grainger plc
Investing in homes since 1912

ANNUAL REPORT AND ACCOUNTS 2015

Leading the market
Simplifying the business

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GRAINGER IS THE UK'S LARGEST LISTED RESIDENTIAL LANDLORD

Our objective is to be the UK's leading private rented sector landlord, delivering sustainable long-term returns to our investors and our partners.

Our strategy is to maximise the returns from our reversionary portfolio while we grow our private rented sector business. We are simplifying our business to focus on our objective, and have accelerated the pace of change this year. This will continue.

FINANCIAL HIGHLIGHTS

Measure	2015	2014
Recurring profit*	£41.2m	£47.1m
Profit before tax	£50.0m	£81.1m
OPBVM**	£101.9m	£107.5m
Total dividend	2.75p	2.50p
Gross NAV	319p	291p
NNNAV	263p	242p
Return on shareholder equity	10.0%	25.6%
Return on capital employed	9.5%	17.0%
Group LTV	45.5%	46.5%
Net debt	£1,138m	£1,044m
Growth in vacant possession value	5.7%	12.0%

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 100).
**OPBVM is operating profit before valuation movements and non-recurring items (see page 20 and Note 3 to the accounts on page 100).
For more information visit our website: www.graingerplc.co.uk

Chairman's statement

In 2015 we have made some important changes at Grainger, in terms of both the leadership of our Company and our future strategy.

Leadership

Robin Broadhurst served the Company with great diligence and skill prior to his retirement in February 2015 after eight years as Chairman and we had intended that Ian Coull would succeed him. Due to ill health, however, Ian was unable to take up the role and so when I was asked by my Board colleagues to take over, I was more than willing to do this. I have now served on the Board for over seven years and have developed a deep admiration for the Company and for the tremendous work that our staff do to ensure that Grainger's customers are well served in safe, secure and decent homes.

Andrew Cunningham also signalled his intention to retire in 2016 after nineteen years as a Director, the last six as Chief Executive. Andrew will retire in early 2016, having seen the Company through the financial crisis and consequent challenges for the property sector. His steady hand and sound judgment meant that Grainger came through the difficult period of 2007–2010 in very good shape. Andrew will be succeeded by Helen Gordon, a highly regarded and very experienced property professional who brings a wealth of expertise gained from senior positions in property development, fund management and most recently, banking. Helen was selected following a thorough search process in which we attracted many first class candidates. The Board is looking forward to working with Helen as we reshape the business during 2016 in line with a refreshed strategy.

Mark Greenwood has been our Finance Director for the last five years. Mark is also retiring this year and we are grateful to him for the important contribution he has made to our business during his time with us.

We are delighted to welcome Vanessa Simms as our new Finance Director in early 2016. She joins us from Unite Group plc, where she has been Deputy Finance Director since 2012, and brings with her significant relevant PLC and real estate experience.

Strategy

When I took over as Chairman, I was pleased to have the backing of so many Shareholders for accelerating the pace of change at Grainger, which consisted of making three important changes.

Firstly, we had a clear message that our drive to build the UK's leading private rented sector (PRS) business was well understood and that an increase in pace was greatly welcomed. We have been working hard to accelerate our progress in this area during 2015 with some important acquisitions and development projects. We remain committed to our strategic objective to build a substantial market-leading PRS business. Later in this report, we set out both the market opportunity (See Our market environment) and the risks and challenges (See Risk Management) associated with this strategy.

In order to accomplish this, our second planned change was to simplify our business model. Although Grainger has traditionally seen merit in diversification, it was clear that the overhead cost of such a strategy was high and that the business needed to be more focussed and play to our core competencies. Accordingly, in 2015 we have been reviewing each of our business lines and where these did not fit with the future shift to a PRS portfolio, "Our strategic objective to build a substantial market leading PRS business remains our clear aim"

we would look to divest, thereby driving enhanced shareholder value. We are well underway with the sale of our German assets, taking advantage of strong demand. We will continue this process where we are of the view that individual business lines do not align well with our future move to PRS assets.

Thirdly, as part of our on-going balance sheet management we announced early this year that we were reviewing our cost of debt. The majority of our debt was arranged in 2011 (when lending markets were still feeling the effects of the global financial crisis), but as the term of this funding approached an end, we sought to take advantage of the lower costs of borrowing available in the market today. Over the course of this year we have refinanced our core syndicate debt as well as a facility for one of our portfolios. The average cost of debt at the year end is 4.6% which is more appropriate for our future business.

In summary, our business will transition over the next few years from a traditional trading model that was historically aligned with house price inflation to one that is more income focussed, based on a market-leading portfolio of PRS assets. The pace and shape of this change and the detail of the execution will be the priority for the new leadership team and a detailed review of our strategy for accomplishing this shift will be set out in the early part of 2016.

Our reversionary portfolio is still highly cash generative and, as these assets naturally become vacant, we are able to realise their full latent value. This process will be important in ensuring that, as we grow our PRS portfolio, through both acquisition and development, it can be financed, in part, by recycling capital from this reversionary portfolio.

Board

I am pleased to have had tremendous support from my Board colleagues this year and have worked closely with Andrew Cunningham and Mark Greenwood to implement the changes required to our business. Each has accomplished so much in their final months with Grainger. I wish them both well in their retirement. I would also like to welcome Rob Wilkinson to the Board, whose expertise in fund management and real estate will replace the contribution from Simon Davies, who retires from the Board this year. On behalf of the Board, I would like to thank Simon for his valuable input, and we wish him well for the future. Details of the work and activities of the Board and its Committees over the last year are set out in the corporate governance section of our Annual Report and Accounts.

Our staff

Finally, I would like to thank all of the staff at Grainger who deliver such an unrivalled service to our customers. We never forget that we have many thousands of families that make their home with Grainger and we all take that responsibility very seriously. The Board is very grateful to our staff for the tremendous effort they make each and every day.

Baroness Margaret Ford
Chairman

19 November 2015

Chief Executive's review

Our extensive and unrivalled experience in all aspects of the residential market puts us in an excellent place to be the market leader. It is an important time for the sector and the whole business looks forward to the future with confidence and excitement.

In addition to the solid trading performance this year, we have continued to simplify the Group's operations and accelerate the growth of our Private Rented Sector (PRS) business. Over time we will maximise the returns from our regulated tenancy portfolio as properties naturally fall vacant and are sold. In turn we will grow the PRS business to increase the proportion of our income generated by rents. Underpinning this long-term strategic change is our continuing simplification of the business. We have announced the sale of our German JV with Heitman and of our intention to dispose of our German assets, which together will leave us as a UK-only focussed residential business.

Financial performance

We have seen strong levels of growth in our key performance measures. NAV has increased by 9.7% and NNNAV by 8.8% and our return on Shareholders' equity was 10.0%. At the asset level our UK portfolio increased in value by 5.7% and we sold our vacant properties at 9.1% above last September's valuation at a margin of 50.5%, producing a strong sales profit performance of £68.4m, 12.9% above last year's figure of £60.6m. After several years of outperformance, this year our UK Residential portfolios performed broadly in line with the wider UK housing market. We continue to see positive signs of future growth in the English regions and continue to invest accordingly.

Our profit before tax reduced to £50.0m from £81.1m, having been adversely affected by the £18.2m loss we incurred as we exercised our security rights to re-acquire the ERIL portfolio, a £7.0m increase in the derivatives fair value charge and a £4.6m reduction in fees and other income compared to last year.

Building a modern PRS business

The imbalances between housing supply and demand allied with the changing attitude towards home ownership have led to increased demand for good quality, well managed, private rented accommodation. The PRS is the fastest growing housing tenure in the UK, with nearly one in five people renting privately today. This growing demand is a result of changing lifestyles and economic drivers, which are set to continue. We will meet some of the demand through the acquisition of existing assets and we have successfully bought 927 such units in the year for £86.7m, producing a gross yield of 7.7%. These acquisitions have the advantage of producing immediate income and the opportunity to produce future income and capital growth once absorbed into Grainger's residential management platform.

We have focussed much of our effort this year in building a pipeline of purpose-built rental properties. We believe there is considerable demand for such assets, particularly when linked to good property management and high customer service standards.

"We have continued to simplify the Group's operations and accelerate the growth of our PRS business"

The attractiveness of purpose-built PRS assets to the consumer market has been evidenced by our experience at our first such development released to the private rental market earlier this year, Abbeville Apartments in Barking. This building was fully let in less than eight weeks at rent levels above both our expectations and the local market and is producing a gross yield on cost of 10.2%. The block was built under a forward purchase agreement and we will deliver further projects through similar purchase or funding agreements.

This pipeline of assets is further enhanced by our direct development activities, for example at land that we own at Seven Sisters, on sites being developed with the Royal Borough of Kensington and Chelsea and at strategic land sites such as Berewood in Hampshire and Wellesley near Aldershot. Going forward, the activities of our development division will increasingly be focussed on delivering product for our PRS business.

In total, including acquisitions completed since our year end, we now own, or manage in co-investment vehicles, c.3,650 PRS units in the UK with a further pipeline of c.1,500 units either already secured or at an advanced stage, of which we expect the majority to be developed over the next three years.

Creating a sustainable business

We recognise the importance of creating a sustainable business for all our stakeholders. In particular we are conscious of our responsibility to provide homes to our customers with a personal level of service. Consequently we continue to develop ways of communicating with our tenants – whether through tenants' charters or customer satisfaction surveys. We believe that this communication and feedback will become increasingly important in creating a distinctive PRS product in a competitive environment.

We are delighted that our commitment to sustainability and customer service has been recognised in a number of ways this year – Green Star Status in the Global Real Estate Sustainability Benchmark, and being awarded Residential Asset Manager for the fourth successive year in the Property Week RESI Awards amongst others.

Outlook

This year has seen us make real progress in accelerating the strategic change of the business. We are simplifying our activities to create a UK-focussed residential specialist with exposure to two main asset classes – a highly cash generative portfolio of reversionary properties which deliver a unique exposure to both capital appreciation and rental income, and a growing portfolio of PRS properties which will provide consistent rental income streams.

As part of this simplification, we have exchanged contracts for the sale of our German JV with Heitman, which follows our stated intention to dispose of our wholly-owned German assets. Following completion of these transactions we will be a UK-only focussed residential business. As we simplify the Group, our balance sheet will be significantly strengthened, providing a robust financial platform on which to build a modern PRS business.

The beginning of the 2015/16 year continues to provide evidence of the robust trading characteristics of the business. As at 31 October 2015, our total Group sale pipeline[1] amounted to £68m, which should deliver £33m of profit, with vacant UK sales values on completed sales 1.0% above September 2015 valuations (FY14: £77m, £35m and 1.9% respectively).

Our extensive experience in all aspects of the residential marketplace puts us in an excellent place to be the market leader. It is an important time for the sector and the whole business looks forward to the future with confidence and excitement.

Andrew Cunningham

Andrew Cunningham
Chief Executive Officer

19 November 2015

1 Completed sales, contracts, exchanged and properties in solicitors' hands.

Abbeville case study

Abbeville Apartments has been designed specifically for renting. With customer needs leading the design, the 100 apartments all come with double-sized bedrooms, lots of storage and appealing communal features such as a residents' lounge, fitness studio, communal garden and a loading bay for moving in and out.

As one of the UK's leading professional landlords, established in 1912, we have applied our long-term investment approach to this building. We offer flexible tenancies for a period of up to three years and transparent fees.

To ensure great customer service, we have a dedicated property management team based on-site, and an online tenant portal where occupants can communicate directly with their building manager, request a repair and find and store all the information they need for living in the building.

Sustainability was a key consideration in design and construction. The heating and hot water supply is provided by a combined heat and power unit complemented by photovoltaic panels on the roof. We have also installed a Heating Interface Unit – a smart meter – into every apartment to encourage greater awareness of energy consumption.

The design also promotes healthy lifestyles. It has a large, conveniently located bike storage area and a 24-hour fitness studio.

Amenities such as parks, shops and restaurants are also within easy walking distance and Grainger has taken care to provide residents with space to interact right on their doorstep, with a landscaped private courtyard and a communal residents lounge with free WIFI and coffee.

Successful launch

Lettings at Abbeville Apartments were very strong. In less than eight weeks since the scheme launched the building was fully let. The level of demand for the homes was exceptionally high with over 1,000 registered interested parties, leading to rental levels being ahead of plan. Furthermore, 40% of the customers have opted for a three-year tenancy agreement. This is not only great for the customers concerned as it provides greater security and certainty but it is also a positive trend for Grainger as it reduces costs and the potential for voids. The scheme generates gross rent of c.£1.5m.

OUR CUSTOMERS

31 AVERAGE AGE

57% PREVIOUSLY RENTED

84% PREVIOUSLY LIVED IN LONDON

16% Work in the IT profession

16% Work in financial services

13% Are teachers or health care professionals

SUSTAINABILITY FEATURES

Sedum green roof

Photovoltaic cells

Smart meters

Combined heat and power unit

Our market environment

The UK housing market is dominated by the imbalance between high levels of demand and limited supply.

Housing supply and demand

Current estimates of housing demand range from 250,000 to 300,000 new homes required each year. In 2014 the UK built 140,000 new homes – well below the amount required to meet household growth. This supply/demand imbalance underpins capital value growth (house price inflation). In this financial year, UK house prices grew by 6.1% according to the combined average of the Halifax and Nationwide house price indices.

While London and the South East continue to perform strongly, over the past year we have seen an increasing number of positive signs in the regions, particularly in the stronger core regional cities such as Birmingham and Manchester. In response, Grainger has increased its investment focus in strategic regional locations in England in order to capture future growth prospects. This year we invested almost £90m in rented residential assets located in the English regions.

Growth in the private rented sector

One of the more pronounced changes taking place in the UK Residential market is the sustained growth in the PRS. It has grown considerably since 2002, nearly doubling to 4.4 million households.[1]

This growth looks set to continue for years to come, with Savills predicting that the PRS will grow by 1.2 million households over the next five years.

The bulk of this rental demand has been driven by the 25–34 age group, the so-called 'millennials', with renters in this age group more than doubling since 2003. Today, one in every two individuals, between 25 and 34, rent privately in the UK.

Drivers of rental demand

The financial drivers underpinning rental growth since the recession are well documented. One example is the constraint placed on mortgage lending, particularly affordability and deposit requirements, making mortgages much harder to attain than they were previously.

The growth, however, in the PRS began in 2002, well before the recession and when these financial drivers took effect.

Social and cultural drivers have also been contributing to growth in the PRS. These non-financial drivers are less well understood so to help improve understanding of these factors, we commissioned an in-depth piece of research, which was published during this financial year[2]. It explores the emerging social trends in Britain and the impact that they will have on housing and the built environment.

According to this research, social changes such as more flexible working patterns, the sharing economy, later family formation and commuting preferences, among many others, are all supporting growth in the rental sector.

Other research we conducted also revealed that many people value the flexibility and the lower levels of responsibility associated with renting that they cannot get from home ownership.[3]

Population growth in urban centres, or 'urbanisation', is another major contributor to changes in the residential landscape in the UK and growth in PRS, with rental levels being more pronounced in cities. Between 2001 and 2011, the total population of city centres grew by 37%.[4] London, in particular, has grown to 8.6 million people, and 26% rent privately. The Mayor of London predicts that London will reach 11 million people by 2050.

The growth in these cities has again been led by those young, highly educated, single residents, the 'millennials', the same group driving growth in the rental market. In particular, city centres have experienced the most pronounced population increase amongst those aged between 20 and 29. Almost half of residents in large city centres are now between 20 and 29.

Political and legislative factors influencing the rental market

For many years, Grainger has been championing the potential of the PRS, including Build-to-Rent, institutional investment and Residential Real Estate Investment Trusts and the contributions it can make to housing supply, to the economy and to standards of living.

Our efforts, together with those of many others in the industry with whom we have worked closely, has resulted in a broadly positive political and legislative environment for future investment in the sector.

Following the Government's Montague Review in 2012, we have seen positive amendments to the planning system in the National Planning Policy Framework, new government funding support via the Build-to-Rent Fund and PRS Guarantees and changes to the stamp duty land tax regime for bulk purchases of residential properties amongst many other positive policy initiatives.

More could still be done. In particular, we would like to see the formal adoption of the 'rental covenant' concept, whereby local authorities reduce or waive onerous planning obligations for the guarantee that a development will be rented for the long term.

Alongside the positive market drivers there is, nonetheless, some level of risk in political, legislative and regulatory terms. The 2015 General Election highlighted a few such risks, including proposals for some form of government intervention on private rents from the Labour Party and the narrow focus on home ownership by the Conservatives.

There is also uncertainty over what the London Mayoral Election will mean for the housing and rental markets in the capital.

Grainger takes a very hands-on, proactive and practical approach to managing these political and legislative risks. We engage regularly with politicians from all parties, as well as senior civil servants, to ensure that our views are heard and we are able to anticipate any possible risks to the business. By working constructively in this way we ensure that any possible intervention and changes proposed by any political party are positively managed to protect the interests of all stakeholders and do not damage future investment in the PRS wherever possible.

A market opportunity for Build-to-Rent rather than buy-to-let

The evidence supports that we will see sustained growth in demand for long-term, specifically designed rental homes in the UK – known as Build-to-Rent.

As previously outlined, an increasing number of households are wishing to rent and they are choosing to rent for longer periods in their lives. These rental consumers are increasingly expecting better value-for-money and better quality, and so driving increased competition.

We are facing a unique opportunity in the UK to create a professionalised, institutionally-backed PRS, with large scale, long-term landlords, providing tenants with safe, secure homes for rent at good value.

Over the coming few years, we expect to see continued support from central government for the sector. We are confident that we have the right measures in place to monitor, measure and mitigate the political risks to the best of our ability, and that with a positive policy environment and on-going market conditions, the PRS will continue to grow and evolve.

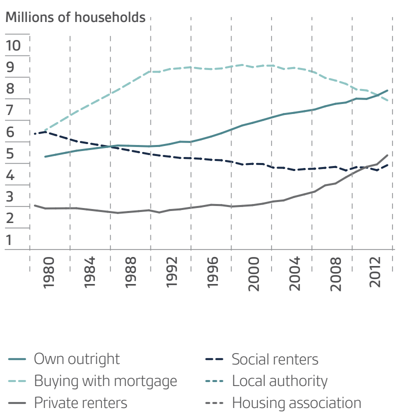
Grainger is best placed to take advantage of this opportunity by utilising its core skills and delivering good quality, long-term rental homes through Build-to-Rent.

1 English Housing Survey, February 2015.
2 Tomorrow's Home by Lily Bernheimer, commissioned by Grainger plc and ADAM Urbanism, October 2014.
3 Survey commissioned by Grainger into the attitudes toward renting, 2012.
4 Centre for Cities, Urban Demographics: Where people live and work, Elli Thomas, Ilona Serwicka and Paul Swinney, July 2015.

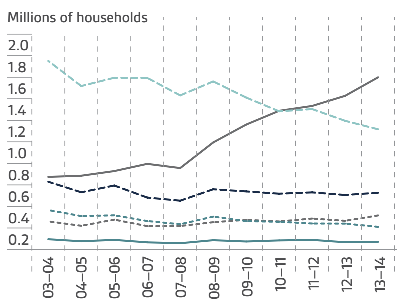
HOUSING TRENDS

Source: English Housing Survey, February 2015

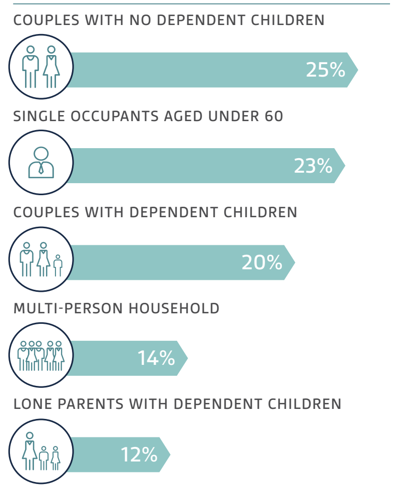
UK housing tenures



Age of household reference person, by tenure, 25–34 years



Household types in the PRS



Our business model

WHAT WE DO

REVERSIONARY ASSETS

We own and manage residential properties with a sitting tenant. As the tenant has the right to live in the property for their entire life, the property is acquired at a discount to the property's vacant possession value (the reversionary surplus). We sell these properties once they are vacated by the tenant to realise the reversionary surplus.

Division	Units	Market value
Wholly-owned assets	8,234	£1,654m
Assets under management (co-investments)	264	£83m
TOTAL	8,498	£1,737m

PRIVATE RENTED SECTOR (PRS) ASSETS

We let these assets at market rents and manage them proactively to drive rental growth.

Leveraging our strong experience as a long-term landlord and manager. In the UK, we are developing purpose-built residential assets for rent in order to grow our UK PRS business.

We will maximise the potential to grow this business in the UK through the quality of our products, the expertise of our management and the excellence of our service.

	UK		Germany		Combined Total	
Division	Units	Market value	Units	Market value	Units	Market value
Wholly-owned assets	1,739	£399m	2,813	£143m	4,552	£542m
Assets under management (co-investments)	1,914	£625m	2,517	£193m	4,431	£818m
TOTAL	3,653	£1,024m	5,330	£336m	8,983	£1,360m

TOTAL ASSETS OWNED AND MANAGED

Division	Units	Market value
Total reversionary and private rented sector assets	17,481	£3,097m
Development assets	–	£95m
Assets managed for third-parties	2,009	£168m
TOTAL	19,490	£3,360m

GENERATING RETURNS

- Our reversionary business is highly cash generative. It will generate more than £120m p.a. until 2030, providing an excellent basis for the growth of our PRS business.
- The PRS business provides returns derived from the maximisation of net rental income resulting from product design and effective asset management.

GENERATING WIDER VALUE FOR OTHERS

- What we do will create wider value and benefits for our stakeholders:

Creating great places to rent, where people choose to live

Operating productive, healthy and rewarding places to work

Providing safe homes for our lifetime tenants

Delivering investment in the communities where we develop and operate

Stimulating thought leadership to address crucial issues in the residential sector

Key performance indicators

We set out to achieve our objective of being the UK's leading private rented sector landlord through four strategic themes:

LEADERSHIP

We will maintain our position as the UK's leading private rented sector landlord through a focus on the quality of our products, the expertise of our management and the excellence of our service.

MAXIMISING RETURNS

We will maximise current and future returns by using our residential expertise to outperform our peers and industry benchmarks.

KEY PERFORMANCE INDICATORS

CUSTOMER RECOGNITION OF THE QUALITY OF OUR PRODUCT:

– Abbeville Apartments, the UK's first purpose-built PRS scheme launched in June and fully let in eight weeks, achieving rental levels ahead of plan and 40% of customers opting for a three-year tenancy.

PEER RECOGNITION AS EXPERTS IN THE RESIDENTIAL SECTOR

– We were awarded 'Residential Asset Manager of the Year' for the fourth consecutive year.[1]

– We were recognised for our sustainability efforts for both our own portfolio and the GRIP PRS fund[2] with the highest rating of Green Star by the Global Real Estate Sustainability Benchmark.

– We were awarded an EPRA Gold standard for the quality and transparency of our sustainability reporting.

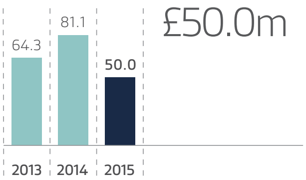
– We were awarded a Silver Award for EPRA's Best Practice Reporting.

– We became one of the first corporate landlords to be accredited through the London Rental Standard.

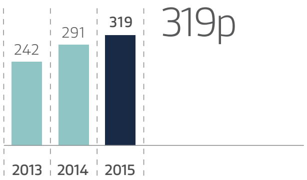
– We continue to be a member of the FTSE4Good index.

1 RESI Awards.
2 GRESB benchmark 2015.

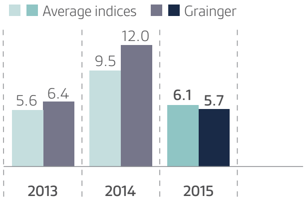
PBT (£m)
Profit before tax



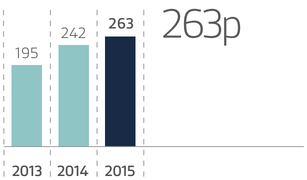
NAV (p)
Gross net asset value per share



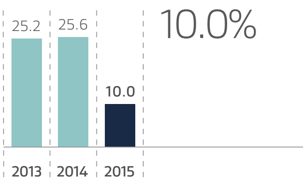
UK HPI performance (%)
Measured against average movement in the Halifax and Nationwide indices



NNNAV (p)
Triple net asset value per share
Growth in NNNAV is a performance condition for the long-term incentive scheme



ROSE (%)
Return on shareholder equity



BALANCE

We will manage the transition to our future business, consciously balancing risks and opportunities to deliver sustainable change.

OPTIMISATION

We will continue to simplify our business so that our financial resources, our operational processes and our peoples' efforts are optimised to deliver our objective.

PRS UNITS ACQUIRED

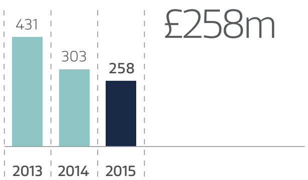
927

SIZE OF PRS PIPELINE

c.1,500

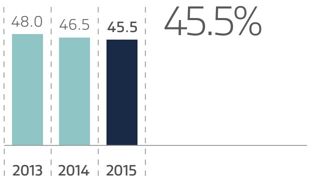
UNITS

Gross cash generated
from business operations (£m)



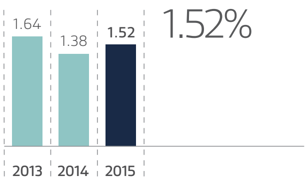
£258m

Group LTV (%)



45.5%

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



1.52%

Simplification
Disposal of our wholly-owned German assets is underway

Our Key Performance Indicators (KPIs) 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 aligned in determining the performance-related pay of the Executive Directors.

Operational measures

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

STAFF

READ MORE P24

8.6%
Percentage turnover for permanent employees

4.2 Days
Sickness absence per employee per annum

15.3 Hours
Average hours of training per employee per annum

25%
Ratio of female to male staff at senior manager level or above

SUSTAINABILITY

READ MORE P30

70%
Proportion of tenants satisfied with Grainger's management service

104 Homes
Number of homes built to Code for Sustainable Homes Level 4

46 Days
Total number of staff working days contributed for charitable causes

FINANCIAL

READ MORE P19

£101.9m
OPBVM

9.5%
ROCE

£41.2m
Recurring profit

OPERATIONAL MANAGEMENT

READ MORE P15

100 Days
Sales velocity in days UK Residential

50.5%
Margin on vacant sales

9.1%
Vacant sales values above previous year VPV

8.4%
Increase in regulated rent levels

2.7%
Percentage of rent arrears in UK portfolio

TREASURY

READ MORE P23

3.1:1
Interest cover ratio on core syndicate facility

4.6%
Average cost of debt

5.2 Years
Average maturity of drawn debt

77%
Hedging percentage

£142m
Cash and headroom on facilities

Performance
income statement

Margins on vacant sales have increased to 50.5% from 49.2%. Vacant sales were made at an average of 9.1% above last year's valuations.

Gross rental income for the year was £58.7m, representing 24.1% of total Group revenue.

SALES

UK Residential & Retirement Solutions

The Company's trading business performed very strongly throughout the year. Margins on sales of vacant properties increased to 50.5% (FY14: 49.2%) and sales of vacant properties were made at an average of 9.1% above September 2014 VPV (2014 excess to 2013 VPV: 14.1%).

Sales of tenanted properties and other sales decreased from £103.1m in 2014 to £23.5m. The largest disposal in the previous year was the sale of a home reversion (Retirement Solutions) portfolio in January 2014 for £84.7m, which generated a profit of £9.9m. This was subsequently re-acquired on 2 April 2015 following the Company exercising its security under the sale contract. Although we expected a de-minimus level of profits from tenanted investments sales, we undertook a few opportunistic disposals which enabled us to deliver £4.8m of profit (FY14: £10.4m).

Development

The Development business had sales of £33.7m and generated £9.8m of profit (FY14: £32.8m of sales and £12.3m of profit). This performance was weighted towards the first half of FY15.

Our Macaulay Walk development has again been the principal profit contributor and has delivered an outstanding sales performance with 56 of a total of 57 private units sold by year end with the final unit sold in October 2015. Sales have been completed at values between £850 – £1,300/sq. ft. Since sales commenced at the development it has made a profit of £21.2m, delivering a gross margin of 34%. The final phase fit-out of a further 24 residential units is well progressed and we anticipate completion before the end of the calendar year. We already have two units exchanged and two under offer.

Germany

The £2.3m of sales (FY14: £15.2m) relates to general portfolio management and optimisation activities. A broadly break-even profit result of £0.1m built on the small loss (£0.2m) in the prior year, which arises as assets are held as investment property and are revalued annually.

Sales

	2015			2014		
	No. of units	Gross sales value £m	Profit £m	No. of units	Gross sales value £m	Profit £m
Trading sales on vacancy						
UK Residential	**310**	**92.0**	**52.8**	287	78.1	42.9
Retirement Solutions	**321**	**43.4**	**15.6**	364	45.2	17.7
	631	**135.4**	**68.4**	651	123.3	60.6
Tenanted Sales	**98**	**19.5**	**4.8**	1,331	96.6	10.4
Other Sales	**32**	**4.0**	**3.2**	27	6.5	5.5
Residential Total	**761**	**158.9**	**76.4**	2,009	226.4	76.5
Development	**–**	**33.7**	**9.8**	–	32.8	12.3
UK Total	**761**	**192.6**	**86.2**	2,009	259.2	88.8
Germany	**43**	**2.3**	**0.1**	191	15.2	(0.2)
Overall Total	**804**	**194.9**	**86.3**	2,200	274.4	88.6
Deduct: Sales of CHARM properties	**(61)**	**(7.5)**	**(0.4)**	(67)	(7.2)	(0.6)
Statutory sales and profit	**743**	**187.4**	**85.9**	2,133	267.2	88.0

RENTS

We recorded an increase in net rent following the recent portfolio purchases of stabilised market rented assets. Total net rents in the year amounted to £37.9m (FY14: £37.0m).

Our UK Residential portfolio generated net rental income in the year of £32.3m (FY14: £30.2m).

The German business saw net rents of £3.8m (FY14: £5.1m), the reduction principally reflecting the higher level of vacancies arising as we have been upgrading one of our large portfolios, FRM.

Certain assets in the Retirement Solutions portfolio also produce a net rental income and this amounted to £1.7m in the year (FY14: £1.5m).

The UK market rented properties which we manage saw like-for-like rent increases, excluding the impact of refurbishment, on new lets of 5.6% and on renewals of 2.4%, compared to the market average of 2.7% according to the Office of National Statistics.

Across our wholly-owned portfolio, rental increases generated an additional £1.5m of gross rental income.

Net rents

	2015 £m	2014 £m
UK Residential	**32.3**	30.2
Retirement Solutions	**1.7**	1.5
Germany	**3.8**	5.1
Development	**0.1**	0.2
Net Rents	**37.9**	37.0

FEES

The majority of fee income is derived from asset and property management fees from co-investment vehicles and management contracts.

In the prior year we saw material contributions from performance fees on our G:Ramp arrangement with Lloyds Banking Group. As predicted we have a reduced level of activity in 2015 as this particular arrangement approaches its conclusion. Hence this year we saw a fall in fees and other income from £12.8m to £8.2m. The largest single contributor to fee income is £3.4m from management of the GRIP portfolio co-owned with APG.

Performance asset values

The total market value of assets under management at 30 September 2015 was £3.4bn, up from £3.2bn the previous year. 19,490 units were under management at the year end (FY14: 19,831).

Group Performance

For the 12 months ended 30 September 2015, Gross NAV increased by 9.7% to 319p and NNNAV by 8.8% to 263p.

(£m)	Gross NAV pence/share	NNNAV pence/share
30 September 2014	291	242
Profit after tax	10	10
Revaluation gain on trading stock		
Discount reduction	13	13
Value increase	24	24
Elimination of previously recognised surplus on sales	(16)	(16)
Dividends paid	(2)	(2)
Impact of swap break costs	(4)	–
Impact of derivatives and hedging net of tax	1	–
Fair value of fixed rate loan net of tax	–	(3)
Deferred/contingent tax	2	(4)
Other	–	(1)
30 September 2015	**319**	**263**

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 £507m, equivalent to 121p per share before tax (FY14: £503m, 120p). For our wholly-owned assets, this is £477m before tax, 114p per share (FY14: 109p, £455m). This surplus is based on current values (it excludes future house price inflation), is supplementary to our net asset calculations and represents part of the cash and profit which will be crystallised when the properties are sold on vacancy.

UK Residential portfolios' movements in the year

	2015		2014	
	VPV	**Market value**	VPV	Market value
Grainger's UK Residential portfolio	**5.6%**	**10.2%**	14.6%	15.9%
Grainger's Retirement Solutions portfolio	**5.9%**	**6.6%**	6.0%	9.4%
Grainger's combined UK portfolio	**5.7%**	**9.6%**	12.0%	14.6%

Our UK Residential portfolios have performed well in 2015. The vacant possession value (VPV) in our combined UK portfolios rose by 5.7% whilst their market value rose by 9.6%. A particular contributor to the rise in market value has been recognition, on advice from our independent valuers, of a narrowing of the discount applied to the vacant possession value to arrive at our market value. This is supported by continuing evidence from tenanted transactions across the whole market. It is also reflective of our own experience when selling and buying tenanted properties. The underlying drivers of the narrowing of the discount are that the average age of the tenants is increasing giving a shorter period to vacancy, there is increasing demand for regulated properties, and rents are moving closer to market levels. The weighted average discount to vacant possession value on our regulated tenancy portfolio has narrowed from 22.8% to 20.0%. The impact of this has been to increase the revaluation gain on owned investment property in the income statement by £1.5m and the uplift on trading stock from statutory book value to market value in our NAV measures by £51.4m. This increases NAV by 12.6p per share and NNNAV by 10.1p per share.

PERFORMANCE ASSET VALUES Continued

IPD Region

	Regulated tenancies IV discount %		Assured Short hold tenancies IV discount %	
	2015	2014	**2015**	2014
1-3 London	**80.0**	77.5	**95.0**	90.0
4-12 Other regions	**80.0**	75.0	**95.0**	90.0

Development portfolio

As at 30 September 2015, the market value of our UK Development portfolio was £95.0m (FY14: £107.2m), the reduction largely due to sales at our Macaulay Walk development during the year. The gross development value, including joint ventures, with detailed planning consent is valued at £550m (FY14: £434m). This includes our 50% share of the King Street, Hammersmith development in conjunction with Helical Bar, which has a total gross development value of £202m, following the receipt of planning permission in November 2013, and seven sites in the Royal Borough of Kensington and Chelsea with a gross development value of £96m.

Co-investment vehicles

Grainger's equity investment in its joint ventures and associates equates to £179.2m (FY14: £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 in Germany with Heitman; and
- a 50% interest in the Hammersmith joint venture with Helical Bar.

During the year we disposed of our 50% interest in the Sovereign joint venture with Moorfield to Lonestar Real Estate Fund III. This disposal gave rise to a profit of £4.4m which has been treated as a non-recurring item.

The gross asset value of co-investment vehicles at 30 September 2015 was £1,050m (FY14: £1,016m). Grainger's total return from co-investment vehicles in the year amounted to 16.6% (FY14: 23.5%).

JVs/Associates Summary

	Gross Asset Value		Grainger Equity Investment	
	2015 £m	2014 £m	**2015 £m**	2014 £m
GRIP	**552**	500	**86**	85
WIP	**197**	176	**60**	52
Sovereign*	**–**	55	**–**	14
Heitman	**228**	212	**22**	17
Other	**73**	73	**11**	9
Overall Total	**1,050**	1,016	**179**	177

* Our interest in Sovereign was sold during the year.

Germany

As noted last year the overall German residential market has performed well and investor interest has continued to strengthen. As announced on 13 August 2015 in our Trading Update, we believe now is the time to capture the growth in value of our wholly-owned assets there and reinvest the proceeds within our UK market rented business. The process of preparing for the sale of our German assets is well underway, although at the year end not advanced enough for us to classify the business as held-for-sale under IFRS 5.

Our Heitman associate in Germany has delivered a positive performance in 2015, supported by our active asset management approach, returning in excess of 25% to Grainger in 2015 (FY14: 15%).

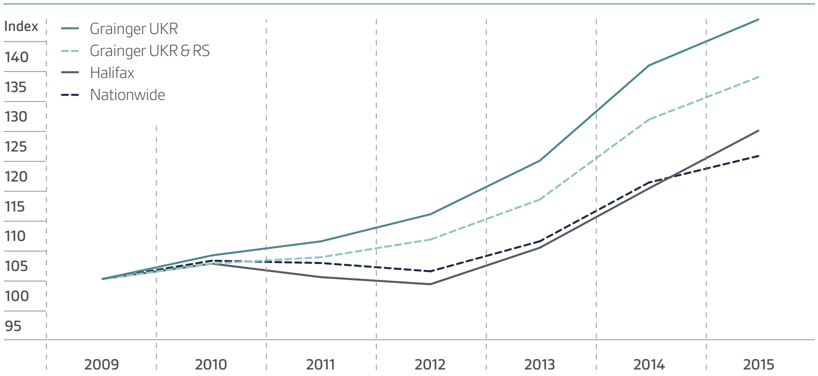
Purchases

Our strong cash generation continues to support reinvestment and we have spent £106m on property purchases in our UK residential business (FY14: £182m). During the year, we have acquired 927 tenanted PRS units located predominantly in the English regions for £86.7m. On an annualised basis these acquisitions should deliver around £6.7m of gross rental income, reflecting a yield on cost of 7.7%. These acquisitions and those completed since the year end take Grainger's overall UK owned and managed PRS portfolio to c.3,650 units, one of the largest portfolios in the UK.

Assets under management

The total market value of assets under management at 30 September 2015 was £3,360m, up from £3,159m the previous year. 19,490 units were under management at the year end (FY14: 19,831), Whilst the number of units has fallen slightly, the strong valuation gains achieved this year on both the wholly-owned assets and our co-investment assets has resulted in a net increase of £201m.

Performance of Grainger UK assets vs Halifax and Nationwide indices



Financial review

We made a return on shareholder equity of 10.0% during 2015. Over the past five financial years we have delivered a total return on shareholder equity of 96.5%, which is an average return of 14.5% per annum.

