
Other pension costs – defined contribution scheme (see note 30)	1.0	0.9
Share-based payments (see note 32)	2.0	2.3
	20.5	20.1

Interest on net pension scheme liabilities amounted to £0.2m in 2014 (2013: £0.1m) and is included within finance costs (see note 14).

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

	2014 Number	2013 Number
UK residential	97	96
Retirement solutions	15	17
UK and European development	10	10
German residential	15	10
Shared services	118	119
Group	15	15
	270	267

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 64 to 67.

Key management compensation

	2014 £m	2013 £m
Short-term employee benefits	6.4	6.5
Post-employment benefits	0.4	0.4
Share-based payments	1.4	1.6
Payments for loss of office	0.4	–
	8.6	8.5

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

13 PROFIT BEFORE TAX

	2014 £m	2013 £m
Profit before tax is stated after charging/(crediting):		
Depreciation on fixtures, fittings and equipment (see note 19)	0.3	0.2
Impairment of goodwill (see note 23)	–	4.7
Amortisation of IT software (see note 23)	0.6	–
Bad debt expense (see note 25)	1.2	0.2
Foreign exchange losses	(0.1)	(0.2)
Operating lease payments	1.3	1.5
Auditors' remuneration (see below)	0.4	0.5

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

Auditors' remuneration

	2014 £'000	2013 £'000
Fee's payable to the Company's auditors and their associates for the audit of the Company's annual accounts	117	124
Fee's 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	134	143
Tax advisory services	76	85
Other assurance services	74	85
Other services not covered above	22	8
Total fees	423	445

During the year, £76,000 was paid by the Group to PricewaterhouseCoopers LLP for tax services. A further £74,000 was paid for other services, which was made up of payments relating to comfort letters on the prospectus to be issued relating to the bond issuance on the Irish Stock Exchange as well as work on the system migration.

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 57 to 59. No services were provided pursuant to contingent fee arrangements.

14 FINANCE COSTS AND INCOME

	2014 £m	2013 £m
Finance costs		
Bank loans and mortgages	40.2	56.2
Non-bank financial institution	19.2	10.4
Convertible bond	1.2	1.8
Other finance costs	–	0.1
Foreign exchange losses on financing activities	0.1	0.2
Loan issue costs – amortisation and write-off	5.4	4.5
Interest on net pension scheme liabilities (see note 30)	0.2	0.1
	66.3	73.3
Finance income		
Interest receivable from associates and joint ventures (see note 36)	2.4	1.4
Other interest receivable	0.3	0.4
Bank deposits	0.2	0.2
Gain on purchase of debt	–	15.3
	2.9	17.3
Net finance costs	63.4	56.0

15 TAX

	2014 £m	2013 £m
Current tax		
Corporation tax on profit	5.3	19.7
Adjustments relating to prior years	(5.5)	(13.8)
	(0.2)	5.9
Deferred tax		
Origination and reversal of temporary differences	7.6	(1.3)
Adjustments relating to prior years	(1.0)	6.3
Impact of tax rate change	–	(0.2)
	6.6	4.8
Income tax charge for the year	6.4	10.7

The 2014 current tax adjustments relating to prior years include the release of a provision of £3.1m and the utilisation of tax losses and other reliefs available to the Group which have been included in submitted tax returns of £2.4m.

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.

15 TAX CONTINUED

Movements in tax during the year are set out below:

2014 Movement in tax	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	13.9	(7.2)	–	(0.2)	–	–	6.5
Deferred tax							
Trading property uplift to fair value on acquisition	18.9	–	–	(1.7)	–	–	17.2
Investment property revaluation	4.9	–	–	1.9	(0.2)	–	6.6
Accelerated capital allowances	0.8	–	–	–	–	–	0.8
Short-term temporary differences	(15.6)	–	(1.9)	6.4	–	–	(11.1)
Actuarial deficit on BPT Limited pension scheme	(0.5)	–	–	–	–	0.1	(0.4)
Equity component of available-for-sale financial asset	1.0	–	–	–	–	0.2	1.2
Fair value movement in cash flow hedges and exchange adjustments	(3.9)	–	1.9	–	–	1.3	(0.7)
	5.6	–	–	6.6	(0.2)	1.6	13.6
Total tax – 2014 movement	19.5	(7.2)	–	6.4	(0.2)	1.6	20.1

	2014 £m	2013 £m
Deferred tax balances are disclosed as follows:		
Deferred tax assets: non-current assets	12.2	20.1
Deferred tax liabilities: non-current liabilities	(25.8)	(25.7)
Deferred tax	(13.6)	(5.6)

Deferred tax has been predominantly calculated at a rate of 20% (2013: 20%).

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 £119.6m (2013: £86.1m).

No benefit has been recognised in respect of deductible temporary differences with a tax value of £1.4m (2013: £1.1m).

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.

2013 Movement in tax	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 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

The tax charge for the year of £6.4m (2013: £10.7m) comprises:

	2014 £m	2013 £m
UK tax	7.3	11.8
Overseas tax	(0.9)	(1.1)
	6.4	10.7

The main rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014 and will change to 20% from 1 April 2015. Accordingly, the Group's results for this accounting period are taxed at an effective rate of 22% and should be taxed at 20.5% in the 2015 period. The change in tax rate has no impact on the income statement in the current year (2013: £0.2m credit).

15 TAX CONTINUED

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 22% (2013: 23.5%) to the profit before tax. The differences are explained below:

	2014 £m	2013 £m
Profit before tax	81.1	64.3
Profit before tax at a rate of 22% (2013: 23.5%)	17.8	15.1
Expenses not deductible for tax purposes	1.1	1.6
Goodwill impairment not tax deductible	–	1.1
Impact of tax rate change	–	(0.2)
Included in share of joint ventures/associates after tax	(4.2)	–
Other losses and non-taxable items	(1.8)	0.6
Adjustment in respect of prior periods	(6.5)	(7.5)
	6.4	10.7

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 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:

	2014 £m	2013 £m
Ordinary dividends on equity shares:		
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
Final dividend for the year ended 30 September 2013 – 1.46p per share	6.0	–
Interim dividend for the year ended 30 September 2014 – 0.61p per share	2.5	–
	8.5	8.0

A final dividend in respect of the year ended 30 September 2014 of 1.89p per share amounting to £7.8m will be proposed at the 2015 AGM. If approved, this dividend will be paid on 6 February 2015 to shareholders on the register at close of business on 30 December 2014. The 2014 interim dividend of 0.61p per share was paid in July 2014. This gives a total dividend for 2014 of 2.50p per share (2013: 2.04p per share).

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 2014 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 2014			30 September 2013		
	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	74.7	411.806	18.1	53.6	410.808	13.1
Effect of potentially dilutive securities						
Share options and contingent shares	–	4.333	(0.2)	–	7.234	(0.3)
Diluted earnings per share						
Profit attributable to equity holders	74.7	416.139	17.9	53.6	418.042	12.8

18 INVESTMENT PROPERTY

	2014 £m	2013 £m
Opening balance	354.1	525.9
Additions	3.4	4.3
Disposals	(12.5)	(190.2)
Transfer to assets classified as held-for-sale	(2.2)	(1.3)
Net valuation gains	1.5	2.9
Exchange adjustments	(11.4)	12.5
Closing balance	332.9	354.1

The Group has valued all of its investment property as at 30 September 2014 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.

18 INVESTMENT PROPERTY CONTINUED

A net revaluation gain of £1.5m has arisen on valuation of investment property to fair value as at 30 September 2014 (2013: £2.9m) and this has been taken to the income statement.

The historical cost of the Group's investment property as at 30 September 2014 is £351.6m (2013: £365.5m).

Rental income from investment property during the year was £22.1m (2013: £32.7m).

Direct property repair and maintenance costs arising from investment property that generated rental income during the year was £7.4m (2013: £9.2m).

The decrease in value of £11.4m (2013: increase of £12.5m) 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 2014 £m	Total 2013 £m
Cost		
Opening cost	5.3	5.5
Additions	1.3	0.1
Disposals	(0.1)	–
Reclassification to intangible assets	–	(0.3)
Foreign exchange gains	0.1	–
Closing cost	6.6	5.3
Accumulated depreciation		
Opening accumulated depreciation	4.7	4.7
Charge for the year	0.3	0.2
Disposals	(0.1)	–
Reclassification to intangible assets	–	(0.2)
Foreign exchange gains	(0.4)	–
Closing accumulated depreciation	4.5	4.7
Net book value:		
Closing net book value	2.1	0.6
Opening net book value	0.6	0.8

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

20 INVESTMENT IN ASSOCIATES

	2014 £m	2013 £m
Opening balance	88.2	41.2
Share of profit	21.1	1.0
Further investment	–	55.5
Dividends received	(3.4)	(48.2)
Loans advanced to associates	0.7	35.6
Interest received	(1.2)	–
Exchange movements	(1.4)	0.1
Share of change in fair value of cash flow hedges taken through other comprehensive income	(0.5)	3.0
Closing balance	103.5	88.2

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 prior year the Group increased its holding in G:res1 Limited from 21.96% to 26.2% and recognised 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 in 2013, £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, in 2013 the Group made a profit on acquisition of equity in associate of £2.1m and this was shown as a separate item in the consolidated income statement.

	2014 £m	2013 £m
Increased holding in G:Res1 Limited	–	1.1
Payment to G:Res1 shareholders	–	1.0
	–	2.1

As at 30 September 2014, 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 & Co.KG ('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 2014. Their results for the 12 months to 30 September 2014 and their financial position as at that date have been equity accounted in these financial statements.

20 INVESTMENT IN ASSOCIATES CONTINUED

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

	2014 £m	2013 £m
Non-current assets	164.6	152.1
Current assets	14.5	11.7
Non-current liabilities	(68.3)	(71.1)
Current liabilities	(7.3)	(4.5)
Net assets	103.5	88.2
Revenues	9.6	6.0
Profit (including share of gain on revaluation of investment property)	21.1	1.0

2013 Reconciliation to cash flow

	Associates (note 20)			Joint Ventures (note 21)			
2013 Reconciliation to cash flow	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)

Due to the number of transactions relating to amounts in the prior year, a detailed reconciliation of movements and cashflows is shown above.

