grainger plc
Investing in homes since 1912

Annual Report and Accounts 2016

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Our purpose

The UK Private Rented Sector ('PRS') presents a major opportunity as more people are choosing to rent.

We plan to capture this opportunity. We are the UK's largest residential landlord listed on the London Stock Exchange and have a clear, focused strategy to significantly grow our portfolio of homes for rent and deliver sustainable returns to our Shareholders while providing our customers with great homes to live in.

Building on our growing national portfolio of 8,609 rental homes, we plan to invest over £1bn into the UK's private rented sector by 2020. We will execute this plan with our unrelenting focus on growing net rental income, driving operational efficiency and improving customer service – to the benefit of our Shareholders and customers.

Contents

Financial highlights:

Net rental income[1]	£37.4m	+15%	(FY15: £32.4m)
Adjusted earnings[2]	£53.1m	+69%	(FY15: £31.5m)
Profit before tax	£84.2m	+64%	(FY15: £51.4m)
Dividend per share	4.5p	+64%	(FY15: 2.75p)
EPRA NNNAV[3]	287pps	+9%	(FY15: 263pps)
Total return[4] (Return on shareholder equity)	10.6%	+60bps	(FY15: 10.0%)
LTV[5]	35.9%	-960bps	(FY15: 45.5%)
Cost of debt[6] (at period end)	3.9%	-70bps	(FY15: 4.6%)

Strategic and operational highlights:

Grow net rental income

- Investing £850m into UK PRS by 2020 to grow net rental income and our dividend (£1.1bn alongside our partners)
- £389m investment in PRS secured this year
- Secured Clippers Quay in Salford for £100m, comprising 614 rental homes
- Acquisition of Kew Bridge Court in London by GRIP for £57.3m, comprising 98 rental homes
- Conditional forward acquisition of Yorkshire Post in Leeds for £40m, a development of 242 rental homes
- Conversion of GRIP into a REIT
- £52m of stabilised PRS stock acquired
- Planning consent achieved of Apex House PRS development in London

Simplify and focus

- Sale of German portfolio and business platform
- Sale of Retirement Solutions division, Equity Release business
- Czech Republic land sale
- Internal restructuring into a Property team, focused on driving capital growth, and an Operations team, focused on driving rental growth
- 24% overhead savings in FY17 from actions taken to reduce costs
- Improving capital structure through the reduction in cost of financing by £12m, cost of debt to under 4% and gearing under 40%

1 Net rental income is gross rental income after charging directly attributable property expenses (see Note 7 to the financial statements on page 117).
2 Adjusted earnings, previously called recurring profit, is profit before tax, less valuation movements and non-recurring items (see Note 2 for explanation and Note 4 for reconciliation from statutory measure).
3 EPRA NNNAV definition and reconciliation is shown in Note 5.
4 Total return (return on shareholder equity) is growth in EPRA NNNAV in the year plus the dividend per share as a percentage of opening EPRA NNNAV.
5 LTV is the ratio of net debt to the market value of properties on a consolidated Group basis (see page 38 for further details).
6 Cost of debt is the weighted average cost of debt at the year end date including costs and commitment fees.

Providing homes for better renting

We provide homes for rent and we are professionalising the sector and improving the customer experience by creating new purpose built rental homes that offer an attractive alternative to owning.

We are designing, building and managing great homes in desirable areas.

Driving net rental income through design and management

Our new PRS assets are designed to deliver a great experience for our customers and are efficient to run.

Well-designed buildings are more cost-effective to run and last longer, mitigating against depreciation and obsolescence and reducing maintenance costs. They also make for happy, loyal customers which, in turn, provide robust, sustainable income.

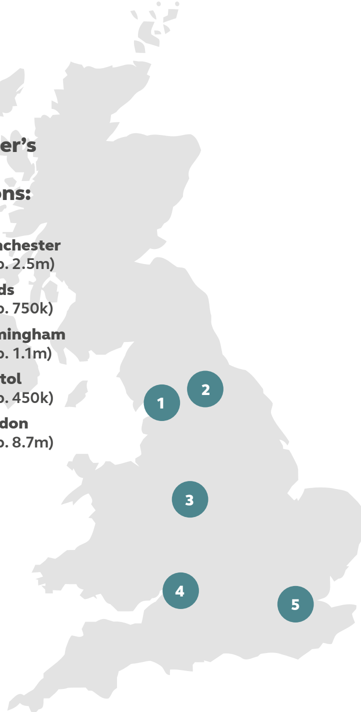
Our investment focus

We target cities with attractive market fundamentals and positive economic prospects, including wage and job growth. We look for top universities, teaching hospitals, infrastructure investment and high-quality employers. We use our extensive, local knowledge and our strong network to identify investment opportunities.

Among our target cities are London, Manchester, Bristol, Birmingham and Leeds.

Grainger's target locations:

1. **Manchester** (pop. 2.5m)
2. **Leeds** (pop. 750k)
3. **Birmingham** (pop. 1.1m)
4. **Bristol** (pop. 450k)
5. **London** (pop. 8.7m)



Growing net rental income

Our strategy is transforming Grainger from a business reliant on capital growth to one with more balanced total returns and greater rental income.

We are investing over £1bn into rental homes by 2020, a pipeline which is fully funded through the measures we have taken to simplify the business. This strategy is enabled by our portfolio of regulated tenancies which generate stable long-term cash flows.

By driving ever greater operational efficiencies and creating economies of scale, we are enhancing net rental income, which will in turn allow us to grow our dividend.

For further details on our strategy and focus, please see the Chief Executive's review on pages 9 to 11.

Renting on the rise

Renting is the fastest growing housing tenure in the UK. It has doubled in size in the last decade and it is predicted to grow by 25% by 2020.

The UK needs more homes

Last year, the UK built about 152,520 new homes (DCLG). This is less than half the projected demand. According to a recent report by the House of Lords Economic Affairs Committee, it is estimated the UK needs at least 300,000 new homes each year.

By building homes specifically for the rental market ('build to rent'), we are able to significantly contribute to new housing supply, and we are able to deliver homes much more quickly than other traditional forms of housebuilding.

For more about our market opportunities see pages 12 and 13.

A decade ago 1 in 10 households in England rented. Today

1 in 5

rent privately

(English Housing Survey)

Opportunity for large scale professional landlords

Ninety-eight per cent of landlords in the UK own less than 10 properties. This gives Grainger a clear opportunity to provide a differentiated product with high-quality service and gain significant market share in the new, emerging PRS of large scale professional, purpose built rental housing (DCLG Landlord Survey).

Renting is the fastest growing housing tenure

In the last decade, the PRS has increased in size by 82% to over 4 million households. This equals growth of 17,500 households per month on average (English Housing Survey).

Forecasts predict the PRS will continue to grow. PwC indicates that an additional 1.8 million UK households will rent by 2025 (PwC, UK Economic Outlook report, July 2015), a 45% increase, while Savills suggests an additional 1 million PRS households in the next five years (Savills, Rental Britain report, February 2016).

The drivers behind this growth in demand for renting are both economic and cultural: the cost of owning is increasing and the flexibility of renting is becoming more desirable.

"One of things that has impressed me most about Grainger is how responsive they are to our needs. We always receive a reply to our emails within 24 hours and they actually care about making us feel comfortable in our home! We're treated like valued clients, rather than simply tenants."

Jane, renting with Grainger

More than 100 years of renting homes

Our tenants know that they can trust us as a professional and responsible landlord, looking after them and their homes.

An unrivalled operational platform

- A team of experts in acquisitions, development and design.
- Highly skilled, dedicated professionals in lettings and asset and property management.

Our four strategic operational offices are aligned to our investment strategy. They are located in Newcastle, London, Manchester and Birmingham. Our Property team is responsible for driving capital growth from our investments, while our Operations team is focused on growing net rental income. Together they deliver attractive balanced total returns to our shareholders.

An unrivalled operational platform

Our portfolio

8,609

rental homes

Our portfolio of rental homes is worth

£2.6bn

A high-quality, cash generative portfolio delivering balanced total returns

We manage our portfolio to protect value and capture growth opportunities.

Our regulated tenancy portfolio is expected to generate more than £100m of gross cash per year from sales and rental income for the next ten years. This provides us with a solid foundation for growth in the PRS. These cash flows have proved resilient throughout economic cycles.

This stable trading income from our regulated tenancy portfolio is balanced by a robust rental income coupled with the higher yielding PRS assets. This year, our PRS homes generated rental growth of 3.6%.

To learn more about how we generate value for our shareholders and stakeholders, please turn to pages 14 and 15 to see our business model.

Our portfolio by geography

Region	Homes under management (units)	Market value (£m)	Grainger's share of market value (£m)	Average house price (avg VPV per unit) (£'000)
Central London	1,020	691	525	798
Inner London	2,358	959	634	471
Outer London	542	183	177	400
South East	665	159	147	305
South West	914	250	197	305
East	424	69	64	211
East Midlands	276	24	24	112
West Midlands	500	83	82	202
Wales	12	1	1	173
Yorkshire	329	37	37	144
North West	1,263	137	136	125
North East	285	28	28	119
Scotland	21	3	3	141
Total	**8,609**	**2,624**	**2,055**	**359**

Excludes development work in progress and discontinued operations.

This year we have secured investment in a further 2,103 new rental homes.

A period of significant progress

I am pleased to report significant progress following our changes in the executive leadership at the beginning of the year.

Shortly after taking office as Chief Executive, Helen Gordon, supported by an energetic leadership team, reviewed and refined the strategy the Board had initiated at the end of 2015. She immediately set out the key milestones to achieving a step change in the strategic direction of the Company with the ultimate objective of improving value for all stakeholders. The benefits are already beginning to materialise and the future attractions of the business as an income generating, residential rental company are becoming increasingly clear.

In simple terms, we are shifting the nature of the business from a traditional trading model, heavily reliant on house price inflation as a driver of capital value, to an investment model with a sustainable and visible income stream from well-run private rented residential homes.

The Grainger model continues to capture over time the full reversionary value of our regulated portfolio. The predictable cash flow from these properties is then reinvested directly into developing or acquiring modern, purpose-built residential rental properties. This is a significant growth market in the UK as the demand for homes outstrips supply and the option to rent becomes an increasingly attractive and affordable alternative to buying a home.

I am pleased to say that the new management team has lost no time in delivering on the milestones set out in January 2016 and in reshaping the organisation to support the strategy. Disposals have been made, costs have been cut, and resources have been concentrated on identifying and creating a strong pipeline of private rented sector ('PRS') assets, that build on our heritage and will deliver strong, sustainable shareholder returns over the coming years.

The transition from strategy to implementation has been short and decisive and I would like to thank all of my colleagues on the Board for their tremendous effort in achieving this. The effective management and proper governance of the Group is critical to our continued success and I have set out on pages 43 to 53 a number of key actions that we have taken to ensure that it remains of the highest standard.

We have also enjoyed strong support from the majority of our Shareholders for our move to a UK residential rental model with a greater focus on reliable income. Their support of this and our new management team during this first year of transition has been much appreciated.

Sadly we have to report that this year we lost Stephen Dickinson, who died after a short illness. Stephen joined Grainger in 1974 and was an extremely effective Chief Executive of the Company until 2002, eventually retiring from the Board in 2009, and was instrumental in leading the Company from private to public ownership. He was a wonderful person who left a very strong legacy and will be much missed by all at Grainger.

Finally, we never forget that over 18,000 people choose to make their home with Grainger. We take that responsibility very seriously and our staff will continue to go the extra mile for our customers, day in and day out providing the best service and best support possible.

M Ford

Baroness Margaret Ford
Chairman
1 December 2016

Maximising the opportunity in the private rented sector

This is my first full year statement to you as Chief Executive of your Company and I am pleased to report a solid performance and the swift execution of the planned strategic changes in the business, which will ultimately drive all stakeholder value.

I set out in this report how we have simplified and put focus into the business to capture the opportunity created by the growing demand for private rental housing in the UK.

Helen Gordon
Chief Executive

Strategic review

In January I presented my review of the Company's strategy. The strategy positions Grainger for sustainable growth in an emerging sector. It is designed to grow rents, simplify and focus the business and build on the operational strength and foundations of over 100 years of renting homes.

I was supported in this review by an enthusiastic and engaged leadership team. The whole of the Grainger team provided insights and contributions. The review examined every division and all assets and portfolios were appraised and avenues for growth explored.

The key findings supported our view that there is a significant market opportunity in an area where Grainger has unparalleled expertise and committed employees ready for change.

We identified the need for Grainger to focus on growing rental income, to exit non-UK assets and dispose of assets which consume shareholder capital and were focused on capital growth.

We concluded that our regulated tenancy business remains a compelling investment with robust cash flows. The retention of these assets supports and provides financing for Grainger's evolution to our new PRS model. Most importantly, this PRS model will establish Grainger as an income generating quoted vehicle, which provides Shareholders easy and liquid access to the UK's high-growth PRS market, which is otherwise only achievable through direct real estate investment.

Delivering on our strategy of simplifying the business

During the year we sold our non-core assets and reorganised our operational platform.

In January 2016 we agreed to sell our Equity Release business as it was no longer complementary to Grainger's core focus. This was completed in May 2016.

Having decided to sell our German business, we disposed of a series of portfolios. We sold our German joint venture in January. In February we agreed to sell our German business platform with one of the portfolios, thereby securing the majority of the Grainger employees' jobs with the new owners and reducing exit costs. The majority of remaining assets were also sold by May 2016. We disposed of surplus land at Kennel Farm, Basingstoke, and in August we were able to secure the unwinding of our joint venture in Prague by securing planning consent and disposing of the land. I am pleased to report that these disposals have been achieved profitably, while successfully securing the future for Grainger colleagues within those non- core businesses under their new owners.

These disposals reduced the quantum and cost of debt and enabled us to embark on a restructuring of our more expensive debt resulting in further cost reductions. This is explained more fully in the Financial review. In June 2016 we embarked on the restructuring of our operations by removing divisions and restructuring the business into Property

Highlights

- NNNAV up 8.9% to 287p
- Net rental income up 15%
- Adjusted earnings up 69%
- Operating costs reduced by 24%
- Dividend per share increased by 64%
- Profit before tax up 64% to £84.2m

and Operations (a PropCo/OpCo model) backed by our central corporate teams. This is designed to focus on driving capital and income growth in the business as well as significantly reducing overheads. The benefit of this will be fully realised in 2017 when overheads are on track to be 24% lower than in 2015. We will continue to pursue ongoing improvements where possible, realising further cost efficiencies that our new model creates.

Delivering on our strategy of growing rents and dividends

The growth of our rental income is at the heart of the strategic objective of delivering shareholder returns which are a balanced mixture of both income and capital growth. During this transitional period to 2020 we have linked our dividend directly to net rental income and will distribute the equivalent of 50% of net rents to Shareholders. The majority of Grainger staff are also Shareholders and this approach will further incentivise the teams to drive rental growth alongside providing a high-quality service.

In January we announced a target that over 50% of our wholly-owned assets would be modern PRS stock by 2020 and that by that date net rental income would exceed profit from sales. This is a model which is more income focused and structured to give more sustainable and less volatile returns.

We also announced we would invest £850m (c.£1.1bn alongside our partners) in the PRS between now and 2020. I am pleased to announce that we have already achieved significant progress and have secured £389m with a further pipeline of £347m of potential sites in the planning or legal process.

The growth in rents has been achieved by new acquisitions but also by the operations team delivering great customer service and encouraging our customers to stay for longer, and increasing demand for our homes.

Disciplined approach to acquisition

We have restructured our investment and acquisitions teams to enable them to identify and assess opportunities quickly in our target markets, and provided an investment framework which is supported by rigorous analysis and in-depth local knowledge. This has dramatically increased the number of opportunities we are evaluating and has enabled us to make good progress on our pipeline.

UK PRS market

As you will read in the market review section of this report, the demand for renting is growing and this trend is set to continue. Ten years ago, one in ten households in England rented privately. Today it is one in five. In London, it is one in four. PwC predicts that 1.8 million new rental homes will be required by 2025 to meet demand. This demand, coupled with positive support for the build-to-rent sector and large scale institutional investment in the PRS, presents Grainger with a very compelling opportunity.

As the UK market leader in the residential rental sector, we are targeting investment in the PRS in key target cities where demand for renting is highest and local economic prospects are greatest, including cities with top universities and good graduate retention, teaching hospitals and strong professional services. Our top five target cities are: London, Manchester, Bristol, Birmingham and Leeds. I am pleased to say that we have secured sizeable investments in four of five of these cities since we launched our strategy.

2016: A year of significant action

Q1

- Appointment of Helen Gordon as Chief Executive
- Sale of Retirement Solutions, Equity Release business
- New strategy and vision announced, including pledge to invest £850m by 2020

Q2

- Vanessa Simms joins as Chief Financial Officer
- Sale of German business
- Secured £100m PRS development, Clippers Quay

- Acquisition of PRS asset, Kew Bridge Court by GRIP
- £124m secured in PRS pipeline
- PRS rental growth of c.3.6% in six months to the end of March

Working in partnership

Our reputation of working in partnership and taking the long-term view of key relationships is well established. Whilst we are clear about our commitment to existing partners, we believe we should drive returns for our shareholders and not take on more third-party property management mandates at this time.

Our relationship with APG is important to us and I am delighted that GRIP, our fund with APG, was converted to a Real Estate Investment Trust (REIT) in July of this year.

Our partners in local and central government are important to us. We are aligned in our objective of creating new high-quality homes. Grainger's longevity and commitment to stewardship with communities has been evidenced across a number of development projects. In particular, our work at Aldershot in partnership with the Defence Infrastructure Organisation (part of the Ministry of Defence) and our developments with the Royal Borough of Kensington and Chelsea are both worthy of highlighting.

We continue to work with some housebuilders and to look for ways in which to increase the availability of private rental housing stock in the UK which is complementary to housebuilders' needs to build new homes.

Political and legislative changes

There is an undersupply of quality housing in the UK and this has been recognised by central and local government. Whilst the political environment has been largely supportive, the sector was adversely affected by an additional 3% stamp duty land tax surcharge on second homes in the Spring. In June the vote to leave the European Union was seen to have a negative impact on the housing market but was not evidenced in our sales pipeline, and the PRS sector is widely regarded as one of the most resilient real estate classes post the EU referendum.

Outlook

2016 has been a landmark year for Grainger. The team has worked hard to support the delivery of the key milestones of the strategy. The UK PRS market is on the cusp of high growth as it provides a practical and compelling solution to the housing shortage in the UK. Grainger's established leading market position and operational expertise provide us with confidence that we can capture this market opportunity to its fullest.

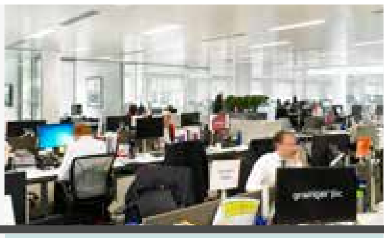
2017 will be an important year for Grainger as we forge ahead with the transition into a more balanced rental model and as we realise the benefits of the restructuring and continue to manage our all-important portfolio of regulated tenancies.

Our long-term aspirations for Grainger are for the business to be the acknowledged leader in the PRS market in the UK, delivering quality services whilst generating strong shareholder returns.

Grainger has seen substantial change and I would like to take the opportunity of thanking each and every one of our staff with whom so much has been and will be achieved. Together with our Shareholders, we look forward to an exciting and profitable future ahead.

Helen Gordon
Chief Executive
1 December 2016

- Total cost savings of 24% identified
- New dividend policy linked to growing net rental income and PRS investment pipeline



Moving forward into 2017

- Grow net rental income
- Continue improving operational efficiency

Q3

- Organisation restructured into Property and Operations teams
- £389m secured in PRS pipeline

Q4

- GRIP converted to UK REIT status
- Legacy swaps recouponed, reducing cost of debt to around 4%
- Acquisition of £40m PRS development in Leeds, Yorkshire Post
- Czech Republic land sale

Strong market conditions

Grainger's business model is based on maximising the total returns generated from residential property investments. We do this through a combination of capital growth and rental income.

Capital values (house prices)

UK house prices rose in the year ending 30 September 2016 by 3.7% according to the LSL Acadata House Price Index, 5.5% for the combined average of the Nationwide and Halifax house price indices, and 7.7% according to the Office of National Statistics.

This growth was significantly weighted towards the first half of the year. In the second half, activity and price growth in predominantly Central London slowed in the wake of increases to stamp duty land tax and the EU referendum result.

Looking ahead, the consensus among the main UK estate agencies (including JLL, CBRE and Savills) is that house price inflation in the forthcoming year is anticipated to be between 0% and 5%.

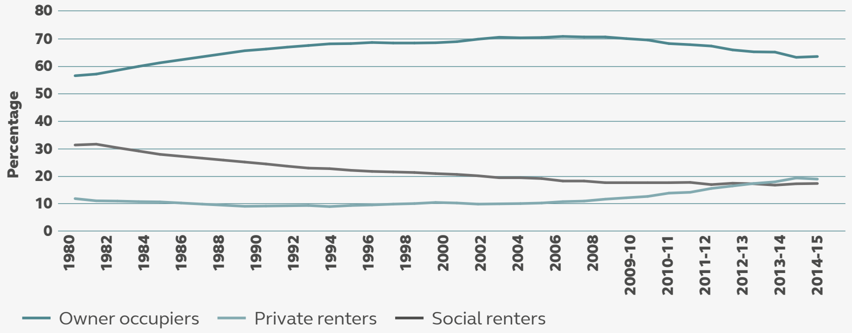
Renting on the rise

Renting privately is the second most common housing tenure in the UK and it is rapidly growing.

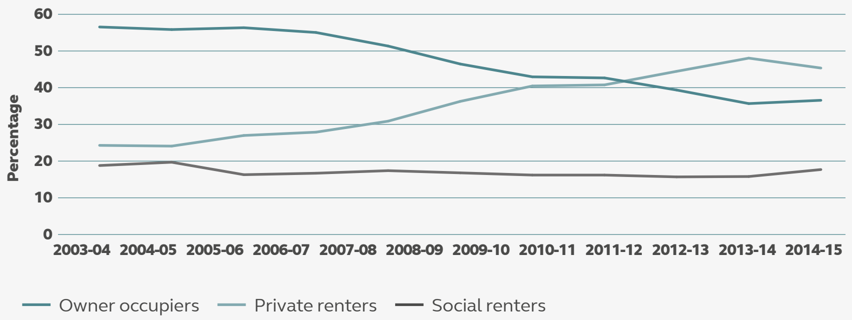
One in five households rent privately in England. In London, it is one in four.

Owner occupation levels peaked in 2003 at 71%, before the financial crisis, and are now at 64%, while in the last decade, the PRS has increased in size by 82% to over 4 million households. Private renting has been growing by 17,500 households per month on average over the past decade (English Housing Survey 2014-15, February 2016).

Housing tenures



Households (25 – 34 years), by tenure



Forecasts predict the PRS will continue to grow. PwC predicts an additional 1.8 million UK households will rent by 2025, a 45% increase (PwC, UK Economic Outlook report, July 2015). Savills predicts an additional 1 million households in the PRS in the next five years (Savills, Rental Britain report, February 2016).

70% of individuals in the PRS are under age 45, compared with 25% in owner occupation. The proportion of individuals between ages 25 and 54 who are privately renting has increased steadily over the last two decades, reflected in the term 'Generation Rent' (English Housing Survey).

The drivers behind the rental rise

There are two sets of drivers behind the rise in renting:

1. Financial
   Affordability challenges, lower levels of savings and high mortgage deposit requirements are some of the key drivers behind more people choosing to rent over owning, at least for a longer period of time. In particular the rising cost of buying and selling a home is making ownership less attractive, particularly for those who want the flexibility in their living arrangements.

2. Cultural and behavioural
   Lifestyle changes mean that an increasing number of people prefer the flexibility of renting for longer. Later family formation, greater job mobility, changing spending patterns

and preferences are all driving an increased demand for renting, due to its flexibility and reduced levels of commitment and liability.

Research suggests that these two sets of drivers will continue to underpin increasing demand for rental housing.

Britain needs to build more homes

Latest estimates suggest Britain requires an additional 300,000 new homes per year (House of Lords Economic Affairs Committee, 'Building more homes' report, July 2016). Last year only 152,520 homes were built (DCLG).

It is widely accepted that more homes must be delivered in the UK. The Government recognises the need for increasing housing supply, while business surveys regularly cite housing amongst the top issues for the future success of the UK economy and its competitiveness.

This undersupply of housing has underpinned, and will continue to underpin, capital values and rental income.

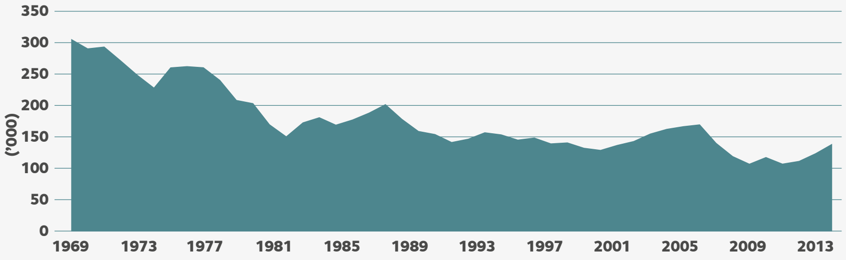
Opportunity for large scale investors to gain market share

The UK rental housing market is dominated by small scale landlords. With less than ten properties each, they make up 98% of the entire PRS (DCLG, Landlord Survey).

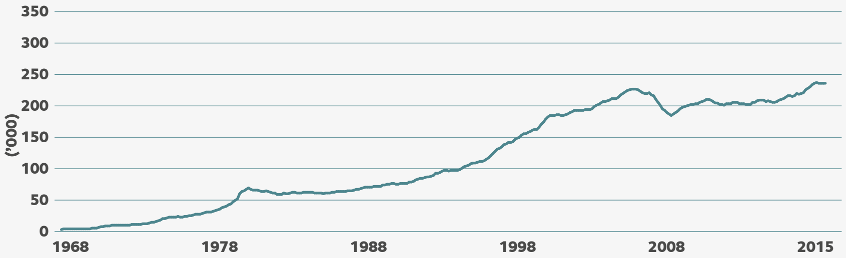
Increasing demands for greater professionalism, improved standards, better service and better quality housing provide an opportunity for large scale investors such as ourselves.

There is a growing recognition among both consumers and politicians of the differentiation between large scale, institutional landlords and smaller scale, buy-to-let landlords.

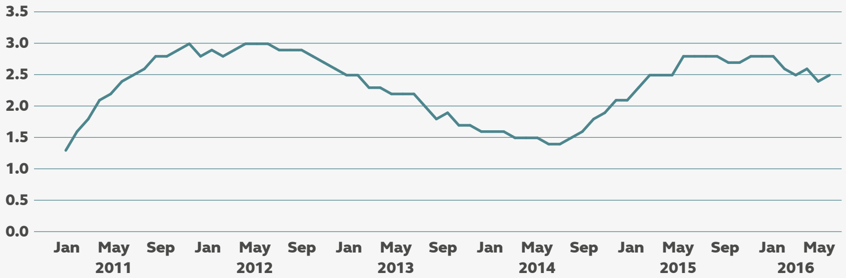
Housing completions (England)



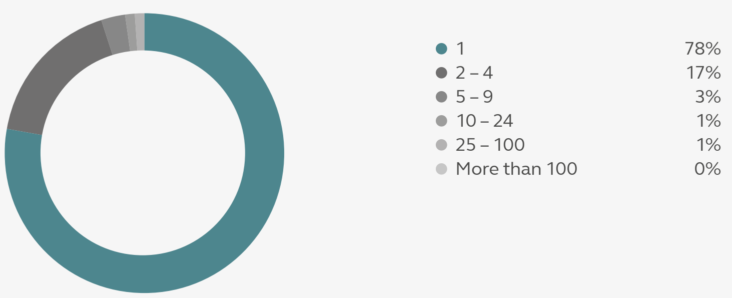
Real house prices (£)



Rental growth
Percentage change on a year earlier



Number of properties per landlord



Source for charts: Office for National Statistics

A simplified and focused business...

Our strategy

Grow rents
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Simplify and focus
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Build on our heritage
– Page 22

Inputs and sources of competitive advantage

People
Staff
Customers
Investors
Partners

Relationships
Supply chain
Local government
Customers

Capital

Assets

Technology

Intellectual Property

Read more
Pages 24 to 27

… creating value for shareholders and the stakeholders we serve

Please see our KPI section on the next two pages (16 and 17) to see how we measure performance against our strategy and business model.

Outputs

Net rental income → Dividend + NNNAV growth = Total returns

Outcomes

Shareholders
- Growing balanced, stable long-term total returns, including an increased dividend

Employees
- Clear purpose and direction; stable employment and clear link between remuneration, strategy and business model

Supply chain
- Employment creation through our supply chain, as a reliable client with strong long-term prospects

Local communities
- Creation of new homes for long-term rent
- Long-term investment in local areas, supporting regeneration, economic activity and labour mobility
- Supporting great places and communities, underpinning values
- Creating both housing and employment opportunities for local people

Customers
- A place to call home
- Dealt with in a fair and professional manner
- Given the attention and service expected in accordance with their product (e.g. type of tenancy)

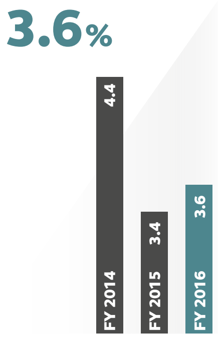
Our KPIs are used to measure the success of the Group's strategic performance

Income returns

The Directors have reviewed the use of key performance indicators ('KPIs') to ensure that they are aligned to the business strategy. These measures are used by the Board and senior management to actively monitor business performance. The following KPIs focus on a key strand of Grainger's strategy, which is to increase the overall returns generated from income and improve the resilience and efficiency of the business model which will support increasing dividend distributions.

PRS rental growth
(%)

3.6%

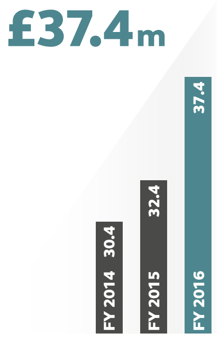


KPI definition
Average growth of rents across our PRS portfolio.

Comment
Good rental growth maintained through the year, reflecting market conditions and our proactive approach to asset management.

Net rental income
(£m)

£37.4m

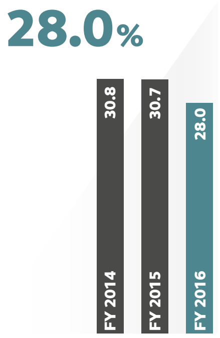


KPI definition
Rental income after property operating expenses.