Return on shareholder equity

10.0%

Gross NAV up

9.7%

to 319p

Return on capital employed

9.5%

Our key measures of financial performance are:

	2015	2014
Gross net asset value per share (pence)	**319p**	291p
Triple net asset value per share (pence)	**263p**	242p
Operating profit before valuation movements and non-recurring items (OPBVM)	**£101.9m**	£107.5m
Recurring profit	**£41.2m**	£47.1m
Profit before tax	**£50.0m**	£81.1m
Excess on sale of normal sales to previous valuation	**9.1%**	14.1%
Return on capital employed*	**9.5%**	17.0%
Return on Shareholder equity**	**10.0%**	25.6%

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

** Growth in 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.

	2015 £m	2014 £m
Profit on sale of assets	**86.3**	88.6
Net rents	**37.9**	37.0
Management fees/other income	**8.2**	12.8
Overheads/other	**(30.5)**	(30.9)
OPBVM	**101.9**	107.5
Net finance costs	**(62.3)**	(63.4)
Joint ventures and associates	**1.6**	3.0
Recurring profit before tax	**41.2**	47.1
Valuation movements including derivatives	**26.1**	35.3
Non-recurring items	**(17.3)**	(1.3)
Profit before tax	**50.0**	81.1

FINANCIAL REVIEW Continued

A summary of OPBVM by division and of the main movements in the year is set out below:

Main movements within OPBVM

	£m
2014 OPBVM	107.5
Increase in gross rents	1.3
Increase in residential profit on sale	0.3
Decrease in development trading profit	(2.5)
Increase in interest income from CHARM	2.4
Decrease in gross management fee and other income	(4.6)
Increase in property expenses, overheads and other income and expenses	(2.5)
2015 OPBVM	**101.9**

The major movements within OPBVM are:

- A reduction in management fee income with 2014 benefiting from the receipt of performance fees from G:RAMP (our residential asset management agreement with Lloyds Banking Group).
- An increase in interest income from CHARM as a result of an increase in vacant possession values of 6.2% this year compared to a forecast 4.0% increase.
- In the development division both 2015 and 2014 have benefited from strong profits from our Macaulay Walk development. The profit in 2015 was slightly lower than in 2014, accounting for the majority of the £2.5m reduction in development trading profit.

Interest income and expense

The net recurring interest charge has decreased by £1.1m from £63.4m in 2014 to £62.3m at 30 September 2015.

Joint ventures and associates

Joint ventures and associates contributed a profit of £1.6m to recurring profit in the year (FY14: £3.0m). (The major contribution from these entities is seen through revaluation – see the table alongside).

Divisional Analysis of OPBVM

	Profit on sale of assets £m	Net rents £m	Management fees/other income £m	Overheads/ other £m	Total 2015 £m	Total 2014 £m
UK Residential portfolio	**60.8**	**32.3**	**0.5**	**(9.2)**	**84.4**	71.1
Retirement Solutions portfolio	**15.6**	**1.7**	**1.6**	**6.7**	**25.6**	34.8
Fund and third-party management	**–**	**–**	**4.3**	**(4.9)**	**(0.6)**	2.4
Development assets	**9.8**	**0.1**	**0.5**	**(1.7)**	**8.7**	11.9
German Residential portfolio	**0.1**	**3.8**	**1.1**	**(2.9)**	**2.1**	2.7
Group and other	**–**	**–**	**0.2**	**(18.5)**	**(18.3)**	(15.4)
OPBVM 2015	**86.3**	**37.9**	**8.2**	**(30.5)**	**101.9**	
OPBVM 2014	**88.6**	**37.0**	**12.8**	**(30.9)**		107.5

Valuation and non-recurring items

Valuation and non-recurring items in 2015 compared with 2014 is analysed as follows:

	2015 £m	2014 £m	Movement
Valuation			
Adjustment of inventories to net realisable value	**(1.2)**	0.8	(2.0)
Valuation gain on UK investment property	**17.0**	7.6	9.4
One-off valuation deficit on German FRM investment property	**–**	(5.9)	5.9
Valuation gain on German investment property including share of Heitman joint venture	**2.5**	1.2	1.3
Impairment of joint ventures	**(4.1)**	(2.4)	(1.7)
Change in fair value of derivatives	**(5.8)**	1.2	(7.0)
Valuation gains on UK investment property in joint ventures and associates	**18.1**	33.2	(15.1)
Change in fair value of derivatives of joint ventures and associates	**(0.4)**	(0.4)	–
	26.1	35.3	(9.2)
Non-recurring			
Profit on disposal of joint venture/ subsidiary	**4.4**	0.8	3.6
ERIL impairment of receivable plus costs	**(11.4)**	–	(11.4)
ERIL mark to market debt adjustment net of tax	**(6.8)**	–	(6.8)
Accelerated loan fees write off/other	**(3.5)**	(2.1)	(1.4)
	(17.3)	(1.3)	(16.0)
Total	**8.8**	34.0	(25.2)

UK investment property valuation gain
The net valuation uplift in 2015 on our UK wholly-owned investment property assets relating primarily to the Group's wholly-owned investment property in its UK Residential division showed an uplift of £17.0m (FY14: £7.6m).

Derivative movements
Fair value movements on derivatives is a charge of £6.2m relating to the Group's derivative contracts including £0.4m relating to our share of derivatives within joint ventures and associates.

The fair value of swaps at 30 September 2015 is a net liability of £33.5m compared to a net liability of £48.0m at 30 September 2014. The reduction relates primarily to £17.9m of swaps cash settled during the year.

Valuation gains in UK joint ventures/associates
Valuation gains within UK joint ventures and associates amounted to £20.2m before deferred tax (£18.1m after tax) (FY14: £37.0m and £33.2m), comprising gains from our joint venture and associate operations with our partners Dorrington and APG.

Germany investment property valuation gain
The German portfolios in direct ownership and in our Heitman joint venture showed an overall valuation gain before deferred tax of £5.1m (£2.5m after tax) (FY14: a deficit of £3.9m before tax and £4.6m after tax).

Non-recurring
Non-recurring items of £17.3m comprise a loss of £18.2m on the one-off impairment associated with our re-acquisition of the ERIL portfolio along with a £4.4m profit arising from the disposal of our joint venture interest in Sovereign, and a £3.5m charge relating to the accelerated write off of loan costs on the refinancing of our bank syndicate debt.

Profit before tax
Having taken account of all of the above movements, profit before tax was £50.0m compared to a profit before tax of £81.1m in 2014. The most significant movements which contributed to the decrease were the £18.2m loss on re-acquisition of ERIL and a £7.0m adverse movement on derivatives and a £4.6m reduction in fees and other income.

Tax
The Group has an overall tax charge of £7.3m for the year, comprising a £7.4m UK tax charge and a £0.1m overseas tax credit.

The net reduction of £2.9m, from the expected charge of £10.2m, results from a prior period credit of £4.7m, a £2.8m reduction as tax on JV and Associates' profit is included above the tax line in the Income Statement, a £0.3m reduction from other losses and non-taxable items, offset by non-deductible expenditure totalling £4.9m.

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, which was reconfirmed this year, and to which the Group is committed.

The Group made net corporation tax payments totalling £4.9m in the year.

Earnings per share
Basic earnings per share is a profit of 10.4p (FY14: a profit of 18.1p). A year-on-year comparison is shown below:

	£m	Pence per share
2014 Profit/earnings per share	74.7	18.1
Movements in:		
OPBVM	(5.6)	(1.4)
Contribution from joint ventures and associates	(1.4)	(0.3)
Fair value of derivatives	(7.0)	(1.7)
Revaluation of investment properties	1.5	0.4
Net interest payable	1.0	0.3
Non-recurring items	(16.0)	(3.9)
Taxation/other	(4.5)	(1.1)
2015 Profit/earnings per share	**42.7**	**10.4**

Dividend for the year
After considering the investment and working capital needs of the business, the Directors have recommended a final dividend of 2.11p per ordinary share (FY14: 1.89p) which equates to £8.7m (FY14: £7.8m). This is in addition to the interim dividend of 0.64p per ordinary share (FY14: 0.61p). The total dividend for the year will therefore be 2.75p per ordinary share (FY14: 2.50p), an increase of 10%. Earnings cover dividends by 3.8 times.

FINANCIAL REVIEW Continued

Cash inflows from sales, rents, fees

£258m

Consolidated LTV

45.5%

Headroom

£142m

Net asset values

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

	30 September 2015	30 September 2014	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	**319p**	291p	10%
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	**263p**	242p	9%

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.

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	1,334	319
Deferred and contingent tax	(179)	(43)
Fair value of derivatives adjustments net of tax	(54)	(13)
NNNAV	**1,101**	**263**

The major movements in Gross NAV in the year are:

	£m	Pence per share
Gross NAV at 30 September 2014	1,215	291
Profit after tax	43	10
Revaluation gains on trading stock	155	37
Elimination of previously recognised surplus on sales	(66)	(16)
Dividends paid	(10)	(2)
Impact of derivatives and hedging net of tax	(13)	(3)
Deferred tax on property valuations	10	2
Gross NAV at 30 September 2015	**1,334**	**319**

The major movements in NNNAV in the year are:

	£m	Pence per share
NNNAV at 30 September 2014	1,012	242
Profit after tax	43	10
Revaluation gains on trading stock	155	37
Elimination of previously recognised surplus on sales	(66)	(16)
Dividends paid	(10)	(2)
Fair value of fixed rate loan net of tax	(12)	(3)
Contingent tax	(18)	(4)
Other	(3)	(1)
NNNAV at 30 September 2015	**1,101**	**263**

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	136	15	151
Retirement Solutions	18	2	20
Development	(2)	–	(2)
UK joint venture and associates*	3	18	21
German portfolios*	–	3	3
	155	**38**	**193**

* 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 £24.7m before deferred and contingent tax and £19.6m after tax. This is equivalent to 6p per share on NAV and 5p 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	1,057	688	1,745	451	2,196
Development	95	–	95	–	95
Total at 30 September 2015	**1,152**	**688**	**1,840**	**451**	**2,291**
Total at 30 September 2014	1,020	597	1,617	431	2,048

2014 includes property assets within held-for-sale.

Financial resources, interest cost and derivative movements

	2015	2014
Net debt	**£1,138m**	£1,044m
Consolidated loan to value	**45.5%**	46.5%
Core loan to value	**40.6%**	42.0%
Core interest cover	**3.1**	3.7
Average maturity of drawn facilities	**5.2 years**	4.8 years
Headroom	**£142m**	£297m
Average cost of debt[1]	**5.3%**	6.0%
Average cost of debt at period end[2]	**4.6%**	5.4%

1 Including costs and commitment fees.
2 Including costs excluding commitment fees.

As at 30 September 2015, net debt was £1,138m, an increase of £94m from the 30 September 2014 level of £1,044m. Our consolidated loan to value now stands at 45.5% (FY14: 46.5%). LTV on the core facility was 40.6% (FY14: 42.0%) compared to a maximum allowable LTV covenant under that facility of 75%. The interest cover ratio on the core facility stood at 3.1 times (2014: 3.7 times) compared to a minimum interest cover covenant of 1.35 times.

As at 30 September 2015, the average maturity of the Group's drawn debt was 5.2 years (FY14: 4.8 years).

In August 2015, the Group refinanced its syndicated core facility which had been due to mature in July 2016. The new £580m facility will mature in August 2020. The margin on the facility reduced by 50bps to 170bps and the facility structure enables further pricing benefits to be gained at future lower levels of loan to value.

On 1 October 2015, an amendment and restatement of the Grainger Invest property portfolio bank facility was concluded with the existing lenders, HSBC and Santander, reducing its cost, extending its maturity and increasing its size to £150m from £120m. Following the refinancing of the Grainger Invest Portfolio, which was completed on 1 October 2015 and which had £109m of outstanding debt due in March 2016 at the balance sheet date, there are now no significant debt repayments until 2020.

At 30 September 2015, the Group had free cash balances of £44m plus available overdraft of £1m along with undrawn committed facilities of £97m. Thus, headroom totalled £142m (FY14: £297m). In early October, on the refinancing of the Grainger Invest bilateral noted above this had increased, on a pro forma basis, to £183m.

The Group's average cost of debt at the period end, including costs but excluding commitment fees, was 4.6% (FY14: 5.4%).

At 30 September 2015, gross debt was 77% hedged (FY14: 68%) of which 11% was subject to caps (FY14: 4%). Net debt has increased by £94m from £1,044m to £1,138m. The material cash outflows were attributable to property purchases, capex and investment totalling £148m, property expenses and overheads of £57m, interest payments of £60m, and swap settlements of £18m. The £65m acquisition of the Just Retirement loan as part of the re-acquisition of ERIL also contributed to the increase in net debt. These outflows were largely offset by gross rents, sales and fees of £258m.

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

19 November 2015

Our people
and our customers

In addition to being a property business, we are also strongly committed to being a people-focussed business. We believe strength comes from the relationships that we have with each person with whom we work.

OUR PEOPLE

To fully leverage the skills and expertise we have, our people need to have a strong positive connection to the Company, our strategy, values and brand. For our staff this means having fulfilling and rewarding work as well as career opportunities.

We place a high priority on communicating our business focus, objectives and current projects through presentations and conferences, breakfast meetings, monthly updates and via our intranet. We celebrate success and bring together staff for office social events and support charity fundraising and volunteering activities.

Team meetings give everyone the forum to discuss their team's work and wider business issues. Spending time in communicating a clear and consistent narrative and sharing experiences not only provides an understanding of our business direction, but the importance of our values and ethics in everything we do.

To be best in class in the residential property sector we need to continually develop the expertise we have in the Company and ensure that our people understand how they can contribute to its success. We have always placed great importance on investing in our people and retaining them by providing opportunities for a long-term career with Grainger.

This year we delivered more than 100 training events covering technical, professional, management and personal development competencies. 27 members of staff have been supported in studying for a professional qualification with five successfully gaining a post graduate qualification.

We have provided work experience for 12 young people, which constitutes a future investment in attracting talent into a residential property career.

Sharing knowledge and experience is an important part of our development activities. Many of our training programmes are designed and delivered by our own staff through our Lunch and Learn workshops.

This year we introduced new selection and induction processes to support our PRS strategy as well as providing extensive training in customer service and complaints handling.

Having an agile workforce has enabled us to establish a multi-disciplinary team to lead our PRS business with talent from across our office network.

Our graduate scheme attracted 250 applicants this year and continues to provide a pipeline of residential property specialists.

Career development is underpinned by personal development plans for all our staff with access to first class management and business school institutions through our Emerging Leaders and Leadership Programmes.

Employee profile
(2015 figures)

Role	Male	Female	Total
Non-Executive Directors	4	2	**6**
Grainger Trust Non-Executive Directors	1	2	**3**
Executive Directors	3	0	**3**
Senior Managers	31	11	**42**
Managers	53	49	**102**
Associate	16	41	**57**
Support	9	61	**70**
Graduates	1	2	**3**
Off site	4	2	**6**
	122	170	**292**

Age	No. Employees
18–25	**22**
26–33	**86**
34–41	**77**
42–49	**47**
50–57	**42**
58–65	**16**
65+	**2**
	292

OUR CUSTOMERS

To achieve our objective of being the UK's leading PRS landlord we must have an in-depth understanding of our customers, of their aspirations and concerns, and the factors that affect their choice of landlord. We must also know where we need to improve and take on board the feedback that our customers provide.

We continue to build on the research work done in previous years and this year we have looked more into customer expectations and social trends with the Tomorrow's Home research. We have also sought to improve our understanding of how we are perceived through increasingly sophisticated customer satisfaction measurement processes. We look forward to the introduction of benchmarking studies across the PRS, a development we have supported for several years. This year has also seen the improvement of the complaints handling processes across Grainger; we welcome feedback from our customers to help us get better and the opportunity to make things right when we make a mistake.

We must design our PRS business with the customer at the heart of what we do and how we operate. During this year we have worked on improving key processes such as gas servicing. We have sought to improve their efficiency and where relevant, to ensure their compliance but most importantly to understand how our customers interact with us through these processes. Process and service improvement also forms the heart of our continuing partnership with Kier in the provision of repairs and maintenance services. Customer satisfaction and efficiency of operation form central elements of the measures of success for the partnership.

This work will continue as we develop our operating model for the PRS business to enable us to grow whilst striving to meet individual customer's expectations.

At the same time as looking to the future, we continue to invest in the communities, in which we operate. Highlights of the past year include the sale and transfer of a number of community assets at our Moor Pool Estate to the Moor Pool Heritage Trust, a local residents' group. Staff from Grainger's London Bridge office volunteered a day's work to help clean up a neglected park in Waterloo, near one of Grainger's housing estates, along with a local residents' group, Friends of Hatfield's Green. The clean-up is part of a long-running project by the Group to bring London's green spaces back into use. In Wellesley, our large housing development in Aldershot, in addition to sponsoring the local football club, we provide rent-free space to the local charity, The Source, for their BikeStart initiative – a programme for 16 to 25-year-olds to get them used to the work environment and provide a stepping stone into employment or education. Lastly, we continue to be big supporters of Land Aid, the property industry charity. In addition to being a long-standing, active Foundation Partner of Land Aid, our very own Land Aid Ambassador organised a hugely successful industry-wide Quiz Night along with Capita and Pinsent Masons with over 200 people in attendance and raised over £5,000.

We are proud of our heritage as a responsible landlord and the values that underpin this heritage will be carried forward in our future PRS business.

Tenant satisfaction ratings for repairs and maintenance services are currently lower than we would expect. Service improvement programmes are now underway to raise these levels and ensure that performance is rigorously measured and analysed.

Risk management

To achieve our objective of being the UK's leading PRS landlord we recognise that we must have a good understanding of the risks we face, those inherent in our strategy and operations and those posed by external conditions. Our systematic and robust approach aims to continuously monitor those risks, our risk management and internal controls systems and evolve our management accordingly.

Risk management approach

Good risk management is fundamental to our ability to meet our operational and strategic objectives. The competitive market in which we operate requires effective decision making; ensuring that the risks the business takes are adequately assessed and challenged and appropriate returns are achieved, whilst retaining our overall resilience to risks over which we have limited control through our disaster recovery and business continuity procedures.

During the reporting period we have continued to embed our risk management approach and our enhanced project protocols and controls have entrenched. We are now building a software solution to further facilitate our visibility and reporting of risks within projects and across the business.

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

Robust risk assessment

Our systematic risk management approach is designed to identify risks to the business using both a bottom up and a top down approach.

Once identified, the impact and probability of risks are determined and scored at both a Gross (before mitigation) and Net (after mitigation) basis. This allows the business to identify those risks which are heavily dependent on internal mitigating controls. When forming this assessment the business considers strategic, market, financial, operational, IT, project and people risks.

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 for risks arising within operational areas. These risks, and their impact and likelihood scores, are documented in divisional, unit and project risk registers. The risk registers are reviewed at least quarterly and more frequently, as required, and collated into a Group top risk report for the Executive Committee and the Board Risk and Compliance Committee.

Grainger has a separate Risk and Compliance function, headed by a Senior Manager, reporting to an Executive Committee member who leads and manages the risk management framework and processes and provides compliance, policy and governance advice and support to the business. The Group Risk and Compliance Director provides appropriate challenge and input to the risk findings, reported controls and Group top risk report and attends and reports to the Board Risk and Compliance Committee.

Risk control assurance

The Grainger plc Board Risk and Compliance Committee (BRCC) is responsible for the Group's risk management framework. It reviews the Group's principal risks and ratifies the risk appetite on the key risk areas of the risk framework set by the Executive. The BRCC is supported in the discharge of this responsibility by various committees, specifically the Audit Committee which focuses on the financial risk control. The internal controls framework for these risks is monitored by the Audit Committee through the Internal Audit monitoring plan and the resulting audit outcomes.

Assurance on risk controls is currently provided by internal management information, internal audits, external audits and Board oversight. There is also an externally supported whistleblowing facility.

Principal risks and uncertainties

The Directors have undertaken a robust, systematic assessment of the Group's principal risks. These have been considered within the timeframe of four years, which aligns with our viability statement (see page 29).

TABLE OF PRINCIPAL RISKS AND UNCERTAINTIES

Risk or uncertainty	Possible impact	Risk appetite	Management
1 Deterioration and/or instability of wider global/European economic markets leading to long-term flat or negative growth in the value of assets.	Market uncertainty may cause drop in housing demand; asset and portfolio values fall; development risks increase; subsequent financial/investment constraints, unattractive to external investors and partners; poor Shareholder returns; inability to comply with banking covenants.	Grainger's business is based on taking well-judged risks on house price and rental inflation.	– Reducing reliance on trading income – Maintenance of capacity against banking covenants – Growth of non-HPI dependent income streams and cash flows – Portfolios weighted towards areas of higher growth – High proportion of liquid assets to enable sales where necessary – Proven ability during last economic downturn of ability to continue sales – Geographically diverse portfolio
2 Lack of availability of finance for the Group to achieve its strategic objectives; inability to obtain sufficient funds to implement the current business plan and strategy 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; illiquidity.	Grainger has no appetite for low levels of available finance or headroom below those prudently required to support the business.	– Financial headroom maintained at appropriate levels – Appropriately qualified treasury, strategic capital and legal teams – Positive relationship management with banks and other sources – Ability to control the timing and quantum of new acquisitions to reduce cash outflows – Historically proven cash generation ability throughout the economic cycle – Simplification of business model makes financing more straightforward
3 Failure to meet current or increased legal or regulatory obligations or anticipate and respond to changes in legislation or regulation that creates increased and costly obligations.	Fines, penalties and sanctions; damage to reputation; loss of operational efficiency and increased costs; reduction in market opportunities; impact on ability to finance opportunities; additional up-front cost implications of building new systems and approach to meet obligations.	Grainger has no appetite for legal and regulatory breach due to the risks this poses to its staff, customers, assets and reputation.	– On-going management and staff training – Specialist legal, compliance and corporate affairs teams who monitor and advise internally and review legislative, regulatory and consultation papers – Use of external specialists to advise and maintain forward focus – Active networking with key policy influencers and relevant industry groups who lobby government and policy makers – Whistleblowing facility
4 Failure to attract, retain and develop our people to ensure we have the right skills in the right place at the right time to deliver our strategy.	Reduced ability to deliver business plan and strategy; mismanagement; reduced control; inability to grow market share of PRS; failure to innovate and evolve to maintain competitiveness in a customer driven market.	We have no appetite to accept a lack of appropriate skills, expertise and experience such as would materially diminish our ability to deliver our strategy and respond to changes.	– Succession plans are regularly reviewed – Management and Leadership Development Training – Retention policies in place for key staff – Annual benchmarking of reward – Regular staff surveys – Performance reviews and appraisals – Look for opportunities to develop and provide career development and opportunities internally

RISK MANAGEMENT Continued

Risk or uncertainty	Possible impact	Risk appetite	Management
5 A significant failure within or by a key third-party supplier or contractor.	Increased costs; inability to deliver performance objectives to satisfaction of stakeholders; possible legal action and regulatory sanctions; reputational damage.	We utilise a significant range of third-party services and so recognise that we carry an inherent risk of some kind of unforeseen failure. However, through management and control we seek to minimise this risk.	– Established internal controls and management systems and with regard to third-party contractor/supplier base – Established 'three lines of defence' model to facilitate stronger monitoring and controls – (see further information in 'Future Developments' section on page 29)
6 A significant Health and Safety incident as a result of inadequate or inappropriately implemented Health and Safety procedures and controls within Grainger.	Harm to customers, tenants, employees, contractors or visitors; possible legal action and/or fine; subsequent reputational damage.	Grainger has no appetite for Health and Safety breaches both within its own operations and those of its third-party contractors.	– Specific internal management systems for Health and Safety – Established 'three lines of defence' model to facilitate stronger monitoring and controls – Specialist Health and Safety Director and team responsible for oversight of compliance – Regular reporting to the Executive Committee
7 Failure of supporting control environment.	Grainger's underlying control environment does not support the efficient operation of the business and does not support the control framework – leading to increased costs; risk of regulatory action; inability to report on performance to the satisfaction of stakeholders; reputational damage.	We accept that problems may occur. However, all such problems should be contained within an effective control framework. Our focus is on continuously improving this framework on a standard 'three lines of defence' model.	– Standard controls and processes across the business supported by our core systems – Use of external specialist advisers where required – Operation of standardised project management framework – Implementation of 'three lines of defence' responsibilities – Active Business Continuity and Disaster Recovery in place – Audit and Board Risk and Compliance Committee oversight
8 Failure to implement PRS strategy due to failure to acquire assets on acceptable terms and/or failure to integrate PRS assets efficiently in the management platform.	Acquisition of unprofitable schemes will depress Group returns. Lack of competitiveness in acquiring schemes will lead to failure to deliver strategy and reduction in scale and profitability of business.	Grainger's business is based on taking well-judged risks for appropriate returns in the acquisition, delivery and management of PRS assets.	– Experienced team assembled to focus on winning and delivering PRS acquisitions (including build-to-rent schemes) and subsequent management of such assets – Close review by Executive Committee and Board – Use of external professionals where appropriate
9 Excessive capital allocated to activities which carry development risk.	Exposure to risk of cost overrun/income shortfall on schemes developed for sale or rent.	Part of Grainger's returns are based on well-judged capital allocation which includes such activities.	– Capital allocated to development is capped – Specific teams responsible with specialist skills – development and PRS teams – Review and sign-off of all such schemes by the Executive Committee and the main Board as appropriate – Future schemes will focus on delivering build-to-rent so reducing risk of sales risks

There have been no significant failings in our controls within the reporting period. Refer to the Audit Committee and Board Risk and Compliance Committee reports within the Governance section for details of all matters discussed in the year.

We continuously review and refine the identification and design of our material controls to ensure they are appropriate to the business strategy, associated risks and risk appetite of the Group. We plan to move towards a balanced business scorecard of KPI measures which will be reported via a newly developed internal dashboard.

Viability statement

Taking into account the Group's current position and its principal risks as above, the Directors have assessed the Group's prospects and viability.

The Group's business model has proven to be strong and defensive in the long term and it has consistently demonstrated its ability to sell assets, even in challenging market conditions. From 2006 to 2015 the gross cash generation has never been less than £240m per annum and has averaged c.£296m with a peak of £430m. Currently the Group directly owns £2.2bn of residential property assets which are relatively liquid, as has been proved in the past. The Group would remain viable even in the event of very severe and sustained house price deflation as it would be able to accelerate the natural conversion of our assets to cash and suspend acquisition activity. Only an unprecedented and long-term lack of liquidity in UK residential property markets would cause any threat to the Group.

Specifically, the Board has reviewed its four-year business planning period to 2019 in more detail. The Board believes that a viability assessment period to 2019 is appropriate as this timeframe aligns with the Group's budget planning horizon. The budget has been stress tested against severe and prolonged reductions in house prices. Two different scenarios were modelled to stress-test the business model. First an aggressive but short-term house price crash with a slow return to growth thereafter and secondly a continuing slow decline in house prices. The testing incorporated the use of mitigating actions available to the business, such as a reduction in acquisition spend and accelerated sales.

The first scenario modelled a short-term crash, greater in both severity and duration than the correction experienced in 2008 – 9. The valuation assumptions used in this analysis were for two full years (eight quarters) of decreasing prices, with year-on-year falls of 15% p.a. – a total decline of c.27.5%. There then follows one subsequent year where 0% growth is forecast and one further year at 5% annual growth. The second scenario modelled a long-term decline in house prices of 2.0% p.a. over the life of the model with no recovery.

Based on the results of this analysis, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the four-year period of their detailed assessment.

Future developments

In the forthcoming year we plan to refine our risk appetite statements and measurement of risk to further improve our risk management. We will also be building on the work we have done in the current year to incorporate the UK Corporate Governance Code areas of impact of business model, future performance, operational performance, solvency and liquidity into our strategic risk impact assessments.

The Group is evolving to a three lines of defence model of assurance where operational management provide the first line, the Risk and Compliance, Legal and Health and Safety teams provide second line and Internal audit the third line of defence. This additional second line, or layer, of monitoring will, over time, increase the level of evidence and visibility of the effectiveness of the day-to-day operations of the business. This will provide further opportunities to strengthen and improve our business, helping to ensure that we are positioned to deliver a competitive, consistent, quality service and product to our customers.

As stated we are also developing a software solution to provide:

- an enhanced tool for use by managers to monitor their risks;
- better, live data reporting across the Group; and
- an integrated tool for risk reporting and risk related actions arising from our internal monitoring activity.

Sustainability

Aligning our sustainability and business strategies.

Over the past few years, I have been proud to see sustainability become embedded into Grainger's business activities. It is now just one of the many things we consider when making decisions, and sits alongside our values, our financial performance and our portfolio, in enabling us to maintain our leading reputation, attract and retain tenants and be the partner of choice for a broad range of investors, local authorities and other stakeholders.

This year, we looked to align our sustainability strategy with our updated business strategy and have defined four sustainability themes which form the focus of our activities: leadership, alignment, balance and optimisation.

We have continued to set sustainability targets aligned to our business strategy, focusing on areas such as measuring tenant satisfaction and working with our partners to deliver the best outcomes for our customers. We have also looked to challenge ourselves and set more stretching, multi-year targets and I am pleased to say we have fully achieved or are on track to achieve 65% of our targets for this year.

Demonstrating leadership in the residential sector

I am pleased to see Grainger being recognised as leaders in sustainability alongside large multinational companies. For example, both Grainger plc and our GRIP fund were awarded Green Star status in the 2015 Global Real Estate Sustainability Benchmark (GRESB). Our sustainability reporting has earned us an EPRA sustainability (sBPR) Gold Award in 2014 and 2015, and we continue to be listed in the FTSE4Good index. These awards are an illustration of the efforts we've made to get to a position of leadership, and our focus now is on maintaining leadership and collaborating with other organisations to improve the performance of the residential sector as a whole.

This year, we have focused on sharing our experience with other organisations in our sector, through our involvement in the Global Real Estate Sustainability Benchmark industry working groups and the British Property Federation's Sustainability Committee. We are heavily involved in the new British Property Federation working group focused on the PRS and Build-to-Rent sector to debate and share best practice, and will continue to explore what sustainability means to PRS landlords and customers in the coming year.

Balancing stakeholder interests

Over the years, the maturity of our staff's understanding of sustainability has grown and Grainger employees appreciate that sustainability is about being a better company that treats our customers, our stakeholders and our staff fairly.

We've done a lot of research into customer expectations, such as our Tomorrow's Home research into social trends and how people's usage of housing has changed over the years. We are now reflecting these trends in our rental properties – for example looking at ease of access to public transport, and providing different types of social space to PRS tenants with different demographic profiles.

At Wellesley, our long-term strategic land development partnership at Aldershot, we are developing a mixed, integrated community that appeals to a broad range of customers. We are creating a living environment with lots of open space, community facilities and cycleways that retains the historic character of the site and is mindful to its military heritage.

One of my personal highlights from my tenure as CEO are the initiatives we have put in place around training and developing our staff, enabling them to maximise their potential. Examples include our graduate recruitment programme, our emerging

OUR SUSTAINABILITY STRATEGY THEMES

LEADERSHIP

We will maintain a position of leadership in the field of sustainability, as measured against our peers in the property industry and more generally.

ALIGNMENT

Our sustainability and business strategies are aligned. There is nothing in our sustainability strategy that does not contribute to our business objectives and nothing in our business strategy that detracts from our sustainability objectives.

BALANCE

We will seek to balance the interests of all our stakeholders – investors, staff, tenants/customers, partners and others so as to create a resilient business.

OPTIMISATION

We will make the best of the assets in our care and will exercise stewardship in the discharge of our obligations to all our stakeholders.

> "I think if you're going to be a market leader, you can't pick and choose the bits of being a market leader, you have to have a high position in everything and sustainability is one of those areas"
>
> ANDREW CUNNINGHAM, CHIEF EXECUTIVE

leaders programme and providing support to all staff looking to pursue further education opportunities. This year we have continued our efforts to increase the depth of our employees' knowledge on sustainability, through providing sustainability training as part of our graduate programme, and developing a long-term plan to incorporate sustainability into the learning and development of all our staff.

Optimising our properties

We welcome increasing competition in our sector, because it will drive standards up for everyone. Our investors push us to demonstrate our environmental performance, and as institutional players move into the PRS market, we expect them to exercise the same high sustainability standards on their residential businesses as they do for their commercial property portfolios.

Our customers will have more landlords to choose from, and we expect our efforts to improve the environmental and social performance of our properties and offer a more sustainable rental option will be what makes prospective tenants choose a Grainger property over one owned by a different landlord.

We are implementing the latest technology in our new developments to help our customers live in comfort, such as wireless utility meters, online tenant portals and plasma screens sharing updates on the property and the local area.

Because we develop homes that are here for the long term, they have to be sustainable and efficient to run. We are conducting whole life costing analysis for our PRS properties to understand the long-term operational costs of our investments and ensure we deliver the best returns.

Looking ahead

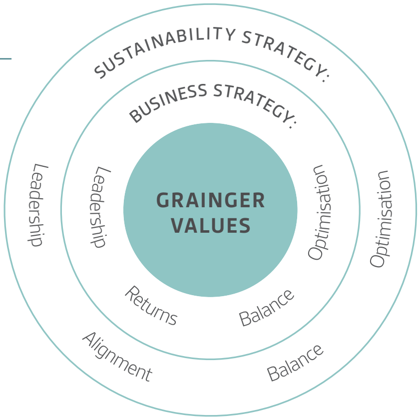
I believe the key success factor in Grainger's Corporate Responsibility (CR) programme has been the recognition at all levels of the organisation that it is important – all the way from the Board, down to the newest members of staff.

The embodiment of our values and the principles of corporate responsibility within all our activities stands out as one of the most significant changes I have experienced during my tenure as Chief Executive, and I have no doubt that this will continue under our future leadership.

When you understand the importance of a home to an individual, as we do, you understand what you need to offer as a provider of housing, and you build that into your business strategy, as we have done with sustainability.

Andrew Cunningham
CEO

DELIVERING VALUE THROUGH SUSTAINABILITY



SUSTAINABILITY Continued

OUR ACHIEVEMENTS THIS YEAR

2015 CR target progress

Status	Key	Total
Achieved		9
Multi-year target on track to be achieved		2
In progress		2
Partially achieved		1
On hold/cancelled		3

As we continue to embed sustainability into our business, we carry on setting more stretching and long-term CR targets. These targets then feed into long-term strategic objectives that align with our business goals.

We are pleased to report that we have fully achieved nine of our 17 targets with a further two targets on track to be achieved in line with their two-year timeframes, and are committed to continuing unfinished actions on two targets that are in progress next year. One target was partially achieved and two were placed on hold and will be revisited in the future.

Our target to create a sustainable procurement policy was placed on hold because we identified a need to review our broader procurement processes, which we are undertaking in 2016. We also encountered challenges in evaluating the applicability of best practice building ratings, due to a lack of suitable ratings that are used consistently in the sector. Our renewables target was partially achieved because, although we are trialling renewables, we determined that our standard inspections are not an appropriate mechanism to identify suitable properties.

We have made great progress in achieving targets regarding our supply chain that continued from 2014. There was one target carried over from 2013 – regarding measuring and managing tenant satisfaction in our German business – which has not been implemented and will not be carried over due to significant changes to our German operations.

PROGRESS AGAINST CR TARGETS IN 2015

CR Targets commenced in 2015	2015 Status
Design, define and agree a consistent process to measure customer satisfaction across portfolios and geographies (2015) and create a baseline for customer satisfaction (2016)	On track to be achieved
Pilot a focus group of new Grainger Build-to-Rent (Market rent) tenants to better understand their value drivers and preferences including their understanding of our offering, satisfaction levels, and views on sustainability as a decision-driver in the rental market	In progress
Amend our standard inspection process to assess the potential for renewables on inspected properties, with a view to trialling renewables on a sample of properties in 2016	Partially achieved
Review opportunities for incorporating further sustainability requirements into the GRIP standard refurbishment specification (in 2015) and following a cost/benefit analysis roll out a new agreed specification across all refurbishments (in 2016)	Achieved
Evaluate the applicability of using a best practice building rating (e.g. BREEAM, LEED, SKA etc) on relevant refurbishments projects	On hold
Assess before June 2015 the feasibility of Grainger reporting to GRI G-4 and to GRI CRES-D (a requirement for GRI reporting from December 2015)	Achieved
Represent Grainger on the BPF, EPRA or INREV sustainability committees	Achieved
Contribute to the setting up of a PRS industry group to debate and share best practice, leading the debate on sustainability	Achieved
Review the available methodologies for measuring the socio-economic impact of a Grainger development, with a view to conducting a socio-economic impact assessment on a Grainger development in 2016	On track to be achieved
Create a sustainable procurement policy	On hold until 2016
Deliver sustainability training & awareness raising to a further 10% of staff and create a long-term plan for integrating sustainability into all employees' learning and development	Achieved

CR Targets commenced in 2014	2015 Status
Measure and improve tenant satisfaction in G:Invest and WIP portfolios between 2013 and 2014	Achieved
Implement a Property Conditions Assessment programme within the repairs and maintenance programme in 2014 and use the results in 2015 to develop a standard process and schedule for sustainability improvements, including but not limited to EPC ratings	In progress
Create a joint multi-year strategy with Kier to implement Grainger and Kier's aligned CR priorities in property maintenance	Achieved
Integrate Grainger's EMS into the 'major' project procurement process; (where 'major' is defined as any construction contract with a value greater than £1m)	Achieved
Report on the GHG emissions generated by Kier in delivering services for Grainger in 2014 and set a target to reduce footprint in 2015	Achieved

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

Progress against key performance indicators in 2015

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

Our properties

We continue to expand our visibility to the implications of Minimum Energy Efficiency Standards for our portfolio, and make improvements to our properties to minimise this risk. Our GRIP fund has set an ambitious target to achieve 100% coverage of Energy Performance Certificates by the end of 2015. We also seek to help our tenants monitor and reduce their energy use, and have continued to implement smart meters into 100% of new homes we develop, taking advantage of the latest technology to gather meter readings wirelessly.

Our customers

Alongside our efforts to get to know our customers and their expectations better, we continue to measure how satisfied they are with the service they receive from us. These surveys show we have made demonstrable improvements in how we communicate with our customers, with satisfaction ratings for how we keep our tenants informed improving by 26% on our G:Invest portfolio, however they also highlight that we have more work to do. We are implementing a project to apply a consistent methodology for measuring customer satisfaction across all our portfolios, which will support us in analysing customer feedback to determine how we can deliver improved satisfaction levels.

Our supply chain and our communities

Supporting the local communities where we own properties, and around our offices, is integral to our culture and our values. This year 17% of Grainger staff took part in our volunteering activities, and one of the highlights was collaborating with our repairs and maintenance partner Kier to undertake a joint team volunteering day. We also collaborate with Kier in other areas, to reduce our carbon footprint, and to understand common areas between our sustainability strategies where we can create joint outcomes. Customer satisfaction with repairs and maintenance services are not at the levels we expect and service improvement programmes are underway to raise these levels and ensure that performance is rigorously measured and analysed.

Health and safety

We continue to manage Health and Safety risk through our Health and Safety Management System which includes real time monitoring and reporting of accidents and incidents. We provide Health and Safety training for all staff and also conduct Health and Safety audits of external managing agents and contractors. This year 100% of companies were fully in compliance with our requirements (received an audit rating of satisfactory or above).