21 INVESTMENT IN JOINT VENTURES

	Net assets £m	Loans £m	Total £m
At 1 October 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
Loans advanced	–	2.8	2.8
Decrease in provisions against loans	–	(0.4)	(0.4)
Interest received	–	(0.3)	(0.3)
Disposal	(0.4)	–	(0.4)
Share of profit	14.4	1.7	16.1
Exchange adjustment	(0.1)	(0.9)	(1.0)
Distributions received	(0.9)	–	(0.9)
At 30 September 2014	55.9	17.7	73.6

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), resulting in a profit on sale of £0.1m following receipt of a dividend.

The £1.7m profit on loans in the year relates to a release of provisions against future losses and impairments.

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.

At 30 September 2014, 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

The accounting period end of Curzon Park Limited is 28 February. The results for the 12 months to 30 September 2014 and the financial position as at that date have been equity accounted in these financial statements.

21 INVESTMENT IN JOINT VENTURES CONTINUED

The accounting period end of King Street Developments (Hammersmith) Limited is 31 March. The results for the 12 months to 30 September 2014 and the financial position as at that date have been equity accounted in these financial statements.

The White Paper on the proposed High Speed Rail Network from London to Birmingham indicates that the potential route will cover at least part of our development site at Curzon Park in Birmingham. We are assessing the long-term impact with our advisers and aim to collaborate with other affected owners in the area. In view of the uncertainty relating to the future of the Curzon Park site, the Group is seeking advice in order to protect its position. Should the value of the site, together with any compensation received, be insufficient to repay the bank loan in the joint venture entity and recover the carrying value of the Group's investment, the Group may incur further charges. HS2 remains a clear policy from this government and HS2 Ltd, part of Department of Transport, continue to prepare the work required to allow the proposal to be submitted to parliament later this year. This subsequently targets a date at the end of 2015 for Royal Assent by parliament (legal permission to construct line), leading to Compulsory Purchase Orders (CPO) in 2016. We have no current view from advisers on possible CPO value. If the CPO did occur it is most likely that only part of the site would be subject to CPO, as only part of the site is on the line of the new railway/station. We could therefore have the opportunity to develop the remainder of the site, as a gateway next to the new HS2 station.

As a result of challenges to the planning consent obtained in relation to the Czech Republic joint ventures, the directors have reviewed the carrying value of the investment and impaired the investment by £2.4m to leave a carrying value of £nil.

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.

2014 Summarised income statement

	Czech Republic combined £m	Curzon Park Limited £m	King Street Developments (Hammersmith) Limited £m	New Sovereign Reversions Limited £m	Walworth Investment Properties Limited £m	Total £m
Net rental income and other income	–	–	–	–	1.5	1.5
Administration and other expenses	–	–	–	(0.5)	–	(0.5)
Profit on disposal of properties	–	–	–	1.1	0.2	1.3
Operating profit	–	–	–	0.6	1.7	2.3
Net revaluation gains on investment property	–	–	–	–	19.5	19.5
Interest payable	(0.3)	(0.1)	–	(0.6)	(1.6)	(2.6)
Change in fair value derivatives	–	–	–	–	(0.1)	(0.1)
Net realisable value provision movement	–	(1.3)	–	–	–	(1.3)
(Loss)/profit before tax	(0.3)	(1.4)	–	–	19.5	17.8
Tax	–	–	–	0.5	(3.9)	(3.4)
(Loss)/profit after tax	(0.3)	(1.4)	–	0.5	15.6	14.4

2014 Summarised statement of financial position

	Czech Republic combined £m	Curzon Park Limited £m	King Street Developments (Hammersmith) Limited £m	New Sovereign Reversions Limited £m	Walworth Investment Properties Limited £m	Total £m
Trading and investment property	12.0	17.3	3.1	25.6	84.6	142.6
Current assets	0.7	0.1	0.1	1.9	3.4	6.2
Total assets	12.7	17.4	3.2	27.5	88.0	148.8
Non-current liabilities	(3.3)	(12.4)	(3.2)	(11.3)	(36.8)	(67.0)
Current liabilities	(8.4)	(9.5)	–	(1.9)	(6.1)	(25.9)
Net assets/(liabilities)	1.0	(4.5)	–	14.3	45.1	55.9

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.

2013 Summarised income statement

	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
Tax	–	–	–	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

	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

22 FINANCIAL INTEREST IN PROPERTY ASSETS

	2014 £m	2013 £m
Opening balance	96.3	99.0
Cash received from the instrument	(9.8)	(8.5)
Amounts taken to income statement	7.0	6.1
Amounts taken to other comprehensive income before tax	1.0	(0.3)
Closing balance	94.5	96.3

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 13. 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 £m	IT Software £m	Total £m
Cost			
Opening cost at 1 October 2013	0.6	0.8	1.4
Additions	–	1.4	1.4
Closing cost at 30 September 2014	0.6	2.2	2.8
Accumulated amortisation			
Opening accumulated amortisation at 1 October 2013	–	–	–
Charge for the year	–	0.6	0.6
Closing accumulated amortisation at 30 September 2014	–	0.6	0.6
Net book value			
Closing net book value at 30 September 2014	0.6	1.6	2.2
Opening net book value at 1 October 2013	0.6	0.8	1.4

	Goodwill £m	IT Software £m	Total £m
Cost			
Opening cost at 1 October 2012	5.3	–	5.3
Additions	–	0.7	0.7
Reclassified from property, plant and equipment	–	0.1	0.1
Impairment charge taken to income statement	(4.7)	–	(4.7)
Closing cost at 30 September 2013	0.6	0.8	1.4
Accumulated amortisation			
Accumulated amortisation at 1 October 2012 and 30 September 2013	–	–	–
Net book value			
Closing net book value at 30 September 2013	0.6	0.8	1.4
Opening net book value at 1 October 2012	5.3	–	5.3

Goodwill is tested annually for impairment based on a value in use calculation. The prior 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.

24 INVENTORIES – TRADING PROPERTY

	2014 £m	2013 £m
Residential trading property*	925.8	871.9
Development trading property	94.4	77.7
	1,020.2	949.6

* Residential trading property comprises assets held within the UK residential and Retirement solutions divisions.

24 INVENTORIES – TRADING PROPERTY CONTINUED

The market value of inventories as at 30 September 2014 was £1,617.1m (2013: £1,382.6m).

Provisions of £0.8m against the net realisable value of residential trade property have been written back to the consolidated income statement in the year (2013: £0.7m). 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

	2014 £m	2013 £m
Trade receivables	62.4	31.3
Deduct: Provision for impairment of trade receivables	(2.2)	(1.3)
Trade receivables – net	60.2	30.0
Other receivables	5.5	7.4
Prepayments	9.2	5.7
	74.9	43.1

Trade receivables includes deferred consideration receivable of £4.0m (2013: £13.5m) from sales within our Development division at our previously held Gateshead College site and £35.0m from the Retirement Solutions division relating to the portfolio sale to Clifden Holdings Limited due for payment in January 2015.

Other receivables include a loan of £3.7m (2013: £4.3m) 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 financial instruments'.

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

	2014 £m	2013 £m
Opening balance	1.3	1.4
Provision for receivables impairment during the year	1.8	0.8
Receivables written off during the year as not recoverable	(0.3)	(0.7)
Unused amounts reversed	(0.6)	(0.2)
Closing balance	2.2	1.3

The charge relating to the creation 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:

	2014 £m	2013 £m
Pounds Sterling	72.6	40.6
Euros	2.3	2.5
	74.9	43.1

26 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Current		Non-current	
	2014 £m	2013 £m	2014 £m	2013 £m
Opening balance	2.9	–	0.4	0.5
Transfer from other payables	–	0.7	–	–
Addition	0.9	3.1	–	–
Utilisation	(2.5)	(0.7)	(0.1)	(0.1)
Released	(0.5)	(0.2)	–	–
Closing balance	0.8	2.9	0.3	0.4

The Group holds a non-current provision of £0.3m (2013: £0.4m) that relates to the estimated cost of providing private medical insurance to former directors of BPT Limited.

In addition, a provision of £0.8m (2013: £2.5m) 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 prior year current provision also included £0.4m relating to costs associated with the exit from our Gebau Vermogen GmbH joint venture (see note 21), which was settled in the year.

27 TRADE AND OTHER PAYABLES

	2014 £m	2013 £m
Deposits received	2.4	2.1
Trade payables	12.0	10.4
Tax and social security	2.4	3.1
Accruals and deferred income	37.7	43.1
	54.5	58.7

Accruals and deferred income includes £12.9m (2013: £14.9m) 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 that is expected to be released to the income statement within the next 12 months.

28 INTEREST-BEARING LOANS AND BORROWINGS

	2014 £m	2013 £m
Current liabilities		
Bank loans	33.5	12.6
Non-bank financial institution	(0.1)	5.2
Mortgages	0.3	0.3
Convertible bond	–	24.3
Corporate bond	(0.6)	–
	33.1	42.4
Non-current liabilities		
Bank loans	612.6	810.5
Non-bank financial institution	182.6	176.5
Mortgages	18.0	19.6
Corporate bond	271.8	–
	1,085.0	1,006.6
Total interest-bearing loans and borrowings	1,118.1	1,049.0

The analysis of current liabilities above includes unamortised issue costs which will be released to the income statement. The analysis of the loans and borrowings in the below tables (a) to (e) is before deducting unamortised issue costs of £12.7m (2013: £12.9m) relating to the raising of the loan finance and the addition of a premium raised on the second issue (tap issue) on the corporate bond, which is treated as a liability on the balance sheet and amortised using the effective interest rate method. As at 30 September 2014 the unamortised premium was £0.8m (2013: £nil).

(a) Analysis of bank loans

	2014 £m	2013 £m
Bank loans – Pounds Sterling	497.8	655.1
Bank loans – Euro	155.8	179.9
	653.6	835.0

Sterling bank loans include variable rate loans bearing interest at rates between 2.2% and 3.8% above LIBOR and Euro bank loans include variable rate loans bearing interest at rates between 0.8% and 2.2% 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 2014 was 2.8% (2013: 2.7%). 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

	2014 £m	2013 £m
Fixed rate – Pounds Sterling	83.1	82.6
Variable rate – Pounds Sterling	100.0	100.0
	183.1	182.6

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

	2014 £m	2013 £m
Mortgages – Euro	18.2	19.9

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

	2014 £m	2013 £m
Opening balance	24.3	23.5
Amortised during the year	0.6	0.8
Repaid during the year	(24.9)	–
Closing balance (Pounds Sterling)	–	24.3

The convertible bond reached maturity in May 2014 and the nominal value was repaid in full.