Comment
15% growth in net rental income, primarily a result of acquiring tenanted rental homes that deliver immediate income, a key strand of our PRS investment strategy.

Property operating costs (gross to net costs)
(%)

28.0%

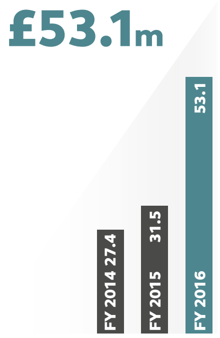


KPI definition
Property operating costs as a percentage of gross rental income.

Comment
300bps improvement, which reflects the actions taken in the year to develop a more efficient and scalable operating platform.

Adjusted earnings
(£m)

£53.1m

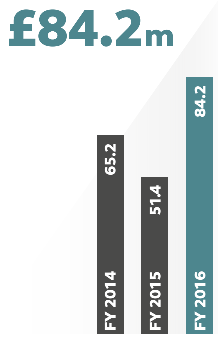


KPI definition
Profit before tax, less valuation movements and non-recurring items. Previously referred to as recurring profit.

Comment
69% increase in FY16 adjusted earnings, reflecting growth in net rental income, a robust sales performance and lower operational and financial costs.

Profit before tax
(£m)

£84.2m



KPI definition
Profit before tax for the continuing business including valuation movements and non-recurring items.

Comment
Growth of 64% to £84.2m reflecting positive valuation movements and the disposal of land in Czech Republic.

Key
Grow rents · Simplify and focus · Build on our heritage

	Link to the strategy	Notes
PRS rental growth	Grow rents	Calculated in accordance with the accounting policy shown in Note 7 to the financial statements.
Net rental income	Grow rents	See Note 7 to the financial statements.
Property operating costs	Grow rents, Simplify and focus	See Note 7 to the financial statements.
Adjusted earnings	Grow rents, Simplify and focus	See Note 2 for explanation and Note 4 to the financial statements for reconciliation from statutory measures.
Profit before tax	Grow rents, Simplify and focus, Build on our heritage	See Note 2 for explanation and Note 4 to the financial statements for reconciliation from statutory measures.

Please refer to the Remuneration report for details on how our strategy and key financial metrics are linked to remuneration.

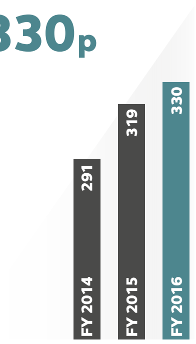
Capital returns

The Directors have reviewed the use of KPIs to ensure that they are aligned to the business strategy. These measures are used by the Board and senior management to actively monitor business performance. The following KPIs capture Grainger's strategy to maximise total returns and capital growth from its residential investments, with an increasing focus on growing the PRS business and investing £850m by 2020.

The net asset metrics below measure the value of our residential assets and liabilities and capture the year-on-year capital growth. The loan to value ('LTV') reflects the capital structure of the business while cost of debt shows the cost effectiveness of our financing.

EPRA NAV
(pence)

330p



KPI definition
Market value of property assets, before deferred and contingent tax on property revaluations and derivative adjustments.

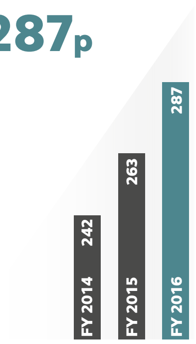
Comment
6.5% compound annual growth from FY14, 3.4% growth in FY16 reflecting a strong trading and valuation performance, despite adjustments for strategic non-core disposals and the recouponing of legacy swaps.

Link to the strategy

See Note 5 to the financial statements for reconciliation.

EPRA NNNAV
(pence)

287p



KPI definition
EPRA NAV after deducting deferred and contingent tax on property revaluations and derivative adjustments.

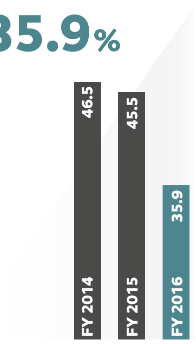
Comment
8.9% compound annual growth from FY14, 8.9% growth in FY16 supported by a strong trading performance, good valuation growth, accretive strategic disposals and reduced deferred and contingent tax liabilities associated with lower corporate tax rates.

Link to the strategy

See Note 5 to the financial statements for reconciliation.

LTV
(%)

35.9%



KPI definition
Ratio of net debt to the market value of properties on a consolidated Group basis.

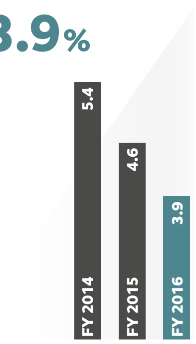
Comment
Reduction of 960 basis points ('bps') in LTV fuelled by 5.3% growth in market value of our assets in the year and a 33% reduction in net debt, supported by strong cash generation from sales of vacant regulated tenancies and non-core disposals of the German and Equity Release businesses.

Link to the strategy

See further detail in Financial review on page 38.

Cost of debt (at period end)
(%)

3.9%



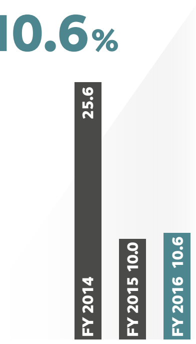
KPI definition
Cost of debt at the period end including costs and commitment fees.

Comment
Improvement of 70bps, helped by refinancing activity including the recouponing of two legacy swaps during the period. Further benefit should be seen in FY17.

Link to the strategy

Total return
(%)

10.6%



KPI definition
Growth in NNNAV combined with total dividend per share in the year. Also known as return on shareholder equity ('ROSE').

Comment
Growth of 60bps compared with FY15.

Link to the strategy

Growing rents
Inject pace and accelerate the acquisition of existing and newly built rental homes

“ Clippers Quay is a highly attractive place to invest, driven by its connectivity and proximity to Manchester and MediaCityUK.”

Helen Gordon, Chief Executive

A clear and effective three pillar strategy:

1. **Significantly grow net rental income**
2. **Simplify and focus the business**
3. **Build on our heritage by leveraging our regulated tenancy assets to grow our PRS business**

Growing net rental income
Swift progress on our PRS investment pipeline

To significantly grow net rental income, we are investing £850m into the PRS by 2020. Coupled with our co-investment partners' share, this totals £1.1bn of investment by 2020. The resultant growth in net rental income will supplement the capital returns generated from our regulated tenancy portfolio and provide enhanced and balanced total returns to our Shareholders.

This investment plan requires no additional capital raising. Our dividend policy is directly linked to net rental income for this investment period, and therefore will rise in line with our investments. Our 2020 objective is for net rental income to more than cover all operating costs and to exceed gross sales revenue from our regulated tenancy portfolio.

We are focused on driving net rental yields and are taking significant strides in reducing operating costs, improving efficiency and creating greater scalability.

Net rental income up by

15% to £37.4m

Our 2020 targets

- Invest over £850m by 2020 in order to grow net rental income
- More than half of our portfolio comprising PRS assets
- Reduced reliance on sales (cost coverage)
- Net rental income to exceed profit from sales

Achieving our targets

To achieve our goal of growing rents, we must be able to attract the best customers and keep them for the long-term. This will allow us to capture the best possible sustainable gross rental yield and maximise net rental yield.

We believe that through smart investment, good design and scalable, customer focused operations, we can create more sustainable income through more efficient, durable buildings and happier customers that stay with us for longer.

Read more
Pages 2 and 3

Simplify and focus
Reducing running costs and increasing efficiency and scalability

“We will continue to pursue ongoing improvements, realising further cost efficiencies that our new model creates.”

Helen Gordon, Chief Executive

We have streamlined our business. We are now solely a UK business, strategically focused on providing rental homes.

This year we sold our major non-core businesses, German and Equity Release.

We have refocused the operations of the business. Our development team is now focused solely on developing PRS assets (build-to-rent). We will no longer seek additional fund management mandates while our focus is on growing our own balance sheet and shareholder returns.

We have significantly reduced operating costs. These costs, including overheads, are being reduced by 24% from £36.1m in FY15 to £27.5m for FY17. We achieved this through a combination of the non-core disposals, restructuring and operational efficiency measures.

We have begun to reduce the cost of managing our assets, with the leakage ratio between gross to net yield improving from 30.7% to 28.0% in the year.

We have taken actions to reduce overheads by

24%

Our 2020 targets

- Continue to improve operational efficiency and scalability, and thereby enhancing rental margins
- Reduced reliance on sales (cost covered by income)

Achieving our targets

Going forward, we will continue to identify ways of reducing costs and improving efficiencies within the business that will enable us to grow our portfolio without significantly increasing costs. This will likely entail the use of technology to provide scalability.

Read more
Page 37

Building on our heritage
Leveraging our regulated tenancy assets to grow net rental income

"Our regulated tenancy business continues to be a compelling investment with robust cash flows."

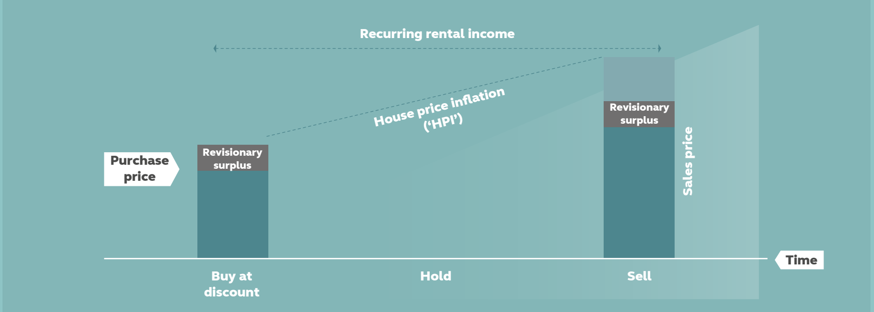
Helen Gordon, Chief Executive

Our portfolio of regulated tenancies (£1.2bn, 3,652 homes) is predicted to generate over £100m of gross cash per annum for at least the next decade. This will provide a significant proportion of the capital to support our investment in PRS assets and grow rents.

The majority of cash flow from regulated tenancies is generated through sales of these properties as the regulated tenants vacate their homes and we sell the properties on vacancy. About 7% of the portfolio is vacated and sold each year.

These assets also generate a stable rental yield, which due to the nature of the assets is a very solid income stream. This is because it is linked to inflation and sees very limited levels of arrears.

Regulated tenancy business model



We expect our regulated tenancy portfolio to generate over

£100m

of gross cash per year for the next 10 years

Our 2020 targets

- Net rental income to exceed profit from sales
- PRS assets to exceed regulated tenancy assets

Regulated tenancy business model

- Regulated tenancies are a historical residential asset type
- Last created in 1988, c.90,000 to 100,000 tenancies remaining
- They are no longer created due to legislative changes in 1988 which introduced the Assured Shorthold Tenancies (modern PRS)
- Stable, low-yielding assets, acquired at a discount and sold on vacancy at full price (vacant possession value)
- Locked-in value, realisable on vacancy ('reversionary surplus')

Read more
Pages 6 and 7

Supporting long-term, sustainable performance through our people, relationships and resources

For 104 years Grainger has been renting out homes. The importance of providing shelter to our customers is always at the front of our minds and informs every action and decision we take. We recognise the weight of this responsibility.

Online sustainability
www.graingerplc.co.uk/responsibility

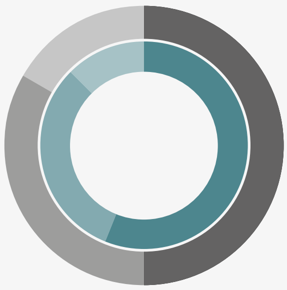
A culture aligned to our strategy

Grainger's success is predicated on more than just our property portfolio. Critical to our sustainable future are our people, our relationships with customers, partners and suppliers, and our impact on the world around us. Our investment in these areas is essential to the success of our business.

We are proud to be recognised as a responsible business, achieving FTSE4Good recognition, 'Green Star' ratings for both Grainger and GRIP REIT by the Global Real Estate Sustainability Benchmark ('GRESB') and a 'Gold' for EPRA's Sustainability Best Practice Reporting.

The Board recognises the increasing significance of the culture of the business. The Board works with the Executives in setting the corporate culture and its values. As the business goes through a period of change, the role of culture in the business will be of further importance to ensure that Grainger's values are aligned to the newly focused strategy and that good standards of behaviour are embedded and integrated across the Company. In addition, the Board will regularly review and monitor Grainger's culture to ensure that it is reflective of the Company's purpose and values.

Sustainability targets
We set annual and long-term targets to deliver improvements in our sustainability performance across our core impact areas as they relate to our sustainability strategy. A full list of targets and our progress against them is available on the sustainability section of our website.



2015/16		2014/15	
Achieved	6	Achieved	9
Partially achieved	4	Partially achieved	5
Not achieved	2	Not achieved	2
Total	**12**	**Total**	**16**

The Executive Directors are directly responsible for people issues, including well-being and health & safety. The HR Director supports the Executive team on a day-to-day basis, and the Board receives a standing report on such issues at every meeting.

Investing in people to deliver strategic performance

Providing our customers with a good home and ensuring that they are happy in their home through efficient and cost-effective operations is central to our business model. Our culture and values are about creating a work environment whereby staff are focused, aligned and working together towards these unifying objectives.

This year we restructured the business to align everyone's role and remuneration directly to our strategy of delivering a balance of capital growth and income growth and driving operational efficiency.

Our Property team is responsible for delivering capital growth, while our Operations team is responsible for income growth. See the business model section of this report for further details.

Employee engagement has been a key focus of the leadership team over the course of the year, a period of challenges and change within the organisation, including internal restructuring and the sale of two business divisions.

We have a range of communication forums for employees to engage in which occur at regular intervals. They are designed to encourage two-way communication across all levels within the business where we are all able to contribute towards Grainger's strategic progress and improvement. Feedback from this year's survey has resulted in a number of initiatives, such as the creation of new forums for communication.

Through an established set of bi-annual performance reviews, we help people grow and progress, including career planning and development discussions. Alongside performance, we monitor key metrics, such as turnover and sick days.

Our Share Incentive Plan and Save As You Earn Plan (with most employees taking advantage of at least one) align staff interest with the success of the business and our strategy.

Developing our people

We are helping create strong and desirable communities

Leadership and succession planning
Grainger is committed to being a great employer and providing career progression paths throughout the business. Starting with our successful graduate programme, we provide a supportive environment for learning, development and progression.

Diversity
In order for Grainger to be the best provider of rental homes to the most number of customers, it is critical that we understand all our customers. It is essential for us to create an environment where we can share experiences and insights to understand our customer base and to make our business more resilient. Diversity in the business is a core component of this and we support diversity in the workplace.

Health and safety
Grainger is committed to protecting the health, safety and welfare of our employees and customers, and those affected by our business. Our culture supports a positive and proactive approach to health and safety which is designed to be both pre-emptive and proportionate. Through appropriate policies and procedures we ensure that we meet our obligations as a responsible business through influencing our supply chain to the greatest extent possible and ensuring that everyone in Grainger is responsible for health and safety and performing their activities in a safe manner. An example of this is the introduction of an integrated safety, health and environmental management system in Wellesley, which allows us to maintain and control standards across our supply chain on this large, diverse project.

Protecting human rights
Due to the nature of our business and our supply chain, we do not consider the risk of human rights abuses a material risk. Following the Modern Slavery Act 2015, we are undertaking an internal review of the requirements and implications for our business and within our supply chain. We will publish a Modern Slavery Act Transparency Statement as required in 2017.

Employee profile	Male		Female		**Total FY16**
Non-Executive Directors	3	60%	2	40%	**5**
Executive Directors	1	33%	2	66%	**3**
Senior Managers[1]	14	78%	4	22%	**18**
Employees[2]	69	35%	126	65%	**195**
Total staff[3]	84	39%	132	61%	**216**
Total staff FY15	117	41%	166	59%	283

1 Senior employees with strategic input and influence.
2 Excluding six roles scheduled for redundancy in late 2016, post financial year end.
3 Excluding Non-Executive Directors.

Working with our partners and suppliers
The relationships we have with our partners and suppliers are fundamental to our business model. Our partners supplement and complement Grainger's position and enable us to amplify our business activities, and they are an extension of our business. We therefore work very closely with them and ensure

that our contracts require them to uphold the high standards we set so that we deliver the products and services that our customers expect, and ensure that we make a positive impact, drive performance and manage risk accordingly.

Working with our neighbours towards a better future

We believe that much of our success relies on the success of the communities and areas in which we operate.

We are therefore committed to working alongside our neighbours where we are either based or have significant investments. We do this through a number of ways, including everything from organising family fun days for residents through to supporting local community events and working closely with other stakeholders to positively influence the future. For instance, at our development at Young Street in Kensington, London, we are working with our building contractor, Ellmer, and have introduced a residents panel to provide an open forum for communication and engagement. At Wellesley we have a Residents Trust which consists of a board of residents who will make decisions about the future management of the estate and community.

Grainger is an active contributor to the UK housing debate and engages proactively with central and local government to positively influence policy to enable our sector to invest in more good-quality homes for rent.

Through charitable giving, both employer (£14,467) and employee-led (£29,280), we collectively gave £43,747 to both local and national charities, including our charity partner, LandAid, which is committed to ending youth homelessness by 2026. Through Grainger's policy of providing a day's paid leave for volunteering, employees provided 35 days for charitable causes this year.

Where we are developing new homes and neighbourhoods, we undertake and also support initiatives that underpin the future success of the area and community.

Our business model enables us to offer a range of housing options, including those at a more affordable level for those on low incomes, while ensuring that each asset is still commercially viable.

Managing our impact on the environment

As both an owner and developer of property, we are mindful of our impact on the environment and our approach helps secure the future success of the business and protect the value of our investments.

Creating new homes that are desirable but also resilient and sustainable is critical to protecting future value for Grainger and is central to the specifications and designs of our developments.

We actively monitor and take action to reduce our impact on the environment. Our policies, procedures, governance structure and decision making processes, such as our Environmental Management System and refurbishment programmes, are designed to take our environmental impact into account and reduce it wherever possible. Energy efficiency is a particular focus as we look to the introduction of Minimum Energy Efficiency Standards in 2018. This year, we achieved full EPC coverage on GRIP REIT's portfolio and have developed a strategy to understand and manage the risk across our other portfolios, while at Wellesley, one of our major

EPRA Sustainability Performance

We report on all EPRA Sustainability Performance Measures for all our property portfolios. Detailed tables that illustrate our performance in line with the EPRA Sustainability Best Practice Recommendations are available on the sustainability section of our website.

EPRA SBPR GOLD
SUSTAINABILITY REPORTING

For more details on our sustainability efforts, please visit our website:
www.graingerplc.co.uk/responsibility

developments, more than 99% of all waste is recycled back into the development.

Greenhouse gas emissions report

We are committed to measuring and reducing the carbon emissions associated with our property portfolios and our own operations. In accordance with the Companies Act 2006 (Strategic Report and Director's Report) Regulations 2013, we report on all greenhouse gas emissions within our operational control (pages 87 and 88). We continued to improve our performance in the CDP Climate Change programme, achieving a 'B' score for 2016, reflecting our commitment to good environmental management and effective disclosure of our processes and procedures.

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 sustainability 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 sustainability content of Grainger plc's 2016 Annual Report and Accounts.

Summary of target performance

Grainger's target performance must be placed in the context of the significant changes to the Company's leadership and operations that have taken place over the past 12 months. Overall, Grainger achieved four of its seven new targets for 2016, and two out of the five targets that were carried over from 2015.

Progress was made as Grainger continued to embed sustainability into its core processes and procedures, with successes this year including the creation of a green lease clause to be rolled out to commercial leases, the integration of sustainability into Grainger's development specification and successful pilots of whole life costing and tenant focus groups.

A full review of Grainger's operating model resulted in the decision to place two 2016 targets on hold. The remaining four targets that are in progress will be carried over for completion in 2017.

Observations and recommendations

The significant organisation and strategic changes that have taken place during 2016 have meant that three of Grainger's sustainability targets were either made redundant or had to be put on hold until the changes have been fully implemented. The organisational changes nonetheless provide Grainger with an opportunity to realign its sustainability strategy to reflect its new business model. It is an opportunity we encourage Grainger to capitalise on, and over the next year we recommend that the Company reviews its sustainability strategy to ensure that it continues to deliver value for its business.

Key to this will be making sure that Grainger focuses on its most significant sustainability impacts in order to channel its resources most effectively. An updated materiality review, which the Company was not able to complete in 2016, will support this goal and strengthen the Company's commitment to transparency (as evidenced by the welcome decision to align its 2016 sustainability reporting with the 'Core' in accordance with requirements of the recently published Global Reporting Initiative ('GRI') Standards).

Grainger continues to perform strongly in relation to the real estate sector more broadly. Both Grainger plc and GRIP REIT (formerly GRIP Unit Trust) achieved 'Green Star' status in the 2016 Global Real Estate Sustainability Benchmark ('GRESB') Assessment, and achieved four out of five stars in the new GRESB Rating. This places it in the top two quintiles for real estate companies globally based on its performance and disclosure.

While Grainger has put on hold its target to study the impact on staff wellbeing of its offices, health and wellbeing is also an area where the Company deserves praise. Grainger was one of only 174 real estate organisations globally to complete the voluntary Health and Wellbeing module in the 2016 GRESB Assessment. Its score of 75% places it comfortably above the global average of 58% and reflects its sector-leading approach. We encourage Grainger to build on this strong start and investigate further the benefits to both tenants and Company that can be captured by integrating health and wellbeing into its sustainability strategy.

Claire Racine
Associate Director
Upstream Sustainability Services JLL
1 December 2016

A strong and robust risk management framework

To achieve our objective of being the UK's leading PRS landlord we recognise that we must have a clear understanding of the risks we face, both 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 approach 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. We must also retain 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 endeavoured to embed our risk management approach in the restructured and simplified business following the strategic review in early 2016.

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 on 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 a range of risk categories, including strategic, market, financial, legal/regulatory, operational, IT, project and people risks.

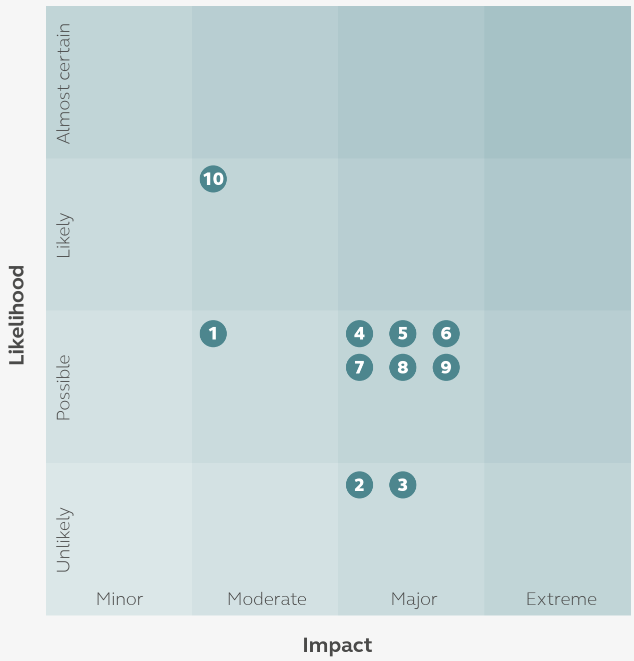
A risk scoring matrix is used to ensure that a consistent approach is taken when assessing the overall impact to the Group. Likelihood is based on the frequency of occurrence in a rolling 12-month period for risks arising within operational areas. These risks, and their impact and likelihood scores, are documented in divisional, unit and project risk registers. The risk registers are reviewed at least quarterly, and more frequently as required, then collated into a Group top risk report for consideration by the Executive Committee and the Audit Committee.

Mapping our key risks

● Post-mitigation

1. Market (see page 30)
2. Financial (see page 30)
3. Regulatory (see page 31)
4. People (see page 31)
5. Supplier (see page 31)
6. Health and safety (see page 32)
7. Controls (see page 32)
8. Transactional (see page 32)
9. Development (see page 33)
10. Brexit (see page 33)

Risk 1 reduced since 2015. Other risks remain unchanged. Risk 10 is a new principal risk.

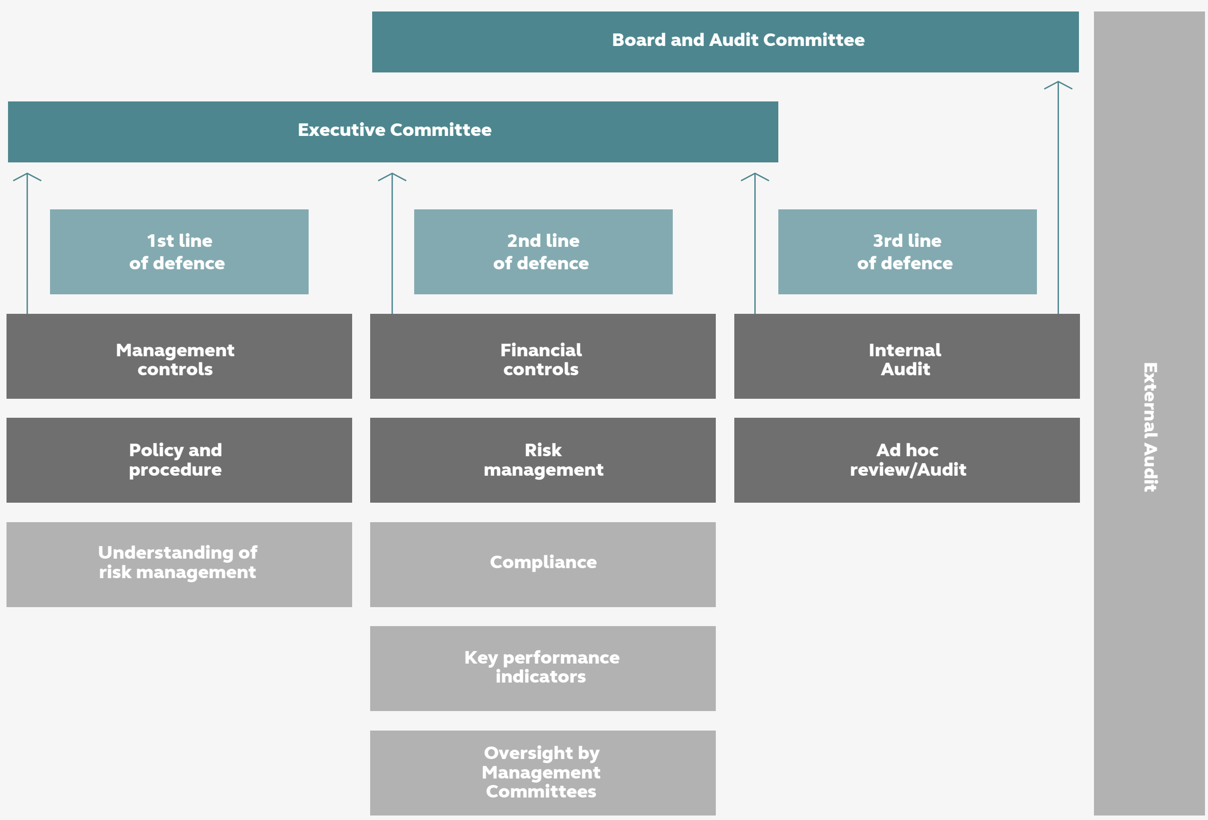


Risk control framework and assurance

The Board has ultimate responsibility for Grainger's risk management and internal control systems and for determining its risk appetite. The Board approves the risk management framework developed by the Executive Committee. This framework has been restructured during the course of the year to align itself with the reshaped business that has been adopted pursuant to the new PRS-focused strategy. This structure also complements Grainger's evolution to a 'three lines of defence' model as discussed in the 2015 Annual Report. This included the introduction of various management committees in respect of key property, operational and corporate functions. These management committees and the Executive Committee provide appropriate challenge and input to the identified risks, reported controls, mitigants and the Group top risk report. The Audit Committee supports the Board by monitoring and reviewing the control processes and mitigants in respect of the identified risks. It also ensures that the process for reconsidering the principal risks is carried out on an ongoing basis. The internal controls framework for these risks is monitored through the Internal Audit monitoring plan and the resulting audit outcomes. For more information on internal controls please refer to page 51.

Assurance on risk controls is currently provided by internal management information, internal audits, external audits and Board oversight. There is also an externally supported anonymous whistleblowing hotline that staff can utilise if other methods of notification are not suitable in the circumstances. In addition to embedding the revised risk management framework, in 2017 we plan to introduce a software solution which will improve efficiency and quality of risk reporting. The usage of this software will result in top or common risks being more visible when reported centrally and also assist in ensuring that focused and consistent controls are applied.

Risk control framework



Managing our principal risks and uncertainties

Principal risks and uncertainties

The Directors have undertaken a robust and systematic assessment of the Group's principal risks. These have been considered within the timeframe of four years, which aligns with our viability statement detailed on page 34.