KPI	2013	2014	**2015**	1-year trend
Our properties				
Average EPC energy efficiency rating (% of properties)[1]	A-C 37%	A-C 46%	**A-C 43%**	
	D-E 47%	D-E 43%	**D-E 47%**	↑
	F-G 16%	F-G 11%	**F-G 10%**	
Average Considerate Constructors Scheme (CCS) score[2]	79%	67%	**73%**	↑
Number of new homes built to the Code for Sustainable Homes	–	CSH 3: 50		
	–	CSH 4: 22	**CSH 4: 104**	↑
Customers				
Proportion of tenants satisfied with Grainger's management service (%)[4]	75%	77%	**70%**	↓
Supply chain				
Customers rating contractors' service at good or above %[3]	84%	77%	**78%**	↑
Community investment				
Total donated to charities (total cash and in-time contributions, £)[5]	£51,597	£39,947	**£70,039**	↑
Number of staff working days contributed for charitable causes	41	57	**46**	↓
Number of staff involved in volunteering activities during Company time	41	62	**48**	↓

1 Based on 2,252 EPCs – UK only.
2 Grainger registers all major refurbishment and development sites – UK only.
3 In 2014, this KPI was amended to report responses in relation to services performed by Grainger's repairs and maintenance contractor, Kier, and a new measurement system was introduced in May 2015. Based on a sample of 978 surveys undertaken between December 2014 and September 2015. Existing market rented and regulated tenants – UK only.
4 Based on the percentage of respondents who said they were 'very satisfied' or 'fairly satisfied' with the service provided by Grainger in letting and exit surveys. A new scoring methodology (five point rating) was introduced in 2015 and includes the percentage of respondents who awarded four or five out of five. Based on a sample of 142 responses for exit surveys only– UK only.
5 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.

SUSTAINABILITY 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.

This year we are able to report on all Sustainability Performance Measures for all portfolios, including like-for-like measures.

We have reduced Scope 1 and 2 GHG emissions from Grainger obtained energy consumption in owned assets by 7%.

This is driven by a reduction in electricity consumption in the UK Residential portfolio.

We are reporting on an operational control approach, in line with our reporting for UK mandatory GHG reporting. We are not reporting on any energy or water consumed by our tenants, as this is outside our Scope 1 and 2 boundaries.

For our full EPRA sustainability best practice recommendations reporting tables, see pages 160 to 168 and www.graingercr.com

EPRA sustainability best practice recommendations compliance table

EPRA Sustainability Performance Measure		Property investment portfolio: German assets	Property investment portfolio: UK Residential assets	Property investment portfolio: GRIP assets	Offices: Own office occupation	Where measure is reported: Pages
Elec-Abs	Total electricity consumption	✓	✓	✓	✓	161 & 163
Elec-LfL	Like-for-like total electricity consumption	✓	✓	✓	✓	161 & 165
DH&C-Abs	Total district heating & cooling consumption	N/A	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	N/A
Fuels-Abs	Total fuel consumption[1]	N/A	✓	✓	N/A	161 & 163
Fuels-LfL	Like-for-like total fuel consumption	N/A	✓	✓	N/A	161 & 165
Energy-Int	Building energy intensity[2]	✓	✓	✓	✓	161 & 163
GHG-Dir-Abs	Total direct greenhouse gas (GHG) emissions[3]	N/A	✓	✓	N/A	162 & 164
GHG-Indir-Abs	Total indirect greenhouse gas (GHG) emissions[4]	✓	✓	✓	✓	162 & 164
GHG-Dir-LfL	Like-for-like total direct greenhouse gas (GHG) emissions	N/A	✓	✓	N/A	162 & 166
GHG-Indir-LfL	Like-for-like total indirect greenhouse gas (GHG) emissions	✓	✓	✓	✓	162 & 166
GHG-Int	Greenhouse gas (GHG) intensity from building energy consumption[5]	✓	✓	✓	✓	162 & 164
Water-Abs	Total water consumption[6]	✗	N/A	✓	✗	164
Water-LfL	Like-for-like total water consumption	N/A	N/A	✓	N/A	166
Water-Int	Building water intensity[7]	N/A	N/A	✓	N/A	164
Waste-Abs	Total weight of waste by disposal route[8]	✗	N/A	✓	○	167
Waste-LfL	Like-for-like total weight of waste by disposal route	N/A	N/A	✓	✓	167
Cert-Tot	Type and number of sustainably certified assets	✗	✓	✓	N/A	168

Compliance self-assessment

Key:

Fully reported ✓ Partially reported ○ Not reported ✗

1 Fuel consumption is not applicable in our offices or our German property investment portfolio.
2 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.
3 Direct GHG emissions include emissions from fuel combustion from our property investment portfolio only.
4 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.
5 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.
6 Not gathered for our own offices due to landlord metering arrangement. Not gathered for our German property investment portfolio.
7 The intensity metric used for our property investment portfolio is m^3 per £m value of assets under management.
8 We do not provide waste management for our UK Residential portfolio. Waste data was not gathered for our German office or property investment portfolio.

GRAINGER PLC MANDATORY GREENHOUSE GAS EMISSIONS REPORTING

Our portfolio is the same in 2015 as it was in 2014 and our total carbon footprint has reduced. This is due to a reduction in Scope 2 emissions from electricity consumption in our property portfolio.

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 climate change programme, energy consumption data and emissions factors from the UK Government's conversion factors for Company Reporting 2014 and 2015. In alignment with Defra Environmental Reporting Guidelines, we have used the conversion factor for the year the emissions took place where known, and the 2015 conversion factor for all data where the date is unknown. We have used the GHG Protocol's location-based methodology for conversion factors for Scope 2 emissions.

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. Fugitive emissions are not applicable.

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	2015	Trend
Combustion of fuels and operation of facilities	577 tCO_2e	**580 tCO_2e**	1%
Electricity, heat, steam and cooling for own use	1,560 tCO_2e	**1,413 tCO_2e**	-9%
Total footprint	2,137 tCO_2e	**1,993 tCO_2e**	-7%
Company's chosen intensity measurement:			
Emissions reported above per £m value of assets under management	0.68 per £m value of AUM	**0.61 per £m value of AUM**	-10%
Emissions reported above per owned unit[1]	0.19 per owned unit	**0.16 per owned unit**	-16%
Emissions reported above per employee[2]	7.58 per employee	**6.82 per employee**	-10%

Scope 3 Global GHG emissions data for the financial year:

Emissions from	2014	2015	Trend
Developments (contractor electricity and fuel use)	904 tCO_2e	**454 tCO_2e**	-50%
Repairs and maintenance (contractor fuel use)	187 tCO_2e	**188 tCO_2e**	1%
Electricity transmission and distribution losses	116 tCO_2e	**99 tCO_2e**	-15%
Business travel (grey fleet, air and rail)	128 tCO_2e	**161 tCO_2e**	26%
Estimated tenant energy use[3]	26,883 tCO_2	**29,026 tCO_2**	8%

1 Number of owned units on the last day of the financial year within the scope of data collection.
2 Total number of employees in Grainger plc on the last day of the financial year, 30 September 2015.
3 This has been estimated based on a sample of Energy Performance Certificates (EPCs) and reported in CO_2 only for UK properties only.

Restatements

We have recalculated emissions for 2014 as we are able to report more accurate data for Scope 1 emissions from natural gas consumption in owned properties and fuel consumption in leased vehicles, and for Scope 2 emissions from electricity consumption in our offices.

Estimation

Missing periods of consumption for properties have been estimated using the daily 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 over 2,000 EPCs produced between 2006 and 2015 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; market value of assets under management, the number of units owned and number of employees in line with our financial reporting.

ADVISER'S STATEMENT

Grainger has engaged Upstream Sustainability Services, JLL, as advisers on its sustainability 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 JLL'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 analysis of documents, interviews and/or other secondary evidence provided by Grainger plc and relevant third-parties. All reasonable efforts were made to check the quality, accuracy and credibility of the available information but this did not include site visits or audits on primary data (e.g. meter readings and invoices). Consequently, this statement does not represent formal assurance or verification of the corporate responsibility content of Grainger plc's 2015 Annual Report and Accounts.

Summary of target performance

Grainger has achieved five of its 11 new targets for 2015, with one partially achieved and a further two, two-year targets on track to be achieved by 2016. Two targets were not completed (one is in progress and one was temporarily placed on hold) and will be carried forward into next year, and one target, to evaluate the applicability of using a best practice building rating on relevant refurbishment projects, has been placed on hold until there is consensus on industry best practice. Grainger has also made significant progress in achieving four of the five targets carried over from 2014, although one target, to use the results of Property Conditions Assessments to develop a standard process and schedule for sustainability improvements, is in progress and will be carried over into 2016, with a renewed focus on meeting Minimum Energy Efficiency Standards.

Observations and recommendations

Grainger has succeeded in further integrating sustainability into its business activities, and the formal alignment of sustainability with its business strategy presents an opportunity to ensure sustainability is considered alongside other strategic objectives.

The most significant environmental impact Grainger has is through the operation of its properties. Grainger has experienced challenges this year in incorporating sustainability into its standard property management and maintenance procedures, such as property conditions reports. Whilst it continues to make improvements to the energy efficiency of its properties, and is piloting the installation of renewables, JLL recommends Grainger continues its efforts to formalise processes that enable the feasibility of improvements to be evaluated across all portfolios.

Grainger has placed its target to create a sustainable procurement policy on hold in 2015, pending a review of the business's procurement practices and will carry this over to 2016. A review of Grainger's environmental Aspects and Impacts identified procurement as an area of significant opportunity for the business in the areas of development and property management. Recent changes to legislation and standards such as the Modern Slavery Act 2015 and ISO 14001:2015 place a significant emphasis on supply chain collaboration, and we recommend Grainger works closely with its key suppliers to support the implementation of a sustainable procurement policy.

Grainger has continued to demonstrate leadership in reporting, being one of the first organisations to report in line with the EPRA Best Practices Recommendations on Sustainability Reporting 2nd Edition, published in September 2014, and maintaining its Gold award in the EPRA sustainability awards. It has also continued to improve performance on the Global Real Estate Sustainability Benchmark, with both Grainger plc and GRIP Unit Trust achieving green star status for 2015, and its Disclosure score on the CDP climate change programme. Following a review undertaken this year, Grainger has made a sensible decision to defer transitioning to the GRI G4 guidelines until its 2016 reporting, whilst it undergoes significant change to its leadership and the scope of its operations. We recommend that Grainger undertakes a materiality review based on stakeholder engagement prior to making this transition, to ensure it discloses its performance in areas that are meaningful to its key stakeholders and aligned to Grainger's business strategy.

Claire Racine
Associate Director
Upstream Sustainability Services
JLL

19 November 2015

JLL

Letter from the Chairman

The Directors are committed to applying effective corporate governance and promoting the highest standards. I am therefore pleased to introduce this year's corporate governance report.

Compliance with the UK Corporate Governance Code 2014 (the 'Code')

The governance rules applicable to all UK companies admitted to the Official List of the UK Listing Authority are set out in the Code, published by the Financial Reporting Council. Copies of the Code can be obtained from the UK Financial Reporting Council's website at www.frc.org.uk. 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 2015.

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. The Board agreed that I was independent on my appointment as Chairman. All of the Non-Executive Directors are considered by the Board to be independent.

In accordance with the Code, all current Directors will stand for election or re-election (as applicable) at the 2016 AGM, with the exception of Andrew Cunningham, Mark Greenwood and Simon Davies who are retiring from the Board. It being their first AGM, Helen Gordon, Andrew Carr-Locke and Rob Wilkinson will be subject to election by the Shareholders at the AGM.

Details of the Directors are set out below, together with a summary of their experience, competences and skills.

Diversity

Grainger believes that a diverse culture and perspective is a key factor in driving its success, and supports the Davies Report's aspiration to promote greater female representation on listed company boards. Whilst all appointments are made on merit, an example of our commitment to diversity is that the Company currently has a female Chairman, Senior Independent Director and will also have a female CEO and Finance Director when Helen Gordon and Vanessa Simms take up their respective roles in 2016. We will continue to look to follow the procedures recommended by Lord Davies and by the Code to maintain a balanced and diverse Board. However, diversity is much wider than gender. Diversity of thought is also hugely important amongst the Board. By bringing together Non-Executive Directors with diverse backgrounds and experience, we gain enormously from varied perspectives across a range of issues. The Nominations Committee report contains further details of diversity in our business.

Board evaluation

Following last year's externally facilitated board evaluation of the Grainger Board, this year the Company Secretary and I have led the evaluation of the Board. In addition, I have reflected on the recommendations and action points from last year and the areas to focus on for next year. Further details are set out below.

Shareholder engagement

The Board regards strong engagement with stakeholders and investors as fundamental to maintaining an active on-going dialogue with them and to understand their views.

Andrew Cunningham and Mark Greenwood had regular meetings with the Company's Shareholders and analysts while I have met with both fund managers and corporate governance officers of our major Shareholders throughout the year. Further meetings will also be held in advance of the Annual General Meeting in February 2016. Part of our Shareholder engagement programme throughout the year was in connection with CEO succession matters and in respect of the 29% vote against our 2014 Directors' Remuneration report, in order to understand the issues behind this vote and to take action to address them.

Further details regarding our engagement with our Shareholders are set out below and in the Remuneration Committee Report.

Fair, balanced and understandable

The Board has concluded that the 2015 Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position and performance, business model and strategy.

Baroness Margaret Ford
Non-Executive Chairman

19 November 2015

GOVERNANCE Continued

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.

- E Executive Committee
- A Audit Committee
- R Remuneration Committee
- RK Risk Committee
- N Nominations Committee
- Committee Chairman

1

2

3

4

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10


1. Baroness Margaret Ford

NON-EXECUTIVE CHAIRMAN AGED 57

Appointment
Appointed to the Board in 2008, became Senior Independent Director in February 2014 and Chairman in February 2015.

Skills, Competence and Experience
Margaret has wide-ranging experience in a number of sectors and extensive knowledge of the residential property market. She has substantial plc level experience including chairmanship of both boards and committees. She is chairman of STV Group plc and holds non-executive directorships with SEGRO plc and Taylor Wimpey plc. She is an Honorary Professor of Real Estate at Glasgow University and an Honorary Member of the Royal Institute of Chartered Surveyors. Margaret formerly chaired the Olympic Park Legacy Company, English Partnerships, Barchester Healthcare Limited and May Gurney Integrated Services Plc. Prior to these appointments, Margaret had a long career in management consulting with Price Waterhouse and then Eglinton Management Centre, which she founded. She sits in the House of Lords as an independent peer.

Committee membership
N R

2. Andrew Cunningham FCA, FRICS

CHIEF EXECUTIVE OFFICER AGED 59

Appointment
Appointed to the Board as Finance Director in 1996, became Deputy Chief Executive in 2002 and Chief Executive Officer in 2009. Andrew will be retiring from Grainger in January 2016.

Skills, Competence and Experience
Andrew is widely recognised as a leader in the residential property sector. He has extensive real estate and finance knowledge, and also brings substantial executive leadership and listed company experience. Andrew is a Chartered Accountant and before joining Grainger was a partner in a predecessor firm of PricewaterhouseCoopers. He is a Fellow of the Royal Institute of Chartered Surveyors and was member of the British Property Federation policy committee. He is a member of the advisory boards of the Cambridge University Land Economy Department and the Durham University Business School.

Committee membership
E

3. Helen Gordon MRICS

CHIEF EXECUTIVE DESIGNATE AGED 56

Appointment
Appointed to the Board in November 2015.

Skills, Competence and Experience
Helen is a highly experienced, proven and well regarded real estate investor. She has significant experience working across a wide range of real estate asset classes, including residential property. This is combined with an extensive knowledge of the City. Helen is a Chartered Surveyor and before joining Grainger was Global Head of Real Estate Asset Management of Royal Bank of Scotland plc. She previously held senior property positions at Legal and General Investment Management, Railtrack and John Laing Developments. Helen is currently a board member of the New Covent Garden Market Authority, a Trustee of the College of Estate Management and an Advisory Board member of Cambridge University Land Economy Department.

Committee membership
E

4. Mark Greenwood FCMA

FINANCE DIRECTOR AGED 56

Appointment
Appointed to the Board as Finance Director in September 2010. Mark will be retiring from Grainger at the end of 2015.

Skills, Competence and Experience
Mark brings extensive financial experience to Grainger from the property and construction sectors in the UK and internationally. He has substantial experience in senior finance leadership roles in a listed environment. 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
E

5. Nick Jopling FRICS

EXECUTIVE DIRECTOR AGED 54

Appointment

Appointed to the Board in 2010 as Executive Director with responsibility for property.

Skills, Competence and Experience

Nick has approximately 30 years' experience in the residential property sector. He has substantial knowledge and expertise in relation to residential property transactions and asset and property management. Nick was previously with CB Richard Ellis where he was executive director of residential. He is a member and former 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

E

7. Tony Wray

NON-EXECUTIVE DIRECTOR AGED 54

Appointment

Appointed to the Board in October 2011.

Skills, Competence and Experience

Tony brings extensive experience in a broad range of senior operational and strategic leadership roles, in particular in public companies. He 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, and was a member of the Water UK Board.

Committee membership

A RK N

9. Andrew Carr-Locke

NON-EXECUTIVE DIRECTOR AGED 62

Appointment

Appointed to the Board in March 2015.

Skills, Competence and Experience

Andrew has substantial experience in senior finance positions in listed companies, particularly in respect of the residential property sector. He also has wide-ranging experience as a non-executive director of public companies. Andrew is a Fellow of the Chartered Institute of Management Accountants and was Group Finance Director at George Wimpey plc between 2001 and 2007. He has previously held senior finance roles at Courtaulds Textiles plc, Diageo plc, Bowater Scott and Kodak. Andrew was Executive Chairman of Countryside Properties until 2014 and is a non-executive director of Dairy Crest plc. He has also previously held non-executive directorships at Royal Mail Holdings, Venture Production and AWG.

Committee membership

A R RK N

6. Belinda Richards

NON-EXECUTIVE DIRECTOR AGED 57

Appointment

Appointed to the Board in April 2011 and appointed Senior Independent Director in March 2015.

Skills, Competence and Experience

Belinda has a wide-ranging experience and understanding of commerce, finance and business operations. She has strong experience as a board member of other substantial listed companies. Until 2010, Belinda was global head of Deloitte's Merger Integration and Separation Advisory Services. Prior to this, she held senior roles at Cap Gemini and KPMG. Belinda is a non-executive director of Wm Morrison Supermarkets plc and Aviva UK Life and Pensions. She was previously a non-executive director of Balfour Beatty Plc and Friends Life Group plc. Belinda serves on the Advisory Group of Audit Committee Chairmen at the Financial Reporting Council and is a member of the Governing Council of the Centre for the Study of Financial Innovation.

Committee membership

A R RK N

8. Simon Davies

NON-EXECUTIVE DIRECTOR AGED 56

Appointment

Appointed to the Board in November 2012.

Skills, Competence and Experience

Simon has significant experience of the investment and fund management sector and a deep understanding of stock markets and investor expectations. He was executive chairman at Threadneedle Asset Management for five years until 2012, having previously been chief executive and chief investment officer. 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 LCH. Clearnet Group Limited. Simon will be retiring from the Board on 30 November 2015.

Committee membership

R RK

10. Rob Wilkinson

NON-EXECUTIVE DIRECTOR AGED 43

Appointment

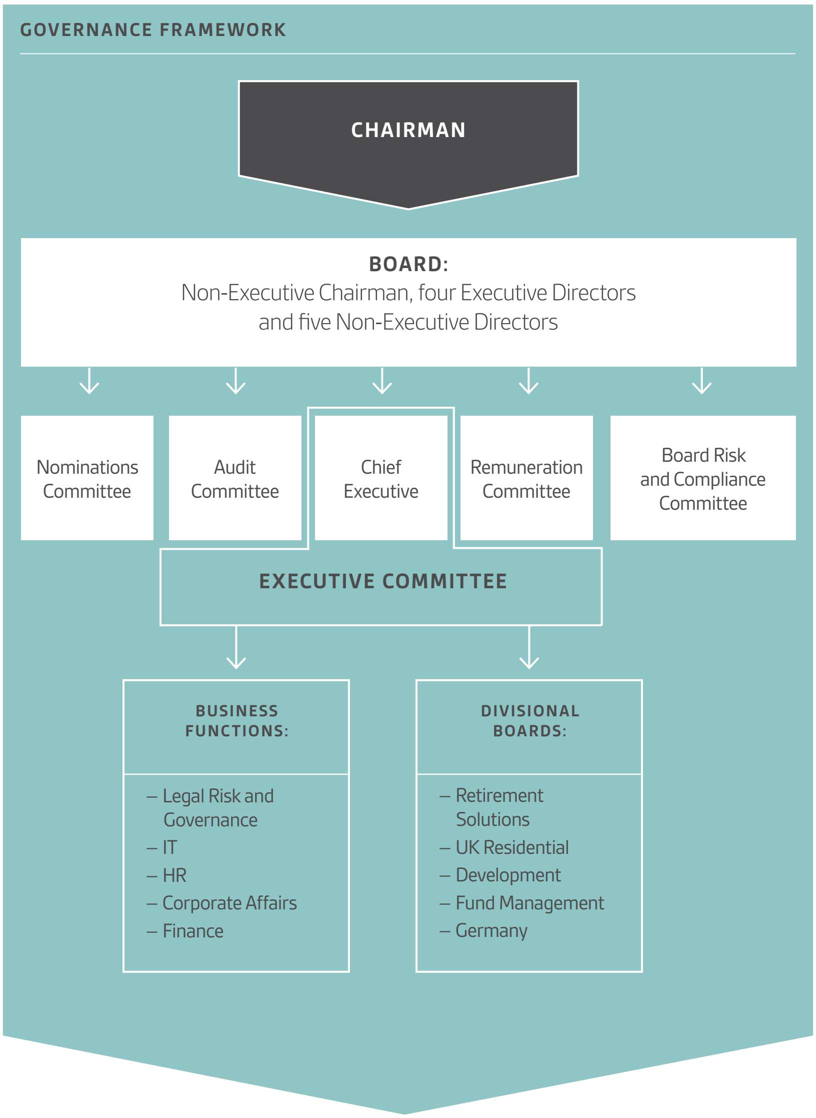
Appointed to the Board in October 2015.

Skills, Competence and Experience

Rob has substantial experience in real estate and corporate finance. Rob is a Chartered Accountant and the Chief Executive Officer of AEW Europe, a leading European real estate investment manager. Prior to joining AEW Europe in 2009, he was a Managing Director with the Goodman Group and also held investment banking positions at UBS and Eurohypo. Rob is also Chairman of the Green Rating Alliance.

GOVERNANCE Continued

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 COMMITTEE

This is an advisory Committee that operates under the direction and authority of the CEO. It oversees the day-to-day running of the business, ensuring strategic coordination and alignment. It identifies strategic business development opportunities and monitors material transactional projects across Grainger.

DIVISIONAL OPERATING BOARDS AND BUSINESS FUNCTIONS

Responsible for the oversight and day-to-day operation of the relevant division or central function to ensure they are operating effectively and efficiently, aligned to strategic goals and provide a competitive advantage to the business.

THE DIRECTORS

Chairman

Baroness Margaret Ford
7 years

Executive Directors

Andrew Cunningham
19 years

Helen Gordon
1 month

Nick Jopling
5 years

Mark Greenwood
5 years

Non-Executive Directors

Belinda Richards
(Senior Independent Director)
4 years

Tony Wray
4 years

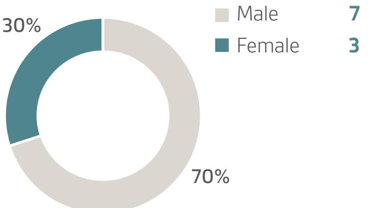
Simon Davies
3 years

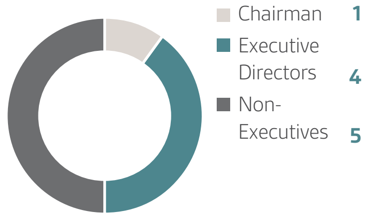
Andrew Carr-Locke
8 months

Rob Wilkinson
2 months

* Vanessa Simms will join the Board in early 2016.

BALANCE OF DIRECTORS





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 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 an open culture where debate is an appropriate balance of robust challenge and support.

The Chief Executive is responsible for running the business and implementing the Board's decisions. He chairs a regular meeting with the other Executive Directors and the additional members of the Executive Committee, all of whom report directly to him. In addition, he 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 skills, competencies and 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 2014 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, where contact through the normal channels has failed to resolve the issue 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

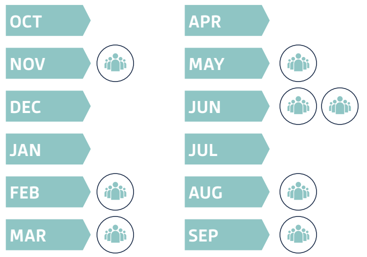
The standard Board schedule sets six formal meetings throughout the year. These meetings were duly held. In addition, a further two meetings were organised at comparatively short notice. The principal business of such meetings being the ratification of the recommendations of the Nominations Committee:

- to appoint Helen Gordon as successor to Andrew Cunningham as Chief Executive;
- to appoint Rob Wilkinson as an independent Non-Executive Director; and
- to report Mark Greenwood's notice of retirement.

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.

The Board Activity table sets out examples of the range of subjects discussed by the Board, including details of the presentations given to the Directors. This relates to addressing the action point in last year's annual Board review to increase the number of external presentations to the Board to bring alternative perspectives and viewpoints.

BOARD MEETINGS 2014/15



BOARD ACTIVITY

STRATEGIC

- Strategy, in particular the transition to a market rented business and implementation of that strategy. Part of this review included receiving a presentation from the Company's Managing Director of PRS
- JP Morgan Cazenove, one of our brokers, gave a presentation regarding their view on the current domestic and international real estate asset and equities markets
- Material transactions and business opportunities
- Competitor activity
- Economic and legislative landscape

PEOPLE

- Executive and Non-Executive Director succession
- The development of the Group's people. The Board also received a presentation from the Human Resources Director on talent development across the Company

FINANCIAL

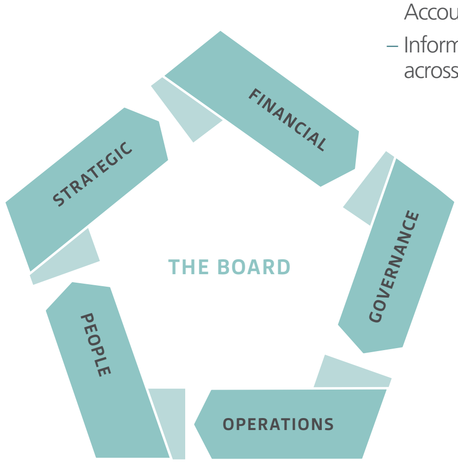
- Performance of business divisions
- The Group's debt and capital structure and hedging policy
- The Group's financial results throughout the year
- Dividend policy

GOVERNANCE

- Regulatory and governance issues
- Shareholder relations and engagement
- Freshfields, Grainger's principal Group-level panel law firm, provided training and updates to the Board on current developments in corporate and regulatory law, in particular in respect of the Model Code on share dealing
- Reports from Board Committees

OPERATIONS

- Supply Chain Management
- Health and Safety, which included a presentation to the Board from the Health and Safety Director
- German Division operational and financial performance was considered closely throughout the year. The Board also received a presentation from the Accounting Director on this matter
- Information Technology projects across the Company



Attendance table — to 30 September 2015

Executive Directors	Meetings attended	Meetings eligible to attend
Andrew Cunningham	**8**	8
Nick Jopling	**8**	8
Mark Greenwood	**8**	8

Non-Executive Directors	Meetings attended	Meetings eligible to attend
Baroness Margaret Ford	**8**	8
Belinda Richards[1]	**7**	8
Tony Wray	**8**	8
Simon Davies[1]	**7**	8
Andrew Carr-Locke[2]	**4**	5
Robin Broadhurst	**2**	2
John Barnsley	**2**	2
Ian Coull	**1**	1

1 Belinda Richards and Simon Davies were both unable to attend a single Board meeting called at short notice due to prior diary commitments.
2 Andrew Carr-Locke notified the Company in advance of his appointment as a Director that he would be unable to attend the May 2015 Board meeting due to a prior diary commitment.

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 (BRCC). 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 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 including: Human Resources, Legal, Risk and Governance, IT, Health & Safety and Private Rented Sector.

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.

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 current year.

GOVERNANCE Continued

Induction and professional development

The Chairman, supported by the Company Secretary, is responsible for ensuring that induction and training are provided to each Director. The Company Secretary organises the induction process and regular updating and training of Board members. Pursuant to the recommendations of last year's annual evaluation, the Company Secretary has documented our existing induction framework and related process.

ANDREW CARR-LOCKE COMPANY INDUCTION

This year, Andrew Carr-Locke was appointed 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, share dealing, Company policies and the use of the Company's electronic Board portal. Andrew also received briefings from each of the Executive Directors regarding Grainger's business operations as well as having a significant number of sessions with individuals from across the business to give him an insight into the Group. These include meeting senior managers from the following groups and divisions:

- Legal, Risk and Governance
- UK Residential
- Private Rented Sector
- Strategic Capital Markets
- Finance
- Treasury
- Tax
- Corporate Affairs
- Information Technology
- Human Resources
- Retirement Solutions
- Germany
- Property Services
- Property and Asset Management

In addition, Andrew visited Grainger's offices in Newcastle, London and Frankfurt and that opportunity was used to be shown some of the Company's properties near each of these offices. These included Grainger's Macaulay Walk development in Clapham, regulated blocks in Waterloo and Mariners Cottages in South Shields.

Margaret Ford had been on the Board for over six years when she took over as Chairman. This included time spent as Senior Independent Director and Chairman of two Committees. Therefore she had a pre-existing deep knowledge and familiarity with the Group. Consequently, her transition and induction to the role of Chairman was focussed on Shareholder engagement and meeting major Shareholders and investors to further understand their prevailing views. In addition and to supplement this change in role, meetings have been held with, amongst others, the Company's brokers, financial advisers and public relations consultants.

The inductions in respect of Helen Gordon and Rob Wilkinson are underway and will be reported upon in next year's Annual Report.

Training and updating in relation to a range of matters is provided to Board members throughout the year. Subjects include the business of the Group, legal and regulatory responsibilities of Directors and Grainger's sustainability programme. This training and updating is delivered by a combination of presentations by Executives and senior managers, visits to business operations and circulation of appropriate Board papers and briefing materials. Individual Directors are also expected to take responsibility for identifying their own 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.

PERFORMANCE EVALUATION

As reported in the 2014 Annual Report and Accounts, the annual board evaluation was externally facilitated. There were a number of action points which we set ourselves for the coming year, and the table below specifies the progress made against those objectives.

Action points from 2014 Evaluation	Progress Report
Chairman and CEO to consider having more presentations from external professionals.	More external presentations were made to the Board and its Committees than in the previous year. These included presentations from brokers, lawyers and FCA compliance consultants. The usage of external presentations will be a matter that the Chairman and CEO will consider regularly going forward.
Adopt a consistent, focussed and succinct approach to format of board information.	The format of board papers has been standardised further with improved signposting and layout for information and decision making. In particular, a consistent dashboard summary table for property investments and business opportunities has been developed.
Review the decision making process to establish a more structured approach.	A regular formal pre-Board meeting session attended by the Chairman, Executive Directors and the Company Secretary has been instituted. The purpose of this is to identify those key points from the Board Papers that Executive Directors wish to focus upon and have improved structure on those matters which are for information and/or decision by the Board. This has been positive in making Board meetings more efficient and focussed, with clear output of decisions.
Formally document the existing director induction process.	The Company Secretary has led on documenting this existing process for usage in the future.
Seek ways to continue to build upon the current exemplary work of the Committees.	Each of the Committees reflects regularly on what steps for improvement can be made to increase its effectiveness in implementing its role and functions. This has included reviewing the format of reports and the usage of presentations by internal senior managers and external advisers.

2015 EVALUATION

The annual evaluation of the Board and its Committees for 2015 was led by the Chairman and the Company Secretary through completion of a detailed questionnaire relating to the effectiveness of the Board and its Committees and thereafter individual meetings with each of the Directors. The Company Secretary collated the results of the questionnaire and these were considered by the Chairman and reported to the Board as a whole. The overall results were positive and indicated that the Board, its Committees and individual Directors were all operating effectively and demonstrated a commitment to the role. The key findings and action points arising from the evaluation are summarised as follows:

Findings:

- Board meetings are conducted in an effective manner which encourages open discussions with appropriate time allocated to key issues and strategy in particular.
- Succession planning is operating at a high standard and the previous year has shown that the Board and Nominations Committee have the flexibility to deal with both planned and unexpected succession matters.
- Committees are working very effectively.
- Good progress on the quality of board information has been made, which strikes an appropriate balance between being concise and having sufficient detail.

Action points:

- Review the structure and approach to Non-Executive Director training and development.
- The balance of skills and experience for the business is currently very good. An assessment will be made to ensure this balance continues to be effective in respect of a PRS-focussed strategy and implementation of it.
- Build upon progress made in respect of improving effective relations with stakeholders, in particular with regard to communicating the Grainger business model and PRS strategy.
- Continue to improve on progress made regarding the quality of board information.

The review of the Chairman's performance, which was led by Belinda Richards as Senior Independent Director, concluded that the Chairman's leadership and performance was effective and of a high standard.

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 the next external facilitation of the Board evaluation will be carried out in 2017, being three years since the previous external evaluation.

Re-election of Directors

We continue to adopt the recommendations of the Code that all of the Directors offer themselves for re-election annually, notwithstanding that the Company's Articles of Association require the Directors to offer themselves for re-election every three years. Therefore in accordance with the Code, all current Directors will stand for re-election at the 2016 AGM, with the exception of Andrew Cunningham, Mark Greenwood and Simon Davies who are retiring from the Board in advance of the AGM.

In addition, and in accordance with the Code, as it will be their first AGM as Directors of the Company, Andrew Carr-Locke, Helen Gordon and Rob Wilkinson will be subject to election by the Shareholders at the 2016 AGM.

In light of the performance evaluation summarised above and the provisions of the Company's Articles of Association, the Board recommends that all of those Directors proposed for election and re-election are so elected and re-elected (as applicable).

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 BRCC is delegated the task of reviewing all identified risks, with the ultimate key risks retained for full Board review. Both the Audit Committee and the BRCC report to the Board at every Board meeting subsequent to a meeting of those Committees. 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 include 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 an internal audit review, so that appropriate actions are undertaken to ensure 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 have sought to implement the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. Further details are contained in the Audit Committee report and the BRCC report.

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.

GOVERNANCE Continued

Relations with Shareholders

The Board of Grainger believes that understanding the views of its Shareholders is a fundamental principle of good corporate governance therefore strong engagement with stakeholders and investors is key to achieving this and progressing the business and its strategy.

The framework of investor relations is set around the financial reporting calendar, with additional engagement taking place throughout the year when regarded as beneficial to the Company. Grainger 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 have held the vast majority of these meetings and manage the Group's investor relations programme with the Director of Corporate Affairs. Feedback is always sought following such meetings, which is then presented to the Board. In addition Robin Broadhurst, the previous Chairman, Baroness Ford (in her capacity at the time as Senior Independent Director and as Chairman of the Remuneration Committee) and the Company Secretary also met and had conference calls with a combination of fund managers and corporate governance officers of the Company's major Shareholders in advance of the 2015 AGM. It is anticipated that a similar pre-AGM engagement process will take place in advance of the 2016 AGM. Subsequent to her appointment as Chairman, Margaret Ford held numerous meetings with major investors to discuss their views on Grainger and its performance.

Examples of the issues raised as part of the Shareholder engagement programme include:

- Grainger's future strategy in market rented assets and how this relates to the existing business
- Grainger's view on likely House Price Inflation
- The Company's capital structure, in particular discussion of share buy-backs
- Optimal overall debt levels and cost of debt
- The impact of wider monetary policy on Grainger
- The strategic role of business divisions, in particular Germany
- Director succession, in particular in respect of Chairman and CEO
- Directors' remuneration
- Results of the external board evaluation and the change in auditors from PwC to KPMG

An area of particular focus in relation to Shareholder engagement in 2015 has been in connection with the significant (29%) vote against the Director's Remuneration report received at the 2015 AGM. Details of the shareholder engagement in respect of this issue are specified in the Remuneration Committee report.

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, standing for election or re-election (as applicable), intend to be in attendance at the 2016 AGM 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. 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 2015 and 31 October 2015 (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 2015		**31 October 2015**	
	Holding million	Holding %	**Holding million**	**Holding %**
Schroder Investment Management Ltd	77.7	18.6	**77.2**	**18.5**
BlackRock Investment Management Ltd	28.7	6.9	**28.2**	**6.9**
Aberforth Partners	14.2	3.4	**14.2**	**3.4**
Crystal Amber Advisers (UK) Ltd	14.2	3.4	**14.2**	**3.4**
State Street Global Advisers Ltd	13.3	3.2	**13.4**	**3.2**

Audit Committee report

The Audit Committee currently comprises three 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 to February 2015	2	2
Baroness Margaret Ford	July 2008 to March 2015	2	2
Tony Wray	November 2011	4	4
Andrew Carr-Locke	March 2015	2	2

Both Belinda Richards and Andrew Carr-Locke have recent and relevant financial experience as required by the Code.

DEAR SHAREHOLDER

The Audit Committee plays a fundamental role in ensuring that the interests of Shareholders are properly protected by monitoring the activities and conduct of management and auditors. It is responsible for reviewing the integrity of financial statements to establish that decisions and judgements are appropriate in the circumstances, and that the performance of the auditors is effective. The Audit Committee at Grainger works closely with the Board Risk and Compliance Committee (BRCC) to ensure that the systems of internal control and risk management are robust and effective. It is a policy that I, as Chairman of the Audit Committee, am also a member of the BRCC, and similarly Tony Wray, as Chairman of the BRCC is also a member of the Audit Committee. I find that this approach assists significantly in properly implementing the roles and responsibilities of Committees and good governance.

This report details the activities of the Audit Committee that were undertaken during the course of the year in fulfilling our responsibilities.

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, the Group Financial Controller, 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 BRCC 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 to the steps to be taken. A copy of the current policy is available on the Company's website (www.graingerplc.co.uk/who-we-are/corporate-governance/board-committees.aspx).
- 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

The Committee has worked largely to a regular and structured programme agreed with the Committee Chairman, management and the external auditors at the start of the financial year. The Committee considered, discussed and made decisions in relation to a range of matters throughout the course of the year, the most significant of which are specified below.