(e) Corporate bond

	2014 £m	2013 £m
Corporate bond - Pounds Sterling	275.0	–

The £275m, 5.0% secured corporate bond, due December 2020, was issued in the financial year ended September 2014. The primary issue was £200m issued at par in November 2013 with a secondary tap issue in August 2014 at £75m issued at 101.125%. The premium on the tap issue will be amortised to the income statement using the effective interest rate method.

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

	2014 £m	2013 £m
Within one year	33.1	42.4
Between one and two years	516.8	149.4
Between two and five years	73.3	601.8
More than five years	494.9	255.4
Total non-current interest bearing loans and borrowings	1,085.0	1,006.6
	1,118.1	1,049.0

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:

	2014						
	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	–	–	–	94.5	94.5	94.5	–
Trade and other receivables excluding prepayments	65.7	–	–	–	65.7	65.7	–
Cash and cash equivalents	74.4	–	–	–	74.4	74.4	–
Total financial assets	140.1	–	–	94.5	234.6	234.6	–

	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	–	–	–	1,085.0	1,085.0	1,102.5	17.5
Current liabilities							
Interest-bearing loans and borrowings	–	–	–	33.1	33.1	33.1	–
Trade and other payables	–	–	–	54.5	54.5	54.5	–
Derivative financial instruments	–	42.8	5.2	–	48.0	48.0	–
Total financial liabilities	–	42.8	5.2	1,172.6	1,220.6	1,238.1	17.5
Total net financial assets/(liabilities)	140.1	(42.8)	(5.2)	(1,078.1)	(986.0)	(1,003.5)	(17.5)

The fair value adjustment relates to the Group's fixed rate loans with Lloyds Bank plc, Partnership Assurance Group plc, UniCredit Bank AG and the Corporate Bond, all of which are stated at amortised cost in the consolidated statement of financial position. There is no requirement under IAS 39 to revalue these loans to fair value in the consolidated statement of financial position.

	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)

29 FINANCIAL RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

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 that 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, credit availability 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 2014 £4.0m (2013: £13.5m) was outstanding from one (2013: two) counterparties. In addition there is £35.0m deferred consideration due from portfolio sales from the Retirement Solutions division. The Group is protected from credit risk by a call option over the entire share capital of the entity sold to the counterparty, which expires on settlement of the deferred consideration.

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 £1.9m (2013: £2.1m) are held that 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 £60.2m, we consider £40.8m to be not due and not impaired. Of the £5.5m other receivables balance, £5.1m is considered not due and not impaired.

As at 30 September 2014, tenant arrears of £2.2m within trade receivables were impaired and fully provided for (2013: £1.3m). The individually impaired receivables are based on a review of outstanding arrears and an assessment of collectability. The ageing of these receivables is:

	2014 £m	2013 £m
Up to two months	0.1	0.1
Three months or more	2.1	1.2

	2014 £m	2013 £m
	2.2	1.3

Rental receivables are due on demand and hence all balances outstanding at the year end are past due. The balances within trade receivables that 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:

	2014 £m	2013 £m
Up to two months	2.2	1.4

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 2014, the fair value of all interest rate derivatives that had a positive value was £nil (2013: £nil).

At 30 September 2014, the combined credit exposure arising from cash held at banks, money market deposits and interest rate swaps was £74.4m (2013: £90.3m), which represents 4.2% (2013: 5.2%) of total assets. Deposits were placed with financial institutions with A- or better credit ratings.

The Group has the following cash and cash equivalents:

	2014 £m	2013 £m
Pounds Sterling	66.3	82.0
Euros	7.9	8.1
Czech Koruna	0.2	0.2
	74.4	90.3

Cash and cash equivalents can be analysed as follows:

	2014 £m	2013 £m
Cash at bank	63.8	52.8
Short-term deposits	10.6	37.5
	74.4	90.3

Included within 2014 year end cash balances is £9.0m (2013: £8.6m) 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, £10.6m was placed on deposit (2013: £37.5m) at effective interest rates between 0.42% and 0.50% (2013: 0.30% and 0.42%). 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 2014 (2013: £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 2014 and as at 30 September 2014 (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.

29 FINANCIAL RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

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 for borrowings only. 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	More than 5 years £m	Total £m
At 30 September 2014					
Interest-bearing loans and borrowings	77.1	560.3	155.4	613.5	1,406.3
Cash flow hedges	2.9	1.8	0.5	–	5.2
Derivatives at fair value through profit and loss	9.7	5.6	11.0	16.5	42.8
Trade and other payables	43.4	–	–	–	43.4

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	More than 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

Reconciliation of maturity analysis

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	More than 5 years £m	Total £m
At 30 September 2014					
Interest-bearing loans and borrowings (see note 28)	33.1	516.8	73.3	494.9	1,118.1
Foreign exchange impact of forward rates	–	–	–	0.5	0.5
Interest	39.8	40.2	78.9	116.9	275.8
Unamortised borrowing costs	4.3	3.4	3.6	1.4	12.7
Unamortised bond premium	(0.1)	(0.1)	(0.4)	(0.2)	(0.8)
Financial liability cash flows shown above	77.1	560.3	155.4	613.5	1,406.3

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	More than 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

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

Maturity of committed undrawn borrowing facilities

	2014 £m	2013 £m
Expiring:		
Between one and two years	207.9	10.8
Between two and five years	3.7	183.7
More than five years	30.0	30.0
	241.6	224.5

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 (2013: 1 percent) movement in interest rates, a +/- 10 percentage point (2013: 10 percentage point) movement in Sterling and a +/- 1 percentage point (2013: 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 13 sets out a three-tier hierarchy for financial assets and liabilities valued at fair value. These are as follows:
Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
Level 3 – unobservable inputs for the asset or liability.

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. The significant unobservable inputs affecting the carrying value are house price inflation and effective interest rate. Further details regarding the basis of valuation and the sensitivity to changes in the key valuation assumptions are documented in note 2, 'Critical accounting estimates and assumptions'. Note 22 provides a reconciliation of movements and amounts recognised in the income statement and other comprehensive income.

29 FINANCIAL RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

The Tricomm Holdings portfolio falls within Level 3. The Investment valuation provided by Allsop LLP, which is based on a discounted cash flow model in accordance with RICs Valuation Professional Standards (2014), includes a number of unobservable inputs and other valuation assumptions. Further details of these assumptions and significant unobservable inputs are documented in note 2, 'Critical accounting estimates and assumptions'. The reconciliation between opening and closing balances is detailed in the table below.

	2014 £m	2013 £m
Opening balance	105.9	106.2
Amounts taken to income statement	3.2	(0.3)
Closing balance	109.1	105.9

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

	2014		2013	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Level 3				
Financial interest in property assets	94.5	–	96.3	–
Tricomm Holdings portfolio	109.1	–	105.9	–
	203.6	–	202.2	–
Level 2				
Interest rate swaps – in cash flow hedge accounting relationships	–	5.2	–	10.3
Interest rate swaps – not in cash flow hedge accounting relationships	–	42.8	–	80.8
Interest-bearing loans and borrowings	–	418.6	–	174.5
Investment property	223.8	–	248.2	–
Assets classified as held-for-sale	3.4	–	9.9	–
	227.2	466.6	258.1	265.6

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 2014 was £334.2m (2013: £532.4m).

All of the financial derivatives included in the above table were valued by external consultants, J C Rathbone Associates Limited, 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 2014 by external consultants, J C Rathbone Associates Limited, 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 2014 £m	Fair value at 30 September 2014 £m
Fixed rate loan facilities	401.1	418.6

	Book value at 30 September 2013 £m	Fair value at 30 September 2013 £m
Fixed rate loan facilities	161.5	174.5

Interest rate risk

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

Hedging activities are carried out under the terms of the Group's hedging policies and are regularly reviewed by the Board to ensure compliance with this policy. The Board reviews its policy on interest rate exposure regularly with a view to establishing that it is still relevant in the prevailing and forecast economic environment. The current Group treasury policy is to maintain floating-rate exposure of no greater than 40% of expected borrowing. As at 30 September 2014, 68% (2013: 68%) of the Group's net borrowings were economically hedged to fixed or capped rates.

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 £3.9m (2013: £2.8m). Similarly, a 1% decrease would increase annual profits by £3.9m (2013: £2.8m).

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 £3.1m (2013: £2.1m). Similarly, a 1% decrease would increase the Group's equity by £3.1m (2013: £2.1m).

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.

29 FINANCIAL RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

As at 30 September 2014, the market value of derivatives designated as cash flow hedges under IAS 39, is a net liability of £5.2m (2013: £10.3m). The total ineffectiveness of cash flow hedges recognised within the income statement totals a gain of £0.4m (2013: £0.8m). 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 £1.2m (2013: £7.9m) in the income statement analysed as follows:

	2014 £m	2013 £m
Fair value movement on derivatives not designated as cash flow hedges	3.0	31.8
Amounts reclassified from equity to the income statement	(1.8)	(23.9)
	1.2	7.9

At 30 September 2014, the market value of derivatives not designated as cash flow hedges under IAS 39, is a net liability of £42.8m (2013: £80.8m). 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 2014.

Cash flow hedged debt

	2014 £m	2013 £m
Cash flow hedges maturing:		
Within one year	124.9	147.6
Between one and two years	63.2	75.7
Between two and five years	37.8	99.5
Over five years	108.3	209.6
	334.2	532.4

Interest rate profile – including the effect of derivatives

	2014					2013				
	Weighted average interest rate %	Average maturity years	Sterling £m	Euro £m	Total £m	Weighted average interest rate %	Average maturity years	Sterling £m	Euro £m	Total £m
Fixed rate	5.3	9.0	381.1	20.0	401.1	6.3	15.0	139.7	21.8	161.5
Hedged rate	6.5	2.0	310.3	54.8	365.1	3.4	7.3	501.8	61.4	563.2
Variable rate	3.2	3.1	264.5	99.2	363.7	2.9	4.6	220.6	116.6	337.2
	5.0	4.8	955.9	174.0	1,129.9	5.4	4.6	862.1	199.8	1,061.9

At 30 September 2014, the fixed interest rates on the interest rate swap contracts vary from 1.11% to 5.38% (2013: 0.67% to 5.38%); the weighted average rate's are shown in the table above.