Table of principal risks and uncertainties

Category of risk	Risk description	Impact on strategy	Risk appetite	Mitigation
1. Market	Weak macro-economic conditions leading to long-term flat or negative house price inflation.	Economic uncertainty may cause drop in home ownership; asset values fall; subsequent investment constraints on delivery of PRS business model; covenant compliance risk; business unattractive to investors.	Grainger's business is based on taking well-judged risks on house price and rental inflation.	▸ Wider market risk is largely dependent on factors we cannot influence ▸ Reducing reliance on trading income and house price inflation ▸ Maintenance of capacity against banking covenants ▸ High proportion of liquid assets to enable sales where necessary, as evidenced in last economic downturn ▸ Focus on PRS potentially leverages greater customer flexibility and lower overall financial commitment compared with home ownership which could be attractive for customers during uncertain economic periods ▸ Geographically diverse portfolio, exercising active asset management and implementing future strategic focus on economically active locations
2. Financial	Lack of availability or volatile pricing in respect of debt or equity finance for the Group to achieve its strategic objectives; inability to obtain sufficient, diverse or appropriately priced funds to implement the current strategy.	Reduced or severely limited ability to take advantage of business opportunities; unable to grow PRS asset base; reduces Group's profitability and NAV.	Grainger has no appetite to commit to investment without secured funding at appropriate rates nor without sufficient headroom.	▸ Financial headroom and relevant key metrics maintained at appropriate compliance levels and in accordance with Board approved capital operating guidelines ▸ Appropriately qualified Treasury team ▸ Positive relationship management with banks and other funding institutions resulting in diversity of finance ▸ Ability to control the timing and quantum of new acquisitions to reduce cash outflows ▸ Simplification of business model makes financing more straightforward ▸ Agreed hedging policy to manage exposure to volatility in interest rates

Category of risk	Risk description	Impact on strategy	Risk appetite	Mitigation
3. Regulatory ⊖	Failure to meet current or increased legal or regulatory obligations or anticipate and respond to changes in regulation that creates increased and costly obligations including, but not limited to, the introduction of rent caps or similar limitations.	Fines, penalties and sanctions; damage to reputation; loss of operational efficiency and competitiveness; increased costs; reduction in market opportunities; impact on ability to finance opportunities.	Grainger has no appetite for legal and regulatory breach due to the risks this poses to its staff, customers, assets and reputation.	- Ongoing management and staff training - Specialist legal, compliance and corporate affairs teams who monitor and advise internally and review the regulatory horizon - Use of external specialists to advise and maintain forward looking focus - Close alignment and involvement with leading industry groups/bodies - Robust asset management controls and compliance processes - Position as UK's leading PRS provider embeds a cultural requirement to comply with regulation and best practice
4. People ⊖	Failure to attract, retain and develop our people to ensure that we have the right skills in the right place at the right time to deliver our strategy. This is an acute risk issue as there is currently a limited pool of individuals in the market with the relevant requisite skill set in acquiring and managing PRS assets.	Reduced ability to deliver business plan and strategy; 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 that 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 including careful monitoring of remuneration packages to ensure competiveness in the market - Performance reviews and appraisals - Identification of opportunities to develop and provide internal career development
5. Supplier ⊖	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, customer dissatisfaction.	We utilise a significant range of third-party services and so recognise that we carry an inherent risk of some type of unforeseen failure. However, through management and control we seek to minimise this risk.	- Established internal controls and management systems with regard to third-party contractor/supplier base - Experienced Senior Managers oversee relationships - Identification of key suppliers and ongoing assessment of covenant strength - Sufficient diversity of key suppliers and relationships with potential suppliers to minimise overreliance on any one organisation - Established 'three lines of defence' model to facilitate stronger monitoring and controls

Increased *Reduced* *Unchanged* *New*

Table of principal risks and uncertainties continued

Category of risk	Risk description	Impact on strategy	Risk appetite	Mitigation
6. Health and safety	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. Controls	Weak environment of systems, controls and culture resulting in the failure of mitigants regarding the likelihood and impact of other principal risks.	Weak underlying control environment does not support the efficient operation of the business; increased costs and lower profitability; compliance failings; reputational damage.	We accept that problems may occur and risks are part of doing business. However, all such problems should be contained within an effective control framework and supporting culture. Our focus is on continuously improving this framework on a standard 'three lines of defence' model.	• Implementation of an operating model bespoke to the new strategy which includes a robust framework of controls, governance, processes and systems that are specifically designed to mitigate vulnerability or ineffectiveness whilst empowering staff to act on initiative if circumstances require it • Clear and comprehensive policy framework duly documented and communicated to staff • Use of external specialist advisers where required • Implementation of 'three lines of defence' responsibilities
8. Transactional	Unable to fully implement PRS strategy due to failure to transact and acquire assets on acceptable terms and/or inability 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, reduction in scale and profitability of business.	Grainger's business is based on taking considered 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 ongoing management of such assets • Detailed analysis and benchmarking of pricing/costs of management • Close review and monitoring by Investment Committee, Executive Committee and the Board (as appropriate) having regard to applicable capital management guidelines and robust budgeting • Use of external professionals where appropriate

Category of risk	Risk description	Impact on strategy	Risk appetite	Mitigation
9. Development (Unchanged)	Excessive capital allocated to activities which carry development risk.	Exposure to risk of cost overrun/ income shortfall on development for rent schemes.	Part of Grainger's returns are based on considered capital allocation which includes such activities.	• Capital allocated to development is carefully monitored with due regard to capital allocation guidelines • Specific team responsible with specialist development skills • Review and monitoring of all such schemes by the Investment Committee, Executive Committee and the Board (as appropriate) • Portfolio of development schemes are now focused on delivering build-to-rent assets, thus reducing sales risk • Expert advisers/professional team and experienced development partners
10. Brexit (New)	Negative impact of Brexit.	Increased construction costs; asset and portfolio values fall; inability to build competitive PRS portfolio; lower demand for Grainger's assets in certain locations; currency volatility; reduction in supply of requisite skilled labour.	Grainger's business is based on taking considered risks on house price/ rental levels and management of development projects.	• The economic implications resulting from the impact of Brexit are largely beyond the control of the Company • Proven ability to generate cash in uncertain economic periods • Appropriate levels of debt and maintenance of headroom • Location of portfolios is positioned in geographically diverse areas with PRS schemes targeted in locations with robust levels of economic activity • Implementation of PRS strategy on target • Maintaining an open dialogue regarding Brexit impact with key third parties, suppliers and industry bodies

Increased *Reduced* *Unchanged* *New*

Underpinned by a robust planning process

The Directors have assessed the viability of the Group, taking account of the Group's current position and the potential impact of the principal risks documented in the Strategic report. Based on the assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the four year period to the end of 2020.

This assessment was made recognising the principal risks that could have an impact on the future performance of the Company (see pages 30 to 33). The business plan process incorporates planning for severe scenarios, with the amalgamation of multiple risks to assess impact and longer-term viability of the Company.

The Company has developed a business planning process, which is conducted annually and comprises of a five year strategic plan, a financial forecast for the current year and a financial projection for the next five years. The plan is reviewed each year by the Board as part of its budget and strategy review process. Once approved by the Board, the plan is cascaded down across the Company and provides a basis for setting all detailed financial budgets and strategic actions that are subsequently used by the Board to monitor performance and for the Remuneration Committee to set targets for the annual incentive.

The Group's business model has proved to be strong and resilient throughout the different economic cycles even with higher levels of gearing and over the long term, with consistent demonstration through its ability to sell assets and let vacant properties to provide stable income returns and cash generation, throughout challenging market conditions. Currently the Group directly owns £1.7bn 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 its assets to cash and reduce or suspend development and acquisition activity. Only an unprecedented and long-term lack of liquidity in UK residential property markets would cause any threat to the Group.

The Board has reviewed its strategic and financial plans in detail and believes that a viability assessment period to September 2020 is appropriate as any of the principal risks during this period could be managed. The financial plan budget has been stress tested against severe and prolonged reductions in house prices.

The financing risks of the Group are also considered to have an impact on the Group's financial viability. The two principal financing risks for the Group are the Group's ability to replace expiring debt facilities and adverse movements in interest rates. A substantial amount of the group's debt facilities mature by 2020. A Board approved funding strategy will address this as we put in place new facilities to align with the transition to PRS investment assets. The Group has currently secured funding to deliver the planned PRS pipeline and has prepared the strategic plan on a fully funded basis. In addition the Group manages its hedge exposure with interest rate swaps, caps and fixed rate facilities.

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.

Delivering performance as we reposition for growth

FY16 has been a transformational year, with significant progress made in delivering our private rented sector ('PRS') growth strategy. We have secured £389m of investment, disposed of our non-core businesses, improved the capital structure of the Company and reduced financial and operational costs following our internal restructuring which has enhanced Grainger's income generation.

Vanessa Simms
Chief Financial Officer

Performance overview

These positive changes have been achieved alongside the delivery of strong financial results, with an improved income return and good capital growth:

- Net rental income increased by 15% to £37.4m (FY15: £32.4m);
- Adjusted earnings increased by 69% to £53.1m (FY15: £31.5m);
- EPRA NNNAV increased by 9% (24p per share) to 287p (FY15: 263p);
- Profit before tax up 64% to £84.2m (FY15: £51.4m);
- Net debt reduced by 33%, loan to value reduced to 35.9% (FY15: 45.5%), and cost of debt at the period end was down to 3.9% (FY15: 4.6%); and
- Total return (return on shareholder equity) of 10.6% (FY15: 10.0%).

Substantial progress has been made during the year to simplify and focus the business, which has delivered a significant reduction in finance and operational costs. We have completed our internal restructuring and are on track to deliver an £8.6m (24%) overhead saving in FY17 to £27.5m from the FY15 reported result.

The strategic disposals of our Equity Release and German businesses are key milestones, which have enabled a £374m reduction in net debt to £764m (FY15: £1,138m) and, combined with financing activity, cost of debt is now below our 4% target.

With a strengthened balance sheet and loan to value ('LTV') of 35.9% (FY15: 45.5%) we have the capacity to invest and grow our rental income. Coupled with reduced overhead and finance costs, this will further enhance Grainger's income returns in FY17 and beyond.

A new dividend policy, aligned to our strategy to grow rental income, is now in place, with distribution during Grainger's strategic transition to be equivalent to 50% of net rental income. The total dividend for the year of 4.5p per share is 64% up on the prior year (FY15: 2.75p).

Financial highlights

Income financials and reversionary surplus on a continuing operations basis.

Income	FY15	**FY16**	Change
Like-for-like PRS rental growth	3.4%	**3.6%**	20bps
Net rental income	£32.4m	**£37.4m**	15%
Adjusted earnings* (Note 4)	£31.5m	**£53.1m**	69%
Adjusted earnings per share (after tax) (Note 4)	6.0p	**10.2p**	70%
Dividend per share (Note 15)	2.75p	**4.5p**	64%
Profit before tax (Note 4)	£51.4m	**£84.2m**	64%
Earnings per share (diluted) – continuing (Note 16)	10.6p	**17.9p**	69%

Capital	FY15	**FY16**	Change
EPRA NAV per share	319p	**330p**	3%
EPRA NNNAV per share	263p	**287p**	9%
Net debt (Note 28)	£1,138m	**£764m**	(33)%
Group LTV	45.5%	**35.9%**	960bps
Cost of debt (average) (Note 28)	5.3%	**4.4%**	90bps
Cost of debt (period end)	4.6%	**3.9%**	70bps
Reversionary surplus (page 41)	£329m	**£327m**	(1)%
Total return**	10.0%	**10.6%**	60bps

* Adjusted earnings, previously called recurring profit, is profit before tax, less valuation movements and non-recurring items (see Note 2 for explanation and Note 4 for reconciliation from statutory measure).

** Total return (return on shareholder equity) is growth in EPRA NNNAV in the year plus dividend declared as a percentage of opening EPRA NNNAV.

Definitions for KPIs are shown on pages 16 and 17.

Income statement

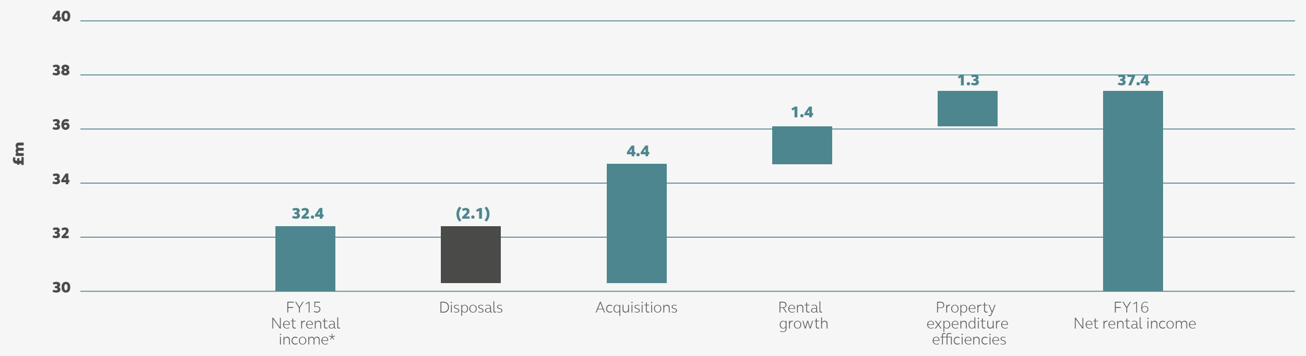
The table below summarises adjusted earnings and profit before tax from continuing operations for the 12 months to 30 September 2016.

Income statement £m	FY15*	**FY16**
Net rental income	32.4	**37.4**
Profit on sale of assets	70.6	**71.5**
Mortgage income (CHARM)	6.5	**6.5**
Fee income	5.6	**6.2**
Overheads	(32.4)	**(31.8)**
Other expenses	(3.2)	**(1.1)**
Joint ventures and associates	0.9	**1.5**
Net finance costs	(48.9)	**(37.1)**
Adjusted earnings**	31.5	**53.1**
Valuation movements	29.7	**33.6**
Derivative movements	(6.3)	**(9.9)**
Non-recurring items	(3.5)	**7.4**
Profit before tax	51.4	**84.2**
Discontinued operations before tax	(1.4)	**62.0**

* Restated for continuing operations.
** See Note 4 to the financial statements for reconciliation from statutory measures.

Rental income

Gross rental income has increased by 11% to £51.9m (FY15: £46.7m), driven by 3.6% average rental growth on our PRS portfolio and the acquisition of tenanted rental homes that deliver immediate income. Net rental income has increased by 15% (£5.0m) to £37.4m (FY15: £32.4m) further benefiting from improvements made in operational efficiencies.



Sales

Profit from sales at £71.5m for the 12 months to 30 September 2016 was slightly ahead of the prior year (FY15: £70.6m) with increased profits from development activities more than offsetting a small reduction in residential sales profit, which is linked to the natural unwind of our regulated tenancy portfolio.

Over the year, sales on vacancy achieved average prices 8.6% over the September 2015 vacant possession value, illustrating the resilience of our valuations and liquidity of our assets.

Residential sales on vacancy generated revenue of £110.0m which was 11% ahead of 2015 (FY15: £99.5m) with profit marginally lower at £52.2m (FY15: £53.2m). The predominant driver of the revenue growth related to the Chelsea Houses portfolio, although this reduced the overall margin to 47.4% (FY15: 53.5%). We expect margins from this portfolio to improve over time from reversionary gains, refurbishment and further asset management activities.

Development sales activity delivered £11.8m of profit primarily driven by the final phase of Macaulay Walk, a residential development for sale scheme in Clapham, London (£5.8m) and the disposal of non-core development land at Kennel Farm, Basingstoke (£5.8m).

In addition, we recorded revenue of £24.1m on our PRS development for The Royal Borough of Kensington & Chelsea (RBKC). Due to the early stage of the development no profit has yet been recognised.

	FY15*			**FY16**		
£m	Units sold	Sales £m	Profit £m	**Units sold**	**Sales £m**	**Profit £m**
UK Residential sales	310	92.0	52.8	**307**	**103.1**	**52.0**
CHARM sales	61	7.5	0.4	**54**	**6.9**	**0.2**
Sales on vacancy	371	99.5	53.2	**361**	**110.0**	**52.2**
Tenanted and other sales	130	23.5	8.0	**59**	**12.5**	**7.7**
Residential sales total	501	123.0	61.2	**420**	**122.5**	**59.9**
Development sales	–	33.8	9.8	**–**	**25.1**	**11.8**
Construction contract	–	–	–	**–**	**24.1**	**–**
Overall sales	501	156.8	71.0	**420**	**171.7**	**71.7**
Reconciliation to statutory numbers						
Less CHARM portfolio	(61)	(7.5)	(0.4)	**(54)**	**(6.9)**	**(0.2)**
Statutory sales and profit	440	149.3	70.6	**366**	**164.8**	**71.5**

* Restated for continuing operations.

Operating expenses

The overhead cost for this year was £31.8m for continuing operations (FY15: £32.4m). We are on track to achieve our FY17 overhead cost target of £27.5m, which is 24% (£8.6m) lower than the reported FY15 overhead of £36.1m (before restatement for discontinued operations). This has been achieved through restructuring savings, corporate overhead reductions and lower costs following the disposal of non-core businesses.

Other expenses relate to pre-contract transaction costs. Through improved acquisition targeting and effective cost management, our other expenses have reduced to £1.1m (FY15: £3.2m).

Fee income is associated with the recovery of overheads. Overall operating expenses net of fee income which is associated with the overhead cost totalled £27.0m as set out in the table below (FY15: £30.6m).

FY16	**£m**
Overheads	**31.8**
Fee income (overheads recovery)	**(5.9)**
Net overheads	**25.9**
Other expenses	**1.1**
FY16 Operating expenses	**27.0**
FY15 Operating expenses	30.6

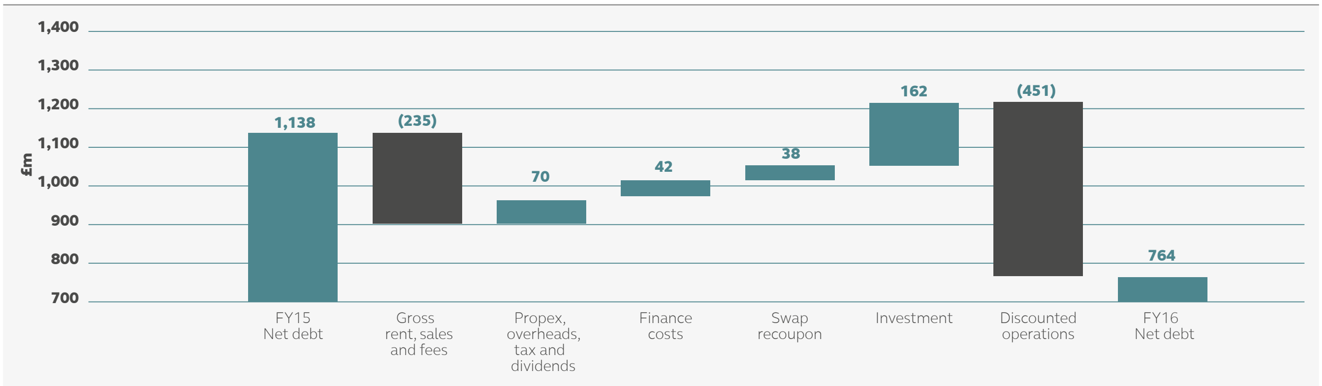
Finance costs and capital structure

Net debt has reduced by 33% to £764m (FY15: £1,138m), LTV is down to 35.9% (FY15: 45.5%) and cost of debt is now below our 4% target, ahead of plan.

The reduction in net debt was driven by the non-core disposals and supplemented by resilient cash generation from sales of vacant regulated tenancies; this more than offset £162m of new investment predominantly in PRS assets. Cost of debt benefited from the non-core disposals and refinancing activities.

Our strengthened balance sheet provides capacity for our planned PRS investment. As funds are deployed our optimal target range for LTV is 40-45%.

Net debt bridge



In the second half of the year, immediately following the EU Referendum we took the opportunity to recoupon two legacy swaps, securing lower rates at a discount to market value. The upfront cost (before tax savings) was £37.8m (£30.2m after tax) and the benefit to cost of debt is c.55bps (£4.8m saving per annum).

Net finance costs for the year are £11.8m lower, a 24% reduction, at £37.1m (FY15: £48.9m). Average cost of debt over the year was 4.4%, a 90bps improvement, while cost of debt at the period end was 3.9%.

Subsequent to the year end, we have refinanced a £100m loan which is expected to reduce the average cost of debt by a further c.20bps in 2017 (3.7% proforma). With our incremental cost of debt less than 2%, we have the potential to prudently utilise leverage to deliver strong earnings accretion as we invest.

	FY15	**FY16**
Net debt	£1,138m	**£764m**
Consolidated LTV	45.5%	**35.9%**
Headroom	£142m	**£321m**
Cost of debt (average)	5.3%	**4.4%**
Cost of debt (period end)	4.6%	**3.9%**
Hedging	77%	**87%**

Adjusted earnings

We have delivered adjusted earnings (previously referred to as recurring profit) of £53.1m which is 69% ahead of the prior year (FY15: £31.5m), a result of growth in net rental income, a robust sales performance and lower operational and financial costs.

Tax
Grainger is a UK based, taxpaying Group with a tax charge of £9.7m for the year from continuing operations.

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

Discontinued operations
The disposal of our non-core Equity Release and German businesses were accretive to EPRA NNNAV, adding £23m, 6p per share. These delivered a discontinued profit before tax of £62.0m: £48.3m from the Equity Release disposal, £8.3m from the sale of the German operations and £5.4m from pre-disposal trading.

Dividend
The Board revised and implemented a new dividend policy in the year, which is supported by strong underlying cash generation to enhance distribution returns to shareholders during Grainger's strategic transition, with payment aligned to the group's strategy of growing rental income.

The policy is to distribute the equivalent to 50% of annual net rental income. Around one-third of the payment will be made through the interim dividend based on half year results, with the balance paid through the final dividend. As the shape of the business evolves to a more balanced total return model, we are committed to delivering progressive and sustainable dividend returns.

The dividend payment for the year will be £18.7m, 50% of the £37.4m net rental income reported. This delivers 64% growth in the total dividend for the year to 4.5p per share, comprising 1.45p interim dividend and 3.05p proposed final dividend. The dividend is 4.0x covered by diluted EPS.

If approved at the AGM, the final dividend will be paid on 10 February 2017 to Shareholders on the register at the close of business on 30 December 2016.

Net assets and investment

Market value balance sheet (£m)	FY15	**FY16**
Residential – PRS	399	**461**
Residential – regulated tenancies	1,317	**1,342**
Development work in progress	95	**105**
Investment in joint ventures/associates	166	**193**
Total investments	1,977	**2,101**
Net debt	(1,138)	**(764)**
Other assets/liabilities	18	**32**
Discontinued (excluding loans)	477	**11**
EPRA NAV	1,334	**1,380**
Deferred and contingent tax	(158)	**(146)**
Fair value of fixed rate debt and derivatives	(34)	**(34)**
Discontinued	(41)	**–**
EPRA NNNAV	1,101	**1,200**
EPRA NAV (pence per share)	319	**330**
EPRA NNNAV (pence per share)	263	**287**
LTV	45.5%	**35.9%**

EPRA NNNAV is an important metric for Grainger as it reflects overall assets and liabilities (including deferred and contingent tax and fair value adjustments for fixed rate debt). These future liabilities are presented in current terms (not discounted) and neither EPRA NNNAV or EPRA NAV include the future benefit of the reversionary surplus, which as at 30 September 2016 was valued at £327m, or 78p per share.

EPRA NNNAV increased by 9% (24p per share) to 287p (FY15: 263p), supported by a strong trading performance, valuation growth, accretive strategic disposals and reduced deferred and contingent tax liabilities associated with lower corporation tax rates. This growth was achieved despite the negative impact from movements in bond markets which resulted in an adverse movement of £16m (4p per share) from the mark to market of fixed rate debt.

EPRA NAV increased by 7% to 341p, reflecting a strong trading and valuation performance, before the adjustment for discontinued operations and the recoupon of legacy swaps. 3% growth (11p per share to 330p (FY15: 319p)) is reported after these adjustments. The Equity Release disposal was accretive to EPRA NNNAV but dilutive to EPRA NAV by £15m (4p per share). The recoupon of two legacy swaps after tax had an adverse impact of £30m (7p per share) on EPRA NAV.

Reconciliation of EPRA NAV to EPRA NNNAV

	FY16 £m	FY16 Pence per share
EPRA NAV	**1,380**	330
Deferred and contingent tax	**(146)**	(35)
Fair value of derivatives and fixed rate debt net of tax	**(34)**	(8)
EPRA NNNAV	**1,200**	287

A reconciliation between the statutory balance sheet and the market value balance sheets for both EPRA NAV and EPRA NNNAV is set out in Note 5 to the financial statement.

EPRA NNNAV movement

Key movements in EPRA NNNAV	**£m**	**Pence per share**
EPRA NNNAV at 30 September 2015	**1,101**	**263**
Profit after tax (before discontinued operations and derivatives)	**84**	**20**
Revaluation gains on trading stock	**84**	**20**
Disposals (trading assets)	**(50)**	**(12)**
Contingent tax	**13**	**3**
Dividends and other	**(39)**	**(9)**
	1,193	**285**
Discontinued operations	**23**	**6**
Mark to market on fixed rate debt	**(16)**	**(4)**
EPRA NNNAV at 30 September 2016	**1,200**	**287**

Our portfolio saw a 5.3% growth in market value over the year and a 4.8% increase in vacant possession value. This compares to 3.7% for the LSL Acadata House Price Index, 5.5% for the combined average of the Nationwide and Halifax house price indices, and 7.7% according to the Office of National Statistics. This contributed to £116m total valuation gain, which comprises £84m on trading stock and £32m from investment property assets and associates/joint ventures which is included within profit after tax.

	FY15		**FY16**	
	Vacant posession value	Market value	**Vacant posession value**	**Market value**
Residential portfolio	5.6%	10.2%	**4.8%**	**5.3%**

The positive contingent tax movement of £13m (3p per share) relates to a £19m (4p per share) release due to lower corporation tax rates, offset by a charge on the revaluation of trading properties.

Disposals of our Equity Release and German businesses were both EPRA NNNAV accretive, with a total gain of £23m (6p per share).

EPRA NNNAV was also affected by movements in the bond markets in the period, which had an adverse impact on the mark to market of our corporate bond. This reduced EPRA NNNAV by £16m after tax (4p per share).

EPRA NAV movements

	£m	Pence per share
EPRA NAV at 30 September 2015	**1,334**	**319**
Profit after tax (before disc. operations and derivatives)	84	20
Revaluation gains on trading stock	84	20
Disposals from continuing operations	(50)	(12)
Dividends and other	(24)	(6)
	1,428	341
Discontinued operations	(18)	(4)
Swap recoupons (net of tax)	(30)	(7)
EPRA NAV at 30 September 2016	**1,380**	**330**

Investment

We have spent £162m in the 12 months to 30 September 2016, of which £17m relates to the acquisition of regulated tenancies and the remainder to PRS assets and capital expenditure on our existing portfolio.

Our investments are expected to deliver gross rental yields of between 6.5% and 8.0%.

Portfolio summary

	No. units	Market value £m	Vacant posession value £m	Reversionary surplus
Residential – market rented	2,092	461	500	39
Residential – regulated tenancies	3,652	1,249	1,507	258
Residential – mortgages	704	93	91	(2)
Development work in progress	–	105	105	–
Wholly-owned assets	6,448	1,908	2,203	295
Investment in JVs/associates (Grainger share)	676	252	284	32
Total investments	**7,124**	**2,160**	**2,487**	**327**
Assets held-for-sale	3	3	3	–
FY16 Total	**7,127**	**2,163**	**2,490**	**327**
Assets under management	**1,485**	**569**	**644**	
Total assets under management	**8,612**	**2,732**	**3,134**	

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.

Strategy financial targets to 2020

The three strands of the 2020 strategy are to:

1) grow rents (and increase distributions to shareholders);
2) simplify and focus; and
3) build on our heritage as the UK's leading listed residential landlord.

The four financial benchmarks used to monitor progress against our strategy are:

1) Invest over £850m into PRS assets by 2020
- £389m secured, £347m in planning or legal process.

2) More than half of our portfolio comprising PRS assets
- 27% of PRS assets (FY15: 23%).
- We expect to see an acceleration towards 2020 as assets being constructed are completed and let.

3) Net rental income to exceed profit from sales
- FY16 net rental income was the equivalent to 52% of profit from sales (FY15: 44%).
- Sales profit will benefit from development activity over the next two to three years as we work through current schemes and projects. Net rental income growth should accelerate towards the end of the strategy period as assets being constructed are completed and let out.

4) Reducing reliance on sales (cost coverage)
- FY16 income covered 74% of costs (FY15: 53%).
- This benchmark was designed to reflect the transition to an increasingly income focused model with reduced reliance on capital growth and profit from sales. Substantial progress has been made in FY16. Reduced finance costs and lower overheads have been the key drivers. Rental growth and tightly controlled overheads and finance costs are expected to deliver further benefits.

Conclusion

This year's results demonstrate that the Company is performing strongly in conjunction with delivering against its strategic objectives as set out in January.

It has been a year of significant change and progress, with £389m of investment secured, the disposal of two major non-core businesses, an improved capital structure, materially reduced finance costs and restructured operations which will deliver further efficiencies in FY17. Alongside these changes, the Company has delivered a 69% increase in adjusted earnings to £53.1m and a total return (return on shareholder equity) of 10.6%. The actions we are taking to make Grainger a more balanced total return business with an increased focus on income returns will support further strategic progress in the coming years.

Our 2016 Strategic report, from pages 1 to 42, has been reviewed and approved by the Board of Directors on 1 December 2016.

Vanessa Simms
Chief Financial Officer
1 December 2016

Strong governance supporting our strategy

Baroness Margaret Ford
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 ('FRC'). Copies of the Code can be obtained from the UK FRC'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 2016.

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 2017 Annual General Meeting ('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, Chief Executive and Chief Financial Officer.

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

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 ongoing dialogue with them and to understand their views.

Helen Gordon and Vanessa Simms 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 AGM in February 2017.

How the Board supports strategy

The Board spent a significant portion of its time during the year working together to develop the PRS strategy. On leading this year's Board evaluation it was clear to me that the Directors felt that this strategic review was carried out in a highly effective and collaborative way with appropriate challenge throughout.

To learn more about our Board Activity see page 48.

Baroness Margaret Ford
Chairman
1 December 2016

The skills and experience to deliver our strategy

The Board is responsible to the Company's Shareholders for the long-term success of the Group, its strategy, its values and its governance.