- 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 2015.
- Reviewed and agreed the external auditors' audit strategy memorandum in advance of their audit for the year ending 30 September 2015.
- Discussed the report received from the external auditors regarding their audit in respect of the year ending 30 September 2015, which 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.
- Reviewed and approved the register of non-audit assignments undertaken by the external auditors in the year ending 30 September 2015.
- Reviewed the Audit Committee's terms of reference.
- Received reports from internal audit covering various aspects of the Group's operations, systems, controls and processes, including:
  - treasury management
  - selection and supervision of estate agents on sales of property
  - delegations of authority
  - property acquisitions, sales and development transactions
  - post transactional operational delivery planning
  - data governance
  - payroll analytics
- Considered the presentation of the financial statements and announcements, in particular the analysis between recurring and non-recurring items. The Committee was satisfied with management's presentation.
- Reviewed the Company's tax policy.
- Reviewed Grainger's accounting policy in respect of non-audit fees to auditors.
- Gave oversight and received updates in respect of projects to ensure continued effective and efficient financial operations and processes.
- In conjunction with the BRCC considered the 'viability statement' as required under the Code.
- Reviewed the Company's investment appraisal process.

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.
- 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 re-acquisition of Equity Release (Increments) Limited as part of the enforcement of security over that company pursuant to a failure by Clifden Holdings Limited to pay the deferred consideration by the relevant date.
- Considered the classification of the German wholly-owned assets announced for disposal on 13 August 2015, and whether such assets should be classified as held-for-sale. It was agreed that as at 30 September 2015, not all of the relevant criteria to make such a classification had been satisfied, and subsequently it was correct not to treat such assets as held-for-sale.

External audit and evaluation

The Group's current external auditors are KPMG LLP ('KPMG') who were appointed in December 2014 following a successful tender earlier that year. Following a period of shadowing the previous auditor, PricewaterhouseCoopers LLP ('PwC'), an orderly handover took place and the Audit Committee is pleased with the insights that the new audit team offered and their performance to date. An assessment of KPMG's effectiveness, performance, quality and processes regarding the 2015 audit will be carried out following its conclusion. A similar review was carried out by the Committee in respect of the 2014 audit process, which included discussion with Committee members and obtaining feedback from senior management. No material issues were raised and the Committee would like to thank PwC for the high quality of service given to the Company over many years.

The Committee reviewed KPMG's proposals for the audit and the audit plan. The Committee is confident that appropriate plans were put in place to carry out an effective, high quality audit.

In respect of ensuring independence and objectivity of auditors, the Audit Committee is responsible for reviewing this and ensuring this is safeguarded notwithstanding the 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:

- As previously referred to, each year the Audit Committee carries out 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 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 certain non-audit work given their knowledge of the Group's businesses. This work may include due diligence reviews, statutory assurance engagements and tax services where the calculations will not be used for material entries to financial statements. Such provision will however be assessed on a case-by-case basis so that the best placed adviser is retained. Prior to any such assignment being commenced by the external auditor, approval of the Audit Committee must be obtained. This approval confirms that sufficient and appropriate safeguards are put in place to ensure that auditor independence is retained. The Audit Committee monitors the application of policy in this regard and keeps the policy under review. The extent to which non-audit services may be provided by the Group's auditor will be kept under review in light of new restrictions to be introduced by EU legislation which comes into effect in 2016.
- 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, KPMG operates a five-year rotation policy for audit partners.
- The Audit Committee supports the principle of regular re-tendering of audit services to preserve independence. Under current regulations, the Company will be required to retender audit services no later than in 2024. The Audit Committee will continue to monitor regulation in respect of audit tendering. The re-appointment of KPMG for a further year will be recommended to Shareholders for approval at the 2016 AGM.

As referred to above, auditors may be invited to tender to provide non-audit services. The Audit Committee give careful consideration before appointing the auditors to provide other services having regard to the policy and the matters listed above regarding the preservation of auditor independence. This being so, the Group regularly use other providers to ensure that independence and full value for money are achieved. Other services provided by an auditor from time to time 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. In addition, as KPMG have recently been appointed as auditor, certain engagements were instructed prior to their appointment as auditor, and have been on-going since that date. In such cases it was decided that it was in the Company's best interests for this work to continue to be provided by KPMG in order to avoid unnecessary disruption and the additional costs of engaging a replacement adviser.

In respect of non-audit services, during the year, KPMG was paid £11,750 in connection with UK employment tax compliance services and €2,860 for German tax advisory services.

Internal Audit

Deloitte LLP are appointed by the Company as Internal Auditor. Internal Audit undertakes 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 has a direct reporting line to the Chairman of the Audit Committee. The effectiveness of Internal Audit is assessed by the review of their reports, meetings with the Chairman of the Audit Committee without management being present, feedback from senior management and the Finance Director to assess views on effectiveness of Internal Audit.

Nominations Committee report

The Nominations Committee currently comprises the Chairman of the Board and 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 2012	4	4
Belinda Richards	February 2014	4	4
Tony Wray	February 2014	4	4
Andrew Carr-Locke	March 2015	2	2

DEAR SHAREHOLDER

The Nominations Committee plays a fundamental role in ensuring the selection and recommendation of strong candidates for appointment to the Board. The Committee monitors the balance of skills, experience, independence and knowledge of the Board and its Committees, with any changes recommended to the Board for its review and decision. The Committee is also responsible for succession planning and monitors talent development at senior management level. It has been a particularly busy year for the Nominations Committee, dealing with succession and Board change at positions of Chairman, Executive Director and Non-Executive Director, as well as substantial changes to the membership of Board Committees. This report details the main activities of the Nominations Committee that were undertaken during the course of the year in fulfilling our responsibilities.

Key responsibilities

The key responsibilities of the Committee are to:

- Review the size, balance and constitution of the Board, including the diversity and balance of skills, knowledge and experience of the Non-Executive Directors.
- Consider succession planning for Directors and other senior executives.
- Identify and nominate for the approval of the Board candidates to fill Board vacancies.
- Review annually the time commitment required of Non-Executive Directors.
- Make recommendations for the Board, in consultation with the respective Committee Chairman regarding membership of the four Board Committees.

Process for Board appointments

Prior to making an appointment, the Nominations Committee will evaluate the balance of skills, knowledge and experience on the Board. Pursuant to this evaluation, a specification of the personal attributes, experience and capabilities required to effectively perform the relevant appointment will be drafted. The Committee will also make any recommendations to the Board concerning the appointment of any Director and Company Secretary. In circumstances where an external recruitment or benchmarking an internal candidate is appropriate, the Committee will engage the services of an independent external search consultancy to assist in preparing the appointment specification.

Main activities of the Committee during the year

The Committee met formally four times during the year to 30 September 2015. The Committee has a number of standing agenda items which relate to its key responsibilities detailed above. In applying those responsibilities, the Committee considered, discussed and made decisions in relation to a range of matters throughout the course of the year, the most significant of which are specified below:

Board changes

- Andrew Cunningham gave notice of his retirement as CEO and will be leaving Grainger in January 2016. Following a thorough and robust external search overseen by the Committee, and following unanimous recommendation to the Board, it was announced that Helen Gordon was selected as Grainger's next CEO. Helen joined Grainger as CEO designate on 3 November 2015 and will take up the role of CEO in January 2016.
- Mark Greenwood gave notice to the Company in August 2015 of his retirement as Finance Director to the Board. It was agreed with Mark that he would continue to work at Grainger and serve on the Board until the end of 2015. Consequent to this, the Committee led a thorough external search to identify an appropriate successor to Mark, and following unanimous recommendation by the Committee to the Board, Vanessa Simms was selected as the Company's Finance Director. Vanessa will take up her role in Spring 2016.
- The Board has received notice from Simon Davies that he would like to retire from the Board on or about 30 November 2015, by which time he will have completed three years' service. Consequently, Simon will also be relinquishing his membership of the Remuneration and Risk and Compliance Committees at that time.
- As previously announced, Ian Coull was due to take up the Chairmanship of the Board in February 2015 following the AGM and Robin Broadhurst's retirement. Due to ill health, Ian was unable to take up that position and was granted a leave of absence from the Board. In response to this, it was agreed that Baroness Margaret Ford would be appointed as interim Chairman. Due to on-going health issues, Ian was unable to return to the Board and resigned his position as a Director in June 2015. Consequently, it was agreed that due to her extensive relevant experience, skills and personal attributes, Baroness Ford would become Chairman on a permanent basis.
- Following previous reporting and announcements, Andrew Carr-Locke formally joined the Board as an independent Non-Executive Director in March 2015.
- The Committee reviewed the composition of the Board including the range of skills, knowledge, level of experience and balance between Executive and Non-Executive Directors. Following this review, it was agreed that a search for an additional independent Non-Executive Director with fund management and real estate sector experience be carried out. Following a robust external search, the Committee unanimously recommended to the Board that Rob Wilkinson join as a Non-Executive Director subject to the usual FCA confirmations. Following receipt of such confirmations, Rob was appointed in October 2015.

Senior Independent Director

- Following Margaret Ford being appointed as Chairman on a permanent basis, Belinda Richards was appointed Senior Independent Director, thus ensuring that these roles are separated and implementing best governance practice.

Committee changes

- In accordance with the Code, and following Margaret Ford's appointment as Chairman, Belinda Richards was appointed as Chairman of the Remuneration Committee in Margaret's place. In addition, and having regard to best practice, Margaret relinquished her membership of the Audit Committee.
- Following a review of the membership of the Committees having regard to the balance of skills, knowledge and experience, it was subsequently decided to appoint Andrew Carr-Locke as a member of the Risk and Compliance, Nomination, Remuneration and Audit Committees.
- Mark Greenwood retired from the Risk and Compliance Committee, it being agreed that it should be comprised of Non-Executive Directors only. The Finance Director and the Property Director have a standing invitation to attend all meetings of that Committee.

Search consultants

The Committee engaged the Zygos Partnership ('Zygos'), an independent executive search consultancy, for the recruitment of Helen Gordon, Rob Wilkinson and Vanessa Simms. The Board confirms that Zygos is not connected with the Company in any other way.

Diversity

The Directors are committed to having a balanced Board which includes diversity of perspectives, skills, knowledge and background. In respect of gender diversity specifically, the Board supports Lord Davies' aspiration to promote greater female representation on listed company boards, and notes the significant positive progress that has been made in this area in respect of FTSE 350 companies since the original Davies report was published. All appointments to the Grainger Board are made on merit, and within this context the Directors will continue to have regard to the recommendations of the Davies report and the issue of diversity as it and best practice develops further. As at the date of this report, female representation at Board level was 30%. Both the Chairman and Senior Independent Director are female. This figure will increase to 50% when Helen Gordon and Vanessa Simms take up their positions in 2016. Page 24 contains details of the gender split of all Grainger staff.

Remuneration Committee report

I am pleased to present on behalf of the Board, for the first time as Grainger's Remuneration Committee Chairman, the 2015 Directors' Remuneration report.

Belinda Richards
Committee Chairman

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DEAR SHAREHOLDER

This Directors' Remuneration report sets out details of our remuneration policy, describes how the policy will be implemented for the year ahead, and discloses the amounts paid to our Executive and Non-Executive Directors for the year ended 30 September 2015.

What is in this report?

Our remuneration policy received binding Shareholder approval at the 2014 Annual General Meeting and the policy took formal effect from the date of approval. The Committee is satisfied that the policy remains fit for purpose and it is currently intended that it will cover the full three-year period to the 2017 Annual General Meeting. To maximise clarity and transparency, for reference, we have republished our remuneration policy report in an abridged form (pages 57 to 61). This report also includes an Annual Report on Remuneration (pages 62 to 73) which describes how the remuneration policy was implemented for the year ended 30 September 2015 and how we intend to apply the policy for 2016. The Annual Report together with this annual statement will be put to an advisory Shareholder vote at the 2016 Annual General Meeting.

Alignment of remuneration with strategy

The Committee's overarching aim in designing the remuneration policy is to promote the long-term success of the Company. To achieve this aim the policy seeks to closely align remuneration with the Company's strategic objectives, to build a sustainable performance culture, to reward outperformance of expectations and to align the interests of our management team with those of our Shareholders.

The packages of our Executive Directors are made up of base salary, benefits and pension, and, subject to stretching performance conditions, an annual bonus and Long-Term Incentive Scheme ('LTIS'). Performance conditions are made up of a combination of corporate and personal objectives derived from the Company's key performance indicators and participants are only rewarded in the event that strategic objectives are successfully delivered. During the year, in line with best practice, robust withholding and recovery provisions were approved by the Committee and will apply to both the annual bonus and LTIS (described on page 72) and, in addition, shareholding guidelines will continue to apply.

2015 performance and reward

Aligned with our core objective of generating Shareholder returns through the active management of our assets, the majority of our annual bonus is subject to a combination of OPBVM and ROSE targets. These metrics combine to ensure that Executive Directors are focused on driving profit from our day-to-day activities at the same time as maximising the value of our underlying assets. In addition, a minority of our bonus opportunity is earned based on how well our Executive Directors perform against a broader scorecard of our key performance metrics which include targets relating to: (i) retaining our leading position in the residential property market; (ii) achieving an appropriate balance in our revenue generating opportunities; and (iii) the optimisation of our capital structure and gearing.

Exactly in accordance with the contractual provisions specified in Executive Directors' service agreements and having reference to the Company's agreed policy for departing Executive Directors, Andrew Cunningham and Mark Greenwood were not eligible for a bonus in 2015 having given notice to the Company during the financial year to terminate their employment in connection with their retirement. Grainger currently applies a similar policy to all staff whereby no annual cash bonus will be payable in circumstances where notice has been given by an employee to the Company to terminate his or her employment within the relevant financial year.

Nick Jopling earned a bonus at 56% of his salary and 45% of the maximum. Bonus at this level was payable as a result of delivering OPBVM of £101.9m marginally ahead of the budget set at the start of the year and ROSE of 10%. In addition, a number of key personal performance targets were delivered during the year.

Details of the Committee's assessment of performance against the targets are set out in detail in the Annual Report on Remuneration on page 64. In light of this performance achieved, the Committee was comfortable with the bonus out-turn payable.

LTIS awards are subject to performance targets that are also aligned with delivering long-term sustainable returns for our Shareholders. Performance targets are based on NNNAV and absolute total shareholder return. With regards to the awards granted in 2011 under the LTIS, these vested in full in December 2014. This reflected the strong performance of the Company over the relevant three-year performance period for the award with total shareholder return showing an annual compound increase of 28% and NNNAV increasing by 58% against the 14% increase in the Halifax and Nationwide Home Price Indices. In both cases, the performance achieved exceeded the maximum performance requirement included in the conditions.

With regards to the awards granted in 2012, these are due to vest in December 2015, with 50% of the award based on NNNAV performance measured over the three-year period to 30 September 2015 and 50% of the award based on absolute total shareholder return performance measured over the three-year period to 10 December 2015. Total shareholder return is currently forecast to show an annual compound increase in the region of 33% and NNNAV increased by 68% against the 23% increase in the Halifax and Nationwide Home Price Indices. The NNNAV performance achieved was slightly less than the maximum performance requirement included in the conditions and, based on current forecasts, absolute total shareholder return performance is set to exceed the maximum performance requirement. Therefore, based on current forecasts, 98% of awards look set to vest overall. This level of forecast vesting is consistent with the strong performance of the Company to date under the relevant portions of the three-year performance periods.

Implementation of policy for 2016

The base salary of Nick Jopling, will be increased by 3% with effect from 1 January 2016, in line with the level of increase awarded to the Company's workforce more generally. No increases in salary will be awarded to Andrew Cunningham or Mark Greenwood in light of their forthcoming retirements from the Board.

Other than the introduction of withholding and recovery provisions in the annual bonus and LTIS for financial year 2015 awards, no other changes will apply in how we operate our policy for the 2016 financial year.

Changes to the Board

As detailed in the Corporate Governance report, the current financial year will see a change of leadership in the Company. Our current Chief Executive, Andrew Cunningham, will be retiring in January 2016 following nearly 20 years' service with the Company, and Mark Greenwood, our Finance Director, will be retiring at the end of December 2015 after five years with the Company.

Andrew's successor, Helen Gordon, receives a base salary of £460,000 and pension, benefits and incentive opportunity fully in line with our approved policy. In addition, in order to facilitate her recruitment, Helen will receive certain performance adjusted and/or related buy-out awards in order to compensate her for awards forfeited from her previous employer as a result of joining Grainger. The Committee has taken considerable care in ensuring that the buy-out is appropriate in light of our recruitment policy. Details of the package and the buy-out awards are provided on page 71.

Mark's successor, Vanessa Simms, will receive a base salary of £320,000 and she will receive a pension, benefits and incentive opportunity in accordance with the approved remuneration policy.

Shareholder engagement

A key area of focus for the Remuneration Committee and the Board during 2015 was a Shareholder engagement programme in connection with the significant (29%) vote against the Annual Report on Remuneration at the 2015 AGM. The Board values the opinions of its Shareholders and other stakeholders and has proactively sought to understand the reasoning behind this voting result. The feedback we collected suggested that the primary issue related to a lack of robustness in retrospective annual bonus disclosure. As a result, the Committee has taken significant care in ensuring that the narrative and disclosure levels in this year's report have been brought into line with the best practice expectations of investors in order to address this issue (see page 64 for further details).

The Committee is committed to maintaining an on-going dialogue with Shareholders on the issue of executive remuneration and we welcome any further feedback you may have.

We look forward to your support on the resolution relating to remuneration at the AGM on 10 February 2016.

Belinda Richards
Chairman of Remuneration Committee

SUMMARY OF REMUNERATION POLICY

An abridged form of the Policy report that was approved by Shareholders at the 2014 Annual General Meeting, including the key aspects of our policy, has been included in this report for the purposes of clarity and transparency. Where references were made in the Policy report last year to specific levels of pay in 2015, these have been updated so that the report can be read in the context of the 2016 financial year. The original Policy report, approved at the 2014 Annual General Meeting, can be found on pages 72 to 79 in the 2013 Annual Report and Accounts on the Company's website (www.graingerplc.co.uk).

The tables below summarise the main elements of the remuneration packages for the Executive Directors.

GOVERNANCE Continued

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 are eligible to be increased with effect from 1 January in line with the standard increase that will be applied to all staff.

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.

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.

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 and external relationships/reputation. It has 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.
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.

Long-Term Incentive Scheme ('LTIS')

Purpose and link to strategy	To incentivise delivery of sustained performance over the longer term. To encourage greater Shareholder alignment through personal investment in the Company's shares.
Operation	The awards are based upon the absolute levels of increase in both NNNAV and TSR. Fundamentally, it was considered that absolute measures of performance were suitable because Grainger is unusual in nature and has no natural comparator group. Grainger is the only listed company of its size to invest primarily in residential property assets. All other comparably sized property companies are principally commercial and/or development-focused.
Opportunity	The awards are capped at 150% of basic salary for the Chief Executive and at 100% of basic salary for the other three Directors. There is also a matching awards element to the scheme, where participants are able to pledge shares of equivalent value at 30% of their basic salary. To the extent that performance criteria are met, these shares will be matched one-for-one at the end of the three-year performance period.
Performance metrics	Awards are split equally between NNNAV and TSR.

TSR Performance Conditions (50%)	Percentage of the TSR element of an award that will vest
Growth in TSR over three 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.

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.
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).

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 preceding 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.

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.

GOVERNANCE Continued

ANNUAL REPORT ON REMUNERATION

1

Single total figure of remuneration for each Director

The details set out in notes 1 to 7 on pages 62 to 69 of this report have been audited by KPMG LLP.

	a	b		c		d	e	
				Bonus				
2015	Salary and fees £'000	Taxable benefits[1] £'000	Share incentive plan £'000	Annual[2] £'000	Legacy[3] £'000	LTIS awards vesting[4] £'000	Pension costs[5] £'000	Total £'000
Executive Directors								
Andrew Cunningham	443	16	7	–	109	1,550	67	2,192
Mark Greenwood	274	16	7	–	–	693	41	1,031
Nick Jopling	343	16	7	192	–	863	51	1,472
	1,060	48	21	192	109	3,106	159	4,695
Non-Executive Directors								
Baroness Margaret Ford	112	–	–	–	–	–	–	112
Robin Broadhurst	49	–	–	–	–	–	–	49
John Barnsley	15	–	–	–	–	–	–	15
Belinda Richards	55	–	–	–	–	–	–	55
Tony Wray	50	–	–	–	–	–	–	50
Simon Davies	42	–	–	–	–	–	–	42
Ian Coull	29	–	–	–	–	–	–	29
Andrew Carr-Locke	28	–	–	–	–	–	–	28
	380	–	–	–	–	–	–	380
Total	1,440	48	21	192	109	3,106	159	5,075

1 Single total figure of remuneration for each Director Continued

	a	b		c		d	e	
				Bonus				
2014	Salary and fees £'000	Taxable benefits[1] £'000	Share incentive plan £'000	Annual[2] £'000	Legacy[3] £'000	LTIS awards vesting[4] £'000	Pension costs[5] £'000	Total £'000
Executive Directors								
Andrew Cunningham	428	16	6	409	109	1,445	64	2,477
Peter Couch[6]	89	11	4	–	–	475	13	592
Mark Greenwood	265	16	6	203	–	516	40	1,046
Nick Jopling	331	16	6	254	–	698	50	1,355
	1,113	59	22	866	109	3,134	167	5,470
Non-Executive Directors								
Baroness Margaret Ford	55	–	–	–	–	–	–	55
Robin Broadhurst	140	–	–	–	–	–	–	140
John Barnsley	45	–	–	–	–	–	–	45
Belinda Richards	50	–	–	–	–	–	–	50
Tony Wray	50	–	–	–	–	–	–	50
Simon Davies	42	–	–	–	–	–	–	42
Ian Coull	1	–	–	–	–	–	–	1
	383	–	–	–	–	–	–	383
Total	1,496	59	22	866	109	3,134	167	5,853

1 Taxable benefits include a car allowance and private medical insurance.
2 Exactly in accordance with the contractual provisions specified in their service agreements and having reference to the Company's policy for departing Executive Directors, Andrew Cunningham and Mark Greenwood were not eligible for a bonus in relation to the year under review having given notice to the Company to terminate their employment in connection with their retirement.
3 The legacy bonus paid in 2015 represents the final tranche of an historic earned bonus that was due to Andrew Cunningham. The scheme, which applied to Andrew Cunningham only, closed in 2010 when the balance in the notional bonus pool stood at £545,621, reflecting performance between 2003 and 2010, and it was agreed to pay out this sum in five equal tranches beginning in 2011. The final instalment of £109,125 was paid in March 2015.
4 Pursuant to evolving best practice following the introduction in 2013 of the Remuneration Reporting Regulations, the basis on which the LTIS vesting values has been determined has been changed for 2015. The 2015 LTIS vesting values are based on the forecast value of the awards due to vest on 10 December 2015 (50% of the award is based on NNNAV performance measured over the three years to 30 September 2015 and 50% of the award is based on absolute total shareholder return measured over the three-year period to 10 December 2015). The NNNAV performance measured to 30 September 2015 was marginally less than the maximum performance requirements and 96% of this part of the award is due to vest and forms part of the 2015 LTIS value. Absolute TSR performance (based on an assessment of performance measured to 30 September 2015 is forecast to exceed the maximum performance requirement and the 2015 LTIS value thus assumes 100% of this part of the award is due to vest. The share price for the purposes of valuing the award is the share price at 30 September 2015, (238p) for the NNNAV element, and the three-month average share price to 30 September 2015 (237.2p) for the TSR element. This value will be trued up in next year's report to reflect the actual level of vesting and share price at the vesting date. The 2014 LTIS value has been restated and reflects the actual value of the awards that vested in December 2014.
5 The pension costs are based on 15% of base salary.
6 Peter Couch left the Company on 31 January 2014.

GOVERNANCE Continued

2

Annual Bonus awards – performance assessment for 2015

Actual performance against the targets set for 2015 are set out below (straight-line payouts occur between the relevant performance points). Exactly in accordance with the contractual provisions specified in Executive Directors' service agreements and having reference to the Company's agreed policy for departing Executive Directors, Andrew Cunningham and Mark Greenwood were not eligible for a bonus in 2015 having given notice to the Company during the financial year to terminate their employment in connection with their retirement. Grainger currently applies a similar policy to all staff where no annual cash bonus will be payable in circumstances whereby notice has been given by an employee to the Company to terminate his or her employment within the relevant financial year. The detail below sets out the financial targets that were set out at the start of the year (which were considered equally challenging to those set in prior years allowing for the prevailing trading environment) and performance achieved against them together with the personal targets set for Nick Jopling and the extent of achievement against these.

Measure	Weighting	Threshold (0% out-turn)	Target (60% out-turn)	Maximum (100% out-turn)	2015 Performance	Out-turn (% of max element) Bonus
Profit (OPBVM)	37.5%	90% of budget (£91.1m)	100% of budget (£101.2m)	120% of budget (£121.4m)	**100.7% of budget (£101.9m)**	**61.4%**

Measure	Weighting	Threshold (0% out-turn)	Maximum (100% out-turn)	2015 Performance	Out-turn (% of max element) Bonus
ROSE	37.5%	5%	15%	**10%**	**48.1%**

The ROSE as detailed above at 10% was calculated from the closing NNNAV of 263p per share plus the dividend per share for the year divided by the opening NNNAV per share of 242p.

In respect of the personal performance targets set for Nick Jopling, these were assessed against a range of criteria approved by the Committee at the start of the year. These targets are aligned to Grainger's corporate objectives.

1. Delivery of strategy

- Target: Lead the strategic plan to secure a private rented sector portfolio of scale against the projected timeline.
- Outcome: The completion of significant transactions and PRS developments throughout the year have resulted in a further c.900 PRS units being added to the portfolio. Such transactions include the acquisition of the major regional residential portfolio announced in February 2015 and the completion of Abbeville Apartments. In addition, Nick has overseen the growth of a pipeline of c.1,500 PRS units. Consequently, significant progress has been made towards meeting this key strategic target.

2. Innovation and growth

- Target: Launch Grainger's first Build-to-Rent project, Abbeville Apartments.
- Outcome: The highly successful launch of a unique product in the market resulting in a marked increase in valuation.

3. Leadership and promoting high performance

- Target: To put in place operational plans to become 'Best in Class' for the sector.
- Outcome: Operational plans have been developed and implemented in order to maximise gross revenues. These include a new IT strategy, customer service and complaints handling, and supply chain improvement.

2 Annual Bonus awards – performance assessment for 2015 Continued

4. External relationships and reputation

- Target: To increase involvement in investor relations to ensure effective communications with stakeholder community and government bodies, and position Grainger as a market leader in the residential property sector.
- Outcome: High quality contribution and significant increase in participation in investor meetings, roadshows and site visits and effectively complementing the Chief Executive and Finance Director in this regard.

The extent of achievement detailed above resulted in a bonus being earned at 60% of the maximum bonus available in relation to the personal performance element. With regards to areas of specific disclosure in relation to the above personal targets that were excluded on the grounds of commercial sensitivity, the Committee will consider further disclosure in next year's Directors' Remuneration report having had regard to any on-going areas of commercial sensitivity.

3 LTIS awards – performance assessment for 2015

The awards made to Executive Directors in December 2012 and which are due to vest in December 2015 are based on NNNAV and absolute total shareholder return targets measured over a three-year period. Performance against the vesting schedule can be summarised as follows:

LTIS awards vesting in December 2015

Measure	Weighting	Threshold	Maximum	Actual Performance	Out-turn (% of max element) LTIS
Three year Growth in Total Shareholder Return (annual compound)[1]	50%	5%	15%	**33%**	**100%**
NNNAV (increase over three years relative to HPI, as measured by Nationwide and Halifax)[2]	50%	1.5	3.0	**2.95**	**96%**

1 Performance measurement period three years to 10 December 2015 – actual performance is a forecast based on performance measured to 30 September 2015.
2 Performance measurement period three years to 30 September 2015. NNNAV increased by 67.5% between September 2012 and September 2015 whilst the average increase in the Halifax and Nationwide Housing indices over the same period was 22.9%.

The forecast vesting value of the awards made in December 2012, subject to the above performance targets, is included in the 2015 single figure table above.

The awards made to Executive Directors in December 2011 and which vested in December 2014 were based on NNNAV and absolute total shareholder return targets measured over a three-year period. Performance against the vesting schedule can be summarised as follows:

LTIS awards vesting in December 2014

Measure	Weighting	Threshold	Maximum	Actual Performance	Out-turn (% of max element) LTIS
Three-year Growth in Total Shareholder Return (annual compound)[1]	50%	5%	15%	28%	100%
NNNAV (increase over three years relative to HPI, as measured by Nationwide and Halifax)[2]	50%	1.5	3.0	4.1	100%

1 Performance measurement period three years to 2 December 2014.
2 Performance measurement period three years to 30 September 2014. NNNAV increased by 58.2% between September 2011 and September 2014, whilst the average increase in the Halifax and Nationwide Housing indices over the same period was 14.2%.

4

Share scheme interests awarded during the year

	LTIS share awards		Matching awards	
	Number	Face value £'000	Number	Face value £'000
Andrew Cunningham	336,503	646	67,300	196
Mark Greenwood	138,874	266	41,662	122
Nick Jopling	173,592	333	52,077	152

The face value is based on a price of 191.9p being the average share price from the five business days immediately preceding the award that was made on 16 December 2014.

The awards are contingent upon satisfying the performance criteria, for TSR and NNNAV growth, as detailed on page 59, in the three years to 16 December 2017.

The threshold levels, below which nothing would vest, are a compounded annual rate of 5% for TSR and a multiple between growth in NNNAV and HPI of 1.5 times.

5

Payments to past Directors

Peter Couch, who retired from the Board on 31 January 2014, retained a pro-rated entitlement to 246,853 shares granted on 2 December 2011 under the terms of the Company's LTIS. This award vested in full on 2 December 2014 when the value of the shares that vested, at 199.4p per share, was £492,224.

As previously reported, Peter Couch's entitlement to 12 months' notice of pay was paid to him over the notice period which expired at the end of January 2015. During the four months to 31 January 2015, he received £90,542, being the final four months of this entitlement, all of which had been fully provided for in the 2014 financial statements.

6

Payments for loss of office

In relation to the retirement of Mark Greenwood and Andrew Cunningham, which will take place on 31 December 2015 and in January 2016 respectively, in line with the Company's Remuneration Policy, they will be treated as 'good leavers' for the purposes of their outstanding long-term incentive awards. Accordingly, their outstanding awards will remain eligible to vest at the normal vesting date subject to: (i) a pro-rata reduction for the proportion of the vesting period elapsed to the date of their retirement; and (ii) the application of performance targets over the original performance period.

There will be no other payments made in connection with their retirement.

7

Directors' shareholding and share interests

Performance share awards

		Awards granted	Maximum award	Awards vested	Awards lapsed	**Maximum outstanding awards at 30 Sept 2015**	Market price at date of vesting (p)	Vesting date
Andrew Cunningham	LTIS Shares	02-Dec-11	625,496	625,496	–	**–**	199	02-Dec-14
		10-Dec-12	554,675	–	–	**554,675**	–	10-Dec-15
		09-Dec-13	311,234	–	–	**311,234**	–	09-Dec-16
		16-Dec-14	336,503	–	–	**336,503**	–	16-Dec-17
	Matching shares	02-Dec-11	125,099	125,099	–	**–**	199	02-Dec-14
		10-Dec-12	110,935	–	–	**110,935**	–	10-Dec-15
		09-Dec-13	62,246	–	–	**62,246**	–	09-Dec-16
		16-Dec-14	67,300	–	–	**67,300**	–	16-Dec-17
Mark Greenwood	LTIS Shares	02-Dec-11	258,141	258,141	–	**–**	199	02-Dec-14
		10-Dec-12	228,913	–	–	**228,913**	–	10-Dec-15
		09-Dec-13	128,445	–	–	**128,445**	–	09-Dec-16
		16-Dec-14	138,874	–	–	**138,874**	–	16-Dec-17
	Matching shares	02-Dec-11	10,000	10,000	–	**–**	199	02-Dec-14
		10-Dec-12	68,674	–	–	**68,674**	–	10-Dec-15
		09-Dec-13	38,533	–	–	**38,533**	–	09-Dec-16
		16-Dec-14	41,662	–	–	**41,662**	–	16-Dec-17
Nick Jopling	LTIS Shares	02-Dec-11	322,676	322,676	–	**–**	199	02-Dec-14
		10-Dec-12	286,141	–	–	**286,141**	–	10-Dec-15
		09-Dec-13	160,557	–	–	**160,557**	–	09-Dec-16
		16-Dec-14	173,592	–	–	**173,592**	–	16-Dec-17
	Matching shares	02-Dec-11	40,000	40,000	–	**–**	199	02-Dec-14
		10-Dec-12	84,496	–	–	**84,496**	–	10-Dec-15
		09-Dec-13	48,167	–	–	**48,167**	–	09-Dec-16
		16-Dec-14	52,077	–	–	**52,077**	–	16-Dec-17

GOVERNANCE Continued

7 Directors' shareholding and share interests Continued

Share options

			Granted in year		Lapsed in year	Exercised during year							
		Share options at 1 Oct 2014	Number	Grant price (p)	Number	Number	Exercise price (p)	Market price on exercise (p)	Gains on exercise of share options (£)	**Share options at 30 Sept 2015**	Exercise price (p)	Earliest exercise date	Latest exercise date
Andrew Cunningham	SAYE	17,331	–	–	17,331	–	–	–	–	**–**	–	–	–
	SAYE	–	20,026	151.30	–	–	–	–	–	**20,026**	151.3	01-Mar-20	01-Sep-20
Mark Greenwood	SAYE	13,062	–	–	–	13,062	68.90	228.2	20,808	**–**	–	–	–
	SAYE	5,199	–	–	–	–	–	–	–	**5,199**	173.1	01-Sep-17	01-Mar-18
Nick Jopling	SAYE	21,770	–	–	–	–	–	–	–	**21,770**	68.9	01-Sep-17	01-Mar-18
	SAYE	8,665	–	–	8,665	–	–	–	–	**–**	–	–	–
	SAYE	–	10,013	151.30	–	–	–	–	–	**10,013**	151.3	01-Mar-20	01-Sep-20

The closing trade share price on 30 September 2015 was 238.0p. The highest trade share price during the year was 254.0p and the lowest was 171.6p.

Directors' shareholdings

	Ordinary shares of 5p each (thousands)		
		Beneficial	
	1 Oct 2014	**30 Sep 2015**	**31 Oct 2015**
Andrew Cunningham	1,424	**1,770**	**1,770**
Nick Jopling	402	**599**	**599**
Mark Greenwood	306	**466**	**466**
Helen Gordon	–	**–**	**–**
Baroness Margaret Ford	40	**40**	**40**
Belinda Richards	–	**–**	**–**
Tony Wray	10	**10**	**10**
Simon Davies	100	**100**	**100**
Andrew Carr-Locke	–	**–**	**–**
Rob Wilkinson	–	**–**	**–**
	2,282	**2,985**	**2,985**

7 Directors' shareholding and share interests Continued

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 in post during the financial year under review are as follows:

The values were calculated as at 31 October 2015 when the share price was 249p. These values do not include the value of any shares that are scheduled to vest on 10 December 2015.

	Current holdings (thousands)	Value at 31 October 2015 £'000	% of current salary
Andrew Cunningham	**1,770**	**4,407**	**994%**
Mark Greenwood	**466**	**1,160**	**423%**
Nick Jopling	**599**	**1,491**	**434%**

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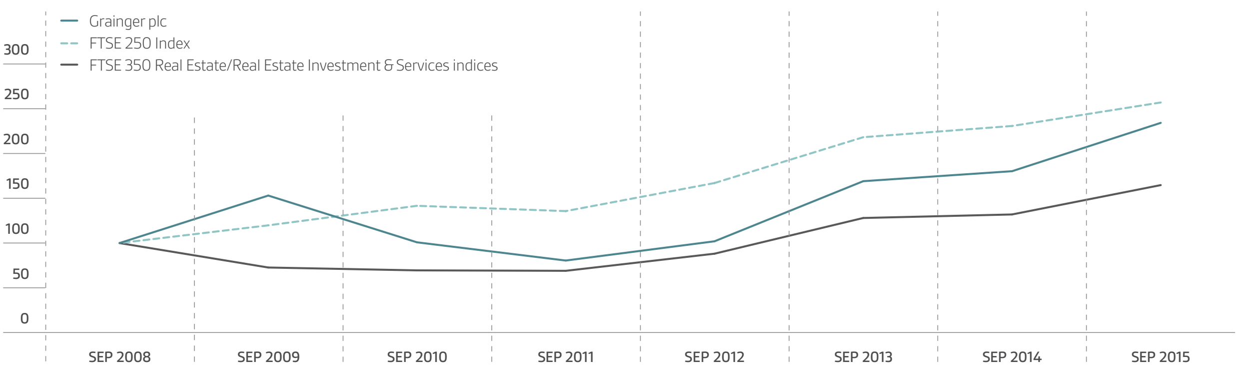
Performance graph and table

Total shareholder return

This graph shows the value by 30 September 2015 of £100 invested in Grainger plc on 30 September 2008 compared with the value of £100 invested in the FTSE 250 Index and in the FTSE 350 Real Estate/Real Estate Investment & Services indices.



GOVERNANCE Continued

9

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 %
2015	**Andrew Cunningham**	**2,192**	–	**98**
2014	Andrew Cunningham	2,477	64	100
2013	Andrew Cunningham	2,519	63	100
2012	Andrew Cunningham	733	19	–
2011	Andrew Cunningham	1,083	50	16
2010	Andrew Cunningham	777	43	–
2009*	Andrew Cunningham	583	22	–

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

The single figure of total remuneration and long-term incentive vesting rates against maximum opportunity values for years preceding 2015 have been restated to take account of a change to the method of calculating the LTIS vesting values (see footnote 4 to the single total figure of remuneration for each Director table on page 63).

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Percentage change in remuneration of Chief Executive and employees

The percentage change in remuneration between 2014 and 2015, excluding LTIS and pension contributions, for the Chief Executive and for all other employees in the Group was as follows:

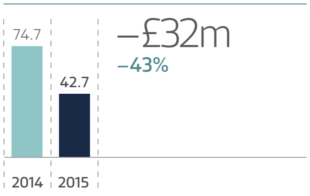
	Percentage change 2014–2015		
	Base salary	Benefits	Annual Bonus
Chief Executive	4%	0%	-100%
Employee population	4%	-7%	-17%

11

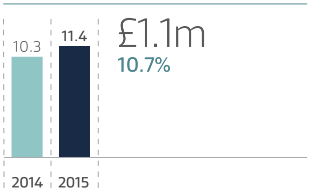
Relative importance of spend on pay

The difference in actual expenditure between 2014 and 2015 on remuneration for all employees in comparison to profit after tax and distributions to Shareholders by way of dividend are set out in the tabular graphs below:

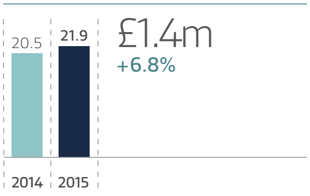
Profit after tax (£m)



Dividend (£m)



Total employee pay (£m)



12

Statement of implementation of Remuneration Policy for 2016

Base salary
The base salary of Nick Jopling, Executive Director, will be increased by 3% with effect from 1 January 2016, in line with the standard increase that applied to all staff. For context, salaries were increased last year by 4% with effect from 1 January 2015 (2014: 2.5%) in line with the standard increase that applied to all staff.