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:

	2014 Euro £m	2013 Euro £m	2014 Czech Koruna £m	2013 Czech Koruna £m
Gross foreign currency assets	84.2	92.4	–	1.6
Gross foreign currency liabilities	(93.5)	(100.3)	(7.8)	–
Net exposure	(9.3)	(7.9)	(7.8)	1.6

As at 30 September 2014, 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 (2013: £0.3m) and equity by £6.1m (2013: £0.8m).

As at 30 September 2014, 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 (2013: £nil) and equity by £0.7m (2013: £0.6m).

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 £703.9m, and this was used to refinance the Group's existing core facilities. During the year, the Group has raised £275m through a corporate bond issuance. 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) and the Tricomm Holdings portfolio 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 2014, the weighted average cost of debt was 6.0% (2013: 5.7%) and the WACC was 6.93% (2013: 6.65%). 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. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Pension arrangements for directors are disclosed in the report of the Remuneration Committee and the directors' remuneration report on pages 62 to 75. The pension cost charge in these financial statements represents contributions payable by the Group. The charge of £1.0m (2013: £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. Pension benefits are linked to the members' final pensionable salaries and service at their retirement (or date of leaving if earlier). The Trustees are responsible for running the scheme in accordance with the scheme's trust deed and rules, which sets out their powers. The Trustees of the scheme are required to act in the best interests of the beneficiaries of the scheme. There is a requirement that at least one-thrid of the Trustees are nominated by the members of the scheme.
There are three categories of pension scheme members:

- Active members: currently employed by the Group. Note no benefits have accrued since 30 June 2003, although active members retain a final salary link;
- Deferred members: former employees of the Group; and
- Pensioner members: in receipt of pension.

The defined benefit obligation is valued by projecting the best estimate of future benefit outgo (allowing for future salary increases for active members, revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the statement of financial position date. In the period up to retirement, benefits receive increases linked to inflation (subject to a cap of no more than 5% p.a.). After retirement, benefits receive fixed increases of 5% p.a. The valuation method used is known as the projected unit method. The approximate overall duration of the scheme's defined benefit obligation as at 30 September 2014 was 18 years.

The IAS 19 calculations for disclosure purposes have been based upon the preliminary results of the actuarial valuation carried out as at 1 July 2013, updated to 30 September 2014, by a qualified independent actuary.

Principal actuarial assumptions under IAS 19

	2014	2013
Discount rate	3.80% p.a.	4.50% p.a.
Retail Price Index (RPI) inflation	3.20% p.a.	3.50% p.a.
Consumer Price Index (CPI) inflation	2.20% p.a.	2.50% p.a.
Salary increases	3.70% p.a.	4.50% p.a.
Rate of increase of pensions in payment	5.00% p.a.	5.00% p.a.
Rate of increase for deferred pensioners	2.20% p.a.	2.50% p.a.

Demographic assumptions

	2014	2013
Mortality tables for pensioners	100% of S1PA CMI 2012 model with a long-term rate of improvement of 1.50% for males and 1.00% for females	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 2014		30 September 2013	
	Male	Female	Male	Female
Life expectancy for a current 65 year old	87.7 years	89.4 years	88.0 years	90.2 years
Life expectancy at age 65 for an individual aged 45 in 2014	89.9 years	90.9 years	90.5 years	91.8 years

Risks

Through the scheme, the Group is exposed to a number of risks:

- Asset volatility: the scheme's defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields; however, the scheme also invests in equities. These assets are expected to outperform corporate bonds in the long-term, but provide volatility and risk in the short-term.
- Changes in bond yields: a decrease in corporate bond yields would increase the scheme's defined benefit obligation; however, this would be partially offset by an increase in the value of the scheme's bond holdings. Inflation risk: some of the scheme's defined benefit obligation is linked to inflation, therefore higher inflation will result in a higher defined benefit obligation (subject to the appropriate caps in place). The majority of the scheme's assets are either unaffected by inflation, or only loosely correlated with inflation, therefore an increase in inflation would also increase the deficit.
- Life expectancy: if scheme members live longer than expected, the scheme's benefits will need to be paid for longer, increasing the scheme's defined benefit obligation.

The trustees and Group manage risks in the scheme through the following strategies:

- Diversification: investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.
- Investment strategy: the Trustees are required to review their investment strategy on a regular basis.

30 PENSION COSTS CONTINUED

Market value of scheme assets

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

	30 September 2014		30 September 2013	
	Market value £m	% of total scheme assets	Market value £m	% of total scheme assets
Equities	10.8	42%	7.9	35%
Bonds	9.8	38%	8.8	38%
Properties	0.4	2%	0.4	2%
Other	0.7	2%	1.7	7%
Insurance policies	4.1	16%	4.1	18%
Total value of assets	25.8	100%	22.9	100%
The actual return on assets over the period was	2.6		0.8	

The assets of the scheme are held with Friends Life in a managed fund. All of the assets listed have a quoted market price in an active market.

Defined benefit obligations, scheme assets and scheme deficit

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Market value of scheme assets	25.8	22.8	21.7	18.6	18.6
Present value of scheme liabilities	(28.0)	(26.9)	(27.5)	(23.1)	(24.6)
Scheme deficit at 30 September	(2.2)	(4.1)	(5.8)	(4.5)	(6.0)

History of assets, liabilities, experience gains and losses

	2014	2013	2012	2011	2010
Gains/(losses) arising on scheme liabilities:					
Due to experience	£0.5m	–	–	£0.1m	–
Percentage of defined benefit obligation	1.8%	–	–	0.4%	–
Due to change of basis	£(1.2)m	£0.9m	£(4.0)m	£1.7m	£(1.6)m
Percentage of defined benefit obligation	(4.3)%	3.3%	(14.5)%	7.4%	(6.5)%
Experience adjustments:					
Gains/(losses) arising on scheme assets	£(1.6)m	£(0.2)m	£2.0m	£(0.6)m	£1.1m
Percentage of scheme assets	(6.2)%	(0.9)%	9.2%	(3.2)%	5.9%

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

	2014 £m	2013 £m
Market value of scheme assets at the start of the year	22.8	21.7
Interest income	1.0	0.9
Employer contributions	1.1	1.1
Actual return on assets less interest	1.6	(0.1)
Benefits paid	(0.7)	(0.8)
Market value of scheme assets at the end of the year	25.8	22.8

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

	2014 £m	2013 £m
Present value of projected defined benefit obligation at the start of the year	26.9	27.5
Interest on pension scheme liabilities	1.2	1.1
Actuarial gains: experience differing from that assumed	(0.5)	–
Actuarial gains: changes in demographic assumptions	(1.9)	–
Actuarial losses/(gains): changes in financial assumptions	3.1	(0.9)
Benefits paid	(0.8)	(0.8)
Value of defined benefit obligation at the end of the year	28.0	26.9

Amounts recognised in the income statement

	2014 £m	2013 £m
Net interest cost	0.2	0.1

The total pension cost shown above has been included within 'Finance costs' (see note 14).

Amounts recognised in the consolidated statement of comprehensive income

	2014 £m	2013 £m
Actual return less interest	1.6	(0.2)
Actuarial gains/(losses) on defined benefit obligation	(0.7)	0.9
	0.9	0.7

The gain shown in the above table of £0.9m (2013: £0.7m) has been included in the consolidated statement of comprehensive income on page 88.

Future funding obligation

The Trustees are required to carry out an actuarial valuation every 3 years. The last actuarial valuation of the scheme was performed by the Actuary for the Trustees as at 1 July 2013. This valuation revealed a funding shortfall of £4.4m. 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 2014 and then £0.6m p.a. until 31 January 2020.

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 £0.4m
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 £1.0m

31 ISSUED SHARE CAPITAL

	2014 £m	2013 £m
Allotted, called-up and fully paid:		
417,792,510 (2013: 416,529,484) ordinary shares of 5p each	20.9	20.8

During the year the Grainger Employee Benefit Trust acquired 1,000,000 shares at a cost of £2.1m (2013: 1,400,000 shares at cost of £2.4m). The Group paid £0.5m (2013: £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 £2.1m (2013: £3.0m) has been deducted from retained earnings within shareholders' equity.

As at 30 September 2014, share capital included 3,651,092 (2013: 5,097,428) shares held by The Grainger Employee Benefit Trust and 1,506,300 (2013: 1,506,300) shares held by Grainger plc as treasury shares. The total of these shares is 5,157,392 (2013: 6,603,728) with a nominal value of £237,870 (2013: £330,186) and a market value as at 30 September 2014 of £9.6m (2013: £11.5m).

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

	Number	Nominal value £'000
At 1 October 2012	416,381,206	20,819
Options exercised under the SAYE scheme	148,278	7
At 30 September 2013	416,529,484	20,826
Options exercised under the SAYE scheme	1,263,026	64
At 30 September 2014	417,792,510	20,890

Share options

The company operates a SAYE share option scheme available to employees. The number of shares subject to options as at 30 September 2014, 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	2014 number	2013 number
HMRC Approved Executive Share Option Scheme (CSOP)				
2011	94.4	2013–20	–	127,088
			–	127,088
SAYE share options				
2008 (A)	97.1	2011–14	–	8,713
2008 (B)	37.7	2012–14	–	1,100,602
2009	68.3	2012–15	–	20,956
2010	90.8	2013–16	6,805	30,648
2011	98.7	2014–17	27,446	49,022
2012	68.9	2015–18	573,838	626,956
2013	115.1	2016–19	96,468	109,758
2014	173.1	2017–20	492,215	–
			1,196,772	1,946,655
Total share options			1,196,772	2,073,743

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

	Opening position	Exercised	Granted	Lapsed	Closing position
HMRC 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)	8,713	(7,374)	–	(1,339)	–
2008 (B)	1,100,602	(1,054,498)	–	(46,104)	–
2009	20,956	(20,956)	–	–	–
2010	30,648	(23,189)	–	(654)	6,805
2011	49,022	(21,576)	–	–	27,446
2012	626,956	(8,345)	–	(44,773)	573,838
2013	109,758	–	–	(13,290)	96,468
2014	–	–	498,453	(6,238)	492,215
	1,946,655	(1,135,938)	498,453	(112,398)	1,196,772
Weighted average exercise price (pence per share)	55.1	41.1	173.1	67.8	116.3

For those share options exercised during the year, the weighted average share price at the date of exercise was 46.5p (2013: 171.2p). For share options outstanding at the end of the year, the weighted average remaining contractual life is 3.0 years (2013: 2.0 years). There were 7,130 (2013: 30,515) share options exercisable at the year end with a weighted average exercise price of 98.7p (2013: 92.6p).