Baroness Margaret Ford
Chairman
Aged: 58
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 currently chairman of STV Group plc and is a non-executive director of SEGRO plc. She is an Honorary Professor of Real Estate at Glasgow University and an Honorary Member of the Royal Institution 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.
Tenure: 8 years
Committee membership
N R

Helen Gordon MRICS
Chief Executive
Aged: 57
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 & General Investment Management, Railtrack and John Laing Developments. Helen has held a number of non-executive board roles over her career, including British Waterways and the Covent Garden Market Authority. She is also an Advisory Board member of Cambridge University's Land Economy Department.
Tenure: 1 year
Committee membership
E

Vanessa Simms FCCA
Chief Financial Officer
Aged: 41
Appointment: Appointed to the Board as Chief Financial Officer in February 2016.
Skills, competence and experience:
Vanessa brings extensive financial experience to Grainger from the property sector in the UK. Vanessa has particular expertise in leading and implementing strategic change in businesses. She has substantial experience in senior finance leadership roles in a listed environment. Vanessa has worked in finance since 1998 and immediately prior to joining Grainger held a number of senior positions within Unite Group plc, including deputy chief financial officer. Prior to that Vanessa was UK finance director at SEGRO plc.
Tenure: 10 months
Committee membership
E

Nick Jopling FRICS
Executive Director
Aged: 55
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 produced the review Barriers to Institutional Investment in Private Rented Homes.
Tenure: 6 years
Committee membership
E

E Executive Committee
A Audit Committee
R Remuneration Committee
N Nominations Committee
Committee Chairman

Belinda Richards
Non-Executive Director
Aged: 58
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 a senior partner and vice chairman at Deloitte where she was head of Merger Integration and Separation Advisory Services. Prior to this, she held senior roles at KPMG and EY. Belinda is a non-executive director of Wm Morrison Supermarkets plc, The Monks Investment Trust 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.
Tenure: 5 years
Committee membership

A R N

Tony Wray
Non-Executive Director
Aged: 55
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.
Tenure: 5 years
Committee membership

A R N

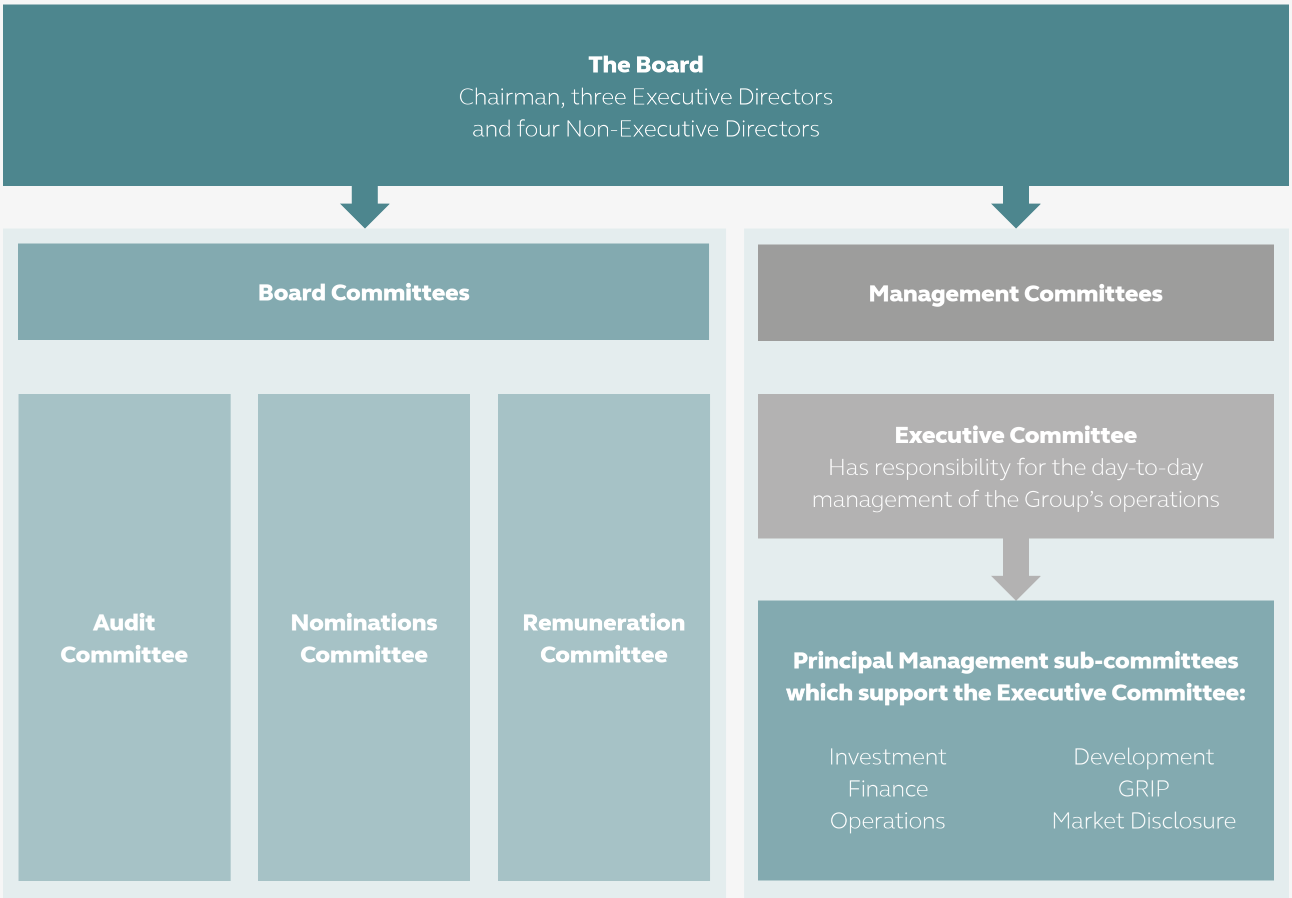
Andrew Carr-Locke
Non-Executive Director
Aged: 63
Appointment: Appointed to the Board in March 2015.
Skills, competence and experience: Andrew has substantial experience in senior finance positions in listed companies, particularly in respect of the residential property sector. He also has wide-ranging 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. More recently, Andrew was executive chairman of Countryside Properties where he led the refocus of the company's strategy. Andrew stood down as a director of Countryside Properties in 2014. He is currently a non-executive director of Dairy Crest plc and previously held non-executive directorships at Royal Mail Holdings, Venture Production and AWG.
Tenure: 2 years
Committee membership

A N R

Rob Wilkinson
Non-Executive Director
Aged: 44
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 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.
Tenure: 1 year
Committee membership

A

Governance framework



The Board

The Board is responsible to the Company's Shareholders for the long-term success of the Group, its strategy, its 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) the overall approach to risk mnagement and internal control, culture 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.

The Executive Committee

This Committee operates under the direction and authority of the Chief Executive. It oversees the day-to-day running of the property, operational and corporate business functions ensuring coordination, alignment of the Company's strategic objectives and risk management oversight.

The Executive Committee is supported by sub-committees each focusing on an area of the business. The key objectives of these sub-committees are to ensure:

- the delivery of the strategic plan;
- that all business functions and operations provide a competitive advantage to the Company; and
- effective oversight of the systems and controls in order to manage risk.

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. 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. She chairs a regular meeting with the other Executive Directors and the additional members of the Executive Committee.

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:

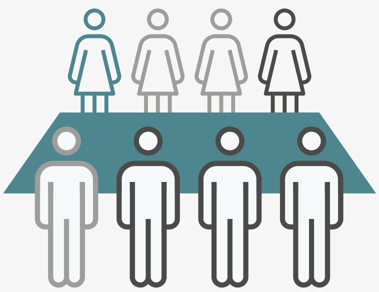
- challenge and contribute to the development of the Company's strategy;
- scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance; and
- to satisfy themselves that financial information is accurate and that financial controls and systems 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 three such meetings since 1 October 2015 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.

Balance of Directors



Chairman

Executive Directors

Non-Executive Directors

Following feedback from the Directors in the 2015 Board evaluation, the standard Board schedule increased the number of formal meetings throughout the year from six to seven, with the additional meeting being focused on strategic matters. These meetings were duly held together with a further meeting to discuss the role of the regulated tenancy portfolio in relation to the strategic business plan. The Board also spent a day visiting a number of Grainger properties and sites in London.

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 that 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 below sets out examples of the range of subjects that were debated and considered by the Board throughout the year.

Board activity

Strategic

- Strategy has been the key focus of the Board during the year. Additional Board meetings were held to debate the proposed PRS focused strategy, simplification of the business and the role of the regulated tenancies in the business plan.
- The disposals of the Company's German and Retirement Solutions businesses.
- Goldman Sachs gave a presentation regarding domestic and international real estate and equities markets, together with an update in respect of mergers and acquisitions activity in the sector.
- Competitor activity in the growing PRS sector.
- Economic and legislative landscape, including the impact of the referendum on membership of the EU.
- Risk management and appetite, in particular with regard to the new strategy.
- Requirements of a REIT conversion and the application and effectiveness of this to Grainger or parts of its business, such as GRIP.

People

- Executive and Non-Executive Director succession and development.
- The development of the Group's people. The Board also received a presentation from the Human Resources Director on talent development across the Company.
- The HR structure of business in connection with implementation of the new strategy and target operating model.
- Evaluation of the effectiveness of the Board.

Financial

- Review of the Group's debt and capital structure.
- The Group's financial performance and results throughout the year.
- Dividend policy to reflect the transition to an income focused business. This included receiving a presentation from one of the Company's brokers, Numis, in respect of the proposed policy.
- Reviewed and approved an updated tax strategy.
- The Company's portfolio of interest rate hedges, including the decision to break and recoupon two material hedges.
- Corporate and operating overheads and the related cost reduction plan.
- KPI's for a PRS focused business.
- Assessed the strategic merits or otherwise of a share buy-back programme.

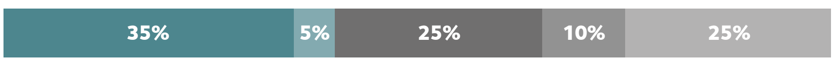
Governance

- Regulatory and governance issues, including receiving briefings on the Market Abuse Regulations and amendments to the UK Corporate Governance Code.
- Shareholder relations, in particular the thorough engagement with investors in connection with the proposed Remuneration Policy.
- Reports from the Nominations, Audit and Remuneration Committees.

Property transactions and operations

- Material transactions and business opportunities including, amongst others, the acquisition of Clippers Quay, Kings Dock Mill, Kew Bridge Court and Yorkshire Post.
- Supply chain management, with particular focus on key repairs and maintenance contracts.
- Health & Safety, which included a presentation to the Board from the Health and Safety Director.

Split of Board activity



Board meetings 2015/16

Board meetings | Site visit

Oct		Jan	Board meetings	Apr	Board meetings	Jul	Site visit
Nov	Board meetings	Feb	Board meetings	May	Board meetings	Aug	
Dec		Mar	Board meetings	Jun	Board meetings	Sep	Board meetings

Attendance table to 30 September 2016

Executive Directors	Meetings attended	Meetings eligible to attend
Helen Gordon	**8**	8
Vanessa Simms	**5**	5
Nick Jopling	**8**	8
Andrew Cunningham	**1**	1
Mark Greenwood	**1**	1

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**	1
Andrew Carr-Locke	**8**	8
Rob Wilkinson	**8**	8

1 Belinda Richards was unable to attend the March 2016 Board meeting due to illness.

Board Committees

The Board has established three principal Board Committees to which it has delegated certain of its responsibilities. They are the Audit Committee, Remuneration Committee and Nominations Committee. The roles, membership and activities of these Committees are described in more detail later in the Corporate Governance Statement.

Information flow

The Chairman, together with the Company Secretary, ensures that the Directors receive clear information on all relevant matters in a timely manner. Board papers are circulated sufficiently in advance of meetings for them to be thoroughly digested to ensure 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 also received presentations from various business units, including Human Resources, Legal, Risk and Governance, IT and Health & Safety.

Time commitment

The Board, supported by the Nominations Committee, carefully considered the external commitments of the Chairman and each of the Non-Executive Directors. The Board is satisfied that each such Director committed sufficient time during the year to enable them to fulfil their duties as Directors of the Company and has capacity to continue to do so. 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 high 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.

Induction and professional development

The Chairman, supported by the Company Secretary, is responsible for ensuring that a comprehensive and tailored induction to the Company is provided to each Director. This was duly carried out in relation to Helen Gordon, Rob Wilkinson and Vanessa Simms who joined the Board during the course of the year.

Each new Director met with the Company Secretary in the year and discussed their particular induction and training requirements. This covered matters such as Directors' duties, corporate governance, share dealing and the use of the Company's electronic Board portal.

In the case of Rob Wilkinson, to give him an insight into the Group, he met with Executive Directors and senior managers from across the property, operational and central functions of the business. Rob also met with key third-party relationships such as the external auditor and principal corporate lawyers.

In addition, Rob visited Grainger's Abbeville development to view Grainger's purpose built PRS units.

As Executive Directors, Helen's and Vanessa's inductions adopted a different emphasis and focused on familiarising them with the business, its staff, operations and core processes. Having this understanding of the business at the commencement of their employment was fundamental in order to identify the strategic change that was required and the consequential reshaping of the Group's operating model.

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 the Company and changes to accounting requirements. This training and updating is delivered by a combination of presentations by Grainger senior management and external advisers and by 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 that they are adequately informed about the Group and their responsibilities as a Director.

The Board on a site visit to one of our PRS developments in partnership with the Royal Borough of Kensington and Chelsea.

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

The annual evaluation of the Board and its Committees for 2016 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. A selection of the key findings arising from the evaluation are summarised as follows:

- Board meetings are conducted in an effective manner which encourages open discussions, with appropriate time allocated to key issues and strategy in particular.
- Committees are performing to a high standard.
- Whilst there is always room for improvement, good progress on the quality of Board information has been made, which strikes an appropriate balance between being concise and having sufficient detail.
- Input from each of the Directors during this year of strategic change was effective and constructive.
- Further improvements can be made in relation to the structure and approach of Non-Executive Director training and development. The Chairman, Company Secretary and Human Resources Director will consider this feedback accordingly and make proposals to the Board to seek to improve this area.

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 were 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, with the exception of Vanessa Simms, will stand for re-election at the 2017 AGM. As it will be Vanessa's first AGM as a Director of the Company, she will be subject to election by the Shareholders at the 2017 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).

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 Audit Committee is delegated the task of reviewing all identified risks, with the ultimate key risks retained for full Board review. The Audit Committee reports to the Board at every Board meeting subsequent to a meeting of that Committee. 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. In addition, the Group outsources its Internal Audit function which performs relevant reviews as part of a programme approved by the Audit Committee. The Committee considers any issues or risks arising from an Internal Audit review, so that appropriate actions are undertaken to ensure satisfactory resolution. Internal Audit 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 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 Committee 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 initially considered by the Investment Committee which comprises all the Executive Committee and certain senior managers. 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.

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.

Key shareholder events 2015/16

November	Full year results announcement and presentation (London) Full year investor roadshow (London)
January	Strategy update announcement and investor presentation (London) Roadshow (London) Chairman and Company Secretary met with investors in advance of the AGM
February	Trading update AGM (Newcastle) Roadshows (London, Amsterdam, Edinburgh) Property tour (London)
April	Investor conference (London)
May	Half year results announcement and presentation (London) Half year investor roadshow (London) Property tours (London)
June	Chair of the Remuneration Committee and the Company Secretary met with investors as part of the engagement around the new Remuneration Policy
August	Trading update
September	Property tours (London, Liverpool) Investor conference (New York)

Substantial shareholdings

As at 30 September 2016 and 31 October 2016 (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 2016		**31 October 2016**	
	Holding million	Holding %	**Holding million**	**Holding %**
Schroder Investment Management Ltd	67.9	16.2	**67.6**	**16.1**
BlackRock Inc.	38.0	9.1	**40.7**	**9.7**
Aberforth Partners LLP	14.9	3.6	**14.9**	**3.6**
Columbia Threadneedle Investments	14.6	3.5	**14.6**	**3.5**
Crystal Amber Advisers (UK) LLP	14.2	3.4	**14.2**	**3.4**
M&G Investment Management Ltd	13.3	3.2	**13.5**	**3.2**
State Street Global Advisors Ltd	12.9	3.0	**13.3**	**3.1**

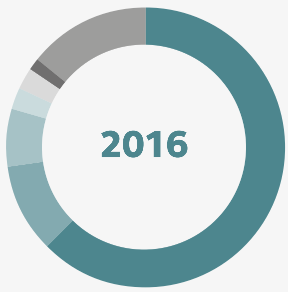
The Board of Grainger believes that understanding the views of its Shareholders is a fundamental principle of good corporate governance; therefore strong engagement with stakeholders and investors is key to achieving this and progressing the business and its strategy.

The framework of investor relations is set around the financial reporting calendar, with additional engagement taking place throughout the year when regarded 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. Helen Gordon and Vanessa Simms 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, the Chairman and the Company Secretary also met with a combination of fund managers and corporate governance officers of the Company's major Shareholders in advance of the 2016 AGM. It is anticipated that a similar pre-AGM engagement process will take place in advance of the 2017 AGM.

Attendance at key investor meetings

Investor meetings held	111
Chief Executive	96%
Chief Financial Officer	93%
Senior Executive	87.5%

Shareholders by region



UK	62.5%	Norway	2.3%
US	10.3%	Switzerland	1.5%
Scotland	6.9%	Other	14%
Netherlands	2.5%		

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 2017 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. 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.

Examples of the issues raised as part of the corporate governance shareholder engagement programme include:

Grainger's strategic review and focus on PRS

The impact of legislative change and Brexit

The Company's capital structure, in particular discussion of share buy-backs

Director succession, in particular in respect of new CEO and CFO appointments

Optimal overall debt levels and cost of debt

Remuneration policy proposals and alignment to strategy

Audit Committee report

Andrew Carr-Locke
Committee Chairman

Attendance table

Committee member	Member since	Meetings attended	Meetings eligible to attend
Andrew Carr-Locke (Committee Chairman)	March 2015	**4**	4
Belinda Richards[1]	April 2011	**3**	4
Tony Wray	November 2011	**4**	4
Rob Wilkinson	February 2016	**3**	3

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

1 Belinda Richards was unable to attend the September 2016 meeting due to an alternative commitment, which was notified in advance to the Committee.

The Audit Committee currently comprises four independent Non-Executive Directors.

Dear Shareholder

This is my first year of chairing Grainger's Audit Committee. In that time, we have refined the process of governance having regard to the change in committee structure since 2015, and reviewed the work-streams for consideration by the Committee. In particular, during this year of strategic change, the Audit Committee has carefully considered the risk management framework designed by the Executive and the processes in connection with internal controls that were applied during the year under review and going forward. Details of this framework and Grainger's risk appetite are contained on pages 30 to 33.

As a matter of course the Committee considers its terms of reference each year, taking into account changes to Grainger and to external governance requirements. In addition, we develop a clear work plan through the year to ensure that we fulfil all our responsibilities. At the core of those responsibilities is ensuring that the Company is operating an effective risk assessment and management process and that an appropriate control framework is in place. We are helped by the Internal Audit team at Deloitte LLP ('Deloitte') which reports directly to the Committee and which works against an agreed plan to ensure that controls are effective.

One of the Committee's other key responsibilities is ensuring that the Group's published accounts have integrity and are consistent with accounting and governance requirements. In achieving this we have given particular consideration to the viability statement having regard to the new strategic focus of Grainger. This included interrogating the financial models and related sensitivity analysys of various economic scenarios. In addition, we have concentrated on the fair, balanced and understandable requirements for the Annual Report. In this regard we are helped by receiving a number of appropriate papers from the Chief Financial Officer and her team and by the independent work of our internal and external auditors.

We respond to developments during the year as required, focusing on key matters which arise in addition to our planned work programme. This year, the sale of the German and Retirement Solutions businesses were key events. We have concentrated on appropriate accounting for these disposals and the risk and control environment as the Company restructured in order to implement its PRS strategy.

As part of the FRC's work programme we were fortunate to receive a report on the quality of the external audit carried out by KPMG LLP ('KPMG') of our prior year accounts, it being the first audit carried out by KPMG since its appointment following successful tender in 2014. We found this independent input both helpful and reassuring.

The regular challenge and engagement with management, the external auditor and the internal audit team, together with the timely receipt of high-quality reports and information from them, has enabled the Committee to discharge its duties and responsibilities efficiently.

I would like to record my thanks for the support of the other members of the Committee, to Grainger's Finance team, to Deloitte and to KPMG for their thorough approach.

Andrew Carr-Locke
Chairman of the Audit Committee
1 December 2016

Significant matters relating to the Group's 2016 financial statements

The most significant matters considered by the Committee and discussed with the external auditor in relation to the Group's 2016 financial statements were as follows:

1 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 met with external valuers. We reviewed the valuations and, in the case of reversionary assets, the suggested discount rates provided. We also 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.

2 Exceptional and non-recurring items

The Committee considered management's accounting proposals in respect of:

- the costs and profits of the disposals during the year of Grainger's Retirement Solutions and German businesses, and the classification of these divisions as being held-for-sale and presented as discontinued operations; and
- the costs being incurred in connection with the restructuring of the business in order to implement the PRS focused strategy.

The Committee concurred with the accounting treatment of such matters.

3 Accounting for unusual contracts

The Committee reviewed management's proposal for accounting for the Company's contractual arrangements with the Royal Borough of Kensington and Chelsea in respect of the various sites located around the borough. The contract will be accounted for as a cost plus contract in line with International Accounting Standard ('IAS') 11 Construction Contracts. In line with the provisions of this standard, revenue will be recognised as it is earned through the duration of the contract. Profits will be recognised to the extent that recoverability is considered probable. The Committee concurred with the accounting treatment for this arrangement.

4 Fraud risk from revenue recognition and management override of controls

In respect of the presumed risk of fraud in revenue recognition by overstatement and management override of controls, the Committee considered the presumed risk of fraud as defined by auditing standards and was content that there were no issues arising.

Fair, balanced and understandable

The Committee has undertaken a detailed review in assessing whether the 2016 Annual Report and Accounts is fair, balanced and understandable, and whether it provides the necessary information to Shareholders to assess the Group's performance, business model and strategy. The Committee reviewed and made suggestions to the processes put in place by management to provide the necessary assurance that appropriate disclosures are made. The Committee considered management's assessment of items included in the financial statements and the prominence given to those items. This review process also included receiving a near final draft of the Annual Report in advance of the November 2016 Committee meeting. This was accompanied by a reminder of the areas the Committee should focus on having regard to the Audit Committee Institute guidance in this respect, and how such guidance can be applied to the draft Annual Report. The Committee, and subsequently the Board, were both satisfied that, taken as a whole, the 2016 Report and Accounts is fair, balanced and understandable.

Going concern

The Committee reviewed the appropriateness of adopting the going concern basis of accounting in preparing the full year financial statements and assessed whether the business was viable in accordance with the new requirement of the Code. The assessment included a review of the principal risks facing the Group, their financial impact and how they were being managed, together with a discussion as to the appropriate period for assessment. The Group's viability statement is on page 34.

Invitations to attend meetings

A standing invitation has been made by the Committee to the Chairman of the Board and the Executive Directors to attend the Committee's meetings. Senior management from Grainger's Finance team and representatives of the internal and external auditors attend all meetings at the invitation of the Committee. During the year the external and internal auditors attended all meetings and also met privately with the Committee.

Role and responsibilities

The Committee's role and responsibilities are concerned with financial reporting, narrative reporting, whistleblowing and fraud, internal controls and risk management systems, internal audit and external audit.

Terms of reference

The Committee has documented terms of reference which are approved by the Board. They are reviewed at least annually and were last reviewed at the Committee's meeting in March 2016. The Committee's terms of reference comply with the Code and can be found on the Group's website.

Objectives

The Board has delegated authority to the Committee to oversee and review the Group's financial reporting process, system of internal control and management of business risks, the internal audit process, the external audit process and relationship with the external auditor, and the Company's process for monitoring compliance with applicable laws and external regulations. Final responsibility for financial reporting, compliance with laws and regulations and risk management rests with the Board, to which the Committee regularly reports back.

Meetings

The Committee's core work is driven by a structured programme of activity settled at the start of the year between the Committee Chairman, management and the external auditor. As well as its core work, the Committee undertakes additional work in response to the evolving audit landscape. The following non-exhaustive list provides highlights of the Committee's core and additional work undertaken during the year:

Key activities

11 November 2015	• Received and considered KPMG's 2015 Audit Highlights Memorandum. • Received and considered a summary of the FRC Audit Quality Review report into the 'Big Four' audit firms. • Reviewed the draft Annual Report and Accounts for the year ending 30 September 2015 (including the viability statement and compliance with the fair, balanced and understandable principle and the going concern assessment). • Reviewed the Group's Gifts and Hospitality Register and Directors' expenses for the year. • Reviewed the effectiveness of the Committee's performance. • Assessed the performance of the external auditors and reviewed their programme of work. • Reviewed KPMG's objectivity and the independence and effectiveness of KPMG's processes, and recommended to the Board KPMG's reappointment as the external auditor. • Reviewed the procedures manual for Grainger's Treasury team. • Received an Internal Audit report on Grainger's Treasury team, assessed progress against the internal audit plan and approved Internal Audit's work plan for the next financial year. • Reviewed Grainger's whistleblowing arrangements and considered a report in this regard, noting that no notifications had been made either by the whistleblowing hotline or by other methods.
9 February 2016	• Received and considered a paper on proposed risk management process and approach pursuant to the new PRS focused strategy. • Considered KPMG's 2016 Half Year Audit Plan. This was pursuant to a decision by the Committee to instruct KPMG to carry out a Half Year Review. The current intention is for such a review to be carried out in future years. • Received Internal Audit reports on the progress against the Internal Audit programme, payments and receipts, procurement, revenue interrogation, post-transaction operation delivery planning, data governance and project delivery management of a key IT project. • Reviewed the Audit Committee terms of reference, including giving appropriate consideration to the assumption of duties and functions of the Board Risk and Compliance Committee.
17 May 2016	• Received and considered management's judgements and estimates in relation to the interim financial statements, in particular the classification of the German and Retirement Solutions businesses as discontinued operations. • Received management's analytical review of the Group's results for the six months ended 31 March 2016; reviewed and approved the draft Interim Financial Statements for that period for recommendation to the Board. • Received and considered KPMG's half year report for the six month period ended 31 March 2016. • Received and considered the results of the Audit Quality Review carried out by the FRC in respect of KPMG's audit of the Group's financial statements for the year ending 30 September 2015. • Received Internal Audit reports on insurance, health & safety and investment and financial appraisals. • Received and considered reports on the Group's principal risks, update on regulatory matters and anti-financial crime. • Received and recommended to the Board a revision to the Company's tax policy.
5 September 2016	• Received an update on the Group's accounting policies and considered the clarity of such policies. • Received and debated a paper regarding a refocusing of the Internal Audit strategy to align with the wider Group PRS strategy. • Received and considered a report on the proposed viability statement to be included in the 2016 Annual Report and Accounts. • Received and considered KPMG's Audit Strategy Memorandum in connection with the audit for year ending 30 September 2016. • Received a verbal report from the Chief Financial Officer regarding the quality of the finance function and succession plans for senior members of the team. • Reviewed Grainger's whistleblowing policy, systems for notifications and results in that regard. There were no issues of concern highlighted. • Received an update on the changes to the audit regulatory regime, Corporate Governance Code and Listing Rules. • Received a report on the Group's risk management framework pursuant to the restructuring of the Company and reviewed Grainger's principal risks. • Reviewed Grainger's policy on instructing external auditors in respect of non-audit services having regard to the changes required to the EU Audit Directive and the related regulatory regime.

External auditor objectivity and independence

The objectivity and independence of the external auditor are critical to the integrity of the Group's audit. During the year the Committee reviewed the external auditor's own policies and procedures for safeguarding its objectivity and independence. There are no contractual restrictions on the Group with regard to the external auditor's appointment. The audit engagement partner provided his annual representation to the Committee as to the external auditor's independence and confirmed that KPMG's reward and remuneration structure includes no incentives for him to cross sell non-audit services to audit clients. KPMG duly applies the requirement to rotate audit partners every five years and therefore such rotation will be due in respect of the 2020 audit.

The Committee's assessment of KPMG's independence is underpinned by the Group's policy on the use of KPMG for the provision of non-audit services. This policy was reviewed during the year, having particular regard to the impact of the recent introduction of new audit regulations. The policy contains a presumption against the use of the external auditor for non-audit services. KPMG may only be engaged for the provision of non-audit services in contravention of that presumption where those services are expressly permitted under the policy and where it is demonstrable that the external auditor is best suited to undertake the services. The policy includes the requirement that non-audit services must not be carried out by the external auditor unless prior approval of the Audit Committee Chairman has been obtained.

Services which the external auditor is prohibited from providing to the Group include, amongst others:

- Bookkeeping services and preparation of financial information
- The design, supply or implementation of financial information systems
- Appraisal or valuation services
- Internal audit services
- Actuarial services

Fees paid to KPMG during the year are set out in the table below:

Schedule of fees	Year ended 30 September 2016
Statutory audit of Grainger Group	210,000
New UK GAAP conversion work	32,000
Total audit fees	**242,000**
Half year review	30,000
Non-statutory certificate on Berewood development site	11,500
German tax advisory services	48,000
Luxembourg tax compliance services	4,000
Work relating to disposal of retirement solutions	27,000
Total non-audit fees	**120,500**

In addition, a further £8,000 for audit services was billed by KPMG to Walworth Investment Properties Limited, the joint venture in which Grainger has a 50% shareholding.

The Committee was satisfied that the overall levels of audit related and non-audit fees were not material relative to the income of the external auditor firm as a whole. It was satisfied that the objectivity and independence of the external auditor was maintained throughout the year.

External auditor appointment

KPMG has been Grainger's external auditor since successfully tendering in 2014 and carried out its first audit in 2015.

The Committee discussed the implications of the Competition and Markets Authority's Order requiring FTSE 350 companies to hold an audit tender every ten years, as well as the recently introduced Statutory Auditors and Third Country Auditors Regulations 2016. Due to the relatively recent appointment of KPMG, the Committee was satisfied that it was not optimal to tender external audit services in the current year. The Committee noted that, based on the prevailing legislation, a competitive tender for external auditor must be held no later than 2025.

The Committee monitors the performance of the external auditor throughout the year and formally concludes the assessment of its performance following conclusion of the annual external audit. Thereafter, the Committee makes a corresponding recommendation to the Board on the appointment of the external auditor for the forthcoming financial year. Shareholders formally appoint the external auditor at the AGM in February. In light of the assessments and review undertaken, the Board endorsed the Committee's recommendation which was approved by shareholders in February 2016. When considering the appropriateness of the re-appointment of KPMG as the Group's external auditor for the forthcoming year, the Audit Committee took account of its review of the external auditor's independence and objectivity, the ratio of audit to non-audit fees and the effectiveness of the audit process, together with other relevant review processes conducted throughout the year. The Committee also had regard to the positive results of the Audit Quality Review carried out by the FRC in respect of the 2015 audit. The Committee was satisfied that it should recommend to the Board the re-appointment of KPMG as the Company's external auditor.

Internal Audit

As referred to above, Deloitte is 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 and the risk management process.

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 timeframes are agreed with management, and progress monitored and reported.

Internal Audit's plans and resources are considered, monitored and approved 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 its reports, meetings with the Chairman of the Audit Committee without management being present, and feedback from senior management and the Chief Financial Officer to assess views on the effectiveness of Internal Audit.