Annual bonus
The annual bonus for the 2016 financial year will operate on the same basis as for the 2015 financial year and will be consistent with the policy detailed in the remuneration policy section of this report other than recovery and withholding provisions will, for payments made in relation to the 2015 financial year onwards, now operate (see below).

The maximum bonus will continue to be capped at 150% of salary for the Chief Executive and 125% of salary for the other Executive Directors. However, payments up to this level will only be made in exceptional circumstances and the bonus performance assessments will be linked to 120% of salary for the Chief Executive and 100% of salary for the other Executive Directors.

There will be no change in the performance metrics or weightings for 2016, which are described in the policy table on page 58. The targets themselves, as they relate to the 2016 financial year, are deemed to be commercially sensitive. However, retrospective disclosure of the targets and performance against them will be provided in next year's Annual Report on Remuneration to the extent that they do not remain commercially sensitive at that time.

LTIS
The LTIS awards for the 2016 financial year will operate on the same basis as for the 2015 financial year and will be consistent with the policy detailed in the remuneration policy section of this report other than recovery and withholding provisions will, for awards granted in relation to the 2015 financial year onwards, now operate (see below).

It is anticipated that awards of 100% and 150% of salary will be made to Nick Jopling and Helen Gordon, the new Chief Executive, respectively in the current year. In addition they will be given the opportunity of receiving awards of matching shares up to 30% of salary, as detailed in the policy section of this report.

There will be no change in the performance metrics or weightings for the 2016 awards, which are described fully in the policy table on page 59.

Appointment of new Chief Executive
Helen Gordon commenced her appointment as Chief Executive designate on 3 November 2015 and will become Chief Executive on the retirement of Andrew Cunningham in January 2016. Upon appointment to the Board her salary has been set at £460,000 and she will receive pension, benefits and incentive opportunity fully in line with our approved policy, as described above.

In order to facilitate her recruitment, Helen will also receive a performance adjusted and/or related buy-out award to replace the share award forfeited from her previous employer as a result of joining Grainger. The buy-out, as far as practicable, is to be structured so that performance-related awards in her former employer are replaced with performance-related awards of an equivalent value in Grainger.

The award will comprise three tranches which will include:

- Tranche 1: an award of Grainger shares replacing the value of shares that the Committee estimated would have vested at the conclusion of the performance period relating to the 2013 LTIP awarded by her previous employer. In making its estimate, the information considered included publicly available information relating to the performance of her former employer against the performance targets originally set so that any compensation provided mirrored as closely as possible the value that she would likely have received had she remained in employment with her previous employer over the full performance period. This approach was considered appropriate given that the performance period for this award was in the 35th month of the 36 months comprising the performance period when she commenced employment with Grainger.
- Tranche 2: an exchange of the award granted by her previous employer in 2014 for an equivalent award of Grainger shares, having assessed the performance to date of both companies so that a broadly equivalent expected value is maintained through the exchange. These shares will vest following an assessment of Grainger's performance against the LTIS targets set for the 2014 award.
- Tranche 3: an exchange of the award granted by her previous employer in 2015 for an equivalent award of Grainger shares that will vest based on Grainger's performance against the LTIS targets set for the 2015 award.

The number of shares comprising each tranche can only be set when the awards are granted to ensure that the value most closely mirrors the replacement value of the awards that have been forfeited. Full details of the awards will be disclosed through an RNS announcement as soon as the awards have been finalised.

The Remuneration Committee confirms that it is of the view that the package agreed with Helen Gordon is appropriate and that the Company is not paying any more than was necessary to facilitate her recruitment.

GOVERNANCE Continued

12 Statement of implementation of Remuneration Policy for 2016 Continued

Recovery and withholding provisions

During the year, the Committee introduced recovery and withholding provisions into the annual bonus plan and LTIS such that these may apply where:

- There is a misstatement of the Company's results;
- There is a miscalculation or an assessment of any performance conditions was based on incorrect information; or
- It is determined that the individual committed serious misconduct prior to the relevant amounts being received and they would not have received such amounts had this been known at that time.

The provisions apply for three years from the date on which annual bonuses are paid or LTIS awards vest.

Non-Executive Director's fees

At the biennial review undertaken in 2015 the following increases in the annual fees to Non-Executive Directors which would be effective from 1 October 2015, were agreed:

- Basic Non-Executive Director fee increased to £45,000 (£42,000);
- Fee for chairing Board Committee increased to £9,000 (£7,500); and
- Chairman's fee increased to £150,000 (£140,000).

13 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**	
Baroness Margaret Ford	July 2008	
Belinda Richards	April 2011	
Tony Wray	October 2011	
Simon Davies	November 2012	
Andrew Carr-Locke	March 2015	

Helen Gordon joined the Board in November 2015 and has a notice period of 12 months. Rob Wilkinson joined the Board in October 2015.

14 Details of the Remuneration Committee, advisers to the Committee and their fees

The Remuneration Committee currently comprises four independent Non-Executive Directors including the Company Chairman. Details of the Directors who were members of the Committee during the year are as follows:

Committee Member	Member since	Meetings attended	Meetings eligible to attend
Belinda Richards (Committee Chairman)	March 2015[1]	2	2
Baroness Margaret Ford	January 2010[1]	4	4
Robin Broadhurst	February 2013[2]	2	2
Simon Davies	February 2013	4	4
Andrew Carr-Locke	April 2015	2	2

1 Belinda Richards replaced Baroness Margaret Ford as Chairman of the Committee when Baroness Ford took over as Chairman of the Company in March 2015.
2 Robin Broadhurst retired from the Committee in February 2015.

The Company Secretary, Deputy Company Secretary, HR Director and other members of the senior management team may be invited to attend Committee meetings as appropriate. No Directors are involved in deciding their own remuneration.

The Remuneration Committee is advised by New Bridge Street (NBS), a trading name of Aon plc. Aon plc provides no other services to the Company. NBS advises the Committee on developments in executive pay and on the operation of Grainger's incentive plans. Total fees paid to NBS in respect of services to the Committee during the 2015 financial year were £63,000 (2014: £12,000). NBS is a signatory to the Remuneration Consultants' Group Code of Conduct and any advice provided is governed by that Code. The Committee reviews the adviser relationship periodically and remains satisfied that the advice it receives from NBS is independent and objective.

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Statement of voting at general meeting

At the AGM held on 4 February 2015, the Directors' Remuneration report received the following votes from Shareholders:

	Directors' Remuneration report	
	Total number of votes	% of votes cast
For	204,825,406	71
Against	83,919,669	29
Total votes cast (for and against)	288,745,075	100
Votes withheld	34,463,722	–

A key area of focus for the Remuneration Committee and the Board during 2015 was a Shareholder engagement programme in connection with the significant (29%) vote against the Annual Report on Remuneration at the 2015 AGM. The programme included seeking feedback from all major Shareholders on remuneration-related matters and meetings were also held with certain prominent proxy voting agencies.

A relatively consistent comment received as part of the feedback process related to the extent and clarity of retrospective disclosure in relation to Directors' bonus targets. In particular, that the level of transparency of the composition of such targets could be enhanced. The Committee has taken significant care in ensuring that the narrative and disclosure levels in this year's report have been brought into line with the best practice expectations of investors as we understand them and have been expanded accordingly to address this issue.

The Committee also took on board other suggestions during the engagement process for how we might bring our packages further into line with the best practice expectations of investors. The feedback gathered informed the Committee's decision to adopt recovery and withholding provisions into the incentive arrangements during the year.

Board Risk and Compliance Committee report

The Board Risk and Compliance Committee currently comprises four independent Non-Executive Directors.

Tony Wray
Committee Chairman

ATTENDANCE TABLE

Committee Member	Member since	Meetings attended	Meetings eligible to attend
Tony Wray (Committee Chairman)	May 2012	5	5
Belinda Richards	May 2012	5	5
John Barnsley	May 2012 to March 2015	4	4
Simon Davies	November 2012	4	5
Andrew Carr-Locke	May 2015	3	3

DEAR SHAREHOLDER

The Board Risk and Compliance Committee (BRCC) plays a fundamental role in ensuring that Shareholders' interests are properly protected by overseeing the Group's risk management and compliance framework. It is responsible for advising the Board on the Group's overall risk appetite, tolerance and strategy and, in conjunction with the Audit Committee, to verify the operation of appropriate internal controls over key risks and to ensure compliance.

It is a policy that I, as Chairman of the BRCC, am also a member of the Audit Committee. I find that adopting this approach significantly enhances the governance and oversight of the Company's internal controls and risk management.

This report details the activities of the BRCC that were undertaken during the course of the year in fulfilling our responsibilities.

Committee meetings

The Committee met five times during the year. The meetings were attended by the Committee members, the Company Secretary and, by invitation, the Finance Director, the Executive Director Property, the Risk and Compliance Director and the Internal Audit Manager.

Role and responsibilities

- To provide oversight of the risk management controls of the Company to ensure that these controls are proper and effective and in accordance with the statutory and regulatory requirements and relevant guidance;
- To provide oversight of the process for identifying and managing risks and amending the process as required;
- To ensure that effective and robust risk management is an integral part of Grainger's strategy setting, business planning and decision making process;
- To consider the incidence of risks that arise and to provide the necessary oversight to adapt/adjust controls to improve effectiveness as recommended by management;
- In conjunction with the Audit Committee, to ensure audits and monitoring are performed to fulfil the agreed assurance map and verify the operation of controls over key risks;
- To review the results of audits and ensure that action is taken to address any identified gap in compliance relating to the operation of controls over key risks;
- To review the Company's risk register, which identifies the key risks to the business, how these are mitigated, the present status of defence against the risks, and the actions required to improve this if deemed necessary; and
- To provide oversight to ensure that agreed actions to mitigate these risks, as detailed in the risk map, are carried out.

Other disclosures

In accordance with UK Financial Conduct Authority's Listing Rules, the information to be included in the Annual Report and Accounts, where applicable, under LR 9.8.4 is set out in Note 17 on page 115 in relation to the dividend waiver arrangements.

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 and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards.

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 parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- For the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report, Directors' report, Directors' Remuneration report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The Strategic report and Directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together

with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group's position and performance, business model and strategy.

The Directors have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The maintenance and integrity of the Grainger plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the 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.

Sustainability

Our approach to sustainability is based on our assessment of the potential risk and opportunity to our business. In the year ended 30 September 2015, the Group achieved 65% and partially achieved 6% of the applicable sustainability targets that it committed to meeting by that date. Further information is provided in pages 30 to 36.

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.

Political donations

In accordance with the Company's policy, no political donations were made in 2015 (2014: £nil).

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.

Adam McGhin
Company Secretary

Independent auditors' report to the members of Grainger plc only

OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

1 Our opinion on the Group financial statements is unmodified

We have audited the financial statements of Grainger plc for the year ended 30 September 2015 set out on pages 80 to 155. In our opinion:

– the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 September 2015 and of the Group's profit for the year then ended;

– the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;

– the parent company financial statements have been properly prepared in accordance with UK Accounting Standards; and

– the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Valuation of investment properties (investment properties £357.8m)

Refer to Annual Report page 51 (Audit Committee Report) Annual Accounts page 90 and 94-97 (accounting policies) and Annual Accounts pages 115-116 (financial disclosures).

The risk:

Investment property is carried at fair value which relies on assumptions which are inherently judgemental and a small adjustment in one or more of the assumptions could result in a material change in the carrying value of investment properties.

The Directors are assisted in arriving at the vacant possession ('VP') value of UK residential properties by the in house surveying team. The VP is based on data derived from comparable market transactions. The determination of the appropriate data requires significant judgement. A discount is then applied to the VP to derive fair value.

For retirement solutions properties the risk is that the vacancy and discount rate assumptions used in estimating the discount from VP are inappropriate.

For the Tricomm portfolio there is a risk that the significant assumptions of house price inflation ('HPI') and discount rates are inappropriate in the discounted cash flow model.

For German residential investment properties the risk relates to the estimation of the rent multiple, based on the location, size and condition of the property, which drives the fair value of the assets.

There is a risk that inaccurate and incomplete property information is used by the in house surveying team or the external valuers in their valuation.

Our response:

We used our own valuation specialist to assist us in assessing the year end valuation reports prepared by the external valuers for use in the financial statements.

Our procedures to address the risks in relation to the four categories of property identified above included:

UK Residential and Retirement Solutions properties

– for UK Residential properties, assessing the design of the valuations process and sample testing Directors' valuations to evaluate if they have been prepared in accordance with the process;

– attending the regional meetings between the independent external valuer and the Group, for those UK Residential and Retirement Solutions properties, where there is a variance in the VP value between the external valuer and director's valuation above a set percentage. By attending these meetings, together with our own valuation specialist, we assessed the degree of challenge, evidence presented and the conclusions reached;

– evaluating the inputs used in the valuations against our knowledge and experience of the industry; including challenging the valuations by comparison with market comparable transactions and changes in industry benchmarks;

– performing sensitivity analyses over the identified key assumptions;

Retirement Solutions

– performing a specific assessment of the vacancy assumption against external indices, and critically assessing the discount rate assumptions used by the external independent valuer relating to the VP valuation;

Tricomm

– comparing the key assumptions, included in the discounted cash flow model relating to HPI to market indices;

– assessing discount rates against our knowledge and experience of the industry;

German residential

- comparing the key valuation assumptions, in particular the multiple of net rental income to our knowledge of the German property market, taking into account the locality, condition and size of property; and
- performing sensitivity analyses over the identified key assumptions.

We compared the investment property value recorded in the financial statements to the independent external valuer's reports and assessed the adequacy of the Group's disclosures about the sensitivities and inputs into the valuations in accordance with relevant accounting standards.

Our procedures included testing whether the property information provided by the Group to the independent external valuers' and used by the in house surveying team was complete and accurate, for example by agreeing key inputs, such as rental income, occupancy and current tenancy details, to the Group's property contracts.

Carrying value of inventories (trading properties) (inventories £1,152.2m)

Refer to Annual Report page 51 (Audit Committee Report) Annual Accounts pages 90-91 and 94-98 (accounting policies) and Annual Accounts pages 122-123 (financial disclosures).

The risk:

Trading properties are held in inventories at the lower of cost and net realisable value ('NRV'). The Group strategy is to sell trading stock on vacancy, and therefore the NRV of UK residential and Retirement Solutions properties is the net proceeds expected on sale with VP. An assessment of the NRV is carried out by reference to key assumptions such as comparable market sales, HPI and vacancy rates, which may require significant judgement.

For land and property developments where the intention is to sell on completion, NRV is the expected net sales proceeds on sale of the property. The key risk is development inventories continue to be held at cost when an impairment should be recognised, because the total forecast profits on the individual developments may be over-estimated.

Our response:

The procedures outlined above in relation to the assessment of the design of the valuations process also formed part of the response to this risk.

We compared predicted HPI to trends in market indices and the vacancy rate to historic averages. We performed sensitivity analyses on these assumptions to assess the level of headroom before an adjustment to the carrying value would be required. For a selection of property sales after the balance sheet date, we compared the value carried in the balance sheet with the sales price achieved.

We focussed on land and property developments where the market valuation from the independent external valuer, based on the current state of the site at the balance sheet date, suggested that impairment might be required to reduce the carrying amount below cost. For sites where the valuations indicated a value lower than the cost carried in the balance sheet and the Group's intention is to develop the site, we inspected the Group's plans and forecasts used to support the NRV assessment and performed sensitivity analyses to assess the headroom before an adjustment to the carrying value is required. For sites where the intention is to sell without development we compared the carrying value of inventory to the market value, estimated by the independent external valuer, of the site in its current condition, based on comparable sales.

We also considered the adequacy of the Group's disclosures about the degree of estimation involved before an adjustment to the carrying value is required.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £4.0m, determined with reference to a benchmark of Group profit before tax, normalised to exclude non-recurring items as disclosed in Note 3 and by averaging over the last three years to reduce volatility. This gives a normalised average profit before tax of £74.1m with a materiality of £4.0m being 5.4%. We consider normalised PBT to be one of the principal considerations for the Directors in assessing the financial performance of the Group.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.2m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

We identified two components for the scoping of our audit of the Group financial statements, the UK and Germany. The UK component was subject to a full-scope audit performed to component materiality of £3.7m. The German component was subject to audit of specific balances and classes of transactions. German component materiality was £2.0m. The UK and German component audits covered 100% of Group revenue, 100% of Group profit before tax and 100% of Group total assets. All components are audited by the Group engagement team.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the Group financial statements.

5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' viability statement on page 29, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the four years to 2019; or
- the disclosures in Note 2 of the financial statements concerning the use of the going concern basis of accounting.

6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group's performance, business model and strategy; or
- the Audit Committee report does not appropriately address matters communicated by us to the Audit Committee.

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

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

Under the Listing Rules we are required to review:

- the Directors' statements, set out on pages 23 and 29, in relation to going concern and longer-term viability; and
- the part of the Corporate governance statement on page 37 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' responsibilities statement set out on page 75, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view.

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Bill Holland (**Senior Statutory Auditor**)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

19 November 2015

Consolidated income statement

For the year ended 30 September 2015	Notes	2015 £m	2014 £m
Group revenue	3, 4, 5	**244.1**	319.1
Net rental income	6	**37.9**	35.9
Profit on disposal of trading property	7	**85.4**	87.2
Administrative expenses	9	**(36.1)**	(34.7)
Fees and other income	10	**8.2**	12.8
Other expenses	11	**(5.6)**	(3.6)
Profit on disposal of investment property	8	**0.5**	0.8
Income from financial interest in property assets	22	**9.2**	7.0
Profit on disposal of subsidiary	3	**–**	0.7
Profit on disposal of joint venture	21	**4.4**	0.1
(Write down)/write back of inventories to net realisable value	24	**(1.2)**	0.8
Impairment of joint venture	21	**(4.1)**	(2.4)
Impairment of deferred consideration receivable	40	**(15.8)**	–
Operating profit before net valuation gains on investment property		**82.8**	104.6
Net valuation gains on investment property	18	**13.9**	1.5
Operating profit after net valuation gains on investment property		**96.7**	106.1
Change in fair value of derivatives	29	**(5.8)**	1.2
Finance costs	14	**(67.7)**	(66.3)
Finance income	14	**1.9**	2.9
Share of profit of associates after tax	20	**15.4**	21.1
Share of profit of joint ventures after tax	21	**9.5**	16.1
Profit before tax	13	**50.0**	81.1
Tax charge for the year	15	**(7.3)**	(6.4)
Profit for the year attributable to the owners of the Company	34	**42.7**	74.7
Basic earnings per share	17	**10.4p**	18.1p
Diluted earnings per share	17	**10.3p**	17.9p

Consolidated statement of comprehensive income

For the year ended 30 September 2015	Notes	2015 £m	2014 £m
Profit for the year	34	**42.7**	74.7
Items that will not be transferred to consolidated income statement:			
Actuarial (loss)/gain on BPT Limited defined benefit pension scheme	30	**(0.6)**	0.9
Items that will be reclassified subsequently to consolidated income statement:			
Fair value movement on financial interest in property assets	22	**–**	1.0
Exchange differences on translating foreign operations		**(0.7)**	(0.3)
Changes in fair value of cash flow hedges		**(0.8)**	5.4
Other comprehensive income and expense for the year before tax		**(2.1)**	7.0
Tax relating to components of other comprehensive income:			
Tax relating to items that will not be transferred to consolidated income statement	15	**0.1**	(0.1)
Tax relating to items that will be reclassified subsequently to consolidated income statement	15	**(0.7)**	(1.5)
Other comprehensive income and expense for the year after tax		**(2.7)**	5.4
Total comprehensive income and expense for the year attributable to the owners of the Company		**40.0**	80.1

Included within other comprehensive income is a charge of £0.6m net of tax (2014: charge of £0.9m) relating to associates and joint ventures accounted for under the equity method.

Consolidated statement of financial position

As at 30 September 2015	Notes	2015 £m	2014 £m
ASSETS			
Non-current assets			
Investment property	18	**357.8**	332.9
Property, plant and equipment	19	**1.6**	2.1
Investment in associates	20	**108.4**	103.5
Investment in joint ventures	21	**70.8**	73.6
Financial interest in property assets	22	**93.7**	94.5
Deferred tax assets	15	**12.0**	12.2
Intangible assets	23	**2.7**	2.2
		647.0	621.0
Current assets			
Inventories – trading property	24	**1,152.2**	1,020.2
Trade and other receivables	25	**31.6**	74.9
Derivative financial instruments	29	**2.0**	–
Cash and cash equivalents	29	**88.8**	74.4
Assets classified as held-for-sale	39	**–**	3.4
		1,274.6	1,172.9
Total assets		**1,921.6**	1,793.9
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	28	**1,093.1**	1,085.0
Retirement benefits	30	**1.7**	2.2
Provisions for other liabilities and charges	26	**0.2**	0.3
Deferred tax liabilities	15	**32.3**	25.8
		1,127.3	1,113.3
Current liabilities			
Interest-bearing loans and borrowings	28	**133.3**	33.1
Trade and other payables	27	**56.9**	54.5
Provisions for other liabilities and charges	26	**0.7**	0.8
Current tax liabilities	15	**3.0**	6.5
Derivative financial instruments	29	**35.5**	48.0
		229.4	142.9
Total liabilities		**1,356.7**	1,256.2
Net assets		**564.9**	537.7

As at 30 September 2015	Notes	**2015 £m**	2014 £m
EQUITY			
Capital and reserves attributable to the owners of the Company			
Issued share capital	31	**20.9**	20.9
Share premium		**110.7**	110.4
Merger reserve		**20.1**	20.1
Capital redemption reserve		**0.3**	0.3
Cash flow hedge reserve		**(3.5)**	(1.4)
Available-for-sale reserve		**4.6**	4.6
Retained earnings	34	**411.7**	382.7
Equity attributable to the owners of the Company		**564.8**	537.6
Non-controlling interests		**0.1**	0.1
Total equity		**564.9**	537.7

The financial statements on pages 80 to 150 were approved by the Board of Directors on 19 November 2015 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	Available-for-sale reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
Balance as at 1 October 2014		20.9	110.4	20.1	0.3	(1.4)	4.6	382.7	0.1	537.7
Profit for the year	34	–	–	–	–	–	–	42.7	–	42.7
Actuarial loss on BPT Limited defined benefit pension scheme	30	–	–	–	–	–	–	(0.6)	–	(0.6)
Exchange adjustments offset in reserves		–	–	–	–	–	–	(0.7)	–	(0.7)
Changes in fair value of cash flow hedges		–	–	–	–	(0.8)	–	–	–	(0.8)
Tax relating to components of other comprehensive income	15	–	–	–	–	(1.3)	–	0.7	–	(0.6)
Total comprehensive income and expense for the year		–	–	–	–	(2.1)	–	42.1	–	40.0
Award of SAYE shares		–	0.3	–	–	–	–	–	–	0.3
Purchase of own shares	31, 34	–	–	–	–	–	–	(4.7)	–	(4.7)
Share-based payments charge	32	–	–	–	–	–	–	2.0	–	2.0
Dividends paid	16	–	–	–	–	–	–	(10.4)	–	(10.4)
Balance as at 30 September 2015		**20.9**	**110.7**	**20.1**	**0.3**	**(3.5)**	**4.6**	**411.7**	**0.1**	**564.9**

	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 cash flows

For the year ended 30 September 2015	Notes	2015 £m	2014 £m
Cash flow from operating activities			
Profit for the year		**42.7**	74.7
Depreciation and amortisation	19, 23	**1.1**	0.9
Net valuation gains on investment property	18	**(13.9)**	(1.5)
Net finance costs	14	**65.8**	63.4
Profit on disposal of subsidiary		**–**	(0.7)
Profit on disposal of joint venture	21	**(4.4)**	(0.1)
Share of profit of associates and joint ventures	20, 21	**(24.9)**	(37.2)
Profit on disposal of investment property	8	**(0.5)**	(0.8)
Share-based payment charge	32, 34	**2.0**	2.0
Change in fair value of derivatives	29	**5.8**	(1.2)
Impairment of joint venture	21	**4.1**	–
Impairment of deferred consideration receivable	40	**15.8**	–
Interest income from financial interest in property assets	22	**(9.2)**	(7.0)
Tax	15	**7.3**	6.4
Operating profit before changes in working capital		**91.7**	98.9
Decrease/(increase) in trade and other receivables		**8.2**	(31.3)
Decrease in trade and other payables		**(0.5)**	(6.2)
Decrease in provisions for liabilities and charges		**(0.2)**	(3.2)
Increase in trading property		**(34.4)**	(65.9)
Cash generated by (used by) operations		**64.8**	(7.7)
Interest paid		**(60.8)**	(54.5)
Tax paid	15	**(4.9)**	(7.2)
Payments to defined benefit pension scheme	30	**(1.1)**	(1.1)
Net cash outflow from operating activities		**(2.0)**	(70.5)
Cash flow from investing activities			
Proceeds from sale of investment property	8	**14.5**	22.1
Proceeds from financial interest in property assets	22	**10.0**	9.8
Proceeds from sale of joint venture	21	**18.4**	–
Interest received		**0.6**	1.7
Distributions received	20, 21	**2.7**	4.3
Investment in associates and joint ventures	20, 21	**(0.2)**	(5.1)
Acquisition of subsidiary net of cash acquired	40	**0.6**	–
Acquisition of investment property	18	**(29.6)**	(3.4)
Acquisition of property, plant and equipment and intangible assets	19, 23	**(1.2)**	(2.7)
Net cash inflow from investing activities		**15.8**	26.7

For the year ended 30 September 2015	Notes	2015 £m	2014 £m
Cash flows from financing activities			
Awards of SAYE options		**0.3**	0.6
Purchase of own shares	31, 34	**(4.7)**	(2.1)
Proceeds from new borrowings		**523.0**	381.2
Issue of corporate bond		**–**	275.8
Repayment of convertible bond		**–**	(24.3)
Payment of loan costs		**(5.9)**	5.1
Purchase of interest rate caps		**(2.0)**	–
Settlement of derivative contracts		**(17.9)**	(35.3)
Repayment of borrowings		**(481.2)**	(561.5)
Dividends paid	16	**(10.4)**	(8.5)
Net cash inflow from financing activities		**1.2**	31.0
Net increase/(decrease) in cash and cash equivalents		**15.0**	(12.8)
Cash and cash equivalents at the beginning of the year	29	**74.4**	90.3
Net exchange movements on cash and cash equivalents		**(0.6)**	(3.1)
Cash and cash equivalents at the end of the year	29	**88.8**	74.4

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 170. 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 2015 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 151 to 155.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in the Group financial statements. No new accounting policies have been adopted in the year and there has been no change to the basis of accounting estimates in the year.

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 de-consolidated from the date control ceases.

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

ii) Business combinations At the time of acquisition, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. The Group accounts for an acquisition as a business combination where an integrated set of activities are acquired in addition to the property. When the acquisition of a subsidiary does not represent a business, it is accounted for as an acquisition of asset and liabilities. The cost of acquisition is allocated to the assets and liabilities acquired based on their fair values, and no goodwill or deferred tax is recognised.

iii) Goodwill and impairment Business combinations are accounted for using the acquisition method. 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.

iv) 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 has no control or joint control over those policies. Where the Group owns less than 50% of the voting rights but acts as property and/or asset manager an assessment is made as to whether or not the Group has de facto control over an investee. This includes a review of the Group's rights relative to those of another investor or investors and the ability the Group has to direct the investees' relevant activities (further detail is provided in Note 20).

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.

Transactions between the reportable segments are based on market prices.

(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.

1. ACCOUNTING POLICIES Continued

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 net of deferred income tax are recognised within other 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. Any loss on the reclassification of these assets from investment properties to assets held-for-sale is charged to the income statement of the period in which this occurs.

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

(g) Financial interest in property assets

Financial interest in property assets is initially recognised at fair value plus transaction costs and subsequently carried at fair value. Subsequent to initial recognition, the net change in value that is recorded through the income statement is as follows: i) the carrying value of the assets is increased by the effective interest rate; and ii) the carrying value of the assets is revised to the net present value of the updated projected cash flows arising from the instrument using the effective interest rate applicable at acquisition. The change in value recorded through the income statement is shown on the line 'Income from financial interest in property assets'. Cash received from the instrument in the year is deducted from the carrying value of the asset.

Differences between the updated projected cash flows using the effective interest rate applicable at acquisition compared to updated projected cash flows using a year end effective interest rate, assessed as the rate available in the market for an instrument with a similar maturity and credit risk, are taken through other comprehensive income with a corresponding adjustment to the carrying value of the assets. When gains or losses in the assets are realised, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from financial interest in property assets.

(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 only to the extent that it is probable that taxable profit will give rise to a future tax liability against which the deferred tax assets can be recovered.

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 other comprehensive income each year.

1. ACCOUNTING POLICIES Continued

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.

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.

i) Gross rental income Gross rental income is recognised on a straight-line basis over the lease term on an accruals basis.

ii) Service charges income 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 in the statement of financial position with no amount passing through the income statement.

In Germany, Grainger acts primarily as principal. Accordingly, service charge income is shown 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.

iii) Sales proceeds from property trading Revenue arising from the sale of trading property is recognised on legal completion.

iv) Management fee and other income Management fee income is recognised in the accounting period in which the services are rendered.

Management fee income includes performance fees which are 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.

(m) Profit recognition

Residential and development property is regarded as sold when the significant risks and returns have been transferred to the buyer. This is deemed to be on legal completion. Profits or losses are calculated by reference to the carrying value of the property sold. For a development property this is assessed through the use of a gross margin for the site as a whole or other basis that provides an appropriate allocation of costs.

(n) Leases

i) Group as lessor The net present value of ground rents receivable is, in the opinion of the Directors, immaterial. Accordingly, ground rents receivable are taken to the income statement on a straight-line basis over the period of the lease. Properties leased out to tenants are included in the 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.

(o) Derivative financial instruments

Derivatives

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

The derivatives are recognised initially at fair value. Subsequently, the gain or loss on re-measurement to fair value is recognised immediately in the income statement, unless the derivatives qualify for cash flow hedge accounting in which case any gain or loss is taken to equity in a cash flow hedge reserve via other comprehensive income. 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 on-going 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 market information.

(p) Derecognition of financial assets and liabilities

Derecognition is the point at which the Group removes an asset or a liability from its 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.

q) Borrowings

Borrowings are initially recognised at 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.

(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; (b) it is probable that an outflow of resources will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation.

(u) Dividends

Dividend distributions to the Company's Shareholders are recognised as a liability in the Group financial statements in the period in which the dividends are either approved by the Company's Shareholders or are appropriately authorised and no longer at the discretion of the Group. Interim dividends are recognised on payment.

NOTES TO THE FINANCIAL STATEMENTS Continued

1. ACCOUNTING POLICIES Continued

(v) Assets 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.

Non-current assets classified as held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets and liabilities classified as held-for-sale are presented separately as current items in the statement of financial position. On re-classification, investment property that is measured at fair value continues to be measured at fair value.

(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) Adoption of new and revised International Financial Reporting standards and interpretations

There are no new standards, amendments or interpretations that are effective for the first time for the current financial year that have a material impact on the Group.

The Group is assessing the impact of the following revised standards and interpretations that are not yet effective. Where already endorsed by the EU, these changes will be adopted on the effective dates noted. Where not yet endorsed by the EU the adoption date is less certain.

- Annual Improvements to IFRSs 2012 – 2014, effective 2017 financial year;
- IFRS 9 Financial Instruments: Classification and Measurement, effective 2019 financial year (not yet endorsed by the EU);
- IFRS 15 Revenue from Contracts with Customers, effective 2018 financial year (not yet endorsed by the EU).

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% (2014: 1%) movement in interest rates, a +/- 10 percentage point (2014: 10 percentage point) movement in Sterling exchange rates and a +/- 1 percentage point (2014: 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 non-GAAP 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 results and the basis of each valuation and their impact on both the statutory financial statements and market value for the Group's non-GAAP 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	836.9	220.0	–	95.3	–	**1,152.2**	
Investment property	169.1	46.1	–	–	142.6	**357.8**	
Financial asset (CHARM)	–	93.7	–	–	–	**93.7**	
Total statutory book value	**1,006.0**	**359.8**	**–**	**95.3**	**142.6**	**1,603.7**	
Allsop LLP							
UK Residential	1,160.3	–	–	–	–	**1,160.3**	**55%**
Retirement Solutions	–	338.2	–	–	–	**338.2**	*****
Grainger Invest	327.2	–	–	–	–	**327.2**	**100%**
Tricomm investment valuation	111.5	–	–	–	–	**111.5**	**100%**
Financial asset (CHARM)	–	93.7	–	–	–	**93.7**	******
Abbeville Apartments	22.9	–	–	–	–	**22.9**	**100%**
Cushman and Wakefield LLP	–	–	–	–	142.6	**142.6**	**96%**
CBRE Limited	–	–	–	95.0	–	**95.0**	**100%**
Total assets at market value	**1,621.9**	**431.9**	**–**	**95.0**	**142.6**	**2,291.4**	
Trading property	1,452.8	292.1	–	95.0	–	**1,839.9**	
Investment property	169.1	46.1	–	–	142.6	**357.8**	
Financial asset	–	93.7	–	–	–	**93.7**	
Total assets at market value	**1,621.9**	**431.9**	**–**	**95.0**	**142.6**	**2,291.4**	
Statutory book value	1,006.0	359.8	–	95.3	142.6	**1,603.7**	
Market value uplift*	615.9	72.1	–	(0.3)	–	**687.7**	
	1,621.9	**431.9**	**–**	**95.0**	**142.6**	**2,291.4**	
Net revaluation gain recognised in the income statement for wholly-owned properties	**14.6**	**2.4**	**–**	**–**	**(3.1)**	**13.9**	
Net revaluation gain relating to joint ventures and associates**	–	–	20.2	–	8.2	**28.4**	
Net revaluation gain recognised in the year**	**14.6**	**2.4**	**20.2**	**–**	**5.1**	**42.3**	

* 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.
*** See Note 2 iv) below for the basis of valuation adopted this year.
**** Allsop provides vacant possession values used by the Directors to value the financial asset in accordance with the accounting policy set out in Note 1(g).

2. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS Continued

i) UK Residential

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 2015. 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, 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 1.12% 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 2015 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 55% 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 the UK Residential portfolio the discounts are established by tenancy type and are based on evidence gathered by Allsop LLP from recent transactional market evidence. After due consideration and challenge of Allsop LLP, the Directors have adopted all of the recommendations made by Allsop LLP in relation to the discounts, the impact of which has been to increase the market value of trading stock in the Group's non-GAAP net asset measures by £51.4m and in the income statement by £1.5m as a valuation gain.

ii) Grainger Invest ('GInvest')

All of the property owned by the Group in the GInvest portfolio was valued as at 30 September 2015 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 2015 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 Professional Valuation 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 price inflation are 3% in 2016, 4% in 2017 and 2018, 3.5% in 2019 and 2020 and 3% thereafter. The discount rates applied to the cash flows range between 4.25% and 9.25%.

iv) Retirement Solutions

All of the property owned by the Group in the Retirement Solutions portfolio has been valued by the Directors at 30 September 2015 and is included at Directors' valuation in the market value numbers presented. All of the property owned by the Group in the Retirement Solutions portfolio excluding CHARM, was also valued as at 30 September 2015 by Allsop LLP who are external independent valuers. The Directors' valuation, excluding CHARM, places a value on the assets which is £7.0m (2.1%) lower than the Allsop LLP valuation. The financial asset, CHARM, was valued by the directors in accordance with the accounting policy set out in Note 1(g) above. Allsop LLP provide vacant possession values for the CHARM assets and these are used in the assessment of projected future cash flows to be received from the financial asset. For the assets valued by Allsop LLP, they undertake a Red Book valuation on a market value basis in accordance with the RICS Valuation – Professional Standards. The valuation was based upon an assessment of the vacant possession value of each property obtained through an external or internal inspection by Allsop LLP of approximately 50% of the properties in the portfolio within the last 12 months and a desktop valuation of the remainder. The market value subject to tenancy was obtained subsequently by taking into account, on a property-by-property basis, a number of factors, primarily the estimated period until vacant possession may arise and the appropriate discount rate.

v) Cushman and Wakefield – German Residential

The whole of the property portfolio in Germany was valued as at 30 September 2015 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, representing 96% of the total value of development trading stock, 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. The remaining 4% of the portfolio is a Directors' valuation.

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 Fund's division. WIP is valued on the same basis as the GInvest portfolio. MH Grainger JV 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 2015 by external valuers, Savills (UK) Limited. In aggregate, the valuation of the individual dwellings as at 30 June 2015 was £511.0m 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 2015 valuations based on the movement in house price indices to 30 September 2015 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 2015. The Group's share of the revaluation gain based on the indexed revaluation was £1.5m. For every 1% movement in the market value of the GRIP investment property the Group's share of the movement would amount to £1.3m.

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 2015 to write down properties expected to be sold ultimately at vacant possession value. The provision has been assessed on what the Group considers to be reasonable assumptions. These allow for a 3.9% growth in property prices between 2016 and 2020 inclusive followed by growth in house prices of 4.0% thereafter. The assumptions also allow for an annual vacancy rate of 7.2% in 2016, increasing by 0.1% p.a. thereafter. In addition, a specific provision of £1.5m has been made this year to write down the book cost of certain properties to their current vacant possession value on the assumption of sale on vacancy but with no further growth in property prices. 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 2015 against projected investment sales.

In aggregate, a charge of £1.0m has been made in the 2015 income statement (2014: credit of £0.5m) to adjust the book value of residential trading properties to the lower of cost and net realisable value. A 1% decrease in house prices would increase the provision by £0.1m, a 1% increase has no impact (2014: a 1% increase/decrease would decrease/increase the provision by £0.1m). A 1% increase/decrease in annual vacancy rate assumptions would have no impact in 2015 (2014: 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.

2. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS Continued

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 2015 are based upon the current intentions of the Directors. In addition, estimates at 30 September 2015 of project profitability are based on assumptions regarding projected build costs and sales proceeds for those sites where development is expected to occur. In some cases these projections are made without the benefit of planning permission having been agreed.

The assumptions made may or may not be borne out in practice. It is possible therefore that any net realisable value provision required should be more than or less than that made.

A charge of £0.2m has been made in the 2015 income statement (2014: credit of £0.3m) in adjusting the book value of development stock to net realisable value.