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

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 2011, 6 December 2012 and 6 December 2013 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. 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.

32 SHARE-BASED PAYMENTS

Share awards:

	LTIS		DBP	SAYE	
Award date	9 December 2014 Market based	9 December 2013 Non-market based	9 December 2013	10 July 2014 3-year scheme	10 July 2014 5-year scheme
Number of shares on grant	421,523	421,523	139,862	240,750	257,703
Exercise price (£)	–	–	–	1.731	1.731
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 (£)	2.02	2.02	2.02	1.86	1.86
Expected risk free rate (%)	1.0	1.0	N/A	1.19	1.93
Expected dividend yield (%)	0.9	0.9	0.9	1.06	1.06
Expected volatility (%)	46.49	46.49	N/A	39.24	54.12
Fair value (£)	1.06	1.97	2.01	0.53	0.85

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

The share-based payments charge recognised in the income statement is £2.0m (2013: £2.3m).

Movements in options and options exercisable as at 30 September 2014 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 1 October 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 scheme net of tax	–	–	–	–	0.5	0.5
Exchange adjustments offset in reserves net of tax	–	–	–	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
Profit for the year	–	–	–	–	74.7	74.7
Actuarial gain on BPT Limited pension scheme net of tax	–	–	–	–	0.8	0.8
Exchange adjustments offset in reserves net of tax	–	–	–	(0.3)	–	(0.3)
Repayment of convertible bond	–	–	–	–	5.0	5.0
Purchase of own shares	–	–	(2.1)	–	–	(2.1)
Award of shares from own shares	(5.4)	–	5.4	–	–	–
Share-based payments charge	2.0	–	–	–	–	2.0
Dividends	–	–	–	–	(8.5)	(8.5)
Balance as at 30 September 2014	3.3	(7.8)	(13.1)	2.8	397.5	382.7

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.

35 LIST OF PRINCIPAL SUBSIDIARIES

The directors consider that providing details of all subsidiaries, joint ventures and associates as at 30 September 2014 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
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
Grainger PRS Limited	100		England & Wales	Property Investment

All subsidiaries are consolidated in the Group financial statements.

36 RELATED PARTY TRANSACTIONS

During the year ended 30 September 2014, 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 utilised the services of Gebau Vermogen GmbH to provide property management services for parts of its German portfolio. As described in note 21, on 17 October 2013, the Group disposed of our interest in Gebau Vermogen GmbH for £0.4m. The fees received/(paid) in respect of these services are set out below:

	2014 Fees recognised £'000	2014 Year end balance £'000	2013 Fees recognised £'000	2013 Year end balance £'000
G:res1 Limited	–	–	1,062	687
GRIP Unit Trust	3,131	933	1,902	–
MH Grainger JV Sarl	–	–	790	–
Stuttgart Portfolios	956	–	–	–
New Sovereign Reversions Limited	1,051	193	1,073	271
Walworth Investment Properties Limited	40	40	19	19
Gebau Vermogen GmbH	–	–	(913)	(2)
	5,178	1,166	3,933	975

	2014 Interest recognised £'000	2014 Year end loan balance £m	2014 Interest Rate %	2013 Interest recognised £'000	2013 Year end loan balance £m	2013 Interest Rate %
GRIP Unit Trust	1,100	31.6	4.75	756	0.3	4.75
MH Grainger JV Sarl	812	9.6	7.50	534	11.6	8.00
Stuttgart Portfolios	60	0.6	8.00	–	–	–
New Sovereign Reversions Limited	(23)	(0.6)	LIBOR + 2.35	(7)	(0.4)	LIBOR + 2.35
Czech Republic combined*	–	7.4	1.25	73	6.2	1.25
Curzon Park Limited*	–	18.6	Nil	–	16.1	Nil
King Street Developments (Hammersmith) Limited	–	3.2	Nil	–	2.9	Nil
Walworth Investment Properties Limited	455	6.8	7.00	180	6.7	7.00
	2,404	77.2		1,536	43.4	

* The amount disclosed above is the gross loan amount. Some provisions have been provided against the loans, see notes 20 and 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's provided in note 12.

37 OPERATING LEASE COMMITMENTS

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

	2014 £m	2013 £m
Operating lease payments due:		
Not later than one year	1.3	1.3
Later than one year and not later than five years	3.3	2.3
Later than five years	1.7	0.4
	6.3	4.0

The Group expects to receive £nil under non-cancellable sub-leases (2013: £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 and ten 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 2014, total guarantees amounted to £2.9m (2013: £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 and recover the carrying value of our investment, the Group may incur further 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.

Included on the face of the consolidated statement of financial position are total assets of £3.4m (2013: £ 9.9m) classified as held-for-sale. These balances comprise the following:

	2014 £m	2013 £m
Investment property – Germany	–	6.0
Investment property – Retirement solutions	3.4	3.9
	3.4	9.9

40 CAPITAL COMMITMENTS

The Group has current commitments under a number of its development projects totalling £54.5m as at 30 September 2014 (2013: £37.9m).

Independent auditors' report

TO THE MEMBERS OF GRAINGER PLC

REPORT ON THE PARENT COMPANY FINANCIAL STATEMENTS

Our opinion

In our opinion, Grainger plc's parent company financial statements (the 'financial statements'):

- give a true and fair view of the state of the parent company's affairs as at 30 September 2014;
- 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.

What we have audited

Grainger plc 's financial statements comprise:

- the parent company balance sheet as at 30 September 2014; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

OTHER REQUIRED REPORTING

Consistency of other information

Companies Act 2006 opinions

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

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ('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 financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

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 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

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made.

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 77, the Directors are responsible for the preparation of the 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 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.

What an audit of financial statements involves

We conducted our audit in accordance with 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.

We primarily focus 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.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual report and accounts 2014 (the 'Annual report') to identify material inconsistencies with the audited 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.

OTHER MATTER

We have reported separately on the Group financial statements of Grainger plc for the year ended 30 September 2014.

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

20 November 2014

Parent company balance sheet

As at 30 September 2014	Notes	2014 £m	2013 £m
Fixed assets			
Investments	2	928.3	911.6
		928.3	911.6
Current assets			
Debtors	3	32.4	29.2
Cash at bank and in hand		4.8	30.7
		37.2	59.9
Creditors: amounts falling due within one year	4	167.5	407.0
Net current liabilities		(130.3)	(347.1)
Total assets less current liabilities		798.0	564.5
Creditors: amounts falling due after more than one year			
Convertible bond	5	–	24.3
Interest-bearing loans and borrowings	6	370.5	99.1
Net assets		427.5	441.1
Capital and reserves			
Called-up share capital	7	20.9	20.8
Share premium account	8	110.4	109.8
Capital redemption reserve	8	0.3	0.3
Equity component of convertible bond	8	–	5.0
Profit and loss account	8	295.9	305.2
Total shareholders' funds		427.5	441.1

The financial statements on pages 162 to 166 were approved by the Board of Directors on 20 November 2014 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 £4.8m (2013: £21.0m). These financial statements present information about the Company as an individual undertaking and not about its Group.

The Company has taken advantage of the exemption in FRS 8 'Related Party Transactions', from the requirement to disclose such transactions on the grounds that it has presented its own consolidated financial statements.

(b) Accounting policies

The Company financial statements have been prepared under UK GAAP rather than under IFRS that has been adopted for Group reporting. The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the Company's financial statements.

(c) Investments

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) Tax

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. The nominal value of the bond was repaid in full in May 2014 with no option to convert taken.

(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's financial statements, the share-based payment charge has been added to the cost of investment in subsidiaries with a corresponding adjustment to equity.

2 INVESTMENTS

Cost of investment	2014 £m	2013 £m
At 1 October	1,018.8	939.2
Additions	–	79.6
Disposals	(1.3)	–
At 30 September	1,017.5	1,018.8
Impairment		
Opening balance	107.2	97.8
Additional provision	0.1	17.9
Write back	(18.1)	(8.5)
At 30 September	89.2	107.2
Net carrying value	928.3	911.6

The Directors believe that the carrying value of the investments is supported by their underlying net assets. After an assessment of net recoverable value a net impairment write back of £18.0m (2013: 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

	2014 £m	2013 £m
Amounts owed by Group undertakings	30.4	28.8
Other debtors	2.0	0.4
	32.4	29.2

Debtors in both 2014 and 2013 are all due within one year.

Included within amounts owed by Group undertakings is an unsecured loan with a year end balance of £6.9m (2013: £28.8m). The loan bears interest at LIBOR plus margin plus costs, which averaged 3.3% in the year (2013: 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

	2014 £m	2013 £m
Bank loans and overdrafts	6.0	–
Amounts owed to Group undertakings	155.7	406.2
Other tax and social security	1.3	–
Accruals and deferred income	4.5	0.8
	167.5	407.0

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

	2014 £m	2013 £m
Opening balance	24.3	23.3
Amortised during the year	0.6	0.9
Repaid during the year	(24.9)	–
	–	24.2
Unamortised issue costs	–	0.1
Closing balance	–	24.3

In May 2014, the convertible bond term reached maturity and the nominal value was repaid in full.

6 INTEREST-BEARING LOANS AND BORROWINGS

	2014 £m	2013 £m
Variable rate – pounds Sterling	100.1	99.1
Proceeds from bond issue	275.0	–
Unamortised issue costs	(4.6)	–
Corporate bond	270.4	–
	370.5	99.1

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 five years is £100.1m (2013: £99.1m).

The £275m, 5.0% secured corporate bond, due December 2020, was issued in the financial year ended September 2014. The primary issue was £200m issued at par in November 2013 with a secondary tap issue in August 2014 at £75m issued at 101.125%. The premium on the tap issue will be amortised to the income statement using the effective interest rate method.

7 CALLED-UP SHARE CAPITAL

	2014 £m	2013 £m
Allotted, called-up and fully paid		
417,792,510 (2013: 416,529,484) ordinary shares of 5p each	20.9	20.8

7 CALLED-UP SHARE CAPITAL CONTINUED

During the year, the Grainger Employee Benefit Trust acquired 1,000,000 shares at a cost of £2.1m (2013: 1,400,000 shares at a cost of £2.4m). The Group paid £0.5m (2013: £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 £2.1m (2013: £3.0m) has been deducted from retained earnings within shareholders' equity.