In respect of the Internal Audit programme for 2017 and thereafter, pursuant to the strategic change in the business to focus on the PRS sector, and the related restructuring of the Group's operating model, the Internal Audit strategy and forward plan have similarly been redesigned. The revised approach will focus on providing assurance, process improvement and value adding insights around Grainger's core processes, complemented by an appropriate and proportionate number of targeted risk reviews on principal risks and/or areas of management request and concern.

Nominations Committee report

Baroness Margaret Ford
Committee Chairman

The Nominations Committee currently comprises the Chairman of the Board and three independent Non-Executive Directors.

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. 2015 was a particularly busy year for the Nominations Committee with significant change to the Board and its Committees. 2016 has therefore been focused on embedding the changes that took place. This report details the main activities of the Nominations Committee undertaken during the course of the year in fulfilling its responsibilities.

Baroness Margaret Ford
Committee Chairman
1 December 2016

Attendance table

Committee member	Member since	Meetings attended	Meetings eligible to attend
Baroness Margaret Ford (Committee Chairman)	February 2012	**2**	2
Belinda Richards	February 2014	**2**	2
Tony Wray	February 2014	**2**	2
Andrew Carr-Locke	March 2015	**2**	2

Key responsibilities

The key responsibilities of the Committee are to:

- review the size, balance and constitution of the Board, including the diversity and balance of skills, knowledge and experience of the Non-Executive Directors;
- consider succession planning for Directors and other senior executives;
- identify and nominate, for the approval of the Board, candidates to fill Board vacancies;
- review annually the time commitment required of Non-Executive Directors; and
- make recommendations to the Board, in consultation with the respective Committee Chairmen, regarding membership of the three 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 of the Company Secretary. In circumstances where external recruitment or benchmarking of 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 twice formally during the year to 30 September 2016. 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. It is highlighted that the 2015 Nominations Committee report specified certain changes to the Board that would take place during the course of the 2016 financial year. These changes have now taken place and, for completeness, are also included below:

Board changes

- Andrew Cunningham and Mark Greenwood retired from Grainger in January 2016 and December 2015 respectively.
- Helen Gordon joined Grainger as Chief Executive designate on 3 November 2015 and took up the role in January 2016.
- Vanessa Simms joined Grainger as the Company's Chief Financial Officer in February 2016.
- Rob Wilkinson joined the Board as an independent Non-Executive Director in October 2015.

Committee changes

- As previously reported, Belinda Richards was appointed Senior Independent Director and Chair of the Remuneration Committee in 2015. Therefore, the Nominations Committee reflected on the appropriate balance of the Committee Chairmen and members, whilst having due regard to time commitment, skills and experience, and was of the view that it was in the best interests of the Company to appoint Andrew Carr-Locke as Chairman of the Audit Committee in place of Belinda. It was further agreed that in the interests of continuity Belinda would remain a member 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 Rob Wilkinson as a member of the Audit Committee. In addition, Rob has a standing invitation to attend meetings of the Nominations Committee should he choose to do so.

Search consultants

The Committee engaged the Zygos Partnership ('Zygos'), an independent executive search consultancy, for the recruitment of Directors during the course of the year. 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 develop further. As at the date of this report, female representation at Board level was 50%. Page 25 contains details of the gender split of all Grainger staff.

Remuneration Committee report

Belinda Richards
Committee Chairman

Index to the report

I am pleased to present on behalf of the Board the 2016 Directors' Remuneration report.

Dear Shareholder

This Directors' Remuneration report sets out our proposed Remuneration Policy which we expect to apply for three years from the 2017 AGM, subject to shareholder approval.
It provides a summary of how we intend to implement the new Remuneration Policy in the year ahead and discloses the amounts paid to our Executive and Non-Executive Directors for the year ended 30 September 2016.

What is in this report?

The report complies with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The report has been prepared in line with the recommendations of the UK Corporate Governance Code and the requirements of the UKLA Listing Rules.

The Directors' Remuneration Policy (set out on pages 65 to 72) will be put to shareholders for approval in a binding vote at the forthcoming AGM. The effective date of the updated policy is 8 February 2017 which is the date Shareholder approval is being sought for the revised policy.

This Annual Statement (pages 62 to 64) and the Annual Report on Remuneration (set out on pages 73 to 85) will be subject to an advisory vote at the AGM.

2016 performance and reward

Aligned with our focus on generating shareholder returns through the active management of our assets, the majority of our annual bonus in 2016 was subject to a combination of OPBVM and ROSE targets. These metrics combined to ensure that Executive Directors were 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 bonus opportunity was based on how well our Executive Directors performed against an individually tailored scorecard of key performance metrics.

With regard to the performance achieved during the year, we delivered OPBVM of £88.7m and ROSE of 10.6%. The performance against OPBVM was £7.8m ahead of the target set for the year of £80.9m and ROSE was marginally above mid-range of 5% to 15%. When performance against these metrics was aggregated with achievement against individually tailored strategic targets, annual bonuses ranged from 67% to 76% as a percentage of the maximum available. Full disclosure of the actual targets set, and performance against those targets, is set out on pages 74 to 76.

Over the longer term, we have historically operated a Long-Term Incentive Scheme ('LTIP') that measured our success based on performance against NNNAV (50% of an award) and absolute total shareholder return ('TSR') (50% of an award) targets. Operating in tandem, these metrics are aligned with creating a strong balance sheet and creating shareholder value.

The awards granted in 2013 under the LTIP will be eligible to vest in December 2016. With regard to NNNAV performance over the period ending 30 September 2016, NNNAV has increased by 47.2% against the 22.4% increase in the Halifax and Nationwide House Price indices. This will result in 40% vesting of this part of the award. In terms of TSR, it is currently forecast to show an annual compound increase in the region of 10.7% over the three-year performance period (ending 10 December 2016). Should this level of TSR be maintained to the conclusion of the performance period, this would result in 57% of this part of the award vesting.

In light of the strong performance delivered over the relevant performance periods to date, the Committee is comfortable, overall, with the level of variable pay earned and forecast in light of the performance delivered.

Alignment of remuneration with strategy

As detailed in the Strategic report, the year under review has been a year of change at Grainger. Under new executive leadership we undertook a deep review of every aspect of our business and announced a refined strategy in January 2016. At the heart of our refined strategy is targeting improved long-term shareholder returns. This is to be achieved through a combination of growing rents following the application of a targeted residential investment programme and simplification and focus within our business model through exiting non-core assets and reducing operating costs.

In light of our refined corporate objectives, and having had regard to the feedback received from Shareholders in relation to our remuneration practices at the time of our 2016 AGM, the Committee undertook a full review of our approach to remuneration during the year under review. The objective was to ensure that future policy will support Grainger through its next three-year remuneration policy period, which will commence from the 2017 AGM.

The key conclusions of the Committee's review were that the current approach to weighting remuneration to long-term performance remained aligned with our overall strategic objective of improving long-term returns to Shareholders.

However, it was agreed that the current policy should be simplified and updated to take account of developments in 'best practice'. As a result, subject to shareholder approval at the AGM, there are a number of revisions to be made to our current Remuneration Policy which are detailed below:

- Simplifying the annual bonus structure with the removal of the 'exceptional' bonus maximum and introducing part-deferral of annual bonus into Grainger shares
- Streamlining the LTIP so that only performance shares will be granted in future years (i.e. there will be no further awards of matching shares under the LTIP)
- The introduction of a two-year holding period on vested LTIP shares
- A tailoring of incentive plan performance metrics to better align with Grainger's refined strategy. This includes increasing the weighting on return and profitability in the annual bonus and introducing relative total shareholder return and total property return into the LTIP
- Introducing Committee discretion to override incentive pay outcomes based on the application of the conditions set if payouts are not considered reflective of overall company performance
- Increasing our share ownership guidelines from 100% to 200% of salary

The above changes are considered, in aggregate, to create a more strategically aligned and long-term focused Remuneration Policy.

Implementation of policy for 2017

The base salaries of the Executive Directors will not be increased with effect from 1 January 2017 (see Note 12 to the Annual Report on Remuneration for more details).

An overview of the changes to our general approach to remuneration which we intend to operate from the AGM are detailed above. Full details of the intended application of the Remuneration Policy are set out on pages 82 to 84 of the Annual Report on Remuneration.

With regard to the current LTIP, as the scheme will shortly reach the end of its ten-year duration, shareholder approval is being sought at the AGM for a replacement. Subject to Shareholders' approval of the replacement LTIP, this will enable Grainger to continue to operate a LTIP in line with the proposed Remuneration Policy.

In addition, I would highlight that the current HMRC approved all-employee Save As You Earn ('SAYE') share scheme will also reach the end of its ten-year life. Consequently, a resolution requesting shareholder approval in respect of a successor SAYE scheme on similar terms will also be sought at the 2017 AGM. The Committee firmly supports the principle of broad employee share ownership and the previous SAYE scheme was successful in encouraging employees to become owners in Grainger. Renewal of the scheme will enable all our employees, including the Executive Directors, to continue to acquire Company shares on a consistent tax favoured basis in the future.

Shareholder engagement

The changes proposed to the Remuneration Policy noted above were the subject of extensive shareholder engagement during the year under review. The Board values the opinions of its Shareholders and other stakeholders and has proactively taken their views into account when finalising the proposed Remuneration Policy and its application for 2017.

The Committee is committed to maintaining an ongoing 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 resolutions relating to remuneration at the AGM on 8 February 2017.

Belinda Richards
Chairman of Remuneration Committee
1 December 2016

Remuneration policy

Set out below is the Remuneration Policy for the Company that will be effective from 8 February 2017 (the 'Effective Date'), subject to shareholder approval at the AGM to be held on that day.

The following table summarises the main elements of the Executive Directors' Remuneration Policy for 2017 onwards, the key features of each element, their purpose and linkage to our strategy. Details of the remuneration arrangements for the Non-Executive Directors are set out on page 72.

Base salary	
Purpose and link to strategy	To enable the recruitment and retention of individuals of the necessary calibre to execute the Company's business strategy.
Operation	Reviewed annually and effective from 1 January. Decision influenced by: • role, experience and personal performance; • average change in total workforce salary; • total organisational salary budgets; and • Company performance and other economic conditions. Salaries are benchmarked periodically and are set by reference to companies of a similar size and complexity.
Opportunity	Salaries will be eligible for increases during the three-year period that the Remuneration Policy operates from the Effective Date. During this time, salaries may be increased each year (in percentage of salary terms) in line with increases granted to the wider workforce. Increases beyond those granted to the wider workforce (in percentage of salary terms) may be awarded in certain circumstances such as where there is a change in responsibility, experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Group. Where new joiners or recent promotions have been placed on a below market rate of pay initially, a series of increases above those granted to the wider workforce (in percentage of salary terms) may be given over the following few years' subject to individual performance and development in the role.
Framework to assess performance	The Committee considers individual salaries at the appropriate Committee meeting each year after having due regard to the factors noted in operating the salary policy.

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. Other ancillary benefits (including relocation expenses) may be offered, as required.
Opportunity	The value of benefits may vary from year to year depending on the cost to the Company from third-party providers.
Framework to assess performance	N/A

Pension	
Purpose and link to strategy	To aid recruitment and retention of high-quality executives and enable long-term savings through pension provision.
Operation	The Company may contribute directly into an occupational pension scheme (an Executive Director's personal pension) or pay a salary supplement in lieu of pension. If appropriate, a salary sacrifice arrangement can apply.
Opportunity	The pension contribution or allowance is based on 15% of basic salary.
Framework to assess performance	N/A

Annual bonus	
Purpose and link to strategy	To incentivise the achievement of annual targets, rewarding strong operational performance set with reference to target performance levels for the year.
Operation	Compulsory deferral of 25% of any bonus paid into shares for three years with the balance of the bonus paid in cash. Deferred shares typically vest after three years and are normally subject to continued employment. Dividend equivalent payments may be made in cash or shares on deferred shares at the time of vesting and may assume the reinvestment of dividends.
Opportunity	Maximum bonus potential is capped at: - 140% of salary for the Chief Executive; and - 120% of salary for the other Executive Directors.
Framework to assess performance	Details of the performance measures used for the current year and targets set for the year under review and performance against them will be provided in the Annual Report on Remuneration. Bonus will be predominantly based on a challenging range of financial targets set in line with the Group's KPIs tailored to each individual role as appropriate, for example, targets relating to ROSE and adjusted earnings (previously called recurring profit). For a minority of the bonus, targets relating to the Group's other KPIs will operate (for example strategic targets). For financial targets, and where practicable in respect of strategic targets, bonus starts to accrue once the threshold target is met (0% payable) rising on a graduated scale to 100% for outperformance. The Committee may adjust bonus outcomes, based on the application of the bonus formula set at the start of the relevant year, if it considers the quantum to be inconsistent with the Company's overall performance during the year. For the avoidance of doubt this can be to zero and bonuses may not exceed the maximum levels detailed above. Any use of such discretion would be detailed in the Annual Report on Remuneration. In the event that there was (i) a misstatement of the Company's results; (ii) a miscalculation or an assessment of any performance conditions that was based on incorrect information; or (iii) misconduct on behalf of an individual, recovery and/or withholding provisions may apply for three years from the date of payment of any bonus.

Long-Term Incentive Schemes	
Purpose and link to strategy	To incentivise the delivery of sustained performance over the longer term. To encourage greater shareholder alignment through personal investment in the Company's shares.
Operation	Long Term Incentive Schemes have been provided under the 2007 Long Term Incentive Plan and will be provided, with effect from the 2017 AGM and subject to Shareholder approval, under the 2017 Long Term Incentive Plan (collectively referred to as 'LTIP'). The LTIP provides for awards of free shares (i.e. either conditional shares or nil-cost options) normally made annually which are eligible to vest after three years subject to continued service and the achievement of challenging performance conditions. Shares (as a minimum on an after tax basis) are subject to a two-year post-vesting holding period for awards granted from the Effective Date of the Remuneration Policy. Dividend equivalent payments may be made (in cash or shares) on LTIP shares at the time of vesting on vested shares and may assume the reinvestment of dividends.
Opportunity	Annual awards are capped at: - 175% of salary for the Chief Executive; and - 130% of basic salary for the other Executive Directors. The Committee may grant awards at up to 200% of salary in exceptional circumstances (e.g. recruitment to compensate for value forfeit from a previous employer).

Long-Term Incentive Schemes	continued
Framework to assess performance	Granted subject to a blend of challenging financial (e.g. total property return) and total shareholder return performance targets tested over three years. 25% of awards will vest for threshold performance with full vesting taking place for equalling, or exceeding, the maximum performance targets. No awards vest for performance below threshold. A graduated vesting scale operates between threshold and maximum performance levels. The Committee may adjust LTIP vesting outcomes, based on the result of testing the performance condition, if it considers the quantum to be inconsistent with the Company's overall performance during the three-year performance period. For the avoidance of doubt this can be to zero. Any use of such discretion would be detailed in the Annual Report on Remuneration. In the event that there was (i) a misstatement of the Company's results; (ii) a miscalculation or an assessment of any performance conditions based on incorrect information; or (iii) misconduct on behalf of an individual, recovery and/or withholding provisions may apply for three years from an award becoming eligible to vest.

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 on the same terms 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 up to 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 may 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). Dividend payments on SIP shares are reinvested in dividend shares and must be held in trust for three years.
Framework to assess performance	N/A

Shareholding guidelines

Under the Shareholding Guidelines Executive Directors are expected to build up over time a shareholding equivalent to 200% of their base salary. Executive Directors are required to retain a minimum of half the after tax number of vested shares in relation to future LTIP awards to satisfy the guideline. The Committee will also operate a general expectation that the guideline will be met within five years of its introduction, although the Committee reserves the right to take into account vesting levels and personal circumstances when assessing progress against the guideline.

Changes to the Remuneration Policy

The above Remuneration Policy includes a number of revisions when compared against the Remuneration Policy approved by shareholders at the 2014 AGM. The changes have been made to better align remuneration with the refined Company strategy detailed in the Strategic report, as well as taking into account the feedback from our major institutional investors.

The key changes included:

- simplifying the annual bonus structure so that in future a single bonus maximum will operate as opposed to separate 'normal' and 'exceptional' maximum bonus opportunities. This change reduced the aggregate maximum potential bonus in any year for the Chief Executive from 150% to 140% of salary and from 125% to 120% for other Executive Directors;
- the ability to grant matching shares under the LTIP (being up to 30% of salary linked to the deferral of annual bonus or purchase of shares) has been removed with only a single type of share award (performance shares) to be granted in future years. Accordingly, the LTIP maximum award limit has been revised to 175% of salary for the Chief Executive and 130% of salary for the other Executive Directors. The revised limits compare to aggregate award limits of matching shares and performance shares of 180% of salary and 130% of salary under the previous Remuneration Policy;
- the introduction of a two-year holding period on vested LTIP shares;
- the performance metrics to be operated in incentive plans, as detailed below, have been refined to better align with the Company's refined strategy as detailed in the Strategic report;
- introducing Committee discretion to override incentive pay outcomes based on the application of the conditions set if payouts are not considered reflective of overall company performance; and
- increasing the share ownership guideline from 100% to 200% of base salary.

Choice of performance measures and approach to target setting

The performance metrics that are used for annual bonus and long-term incentive plans are a sub-set of the Group's KPIs.

Under the annual bonus plan for the first year of operating the Remuneration Policy in 2017, bonuses will be based 40% on ROSE, 40% on adjusted earnings and 20% on individually tailored strategic targets.

The use of adjusted earnings as a metric is intended to incentivise operational success in achieving specified levels of rental growth, income from sales and reduction in overheads which reflect the current key strategic priorities of the Company and feed through to adjusted earnings.

The term 'adjusted earnings' has replaced the term 'recurring profit'. In the context of recently published guidance from ESMA and the FRC; the Directors considered the use of the term 'recurring profit' and determined that a description as 'adjusted earnings' more appropriately reflects the adjustments between statutory profit and this measure (see Note 4 to the financial statements). The calculation of the measure is unchanged.

Use of ROSE is aligned with delivering targeted overall returns from the Company's property portfolio which is supported by a strong balance sheet.

Use of strategic targets enables the Committee to incentivise delivery against the evolving strategy of the Group.

In respect of long-term performance targets, LTIP awards will vest subject to: (i) challenging total property return targets that are aligned with the long-term levels of return targeted by the Company; and (ii) relative TSR targets which incentivise the Executive team to outperform sector peers and provide clear alignment of interests between Shareholders and Executives.

Targets are set based on sliding scales that take account of internal planning and external market expectations for the Company. Only modest rewards are available for delivering threshold performance levels with maximum rewards requiring substantial outperformance of the challenging plans approved by the Board at the start of each financial year.

The incentive metrics, their weightings and the range of targets set will be subject to review each year and may be adjusted to better reflect the strategic priorities of the Company at that time (subject to the constraints set out in the policy above).

No performance targets are applied to the all-employee plans which are aimed at encouraging broad based equity ownership.

Further details of the annual bonus metrics to be used for the current financial year are set out in the Annual Report on Remuneration. The targets for awards to be granted under the LTIP in the current financial year are consistent with the policy set out above and are also specified in the Annual Report on Remuneration.

Bonus plan and LTIP policy

The Committee will operate the annual bonus plan, LTIP and all-employee plans according to their respective rules and in accordance with the relevant Listing Rules and HMRC rules consistent with market practice. The Committee retains discretion, within the confines and opportunity detailed above, in a number of respects with the operation and administration of these plans. These include:

- the individual(s) participating in the plans;
- the timing of grant of award and/or payment;
- the size of an award and/or payment;
- the determination of vesting;
- dealing with a change of control (e.g. the timing of testing performance targets) or restructuring;
- determination of a 'good/bad leaver' for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring and special dividends); and
- the annual review of performance conditions for the annual bonus plan and LTIP.

The Committee also retains the ability to adjust the targets, and/or set different measures and alter weightings for the annual bonus plan and to adjust targets for the LTIP if events occur (e.g. material divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy.

Reward scenarios for Executive Directors

The Company's Remuneration Policy results in a significant proportion of remuneration received by Executive Directors being dependent on Company performance. The graph below illustrates how the total pay opportunities for the Executive Directors varies under three different performance scenarios:

- Below target
- On-target
- Maximum

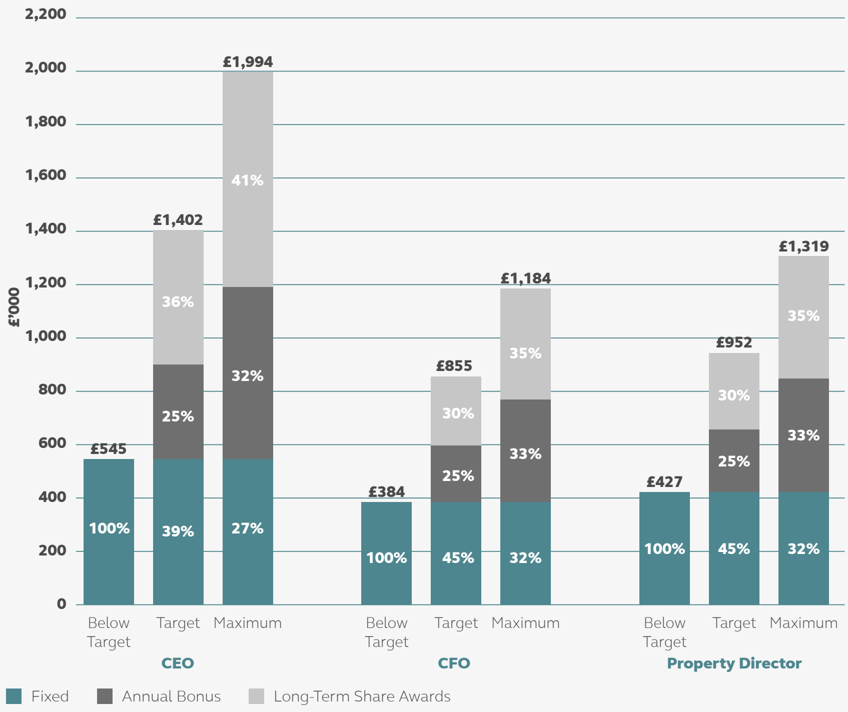
When reviewing the graph, it should be noted that it has been prepared based on the policy detailed above and ignores, for simplicity, the potential impact of future share price growth.

Assumptions:

- Below target = fixed pay only (base salary, benefits and pension)
- On-target = 55% payable of the 2017 annual bonus and 62.5% vesting of the 2017 LTIP awards
- Maximum = 100% payable of the 2017 annual bonus and 100% vesting of the 2017 LTIP awards

Salary levels (on which other elements of the package are calculated) are based on those applying on 30 September 2016. The value of taxable benefits is based on the cost of supplying those benefits (as disclosed on page 73) for the year ending 30 September 2016. The Executive Directors can participate in the all-employee share plans on the same basis as other employees. The value that may be received under these

Reward scenarios for Executive Directors



schemes is subject to tax approved limits. For simplicity, the value that may be received from participating in these schemes has been excluded from the graph on the previous page. Since the above analysis ignores share price growth, the values will differ from the values included in the Single total figure remuneration table on page 73.

How the Executive Directors' Remuneration Policy relates to the wider Group

The Remuneration Policy provides an overview of the structure that operates for the Company's Executive Directors and senior executive population. However, it is highlighted that there are differences in quantum within this determined by the size and scope of individual positions.

The Committee is made aware of pay structures across the Group when setting the Remuneration Policy for Executive Directors. The key difference is that, overall, the Remuneration Policy for Executive Directors is more heavily weighted towards variable pay than for other employees.

Base salaries are operated under the same policy as detailed in the Remuneration Policy table with any comparator groups used as a reference point. The Committee considers the general basic salary increase for the broader Company (if any) when determining the annual salary review for the Executive Directors.

Outside of the most senior tiers of executives, the LTIP is not operated as this arrangement is reserved for those anticipated as having the greatest potential to influence Company level performance.

However, the Committee believes in wider employee share ownership and promotes this through the operation of the HMRC tax approved all-employee share schemes which are open to all UK employees.

How the views of employees are taken into account

The Company, in line with current market practice, does not currently actively consult with employees on executive remuneration.

The Committee takes due account of remuneration structures elsewhere in the Group when setting pay for the Executive Directors. For example, consideration is given to the overall salary increase budget and the incentive structures that operate across the Company.

How the views of Shareholders are taken into account

The Remuneration Committee considers shareholder feedback received in relation to the AGM each year and guidance from shareholder representative bodies more generally. This feedback, plus any additional feedback received during any meetings held with Shareholders from time to time, is then considered as part of the Committee's ongoing review of remuneration policy.

Approach to recruitment remuneration

When setting the remuneration package for a new Executive Director, the Committee will apply the same principles and implement the policy as set out in the preceding tables.

Base salary will be set at a level appropriate to the role and the experience of the Executive 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 offer compensation that it considers appropriate to take account of awards and benefits that will or may be forfeited on resignation from a previous position. Such compensation would reflect the performance requirements, timing and such other specific matters as the Committee 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 Executive Director.

If the Executive 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 Executive 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 the Audit and Remuneration Committees and for the additional responsibilities of the Senior Independent Director.

Directors' service contracts and provision on payment for loss of office

Executive Directors' service contracts are terminable by the Company on up to one year's notice and by the Director on at least six months' notice.

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 Executive 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 Executive Director during the contractual notice period. The policy is that, as is considered appropriate at the time, the departing Executive 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 also seek to apply the principle of mitigation where possible so as to reduce any termination payment to a leaving Executive Director, having had regard to the circumstances.

In addition, the Committee may also make payments in relation to any statutory entitlements, to settle any claim against the Company (e.g. in relation to breach of statutory employment rights or wrongful dismissal) or make a modest provision in respect of legal costs or outplacement fees.

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.

With regard to annual bonus for a departing Executive Director, if employment ends by reason of redundancy, retirement with the agreement of the Company, ill health or disability or death, or any other reason as determined by the Committee (i.e. the individual is a 'good leaver'), the Executive Director may be considered for a bonus payment. If the termination is for any other reason, any entitlement to bonus would normally lapse. Under any circumstance, it is the Committee's policy to ensure that any bonus payment reflects the departing Executive 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 be subject to a pro-rata reduction for the portion of the relevant bonus year that the individual was employed.

The treatment for share-based incentives granted to an Executive Director will be determined based on the relevant plan rules. The default treatment will be for outstanding awards to lapse on cessation of employment. In relation to awards granted under the Company's long-term incentive plans, in certain prescribed circumstances, such as injury or disability, redundancy, transfer or sale of the employing company, retirement with the Company's agreement or other circumstances at the discretion of the Committee (reflecting the circumstances that prevail at the time) 'good leaver' status may be applied.

If treated as a good leaver, awards will be eligible to vest subject to performance conditions, which will be measured over the original performance period (unless the Committee elected to test performance to the date of cessation of employment), and be subject to a pro-rata reduction (unless the Committee considered it inappropriate to do so) to reflect the proportion of the vesting period actually served.

With regard to the deferral of annual bonus, deferred share bonus awards will normally lapse on cessation of employment other than where an Executive Director is a 'good leaver' (as detailed above) with awards then vesting on the normal vesting date.

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 HMRC approved share plans, awards may vest or be exercisable on or following termination of employment in certain good leaver circumstances, where permissible, in accordance with the rules of the plan and relevant legislation.

External appointments

Executive Directors are permitted to accept external non-executive appointments with the prior approval of the Board. It is normal practice for Executive Directors to retain fees provided for non-executive appointments.

Non-Executive Directors' letters of appointment

The Chairman and Non-Executive Directors have letters of appointment for an initial fixed term of three years subject to earlier termination by either party on written notice. In each case, this term can be extended by mutual agreement.

Non-Executive Directors have no entitlement to contractual termination payments.

The dates of the initial appointments of the Non-Executive Directors are set out in the Annual Report on Remuneration.

Non-Executive Directors' fees

The policy on Non-Executive Directors' fees is set out below:

Non-Executive Directors	
Purpose and link to strategy	To provide a competitive fee which will attract those high-calibre individuals who, through their experience, can further the interests of the Group through their stewardship and contribution to strategic development.
Operation	The fees for Non-Executive Directors (including the Chairman) are typically reviewed every second year or more frequently if required. Fee levels are set by reference to the expected time commitment and responsibility, and are periodically benchmarked against relevant market comparators as appropriate reflecting the size and nature of the role. The Chairman and Non-Executive Directors are paid an annual fee which is paid at least monthly in cash and do not participate in any of the Company's incentive arrangements or receive any pension provision. The Non-Executive Directors receive a basic Board fee, with additional fees payable for chairmanship of the Company's key Committees and for performing the Senior Independent Director role. All Non-Executive Directors are reimbursed for travel and related business expenses reasonably incurred in performing their duties. The Committee recommends the remuneration of the Chairman to the Board. The Chairman's fee is determined by the Committee (during which the Chairman has no part in discussions) and recommended by it to the Board. The Non-Executive Directors' fees are determined by the Chairman and the Executive Directors.
Opportunity	Fee levels will be eligible for increases during the period that the Remuneration Policy operates to ensure that they continue to appropriately recognise the time commitment of the role, increases to fee levels for Non-Executive Directors in general and fee levels in companies of a similar size and complexity.
Framework to assess performance	N/A

1 Single total figure of remuneration for each Director

The details set out in notes 1 to 7 on pages 73 to 81 of this report have been audited by KPMG.

2016	a Salary and fees[1] £'000	b Taxable benefits[2] £'000	c Share incentive Plan £'000	Annual bonus[3] £'000	d LTIP awards vesting[4] £'000	e Pension costs[5] £'000	Other[6]	Total[7] £'000
Executive Directors[6]								
Helen Gordon	422	14	–	370	–	63	13	882
Vanessa Simms	209	10	–	158	–	31	–	408
Nick Jopling	354	15	7	236	227	53	–	892
	985	39	7	764	227	147	13	2,182
Former Executive Directors								
Andrew Cunningham	155	5	5	–	291	22	–	478
Mark Greenwood	69	4	1	–	125	10	–	209
	224	9	6	–	416	32	–	687
Non-Executive Directors								
Baroness Margaret Ford	150	–	–	–	–	–	–	150
Belinda Richards	63	–	–	–	–	–	–	63
Tony Wray	46	–	–	–	–	–	–	46
Andrew Carr-Locke	53	–	–	–	–	–	–	53
Rob Wilkinson	46	–	–	–	–	–	–	46
	358	–	–	–	–	–	–	358
Former Non-Executive Directors								
Simon Davies[8]	8	–	–	–	–	–	–	8
Totals	1,575	48	13	764	643	179	13	3,235

1 As detailed in last year's Annual Report on Remuneration, Helen Gordon was appointed on a base salary of £460,000 with effect from 3 November 2015 and the value included in the table above reflects her salary paid for the part of the financial year that she was employed. Full details of her recruitment terms were included in last year's Annual Report on Remuneration. Vanessa Simms was appointed on a base salary of £320,000 with effect from 4 February 2016 and the value included in the table above reflects her salary paid for the part of the financial year that she was employed. There was no compensation for incentive value forfeit on joining Grainger provided to Vanessa in connection with her appointment. Her salary was set with reference to current market rates for the role and the calibre and experience of the individual. Nick Jopling's base salary during the year under review was £356,842 with effect from 1 January 2016 and the value included in the above table reflects the total salary received following the application of the staff-wide salary increase on 1 January 2016 for part of the year.