Valuation of financial interest in property assets

The valuation is based on an assessment of the future cash flows that will arise from our financial interest and on the effective interest rate used to discount those cash flows. The valuation methodology adopted is set out in Note 1(g) above. The key assumptions affecting the carrying value are house price inflation and the effective interest rate.

The fair value of our interest changes as cash flows are realised and an increase of £nil (2014: increase of £1.0m) in the fair value has been recognised in the statement of other comprehensive income and the available-for-sale reserve.

The assumptions adopt an increase in house prices of 4.0% per annum. A change of 1% to average house price inflation over the 10-year period from 1 October 2015 would either increase the valuation by £5.5m (2014: £4.6m) or reduce the valuation by £5.1m (2014: £4.3m). At 30 September 2015 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 (2014: £0.7m).

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 2015 should be the same as the rate adopted at 30 September 2014. This revised discount rate 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 £7.4m (2014: £7.8m) or reduce the carrying value by £6.4m (2014: £6.8m).

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.

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 utilises an external independent valuer, J C Rathbone Associates Limited, to provide recommendations on the internal assumptions which have been fully adopted by the Directors.

Germany wholly-owned assets

The Group announced on 13 August 2015 that it had appointed advisers to assist with the disposal of its wholly-owned residential property assets in Germany.

Consideration has been given as to whether the German wholly-owned assets meet the criteria to be classified as held-for-sale at the statement of financial position date. Although certain criteria, set out in IFRS 5, were considered to have been met, the Directors concluded that, at the statement of financial position date, sufficient work had not been carried out to establish a formal plan for sale and that the portfolio had not yet been actively marketed. As a result, the Directors were unable to conclude that all the criteria had been met to confirm that a sale of the assets was highly probable. Therefore, the Germany wholly-owned property assets have not been classified as held-for-sale.

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 2015, the LTV was 40.6% compared to a default level of 75% and the interest cover ratio was 3.1 times compared to a minimum requirement of 1.35 times. The Group has other bank debt on which there are also covenant requirements. As at 30 September 2015, 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 £580.0m on 30 September 2015, of which £483.3m were drawn. The Group had free cash balances plus available overdraft of £45.0m and undrawn committed facilities of £96.7m, in total, 'headroom', of £141.7m at 30 September 2015. On 1 October 2015, a revision to the Grainger Invest bank facility was concluded with existing lenders, HSBC and Santander. This increased headroom, on a pro forma basis, to £183m. 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.

In addition, as set out on page 29, the Directors have considered the Group's viability in detail over a four-year period to September 2019. Two different scenarios were modelled to stress-test the business model. First an aggressive but short-term house price crash with a slow return to growth thereafter and secondly a continuing slow decline in house prices. The Directors have concluded that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the four-year period of their detailed assessment.

NOTES TO THE FINANCIAL STATEMENTS Continued

3. ANALYSIS OF PROFIT BEFORE TAX

The results for the years ended 30 September 2014 and 2015 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.

	2015				2014			
(£m)	Trading	Valuation	Non-recurring	Total	Trading	Valuation	Non-recurring	Total
Group revenue	**244.1**	–	–	**244.1**	319.1	–	–	319.1
Net rental income	**37.9**	–	–	**37.9**	37.0	–	(1.1)	35.9
Profit on disposal of trading property	**85.4**	–	–	**85.4**	87.2	–	–	87.2
Administrative expenses	**(36.1)**	–	–	**(36.1)**	(34.7)	–	–	(34.7)
Fees and other income	**8.2**	–	–	**8.2**	12.8	–	–	12.8
Other expenses	**(3.2)**	–	**(2.4)**	**(5.6)**	(2.6)	–	(1.0)	(3.6)
Profit on disposal of investment property	**0.5**	–	–	**0.5**	0.8	–	–	0.8
Income from financial interest in property assets	**9.2**	–	–	**9.2**	7.0	–	–	7.0
Profit on disposal of subsidiary	–	–	–	–	–	–	0.7	0.7
Profit on disposal of joint venture	–	–	**4.4**	**4.4**	–	–	0.1	0.1
(Write down)/write back of inventories to net realisable value	–	**(1.2)**	–	**(1.2)**	–	0.8	–	0.8
Impairment of joint venture	–	**(4.1)**	–	**(4.1)**	–	(2.4)	–	(2.4)
Impairment of deferred consideration receivable	–	–	**(15.8)**	**(15.8)**	–	–	–	–
Operating profit before net valuation gains on investment property	**101.9**	**(5.3)**	**(13.8)**	**82.8**	107.5	(1.6)	(1.3)	104.6
Net valuation gains on investment property	–	**13.9**	–	**13.9**	–	1.5	–	1.5
Operating profit after net valuation gains on investment property	**101.9**	**8.6**	**(13.8)**	**96.7**	107.5	(0.1)	(1.3)	106.1
Change in fair value of derivatives	–	**(5.8)**	–	**(5.8)**	–	1.2	–	1.2
Finance costs	**(64.2)**	–	**(3.5)**	**(67.7)**	(66.3)	–	–	(66.3)
Finance income	**1.9**	–	–	**1.9**	2.9	–	–	2.9
Share of profit of associates after tax	**1.3**	**14.1**	–	**15.4**	3.0	18.1	–	21.1
Share of profit of joint ventures after tax	**0.3**	**9.2**	–	**9.5**	–	16.1	–	16.1
Profit before tax	**41.2**	**26.1**	**(17.3)**	**50.0**	47.1	35.3	(1.3)	81.1

Profit before tax in the trading columns above of £41.2m (2014: £47.1m) is the recurring profit of the Group.

The non-recurring items in 2015 include a loss of £18.2m in relation to the re-acquisition of Equity Release (Increments) Limited (ERIL), a £4.4m profit on the sale of the Sovereign joint venture, and a £3.5m charge relating to the accelerated write off of loan costs after refinancing of bank syndicate debt during 2015. The impairment of joint venture of £4.1m relates to the Group's investments in Curzon Park Limited and its Prague joint venture.

In the prior year the £1.1m non-recurring cost presented within net rental income relates to a provision for contractor remedial costs which we are taking action to recoup. The £2.4m impairment of joint venture relates to the Group's investment in its Prague joint venture.

4. SEGMENTAL INFORMATION

Information relating to the Group's operating segments is set out in the tables below. The tables distinguish between trading, valuation and non-recurring items and should be read in conjunction with Note 3.

2015 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	**154.3**	**35.7**	**4.3**	**34.4**	**15.2**	**0.2**	**244.1**
Net rental income	32.3	1.7	–	0.1	3.8	–	37.9
Profit on disposal of trading property	60.5	15.1	–	9.8	–	–	85.4
Administrative expenses	(8.9)	(2.0)	(3.9)	(1.1)	(2.9)	(17.3)	(36.1)
Fees and other income	0.5	1.6	4.3	0.5	1.1	0.2	8.2
Other expenses	(0.4)	–	(1.0)	(0.6)	–	(1.2)	(3.2)
Profit on disposal of investment property	0.4	–	–	–	0.1	–	0.5
Income from financial interest in property assets	–	9.2	–	–	–	–	9.2
Operating profit before net valuation gains on investment property	**84.4**	**25.6**	**(0.6)**	**8.7**	**2.1**	**(18.3)**	**101.9**
Net trading interest payable	(8.0)	(10.8)	1.5	(0.1)	(2.6)	(42.3)	(62.3)
Share of trading profit of joint ventures and associates after tax	–	0.5	0.9	–	0.2	–	1.6
Trading profit before tax, valuation and non-recurring items	**76.4**	**15.3**	**1.8**	**8.6**	**(0.3)**	**(60.6)**	**41.2**
Write down of inventories to net realisable value	(1.0)	–	–	(0.2)	–	–	(1.2)
Net valuation gains on investment property	14.6	2.4	–	–	(3.1)	–	13.9
Impairment of joint venture	–	–	–	(4.1)	–	–	(4.1)
Profit on disposal of joint venture	–	4.4	–	–	–	–	4.4
Change in fair value of derivatives	–	–	–	–	0.5	(6.3)	(5.8)
Share of valuation gains in joint ventures and associates after tax	–	–	17.7	–	5.6	–	23.3
Impairment of deferred consideration receivable	–	(15.8)	–	–	–	–	(15.8)
Other net non-recurring items	–	(2.4)	–	–	–	(3.5)	(5.9)
Profit before tax							**50.0**

NOTES TO THE FINANCIAL STATEMENTS Continued

4. SEGMENTAL INFORMATION Continued

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	62.7	26.3	6.6	10.8	(0.1)	(59.2)	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

Segmental revenue from external customers is derived as follows:
£228.9m from UK customers (2014: £302.6m).
£15.2m from Germany (2014: £16.5m).
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:
£469.3m within the UK (2014: £444.4m).
£165.7m in Germany (2014: £166.7m).

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.

2015 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)	**223.3**	**116.4**	**92.3**	**81.7**	**80.2**	**(29.0)**	**564.9**
Total segment net assets (NAV)	**864.1**	**190.0**	**100.6**	**81.4**	**87.1**	**10.9**	**1,334.1**
Total segment net assets (NNNAV)	**696.9**	**156.2**	**92.0**	**81.5**	**81.3**	**(6.4)**	**1,101.5**

NOTES TO THE FINANCIAL STATEMENTS Continued

4. SEGMENTAL INFORMATION Continued

2015 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	357.8	–	357.8	–	–	357.8
Investment in associates	108.4	4.8	113.2	(3.5)	(1.3)	108.4
Investment in joint ventures	70.8	8.0	78.8	(7.8)	(0.2)	70.8
Financial interest in property assets	93.7	–	93.7	–	–	93.7
Intangible assets	2.7	–	2.7	–	–	2.7
Inventories – trading property	1,152.2	687.7	1,839.9	–	–	1,839.9
Trade and other receivables	31.6	–	31.6	–	–	31.6
Derivative financial instruments	2.0	(2.0)	–	–	2.0	2.0
Cash and cash equivalents	88.8	–	88.8	–	–	88.8
Property, plant and equipment	1.6	–	1.6	–	–	1.6
Deferred tax asset	12.0	(7.1)	4.9	–	13.6	18.5
Value of own shares held	–	12.3	12.3	–	–	12.3
Total assets	1,921.6	703.7	2,625.3	(11.3)	14.1	2,628.1
Interest-bearing loans and borrowings	(1,226.4)	–	(1,226.4)	–	(32.3)	(1,258.7)
Trade and other payables	(56.9)	–	(56.9)	–	–	(56.9)
Retirement benefits	(1.7)	–	(1.7)	–	–	(1.7)
Current tax liabilities	(3.0)	–	(3.0)	–	–	(3.0)
Provisions for other liabilities and charges	(0.9)	–	(0.9)	–	–	(0.9)
Deferred and contingent tax liabilities	(32.3)	30.0	(2.3)	(167.6)	–	(169.9)
Derivative financial instruments	(35.5)	35.5	–	–	(35.5)	(35.5)
Total liabilities	(1,356.7)	65.5	(1.291.2)	(167.6)	(67.8)	(1,526.6)
Net assets	564.9	769.2	1,334.1	(178.9)	(53.7)	1,101.5

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 2015 (£m)	UK Residential	Retirement Solutions	Fund and third-party management	UK and European development	German Residential	Other	Total
NNNAV assets							
Investment property	169.1	46.1	–	–	142.6	–	357.8
Investment in associates	–	–	86.5	–	21.9	–	108.4
Investment in joint ventures	–	–	60.1	10.7	–	–	70.8
Financial interest in property assets	–	93.7	–	–	–	–	93.7
Intangible assets	0.5	–	–	–	1.2	1.0	2.7
Inventories – trading property	1,452.8	292.1	–	95.0	–	–	1,839.9
Trade and other receivables	3.9	3.6	2.5	17.0	1.9	2.7	31.6
Derivative financial instruments	–	–	–	–	–	2.0	2.0
Cash and cash equivalents	56.6	3.5	5.2	18.2	5.3	–	88.8
Property, plant and equipment	–	–	–	–	–	1.6	1.6
Deferred tax asset	–	8.2	–	–	0.1	10.2	18.5
Value of own shares held	–	–	–	–	–	12.3	12.3
Total segment NNNAV assets	1,682.9	447.2	154.3	140.9	173.0	29.8	2,628.1
NNNAV liabilities							
Interest-bearing loans and borrowings	(814.2)	(239.4)	(61.5)	(53.0)	(82.6)	(8.0)	(1,258.7)
Trade and other payables	(14.2)	(30.0)	(0.8)	(6.4)	(4.6)	(0.9)	(56.9)
Retirement benefits	–	–	–	–	–	(1.7)	(1.7)
Current tax liabilities	(14.9)	(3.4)	–	–	1.5	13.8	(3.0)
Provisions for other liabilities and charges	(0.7)	–	–	–	–	(0.2)	(0.9)
Deferred and contingent tax liabilities	(122.9)	(18.2)	–	–	(4.0)	(24.8)	(169.9)
Derivative financial instruments	(19.1)	–	–	–	(2.0)	(14.4)	(35.5)
Total segment NNNAV liabilities	(986.0)	(291.0)	(62.3)	(59.4)	(91.7)	(36.2)	(1,526.6)
Net NNNAV assets	696.9	156.2	92.0	81.5	81.3	(6.4)	1,101.5

NOTES TO THE FINANCIAL STATEMENTS Continued

4. SEGMENTAL INFORMATION Continued

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

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	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**

5. GROUP REVENUE

	2015 £m	2014 £m
Gross rental income (see Note 6)	**58.7**	57.4
Service charge income on a principal basis (see Note 6)	**4.7**	4.2
Gross proceeds from sale of trading property (see Note 7)	**172.5**	244.7
Fees and other income (see Note 10)	**8.2**	12.8
	244.1	319.1

NOTES TO THE FINANCIAL STATEMENTS Continued

6. NET RENTAL INCOME

	2015 £m	2014 £m
Gross rental income	**58.7**	57.4
Service charge income on a principal basis	**4.7**	4.2
Property repair and maintenance costs	**(20.5)**	(20.4)
Service charge expense on a principal basis	**(5.0)**	(5.3)
	37.9	35.9

There are no contingent rents recognised within net rental income in 2015 or 2014 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

	2015 £m	2014 £m
Gross proceeds from sale of trading property	**172.5**	244.7
Selling costs	**(3.5)**	(6.1)
Net proceeds from sale of trading property	**169.0**	238.6
Carrying value of trading property sold	**(83.6)**	(151.4)
	85.4	87.2

8. PROFIT ON DISPOSAL OF INVESTMENT PROPERTY

	2015 £m	2014 £m
Gross proceeds from sale of investment property	**14.9**	22.5
Selling costs	**(0.4)**	(0.6)
Net proceeds from sale of investment property	**14.5**	21.9
Carrying value of investment property sold:		
– Investment property (see note 18)	**(10.2)**	(12.5)
– Assets classified as held-for-sale (see note 39)	**(3.8)**	(8.6)
	0.5	0.8

9. ADMINISTRATIVE EXPENSES

	2015 £m	2014 £m
Total Group administrative expenses	**36.1**	34.7

10. FEES AND OTHER INCOME

	2015 £m	2014 £m
Property and asset management fee income	**7.5**	12.3
Other sundry income	**0.7**	0.5
	8.2	12.8

11. OTHER EXPENSES

	2015 £m	2014 £m
External costs relating to fee income	**0.2**	0.9
Transaction expenses	**4.9**	2.5
Business improvement costs	**0.5**	0.2
	5.6	3.6

12. EMPLOYEES

	2015 £m	2014 £m
Wages and salaries	**16.6**	15.0
Termination benefits	**–**	0.5
Social security costs	**2.3**	2.0
Other pension costs – defined contribution scheme (see Note 30)	**1.0**	1.0
Share-based payments (see Note 32)	**2.0**	2.0
	21.9	20.5

The 2014 comparatives for wages and salaries and social security costs have been amended to more accurately reflect the allocation between the categories in the table above. Interest on net pension scheme liabilities amounted to £nil in 2015 (2014: £0.2m) and is included within finance costs (see Note 14).

The average monthly number of Group employees during the year (including Executive Directors) was:

	2015 Number	2014 Number
UK Residential	**99**	97
Retirement Solutions	**15**	15
UK and European development	**9**	10
German Residential	**20**	15
Shared services	**118**	118
Group	**17**	15
	278	270

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 62 to 69.

Information about benefits of Directors

The following amounts are disclosed in accordance with Schedule 5 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (Schedule 5).

	2015 £'000	2014 £'000
Aggregate Directors' remuneration	**1,810**	2,552
Aggregate amount of gains on exercise of share options	**–**	239
Aggregate amount of money or assets received or receivable under scheme interests	**3,134**	3,562
Aggregate cash paid into deferred contribution pension schemes	**159**	167
	5,103	6,520

The number of Directors in defined contribution pension schemes during 2015 was three (2014: four). None of the Directors (2014: None) were members of the Group defined benefit scheme.

NOTES TO THE FINANCIAL STATEMENTS Continued

12. EMPLOYEES Continued

Key management compensation

	2015 £m	2014 £m
Short-term employee benefits	**5.7**	6.4
Post-employment benefits	**0.4**	0.4
Share-based payments	**1.5**	1.4
Payments for loss of office	**–**	0.4
	7.6	8.6

Key management figures shown above include Executive and Non-Executive Directors and all internal directors of specific functions.

13. PROFIT BEFORE TAX

	2015 £m	2014 £m
Profit before tax is stated after charging/(crediting):		
Depreciation on fixtures, fittings and equipment (see Note 19)	**0.7**	0.3
Amortisation of IT software (see Note 23)	**0.4**	0.6
Bad debt expense (see Note 25)	**0.3**	1.2
Foreign exchange movements	**–**	(0.1)
Operating lease payments	**1.2**	1.3
Auditor's remuneration (see below)	**0.2**	0.4

The remuneration paid to KPMG LLP, the Group's principal auditor (2014: PricewaterhouseCoopers LLP), is disclosed below:

Auditor's remuneration

	2015 £'000	2014 £'000
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	**107**	117
Fees payable to the Company's auditor and their associates for other services to the Group:		
The audit of the Company's subsidiaries pursuant to legislation	**126**	134
Tax advisory services	**2**	76
Tax compliance services	**12**	–
Other assurance services	**–**	74
Other services not covered above	**–**	22
Total fees	**247**	423

The relevant proportion of amounts paid to the auditor for the audit of financial statements of joint ventures is £4,000.

During the year, £12,000 was paid by the Group to KPMG LLP in connection with UK employment tax compliance services. £2,000 was paid for tax advisory services in Germany.

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 49 to 52. No services were provided pursuant to contingent fee arrangements.

14. FINANCE COSTS AND INCOME

	2015 £m	2014 £m
Finance costs		
Bank loans and mortgages	**35.9**	40.2
Non-bank financial institution	**23.7**	19.2
Convertible bond	**–**	1.2
Other finance costs	**0.1**	–
Foreign exchange losses on financing activities	**–**	0.1
Loan issue costs – amortisation and write off	**8.0**	5.4
Interest on net pension scheme liabilities (see Note 30)	**–**	0.2
	67.7	66.3
Finance income		
Interest receivable from associates and joint ventures (see Note 36)	**1.6**	2.4
Other interest receivable	**0.2**	0.3
Bank deposits	**0.1**	0.2
	1.9	2.9
Net finance costs	**65.8**	63.4

Loan issue costs – amortisation and write off shown under finance costs in 2015 include a £3.5m charge relating to the accelerated write off of loan costs after refinancing of bank syndicate debt during 2015 (see Note 3).

15. TAX

	2015 £m	2014 £m
Current tax		
Corporation tax on profit	**5.1**	5.3
Adjustments relating to prior years	**(3.7)**	(5.5)
	1.4	(0.2)
Deferred tax		
Origination and reversal of temporary differences	**6.9**	7.6
Adjustments relating to prior years	**(1.0)**	(1.0)
	5.9	6.6
Income tax charge for the year	**7.3**	6.4

The 2015 current tax adjustments relating to prior years include the utilisation of tax losses and other reliefs available to the Group which have been included in submitted tax returns.

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, which was reconfirmed this year, and to which the Group is committed.

NOTES TO THE FINANCIAL STATEMENTS Continued

15. TAX Continued

Movements in tax during the year are set out below:

2015 Movement in tax	Opening balance £m	Payments made in the year £m	Transfers £m	Acquired in the year £m	Movements recognised in income £m	Exchange adjustments £m	Movements recognised in other comprehensive income £m	Closing balance £m
Current tax	6.5	(4.9)	–	–	1.4	–	–	3.0
Deferred tax								
Trading property uplift to fair value on business combinations	17.2	–	–	2.1	(1.3)	–	–	18.0
Investment property revaluation	6.6	–	–	–	5.4	–	–	12.0
Accelerated capital allowances	0.8	–	–	–	(0.1)	–	–	0.7
Short-term temporary differences	(11.1)	–	0.6	(1.9)	1.9	–	–	(10.5)
Actuarial deficit on BPT Limited pension scheme	(0.4)	–	–	–	–	–	(0.1)	(0.5)
Equity component of available-for-sale financial asset	1.2	–	–	–	–	–	–	1.2
Fair value movement in cash flow hedges and exchange adjustments	(0.7)	–	(0.6)	–	–	–	0.7	(0.6)
	13.6	–	–	0.2	5.9	–	0.6	20.3
Total tax – 2015 movement	20.1	(4.9)	–	0.2	7.3	–	0.6	23.3

	2015 £m	2014 £m
Deferred tax balances are disclosed as follows:		
Deferred tax assets: non-current assets	12.0	12.2
Deferred tax liabilities: non-current liabilities	(32.3)	(25.8)
Deferred tax	(20.3)	(13.6)

Deferred tax has been predominantly calculated at a rate of 20% (2014: 20%).

In addition to the tax amounts shown 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 £137.5m (2014: £119.6m).

No benefit has been recognised in respect of deductible temporary differences with a tax value of £0.5m (2014: £1.4m).

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.

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 business combinations	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

The tax charge for the year of £7.3m (2014: £6.4m) comprises:

	2015 £m	2014 £m
UK tax	**7.4**	7.3
Overseas tax	**(0.1)**	(0.9)
	7.3	6.4

The main rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the Group's results for this accounting period are taxed at an effective rate of 20.5% and should be taxed at 20% in the 2016 period. The change in tax rate has no impact on the income statement in the current year (2014: no impact).

NOTES TO THE FINANCIAL STATEMENTS Continued

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 20.5% (2014: 22%) to the profit before tax. The differences are explained below:

	2015 £m	2014 £m
Profit before tax	**50.0**	81.1
Profit before tax at a rate of 20.5% (2014: 22%)	**10.2**	17.8
Expenses not deductible for tax purposes	**4.9**	1.1
Share of joint ventures/associates after tax	**(2.8)**	(4.2)
Other losses and non-taxable items	**(0.3)**	(1.8)
Adjustment in respect of prior periods	**(4.7)**	(6.5)
	7.3	6.4

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 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 81.

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. Subsequent to the year end a further reduction in the main rate has been substantively enacted, reducing the main rate to 19% from 1 April 2017 and to 18% from 1 April 2020. This reduction has not been reflected in the deferred tax items in the balance sheet as it was not substantively enacted at the year end. This change is therefore expected to reduce the net deferred tax liability of the Group in future periods.

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:

	2015 £m	2014 £m
Ordinary dividends on equity shares:		
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
Final dividend for the year ended 30 September 2014 – 1.89p per share	**7.8**	–
Interim dividend for the year ended 30 September 2015 – 0.64p per share	**2.6**	–
	10.4	8.5

A final dividend in respect of the year ended 30 September 2015 of 2.11p per share amounting to £8.7m will be proposed at the 2016 AGM. If approved, this dividend will be paid on 12 February 2016 to Shareholders on the register at close of business on 29 December 2015. The 2015 interim dividend of 0.64p per share was paid in July 2015. This gives a total dividend for 2015 of 2.75p per share (2014: 2.50p 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, on which the dividends are being waived.

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 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 2015 was the end of the contingency period. Where the effect of the above adjustments is antidilutive, they are excluded from the calculation of diluted earnings per share.

	30 September 2015			30 September 2014		
	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	**42.7**	**412,440**	**10.4**	74.7	411,806	18.1
Effect of potentially dilutive securities						
Share options and contingent shares	**–**	**2,927**	**(0.1)**	–	4,333	(0.2)
Diluted earnings per share						
Profit attributable to equity holders	**42.7**	**415,367**	**10.3**	74.7	416,139	17.9

18. INVESTMENT PROPERTY

	2015 £m	2014 £m
Opening balance	**332.9**	354.1
Additions	**29.6**	3.4
Disposals (see Note 8)	**(10.2)**	(12.5)
Net transfer to assets classified as held-for-sale (see Note 39)	**(0.4)**	(2.2)
Net valuation gains	**13.9**	1.5
Exchange adjustments	**(8.0)**	(11.4)
Closing balance	**357.8**	332.9

The Group has valued all of its investment property as at 30 September 2015 at fair value. The current use of the property is considered to be highest and best use.

18. INVESTMENT PROPERTY Continued

Information relating to the basis of valuation of investment property, the use of external independent valuers, and the judgements and assumptions adopted by management is set out in Note 2 'Critical accounting estimates and assumptions'. The fees paid to the independent valuers were not on a contingent basis.

A net revaluation gain of £13.9m has arisen on valuation of investment property to fair value as at 30 September 2015 (2014: £1.5m) and this has been taken to the income statement.

The historical cost of the Group's investment property as at 30 September 2015 is £362.2m (2014: £351.6m).

Rental income from investment property during the year was £20.8m (2014: £22.1m).

Direct property repair and maintenance costs arising from investment property that generated rental income during the year was £7.6m (2014: £7.4m).

The decrease in value of £8.0m (2014: decrease of £11.4m) relates to an exchange movement on the Group's German Residential property. This reflects the movement in the Sterling/Euro exchange rate between the respective year end dates, and is recognised within other comprehensive income.

19. PROPERTY, PLANT AND EQUIPMENT

	Total 2015 £m	Total 2014 £m
Cost		
Opening cost	**6.6**	5.3
Additions	**0.2**	1.3
Disposals	**(0.1)**	(0.1)
Foreign exchange movements	**–**	0.1
Closing cost	**6.7**	6.6
Accumulated depreciation		
Opening accumulated depreciation	**4.5**	4.7
Charge for the year	**0.7**	0.3
Disposals	**(0.1)**	(0.1)
Foreign exchange movements	**–**	(0.4)
Closing accumulated depreciation	**5.1**	4.5
Net book value:		
Closing net book value	**1.6**	2.1
Opening net book value	**2.1**	0.6

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

20. INVESTMENT IN ASSOCIATES

	2015 £m	2014 £m
Opening balance	**103.5**	88.2
Share of profit for the year	**15.4**	21.1
Dividends received	**(2.1)**	(3.4)
Loans (repaid by)/advanced to associates	**(7.2)**	0.7
Loan interest received	**–**	(1.2)
Exchange movements	**(0.8)**	(1.4)
Share of change in fair value of cash flow hedges taken through other comprehensive income	**(0.4)**	(0.5)
Closing balance	**108.4**	103.5

As at 30 September 2015, the Group's interest in associates was as follows:

	% of ordinary share capital/ units held	Country of incorporation
G:Res 1 Limited	26.2	Jersey
GRIP Unit Trust	24.9	Jersey
MH Grainger JV Sarl*	21.0	Luxembourg
Vesta LP	15.0	United Kingdom

* 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 & Co. KG 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.

Although the Group acts as property and/or asset manager for the GRIP Unit Trust and MH Grainger JV Sarl, the remaining equity of each is held by a single investor. Each investor is actively involved in the respective business and in controlling the key financial and operational activities of the business. Accordingly, the Group does not have de facto control of these entities. G:Res 1 Limited is being voluntarily wound up and the Group no longer provides any management services to it. The wind up process is under the direction of the fund's Trustees and the Group's investment at 30 September 2015 is £0.1m. Although the Group's equity interest in Vesta LP is 15%, the investment is being equity accounted as an associate as the Group is exercising significant influence through its representation on the Board.

Apart from the Vesta LP, which has an accounting period end of 30 September, the accounting period end of all associates is 31 December 2015. The results of associates for the 12 months to 30 September 2015 and their financial position as at that date have been equity accounted in these financial statements.

In relation to the Group's investment in associates, the Group's share of the aggregated assets, liabilities, revenues and profit or loss of associates is shown below:

NOTES TO THE FINANCIAL STATEMENTS Continued

20. INVESTMENT IN ASSOCIATES Continued

2015 Summarised income statement

	MH Grainger JV Sarl	GRIP Unit Trust	G:Res1 Limited	Vesta LP	Total £m
Net rental income and other income	1.3	4.3	–	–	5.6
Administration and other expenses	(0.3)	(0.7)	(0.2)	–	(1.2)
Profit on disposal of properties	0.6	1.0	–	–	1.6
Operating profit	1.6	4.6	(0.2)	–	6.0
Revaluation gains on investment property	8.2	8.9	–	–	17.1
Change in fair value of derivatives	–	(0.4)	–	–	(0.4)
Interest payable	(1.0)	(3.2)	–	–	(4.2)
Profit/(loss) before tax	8.8	9.9	(0.2)	–	18.5
Tax	(3.1)	–	–	–	(3.1)
Profit/(loss) after tax	5.7	9.9	(0.2)	–	15.4

2015 Summarised statement of financial position

	MH Grainger JV Sarl	GRIP Unit Trust	G:Res1 Limited	Vesta LP	Total £m
Trading and investment property	48.2	128.7	–	–	176.9
Current assets	8.9	8.7	0.1	–	17.7
Total assets	57.1	137.4	0.1	–	194.6
Non-current liabilities	(24.8)	(48.8)	–	–	(73.6)
Current liabilities	(10.4)	(2.2)	–	–	(12.6)
Net assets	21.9	86.4	0.1	–	108.4

2014 Summarised income statement

	MH Grainger JV Sarl	GRIP Unit Trust	G:Res1 Limited	Total £m
Net rental income and other income	2.1	4.1	–	6.2
Administration and other expenses	(0.3)	(0.5)	–	(0.8)
Profit on disposal of properties	0.8	1.0	–	1.8
Operating profit	2.6	4.6	–	7.2
Revaluation gains on investment property	2.2	17.4	–	19.6
Change in fair value of derivatives	(0.2)	(0.3)	–	(0.5)
Interest payable	(1.8)	(2.6)	–	(4.4)
Profit before tax	2.8	19.1	–	21.9
Tax	(1.6)	0.8	–	(0.8)
Profit after tax	1.2	19.9	–	21.1

2014 Summarised statement of financial position

	MH Grainger JV Sarl	GRIP Unit Trust	G:Res1 Limited	Total £m
Trading and investment property	46.5	118.1	–	164.6
Current assets	6.5	6.3	1.6	14.4
Total assets	53.0	124.4	1.6	179.0
Non-current liabilities	(29.3)	(39.0)	–	(68.3)
Current liabilities	(6.4)	(0.8)	–	(7.2)
Net assets	17.3	84.6	1.6	103.5

21. INVESTMENT IN JOINT VENTURES

	Net assets £m	Loans £m	Total £m
At 1 October 2013	42.9	14.8	57.7
Loans advanced	–	2.8	2.8
Increase in provisions against loans	–	(0.4)	(0.4)
Loan interest received	–	(0.3)	(0.3)
Disposal	(0.4)	–	(0.4)
Share of profit for the year	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
Loans advanced	–	7.4	7.4
Increase in provisions against loans	–	(4.1)	(4.1)
Loan interest received	–	(0.7)	(0.7)
Disposal	(14.6)	0.6	(14.0)
Share of profit for the year	9.5	–	9.5
Transfer	(0.8)	0.8	–
Share of change in fair value of cash flow hedges taken through other comprehensive income	(0.3)	–	(0.3)
Distributions received	(0.6)	–	(0.6)
At 30 September 2015	**49.1**	**21.7**	**70.8**

On 1 June 2015, the Group disposed of its joint venture interest in New Sovereign Reversions Limited to Lone Star Real Estate Fund III. The consideration received was £18.4m, resulting in a profit on sale of £4.4m.

On 17 October 2013, the Group disposed of its 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.

At 30 September 2015, 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
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 2015 and the financial position as at that date have been equity accounted in these financial statements.

The accounting period end of King Street Developments (Hammersmith) Limited is 31 March. The results for the 12 months to 30 September 2015 and the financial position as at that date have been equity accounted in these financial statements.

The proposed High Speed Rail Link ('HS2') 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 as well as with HS2 Ltd, the company responsible for developing and promoting this new rail link. HS2 remains a clear policy from the government. HS2 Ltd continue to discuss the planned rail link with the government and communities affected by the proposed route. Changes to the HS2 Hybrid Bill are being considered by the HS2 Select Committee as a result of these discussions and consultations. Royal Assent of the HS2 Hybrid Bill could be sought in late 2016 or early 2017 although there is still uncertainty around the exact timing. Royal Assent would give legal permission to construct the line, leading to commencement

NOTES TO THE FINANCIAL STATEMENTS Continued

21. INVESTMENT IN JOINT VENTURES Continued

of a Compulsory Purchase Order (CPO) process which we could expect to follow during 2017. We have no current view from advisers on possible CPO value. As a result of the continuing uncertainty around the CPO process, the Group has decided to further impair its investment in Curzon Park Limited. The Group has made a further provision in 2015 of £3.2m (2014: £nil) to write down its investment to £4.8m (2014: £8.0m). The value of £4.8m has been provided by CBRE Limited, the Group's external, independent valuers for its development assets. This is based on the value the site may have as a development opportunity discounted to reflect the uncertainty around HS2 and the CPO process.

The companies in Prague in which the Group holds a 50% equity stake have received planning permission to develop a site at Zizkov in the suburbs of Prague. However, a challenge has been made contesting the permission granted. As a result of the challenge, the Directors have reviewed the carrying value of the investment for future impairment. Given the considerable time it has taken to reach the current planning position and the on-going uncertainties, the Group has made a provision of £0.9m (2014: £2.4m) against the further investment made during 2015 to retain the carrying value at £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:

2015 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	–	–	–	–	1.6	1.6
Administration and other expenses	–	–	–	(0.2)	–	(0.2)
Profit on disposal of properties	–	–	–	1.0	0.2	1.2
Operating profit	–	–	–	0.8	1.8	2.6
Net revaluation gains on investment property	–	–	–	–	11.3	11.3
Interest payable	–	–	–	(0.3)	(1.7)	(2.0)
Profit before tax	–	–	–	0.5	11.4	11.9
Tax	–	–	–	–	(2.4)	(2.4)
Profit after tax	–	–	–	0.5	9.0	9.5

2015 Summarised statement of financial position

	Czech Republic combined £m	Curzon Park Limited £m	King Street Developments (Hammersmith) Limited £m	Walworth Investment Properties Limited £m	Total £m
Trading and investment property	11.6	17.4	5.4	94.8	129.2
Current assets	0.6	0.1	0.7	3.9	5.3
Total assets	12.2	17.5	6.1	98.7	134.5
Non-current liabilities	(3.5)	–	–	(30.0)	(33.5)
Current liabilities	(8.7)	(21.9)	(6.1)	(15.2)	(51.9)
Net assets	–	(4.4)	–	53.5	49.1

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

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 of 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

22. FINANCIAL INTEREST IN PROPERTY ASSETS

	2015 £m	2014 £m
Opening balance	**94.5**	96.3
Cash received from the instrument	**(10.0)**	(9.8)
Amounts taken to income statement	**9.2**	7.0
Amounts taken to other comprehensive income before tax	**–**	1.0
Closing balance	**93.7**	94.5

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.

NOTES TO THE FINANCIAL STATEMENTS Continued

23. INTANGIBLE ASSETS

	Goodwill £m	IT Software £m	Total £m
Cost			
Opening cost at 1 October 2014	**0.6**	**2.2**	**2.8**
Additions	**–**	**1.0**	**1.0**
Foreign exchange movements	**–**	**(0.1)**	**(0.1)**
Closing cost at 30 September 2015	**0.6**	**3.1**	**3.7**
Accumulated amortisation			
Opening accumulated amortisation at 1 October 2014	**–**	**0.6**	**0.6**
Charge for the year	**–**	**0.4**	**0.4**
Closing accumulated amortisation at 30 September 2015	**–**	**1.0**	**1.0**
Net book value			
Closing net book value at 30 September 2015	**0.6**	**2.1**	**2.7**
Opening net book value at 1 October 2014	**0.6**	**1.6**	**2.2**

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

24. INVENTORIES – TRADING PROPERTY

	2015 £m	2014 £m
Residential trading property*	**1,056.9**	925.8
Development trading property	**95.3**	94.4
	1,152.2	1,020.2

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

Trading property of £83.6m (2014: £151.4m) was recognised as an expense during the year and included in 'profit on disposal of trading property'.

The market value of inventories as at 30 September 2015 was £1,839.9m (2014: £1,617.1m).

Provisions of £1.2m against the net realisable value of trading property have been made in the consolidated income statement in the year (2014: a write-back of £0.8m). Further details are given in Note 2 'Critical accounting estimates and assumptions'.

It is not possible for the Group to identify which 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

	2015 £m	2014 £m
Trade receivables	**23.2**	62.4
Deduct: Provision for impairment of trade receivables	**(1.8)**	(2.2)
Trade receivables – net	**21.4**	60.2
Other receivables	**2.3**	5.5
Prepayments	**7.9**	9.2
	31.6	74.9

Trade receivables in 2014 include deferred consideration receivable of £4.0m in from sales within our Development division at our previously held Gateshead College site. This was received during the year. Included within trade receivables is £nil (2014: £35.0m) of deferred consideration relating to the portfolio sale to Clifden Holdings Limited. £15.8m has been written off in the 2015 consolidated income statement, with the balance recovered through the re-acquisition of Equity Release (Increments) Limited (further details are set out in Note 40).

Other receivables in 2014 include a loan of £3.7m made to Clarins Limited to enable that company to develop a property in the City of Westminster. The property was sold in 2015 but there was a shortfall of £0.6m in proceeds compared to the value of the loan. This has been written off through other expenses in the consolidated income statement.

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:

	2015 £m	2014 £m
Opening balance	**2.2**	1.3
Provision for receivables impairment during the year	**1.0**	1.8
Receivables written off during the year as not recoverable	**(0.6)**	(0.3)
Unused amounts reversed	**(0.7)**	(0.6)
Foreign exchange movement	**(0.1)**	–
Closing balance	**1.8**	2.2

The charge relating to the creation and release of provisions for impaired receivables has 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.