As at 30 September 2014, share capital included 3,651,092 (2013: 5,097,428) shares held by The Grainger Employee Benefit Trust and 1,506,300 (2013: 1,506,300) shares held by Grainger plc as treasury shares. The total of these shares is 5,157,392 (2013: 6,603,728) with a nominal value of £257,870 (2013: £330,186) and a market value as at 30 September 2014 of £9.6m (2013: £11.5m).

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

	Number	Nominal value £'000
At 1 October 2012	416,381,206	20,819
Options exercised under the SAYE scheme	148,278	7
At 30 September 2013	416,529,484	20,826
Options exercised under the SAYE scheme	1,263,026	64
At 30 September 2014	417,792,510	20,890

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 62 and 75.

8 RESERVES

	Share premium £m	Capital redemption reserve £m	Equity component of convertible bond £m	Profit and loss account £m
At 1 October 2013	109.8	0.3	5.0	305.2
Loss for the financial year	–	–	–	(4.8)
Repayment of convertible bond	–	–	(5.0)	5.0
Share-based payment charge	–	–	–	1.1
Purchase of own shares	–	–	–	(2.1)
Options exercised under the SAYE scheme	0.6	–	–	–
Dividends paid	–	–	–	(8.5)
At 30 September 2014	110.4	0.3	–	295.9

In May 2014, the convertible bond term reached maturity and the nominal value was repaid in full. No option to convert was taken out during the bond period: therefore, the equity component has been transferred to the profit and loss reserve.

9 OTHER INFORMATION

Dividends

Information on dividends paid and declared is given in note 16 of the Group financial statements on page 124.

Directors' share options and share awards

Details of the Directors' share options and of their share awards are set out in the Remuneration Committee's report.

EPRA performance measures

1. Introduction

The EPRA Best Practice Recommendations (EPRA BPR) were issued by EPRA's Reporting and Accounting Committee in August 2011 and additional guidance has subsequently been issued in January 2014. Included within EPRA BPR are six EPRA Performance Measures deemed to be of key importance to investors in property companies and which aim to encourage more consistent and widespread disclosure. The EPRA performance measures are set out below:

Performance measure	Definition
1) EPRA Earnings	Recurring earnings from core operational activities. This is a key measure of a Company's underlying operating results providing an indication of the extent to which current dividend payments are supported by earnings.
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 property business model. This measure is consistent with NAV as defined and disclosed in the Financial review and in note 4 to the Group financial statements.
3) EPRA NNNAV	EPRA NAV adjusted to include the fair values of i) financial instruments, ii) debt and iii) deferred taxes. This measure is consistent with NNNAV as defined and disclosed in the Financial review and in note 4 to the Group financial statements.
4i) EPRA Net Initial Yield (NIY)	Annualised rental income based on cash rents at the balance sheet date, less non-recoverable property 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 share of joint ventures' overheads and operating expenses, net of any service fees, all divided by gross rental income.

Grainger is supportive of EPRA's initiative and, in this report, is disclosing against five of the EPRA measures, EPRA Earnings, EPRA Net Asset Value (NAV) and EPRA Triple Net Asset Value (NNNAV), EPRA Net Initial Yield (NIY) and EPRA Vacancy Rate. EPRA topped-up NIY is not appropriate to Grainger's business. The EPRA Cost Ratios, too, is less relevant to Grainger as it is distorted by the fact that in our reversionary portfolio rental levels range between a sub-market rent are a zero rent. The Group continues to disclose other KPIs and operational measures in this report, including an efficiency ratio which measures administrative and operating costs, net of fee income, as a proportion of the value of assets under management, which it believes are more appropriate to its business and these are shown in the Strategic report.

In relation to EPRA NIY and EPRA vacancy rate, the figures shown are in respect of the Grainger wholly-owned market rented assets only. Not included in these numbers are Grainger's wholly-owned reversionary assets or any assets within joint ventures or associates.

The calculation of EPRA earnings, EPRA NAV, EPRA NNNAV and EPRA NIY are as follows:

	2014	2013
EPRA Earnings	£33.5m	£26.7m
EPRA Earnings per share	8.1p	6.5p
EPRA NAV	£1,214.3m	£1,008.0m
EPRA NAV per share	291p	242p
EPRA NNNAV	£1,010.9m	£810.9m
EPRA NNNAV per share	242p	195p
EPRA Net Initial Yield (NIY)[1]	4.5%	4.5%
EPRA Vacancy Rate[1]	4.5%	3.0%

[2] Excludes property that is vacant and is being marketed for sale. The increase in 2014 relates to a higher number of properties both in the UK and Germany subject to refurbishment at 30 September 2014.

EPRA PERFORMANCE MEASURES CONTINUED

2. EPRA Earnings

	2014			2013		
	Earnings £m	Shares Millions	Pence per share	Earnings £m	Shares Millions	Pence per share
Earnings per IFRS income statement	74.7	411.8	18.1	53.6	410.8	13.1
Adjustments to calculate EPRA Earnings, exclude:						
i) Changes in value of investment properties, development properties held for investment and other interests	(1.5)	–	–	(2.9)	–	–
ii) Profits or losses on disposal of investment properties, development properties held for investment and other interests	(0.8)	–	–	(1.8)	–	–
iii) Profits or losses on sales of trading properties including impairment charges in respect of trading properties (note 1)	(0.8)	–	–	(0.7)	–	–
iv) Tax on profits or losses on disposals	–	–	–	–	–	–
v) Negative goodwill/goodwill impairment	–	–	–	4.7	–	–
vi) Changes in fair value of financial instruments and associated close-out costs	(1.2)	–	–	(7.9)	–	–
vii) Acquisition costs on share deals and non-controlling joint venture interests	–	–	–	3.2	–	–
viii) Purchase of debt at a discount	–	–	–	(15.3)	–	–
ix) Deferred tax in respect of EPRA adjustments	0.7	–	–	3.8	–	–
x) Adjustments i) to viii) in respect of joint ventures	(37.6)	–	–	(10.0)	–	–
xi) Minority interests in respect of the above	–	–	–	–	–	–
EPRA Earnings/Earnings per share	33.5	411.8	8.1	26.7	410.8	6.5

Note 1 – Sales of trading property is a fundamental part of Grainger's business model. Therefore, it is not appropriate to show any measure of earnings that excludes profit on sale of trading property and so no adjustment has been made for this in the table above. The adjustment made in this item relates to the reversal of an impairment provision made against trading stock.

3. EPRA Net Asset Value (NAV)

	2014			2013		
	Net assets £m	Shares Millions	NAV pence per share	Net assets £m	Shares Millions	NAV pence per share
NAV from the financial statements	536.8	417.8	128	465.5	416.5	112
Include:						
i.a) Revaluation of investment property	–	–	–	–	–	–
i.b) Revaluation of investment property under construction	–	–	–	–	–	–
i.c) Revaluation of other non-current investments	–	–	–	–	–	–
ii) Revaluation of tenant leases held as finance leases	–	–	–	–	–	–
iii) Revaluation of trading properties	596.9	–	–	433.0	–	–
iv) Value of own shares (note 2 below)	9.6	–	–	11.5	–	–
Exclude:						
v) Fair value of financial instruments	38.4	–	–	73.0	–	–
vi.a) Deferred tax	23.6	–	–	23.8	–	–
vi.b) Goodwill as a result of deferred tax	–	–	–	–	–	–
Include/exclude:						
Adjustments i) to v) above in respect of joint venture interests	9.0	–	–	1.2	–	–
EPRA NAV/EPRA NAV per share	1,214.3	417.8	291	1,008.0	416.5	242

Note 2 – The Grainger measures of NAV and NAV per share disclosed in Note 4 to the financial statements is equal to the EPRA NAV presented above. The adjustment to add the value of the Group's own shares is recognised as these shares do have a market value and this has been the historical basis of the Group's calculation. In addition, the number of shares used in the NAV calculation is the total number of shares in issue including those held by the Company in treasury or trust for the purposes of settling future share awards. This should be a close representation of the fully diluted number of shares and so is very unlikely to produce materially different NAV measures.

4. EPRA Triple Net Asset Value (NNNAV)

	2014			2013		
	Net assets £m	Shares Millions	NAV pence per share	Net assets £m	Shares Millions	NAV pence per share
EPRA NAV	1,214.3	417.8	291	1,008.0	416.5	242
Include:						
i) Fair value of financial instruments	(38.5)	–	–	(73.2)	–	–
ii) Fair value of debt	(14.0)	–	–	(10.4)	–	–
iii) Deferred tax	(150.9)	–	–	(113.5)	–	–
EPRA NNNAV/EPRA NNNAV per share	1,010.9	417.8	242	810.9	416.5	195

5. EPRA Net Initial Yield (NIY)

	2014 £m	2013 £m
Market value of wholly owned market rented assets	393.4	406.0
Allowance for estimated purchasers' costs	12	12.1
Grossed up market value of wholly owned market rented assets	405.4	418.1
Annualised passing rental income	26.5	27.4
Property outgoings	(8.4)	(8.6)
Annualised net rents	18.1	18.8
EPRA NIY	4.5%	4.5%

1 – Based on Grainger's wholly owned market rented portfolio of property assets which has a market value as at 30 September 2014 of £433m (2013: £446m) but excluding interests in garages, ground rents and land amounting to £39m (2013: £40m).

EPRA Sustainability Performance Measures

Methodology

We have reported on all EPRA Sustainability Performance Measures, using the EPRA Best Practices Recommendations on Sustainability Reporting 2nd Version, the main requirements of the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emissions factors from the UK Government's Conversion Factors for Company Reporting 2014 and 2013.

Organisational boundary

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, our Germany residential portfolio and the GRIP Fund.

Reporting on landlord and tenant consumption

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 on page 46.

Coverage

Where we are not able to include 100% of all assets within our operational control in our reporting for a Sustainability Performance Measure, we have specified the level of data coverage.

Energy and Greenhouse gas notes

Greenhouse gas emissions are calculated using the UK Government's Conversion Factors for Company Reporting 2014 and 2013. Transmission and distribution losses are reported as Scope 3 emissions. Greenhouse gas emissions are reported as metric tonnes CO_2 equivalent (t CO_2e) and greenhouse gas intensity is reported as kilogrammes of CO_2 equivalent (kg CO_2e). Greenhouse gas emissions for German electricity consumption and transmission and distribution are reported in carbon dioxide (CO_2) only as per the UK Government's Conversion Factors for Company Reporting 2014 and 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.