2 Taxable benefits include a car allowance and private medical insurance.

3 In line 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 2015, or for the part of 2016 for which they were in employment, having given notice to the Company to terminate their employment in connection with their retirements during 2015.

4 In line with the requirements of the Remuneration Reporting Regulations, the 2016 LTIP vesting values are based on the forecast value of the awards due to vest on 9 December 2016 (50% of the award is based on NNNAV performance measured over the three years to 30 September 2016 and 50% of the award is based on absolute total shareholder return measured over the three-year period to 9 December 2016). The NNNAV performance measured to 30 September 2016 was 2.11% and so 40% of this part of the award is due to vest and forms part of the 2016 LTIP value. Absolute TSR performance (based on an assessment of performance measured to 30 September 2016) is forecast to be 10.7% based on absolute TSR growth of 33%. The share price for the purposes of valuing the award is the share price at 30 September 2016 (230p) for the NNNAV element, and the three-month average share price to 30 September 2016 (221.7p) 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 2015 LTIP value has been restated and reflects the actual value of the awards that vested in January 2016. Andrew Cunningham and Mark Greenwood retired and stepped down from the Board on 4 January 2016 and 22 December 2015 respectively. Their outstanding LTIP awards were retained and will vest and be exercisable in accordance with the LTIP Rules. These awards will vest at the end of their respective performance periods pro-rata to the time elapsed between the date of grant of the relevant award and their termination date, and to the extent that the relevant performance targets have been met over the full performance period including following cessation of employment.

5 The pension costs are based on 15% of base salary.

6 Please see Note 4 on page 78 in relation to the vesting of the Tranche 1 buy-out award made to Helen Gordon.

7 With regard to the single total figure of remuneration for each Director in relation to the year under review, the Committee was comfortable with the amounts payable given the performance achieved. In forming this view the Committee noted the delivery of a ROSE of 10.6% and an OPBVM of £88.7m and that this was delivered in a challenging market context. In addition, substantial strategic progress was also made with a refined strategy being developed and embedding in the organisation. From a longer-term perspective, three-year forecast annualised TSR of 10.7% was delivered at the same time as an increasing NNNAV relative to the increase in the Halifax and Nationwide House Price indices of 2.11.

8 Simon Davies retired from the Board on 30 November 2015.

1 Single total figure of remuneration for each Director continued

2015	a Salary and fees[1] £'000	b Taxable benefits[2] £'000	Share incentive Plan £'000	c Bonus Annual[3] £'000	c Bonus Legacy £'000	d LTIP awards vesting[4] £'000	e Pension costs[5] £'000	Total[7] £'000
Executive Directors								
Andrew Cunningham	443	16	7	–	109	1,543	67	2,185
Mark Greenwood	274	16	7	–	–	690	41	1,028
Nick Jopling	343	16	7	192	–	859	51	1,468
	1,060	48	21	192	109	3,092	159	4,681
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[8]	42	–	–	–	–	–	–	42
Ian Coull	29	–	–	–	–	–	–	29
Andrew Carr-Locke	28	–	–	–	–	–	–	28
	380	–	–	–	–	–	–	380
Total	1,440	48	21	192	109	3,092	159	5,061

2 Annual bonus awards – performance assessment for 2016

Actual performance against the targets set for 2016 are set out below (straight-line payouts occur between the relevant performance points).

Helen Gordon and Vanessa Simms both participated in the 2016 annual bonus on a pro-rata basis, reflecting the proportion of the year for which they were employed. Neither Andrew Cunningham nor Mark Greenwood was eligible to participate in the 2016 annual bonus plan.

The detail below sets out the financial targets that were set 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 and the extent of achievement against these.

Measure	Weighting	Threshold (0% out-turn)	Target (60% out-turn)	Maximum (100% out-turn)	**2016 Performance**	**Out-turn (% of max element) Bonus**
Profit (OPBVM)	37.5%	90% of budget (£72.8m)	100% of budget (£80.9m)	120% of budget (£97.1m)	**109.6% of budget (£88.7m)**	**79.3%**

Measure	Weighting	Threshold (0% out-turn)	Maximum (100% out-turn)	**2016 Performance**	**Out-turn (% of max element) Bonus**
ROSE	37.5%	5%	15%	**10.6%**	**55.7%**

The ROSE as detailed above at 10.6% was calculated from the closing NNNAV of 286.7p per share plus the dividend per share for the year divided by the opening NNNAV per share of 263.4p.

In respect of the personal performance targets set for each Executive Director, these were set against a range of strategic and personal targets at the start of the year (or on appointment where appropriate). The targets set were aligned to Grainger's corporate objectives having due regard to the refocused strategy being the key overarching deliverable during the year.

Chief Executive

Measure	Objective	Performance
Stakeholder management	Deliver effective communication of refined Company strategy to stakeholders.	Achieved in full following very positive feedback from the Board and the Company's leading investors and analysts.
Cost management	Design and commence overhead reduction programme.	Achieved in full and in line with the annual budget.
Income growth	Deliver increased rental income (measured on a consistent basis) of £5m.	Achieved in full with strong overall rental income at £37.4m against a prior year of £32.4m in respect of the UK portfolio.
Operational performance	Complete restructuring of the Company to be embedded and aligned with the Company's strategy.	Partially achieved, on the basis of restructuring delivered with alignment of KPIs to strategy, but yet to be fully embedded throughout the organisation.
Leadership	Lead, coach and develop leadership team to deliver strategy and improve the pace of output.	Achieved in full and evidenced by having worked highly effectively with the new leadership team to conclude the strategic review, deliver the strategic plan, and made substantial strides in its execution.

On the basis of the above performance, the Committee determined that payment of 90% of the maximum 25% of this part of the bonus was proportionate and reasonable in the circumstances.

Chief Financial Officer

Measure	Objective	Performance
Stakeholder management	Simplify and align financial reporting, forge strong relationships with stakeholders and improve clarity of external communications.	Achieved in full and evidenced by highly positive feedback from the Board and the Company's leading investors and analysts confirming that there had been significant progress in the method and process of communication of the Company's financial performance.
KPI and reporting	Review range and structure of the Company's KPIs pursuant to the refined strategy and be in a position to implement and embed such KPIs in 2017 financial year.	Achieved in full. The Chief Financial Officer undertook a thorough review of Group KPIs with the conclusions of this analysis being implemented as part of the revised strategy, and such refined KPIs feed through to 2017 (including in respect of the new Remuneration Policy).
Funding strategy	Define and implement refined funding strategy, manage financial risks and improve the Company's capital structure.	Achieved in full. The future funding strategy was designed and approved by the Board and is being implemented.
Cost reduction	In conjunction with the Chief Executive, identify revised operating model, communicate, and set timetable for implementation.	Achieved in full by having undertaken a full and thorough review of potential cost savings and duly delivered those matters identified for 2016.

Pursuant to the above exceptional performance out-turn, the Committee determined that 100% of the maximum 25% of this part of the bonus would be payable.

2 Annual bonus awards – performance assessment for 2016 continued

Property Director

Measure	Objective	Performance
Sales	Achieve predetermined sales and profit targets included within the 2016 budget from core, Chelsea and development portfolios: a) 55% margin on £94m core sales; b) £9.5m development profit; and c) £46m Chelsea sales.	Partial achievement on the following basis for each element: a) £87.4m of core sales was achieved with a margin of 59.5%; b) £11.8m in respect of development profit; and c) £14.1m of Chelsea sales, it being noted by the Committee that this market has faced considerable external macro-economic challenges.
Cost reduction	Deliver a restructuring of the property business with redefined leadership structure implemented.	Substantially (but not fully) achieved as part of the implementation of the strategic plan.
Income	Grow net revenue income to 72% from 70.3%.	Achieved in full with a net revenue income at 72%.
Operational	Achieve operational excellence in dealings with key long-term business partners. Progress measured against business plan.	Partially achieved due to a combination of strong relationships with some partners, but not yet at this level in respect of other cases.
Pipeline	Achieve up to £500m committed to acquire quality pipeline in 2016.	Partial achievement with approximately £300m commitment to acquire pipeline in the context of challenging market conditions in certain areas.

Following consideration of the performance against the objectives set, the Committee determined that payment of 64% of the maximum 25% of this part of the bonus was appropriate in the circumstances.

The total bonuses earned, therefore, were 73%, 76% and 67% of the maximum bonus opportunity (based on pro-rata base salaries as appropriate) for the Chief Executive, Chief Financial Officer and Property Director respectively.

The 2015 Annual Report on Remuneration highlighted that certain matters were excluded due to commercial sensitivity. This related to Nick Jopling's personal target to "Lead the strategic plan to secure a private rented sector portfolio of scale against the projected timeline". The outcome of that target as specified in the 2015 report can now be supplemented by reference to the Clippers Quay, Salford transaction, which since the production of the 2015 report has been secured and duly announced. This transaction was well progressed at the time of the 2015 report and formed part of the PRS pipeline but was subject to typical confidentiality provisions until the date of exchange.

3 LTIP awards – performance assessment for 2016

The awards made to Executive Directors in December 2013, and which are due to vest in December 2016, are based on NNNAV and absolute TSR targets measured over a three-year period. Performance against the vesting schedule can be summarised as follows:

LTIP awards vesting in December 2016

Measure	Weighting	Threshold	Maximum	Actual performance	Out-turn (% of max element) LTIP
Three year growth in TSR (annual compound)[1]	50%	5%	15%	**10.7%**	**57%**
NNNAV (increase over three years relative to HPI, as measured by Halifax and Nationwide)[2]	50%	1.5%	3.0%	**2.11%**	**40%**

1 Performance measurement period three years to 9 December 2016 – actual performance is a forecast based on performance measured to 30 September 2016.
2 Performance measurement period three years to 30 September 2016. NNNAV increased by 47.2% between September 2012 and September 2015 whilst the average increase in the Halifax and Nationwide House Price indices over the same period was 22.4%.

The forecast vesting value of the awards made in December 2013, subject to the above performance targets, is included in the 2016 single figure table above.

The awards made to Executive Directors in December 2012, and which vested in December 2015, were based on NNNAV and absolute TSR targets measured over a three-year period. Performance against the vesting schedule can be summarised as follows:

LTIP awards vesting in December 2015

Measure	Weighting	Threshold	Maximum	Actual performance	Out-turn (% of max element) LTIP
Three-year growth in TSR (annual compound)[1]	50%	5%	15%	32%	100%
NNNAV (increase over three years relative to HPI, as measured by Halifax and Nationwide)[2]	50%	1.5%	3.0%	2.95%	96%

1 Performance measurement period three years to 10 December 2015. Actual performance over the performance period, at 32%, was marginally lower than the forecast included in last year's Directors' Remuneration report which had been estimated at 33%. This had no impact on the forecast vesting result.
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 House Price indices over the same period was 22.9%.

4 Share scheme interests awarded during the year

	LTIP share awards		Matching awards	
	Number	**Face value £'000**	**Number**	**Face value £'000**
Helen Gordon	**287,117**	**689**	**57,423**	**137**
Vanessa Simms	**130,995**	**284**	**11,750**	**26**
Nick Jopling	**144,161**	**346**	**43,248**	**104**

The face value for Helen Gordon and Nick Jopling is based on a price of 240.3p being the average share price from the five business days immediately preceding the award that was made on 11 January 2016. The face value for Vanessa Simms is based on a price of 217.1p being the average share price from the five business days immediately preceding the award that was made on 11 February 2016 which was shortly after she commenced employment with the Company.

4 Share scheme interests awarded during the year continued

The face value of performance shares awarded were 150% of salary in the case of Helen Gordon, 89% of salary in the case of Vanessa Simms (being a pro-rata award to reflect her joining part way through the year) and 100% of salary in the case of Nick Jopling.

The awards of both performance and matching shares will be eligible to vest in three years contingent upon continued employment and satisfying the performance criteria. Half of the award is subject to a TSR growth condition (measured over three years from the grant of the award) with the other half subject to a NNNAV growth condition (measured over three financial years starting with the year in which the award was granted). The performance targets require three year growth in NNNAV to be 1.5 times the average growth recorded by the Halifax and Nationwide indices for threshold vesting (0%) and 3 times the indices for full vesting.

In terms of TSR, annual compound growth of 5% per annum is required for threshold vesting (0%) with 15% per annum growth is required for full vesting. Straight line vesting takes place between performance points.

In addition to the above, as disclosed in last year's Annual Report on Remuneration, Helen Gordon received performance adjusted and/or related buy-out awards to replace share awards forfeited from her previous employer on joining Grainger. The awards were structured (where practicable) so that performance related Grainger share awards replaced the performance linked awards from her former employer.

	Helen Gordon buy-out share awards	
	Number	Face value £
Tranche 1 (19 May 2016)	33,122	79,601
Tranche 2 (7 March 2017)	69,328	99,967
Tranche 3 (9 March 2018)	50,045	120,270
Total	**152,495**	**299,838**

In relation to Tranche 1, 27,602 shares comprised in this award lapsed with the remaining 5,520 shares vesting in May 2016. The lapsed element arose pursuant to the Committee's assessment of the value actually forfeit in connection with the award received from her previous employer it was granted to replace.

In relation to Tranche 2 and Tranche 3, the same performance targets as detailed above for the awards granted during the year under review will apply save for the fact that the three year performance period of Tranche 2 runs from 1 October 2013 to 30 September 2016 for the NNNAV part of the award with the TSR part of the award having a performance period that runs from December 2013 to December 2016. For Tranche 3, the performance period runs from 1 October 2014 to 30 September 2017 for the NNNAV part of the award with the TSR part of the award having a performance period that runs from December 2014 to December 2017. These conditions are the same as those applying to other Grainger employees receiving awards in 2013 and 2014.

5 Payments to past Directors

Peter Couch, who retired from the Board on 31 January 2014, retained a pro-rated entitlement to 115,507 shares granted on 10 December 2012 under the terms of the Company's LTIP. This award vested at 98% when the value of the shares that vested at 233.6p per share was £264,426. The payments to Andrew Cunningham and Mark Greenwood, who retired during the year, are detailed elsewhere in this report.

6 Payments for loss of office

In relation to the retirement of Andrew Cunningham and Mark Greenwood, which took place on 4 January 2016 and 22 December 2015 respectively, in line with the Company's Remuneration Policy, they were 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 have not been, nor will there be, any other payments made in connection with their retirement.

7 Directors' shareholdings and share interests

Performance share awards

		Awards granted	Maximum award	Awards vested	Awards lapsed	**Maximum outstanding awards at 30 Sept 2016**	Market price at date of vesting (p)	Vesting date*
Andrew Cunningham	LTIP shares	10-Dec-12	554,675	543,581	11,094	**–**	233.6	08-Jan-16
		09-Dec-13	311,234	–	88,883	**222,351**	–	09-Dec-16
		16-Dec-14	336,503	–	210,314	**126,189**	–	16-Dec-17
	Matching	10-Dec-12	110,935	108,716	2,219	**–**	233.6	08-Jan-16
	shares	09-Dec-13	62,246	–	17,776	**44,470**	–	09-Dec-16
		16-Dec-14	67,300	–	42,063	**25,237**	–	16-Dec-17
Mark Greenwood	LTIP shares	10-Dec-12	228,913	224,335	4,578	**–**	233.6	08-Jan-16
		09-Dec-13	128,445	–	40,315	**88,130**	–	09-Dec-16
		16-Dec-14	138,874	–	90,724	**48,150**	–	16-Dec-17
	Matching	10-Dec-12	68,674	67,300	1,374	**–**	233.6	08-Jan-16
	shares	09-Dec-13	38,533	–	12,094	**26,439**	–	09-Dec-16
		16-Dec-14	41,662	–	27,217	**14,445**	–	16-Dec-17
Nick Jopling	LTIP shares	10-Dec-12	286,141	280,418	5,723	**–**	233.6	08-Jan-16
		09-Dec-13	160,557	–	–	**160,557**	–	09-Dec-16
		16-Dec-14	173,592	–	–	**173,592**	–	16-Dec-17
		11-Jan-16	144,161	–	–	**144,161**	–	11-Jan-19
	Matching	10-Dec-12	84,496	82,806	1,690	**–**	233.6	08-Jan-16
	shares	09-Dec-13	48,167	–	–	**48,167**	–	09-Dec-16
		16-Dec-14	52,077	–	–	**52,077**	–	16-Dec-17
		11-Jan-16	43,248	–	–	**43,248**	–	11-Jan-19
Helen Gordon	Buy-out	12-Jan-16	152,495	5,520	27,602	**119,373**	232.5	19-May-16
	awards							07-Mar-17
	(three tranches)							09-Mar-18
	LTIP shares	11-Jan-16	287,117	–	–	**287,117**	–	11-Jan-19
	Matching shares	11-Jan-16	57,423	–	–	**57,423**	–	11-Jan-19
Vanessa Simms	LTIP shares	11-Feb-16	130,995	–	–	**130,995**	–	11-Feb-19
	Matching shares	11-Feb-16	11,750	–	–	**11,750**	–	11-Feb-19

* a) Vesting of the awards made on 10 December 2012 was delayed from 10 December 2015 to January 2016 by approximately one month due to a closed period regarding the dealing of shares.

b) The performance conditions that apply to awards granted in the year under review are set out on page 78 and for the previous financial year were set out in full in the previous Annual Report and Accounts.

7 Directors' shareholdings and share interests continued

Share options

			Granted in year		Lapsed in year	Exercised during year							
		Share options at 1 Oct 2015	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 2016**	Exercise price (p)	Earliest exercise date	Latest* exercise date
Andrew Cunningham	SAYE	20,026	–	–	16,061	3,965	151.30	220	2,724	**–**	–	–	–
Mark Greenwood	SAYE	5,199	–	–	5,199	–	–	–	–	**–**	–	–	–
Nick Jopling	SAYE	21,770	–	–	–	–	–	–	–	**21,770**	68.9	01-Sep-17	01-Mar-18
	SAYE	10,013	–	–	–	–	–	–	–	**10,013**	151.3	01-Mar-20	01-Sep-20
Helen Gordon	SAYE	–	10,791	166.80	–	–	–	–	–	**10,791**	166.80	01-Sept-19	01-Mar-20

The closing trade share price on 30 September 2016 was 230.0p. The highest trade share price during the year was 252.5p and the lowest was 193.1p.

Directors' shareholdings

	Ordinary shares of 5p each (thousands)		
	Beneficial		
	1 Oct 2015	**30 Sep 2016**	**31 Oct 2016**
Nick Jopling	599	**795**	**795**
Helen Gordon	–	**81**	**81**
Vanessa Simms	–	**12**	**12**
Baroness Margaret Ford	40	**61**	**61**
Belinda Richards	–	**12**	**12**
Tony Wray	10	**10**	**10**
Andrew Carr-Locke	–	**10**	**10**
Rob Wilkinson	–	**10**	**10**
	649	**991**	**991**

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 200% of salary from the 2017 AGM, which is an increase from the previous guideline of 100% of 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 2016 when the share price was 221p. These values do not include the value of any shares that are scheduled to vest on 9 December 2016.

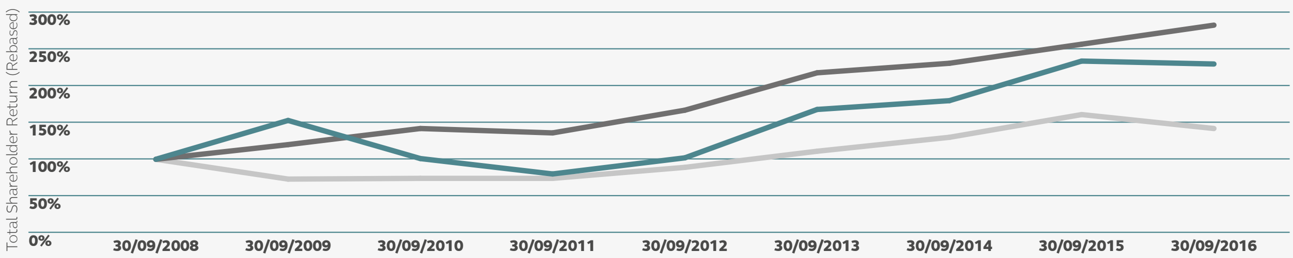
	Current holdings (thousands)	Value at 31 October 2016 £'000	% of current salary
Helen Gordon	81	179	39
Vanessa Simms	12	27	8
Nick Jopling	795	1,757	492
Former Directors[1]			
Andrew Cunningham	1,771	3,914	N/A
Mark Greenwood	467	1,032	N/A

1 The shareholdings of Andrew Cunningham and Mark Greenwood were correct at the time of cessation of employment.

8 Performance graph and table

Total shareholder return

This graph shows the value by 30 September 2016 of £100 invested in Grainger plc on 30 September 2008 compared with the value of £100 invested separately in both the FTSE 250 Index and the FTSE 350 Real Estate Supersector Index.



This graph shows the value, by 30 September 2016, of £100 invested in Grainger plc on 30 September 2008 compared with the value of £100 invested separately in both the FTSE 250 Index and the FTSE 350 Real Estate Supersector Index.

Grainger plc FTSE 250 Total Return Index FTSE 350 Real Estate Supersector Total Return Index Source: Datastream (Thomson Reuters)

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 %
2016*	Helen Gordon (from 4 January 2016)	882	42	N/A
2016	Andrew Cunningham (to 4 January 2016)	478	–	–
2015	Andrew Cunningham	2,185	–	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	–

* Helen Gordon's single figure total remuneration includes a period when she was Chief Executive designate, during which Andrew Cunningham was Chief Executive. Accordingly there is an element of double counting in her single figure total remuneration for 2016.

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

Governance

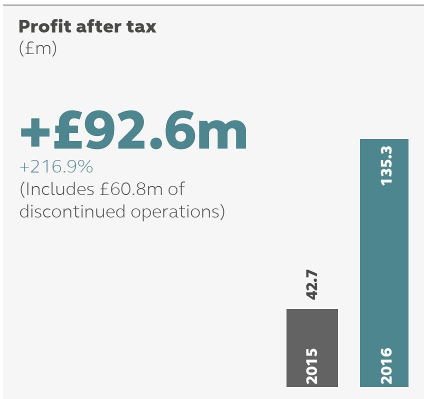
10 Percentage change in remuneration of Chief Executive and employees

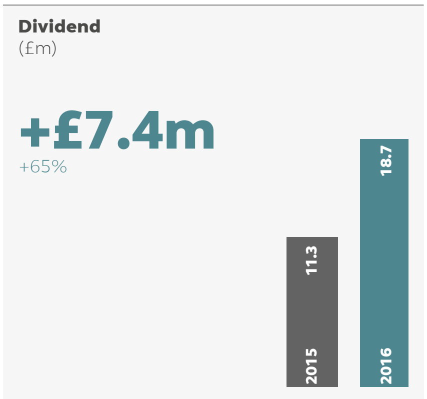
The percentage change in remuneration between 2015 and 2016, excluding LTIP and pension contributions, for the Chief Executive and for all other employees in the Group was as follows:

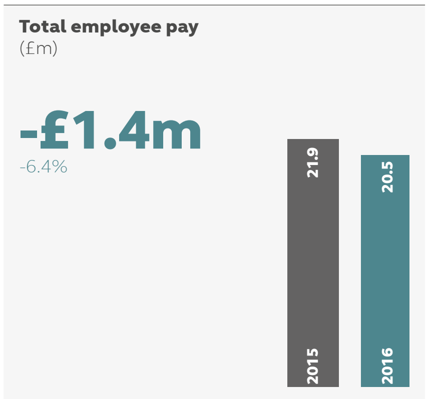
	Percentage change 2015–2016		
	Base salary	Benefits	Annual bonus
Chief Executive	**-5%**	**-13%**	**100%**
Employee population	**2%**	**8%**	**-28%**

11 Relative importance of spend on pay

The difference in actual expenditure between 2015 and 2016 on remuneration for all employees in comparison to profit after tax and distributions to Shareholders by way of dividend are set out in the graphs below:







12 Statement of implementation of Remuneration Policy for 2017

Base salary

Pursuant to the strategic focus on management of overheads and the wider prevailing executive remuneration environment, the Remuneration Committee (following consultation with management) determined that in respect of three Executive Directors there should be no increase to the base salary during the 2016/17 pay review process.

Annual bonus

As detailed in the Annual Statement and Remuneration Policy, the structure and metrics to operate for the 2017 annual bonus are being revised.

The revised bonus opportunities that will operate for 2017 will be as follows:

- Chief Executive: 140% of salary
- Chief Financial Officer: 120% of salary
- Property Director: 120% of salary

Deferral of part of the annual bonus into Grainger shares is being introduced for the first time in 2017 with 25% of any bonus earned to be deferred into Grainger shares for three years. This change will provide a clear link between the short-term actions that will determine bonus out-turn and the longer-term implications on Company performance.

The performance metrics to apply will be as follows:

Metric	Targets	Rationale for metric
Adjusted earnings (40% of bonus opportunity)	**Performance level / Budget / Payout** Threshold: 90% / 0% Target: 100% / 60% Maximum: 120% / 100% Straight line between performance points	Incentivises operational success in achieving rental growth, income from sales and reduction in operational and finance cost relative to a challenging budget.
ROSE (40% of bonus opportunity)	**Performance level / ROSE / Payout** Threshold: 5% / 0% Maximum: 15% / 100% Straight line between performance points	Incentivises the delivery of targeted levels of return from our property portfolio which is aligned with a strong balance sheet in respect of the NNNAV performance and dividend level.
Strategic targets (20% of bonus opportunity)	The metrics for each Executive Director will be as follows: **Chief Executive:** (i) deliver on strategy and business plan; (ii) improve operational performance; and (iii) secure increased rental growth to enhance dividend. **Chief Financial Officer:** (i) improve debt maturity and cost of debt; (ii) secure technology transformation; and (iii) secure overhead reduction. **Property Director:** (i) deliver agreed PRS pipeline; (ii) secure sales in line with target; and (iii) improve gross to net leakage and property operational performance.	Each of the headline metrics are underpinned by defined measurable milestones or a range of targets set with reference to budgeted objectives. These are consistent with the strategy and targeted objectives for the year agreed by the Board.

With regards to the above targets, full retrospective disclosure of the targets will be provided in next year's Annual Report on Remuneration (subject to considering any perceived areas of price sensitivity).

LTIP

As detailed in the Annual Statement and Remuneration Policy report, the LTIP is being simplified in its operation for awards to be granted from 2017 with no further awards of matching shares to take place. As a result, only awards of performance shares will take place in future years. The LTIP is also to expire in 2017 and so a replacement LTIP is being proposed at the AGM.

The replacement LTIP mirrors the general terms of the previous LTIP other than for the removal of the matching share element and introduction of a two-year holding period on vested shares. The award levels to operate in 2017 are the same as, or lower than, the maximum award levels previously operated under the LTIP when account was taken of both awards of performance and matching share awards.

Subject to shareholder approval at the AGM, it is anticipated that the following awards will be granted to the Executive Directors under the scheme in 2017:

- Chief Executive: 175% salary
- Chief Financial Officer: 130% of salary
- Property Director: 130% of salary

12 Statement of implementation of Remuneration Policy for 2017 continued

The performance metrics to apply will be as follows:

Metric	Targets			Rationale for metric
TSR (Versus FTSE 350 Real Estate Supersector constituents)	**Ranking**		**Budget**	Incentivises Executives to deliver above median sector TSR which is a targeted outcome of an effective execution of our strategy.
	Below median		0%	
	Median		25%	
	Upper quartile		100%	
	Straight line between performance points			
Total Property Return	**Performance level**	**TPR**	**Payout**	Rewards for delivering the key pillars of our long-term strategy – income growth and capital returns.
	Threshold	<5%	0%	
	Target	5%	25%	
	Maximum	9%	100%	
	Straight line between performance points three-year average.			

As detailed in the Remuneration Policy, robust recovery and withholding provisions will apply to both LTIP and annual bonus awards which will enable the Committee to reclaim or adjust future variable pay awards in the event of a misstatement of the Company's results, any errors in calculation of actual performance against a target set or in the event of misconduct.

Furthermore, the Committee will retain the right to reduce overall pay outcomes if it considers the variable pay out-turn is not reflective of broader Company performance over the relevant performance periods.

Non-Executive Directors' fees

There is no current intention to change the prevailing fee levels of the Non-Executive Directors in respect of the current financial year. The fees were most recently reviewed with effect from 1 October 2015. Current fee levels are as follows:

- Basic Non-Executive Director fee: £45,000
- Additional fee for chairing Board Committee: £9,000
- Additional fee for Senior Independent Director duties: £7,500
- Chairman's fee: £150,000

13 Directors' service agreements and letters of appointment

Executive Directors	Contract commencement date	Notice period
Helen Gordon	November 2015	12 months
Vanessa Simms	February 2016	6 months
Nick Jopling	September 2010	6 months
Former Executive Directors		
Mark Greenwood	September 2010	6 months
Andrew Cunningham	October 2009	12 months
Non-Executive Directors	**Date of initial appointment**	
Baroness Margaret Ford	July 2008	
Belinda Richards	April 2011	
Tony Wray	October 2011	
Andrew Carr-Locke	March 2015	
Rob Wilkinson	October 2015	
Former Non-Executive Directors		
Simon Davies	November 2012	

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	5	5
Baroness Margaret Ford	January 2010	4[1]	5
Simon Davies	February 2013 – November 2015	1	1
Andrew Carr-Locke	April 2015	5	5
Tony Wray	February 2016	4	4

1 Margaret Ford notified the Company in advance that she would be unable to attend the 9 September 2016 meeting due to a prior diary commitment.