NOTES TO THE FINANCIAL STATEMENTS Continued

25. TRADE AND OTHER RECEIVABLES Continued

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

	2015 £m	2014 £m
Pounds Sterling	**29.7**	72.6
Euros	**1.9**	2.3
	31.6	74.9

26. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Current		Non-current	
	2015 £m	2014 £m	2015 £m	2014 £m
Opening balance	**0.8**	2.9	**0.3**	0.4
Transfer from other payables	**0.2**	–	**–**	–
Addition	**0.1**	0.9	**–**	–
Utilisation	**(0.2)**	(2.5)	**(0.1)**	(0.1)
Released	**(0.2)**	(0.5)	**–**	–
Closing balance	**0.7**	0.8	**0.2**	0.3

The Group holds a non-current provision of £0.2m (2014: £0.3m) that relates to the estimated cost of providing private medical insurance to former directors of BPT Limited.

In addition, a provision of £0.7m (2014: £0.8m) 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.

27. TRADE AND OTHER PAYABLES

	2015 £m	2014 £m
Deposits received	**2.9**	2.4
Trade payables	**12.0**	12.0
Tax and social security costs	**0.5**	2.4
Accruals	**29.5**	23.9
Deferred income	**12.0**	13.8
	56.9	54.5

Accruals and deferred income includes £10.8m (2014: £12.9m) 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.

Information about the Group's exposure to currency and liquidity risks is included in Note 29.

28. INTEREST-BEARING LOANS AND BORROWINGS

	2015 £m	2014 £m
Current liabilities		
Bank loans	**124.4**	33.5
Non-bank financial institution	**9.3**	(0.1)
Mortgages	**0.2**	0.3
Corporate bond	**(0.6)**	(0.6)
	133.3	33.1
Non-current liabilities		
Bank loans	**537.7**	612.6
Non-bank financial institution	**266.2**	182.6
Mortgages	**16.8**	18.0
Corporate bond	**272.4**	271.8
	1,093.1	1,085.0
Total interest-bearing loans and borrowings	**1,226.4**	1,118.1

Information about the Group's exposure to interest rate, foreign currency and liquidity risks is included in Note 29.

The £0.6m debit shown above under current liabilities for the Corporate bond represents the bond issue costs that will be amortised to the income statement during the next financial year. The Corporate bond does not mature until December 2020.

The analysis of the loans and borrowings in the below tables (a) to (e) is before deducting unamortised issue costs of £11.1m (2014: £12.7m) relating to the raising of the loan finance and a fair value adjustment of £8.2m arising from the acquisition of debt as part of the acquisition of Equity Release (Increments) Limited. It also includes the 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 2015, the unamortised premium was £0.7m (2014: £0.8m).

(a) Analysis of bank loans

	2015 £m	2014 £m
Bank loans – Pounds Sterling	**528.7**	497.8
Bank loans – Euro	**140.0**	155.8
	668.7	653.6

Sterling bank loans include variable rate loans bearing interest at rates between 1.7% and 2.55% 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 2015 was 2.3% (2014: 2.8%). Bank loans are secured by fixed and floating charges over specific property and other assets of the Group.

NOTES TO THE FINANCIAL STATEMENTS Continued

28. INTEREST-BEARING LOANS AND BORROWINGS Continued

(b) Analysis of non-bank financial institutions

	2015 £m	2014 £m
Fixed rate – Pounds Sterling	**142.1**	83.1
Variable rate – Pounds Sterling	**125.8**	100.0
	267.9	183.1

The fixed rate loans are secured by specific assets within the Retirement Solutions division and bear interest at a weighted average rate of 7.0%. £100m of the variable rate loan is secured by floating charges over the assets of the Group and bears interest at 4.0% over LIBOR. The balance is funded by the Homes and Communities Agency and bears interest at 1% over the EC reference rate.

(c) Mortgages

	2015 £m	2014 £m
Mortgages – Euro	**17.0**	18.2

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

(d) Convertible bond

	2015 £m	2014 £m
Opening balance	**–**	24.3
Amortised during the year	**–**	0.6
Repaid during the year	**–**	(24.9)
Closing balance (Pounds Sterling)	**–**	–

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

(e) Corporate bond

	2015 £m	2014 £m
Corporate bond – Pounds Sterling	**275.0**	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 of £75m issued at 101.125%. The premium on the tap issue is being 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, the European bank loans and the Homes and Communities Agency loans are generally rolled over every three months. At roll over, LIBOR, EURIBOR and the EC reference rate are reset for the following interest period.

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

	2015 £m	2014 £m
Within one year	**133.3**	33.1
Between one and two years	**52.8**	516.8
Between two and five years	**582.5**	73.3
More than five years	**457.8**	494.9
Total non-current interest bearing loans and borrowings	**1,093.1**	1,085.0
	1,226.4	1,118.1

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:

	2015						
	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
Non-current assets							
Financial interest in property assets	–	–	–	93.7	93.7	93.7	–
Current assets							
Trade and other receivables excluding prepayments	23.7	–	–	–	23.7	23.7	–
Derivative financial instruments	–	2.0	–	–	2.0	2.0	–
Cash and cash equivalents	88.8	–	–	–	88.8	88.8	–
Total financial assets	112.5	2.0	–	93.7	208.2	208.2	–

	Loans and receivables/ cash and cash equivalents £m	Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other financial liabilities at amortised cost £m	Total book value £m	Fair value £m	Fair value adjustment £m
Non-current liabilities							
Interest-bearing loans and borrowings	–	–	–	1,093.1	1,093.1	1,125.4	–
Current liabilities							
Interest-bearing loans and borrowings	–	–	–	133.3	133.3	133.3	–
Trade and other payables	–	–	–	56.9	56.9	56.9	–
Derivative financial instruments	–	30.5	5.0	–	35.5	35.5	–
Total financial liabilities	–	30.5	5.0	1,283.3	1,318.8	1,351.1	–
Total net financial assets/(liabilities)	112.5	(28.5)	(5.0)	(1,189.6)	(1,110.6)	(1,142.9)	–

NOTES TO THE FINANCIAL STATEMENTS Continued

29. FINANCIAL RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS Continued

The fair value adjustment relates to the Group's fixed rate loans with Lloyds Bank plc, Partnership Assurance Group plc, UniCredit Bank AG, Just Retirement Limited and the Corporate Bond, all of which are stated at amortised cost in the consolidated statement of financial position. The fair value of these fixed rate loans is calculated as £479.3m (2014: £400.4m). There is no requirement under IAS 39 to revalue these loans to fair value in the consolidated statement of financial position.

	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
Non-current assets						
Financial interest in property assets	–	–	–	94.5	94.5	94.5
Current assets						
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
Non-current liabilities						
Interest-bearing loans and borrowings	–	–	–	1,085.0	1,085.0	1,102.5
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
Total net financial assets/(liabilities)	140.1	(42.8)	(5.2)	(1,078.1)	(986.0)	(1,003.5)

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 Tricomm Housing portfolio and 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 sometimes enters 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 2015, £nil (2014: £4.0m) was outstanding from no (2014: one) counterparties. In addition, at 30 September 2014, £35.0m deferred consideration was due from a portfolio sale in the Retirement Solutions division (see Note 40 for further details of movements in 2015). The Group had some protection from credit risk by a call option over the entire share capital of the entity sold to the counterparty.

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 £1.5m (2014: £1.9m) are held that provide some security against rental arrears and property dilapidations caused by the tenant. The Group does not hold any other collateral as security. Of the net trade receivables balance of £21.4m, we consider £14.8m to be not due and not impaired. Of the £2.3m other receivables balance, £1.2m is considered not due and not impaired.

NOTES TO THE FINANCIAL STATEMENTS Continued

29. FINANCIAL RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS Continued

As at 30 September 2015, tenant arrears of £1.8m within trade receivables were impaired and fully provided for (2014: £2.2m). The individually impaired receivables are based on a review of outstanding arrears and an assessment of collectability. The ageing of these receivables is:

	2015 £m	2014 £m
Up to two months	**0.2**	0.1
Three months or more	**1.6**	2.1
	1.8	2.2

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:

	2015 £m	2014 £m
Up to two months	**1.5**	2.2
Three months or more	**0.7**	–
	2.2	2.2

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 2015, the fair value of all interest rate derivatives that had a positive value was £2.0m (2014: £nil).

At 30 September 2015, the combined credit exposure arising from cash held at banks, money market deposits and interest rate swaps was £90.8m (2014: £74.4m), which represents 4.7% (2014: 4.2%) of total assets. Deposits were placed with financial institutions with A- or better credit ratings.

The Group has the following cash and cash equivalents:

	2015 £m	2014 £m
Pounds Sterling	**83.5**	66.3
Euros	**5.3**	7.9
Czech Koruna	**–**	0.2
	88.8	74.4

Cash and cash equivalents can be analysed as follows:

	2015 £m	2014 £m
Cash at bank	**84.8**	63.8
Short-term deposits	**4.0**	10.6
	88.8	74.4

Included within 2015 year end cash balances is £10.6m (2014: £9.0m) 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, £4.0m was placed on deposit (2014: £10.6m) at effective interest rates between 0.4% and 0.5% (2014: 0.42% and 0.5%). Remaining cash and cash equivalents are held as cash at bank or in hand.

The Group has an overdraft facility of £1.0m as at 30 September 2015 (2014: £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 2015 and as at 30 September 2015 (see Note 2 'Critical accounting estimates and assumptions').

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

The business is very cash generative from its sales of vacant properties, gross rents and management fees. In adverse trading conditions, tenanted sales can be increased and new acquisitions can be stopped. Consequently, the Group is able to reduce gearing levels and improve liquidity quickly.

The following table analyses the Group's financial liabilities and net-settled derivative financial liabilities at the statement of financial position date into relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. As the amounts included in the table are the contractual undiscounted cash flows, these amounts will not equal the amounts disclosed on the statement of financial position for borrowings, derivative financial instruments, trade and other payables and provisions for liabilities and charges. A reconciliation to the statement of financial position amounts is given below 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 2015					
Interest-bearing loans and borrowings	**168.8**	**90.1**	**698.3**	**547.7**	**1,504.9**
Cash flow hedges	**3.8**	**1.6**	**0.4**	**(0.3)**	**5.5**
Derivatives at fair value through profit and loss	**5.1**	**4.7**	**11.5**	**17.2**	**38.5**
Trade and other payables	**46.1**	**–**	**–**	**–**	**46.1**

	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	72.9	557.0	152.2	612.3	1,394.4
Cash flow hedges	3.1	2.0	0.6	–	5.7
Derivatives at fair value through profit and loss	9.2	6.6	14.4	21.3	51.5
Trade and other payables	43.4	–	–	–	43.4

The 2014 comparatives for cash flow hedges and derivatives at fair value through profit and loss have been amended to show contractual undiscounted cash flows. The previous disclosure was of discounted cash flows. In addition, the 2014 comparative for interest-bearing loans and borrowings has been amended due to removing non-cash items from the reconciliation of maturity analysis tables on the following page.

NOTES TO THE FINANCIAL STATEMENTS Continued

29. FINANCIAL RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS Continued

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 2015					
Interest-bearing loans and borrowings (see Note 28)	**133.3**	**52.8**	**582.5**	**457.8**	**1,226.4**
Foreign exchange impact of forward rates	**1.6**	**2.6**	**1.4**	**0.4**	**6.0**
Interest	**33.9**	**34.7**	**114.4**	**89.5**	**272.5**
Financial liability cash flows shown above	**168.8**	**90.1**	**698.3**	**547.7**	**1,504.9**

	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
Financial liability cash flows shown above	72.9	557.0	152.2	612.3	1,394.4

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

Maturity of committed undrawn borrowing facilities

	2015 £m	2014 £m
Expiring:		
Between one and two years	**–**	207.9
Between two and five years	**96.7**	3.7
More than five years	**–**	30.0
	96.7	241.6

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 Tricomm Housing portfolio and the CHARM portfolio. The Group internally measures its market risk exposure by running various sensitivity analyses. The Directors consider that a +/- 1 percent (2014: 1 percent) movement in interest rates, a +/- 10 percentage point (2014: 10 percentage point) movement in Sterling and a +/- 1 percentage point (2014: 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.

The Tricomm Housing portfolio falls within Level 3. The Investment valuation provided by Allsop LLP, which is based on a discounted cash flow model in accordance with RIC's Professional Valuation 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.

	2015 £m	2014 £m
Opening balance	**109.1**	105.9
Amounts taken to income statement	**2.4**	3.2
Closing balance	**111.5**	109.1

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

	2015		2014	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Level 3				
Financial interest in property assets	**93.7**	**–**	94.5	–
Tricomm Holdings portfolio	**111.5**	**–**	109.1	–
	205.2	**–**	203.6	–
Level 2				
Interest rate swaps – in cash flow hedge accounting relationships	**–**	**5.0**	–	5.2
Interest rate swaps – not in cash flow hedge accounting relationships	**–**	**30.5**	–	42.8
Interest rate caps – not in cash flow hedge accounting relationships	**2.0**	**–**	–	–
Investment property	**246.3**	**–**	223.8	–
Assets classified as held-for-sale	**–**	**–**	3.4	–
	248.3	**35.5**	227.2	48.0

The Group's trading property is carried in the consolidated statement of financial position at the lower of cost and net realisable value. As trading property is only shown at market value within the Group's non-GAAP NAV and NNNAV measures it has been excluded from the fair value hierarchy table above. If the market value of trading property were included it would fall within Level 2 of the fair value hierarchy as defined by IFRS 13. The statutory book value of trading property is £1,152.2m and its market value is £687.7m higher at £1,839.9m.

The Group's fixed rate loans are included in the consolidated statement of financial position at amortised cost. As the fixed rate loans are only shown at fair value in the Group's non-GAAP NAV and NNNAV measures they have been excluded from the fair value hierarchy table above. Had they been included they would fall within Level 2 of the fair value hierarchy as defined in IFRS 13. The statutory book value of fixed rate loans is £446.9m and their fair value is £479.3m.

NOTES TO THE FINANCIAL STATEMENTS Continued

29. FINANCIAL RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS Continued

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 2015 was £357.0m (2014: £334.2m).

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 market information and were checked internally using a 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 2015 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 2015 £m	**Fair value at 30 September 2015 £m**
Fixed rate loan facilities	**464.8**	**497.2**

	Book value at 30 September 2014 £m	Fair value at 30 September 2014 £m
Fixed rate loan facilities	401.1	418.6

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 accounts 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 2015, 77% (2014: 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 £4.2m (2014: £3.9m). Similarly, a 1% decrease would increase annual profits by £4.2m (2014: £3.9m).

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 £3.3m (2014: £3.1m). Similarly, a 1% decrease would increase the Group's equity by £3.3m (2014: £3.1m).

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.

As at 30 September 2015, the market value of derivatives designated as cash flow hedges under IAS 39, is a net liability of £5.0m (2014: £5.2m). The total ineffectiveness of cash flow hedges recognised within the income statement totals a gain of £0.4m (2014: £0.4m). The fair value movement on derivatives not in hedge accounting relationships and amounts reclassified from equity to the income statement amounted, in aggregate, to a charge of £5.8m (2014 credit: £1.2m) in the income statement analysed as follows:

	2015 £m	2014 £m
Fair value movement on derivatives not designated as cash flow hedges	(6.2)	3.0
Amounts reclassified from equity to the income statement	0.4	(1.8)
	(5.8)	1.2

At 30 September 2015, the market value of derivatives not designated as cash flow hedges under IAS 39, is a net liability of £28.5m (2014: £42.8m). 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 2015.

Hedged debt

	2015 £m	2014 £m
Hedged debt maturing:		
Within one year	90.2	125.8
Between one and two years	36.7	90.5
Between two and five years	109.1	40.5
Over five years	257.1	108.3
	493.1	365.1

Interest rate profile – including the effect of derivatives

	2015					2014				
	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	5.5	7.2	437.0	18.6	455.6	5.3	9.0	381.1	20.0	401.1
Hedged rate	4.4	3.8	445.3	47.8	493.1	6.5	2.0	310.3	54.8	365.1
Variable rate	3.0	4.4	189.3	90.6	279.9	3.2	3.1	264.5	99.2	363.7
	4.5	5.2	1,071.6	157.0	1,228.6	5.0	4.8	955.9	174.0	1,129.9

At 30 September 2015, the fixed interest rates on the interest rate swap contracts vary from 1.11% to 5.23% (2014: 1.11% to 5.38%); the weighted average rates are shown in the table above.

NOTES TO THE FINANCIAL STATEMENTS Continued

29. FINANCIAL RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS Continued

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:

	2015 Euro £m	2014 Euro £m	**2015 Czech Koruna £m**	2014 Czech Koruna £m
Gross foreign currency assets	**89.2**	84.2	**0.8**	–
Gross foreign currency liabilities	**(83.3)**	(93.5)	**–**	(7.8)
Net exposure	**5.9**	(9.3)	**0.8**	(7.8)

As at 30 September 2015, it is estimated that a general increase/decrease of 10 percentage points in the value of Sterling against the Euro would decrease/increase the Group's profit before tax by approximately £0.2m (2014: £0.3m) and equity by £0.5m (2014: £6.1m).

As at 30 September 2015, 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 (2014: £nil) and equity by £0.1m (2014: £0.7m).

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 11 August 2015 the Group drew down on its new syndicate bank facility which had been due to mature in July 2016. The new facility amounted to £580m. Since the year end, on 1 October 2015 the Group concluded the re-financing of its Grainger Invest banking facility with HSBC and Santander. The new facility amounted to £150m.

House price risk

The cash flows arising from the Group's financial interest in property assets (CHARM) and the Tricomm Housing 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 2015, the weighted average cost of debt was 5.30% (2014: 6.0%) and the WACC was 6.22% (2014: 6.93%). 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 55 to 73. The pension cost charge in these financial statements represents contributions payable by the Group. The charge of £1.0m (2014: £1.0m) 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 date (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-third 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 payments (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 CPI 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 2015 was 17 years.

The IAS 19 calculations for disclosure purposes have been based upon the results of the actuarial valuation carried out as at 1 July 2013, updated to 30 September 2015, by a qualified independent actuary.

Principal actuarial assumptions under IAS 19

	2015	2014
Discount rate	**3.70% p.a.**	3.80% p.a.
Retail Price Index (RPI) inflation	**3.10% p.a.**	3.20% p.a.
Consumer Price Index (CPI) inflation	**2.10% p.a.**	2.20% p.a.
Salary increases	**3.60% p.a.**	3.70% p.a.
Rate of increase of pensions in payment	**5.00% p.a.**	5.00% p.a.
Rate of increase for deferred pensioners	**2.10% p.a.**	2.20% p.a.

NOTES TO THE FINANCIAL STATEMENTS Continued

30. PENSION COSTS Continued

Demographic assumptions

	2015	2014
Mortality tables for pensioners	**100% of S1PA CMI 2012 model with a long-term rate of improvement of 1.50% p.a. for males and 1.00% p.a. for females**	100% of S1PA CMI 2012 model with a long-term rate of improvement of 1.50% p.a. for males and 1.00% p.a. for females
Mortality tables for non-pensioners	**As for pensioners**	As for pensioners

Life expectancies

	30 September 2015		30 September 2014	
	Male	**Female**	Male	Female
Life expectancy for a current 65-year-old	**87.8 years**	**89.5 years**	87.7 years	89.4 years
Life expectancy at age 65 for an individual aged 45 in 2015	**90.0 years**	**91.0 years**	89.9 years	90.9 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.

Market value of scheme assets

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

	30 September 2015		30 September 2014	
	Market value £m	% of total scheme assets	Market value £m	% of total scheme assets
Equities	**10.4**	**39%**	10.8	42%
Bonds	**10.8**	**40%**	9.8	38%
Properties	**0.5**	**2%**	0.4	2%
Cash	**1.2**	**4%**	0.7	2%
Insurance policies	**4.0**	**15%**	4.1	16%
Total value of assets	**26.9**	**100%**	25.8	100%
The actual return on assets over the period was	**0.8**		2.6	

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 with the exception of the insurance policy asset where its value has been set equal to the secured pensioner liability.

Defined benefit obligations, scheme assets and scheme deficit

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Market value of scheme assets	**26.9**	25.8	22.8	21.7	18.6
Present value of scheme liabilities	**(28.6)**	(28.0)	(26.9)	(27.5)	(23.1)
Scheme deficit at 30 September	**(1.7)**	(2.2)	(4.1)	(5.8)	(4.5)

History of assets, liabilities, experience gains and losses

	2015	2014	2013	2012	2011
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	**£(0.4)m**	£(1.2)m	£0.9m	£(4.0)m	£1.7m
Percentage of defined benefit obligation	**(1.4)%**	(4.3)%	3.3%	(14.5)%	7.4%
Experience adjustments:					
Gains/(losses) arising on scheme assets	**£(0.2)m**	£1.6m	£(0.2)m	£2.0m	£(0.6)m
Percentage of scheme assets	**(0.7)%**	(6.2)%	(0.9)%	9.2%	(3.2)%

NOTES TO THE FINANCIAL STATEMENTS Continued

30. PENSION COSTS Continued

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

	2015 £m	2014 £m
Market value of scheme assets at the start of the year	25.8	22.8
Interest income	1.0	1.0
Employer contributions	1.1	1.1
Actual return on assets less interest	(0.2)	1.6
Benefits paid	(0.8)	(0.7)
Market value of scheme assets at the end of the year	26.9	25.8

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

	2015 £m	2014 £m
Value of defined benefit obligation at the start of the year	28.0	26.9
Interest on pension scheme liabilities	1.0	1.2
Actuarial gains: experience differing from that assumed	–	(0.5)
Actuarial gains: changes in demographic assumptions	–	(1.9)
Actuarial losses: changes in financial assumptions	0.4	3.1
Benefits paid	(0.8)	(0.8)
Value of defined benefit obligation at the end of the year	28.6	28.0

Amounts recognised in the consolidated income statement

	2015 £m	2014 £m
Net interest cost	–	0.2

The net interest cost shown above has been included within 'Finance costs' (see Note 14).

Amounts recognised in the consolidated statement of comprehensive income

	2015 £m	2014 £m
Actual return on assets less interest	(0.2)	1.6
Actuarial loss on defined benefit obligation	(0.4)	(0.7)
	(0.6)	0.9

The loss shown in the above table of £0.6m (2014: gain of £0.9m) has been included in the consolidated statement of comprehensive income on page 81.

Future funding obligation

The Trustees are required to carry out an actuarial valuation every three 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 eliminate the deficit by 31 January 2020. Based on this plan, the Company expects to pay £0.6m p.a. to the scheme, including the standard expense charges payable under the managed fund policy, 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 £1.1m

31. ISSUED SHARE CAPITAL

	2015 £m	2014 £m
Allotted, called-up and fully paid:		
418,256,902 (2014: 417,792,510) ordinary shares of 5p each	**20.9**	20.9

During the year, The Grainger Employee Benefit Trust acquired 2,000,000 shares at a cost of £4.1m (2014: 1,000,000 shares at cost of £2.1m). The Group paid £0.6m (2014: £0.5m) 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 £4.7m (2014: £2.1m) has been deducted from retained earnings within Shareholders' equity.

As at 30 September 2015, share capital included 3,656,096 (2014: 3,651,092) shares held by The Grainger Employee Benefit Trust and 1,506,300 (2014: 1,506,300) shares held by Grainger plc as treasury shares. The total of these shares is 5,162,396 (2014: 5,157,392) with a nominal value of £258,120 (2014: £257,870) and a market value as at 30 September 2015 of £12.3m (2014: £9.6m).

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

	Number	Nominal value £'000
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
Options exercised under the SAYE scheme	464,392	23
At 30 September 2015	**418,256,902**	**20,913**

Share options

The Company operates a SAYE share option scheme available to employees. The number of shares subject to options as at 30 September 2015, 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	2015 number	2014 number
SAYE share options				
2010	90.8	2013–16	**–**	6,805
2011	98.7	2014–17	**20,316**	27,446
2012	68.9	2015–18	**107,716**	573,838
2013	115.1	2016–19	**95,427**	96,468
2014(A)	173.1	2017–20	**187,488**	492,215
2014(B)	151.3	2018–20	**524,494**	–
2015	173.3	2018–21	**215,979**	–
Total SAYE share options			**1,151,420**	1,196,772

NOTES TO THE FINANCIAL STATEMENTS Continued

31. ISSUED SHARE CAPITAL Continued

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

	Opening position	Exercised	Granted	Lapsed	**Closing position**
SAYE scheme					
2010	6,805	(6,805)	–	–	**–**
2011	27,446	(7,130)	–	–	**20,316**
2012	573,838	(447,589)	–	(18,533)	**107,716**
2013	96,468	–	–	(1,041)	**95,427**
2014(A)	492,215	(1,877)	–	(302,850)	**187,488**
2014(B)	–	(991)	540,434	(14,949)	**524,494**
2015	–	–	217,493	(1,514)	**215,979**
	1,196,772	(464,392)	757,927	(338,887)	**1,151,420**
Weighted average exercise price (pence per share)	116.3	70.3	157.6	166.3	**147.3**

For those share options exercised during the year, the weighted average share price at the date of exercise was 229.5p (2014: 46.5p). For share options outstanding at the end of the year, the weighted average remaining contractual life is 3.4 years (2014: 3.0 years). There were 33,698 (2014: 7,130) share options exercisable at the year end with a weighted average exercise price of 68.9p (2014: 98.7p).

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

For the LTIS awards, one-half are subject to an absolute total shareholder return performance condition measured over three years from the date of grant and one-half are subject to annual growth in NNNAV compared to the average growth in the Halifax and Nationwide House Price indices all measured over three years from the date of grant. Awards subject to an absolute total shareholder return performance, which is a market based performance condition, have been valued at fair value using a Monte Carlo simulation valuation model. Awards subject to growth in NNNAV, which is a non-market based performance condition, have been valued at fair value using a Black-Scholes valuation model.

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 employees in the scheme continuing to be employed. 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. During the year, in addition to the normal DBP scheme, an enhanced DBP scheme (EDBP) was also provided. The enhanced scheme operates in exactly the same way as the normal DBP scheme except that if participants retain their awards within the plan until the end of the fifth year, a further additional 50% matching award is added to their award entitlement. Awards under the DBP/EDBP 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 in two separate tranches 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	EDBP	SAYE			
Award date	16 December 2014 Market based	16 December 2014 Non-market based	16 December 2014	16 December 2014	7 January 2015 3-year scheme	7 January 2015 5-year scheme	8 July 2015 3-year scheme	8 July 2015 5-year scheme
Number of shares on grant	514,600	514,600	85,752	163,860	254,867	285,567	165,737	51,756
Exercise price (£)	–	–	–	–	1.513	1.513	1.733	1.733
Vesting period from date of grant (years)	3	3	1–3	1–5	3	5	3	5
Exercise period after vesting (years)	7	7	3	3	–	–	–	–
Share price at grant (£)	1.92	1.92	1.92	1.92	2.1	2.1	2.54	2.54
Expected risk free rate (%)	0.8	0.8	N/A	N/A	0.69	1.07	0.97	1.43
Expected dividend yield (%)	1.0	1.0	1.0	1.0	1.0	1.0	0.82	0.82
Expected volatility (%)	34.49	34.49	N/A	N/A	34.0	52.0	30.60	48.94
Fair value (£)	0.82	1.86	1.92	1.92	0.74	1.06	0.94	1.31

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 (2014: £2.0m).

Movements in options and options exercisable as at 30 September 2015 are shown in Note 31.

The movement in share awards during the year is as follows:

Scheme	Opening balance	Awards vested	Awards granted	Awards lapsed	Closing position
LTIS					
2 December 2011	1,628,265	(1,628,265)	–	–	–
10 December 2012	1,449,341	–	–	–	1,449,341
13 December 2012	165,649	–	–	–	165,649
9 December 2013	843,046	–	–	–	843,046
16 December 2014	–	–	1,029,199	–	1,029,199
Total	4,086,301	(1,628,265)	1,029,199	–	3,487,235

Scheme	Opening balance	Awards vested	Awards granted	Awards lapsed	Closing position
DBP					
6 December 2010	189,693	(157,040)	–	–	32,653
12 December 2011	209,787	(142,205)	–	–	67,582
21 December 2012	168,306	–	–	–	168,306
9 December 2013	192,927	–	–	–	192,927
16 December 2014	–	–	85,752	–	85,752
EDBP					
16 December 2014	–	–	163,860	–	163,860
Total	760,713	(299,245)	249,612	–	711,080

33. CHANGES IN EQUITY

The consolidated statement of changes in equity is shown on pages 84 to 85. 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 in the year ended 30 September 2005. The issue satisfied the provisions of Section 612 of the Companies Act 2006 (formerly Section 131 of the Companies Act 1985) 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 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
Profit for the year	–	–	–	–	42.7	42.7
Actuarial loss on BPT Limited pension scheme net of tax	–	–	–	–	(0.5)	(0.5)
Exchange adjustments offset in reserves net of tax	–	–	–	(0.1)	–	(0.1)
Purchase of own shares	–	–	(4.7)	–	–	(4.7)
Award of shares from own shares	(2.8)	–	2.8	–	–	–
Share-based payments charge	2.0	–	–	–	–	2.0
Dividends	–	–	–	–	(10.4)	(10.4)
Balance as at 30 September 2015	**2.5**	**(7.8)**	**(15.0)**	**2.7**	**429.3**	**411.7**

Share-based payment 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 SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

A full list of all subsidiaries, joint ventures, associates and other related undertakings as at 30 September 2015 is set out below.

Company	Country of incorporation	Proportion of nominal value of ordinary shares held by: Group %	Company %
Atlantic Metropolitan (U.K.) Limited	United Kingdom	100%	100%
BPT (Assured Homes) Limited	United Kingdom	100%	
BPT (Bradford Property Trust) Limited	United Kingdom	100%	
BPT (Full Reversions) Limited	United Kingdom	100%	
BPT (Home Reversions) Limited	United Kingdom	100%	
BPT (Residential Investments) Limited	United Kingdom	100%	
BPT (Residential Management Services) Limited	United Kingdom	100%	
BPT Bridgewater (Home Reversions) Limited	United Kingdom	100%	
BPT Limited	United Kingdom	100%	
Bridgewater (Home Reversions Number 1) Limited	United Kingdom	100%	
Bridgewater (Home Reversions Number 2) Limited	United Kingdom	100%	
Bridgewater (Home Reversions) Limited	United Kingdom	100%	
Bridgewater Contractual Tenancies Limited	United Kingdom	100%	
Bridgewater Equity Release Limited	United Kingdom	100%	
Bridgewater Equity Release Nominees (No 1) Limited	United Kingdom	100%	
Bridgewater Equity Release Nominees (No 2) Limited	United Kingdom	100%	
Bridgewater Lifetime Mortgages Limited	United Kingdom	100%	
Bridgewater Property Holdings Limited	United Kingdom	100%	
Bridgewater Tenancies Limited	United Kingdom	100%	
Bridgewater Tenancies Nominees Limited	United Kingdom	100%	
Brierley Green Management Company Limited	United Kingdom	100%	
Bromley No 1 Limited	United Kingdom	100%	
Bromley No. 1 Holdings Limited	United Kingdom	100%	
Bromley Property Holdings Limited	United Kingdom	100%	100%
Bromley Property Investments Limited	United Kingdom	100%	
Cambridge Place Management Company Limited	United Kingdom	100%	
Chrisdell Limited	United Kingdom	100%	
City North 5 Limited	United Kingdom	100%	
City North Group Limited	United Kingdom	100%	100%
City North Properties Limited	United Kingdom	100%	
City Property Developments (No.2) Limited	United Kingdom	100%	
City Property Developments Limited	United Kingdom	100%	
Crossco No 103 Limited	United Kingdom	100%	
Curzon Park Limited	United Kingdom	50%	
Derwent Developments (Curzon) Limited	United Kingdom	100%	

Company	Country of incorporation	Proportion of nominal value of ordinary shares held by: Group %	Company %
Derwent Developments Limited	United Kingdom	100%	
Derwent Nominees (No 2) Limited	United Kingdom	100%	
Eastbourne Artisans Dwellings Company Limited	United Kingdom	100%	
Economic Reversions Limited	United Kingdom	100%	
Ekacroft Limited	United Kingdom	100%	
Equity Release (Increments) Limited	United Kingdom	100%	
Equity Release (Increments) Nominees No.1 Limited	United Kingdom	100%	
Equity Release (Increments) Nominees No.2 Limited	United Kingdom	100%	
Equity Release (Increments) Nominees No.3 Limited	United Kingdom	100%	
Equity Release (Increments) Nominees No.4 Limited	United Kingdom	100%	
Equity Release (Increments) Nominees No.5 Limited	United Kingdom	100%	
Equity Release (Increments) Nominees No.6 Limited	United Kingdom	100%	
Equity Release (Increments) Nominees No.7 Limited	United Kingdom	100%	
Equity Release (Increments) Nominees No.8 Limited	United Kingdom	100%	
Equity Release (Increments) Nominees No.9 Limited	United Kingdom	100%	
Equity Release (Increments) Nominees No.10 Limited	United Kingdom	100%	
Faside Estates Limited	United Kingdom	100%	
Formation Homes Limited	United Kingdom	100%	
Frincon Holdings 1986 Limited	United Kingdom	100%	
Frincon Holdings Limited	United Kingdom	100%	
G W Dray & Son Limited	United Kingdom	100%	
Gibson Gardens (Paignton)	United Kingdom	100%	
GIP Limited	United Kingdom	100%	
Globe Brothers Estates Limited	United Kingdom	100%	
Grainger (Aldershot) Limited	United Kingdom	100%	100%
Grainger (Barnsbury) Limited	United Kingdom	100%	
Grainger (Clapham) Limited	United Kingdom	100%	
Grainger (Elder) Limited	United Kingdom	100%	
Grainger (Hadston) Limited	United Kingdom	100%	
Grainger (Hornsey) Limited	United Kingdom	100%	
Grainger (London) Limited	United Kingdom	100%	100%
Grainger (Octavia Hill) Limited	United Kingdom	100%	
Grainger (Peachey Number 2) Limited	United Kingdom	100%	
Grainger (Peachey) Limited	United Kingdom	100%	
Grainger (Samuel) Limited	United Kingdom	100%	100%

NOTES TO THE FINANCIAL STATEMENTS Continued

35. LIST OF SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES Continued

Company	Country of incorporation	Proportion of nominal value of ordinary shares held by: Group %	Company %
Grainger (Shoreditch) Limited	United Kingdom	100%	
Grainger Asset Management Limited	United Kingdom	100%	
Grainger Bradley Limited	United Kingdom	100%	
Grainger Czech Republic Limited	United Kingdom	100%	
Grainger Developments Limited	United Kingdom	100%	100%
Grainger EL Investments Limited	United Kingdom	100%	
Grainger Employees Limited	United Kingdom	100%	100%
Grainger Enfranchisement No. 1 (2012) Limited	United Kingdom	100%	
Grainger Enfranchisement No. 2 (2012) Limited	United Kingdom	100%	
Grainger Enfranchisement No. 3 (2012) Limited	United Kingdom	100%	
Grainger Equity Release Investment Properties Limited	United Kingdom	100%	
Grainger Equity Release Limited	United Kingdom	100%	
Grainger Equity Release Management Limited	United Kingdom	100%	
Grainger Europe (No.2) Limited	United Kingdom	100%	100%
Grainger Europe (No.3) Limited	United Kingdom	100%	100%
Grainger Europe (No.4) Limited	United Kingdom	100%	100%
Grainger Europe Limited	United Kingdom	100%	100%
Grainger Finance (Tricomm) Limited	United Kingdom	100%	
Grainger Finance Company Limited	United Kingdom	100%	100%
Grainger Homes (Gateshead) Limited	United Kingdom	100%	
Grainger Homes Limited	United Kingdom	100%	
Grainger Housing & Developments Limited	United Kingdom	100%	
Grainger Invest (No.1 Holdco) Limited	United Kingdom	100%	
Grainger Kensington & Chelsea Limited	United Kingdom	100%	100%
Grainger Land & Regeneration Limited	United Kingdom	100%	
Grainger Land Limited	United Kingdom	100%	100%
Grainger Maidenhead Limited	United Kingdom	100%	
Grainger McKay Limited	United Kingdom	100%	
Grainger Newbury Limited	United Kingdom	100%	
Grainger OCCC Limited	United Kingdom	100%	
Grainger Pearl Holdings Limited	United Kingdom	100%	100%
Grainger Pearl Limited	United Kingdom	100%	
Grainger Pimlico Limited	United Kingdom	100%	100%
Grainger Properties Limited	United Kingdom	100%	
Grainger Property Services Limited	United Kingdom	100%	
Grainger PRS Limited	United Kingdom	100%	
Grainger RAMP Limited	United Kingdom	100%	100%
Grainger Real Estate Limited	United Kingdom	100%	
Grainger RES Limited	United Kingdom	100%	100%
Grainger Residential Limited	United Kingdom	100%	100%
Grainger Residential Management Limited	United Kingdom	100%	100%

Company	Country of incorporation	Proportion of nominal value of ordinary shares held by: Group %	Company %
Grainger Retirement Housing Limited	United Kingdom	100%	
Grainger Retirement Housing No.1 (2007) Limited	United Kingdom	100%	
Grainger Rural Developments Limited	United Kingdom	100%	
Grainger Rural Limited	United Kingdom	100%	
Grainger Serviced Apartments Limited	United Kingdom	100%	
Grainger Seven Sisters Limited	United Kingdom	100%	
Grainger Southwark Limited	United Kingdom	100%	
Grainger Trust Limited	United Kingdom	100%	
Grainger Unitholder No 1 Limited	United Kingdom	100%	100%
Grainger Upminster Limited	United Kingdom	100%	100%
Greit Limited	United Kingdom	100%	100%
Greit Management Limited	United Kingdom	100%	
Greit Properties Limited	United Kingdom	100%	
H I Tricomm Holdings Limited	United Kingdom	100%	
Hamsard 2342 Limited	United Kingdom	100%	
Hamsard 2492 Limited	United Kingdom	100%	
Hamsard 2517 (New Business) Limited	United Kingdom	100%	
Hamsard 2517 Limited	United Kingdom	100%	
Hamsard 2518 Limited	United Kingdom	100%	
Harborne Tenants Limited	United Kingdom	100%	
Hatch Warren Limited	United Kingdom	100%	
Hinton & Wild Limited	United Kingdom	100%	
Holdfield Limited	United Kingdom	100%	
Home Properties Limited	United Kingdom	100%	
Home SGO Properties Limited	United Kingdom	100%	
Hurlingham Business Park Limited	United Kingdom	100%	
Infrastructure Investors Defence Housing (Bristol) Limited	United Kingdom	100%	
Ingleby Court Management Limited	United Kingdom	100%	
King Street Developments (Hammersmith) Limited	United Kingdom	50%	
Langwood Properties Limited	United Kingdom	100%	
Letpress Limited	United Kingdom	100%	
Manor Court (Solihull) Management Limited	United Kingdom	100%	
Margrave Estates Limited	United Kingdom	100%	
Mariners Park Estate North Management Company Limited	United Kingdom	100%	
Mariners Park Estate South Management Company Limited	United Kingdom	100%	
Milford Reversions Limited	United Kingdom	100%	
N & D London Investments	United Kingdom	100%	
N & D London Limited	United Kingdom	100%	
N & D Properties (Midlands) Limited	United Kingdom	100%	100%
N & D Southern Limited	United Kingdom	100%	
Nitro 2 Limited	United Kingdom	100%	
Northumberland & Durham Property Trust Limited	United Kingdom	100%	