Estimation of landlord-obtained utility consumption

Where data for Grainger-obtained utility consumption is missing or unreliable, we have used the following estimation methodology:

- Where data is available for the same period (quarter) for the previous reporting year, we have estimated missing utility consumption using the daily consumption rate from the previous year.
- Where data is not available for the same period (quarter) for the previous reporting year, we have estimated missing utility consumption using the daily consumption rate from all previous quarters in the current reporting year.
- Where insufficient previous data was available, we have excluded the property from reporting.

We have only estimated data to fill gaps using known consumption from other periods for the metered supply in question. We have disclosed the proportion of total disclosed data that is estimated in the data notes that accompany each Performance Measure.

Absolute and like-for-like energy and GHG emissions for Own Office Occupation

		2013		2014			
		Absolute consumption	Like-for-like consumption	Absolute consumption	Like-for-like consumption	Absolute trend	Like-for-like trend
Elec-Abs: Total electricity consumption; DH&C-Abs: Total district heating & cooling consumption; Fuels-Abs: Total fuel consumption; Elec-Lfl: Life-for-life electricity consumption; DH&C-Lfl: Like-for-like District heating & cooling; Fuels-Lfl: Like-for-like fuel consumption (Annual kWh) GRI G4-EN3							
UK Offices	Total electricity submetered to Grainger by its landlord	601,694	334,313	514,250	329,773	-15%	-1%
	Total energy consumed from district heating and cooling submetered to Grainger by its landlord	–	–	–	–	–	–
	Total energy consumption from fuels submetered to Grainger by its landlord	–	–	–	–	N/A	–
	Coverage of applicable properties	7 of 7	2 of 7	6 of 6	2 of 6		
German Offices	Total electricity submetered to Grainger by its landlord	43,205	43,205	40,574	40,574	-6%	-6%
	Total energy consumed from district heating and cooling submetered to Grainger by its landlord	–	–	–	–	–	–
	Total energy consumption from fuels submetered to Grainger by its landlord	–	–	–	–	–	–
	Coverage of applicable properties	1 of 1	1 of 1	1 of 1	1 of 1		
Grand Total	Total electricity submetered to Grainger by its landlord	644,899	377,518	554,995	370,518	-14%	-2%
	Total energy consumed from district heating and cooling submetered to Grainger by its landlord	–	–	–	–	–	–
	Total energy consumption from fuels submetered to Grainger by its landlord	–	–	–	–	–	–
Energy-Int: Building Energy Intensity (kWh per employee per year) GRI: CRE1							
UK Offices	Building Energy Intensity for all energy submetered to Grainger by its landlord	2,350	N/A	1,912	N/A	-19%	N/A
German Offices	Building Energy Intensity for all energy submetered to Grainger by its landlord	3,086	N/A	3,121	N/A	1%	N/A
Grand Total	Building Energy Intensity for all energy submetered to Grainger by its landlord	2,389	N/A	1,967	N/A	-18%	N/A

EPRA SUSTAINABILITY PERFORMANCE MEASURES CONTINUED

		2013		2014			
		Absolute consumption	Like-for-like consumption	Absolute consumption	Like-for-like consumption	Absolute trend	Like-for-like trend
GHG-Dir-Abs: Total direct greenhouse gas (GHG) emissions; GHG-Indir-Abs: Total indirect greenhouse gas (GHG) emissions; GHG-Dir-Lfl: Like-for-like direct greenhouse gas emissions; GHG-Indir-Lfl: Like-for-like indirect greenhouse gas emissions (Annual metric tonnes CO_2e) GRI G4-EN15 and G4-EN16							
UK Offices	Total direct GHG emissions [GHG Protocol Scope 1]	–	–	–	–		
	Total indirect GHG emissions [GHG Protocol Scope 2]	268	149	254	159	-5%	7%
	Total indirect GHG emissions [GHG Protocol Scope 3]	23	13	22	20		
	Coverage of applicable properties	7 of 7	2 of 7	6 of 6	2 of 6		
German Offices	Total direct GHG emissions [GHG Protocol Scope 1]	–	–	–	–		
	Total indirect GHG emissions [GHG Protocol Scope 2]	20	20	20	20	0%	0%
	Total indirect GHG emissions [GHG Protocol Scope 3]	1	1	0.5	0.5		
	Coverage of applicable properties	1 of 1	1 of 1	1 of 1	1 of 1		
Grand Total	Total direct GHG emissions [GHG Protocol Scope 1]	–	–	–	–		
	Total indirect GHG emissions [GHG Protocol Scope 2]	288	169	274	179	-5%	6%
	Total indirect GHG emissions [GHG Protocol Scope 3]	24	14	23	21		
GHG-Int: Greenhouse gas (GHG) intensity from building energy consumption (kg CO_2e per employee per year) GRI: CRE3							
UK Offices	Building GHG Intensity [GHG Protocol Scopes 1 and 2]	1,047	N/A	944	N/A	-10%	N/A
German Offices	Building GHG Intensity [GHG Protocol Scopes 1 and 2]	1,422	N/A	1,538	N/A	8%	N/A
Grand Total	Building GHG Intensity [GHG Protocol Scopes 1 and 2]	1,067	N/A	972	N/A	-9%	N/A

Data coverage notes for occupied offices

Absolute energy and GHG emissions: 24% of data is estimated. Our London offices in Knightsbridge and Putney were closed in April and May of the reporting year and a new consolidated London Bridge office was opened in April. Consumption has been reported for the period of the reporting year that each office was occupied by Grainger.

Like-for-like Energy and GHG emissions: No data is estimated. Due to office consolidation in 2013 and 2014, there are only two UK offices that have been occupied for two full reporting years: Newcastle and Altrincham. Our Frankfurt office in Germany has also been occupied for two full reporting years. Martlesham, Putney and Knightsbridge are no longer occupied by Grainger and the Birmingham office moved in 2013, therefore these four properties have been excluded from like-for-like reporting.

Absolute energy, GHG emissions and water consumption for owned assets by portfolio; Building Energy Intensity, GHG Intensity and Water Intensity by portfolio

		2013		2014		
		Absolute consumption	Coverage of applicable properties	Absolute consumption	Coverage of applicable properties	Trend
Elec-Abs: Total electricity consumption; DH&C-Abs: Total district heating & cooling consumption; Fuel-Abs: Total fuel consumption (Annual kWh) GRI: G4-EN3						
UK Residential portfolio	Grainger obtained electricity	889,607	122 of 134	1,064,332	245 of 252	20%
	Total energy consumed from district heating and cooling	–	N/A	–	N/A	N/A
	Total energy consumption from Grainger obtained fuels	5,070,870	5 of 6	5,928,673	6 of 6	17%
	Grainger obtained natural gas	5,070,870	5 of 6	5,928,673	6 of 6	17%
GRIP Fund	Grainger obtained electricity	608,124	69 of 70	471,022	69 of 70	-23%
	Total energy consumed from district heating and cooling	–	N/A	–	N/A	N/A
	Total energy consumption from Grainger obtained fuels	611,291	5 of 5	300,476	3 of 3	-51%
	Grainger obtained natural gas	611,291	5 of 5	300,476	3 of 3	-51%
German Residential portfolio	Grainger obtained electricity	N/A	N/A	1,075,439	590 of 590	N/A
	Total energy consumed from district heating and cooling	N/A	N/A	–	N/A	N/A
	Total energy consumption from Grainger obtained fuels	N/A	N/A	–	N/A	N/A
	Grainger obtained natural gas	N/A	N/A	–	N/A	N/A
Grand Total	Grainger obtained electricity	1,497,731	191 of 204	2,610,793	904 of 912	74%
	Total energy consumed from district heating and cooling	–	N/A	–	N/A	N/A
	Total energy consumption from Grainger obtained fuels	5,682,161	10 of 11	6,228,150	9 of 9	10%
	Grainger obtained natural gas	5,682,161	10 of 11	6,228,150	9 of 9	10%
Energy-Int: Building Energy Intensity (kWh per £m value of assets under management per year) GRI: CRE1						
Building Energy Intensity for all Grainger-obtained building energy		2,912	N/A	2,798	N/A	-4%
GHG-Dir-Abs: Total direct greenhouse gas (GHG) emissions; GHG-Indir-Abs: Total indirect greenhouse gas (GHG) emissions (Annual metric tonnes CO_2e) GRI G4-EN15 and G4-EN16						
UK Residential portfolio	Total direct GHG emissions [GHG Protocol Scope 1]	933	5 of 6	1,095	6 of 6	17%
	Total indirect GHG emissions [GHG Protocol Scope 2]	396	122 of 134	506	245 of 252	28%
	Total indirect GHG emissions [GHG Protocol Scope 3]	34	122 of 134	46	245 of 252	35%
GRIP Fund	Total direct GHG emissions [GHG Protocol Scope 1]	113	5 of 5	56	3 of 3	-50%
	Total indirect GHG emissions [GHG Protocol Scope 2]	271	69 of 70	226	69 of 70	-16%
	Total indirect GHG emissions [GHG Protocol Scope 3]	23	69 of 70	20	69 of 70	-13%
German Residential portfolio	Total direct GHG emissions [GHG Protocol Scope 1]	N/A	N/A	–	N/A	N/A
	Total indirect GHG emissions [GHG Protocol Scope 2]	N/A	N/A	509	N/A	N/A
	Total indirect GHG emissions [GHG Protocol Scope 3]	N/A	N/A	12	N/A	N/A
Grand Total	Total direct GHG emissions [GHG Protocol Scope 1]	1,046	10 of 11	1,151	9 of 9	10%
	Total indirect GHG emissions [GHG Protocol Scope 2]	667	191 of 204	1,241	904 of 912	86%
	Total indirect GHG emissions [GHG Protocol Scope 3]	57	191 of 204	78	904 of 912	37%

EPRA SUSTAINABILITY PERFORMANCE MEASURES CONTINUED

Absolute energy, GHG emissions and water consumption for owned assets by portfolio; Building Energy Intensity, GHG Intensity and Water Intensity by portfolio continued

		2013		2014		
		Absolute Consumption	Coverage of applicable properties	Absolute Consumption	Coverage of applicable properties	Trend
GHG-Int: Greenhouse gas (GHG) intensity from building energy consumption (kg CO_2e per £m value of assets under management per year) GRI: CRE3						
GHG Intensity	Greenhouse gas intensity for all Grainger obtained building energy [GHG Protocol Scopes 1 & 2]	695	N/A	757	N/A	9%
Water-Abs: Total water consumption annual cubic metres (m^3) GRI: G4-EN8						
UK Residential portfolio	Grainger obtained water consumption	7,170	1 of 2	4	1 of 1	-100%
GRIP Fund	Grainger obtained water consumption	21,500	5 of 6	23,215	6 of 6	8%
Grand Total	Total water consumption	28,670	6 of 8	23,219	7 of 7	-19%
Water-Int: Building Water Intensity (m^3 per £m value of assets under management per year) GRI: CRE2						
Building Water Intensity	Building Water Intensity for all Grainger obtained water	12	N/A	7	N/A	-39%

Data coverage notes for owned assets

We report on Grainger-obtained electricity, fuel and water consumption for applicable properties with common areas; the proportion of estimation and exclusions due to missing data are listed in detail below. Grainger does not report on energy or water consumed by tenants. All annual consumption is reported as the portfolio stood at year end for the period from 1 October 2013 to 30 September 2014. Consumption from assets subsequently transferred to the GRIP Fund was included in UK Residential Grainger obtained electricity, fuel and water for the period from October to December 2012.