The Company Secretary and the Human Resources 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 Committee appointed New Bridge Street ('NBS'), a trading name of Aon plc, as advisers to the Committee for part of the year under review. Korn Ferry Hay Group ('KFH') was subsequently appointed by the Committee. The role of the adviser is to keep the Committee informed of developments in the market and best practice and to support the Committee in the design and implementation of Remuneration Policy. Total fees paid or payable (as applicable) to NBS and KFH in respect of services to the Committee during the 2016 financial year were £93,280 (2015: £63,000) and £10,800 (2015: N/A). Both NBS and KFH are signatories 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 its advisers is independent and objective.

15 Statement of voting at general meeting

At the AGM held on 10 February 2016, the Directors' Remuneration report received the following votes from Shareholders:

	Directors' Remuneration report	
	Total number of votes	% of votes cast
For	288,823,290	93
Against	22,002,475	7
Total votes cast (for and against)	310,825,765	100
Votes withheld	2,517,601	–

Governance

In accordance with the 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 16 to the financial statements on page 125 in relation to the dividend waiver arrangements.

Information incorporated by reference

The Corporate Governance Statement on pages 43 to 89 forms part of this Directors' Report and is incorporated into this Directors' report by reference.

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, including FRS 101 *Reduced Disclosure Framework*.

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 comply 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 include 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.

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

The Company has 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 28 to the financial statements.

Sustainability

Further information is provided on our website: www.graingerplc.co.uk/responsibility. Our approach to sustainability is based on our assessment of the potential risk and opportunity to our business. In the year ended 30 September 2016, the Group achieved 50% and partially achieved 33% of the applicable sustainability targets that it committed to meeting by that date. Further information is provided on our website www.graingerplc.co.uk/responsibility.

Scope 1 & 2 Global GHG emissions data for period 1 October 2015 to 30 September 2016:

	Tonnes of CO_2e			
Emissions from	2015	**2016 location-based**	Trend	2016
Combustion of fuels and operation of facilities	600	**603**	0%	603
Electricity, heat, steam and cooling for own use	1,303	**989**	-24%	979
Total footprint	1,903	**1,592**	-16%	1,582
Company's chosen intensity measurement: Emissions reported above per £m value of assets under management[1]	0.58	**0.61**	5%	
Emissions reported above per owned unit[2]	0.15	**0.28**	86%	
Emissions reported above per employee[3]	6.52	**6.98**	7%	

Scope 3 Global GHG emissions data for the financial year:

Emissions from	2015	**2016**	Trend
Developments (contractor electricity and fuel use)	454	**211**	-54%
Repairs and maintenance (contractor fuel use)	188	**182**	-3%
Electricity transmission and distribution losses	89	**78**	-12%
Business travel (air and rail)	127	**72**	-44%
Estimated tenant energy use (tCO_2)[4]	29,026	**18,669**	-36%

1 Value of assets under management ('AUM') on the last day of the financial year, expressed in £millions.
2 Number of owned units on the last day of the financial year within the scope of data collection, therefore excluding the sold Germany portfolio.
3 Total number of employees of Grainger plc on the last day of the financial year.
4 This has been estimated based on a sample of Energy Performance Certificates (EPCs) and reported in CO_2 only for UK.

Summary

Grainger complies with the greenhouse gas ('GHG') emissions reporting requirements of the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013. Emissions are reported for our operations in the UK for the full reporting period and Germany until the sale of that business which was finalised in April 2016. Grainger reports all material GHG emissions, wherever possible using 'tonnes of CO_2 equivalent' (tCO_2e) as the unit of measurement. Our reporting period for GHG emissions is 1 October 2015 to 30 September 2016. Our portfolio in 2016 changed part-way through the year with the sale of our German business in April.

Our Scope 1 and Scope 2 greenhouse gas emissions reduced by 16% between 2015 and 2016. This was driven by the sale of our German business, and a reduction in energy consumption in our UK offices and the GRIP REIT portfolio on a like-for-like basis.

Our absolute Scope 1 and Scope 2 greenhouse gas emissions from our UK residential and GRIP REIT property portfolios have increased due to the acquisition and development of large properties including our first Build to Rent property, Abbeville Apartments.

Our greenhouse gas emissions per £m value of assets under management have increased slightly due to a reduction in the number of assets following the sale of our German assets and our Equity Release Division.

Methodology

Grainger follows the GHG Protocol Corporate Standard (revised edition) and ISO14064: Part 1 standard for its reporting. In alignment with the UK Government Environmental Reporting Guidelines, we have used the 2016 emissions conversion factor for the Oct 2015 – Sep 2016 reporting year. 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.

In 2015 the GHG Protocol guidance was updated advising organisations to provide separate figures to reflect the market and location based emissions resulting from purchased electricity. The location-based method uses average emissions intensity of the grid network for that area; the market-based method uses emissions based on purchasing decisions made by Grainger. For market-based emissions there is a reporting hierarchy and Grainger has used contractual instruments where there is data readily available. We purchase 100% renewable electricity tariffs for GRIP REIT plc which has resulted in reduced Scope 2 emissions using the market-based approach. Where no contractual data is available we use residual mix factors.

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 included as they have been assessed to be immaterial.

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. There is no purchased heat or steam.

Scope 3 data

This includes emissions from electricity used by Grainger's tenants in its UK buildings based on EPC analysis and extrapolation. Emissions from the transmission and distribution of Grainger's Scope 2 electricity are included. We also report emissions from business travel and from contractors on our development sites and for services delivered by our repairs and maintenance contractor. No other Scope 3 emissions are included.

Restatements

We have recalculated emissions for 2015 as we are able to report more accurate data for Scope 1 and Scope 2 emissions from energy consumption in owned properties and fuel consumption in leased vehicles. In addition we have also restated our Scope 3 emissions from electricity transmission and distribution losses for our offices and owned properties. We are also able to report more accurate data for our business travel Scope 3 emissions.

Intensity metrics

We have used three intensity metrics: emissions by market value of assets under management (tCO_2e/£m value of AUM), emissions per the number of owned units (tCO_2e/owned unit) and emissions per number of employees in line with our financial reporting (tCO_2e/employee).

International operations

The remainder of our German portfolio is managed on our behalf by local asset and property managers.

Health and safety

Grainger has a well-developed Health and Safety Management System for the internal and external control of health and safety risks, which is managed by the Health and Safety Director. 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 Company intranet, 'The Source', through regular newsletters, team meetings, presentations by senior management and quarterly all-staff conference calls hosted by the Executives.

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 2016 (2015: £nil).

Takeover directive

On a change of control, the core bank facility (included in Note 27 of the financial statements) will become repayable should alternative terms for continuing the facilities not be agreed with the lenders within 45 days. In addition the corporate bond (also referred to in Note 27) may become repayable following a change of control. 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
1 December 2016

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Grainger plc for the year ended 30 September 2016 set out on pages 94 to 167. 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 2016 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, including FRS 101 Reduced Disclosure Framework; 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, in decreasing order of audit significance, were as follows (unchanged from 2015):

Valuation of investment properties (investment properties £261.3m) (2015: £357.8m)
Risk vs 2015: Unchanged

Refer to Annual Report page 55 (Audit Committee report), Annual Accounts pages 103 to 106 (critical accounting estimates and assumptions) and Annual Accounts pages 126 and 127 (accounting policy and financial disclosures).

The risk:
Investment property is carried at fair value which relies on assumptions which are inherently judgemental, in some cases unobservable and reflective of changing market factors. A small adjustment in one or more of these assumptions could result in a material change in the carrying value of investment properties.

The valuation approach adopted by the Directors varies between portfolios in order to reflect the nature of each type of asset:

- For the Tricomm portfolio, valuation is based on a discounted cash flow model produced by an external valuer. There is a risk that the significant assumptions of house price inflation ('HPI') and discount rates are inappropriate.
- For properties let into the private rental market, valuation is derived by applying a gross initial yield to the estimated rental value of the property. The yield applied is based on market evidence for comparable properties and rental growth prospects. Rental value is based on existing tenancy agreements, condition and comparable market evidence. Assessing these factors and determining the appropriate comparable evidence involves a high degree of judgement.
- Property held in UK residential portfolios is valued by determining vacant possession value ('VP') and deriving fair value by applying a discount to reflect the fact that the property is tenanted. The Directors are assisted in arriving at VP by the in-house surveying team and engage an external valuer to re-perform a sample of valuations. The external valuer also provides recommendations for the level of discount to apply from VP to fair value. VP and the discount are based on data derived from comparable market transactions. The determination of the appropriate data requires significant judgement.

For all valuations there is a risk that inaccurate or incomplete information is used by the in-house surveying team or the external valuers in their valuation.

Our response:
We engaged a property valuation expert to assist us in assessing the methodologies and key assumptions used in the valuations adopted by the Directors for use in the financial statements.

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

The Tricomm portfolio
- comparing the key assumptions, included in the discounted cash flow model relating to HPI and to market indices;
- assessing discount rates against market information including gilt rates and benchmarked risk premiums;

Private rented sector blocks
- considering the degree of comparability and the quality of the market evidence used by the valuer in determining estimated rental value; and
- assessing the yield rates applied through our understanding of the nature of the assets and benchmarking against market data.

Property held in UK residential portfolios

- 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 properties where there is a variance above a set percentage between the VP from the external valuer and the Director's valuation. By attending these meetings, together with our valuation expert, 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; and
- performing sensitivity analyses over the identified key assumptions.

For each separate valuation our procedures included testing whether the property information provided by the Group to the independent external valuers and/or used by the in- house surveying team was complete and accurate. This was carried out by assessing the key inputs in the Group's property database, such as address, rental income, occupancy and current tenancy details, through a mixture of controls testing, including IT controls, and agreeing inputs to Group property contracts on a sample basis.

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

Carrying value of inventories (trading properties) (£904.3m) (2015: £1,152.2m)

Risk vs 2015: Unchanged

Refer to Annual Report page 55 (Audit Committee report), Annual Accounts pages 103 to 106 (critical accounting estimates and assumptions) and Annual Accounts page 133 (accounting policy and financial disclosures).

The risk:

Trading properties are held in inventories at the lower of cost and net realisable value ('NRV'). Generally, the Group's strategy is to sell trading stock on vacancy, and therefore the NRV of existing residential properties is the net proceeds expected on sale with vacant possession. An assessment of the NRV is carried out by reference to VP which, as outlined in relation to investment property, requires significant judgement to determine.

For land and property developments where the intention is to sell on completion, NRV is the forecast selling price less the remaining costs to construct and sell. The key risk is that 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 overestimated.

Our response:

Residential trading property

The procedures outlined above in relation to assessing the process for the valuation of residential portfolio investment properties also formed part of the response to this risk. Other procedures included:

- comparing the value carried in the balance sheet with the sales price achieved for a selection of property sales after the balance sheet date, and for sales throughout the year as a review of the past accuracy of the Group's estimates; and
- confirming the mathematical accuracy of, and completeness and accuracy of inputs to, the Directors' assessment and sensitising the assessment.

Development trading property

We performed a detailed risk assessment at an individual development level to identify the sites where an impairment may be required to reduce the carrying amount below cost. This included comparison of the carrying value with market value, estimated by the independent external valuer of the site in its current condition, based on comparable sales.

For sites where the intention is to sell without further development, comparing the carrying value of inventory to the market value of the site in its current condition, was one of our key procedures in challenging NRV assessment.

For sites where the intention is to sell on completion, for a sample informed by our risk assessment, we inspected the Group's plans and forecasts used to support the NRV assessment, challenged assumptions against third- party data, and against experience of actual costs and revenues and performed sensitivity analyses to assess the headroom before an adjustment to the carrying value is required.

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

We applied materiality at the financial statement level and a lower materiality for specific significant accounts. The materiality for the Group financial statements as a whole was set at £15.0m (2015: £4.0m), determined with reference to a benchmark of Group total assets, of which it represents approximately 1% (2015: £4.0m representing approximately 5% of Group profit before tax normalised to exclude non-recurring items, as disclosed in Note 4 and averaged over three years to reduce volatility, of £74.1m). We concluded that determining materiality based on total assets was more consistent with industry peers and appropriately reflects the nature of the business.

In addition, we applied lower materiality of £3.1 million to the specific income statement items which depict the trading performance of the Group, which exclude valuation movements, taxation and results of discontinued operations. We believe misstatement of these specific income statement items of a lesser amount than materiality for the financial statements as a whole could reasonably be expected to influence the Company's members' assessment of the financial performance of the Group.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.45m (2015: £0.20m), or exceeding £0.15m where they relate to specific significant trading balances listed above, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Following the business disposals in Germany (as disclosed in Note 3), the Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality levels set out above and covered 100% of total Group revenue, Group profit before tax and total Group assets (in 2015, we identified two components, 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).

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 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 34, 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 September 2020; or
- the disclosures in Note 2 to 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 position and 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 56 and 34, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 43 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 86, the Directors are responsible for the preparation of the 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

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

1 December 2016

Financial Statements – Consolidated income statement

For the year ended 30 September

	Notes	2016 £m	2015 Restated* £m
Group revenue	6	**219.9**	193.1
Net rental income	7	**37.4**	32.4
Profit on disposal of trading property	8	**69.9**	70.2
Profit on disposal of investment property	9	**1.6**	0.4
Income from financial interest in property assets	21	**5.8**	9.2
Fees and other income	10	**7.3**	5.6
Administrative expenses		**(31.8)**	(32.4)
Other expenses		**(6.0)**	(3.2)
Impairment of inventories to net realisable value	23	**(2.7)**	(1.2)
Reversal of impairment/(impairment) of joint venture	20	**14.1**	(4.1)
Operating profit before net valuation gains on investment property		**95.6**	76.9
Net valuation gains on investment property	17	**20.3**	14.6
Operating profit after net valuation gains on investment property		**115.9**	91.5
Change in fair value of derivatives	28	**(9.9)**	(6.3)
Finance costs	13	**(39.2)**	(54.1)
Finance income	13	**2.5**	1.7
Share of profit of associates after tax	19	**9.8**	9.6
Share of profit of joint ventures after tax	20	**5.1**	9.0
Profit before tax – continuing operations	12	**84.2**	51.4
Tax charge for the year – continuing operations	14	**(9.7)**	(7.4)
Profit after tax – continuing operations		**74.5**	44.0
Discontinued operations			
Profit/(loss) after tax for the year for discontinued operations	3	**60.8**	(1.3)
Profit for the year attributable to the owners of the Company	33	**135.3**	42.7
Basic earnings per share	16	**32.6p**	10.4p
Diluted earnings per share	16	**32.5p**	10.3p
Basic earnings per share – continuing operations only	16	**18.0p**	10.7p
Diluted earnings per share – continuing operations only	16	**17.9p**	10.6p

* The 2015 comparatives have been restated throughout these financial statements to show the results from continuing and discontinued operations separately. See Note 3 for analysis of discontinued operations which includes the sale of subsidiaries and interest in associate.

Consolidated statement of comprehensive income

For the year ended 30 September

	Notes	2016 £m	2015 Restated* £m
Profit for the year – continuing operations	4	**74.5**	44.0
Items that will not be transferred to consolidated income statement:			
Actuarial loss on BPT Limited defined benefit pension scheme	29	**(4.1)**	(0.6)
Items that may be reclassified subsequently to consolidated income statement:			
Fair value movement on financial interest in property assets	21	**2.9**	–
Exchange differences on translating foreign operations		**1.1**	(0.7)
Exchange adjustments recycled on disposal of foreign operations		**(4.3)**	–
Changes in fair value of cash flow hedges		**(9.5)**	(0.8)
Other comprehensive income and expense for the year before tax		**(13.9)**	(2.1)
Tax relating to components of other comprehensive income:			
Tax relating to items that will not be transferred to consolidated income statement	14	**0.5**	0.1
Tax relating to items that may be reclassified subsequently to consolidated income statement	14	**1.7**	(0.7)
Total tax relating to components of other comprehensive income		**2.2**	(0.6)
Other comprehensive income and expense for the year after tax – continuing operations		**(11.7)**	(2.7)
Total comprehensive income and expense for the year after tax – continuing operations		**62.8**	41.3
Profit/(loss) after tax – discontinued operations		**60.8**	(1.3)
Total comprehensive income and expense for the year attributable to the owners of the Company		**123.6**	40.0

* The 2015 comparatives have been restated to show the results from continuing and discontinued operations separately. See Note 3 to the financial statements for further details of the discontinued operations.

Included within other comprehensive income is a charge of £0.6m net of tax (2015: charge of £0.6m) relating to associates and joint ventures accounted for under the equity method.

Financial Statements – Consolidated statement of financial position

As at 30 September

	Notes	2016 £m	2015 £m
ASSETS			
Non-current assets			
Investment property	17	**261.3**	357.8
Property, plant and equipment	18	**1.1**	1.6
Investment in associates	19	**105.1**	108.4
Investment in joint ventures	20	**78.9**	70.8
Financial interest in property assets	21	**93.1**	93.7
Deferred tax assets	14	**8.6**	12.0
Intangible assets	22	**2.1**	2.7
		550.2	647.0
Current assets			
Inventories – trading property	23	**904.3**	1,152.2
Trade and other receivables	24	**64.0**	31.6
Derivative financial instruments	28	**0.3**	2.0
Cash and cash equivalents	28	**90.7**	88.8
Assets classified as held-for-sale	3	**3.4**	–
		1,062.7	1,274.6
Total assets		**1,612.9**	1,921.6
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	27	**744.7**	1,093.1
Retirement benefits	29	**5.2**	1.7
Provisions for other liabilities and charges	25	**1.4**	0.2
Deferred tax liabilities	14	**30.2**	32.3
		781.5	1,127.3
Current liabilities			
Interest-bearing loans and borrowings	27	**99.0**	133.3
Trade and other payables	26	**38.4**	56.9
Provisions for other liabilities and charges	25	**0.9**	0.7
Current tax liabilities	14	**4.8**	3.0
Derivative financial instruments	28	**13.1**	35.5
		156.2	229.4
Total liabilities		**937.7**	1,356.7
NET ASSETS		**675.2**	564.9
EQUITY			
Capital and reserves attributable to the owners of the Company			
Issued share capital	30	**20.9**	20.9
Share premium		**110.8**	110.7
Merger reserve	32	**20.1**	20.1
Capital redemption reserve		**0.3**	0.3
Cash flow hedge reserve	32	**(12.0)**	(3.5)
Available-for-sale reserve	32	**7.3**	4.6
Retained earnings	33	**527.7**	411.7
Equity attributable to the owners of the Company		**675.1**	564.8
Non-controlling interests		**0.1**	0.1
TOTAL EQUITY		**675.2**	564.9

The financial statements on pages 94 to 158 were approved by the Board of Directors on 1 December 2016 and were signed on its behalf by:

H. Gordon.   VSimms

Helen Gordon
Director

Vanessa Simms
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 2015		**20.9**	**110.7**	**20.1**	**0.3**	**(3.5)**	**4.6**	**411.7**	**0.1**	**564.9**
Profit for the year	33	–	–	–	–	–	–	135.3	–	135.3
Actuarial loss on BPT Limited defined benefit pension scheme	29	–	–	–	–	–	–	(4.1)	–	(4.1)
Fair value movement on financial interest in property assets		–	–	–	–	–	2.9	–	–	2.9
Exchange adjustments on retranslation of foreign operations		–	–	–	–	–	–	1.1	–	1.1
Exchange differences recycled on disposal of foreign operations		–	–	–	–	–	–	(4.3)	–	(4.3)
Changes in fair value of cash flow hedges		–	–	–	–	(9.5)	–	–	–	(9.5)
Tax relating to components of other comprehensive income	14	–	–	–	–	1.0	(0.2)	1.4	–	2.2
Total comprehensive income and expense for the year		–	–	–	–	(8.5)	2.7	129.4	–	123.6
Award of SAYE shares	30	–	0.1	–	–	–	–	–	–	0.1
Purchase of own shares	30, 33	–	–	–	–	–	–	(0.6)	–	(0.6)
Share-based payments charge	31	–	–	–	–	–	–	1.9	–	1.9
Dividends paid	15	–	–	–	–	–	–	(14.7)	–	(14.7)
Balance as at 30 September 2016		**20.9**	**110.8**	**20.1**	**0.3**	**(12.0)**	**7.3**	**527.7**	**0.1**	**675.2**

	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	33	–	–	–	–	–	–	42.7	–	42.7
Actuarial loss on BPT Limited defined benefit pension scheme	29	–	–	–	–	–	–	(0.6)	–	(0.6)
Exchange adjustments on retranslation of foreign operations		–	–	–	–	–	–	(0.7)	–	(0.7)
Changes in fair value of cash flow hedges		–	–	–	–	(0.8)	–	–	–	(0.8)
Tax relating to components of other comprehensive income	14	–	–	–	–	(1.3)	–	0.7	–	(0.6)
Total comprehensive income and expense for the year		–	–	–	–	(2.1)	–	42.1	–	40.0
Award of SAYE shares	30	–	0.3	–	–	–	–	–	–	0.3
Purchase of own shares	30, 33	–	–	–	–	–	–	(4.7)	–	(4.7)
Share-based payments charge	31	–	–	–	–	–	–	2.0	–	2.0
Dividends paid	15	–	–	–	–	–	–	(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

Consolidated statement of cash flows

For the year ended 30 September

	Notes	2016 £m	2015 £m
Cash flow from operating activities			
Profit for the year		**135.3**	42.7
Depreciation and amortisation	12	**0.9**	1.1
Net valuation gains on investment property	17	**(19.4)**	(13.9)
Net finance costs		**45.4**	65.8
Profit on disposal of joint venture		**–**	(4.4)
Share of profit of associates and joint ventures	19, 20	**(15.1)**	(24.9)
Profit on disposal of investment property	9	**(1.6)**	(0.5)
Share-based payment charge	31, 33	**1.9**	2.0
Change in fair value of derivatives	28	**9.9**	5.8
(Reversal of)/impairment of joint venture	20	**(14.1)**	4.1
Impairment of deferred consideration receivable		**–**	15.8
Income from financial interest in property assets	21	**(5.8)**	(9.2)
Tax	14	**10.9**	7.3
Profit on disposal of discontinued operations	3	**(56.6)**	–
Costs of loan settlement – discontinued operations		**12.3**	–
Operating profit before changes in working capital		**104.0**	91.7
(Increase)/decrease in trade and other receivables		**(12.2)**	8.2
Decrease in trade and other payables		**(6.0)**	(0.5)
Decrease in provisions for liabilities and charges		**(0.1)**	(0.2)
Decrease/(increase) in inventories		**13.2**	(34.4)
Cash generated by operations		**98.9**	64.8
Interest paid		**(42.4)**	(60.8)
Tax paid	14	**(1.9)**	(4.9)
Payments to defined benefit pension scheme	29	**(0.6)**	(1.1)
Net cash inflow/(outflow) from operating activities		**54.0**	(2.0)
Cash flow from investing activities			
Proceeds from sale of investment property		**13.2**	14.5
Proceeds from financial interest in property assets	21	**9.3**	10.0
Proceeds from disposal of discontinued operations net of costs and cash disposed	3	**222.3**	–
Proceeds from disposal of joint venture		**–**	18.4
Interest received		**–**	0.6
Dividends received	19, 20	**7.5**	2.7
Cash repaid from/(investment in) associates and joint ventures	19, 20	**0.7**	(0.2)
Acquisition of subsidiary net of cash acquired		**–**	0.6
Acquisition of investment property	17	**(79.5)**	(29.6)
Acquisition of property, plant and equipment and intangible assets		**(0.6)**	(1.2)
Net cash inflow from investing activities		**172.9**	15.8
Cash flows from financing activities			
Awards of SAYE options		**0.1**	0.3
Purchase of own shares	30, 33	**(0.6)**	(4.7)
Proceeds from new borrowings		**188.2**	523.0
Payment of loan costs		**(1.7)**	(5.9)
Purchase of interest rate caps		**(1.0)**	(2.0)
Payment of loan settlement costs		**(11.7)**	–
Settlement of derivative contracts		**(37.9)**	(17.9)
Repayment of borrowings		**(347.5)**	(481.2)
Dividends paid	15	**(14.7)**	(10.4)
Net cash (outflow)/inflow from financing activities		**(226.8)**	1.2
Net increase in cash and cash equivalents		**0.1**	15.0
Cash and cash equivalents at the beginning of the year	28	**88.8**	74.4
Net exchange movements on cash and cash equivalents		**1.8**	(0.6)
Cash and cash equivalents at the end of the year	28	**90.7**	88.8

The Consolidated statement of cash flows above includes cash flows from both continuing and discontinued operations. Cash flows from discontinued operations are set out in Note 3 to the financial statements.

1 Accounting policies

Accounting policies applicable across the financial statements are shown below. Accounting policies that are specific to a component of the financial statements have been incorporated in the relevant note.

(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. 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 the Group.

These financial statements for the year ended 30 September 2016 have been prepared in accordance with EU endorsed International Financial Reporting Standards ('IFRSs'), IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Company has prepared its company financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) for the first time this year. Details of the change in basis of preparation and its impact are shown in Note 1 to the parent company financial statements. These are presented on pages 159 to 167.

The accounting policies set out below and in the notes to the financial statements, have, unless otherwise stated, been applied consistently to all periods presented in the Group financial statements. Other than the new accounting policy for construction contracts, set out in Note 8, 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 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) **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. 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 19).

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 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.

iii) **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.

iv) **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.

1 Accounting policies continued

(c) Foreign currencies

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 Group's functional and presentation currency.

ii) **Foreign currency transactions** – Foreign currency transactions are translated at the foreign exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated into Sterling at the foreign exchange rate ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

iii) **Foreign operations** – The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Sterling at foreign exchange rates ruling at the statement of financial position date. Revenues and expenses of foreign operations are translated at average foreign exchange rates for the relevant period. Foreign exchange gains and losses, 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.

(d)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);
- IFRS 16 Leases, effective 2020 financial year (not yet endorsed by the EU). This standard replaces the exisiting standard, IAS17 Leases, where lessee's are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet); and
- IAS 40 Investment Property, proposed amendment. In November 2015 the IASB issued an Exposure Draft on a proposed amendment to clarify situations in which properties can be transferred from investment property to trading property and vice versa. The IASB further announced in July 2016 that it has now recommended finalising this amendment. The Group anticipate that a number of trading properties will be reclassified as investment property as a consequence of the amendment.

Of the other IFRSs that are available for early adoption, none are expected to have a material impact on the financial statements.

2 Critical accounting estimates and assumptions

The Group's significant accounting policies are stated in the relevant notes to the financial statements. 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 and we have set out below on page 106 the impact of changes to key assumptions adopted.

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, EPRA NAV and EPRA 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:

	Residential £m	Development £m	Others £m	Financial Asset £m	**Total £m**	**% of properties for which external valuer provides valuation %**
Trading property	818.8	85.5	–	–	**904.3**	
Investment property	261.3	–	–	–	**261.3**	
Financial asset (CHARM)	–	–	–	93.1	**93.1**	
Total statutory book value	**1,080.1**	**85.5**	**–**	**93.1**	**1,258.7**	
Allsop LLP						
Residential	1,225.1	–	–	–	**1,225.1**	**53%**
Grainger Invest	366.7	–	–	–	**366.7**	**100%**
Tricomm Housing	116.1	–	–	–	**116.1**	**100%**
Financial asset (CHARM)	–	–	–	93.1	**93.1**	*****
CBRE Limited						
Developments	–	78.2	–	–	**78.2**	**94%**
Abbeville Apartments	28.9	–	–	–	**28.9**	**100%**
Total assets at market value	**1,736.8**	**78.2**	**–**	**93.1**	**1,908.1**	
Trading property	1,475.5	78.2	–	–	**1,553.7**	
Investment property	261.3	–	–	–	**261.3**	
Financial asset	–	–	–	93.1	**93.1**	
Total assets at market value	**1,736.8**	**78.2**	**–**	**93.1**	**1,908.1**	
Statutory book value	1,080.1	85.5	–	93.1	**1,258.7**	
Market value uplift*	656.7	(7.3)	–	–	**649.4**	
Total assets at market value	**1,736.8**	**78.2**	**–**	**93.1**	**1,908.1**	
Net revaluation gain recognised in the income statement for wholly-owned properties – continuing	**20.3**	**–**	**–**	**–**	**20.3**	
Net revaluation gain relating to joint ventures and associates**	–	–	12.3	–	**12.3**	
Net revaluation gain recognised in the year – continuing**	20.3	–	12.3	–	**32.6**	

* The market value uplift is the difference between the statutory book value and the market value of the Group's inventories. Refer to Note 5 for market value net asset measures.

** Includes Group share of joint ventures and associates revaluation gain after tax.

*** Allsop provides vacant possession values used by the Directors to value the financial asset in accordance with the accounting policy set out in Note 21.

2 Critical accounting estimates and assumptions continued

i) Residential

The Group's own in-house qualified surveying team provided a vacant possession value for the majority of the Group's UK residential properties as at 30 September 2016. 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 0.03% lower than the Allsop LLP values.

Allsop LLP has provided the Directors with the following opinion on the Directors' valuation: 'Property held in the UK Residential portfolio was valued as at 30 September 2016 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 53% 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. Compared to the discounts adopted in 2015, the discounts adopted in 2016 have increased the market value of trading stock in the Group's non-GAAP net asset measures by £8.0m and increased the valuation gain in the income statement by £1.8m.

ii) Grainger Invest ('GInvest')

All of the property owned by the Group in the GInvest portfolio was valued as at 30 September 2016 by Allsop LLP.

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 Housing

Allsop LLP has also valued as at 30 September 2016 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, 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 2.5% in 2017, 3.5% in 2018 and 2019, 3.0% in 2020 and 2021 and 2.75% thereafter. The discount rates applied to the cash flows range between 3.5% and 9.25%.

iv) CBRE – 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 94% of the total value of development trading stock, is on the basis of fair value as defined in the RICS Professional Valuation Standards where fair value is the same as market value. The remaining 6% of the portfolio is a Directors' valuation.

v) CBRE – Abbeville Apartments

CBRE have also assessed the current market value of the Abbeville Apartments. The principal approach was to value the apartments on an income capitalisation basis, having regard to prevailing market conditions and evidence, and with close regard to the relativity between the Market Value and the aggregate vacant possession value. The valuation has been prepared in accordance with RICS Professional Valuation Standards where fair value is the same as market value.

v) Joint ventures and Associates

Property assets in the joint venture Walworth Investment Properties Limited ('WIP') are valued on the same basis as the GInvest portfolio. Property assets in the associate, GRIP REIT Plc were valued at 30 June 2016 by external valuers, CBRE Limited. In aggregate, the valuation of the individual dwellings as at 30 June 2016 was £599.9m for all assets still held at September. After full consideration of house price movements in those areas where GRIP property assets are situated the Group's Directors made no adjustment to the 30 June 2016 valuations based on the movement in house price indices to 30 September 2016, in assessing the Group's share of GRIP net assets for the purposes of the Group's accounts to 30 September 2016.