Company	Country of incorporation	Proportion of nominal value of ordinary shares held by: Group %	Company %
Oakleigh House (Sale) Management Company Limited	United Kingdom	69%	
Park Developments (Liverpool) Limited	United Kingdom	100%	
Park Estates (Liverpool) Limited	United Kingdom	100%	
Park Estates Investments (Liverpool) Limited	United Kingdom	100%	
PHA Housing Limited	United Kingdom	100%	
PHA Limited	United Kingdom	100%	
Planfirst Limited	United Kingdom	100%	
Portland House Holdings Limited	United Kingdom	100%	
Residential Leases Limited	United Kingdom	100%	
Residential Tenancies Limited	United Kingdom	100%	
Reversions Financing (No. 1) 2011 Limited	United Kingdom	100%	
Reversions Financing Limited	United Kingdom	100%	100%
Rotation Finance Limited	United Kingdom	100%	100%
RPQH Limited	United Kingdom	100%	
Seaton Valley Properties Limited	United Kingdom	100%	100%
Sixty-two Stanhope Gardens Limited	United Kingdom	20%	
Southvale Investments Limited	United Kingdom	100%	100%
Sowerby Holdings Limited	United Kingdom	100%	
St Andrew's Property Holdings Limited	United Kingdom	100%	
Suburban Homes Limited	United Kingdom	100%	
The Bradford Property Trust Limited	United Kingdom	100%	
The Chancel Management Company Limited	United Kingdom	96%	
The Farm Housing Enterprise Limited	United Kingdom	100%	
The Grainger Trust Employee Trustee Limited	United Kingdom	100%	100%
The Owners of the Middlesbrough Estate	United Kingdom	100%	100%
The Sandwarren Management Company Limited	United Kingdom	100%	
The Tilt Estate Company Limited	United Kingdom	100%	
Trafford Park Dwellings Limited	United Kingdom	100%	
Tricomm Housing (Holdings) Limited	United Kingdom	100%	
Tricomm Housing Limited	United Kingdom	100%	
Vesta (General Partner) Limited	United Kingdom	30%	
Victoria Court (Southport) Limited	United Kingdom	100%	
Walworth Investment Properties Limited	United Kingdom	50%	
Wansbeck Lodge Management Limited	United Kingdom	100%	
Warren Court Limited	United Kingdom	100%	
Warwick Square Management Company Limited	United Kingdom	100%	
West Waterlooville Developments Limited	United Kingdom	100%	
1 Ifield Road Management Limited	United Kingdom	50%	
19 Ifield Road Management Limited	United Kingdom	100%	

Company	Country of incorporation	Proportion of nominal value of ordinary shares held by: Group %	Company %
31-37 Disbrowe Road Freehold Company Limited	United Kingdom	50%	
36 Finborough Road Management Limited	United Kingdom	100%	
45 Ifield Road Management Limited	United Kingdom	67%	
86 Holland Park Freehold Limited	United Kingdom	67%	
CCY a.s.	Czechoslovakia	50%	
CCZ a.s.	Czechoslovakia	50%	
Prazsky Projekt a.s.	Czechoslovakia	50%	
Franco Rhein-Main 1 V.mbH	Germany	99.9%	
Franco Rhein-Main 2 V.mbH	Germany	99.9%	
Franco Rhein-Main 3 V.mbH	Germany	99.9%	
G & G GmbH	Germany	25%	
Grainger Deutschland GmbH	Germany	100%	
Grainger FRM GmbH	Germany	24.9%	
Grainger FRM General Partner GmbH	Germany	100%	
Grainger Portfolio 3 GmbH	Germany	100%	
Grainger Recklinhausen Portfolio one GmbH	Germany	99.9%	
Grainger Recklinhausen Portfolio two GmbH	Germany	99.9%	
Grainger Stuttgart Portfolio one GmbH & Co. Kg	Germany	25%	
Grainger Stuttgart Portfolio two GmbH & Co. Kg	Germany	25%	
Retirement Housing Management (Guernsey) Limited	Guernsey	100%	
The Capital Appreciation Trust Limited	Guernsey	100%	
Retirement Housing Management (Isle of Man) Limited	Isle of Man	100%	
The Capital Appreciation Trust (Isle of Man) Limited	Isle of Man	100%	
G:Res 1 Limited	Jersey	26.2%	
G:Res-Co4 Limited	Jersey	24.9%	
GRIP NomCo1 Limited	Jersey	24.9%	
GRIP NomCo2 Limited	Jersey	24.9%	
GRIP NomCo3 Limited	Jersey	24.9%	
GRIP NomCo4 Limited	Jersey	24.9%	
GRIP NomCo5 Limited	Jersey	24.9%	
GRIP NomCo6 Limited	Jersey	24.9%	
GRIP NomCo7 Limited	Jersey	22.2%	
GRIP NomCo8 Limited	Jersey	22.2%	
GRIP Unit Trust	Jersey	24.9%	
GRIP Unit Trust 1	Jersey	24.9%	
GRIP Unit Trust 2	Jersey	24.9%	
GRIP Unit Trust 6	Jersey	22%	
The Grainger Residential Property Unit Trust	Jersey	24.9%	
Grainger Luxembourg Germany Holdings S.a.r.l.	Luxembourg	100%	
MH Grainger JV Sarl	Luxembourg	22%	

NOTES TO THE FINANCIAL STATEMENTS Continued

36. RELATED PARTY TRANSACTIONS

During the year ended 30 September 2015, the Group transacted with its joint ventures and associates (details of which are set out in Notes 20 and 21). The Group provides a number of services to its joint ventures and associates. These include property and asset management services for which the Group receives fee income. The related party transactions recognised in the income statement and statement of financial position are as follows:

	2015 Fees recognised £'000	**2015 Year end balance £'000**	2014 Fees recognised £'000	2014 Year end balance £'000
GRIP Unit Trust	**3,398**	**1,527**	3,131	933
Stuttgart Portfolios	**924**	**–**	956	–
New Sovereign Reversions Limited	**704**	**–**	1,051	193
Walworth Investment Properties Limited	**40**	**40**	40	40
	5,066	**1,567**	5,178	1,166

As described in Note 21, on 1 June 2015, the Group sold its 50% equity interest in New Sovereign Reversions Limited to Lone Star Real Estate Fund III. The fees shown in the table above represent asset management fees earned by the Group from 1 October 2014 up to completion on 1 June 2015.

	2015 Interest recognised £'000	**2015 Year end loan balance £m**	**2015 Interest rate %**	2014 Interest recognised £'000	2014 Year end loan balance £m	2014 Interest rate %
GRIP Unit Trust	**1,010**	**24.1**	**4.75**	1,100	31.6	4.75
MH Grainger JV Sarl	**97**	**–**	**7.50**	812	9.6	7.50
Stuttgart Portfolios	**11**	**–**	**8.00**	60	0.6	8.00
New Sovereign Reversions Limited	**(12)**	**–**	**LIBOR + 2.35**	(23)	(0.6)	LIBOR + 2.35
Czech Republic combined*	**–**	**6.9**	**1.25**	–	7.4	1.25
Curzon Park Limited*	**–**	**19.5**	**Nil**	–	18.6	Nil
King Street Developments (Hammersmith) Limited	**–**	**5.9**	**Nil**	–	3.2	Nil
Walworth Investment Properties Limited	**456**	**6.6**	**7.00**	455	6.8	7.00
Vesta LP	**–**	**0.1**	**Nil**	–	–	–
	1,562	**63.1**		2,404	77.2	

* The amount disclosed above is the gross loan amount. Some provisions have been made 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 is 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:

	2015 £m	2014 £m
Operating lease payments due:		
Not later than one year	**1.1**	1.3
Later than one year and not later than five years	**4.3**	3.3
Later than five years	**1.9**	1.7
	7.3	6.3

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' with a market value of £1,281m provide the security for the Group's core debt facility.

Barclays Bank plc and Lloyds Bank plc have provided guarantees under performance bonds relating to the Group's UK Development division. As at 30 September 2015, total guarantees amounted to £2.8m (2014: £2.9m).

The Group has an obligation, under an agreement for sale in relation to its land at West Waterlooville, to pay further consideration should the site value exceed certain pre-agreed amounts. It also has an obligation under a profit sharing agreement to share profits above an agreed threshold. 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, our current best estimate is that the earliest payment under these arrangements will not be before October/November 2016 and any payments are likely to 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 at Curzon Park in which the Group has a 50% joint venture interest. Should the value of the site, together with any compensation received, be insufficient to 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.

39. ASSETS CLASSIFIED AS HELD-FOR-SALE

The Group identified certain of its investment properties as held-for-sale in 2014 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 £nil (2014: £3.4m) classified as held-for-sale. The movement in the year is set out below:

	2015 £m	2014 £m
Opening balance – investment property	**3.4**	9.9
Disposals	**(3.8)**	(8.6)
Transfer from investment property	**6.9**	2.3
Transfer from investment in joint ventures	**14.0**	–
Sale of investment in joint ventures (see Note 21)	**(14.0)**	–
Transfer to investment property	**(6.5)**	(0.1)
Foreign exchange movement	**–**	(0.1)
Closing balance	**–**	3.4

40. BUSINESS COMBINATION

Acquisition of Equity Release (Increments) Limited

In January 2014, the Group sold Equity Release (Increments) Limited ('ERIL'), a Retirement Solutions subsidiary owning a home reversions portfolio, to Clifden Holdings Limited ('CHL'). The terms of sale included deferred consideration of £35.1m (40% of the total consideration) which was required to be paid no later than January 2015. CHL intended to fund the payment of the deferred consideration from the proceeds of a securitisation which they subsequently failed to execute. As a result, CHL failed to pay the deferred consideration when it fell due.

As a result of CHL's failure to settle the outstanding receivable, the Group exercised its rights to appoint administrators of CHL and to re-acquire ERIL for a nominal value of £1 on 2 April 2015.

The acquisition is of a business capable of being conducted and managed for the purpose of providing economic benefit to the Group. Accordingly, the Directors consider this transaction to be a business combination.

40. BUSINESS COMBINATION Continued

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of ERIL as at the date of acquisition were:

	Fair value recognised on acquisition £m
Inventories – trading property	96.5
Trade and other receivables	0.1
Cash and cash equivalents	0.6
Deferred tax asset	1.9
	99.1
Accruals and deferred income	1.0
Other creditors	3.0
Interest-bearing loans and borrowings	73.7
Deferred tax liability	2.1
	79.8
Total identifiable net assets at fair value	**19.3**
Purchase consideration transferred	**19.3**

The purchase consideration transferred of £19.3m represents that part of the deferred consideration receivable of £35.1m that was recoverable from the fair value of the business acquired as shown above.

The balance of the deferred consideration receivable of £15.8m has been impaired and written off as a charge in the consolidated income statement under the heading 'Impairment of deferred consideration receivable'.

The costs of the acquisition of £2.4m have been expensed in the consolidated income statement within the heading 'Other expenses'.

The overall charge on re-acquisition of ERIL is therefore £18.2m and this has been charged to the consolidated income statement and is shown within non-recurring items in Note 3.

From the date of acquisition, ERIL has contributed £nil to the profit after tax and £5.2m to Group revenue. If the combination had taken place at the beginning of the financial year, we estimate, on a pro forma basis, that the profit after tax for the Group would have been £41.0m and Group revenue would have been £252.4m.

41. CAPITAL COMMITMENTS

The Group has current commitments under a number of its development projects totalling £63.1m as at 30 September 2015 (2014: £54.5m).

42. POST BALANCE SHEET EVENT

On 18 November 2015, the Group, along with its joint venture partner, Heitman, exchanged contracts for the sale of its interest in MH Grainger JV Sarl and its interest in Grainger Stuttgart Portfolio one GmbH & Co KG and Grainger Stuttgart Portfolio two GmbH & Co KG. Completion of the sale is anticipated to take place by 31 December 2015 subject to regulatory approval by Germany's Federal Cartel Office. Sales proceeds are expected to be c.€48m (c.£34m) which should generate a profit on sale of c.€16m (c.£11m).

On 1 October 2015 an amendment and restatement of the Grainger Invest Property portfolio bank facility was concluded with the existing banks, HSBC and Santander. The facility of £150m increases the Group's overall bank facilities by £30m.

Parent company balance sheet

As at 30 September 2015	Notes	2015 £m	2014 £m
Fixed assets			
Investments	2	**934.4**	928.3
Current assets			
Debtors	3	**30.2**	32.4
Cash at bank and in hand		**5.3**	4.8
		35.5	37.2
Creditors: amounts falling due within one year	4	**204.5**	167.5
Net current liabilities		**(169.0)**	(130.3)
Total assets less current liabilities		**765.4**	798.0
Creditors: amounts falling due after more than one year			
Interest-bearing loans and borrowings	6	**371.2**	370.5
Net assets		**394.2**	427.5
Capital and reserves			
Called-up share capital	7	**20.9**	20.9
Share premium account	8	**110.7**	110.4
Capital redemption reserve	8	**0.3**	0.3
Profit and loss account	8	**262.3**	295.9
Total Shareholders' funds		**394.2**	427.5

The financial statements on pages 151 to 155 were approved by the Board of Directors on 19 November 2015 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 £20.5m (2014: £4.8m). 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 due to change in economic conditions, 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 was 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 was a compound financial instrument and the carrying amount had been allocated to its equity and liability components in the Company's balance sheet. The liability component had 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 had been deducted from the fair value of the compound financial instrument as a whole and the residual element had been 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.

(g) Share-based payments
Under the share-based compensation arrangements set out in Note 1(k) (iii) on page 92 and Note 32 on page 143, 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.

(h) Borrowings
Borrowings are initially recognised at 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.

2. INVESTMENTS

Cost of investment	2015 £m	2014 £m
At 1 October	**1,017.5**	1,018.8
Additions	**4.0**	–
Disposals	**–**	(1.3)
At 30 September	**1,021.5**	1,017.5

Included within additions of £4.0m in 2015 is an investment in Greit Limited of £2.0m. The remaining balance relates to share-based payments.

Impairment	2015 £m	2014 £m
At 1 October	**89.2**	107.2
Additional provision	**–**	0.1
Write back of provisions	**(2.1)**	(18.1)
At 30 September	**87.1**	89.2
Net carrying value	**934.4**	928.3

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 £2.1m (2014: write back of £18.1m) has been made. A list of the subsidiaries of the Company is contained within Note 35 on pages 145-147.

3. DEBTORS

	2015 £m	2014 £m
Amounts owed by Group undertakings	**28.9**	30.4
Other debtors	**1.3**	2.0
	30.2	32.4

Debtors in both 2015 and 2014 are all due within one year.

4. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2015 £m	2014 £m
Bank loans and overdrafts	**–**	6.0
Amounts owed to Group undertakings	**200.1**	155.7
Other tax and social security costs	**–**	1.3
Accruals and deferred income	**4.4**	4.5
	204.5	167.5

Amounts owed to Group undertakings are interest free and are repayable on demand.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS Continued

5. CONVERTIBLE BOND

	2015 £m	2014 £m
Opening balance	–	24.3
Amortised during the year	–	0.6
Repaid during the year	–	(24.9)
Unamortised issue costs	–	–
Closing balance	–	–

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

6. INTEREST-BEARING LOANS AND BORROWINGS

	2015 £m	2014 £m
Variable rate – Pounds Sterling	**100.0**	100.0
Unamortised issue costs	**(0.6)**	(0.7)
	99.4	99.3
5% Guaranteed Secured Bonds due 2020	**275.0**	275.0
Unamortised issue costs	**(3.9)**	(4.6)
	271.1	270.4
Unamortised bond premium	**0.7**	0.8
Total interest-bearing loans and borrowing	**371.2**	370.5

The variable rate loan is secured by floating charges over the assets of the Group. The loan bears interest at 4% (2014: 4%) over LIBOR. The amount due in more than five years is £60.0m (2014: £100.0m).

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 of £75m issued at 101.125%. The premium on the tap issue is being amortised to the income statement using the effective interest rate method.

7. CALLED-UP SHARE CAPITAL

	2015 £m	2014 £m
Allotted, called-up and fully paid		
418,256,902 (2014: 417,792,510) ordinary shares of 5p each	**20.9**	20.9

During the year, The Grainger Employee Benefit Trust acquired 2,000,000 shares at a cost of £4.1m (2014: 1,000,000 shares at a cost of £2.1m). The Group paid £0.6m (2014: £0.5m) 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 £4.7m (2014: £2.1m) has been deducted from retained earnings within Shareholders' equity.

As at 30 September 2015, share capital included 3,656,096 (2014: 3,651,092) shares held by The Grainger Employee Benefit Trust and 1,506,300 (2014: 1,506,300) shares held by Grainger plc as treasury shares. The total of these shares is 5,162,396 (2014: 5,157,392) with a nominal value of £258,120 (2014: £257,870) and a market value as at 30 September 2015 of £12.3m (2014: £9.6m).

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

	Number	Nominal value £'000
At 1 October 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
Options exercised under the SAYE scheme	464,392	23
At 30 September 2015	**418,256,902**	**20,913**

Details of share options and awards granted by the Company are provided in Note 31 on pages 141 and 142 and discussed within the Remuneration Committee's report on pages 55 to 73.

8. RESERVES

	Share capital £m	Share premium £m	Capital redemption reserve £m	Profit and loss account £m	**Total £m**
At 1 October 2014	20.9	110.4	0.3	295.9	**427.5**
Loss for the year	–	–	–	(20.5)	**(20.5)**
Share-based payments charge	–	–	–	2.0	**2.0**
Purchase of own shares	–	–	–	(4.7)	**(4.7)**
Award of SAYE shares	–	0.3	–	–	**0.3**
Dividends paid	–	–	–	(10.4)	**(10.4)**
At 30 September 2015	**20.9**	**110.7**	**0.3**	**262.3**	**394.2**

9. OTHER INFORMATION

Dividends

Information on dividends paid and declared is given in Note 16 of the Group financial statements on page 114.

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 the guidance has subsequently been updated in December 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 EPRA measures being reported and the calculation of EPRA earnings, EPRA NAV, EPRA NNNAV and EPRA NIY are set out below:

	2015	2014
EPRA Earnings	**15.1m**	£33.5m
EPRA Earnings per share	**3.7p**	8.1p
EPRA NAV	**£1,334.1m**	£1,214.3m
EPRA NAV per share	**319p**	291p
EPRA NNNAV	**£1,101.5m**	£1,010.9m
EPRA NNNAV per share	**263p**	242p
EPRA Net Initial Yield (NIY)[1]	**4.7%**	4.5%
EPRA Vacancy Rate[1]	**4.1%**	4.5%

1 Excludes property that is vacant and is being marketed for sale. The 2015 vacancy rate is adversely impacted by a higher than normal level of vacancies in Germany as we upgrade our FRM portfolio.

2. EPRA EARNINGS

	2015			2014		
	Earnings £m	**Shares (millions)**	**Pence per share**	Earnings £m	Shares (millions)	Pence per share
Earnings per IFRS income statement	**42.7**	**412.4**	**10.4**	74.7	411.8	18.1
Adjustments to calculate EPRA Earnings, exclude:						
i) Changes in value of investment properties, development properties held for investment and other interests	**(13.9)**	**–**	**(3.4)**	(1.5)	–	(0.4)
ii) Profits or losses on disposal of investment properties, development properties held for investment and other interests	**(0.5)**	**–**	**(0.1)**	(0.8)	–	(0.2)
iii) Profits or losses on sales of trading properties including impairment charges in respect of trading properties[1]	**1.2**	**–**	**0.3**	(0.8)	–	(0.2)
iv) Tax on profits or losses on disposals	**–**	**–**	**–**	–	–	–
v) Negative goodwill/goodwill impairment	**–**	**–**	**–**	–	–	–
vi) Changes in fair value of financial instruments and associated close-out costs	**5.8**	**–**	**1.4**	(1.2)	–	(0.3)
vii) Acquisition costs on share deals and non-controlling joint venture interests	**–**	**–**	**–**	–	–	–
viii) Purchase of debt at a discount	**–**	**–**	**–**	–	–	–
ix) Deferred tax in respect of EPRA adjustments	**1.4**	**–**	**0.3**	0.7	–	0.2
x) Adjustments i) to viii) in respect of joint ventures	**(21.6)**	**–**	**(5.2)**	(37.6)	–	(9.1)
xi) Minority interests in respect of the above	**–**	**–**	**–**	–	–	–
EPRA Earnings/Earnings per share	**15.1**	**412.4**	**3.7**	33.5	411.8	8.1

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 an impairment provision made against trading stock (2014: reversal of an impairment provision).

EPRA PERFORMANCE MEASURES Continued

3. EPRA NET ASSET VALUE (NAV)

	2015			2014		
	Net assets £m	Shares (millions)	NAV pence per share	Net assets £m	Shares (millions)	NAV pence per share
NAV from the financial statements	**564.9**	**418.3**	**135**	536.8	417.8	128
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	**687.7**	–	**165**	596.9	–	144
iv) Value of own shares[1]	**12.3**	–	**3**	9.6	–	2
Exclude:						
v) Fair value of financial instruments	**26.8**	–	**6**	38.4	–	9
vi.a) Deferred tax	**30.0**	–	**7**	23.6	–	6
vi.b) Goodwill as a result of deferred tax	–	–	–	–	–	–
Include/exclude:						
Adjustments i) to v) above in respect of joint venture interests	**12.4**	–	**3**	9.0	–	2
EPRA NAV/EPRA NAV per share	**1,334.1**	**418.3**	**319**	1,214.3	417.8	291

1. 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)

	2015			2014		
	Net assets £m	Shares (millions)	NAV pence per share	Net assets £m	Shares (millions)	NAV pence per share
EPRA NAV	**1,334.1**	**418.3**	**319**	1,214.3	417.8	291
Include:						
i) Fair value of financial instruments	**(27.9)**	–	**(7)**	(38.5)	–	(9)
ii) Fair value of debt	**(25.8)**	–	**(6)**	(14.0)	–	(3)
iii) Deferred tax	**(178.9)**	–	**(43)**	(150.9)	–	(37)
EPRA NNNAV/EPRA NNNAV per share	**1,101.5**	**418.3**	**263**	1,010.9	417.8	242

5. EPRA NET INITIAL YIELD (NIY)

	2015 £m	2014 £m
Market value of wholly-owned market rented assets[1]	**499.3**	393.4
Allowance for estimated purchasers' costs	**13.6**	12.0
Grossed up market value of wholly-owned market rented assets	**512.9**	405.4
Annualised passing rental income	**32.4**	26.5
Property outgoings	**(8.2)**	(8.4)
Annualised net rents	**24.2**	18.1
EPRA NIY	**4.7%**	4.5%

1. Based on Grainger's wholly-owned market rented portfolio of property assets which has a market value as at 30 September 2015 of £542m (2014: £432m) but excluding interests in garages, ground rents and land amounting to £43m (2014: £39m).

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 2015 and 2014. We have used the GHG Protocol's location-based methodology for conversion factors for Scope 2 emissions.

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 35.

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 2015 and 2014. 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 2015 and 2014. The unit of measurement for natural gas consumption has been updated from 100s of cubic feet as a default to the actual known unit of measurement and natural gas consumption data for 2014 has been restated accordingly.

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

		2014		2015			
		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	503,979	350,317	**475,105**	**380,310**	-6%	9%
	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	6 of 6	3 of 6	**4 of 4**	**3 of 4**		
German Offices	Total electricity submetered to Grainger by its landlord	40,574	40,574	**39,232**	**39,232**	-3%	-3%
	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	554,553	390,890	**514,337**	**419,541**	-6%	7%
	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	1,916	N/A	**1,760**	**N/A**	-8%	N/A
German Offices	Building Energy Intensity for all energy submetered to Grainger by its landlord	2,135	N/A	**1,783**	**N/A**	-16%	N/A
Grand Total	Building Energy Intensity for all energy submetered to Grainger by its landlord	1,967	N/A	**1,761**	**N/A**	-10%	N/A

EPRA SUSTAINABILITY PERFORMANCE MEASURES Continued

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

		2014		**2015**			
		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)	242	169	**223**	**179**	-8%	6%
	Total indirect GHG emissions (GHG Protocol Scope 3)	21	15	**19**	**15**	-11%	2%
	Coverage of applicable properties	6 of 6	3 of 6	**4 of 4**	**3 of 4**		
German Offices	Total direct GHG emissions (GHG Protocol Scope 1)	–	–	**–**	**–**	–	–
	Total indirect GHG emissions (GHG Protocol Scope 2)	19	19	**19**	**19**	-3%	-3%
	Total indirect GHG emissions (GHG Protocol Scope 3)	1	1	**1**	**1**	-11%	-11%
	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)	261	188	**242**	**198**	-7%	5%
	Total indirect GHG emissions (GHG Protocol Scope 3)	22	16	**20**	**16**	-11%	1%
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)	920	N/A	**826**	**N/A**	-10%	N/A
German Offices	Building GHG Intensity (GHG Protocol Scopes 1 and 2)	1,009	N/A	**844**	**N/A**	-16%	N/A
Grand Total	Building GHG Intensity (GHG Protocol Scopes 1 and 2)	926	N/A	**829**	**N/A**	-10%	N/A

Data coverage notes for occupied offices

Absolute energy and GHG emissions: 13% of data is estimated. Our London offices in Knightsbridge and Putney were closed in April and May 2014 and a new consolidated London Bridge office was opened in April 2014. 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: 0.4% of data is estimated. Due to office consolidation in 2014, there are only three UK offices that have been occupied for two full reporting years: Newcastle, Birmingham and Altrincham. Our Frankfurt office in Germany has also been occupied for two full reporting years. Putney and Knightsbridge are no longer occupied by Grainger and the London Bridge office opened in April 2014, therefore these three 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

		2014		**2015**		
		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	1,100,288	254of 254	**856,333**	**245 of 245**	-22%
	Total energy consumed from district heating and cooling	–	N/A	**–**	**N/A**	–
	Total energy consumption from Grainger obtained fuels	1,701,085	6 of 6	**1,791,770**	**6 of 6**	5%
	Grainger obtained natural gas	1,701,085	6 of 6	**1,791,770**	**6 of 6**	5%
GRIP Fund	Grainger obtained electricity	496,724	87 of 88	**537,481**	**85 of 86**	8%
	Total energy consumed from district heating and cooling	–	N/A	**–**	**N/A**	–
	Total energy consumption from Grainger obtained fuels	93,611	3 of 3	**82,167**	**3 of 3**	-12%
	Grainger obtained natural gas	93,611	3 of 3	**82,167**	**3 of 3**	-12%
German Residential portfolio	Grainger obtained electricity	1,128,083	598 of 598	**1,087,397**	**602 of 602**	-4%
	Total energy consumed from district heating and cooling	–	N/A	**–**	**N/A**	–
	Total energy consumption from Grainger obtained fuels	–	N/A	**–**	**N/A**	–
	Grainger obtained natural gas	–	N/A	**–**	**N/A**	–
Grand Total	Grainger obtained electricity	2,725,095	939 of 940	**2,481,211**	**932 of 933**	-9%
	Total energy consumed from district heating and cooling	–	N/A	**–**	**N/A**	–
	Total energy consumption from Grainger obtained fuels	1,794,696	9 of 9	**1,873,938**	**9 of 9**	4%
	Grainger obtained natural gas	1,794,696	9 of 9	**1,873,938**	**9 of 9**	4%
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		1,431	N/A	**1,334**	**N/A**	-7%

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

		2014		2015		
		Absolute consumption	Coverage of applicable properties	**Absolute consumption**	**Coverage of applicable properties**	Trend
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)	314	6 of 6	**331**	**6 of 6**	5%
	Total indirect GHG emissions (GHG Protocol Scope 2)	526	254 of 254	**404**	**245 of 245**	-23%
	Total indirect GHG emissions (GHG Protocol Scope 3)	46	254 of 254	**34**	**245 of 245**	-26%
GRIP Fund	Total direct GHG emissions (GHG Protocol Scope 1)	17	3 of 3	**15**	**3 of 3**	-12%
	Total indirect GHG emissions (GHG Protocol Scope 2)	239	87 of 88	**253**	**85 of 86**	6%
	Total indirect GHG emissions (GHG Protocol Scope 3)	21	87 of 88	**21**	**85 of 86**	2%
German Residential portfolio	Total direct GHG emissions (GHG Protocol Scope 1)	–	N/A	**–**	**N/A**	–
	Total indirect GHG emissions (GHG Protocol Scope 2)	534	598 of 598	**514**	**602 of 602**	-4%
	Total indirect GHG emissions (GHG Protocol Scope 3)	27	598 of 598	**24**	**602 of 602**	-11%
Grand Total	Total direct GHG emissions (GHG Protocol Scope 1)	332	9 of 9	**346**	**9 of 9**	4%
	Total indirect GHG emissions (GHG Protocol Scope 2)	1,299	939 of 940	**1,171**	**932 of 933**	-10%
	Total indirect GHG emissions (GHG Protocol Scope 3)	94	939 of 940	**80**	**932 of 933**	-15%
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)	516	N/A	**465**	**N/A**	-10%
Water-Abs: Total water consumption annual cubic metres (m^3) GRI: G4-EN8						
GRIP Fund	Grainger obtained water consumption	2,398	4 of 4	**26**	**1 of 1**	-99%
Grand Total	Total water consumption	2,398	4 of 4	**26**	**1 of 1**	-99%
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	0.8	N/A	**0.008**	**N/A**	-99%

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 2014 to 30 September 2015.

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. 1% of fuels consumption data has been estimated. No properties have been excluded from electricity consumption for the UK Residential portfolio. One property has been excluded from reporting for the GRIP Fund because there was no confirmed electricity supplier and so consumption could not be calculated.

Absolute water: 8% of water consumption data has been estimated. There are no properties excluded from reporting. 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

		2014		2015		
		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	909,441	207 of 207	**792,327**	**207 Of 207**	-13%
	Total energy consumed from district heating and cooling	–	N/A	**–**	**N/A**	–
	Total energy consumption from Grainger obtained fuels	1,701,085	6 of 6	**1,791,770**	**6 of 6**	5%
	Grainger obtained natural gas	1,701,085	3 of 3	**1,791,770**	**3 of 3**	5%
GRIP Fund	Grainger obtained electricity	492,573	81 of 82	**534,632**	**81 of 82**	9%
	Total energy consumed from district heating and cooling	–	N/A	**–**	**N/A**	–
	Total energy consumption from Grainger obtained fuels	93,611	3 of 3	**82,167**	**3 of 3**	-12%
	Grainger obtained natural gas	93,611	3 of 3	**82,167**	**3 of 3**	-12%
German Residential portfolio	Grainger obtained electricity	1,128,083	597 of 597	**1,080,868**	**597 of 597**	-4%
	Total energy consumed from district heating and cooling	–	N/A		**N/A**	–
	Total energy consumption from Grainger obtained fuels	–	N/A	**–**	**N/A**	–
	Grainger obtained natural gas	–	N/A	**–**	**N/A**	–
Grand Total	Grainger obtained electricity	2,530,096	885 of 886	**2,407,828**	**885 of 886**	-5%
	Total energy consumed from district heating and cooling	–	N/A	**–**	**N/A**	–
	Total energy consumption from Grainger obtained fuels	1,794,696	9 of 9	**1,873,938**	**9 of 9**	4%
	Grainger obtained natural gas	1,794,696	9 of 9	**1,873,938**	**9 of 9**	4%

EPRA SUSTAINABILITY PERFORMANCE MEASURES Continued

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

		2014		2015		
		Like-for-like consumption	Coverage of applicable properties	Like-for-like consumption	Coverage of applicable properties	Trend
UK Residential portfolio	Total direct GHG emissions (GHG Protocol Scope 1)	314	6 of 6	331	6 of 6	5%
	Total indirect GHG emissions (GHG Protocol Scope 2)	433	207 of 207	373	207 of 207	-14%
	Total indirect GHG emissions (GHG Protocol Scope 3)	38	207 of 207	31	207 of 207	-16%
GRIP Fund	Total direct GHG emissions (GHG Protocol Scope 1)	17	3 of 3	15	3 of 3	-12%
	Total indirect GHG emissions (GHG Protocol Scope 2)	237	81 of 82	252	81 of 82	6%
	Total indirect GHG emissions (GHG Protocol Scope 3)	21	81 of 82	21	81 of 82	3%
German Residential portfolio	Total direct GHG emissions (GHG Protocol Scope 1)	–	N/A	–	N/A	–
	Total indirect GHG emissions (GHG Protocol Scope 2)	534	597 of 597	511	597 of 597	-4%
	Total indirect GHG emissions (GHG Protocol Scope 3)	27	597 of 597	24	597 of 597	-11%
Grand Total	Total direct GHG emissions (GHG Protocol Scope 1)	332	9 of 9	346	9 of 9	4%
	Total indirect GHG emissions (GHG Protocol Scope 2)	1,203	890 of 891	1,137	890 0f 891	-6%
	Total indirect GHG emissions (GHG Protocol Scope 3)	86	890 of 891	77	890 of 891	-10%

Water-Lfl: Like-for-like total water consumption annual cubic metres (m^3) GRI: G4-EN8

GRIP Fund	Grainger obtained water consumption	10	1 of 1	18	1 of 1	68%
Grand Total	Total water consumption	10	1 of 1	18	1 of 1	68%

Data coverage notes for owned assets

Like-for-like energy and GHG emissions: 4% of like-for-like electricity consumption data has been estimated. 1% of like-for-like fuel consumption data has been estimated. One property has been excluded from reporting for the GRIP Fund because there was no confirmed electricity supplier and so consumption could not be calculated.

Like-for-like water: 0% of water consumption data has been estimated. There are no properties excluded from reporting.

Total weight of waste by disposal route and like-for-like total weight of waste by disposal route for owned assets

		2014			**2015**				
		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	375		N/A	**375**		**375**	0%	0%
	Recycled	131	35%	N/A	**131**	**35%**	**131**	0%	0%
	Incineration (with and without energy recovery)	188	50%	N/A	**188**	**50%**	**188**	0%	0%
	Landfill (non-hazardous)	56	15%	N/A	**56**	**15%**	**56**	0%	0%
	Hazardous Waste Treatment Facility	–	–	N/A	**–**	**–**	**–**	–	–
	Coverage of applicable properties	11 of 13		11 of 13	**11 of 13**		**11 of 13**		
Grand Total	Total	375		N/A	**375**		**375**	0%	0%
	Recycled	131	35%	N/A	**131**	**35%**	**131**	0%	0%
	Incineration (with and without energy recovery)	188	50%	N/A	**188**	**50%**	**188**	0%	0%
	Landfill (non-hazardous)	56	15%	N/A	**56**	**15%**	**56**	0%	0%
	Hazardous Waste Treatment Facility	–	–	N/A	**–**	**–**	**–**	–	–
	Coverage of applicable properties	11 of 13			**11 of 13**		**11 of 13**		
Own office occupation	Total	35		27	**10**		**7**	-71%	-75%
	Recycled	26	74%	21	**7**	**67%**	**6**	-74%	-74%
	Incineration (with and without energy recovery)	–	–	N/A	**–**	**–**		–	–
	Landfill (non-hazardous)	9	26%	6	**3**	**33%**	**1**	-64%	-78%
	Hazardous Waste Treatment Facility	–	–	N/A	**–**	**–**	**–**	–	–
	Coverage of applicable properties	6 of 7	–	2 of 7	**4 of 5**	**–**	**3 of 5**		

Data coverage notes for owned assets

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: All applicable properties are included in like-for-like reporting.

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. 62% of data was estimated. Cardboard waste at our London office has been excluded because it was not possible to calculate weight from the data provided. Waste data was not measured at our German occupied office.

Like-for-like waste

Due to office consolidation in 2014, there are only three UK offices that have been occupied for two full reporting years: Newcastle, Birmingham and Altrincham. All are included in like-for-like reporting.

Cert-Tot Type and number of sustainably certified assets GRI: G4-CRE8

Type of certification	Name of certification	Number of UK properties certified	Percentage of UK properties certified	Coverage of applicable properties
Mandatory certifications	EU Energy Performance Certificate	2,252	23%	2,252 of 9,973
Voluntary certifications	Code for Sustainable Homes (Level 4)	104	100%	104 of 104

Data coverage notes for owned assets

Data is not available for our German Residential portfolio for the reporting year. Applicable properties for mandatory certifications include all Grainger-owned units. Applicable properties for voluntary certifications include all units developed in the reporting year.

Five year record

FOR THE YEAR ENDED 30 SEPTEMBER 2015

	2011 £m	2012 £m	2013 £m	2014 £m	**2015 £m**
Revenue	296.2	311.4	283.2	319.1	**244.1**
Gross proceeds from property sales	217.0	250.5	347.1	267.2	**187.4**
Gross rental income	86.3	89.8	71.3	57.4	**58.7**
Gross fee income	6.9	10.0	12.5	12.3	**7.5**
Operating profit before valuation and non-recurring items (OPBVM)	126.2	126.4	107.6	107.5	**101.9**
Profit/(loss) before tax	26.1	(1.7)	64.3	81.1	**50.0**
Profit after tax	39.1	0.4	53.6	74.7	**42.7**
Dividends taken to equity	4.9	7.6	8.0	8.5	**10.4**

	Pence	Pence	Pence	Pence	**Pence**
Earnings per share	9.5	0.1	13.1	18.1	**10.4**
Dividends per share	1.8	1.9	2.0	2.5	**2.8**

	Pence	Pence	Pence	Pence	**Pence**
Gross net asset value per share	216.2	223.0	242.0	290.6	**319.0**
Triple net asset value per share	153.3	157.1	194.7	242.0	**263.4**
Share price at 30 September	86.6	107.7	174.8	185.5	**238.0**

	%	%	%	%	**%**
Return on capital employed (ROCE)	6.5	5.9	8.1	17.0	**9.5**
Return on shareholder equity (ROSE)	11.1	3.8	25.2	25.6	**10.0**

Shareholders' information

Financial calendar

AGM	10 February 2016
Payment of 2015 final dividend	12 February 2016
Announcement of 2015 interim results	May 2016
Announcement of 2015 final results	November 2016

Share price

During the year ended 30 September 2015, the range of the closing mid-market prices of the Company's ordinary shares were:

Price at 30 September 2015	238.0p
Lowest price during the year	171.6p
Highest price during the year	254.0p

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
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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.

GLOSSARY OF TERMS Continued

FINANCIAL Continued

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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HSBC Bank plc
HSH Nordbank AG
Hypothekenbank Frankfurt AG
Lloyds Bank plc
Nationwide Building Society
Santander UK plc
SEB AG
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