We have used the market value of assets under management as our main intensity Performance Measure as this is also what we use to measure our business efficiency KPI as reported in our Strategic report.

Absolute energy and GHG emissions: 4% of electricity consumption data has been estimated. 32% of fuels consumption data has been estimated.

UK Residential portfolio: Seven properties have been excluded from electricity consumption because insufficient data is available to calculate consumption.

GRIP Fund: One property has been excluded from electricity consumption because there was no confirmed electricity supplier and so consumption could not be calculated.

German Residential portfolio: There are no properties excluded from reporting.

Absolute water: 83% of water consumption data has been estimated.

UK Residential portfolio: One property with Grainger-obtained water consumption was sold and is excluded from reporting.

GRIP Fund: There are no properties excluded from reporting.

German Residential portfolio: Water consumption data is not available for our German residential portfolio for the reporting year.

Like-for-like energy, GHG emissions and water consumption for owned assets by portfolio

		2013		2014		
		Like-for-like Consumption	Coverage of applicable properties	Like-for-like Consumption	Coverage of applicable properties	Trend
Elec-LfL: Like-for-like total electricity consumption; DH&C-Lfl: Like-for-like district heating and cooling consumption; Fuels-Lfl: Like-for-like fuel consumption (Annual kWh) GRI: G4-EN3						
UK Residential portfolio	Grainger obtained electricity	20,284	20 of 134	17,902	20 of 252	-12%
	Total energy consumed from district heating and cooling	–	N/A	–	N/A	N/A
	Total energy consumption from Grainger obtained fuels	–	0 of 6	–	0 of 6	N/A
	Grainger obtained natural gas	–	0 of 6	–	0 of 6	N/A
Grand Total	Grainger obtained electricity	20,284	20 of 134	17,902	20 of 252	-12%
	Total energy consumed from district heating and cooling	–	N/A	–	N/A	N/A
	Total energy consumption from Grainger obtained fuels	–	0 of 6	–	0 of 6	N/A
	Grainger obtained natural gas	–	0 of 6	–	0 of 6	N/A
GHG-Dir-LfL: Like-for-like total direct greenhouse gas (GHG) emissions; GHG-Indir-LfL: Like-for-like total indirect greenhouse gas (GHG) emissions (Annual metric tonnes CO_2e) GRI: G4-EN15 and G4-EN16						
UK Residential portfolio	Total direct GHG emissions [GHG Protocol Scope 1]	–	0 of 6	–	0 of 6	-11%
	Total indirect GHG emissions [GHG Protocol Scope 2]	9	20 of 134	8	20 of 252	
	Total indirect GHG emissions [GHG Protocol Scope 3]	0.9	20 of 134	0.8	20 of 252	
Grand Total	Total direct GHG emissions [GHG Protocol Scope 1]	–	0 of 6	–	0 of 6	
	Total indirect GHG emissions [GHG Protocol Scope 2]	9	20 of 134	8	20 of 252	-11%
	Total indirect GHG emissions [GHG Protocol Scope 3]	0.9	20 of 134	0.8	20 of 252	
Water-LfL: Like-for-like total water consumption Annual cubic metres (m^3) GRI: G4-EN8						
UK Residential portfolio	Grainger obtained water consumption	3	1 of 2	4	1 of 1	33%
Grand Total	Total water consumption	3	1 of 2	4	1 of 1	33%

Data coverage notes for owned assets

Like-for-like energy and GHG emissions: 1% of like-for-like electricity consumption has been estimated.

UK Residential portfolio: The GInvest and WIP portfolios are excluded from like-for-like reporting because this is the first year for which data is available to report. Where data is not available for two full reporting years properties are excluded from like-for-like reporting. However, minimal estimation has been applied to missing days in a quarter as per the estimation methodology used for all Performance Measures.

GRIP Fund: The GRIP Fund is excluded from like-for-like reporting as the Fund was created in January 2013 and data is not available for two full reporting years.

German Residential portfolio: The German Residential portfolio is excluded from like-for-like reporting because this is the first year for which data is available to report.

Like-for-like water: For the one property included in like-for-like water reporting, 100% of consumption data for this reporting year was estimated.

UK Residential portfolio: One property with Grainger-obtained water consumption was sold and is excluded from reporting.

Data coverage notes for owned assets continued

Total weight of waste by disposal route and like-for-like total weight of waste by disposal route for owned assets and occupied offices

		2013			2014				
		Absolute tonnes	Proportion	Like-for-like	Absolute tonnes	Proportion	Like-for-like	Absolute trend	Like-for-like trend
Waste-Abs: Total weight of waste by disposal route; Waste-LfL: Like-for-like weight of waste by disposal route (Annual metric tonnes and proportion by disposal route) GRI: G4-EN23									
GRIP Fund	Total	202		N/A	375		N/A	86%	N/A
	Recycled	65	32%	N/A	131	35%	N/A	102%	N/A
	Incineration (with and without energy recovery)	103	51%	N/A	188	50%	N/A	83%	N/A
	Landfill (non-hazardous)	34	17%	N/A	56	15%	N/A	64%	N/A
	Hazardous Waste Treatment Facility	–	–	N/A	–	–	N/A	–	N/A
	Coverage of applicable properties	11 of 13			11 of 13				
Grand Total	Total	202		N/A	375		N/A	86%	N/A
	Recycled	65	32%	N/A	131	35%	N/A	102%	N/A
	Incineration (with and without energy recovery)	103	51%	N/A	188	50%	N/A	83%	N/A
	Landfill (non-hazardous)	34	17%	N/A	56	15%	N/A	64%	N/A
	Hazardous Waste Treatment Facility	–	–	N/A	–	–	N/A	–	N/A
	Coverage of applicable properties	11 of 13			11 of 13				
Grand Total	Total	25		14	35		27	40%	89%
	Recycled	15	60%	8	26	74%	21	73%	263%
	Incineration (with and without energy recovery)	–	–	N/A	–	–	N/A	–	–
	Landfill (non-hazardous)	10	40%	6	9	26%	6	-1%	-9%
	Hazardous Waste Treatment Facility	–	–	N/A	–	–	N/A	N/A	N/A
	Coverage of applicable properties	5 of 7	–	2 of 7	6 of 7	–	2 of 7	–	–

Data coverage notes for owned assets continued

Absolute waste

UK Residential portfolio: Waste management is not provided by Grainger for its UK Residential portfolio, so there is no data to report.

GRIP Fund: 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. 100% of data is estimated because data is not gathered by waste management contractors for actual weight of waste generated by Grainger owned properties. 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. Food waste for three properties has been excluded because it was not possible to calculate weight from the data provided.

Like-for-like waste

GRIP Fund: The GRIP Fund is excluded from like-for-like reporting as the Fund was created in January 2013 and data is not available for two full reporting years.

Data coverage notes for occupied offices

Absolute waste

Annual figures are estimated from an audit of actual waste weight produced by each office on a minimum of two separate days during the reporting year. Total weight was calculated for the 255 working days per year, excluding bank holidays and weekends. 85% of data was estimated. Waste data was not measured at our German occupied office.

Like-for-like waste

Due to office consolidation in 2013 and 2014, there are only two UK offices that have been occupied for two full reporting years: Newcastle and Altrincham. Both are reported in like-for-like reporting. In 2013, shredded paper waste data was not available for the Newcastle office, but this is included in 2014 reporting.

Five year record

FOR THE YEAR ENDED 30 SEPTEMBER 2014

	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m
Revenue	244.5	296.2	311.4	283.2	319.1
Gross proceeds from property sales	165.3	217.0	250.5	347.1	267.2
Gross rental income	75.6	86.3	89.8	71.3	57.4
Gross fee income	5.5	6.9	10.0	12.5	12.3
Operating profit before valuation and non-recurring items (OPBVM)	94.2	126.2	126.4	107.6	107.5
Profit/(loss) before tax	(20.8)	26.1	(1.7)	64.3	81.1
Profit/(loss) after tax	(10.8)	39.1	0.4	53.6	74.7
Dividends taken to equity	7.4	4.9	7.6	8.0	8.5

	Pence	Pence	Pence	Pence	Pence
Earnings/(loss) per share	(2.9)	9.5	0.1	13.1	18.1
Dividends per share	1.7	1.8	1.9	2.0	2.5

	Pence	Pence	Pence	Pence	Pence
Gross net asset value per share	199.8	216.2	223.0	242.0	290.6
Triple net asset value per share	139.7	153.3	157.1	194.7	242.0
Share price at 30 September	109.8	86.6	107.7	174.8	185.5

	%	%	%	%	%
Return on capital employed	5.3	6.5	5.9	8.1	17.0
Return on shareholder equity	0.6	11.1	3.8	25.2	25.6

Shareholders' information

Financial calendar

AGM	4 February 2015
Payment of 2014 final dividend	6 February 2015
Announcement of 2015 interim results	May 2015
Announcement of 2015 final results	November 2015

Share price

During the year ended 30 September 2014, the range of the closing mid market prices of the Company's ordinary shares were:

Price at 30 September 2014	185.50
Lowest price during the year	171.00
Highest price during the year	250.00

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

Adam McGhin
Citygate
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NE1 4JE

Company registration number 125575

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.

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Lloyds Bank plc
M&G UK Companies Financing Fund LP
Nationwide Building Society
Santander UK plc
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