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.

Valuation of financial interest in property assets (CHARM)

The valuation methodology adopted for the CHARM asset is set out in Note 21 to the accounts.

The key assumptions affecting the carrying value are house price inflation and the discount rate. The assumptions used to value the asset adopt an increase in house prices of between 2.5% and 4.0% per annum.

A discount rate of 3.5% has been applied to the interest income and a rate of 6.5% has been applied to the projected proceeds from sales of the underlying properties, reflecting the risk profile of each individual stream. In previous years, a single discount rate had been adopted.

The fair value of the interest changes as cash flows are realised and an increase of £2.9m (2015: increase of £nil) in the fair value has been recognised in the statement of other comprehensive income and the available-for-sale reserve.

Credit risk arises from the credit exposure relating to cash receipts from the financial instrument. All of the cash receipts are payable by the Church Commissioners, a counterparty considered to be low risk as they have no history of past due or impaired amounts and there are no past due amounts outstanding at the year end.

2 Critical accounting estimates and assumptions continued

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.

The Group has a net realisable value provision of £3.2m as at 30 September 2016 (2015: £2.3m) to write down the value of its trading properties to the lower of cost and net realisable value. This provision relates primarily to properties expected to be sold ultimately at vacant possession value. The provision includes specific properties which are vacant and properties we expect to become vacant on the assumption of an annual vacancy rate of 7.3%.

After releasing part of the opening provision against sales made in the year, in aggregate, a charge of £2.7m has been made in the 2016 income statement (2015: charge of £1.2m).

For land and property held within the Development segment of the business, net realisable value is the expected net sales proceeds of the developed property and a provision is made when, and to the extent that, total projected project costs exceed total projected project revenues. Where land and property is sold without development, net realisable value is the current market value net of associated selling costs. Decisions regarding whether to develop a site or to sell a site undeveloped are made by the Directors based on market conditions prevailing at the time.

A charge of £0.1m has been made in the 2016 income statement (2015: charge of £0.2m) in adjusting the book value of development stock to net realisable value.

The impact of changes to key assumptions is set out in the table below:

		2016		2015	
		Income statement impact £m	**Statement of financial position impact £m**	Income statement impact £m	Statement of financial position impact £m
Increase of 1% in house prices	GRIP	**1.5**	**1.5**	1.3	1.3
Decrease of 1% in house prices	GRIP	**(1.5)**	**(1.5)**	(1.3)	(1.3)
Increase of 1% in house prices	NRV provision	**0.1**	**0.1**	–	–
Decrease of 1% in house prices	NRV provision	**(0.1)**	**(0.1)**	(0.1)	(0.1)
Increase of 1% in house prices	CHARM	**0.7**	**4.8**	0.7	5.5
Decrease of 1% in house prices	CHARM	**(0.7)**	**(4.4)**	(0.7)	(5.1)
Increase of 1% in discount rate	CHARM	**–**	**(6.6)**	–	(6.4)
Decrease of 1% in discount rate	CHARM	**–**	**7.5**	–	7.4

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.

Accounting for unusual contracts

In 2012, the Group entered into a contractual arrangement to build PRS properties on behalf of the Royal Borough of Kensington and Chelsea ('RBKC'). The Group will manage and fund the construction of a number of sites, and will receive a developers priority return from the sale of units to third parties as they are completed. The construction contract is being accounted for as a cost plus contract in line with International Accounting Standard 11 – Construction Contracts. Revenue of £24.1m has been recognised in the year but, as the project is in the early stage of development, no trading profit has yet been recorded.

Once completed, under a separate arrangement, Grainger will manage the retained units on behalf of RBKC.

Adjusted earnings

Adjusted earnings is one of Grainger's key performance indicators. The metric is utilised as a key measure to aid understanding of the performance of the continuing business and excludes valuation movements and non-recurring items that are one-off in nature, which do not form part of the normal ongoing revenue or costs of the business and, either individually or in aggregate, are material to the reported Group results. The classification of amounts as non-recurring is a significant judgement made by management and is a matter referred to the Audit Committee for approval.

Non-recurring in 2016 primarily comprises a £10.7m profit from our investment in Prague, restructuring costs of £2.6m, an additional provision of £1.3m relating to the provision of a pension and BUPA medical cover to former employees of the company and BPT Limited, and income of £0.8m related to the outcome of a claim against a contractor.

As the business simplifies, management's view is that the need for items to be classified as non-recurring will reduce.

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 2016, the LTV was 35.9% compared to a default level of 75% and the interest cover ratio was 3.86 times compared to a minimum requirement of 1.35 times. The Group has other bank debt and a £275m corporate bond on which there are also covenant requirements. As at 30 September 2016, 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.

2 Critical accounting estimates and assumptions continued

ii) Banking facilities

The Group's existing core facilities were £580.0m on 30 September 2016, of which £302.1m were drawn. The Group had free cash balances plus available overdraft of £43.1m and undrawn committed facilities of £277.9m, in total, 'headroom', of £321.0m at 30 September 2016. 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 34, the Directors have considered the Group's viability in detail over a four-year period to September 2020.

3 Discontinued operations

Accounting Policy

Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale. For the discontinued operation, the comparable statement of profit or loss and OCI has been re-presented as if the operation had been discontinued from the start of the comparative year.

Assets 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.

The Group identified certain of its investment properties as held-for-sale in 2016 in accordance with the criteria set out in IFRS 5.

During the financial year, the Group has disposed of the Retirement Solutions division, other than the CHARM portfolio which has been retained, and the majority of the German operations. These operations have been classified as discontinued and the prior period consolidated income statement, and where appropriate, related supporting notes to the financial statements, have been restated to exclude these operations. The Retirement Solutions business has been classified as a discontinued operation despite the retention of the CHARM assets as these are clearly distinguishable cash flows.

Retirement Solutions

Completion of the sale of Grainger's Retirement Solutions business, to Patron Capital Partners and Electra Private Equity plc took place on 18 May 2016. The profit on sale was £48.3m after charging £12.3m in settlement of a fixed rate loan with Lloyds Bank plc securing assets sold as part of the transaction as the purchasers did not wish to acquire this debt. The profit on sale of £4.4m in 2015 relates to the sale of the Group's joint venture interest in New Sovereign Reversions Limited.

Germany

The Group has disposed of its interests in its German operations. The overall profit from the German disposals was £8.3m which includes the impact of recycling the translation reserve.

Discontinued operations For the year ended 30 September	Notes	2016 £m	2015 Restated £m
Group revenue		**33.4**	51.0
Net rental income		**3.5**	5.5
Profit on disposal of trading and investment property		**11.9**	15.2
Fees and other income		**1.4**	2.7
Administrative expenses		**(2.4)**	(3.7)
Impairment of deferred consideration receivable and associated other costs		**–**	(18.2)
Operating profit before net valuation deficits on investment property		**14.4**	1.5
Net valuation deficits on investment property		**(0.9)**	(0.7)
Operating profit after net valuation deficits on investment property		**13.5**	0.8
Change in fair value of derivatives		**–**	0.5
Net finance costs		**(8.3)**	(13.4)
Share of profit of joint ventures and associates after tax		**0.2**	6.3
Profit/(loss) before disposals		**5.4**	(5.8)
Profit on sale of Retirement Solutions		**48.3**	4.4
Profit on sale of Germany operations		**8.3**	–
Discontinued disposal profit before tax		**56.6**	4.4
Profit/(loss) before tax		**62.0**	(1.4)
Current tax:			
Current tax on discontinued operations	14	**(1.0)**	0.1
Current tax on sale of discontinued operations	14	**(0.2)**	–
Profit after tax		**60.8**	(1.3)
Basic earnings/(loss) per share – discontinued operations		**14.6p**	(0.3)p
Diluted earnings/(loss) per share – discontinued operations		**14.6p**	(0.3)p

Assets classified as held-for-sale

The assets and liabilities relating to the Retirement Solutions and German businesses sold in the year have moved into and then out of assets and liabilities held-for-sale. Investment property in Grainger Portfolio 3 GmbH of £3.1m has been transferred to investment property held-for-sale in the year. After an exchange adjustment of £0.3m, investment property held-for-sale as at 30 September 2016 had a value of £3.4m. Disposal is expected within the next 12 months. There were no other assets or liabilities held-for-sale as at 30 September 2016 (2015: £nil).

The remaining net assets relating to the German business as at 30 September 2016, amounting to £8.0m are shown within their respective headings in the consolidated statement of financial position. The remaining business in Germany is being wound down as quickly as possible to be followed by voluntary liquidation of the remaining companies.

3 Discontinued operations continued

The profit on disposal of both the Retirement Solutions and German businesses is analysed as follows:

	Retirement Solutions £m	Germany £m	Total £m
Disposal proceeds	134.8	98.8	233.6
Asset and Liabilities disposed			
Investment property	(43.7)	(144.6)	(188.3)
Intangible assets	–	(0.9)	(0.9)
Investment in associates	–	(16.1)	(16.1)
Inventories – trading property	(210.5)	–	(210.5)
Cash and cash equivalents	(0.3)	(4.7)	(5.0)
Other current assets	(1.9)	(2.5)	(4.4)
Interest-bearing loans and borrowings	168.1	71.9	240.0
Deferred and current tax liabilities	0.2	3.5	3.7
Other current liabilities	15.1	4.8	19.9
Net assets disposed	(73.0)	(88.6)	(161.6)
Costs of disposal	(1.2)	(5.1)	(6.3)
Costs of loan settlement	(12.3)	–	(12.3)
Recycling of hedge reserve net of tax	–	(0.3)	(0.3)
Recycling of translation reserve net of tax	–	3.5	3.5
Profit on disposal before tax	48.3	8.3	56.6

Disposal proceeds in Germany are based on closing balance sheets still subject to audit and final agreement between the principals. Included within the consolidated statement of financial position is a net amount of £1.4m Grainger expect to repay to the portfolio acquirers once the final positions are agreed. Costs of loan settlement relate to the fixed rate loan with Lloyds Bank plc as stated above.

Cash flow from discontinued operations

	2016 £m	2015 £m
Net cash inflow from operating activities	16.5	12.7
Net cash inflow from investing activities	226.3	21.3
Net cash outflow from financing activities	(24.0)	(18.7)
Total net cash inflow	218.8	15.3

4 Analysis of profit before tax – continuing operations

The results for the years ended 30 September 2016 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 to arrive at a measure of recurring earnings before valuation movements.

	2016				2015 restated			
(£m)	Statutory	Valuation	Non-recurring	Adjusted earnings	Statutory	Valuation	Non-recurring	Adjusted earnings
Group revenue	219.9	–	–	219.9	193.1	–	–	193.1
Net rental income	37.4	–	–	37.4	32.4	–	–	32.4
Profit on disposal of trading property	69.9	–	–	69.9	70.2	–	–	70.2
Profit on disposal of investment property	1.6	–	–	1.6	0.4	–	–	0.4
Income from financial interest in property assets	5.8	0.7	–	6.5	9.2	(2.7)	–	6.5
Fees and other income	7.3	–	(1.1)	6.2	5.6	–	–	5.6
Administrative expenses	(31.8)	–	–	(31.8)	(32.4)	–	–	(32.4)
Other expenses	(6.0)	–	4.9	(1.1)	(3.2)	–	–	(3.2)
Impairment of inventories to net realisable value	(2.7)	2.7	–	–	(1.2)	1.2	–	–
Reversal of impairment/(Impairment) of joint venture	14.1	(4.7)	(9.4)	–	(4.1)	4.1	–	–
Operating profit before net valuation gains on investment property	95.6	(1.3)	(5.6)	88.7	76.9	2.6	–	79.5
Net valuation gains on investment property	20.3	(20.3)	–	–	14.6	(14.6)	–	–
Operating profit after net valuation gains on investment property	115.9	(21.6)	(5.6)	88.7	91.5	(12.0)	–	79.5
Change in fair value of derivatives	(9.9)	9.9	–	–	(6.3)	6.3	–	–
Finance costs	(39.2)	–	–	(39.2)	(54.1)	–	3.5	(50.6)
Finance income	2.5	–	(0.4)	2.1	1.7	–	–	1.7
Share of profit of associates after tax	9.8	(8.8)	–	1.0	9.6	(8.5)	–	1.1
Share of profit/(loss) of joint ventures after tax	5.1	(3.2)	(1.4)	0.5	9.0	(9.2)	–	(0.2)
Profit/(loss) before tax – continuing operations	84.2	(23.7)	(7.4)	53.1	51.4	(23.4)	3.5	31.5
Tax charge for the year – continuing operations	(9.7)				(7.4)			
Profit after tax – continuing operations	74.5				44.0			
Discontinued operations – profit/(loss) before tax	62.0				(1.4)			
Tax (charge)/credit for the year – discontinued operations	(1.2)				0.1			
Profit for the year attributable to the owners of the company	135.3				42.7			
Diluted earnings per share – adjusted				10.2p				6.0p

CHARM income recorded through the income statement is shown on the line 'Income from financial interest in property assets'. The amount comprises income from the asset calculated at the effective interest rate, shown as adjusted earnings, and any movements in the future cash flow projections related to the asset, are shown within valuations. Further details are shown in Note 21.

Profit before tax in the adjusted earnings columns above of £53.1m (2015: restated £31.5m) is the adjusted earnings of the Group.

4 Analysis of profit before tax – continuing operations continued

Non-recurring in 2016 primarily comprises a £10.7m profit from our investment in Prague (see analysis in Note 20), restructuring costs of £2.6m, an additional provision of £1.3m relating to the provision of a pension and BUPA medical cover to former employees of the company and BPT Limited, and income of £0.8m from a claim against a contractor.

Non-recurring in 2015 of £3.5m related to the accelerated write off of loan costs after refinancing of bank syndicate debt.

5 Segmental information

Accounting Policy

IFRS 8 'Operating Segments' requires operating segments to be identified based upon the Group's internal reporting to the Chief Operating Decision Maker (CODM) so that the CODM can make decisions about resources to be allocated to segments and assess their performance. The Group's CODM is the Chief Executive Officer. Following the disposal of the Retirement Solutions and German Residential operations, the three significant segments for continuing operations are outlined below.

- Residential;
- Development; and
- Funds

The two segments Retirement Solutions and German Residential, which are now classified as discontinued, are combined and analysed in Note 3. The title "Other" has been included in the tables below to reconcile the segments to the figures reviewed by the CODM. The key operating performance measure of profit or loss used by the CODM is adjusted earnings before tax, valuation and non-recurring items. The CODM reviews by segment two key balance sheet measures of net asset value. These are EPRA Net Asset Value ('EPRA NAV') and EPRA Triple Net Asset Value ('EPRA NNNAV').

Information relating to the Group's operating segments is set out in the tables below. The tables distinguish between adjusted earnings, valuation and non-recurring items and should be read in conjunction with Note 4.

2016 Income statement – continuing operations

(£m)	Residential	Development	Funds	Other	Total
Group revenue					
Segment revenue – external	**165.3**	**49.7**	**4.8**	**0.1**	**219.9**
Net rental income	37.2	0.2	–	–	37.4
Profit on disposal of trading property	58.1	11.8	–	–	69.9
Profit on disposal of investment property	1.6	–	–	–	1.6
Income from financial interest in property assets	–	–	–	6.5	6.5
Fees and other income	1.0	0.3	4.8	0.1	6.2
Administrative expenses	(9.3)	(1.8)	(2.8)	(17.9)	(31.8)
Other expenses	(0.8)	(0.1)	(0.1)	(0.1)	(1.1)
Operating profit/(loss) before net valuation gains on investment property	87.8	10.4	1.9	(11.4)	88.7
Net finance costs	(34.8)	(0.2)	(2.0)	(0.1)	(37.1)
Share of trading profit of joint ventures and associates after tax	–	0.1	1.4	–	1.5
Adjusted earnings/(loss) before tax, valuation and non-recurring items	53.0	10.3	1.3	(11.5)	53.1
Valuation movements					23.7
Non-recurring items					7.4
Profit before tax – continuing operations					84.2

2015 Income statement (restated*) – continuing operations

(£m)	Residential	Development	Funds	Other	Total
Group revenue					
Segment revenue – external	154.3	34.4	4.3	0.1	193.1
Net rental income	32.3	0.1	–	–	32.4
Profit/(loss) on disposal of trading property	60.5	9.8	–	(0.1)	70.2
Profit on disposal of investment property	0.4	–	–	–	0.4
Income from financial interest in property assets	–	–	–	6.5	6.5
Fees and other income	0.5	0.5	4.3	0.3	5.6
Administrative expenses	(8.9)	(1.1)	(3.9)	(18.5)	(32.4)
Other expenses	(0.4)	(0.6)	(1.0)	(1.2)	(3.2)
Operating profit before net valuation gains on investment property	84.4	8.7	(0.6)	(13.0)	79.5
Net finance costs	(41.6)	(2.3)	(1.4)	(3.6)	(48.9)
Share of trading profit of joint ventures and associates after tax	–	–	0.9	–	0.9
Adjusted earnings/(loss) before tax, valuation and non-recurring items	42.8	6.4	(1.1)	(16.6)	31.5
Valuation movements					23.4
Non-recurring items					(3.5)
Profit before tax – continuing operations					51.4

* The 2015 comparatives have been restated to show the results from continuing and discontinued operations separately. See Note 3 to the financial statements for further details of the discontinued operations.

Segmental revenue from external customers for continuing operations is all derived from UK customers.

Non-current assets other than financial instruments and deferred tax assets are located as follows:

£541.6m within the UK (2015: £469.3m).
Nil in Germany (2015: £165.7m).

Segmental assets

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 EPRA NAV and EPRA 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.

5 Segmental information continued

2016 Segment net assets

(£m)	Continuing Residential	Development	Funds	Other	Total	Pence per share
Total segment net assets (statutory)	363.4	96.9	116.6	98.3	675.2	–
Total segment net assets (EPRA NAV)	1,048.7	89.5	124.9	116.4	1,379.5	330
Total segment net assets (EPRA NNNAV)	908.5	90.8	116.6	83.6	1,199.5	287

"Other" includes CHARM assets within continuing operations, which were previously included in the Retirement Solutions Division.

2016 Reconciliation of NAV measures

(£m)	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	EPRA NAV balance sheet	Deferred and contingent tax	Derivatives/ fixed rate debt	EPRA NNNAV balance sheet
Investment property	261.3	–	261.3	–	–	261.3
Property, plant and equipment	1.1	–	1.1	–	–	1.1
Investment in associates	105.1	1.4	106.5	–	(1.4)	105.1
Investment in joint ventures	78.9	7.2	86.1	(6.9)	(0.3)	78.9
Financial interest in property assets	93.1	–	93.1	–	–	93.1
Deferred tax asset	8.6	(2.5)	6.1	–	7.0	13.1
Intangible assets	2.1	–	2.1	–	–	2.1
Inventories – trading property	904.3	649.4	1,553.7	–	–	1,553.7
Trade and other receivables	64.0	–	64.0	–	–	64.0
Derivative financial instruments	0.3	(0.3)	–	–	0.3	0.3
Cash and cash equivalents	90.7	–	90.7	–	–	90.7
Assets classified as held-for-sale	3.4	–	3.4	–	–	3.4
Value of own shares held	–	7.5	7.5	–	–	7.5
Total assets	1,612.9	662.7	2,275.6	(6.9)	5.6	2,274.3
Interest-bearing loans and borrowings	(843.7)	–	(843.7)	–	(26.8)	(870.5)
Retirement benefits	(5.2)	–	(5.2)	–	–	(5.2)
Provisions for other liabilities and charges	(2.3)	–	(2.3)	–	–	(2.3)
Deferred and contingent tax liabilities	(30.2)	28.5	(1.7)	(138.8)	–	(140.5)
Trade and other payables	(38.4)	–	(38.4)	–	–	(38.4)
Current tax liabilities	(4.8)	–	(4.8)	–	–	(4.8)
Derivative financial instruments	(13.1)	13.1	–	–	(13.1)	(13.1)
Total liabilities	(937.7)	41.6	(896.1)	(138.8)	(39.9)	(1,074.8)
Net assets	675.2	704.3	1,379.5	(145.7)	(34.3)	1,199.5

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

30 September 2016 (£m)	Residential	Development	Funds	Other	Total
EPRA NNNAV assets					
Investment property	**261.3**	**–**	**–**	**–**	**261.3**
Investment in joint ventures and associates	**16.3**	**(1.4)**	**169.1**	**–**	**184.0**
Financial interest in property assets	**–**	**–**	**–**	**93.1**	**93.1**
Inventories – trading property	**1,475.6**	**78.1**	**–**	**–**	**1,553.7**
Cash and cash equivalents	**35.2**	**12.0**	**7.8**	**35.7**	**90.7**
Other assets	**1.9**	**56.2**	**1.9**	**31.5**	**91.5**
Total segment EPRA NNNAV assets	**1,790.3**	**144.9**	**178.8**	**160.3**	**2,274.3**
EPRA NNNAV liabilities					
Interest-bearing loans and borrowings	**(729.7)**	**(49.9)**	**(62.2)**	**(28.7)**	**(870.5)**
Deferred and contingent tax liabilities	**(140.1)**	**1.3**	**–**	**(1.7)**	**(140.5)**
Other liabilities	**(12.0)**	**(5.5)**	**–**	**(46.3)**	**(63.8)**
Total segment EPRA NNNAV liabilities	**(881.8)**	**(54.1)**	**(62.2)**	**(76.7)**	**(1,074.8)**
Net EPRA NNNAV assets	**908.5**	**90.8**	**116.6**	**83.6**	**1,199.5**

2015 Segment net assets – Restated*

	Continuing				Discontinued			
(£m)	Residential	Development	Funds	Other	German Residential	Retirement Solutions	Total	Pence per share
Total segment net assets (statutory)	223.3	81.7	92.3	64.9	80.2	22.5	564.9	–
Total segment net assets (EPRA NAV)	864.1	81.4	100.6	104.8	87.1	96.1	1,334.1	319
Total segment net assets (EPRA NNNAV)	696.9	81.5	92.0	87.5	81.3	62.3	1,101.5	263

* The 2015 comparatives have been restated to show the results from continuing and discontinued operations separately. See Note 3 to the financial statements for further details of the discontinued operations.

"Other" includes CHARM assets within continuing operations, which were previously included in the Retirement Solutions division.

5 Segmental information continued

2015 Reconciliation of EPRA NAV measures

(£m)	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	EPRA NAV balance sheet	Deferred and contingent tax	Derivatives/ fixed rate debt	EPRA NNNAV balance sheet
Investment property	357.8	–	357.8	–	–	357.8
Property, plant and equipment	1.6	–	1.6	–	–	1.6
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
Deferred tax asset	12.0	(7.1)	4.9	–	13.6	18.5
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
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)
Retirement benefits	(1.7)	–	(1.7)	–	–	(1.7)
Provisions for other liabilities and charges	(0.9)	–	(0.9)	–	–	(0.9)
Deferred and contingent tax iiabilities	(32.3)	30.0	(2.3)	(167.6)	–	(169.9)
Trade and other payables	(56.9)	–	(56.9)	–	–	(56.9)
Current tax liabilities	(3.0)	–	(3.0)	–	–	(3.0)
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 EPRA NNNAV assets and liabilities by segment.

	Continuing				Discontinued		
30 September 2015 (£m)	Residential	Development	Funds	Other	German Residential	Retirement Solutions	Total
EPRA NNNAV assets							
Investment property	169.1	–	–	–	142.6	46.1	357.8
Investment in joint ventures and associates	–	10.7	146.6	–	21.9	–	179.2
Financial interest in property assets	–	–	–	93.7	–	–	93.7
Inventories – trading property	1,452.8	95.0	–	–	–	292.1	1,839.9
Cash and cash equivalents	56.6	18.2	5.2	–	5.3	3.5	88.8
Other assets	4.4	17.0	2.5	30.0	3.2	11.6	68.7
Total segment EPRA NNNAV assets	1,682.9	140.9	154.3	123.7	173.0	353.3	2,628.1
EPRA NNNAV liabilities							
Interest-bearing loans and borrowings	(814.2)	(53.0)	(61.5)	(8.0)	(82.6)	(239.4)	(1,258.7)
Deferred and contingent tax liabilities	(122.9)	–	–	(24.8)	(4.0)	(18.2)	(169.9)
Other liabilities	(48.9)	(6.4)	(0.8)	(3.4)	(5.1)	(33.4)	(98.0)
Total segment EPRA NNNAV liabilities	(986.0)	(59.4)	(62.3)	(36.2)	(91.7)	(291.0)	(1,526.6)
Net EPRA NNNAV assets	696.9	81.5	92.0	87.5	81.3	62.3	1,101.5

6 Group revenue – continuing operations

Accounting Policy

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

	2016 £m	2015 Restated (Note 3) £m
Gross rental income (Note 7)	**51.9**	46.7
Gross proceeds from disposal of trading property (Note 8)	**160.7**	140.8
Fees and other income (Note 10)	**7.3**	5.6
	219.9	193.1

7 Net rental income – continuing operations

Accounting Policy

Gross rental income is recognised on a straight-line basis over the lease term on an accruals basis. Directly attributable property repair and maintenance costs are deducted from gross rental income to determine net rental income.

	2016 £m	2015 Restated (Note 3) £m
Gross rental income	**51.9**	46.7
Property repair and maintenance costs	**(14.5)**	(14.3)
	37.4	32.4

8 Profit on disposal of trading property – continuing operations

Accounting Policy

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 such other basis that provides an appropriate allocation of costs.

Contract revenue and expenses from construction contracts is recognised in the income statement in accordance with the stage of completion of the contract. Contract costs incurred that relate to future activities are deferred and recognised as inventory.

	2016 £m	2015 Restated (Note 3) £m
Proceeds from disposal of trading property	**136.6**	140.8
Revenue from construction contract	**24.1**	–
Gross proceeds from disposal of trading property	**160.7**	140.8
Selling costs	**(3.3)**	(3.0)
Net proceeds from disposal of trading property	**157.4**	137.8
Carrying value of trading property sold	**(63.4)**	(67.6)
Carrying value of construction contract expenses	**(24.1)**	–
	69.9	70.2

Amounts relating to the construction contract included in the above table relate to a PRS development the Group is building for a customer. The Group will manage the development, once built, from which activity it will earn management fees. Due to the early stage of the development, no trading profit has yet been recognised.

9 Profit on disposal of investment property – continuing operations

Accounting Policy

Investment 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.

	2016 £m	2015 Restated (Note 3) £m
Gross proceeds from disposal of investment property	**4.1**	8.5
Selling costs	**(0.1)**	(0.1)
Net proceeds from disposal of investment property	**4.0**	8.4
Carrying value of investment property sold:		
– Investment property (Note 17)	**(2.4)**	(8.0)
	1.6	0.4

10 Fees and other income – continuing operations

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

	2016 £m	2015 Restated (Note 3) £m
Property and asset management fee income	**5.9**	5.0
Other sundry income	**1.4**	0.6
	7.3	5.6

11 Employees – continuing operations

	2016 £m	2015 Restated (Note 3) £m
Wages and salaries	**14.7**	14.7
Termination benefits	**1.8**	–
Social security costs	**1.7**	2.1
Other pension costs – defined contribution scheme (Note 29)	**1.0**	1.0
Share-based payments (Note 31)	**1.9**	2.0
	21.1	19.8

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

	2016 Number	2015 Restated (Note 3) Number
Residential	**106**	99
Development	**12**	9
Shared services	**111**	118
Group	**17**	17
	246	243

Details of Directors' remuneration, including pension costs, share options and interests in the LTIP are provided in the audited section of the Remuneration Committee report on pages 73 to 81.

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).

	2016 £'000	2015 £'000
Aggregate Directors' remuneration	**2,400**	1,810
Aggregate amount of gains on exercise of share options	**3**	–
Aggregate amount of money or assets received or receivable under scheme interests	**3,092**	3,134
Aggregate cash paid into deferred contribution pension schemes	**179**	159
	5,674	5,103

11 Employees – continuing operations continued

The number of Directors in defined contribution pension schemes during 2016 was five (2015: three). None of the Directors (2015: None) were members of the Group defined benefit scheme.

Key management compensation

	2016 £m	2015 £m
Short-term employee benefits	**6.4**	5.7
Post-employment benefits	**0.5**	0.4
Share-based payments	**1.2**	1.5
Payments for loss of office	**0.7**	–
	8.8	7.6

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

12 Profit before tax – continuing operations

	2016 £m	2015 £m
Profit before tax is stated after charging:		
Depreciation on fixtures, fittings and equipment	**0.6**	0.6
Amortisation of IT software	**0.3**	0.3
Bad debt expense	**0.2**	0.3
Operating lease payments	**1.0**	1.2
Auditor's remuneration (see below)	**0.4**	0.2

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

Auditor's remuneration

	2016 £'000	2015 £'000
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	**84**	107
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	**158**	126
	242	233
Audit related assurance services	**30**	–
Tax advisory services	**48**	2
Tax compliance services	**4**	12
Other assurance services	**39**	–
Total fees	**363**	247

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

Details of the Group's policy on the use of the Group's auditors for other services, the reasons why the firm was used rather than another supplier and how the auditor's independence and objectivity was safeguarded are set out in the Audit Committee report on pages 58 and 59. No services were provided pursuant to contingent fee arrangements.

13 Finance costs and income – continuing operations

	2016 £m	2015 Restated (Note 3) £m
Finance costs		
Bank loans and mortgages	**18.7**	28.5
Non-bank financial institution	**5.1**	4.8
Corporate bond	**13.6**	13.6
Other finance costs	**0.1**	0.1
Loan issue costs – amortisation and write off	**3.0**	7.2
Interest capitalised under IAS23	**(1.3)**	(0.1)
	39.2	54.1
Finance income		
Interest receivable from associates and joint ventures (see Note 35)	**(1.6)**	(1.5)
Other interest receivable	**(0.8)**	(0.1)
Bank deposits	**(0.1)**	(0.1)
	(2.5)	(1.7)
Net finance costs	**36.7**	52.4

Loan issue costs – amortisation and write off shown under finance costs in 2015 include a £3.5m charge classified as non-recurring relating to the accelerated write off of loan costs after refinancing of bank syndicate debt during 2015 (see Note 4).

14 Tax

Accounting Policy

The taxation charge for the year represents the sum of the tax currently payable and deferred tax. The charge is recognised in the income statement and statement of comprehensive income according to the accounting treatment of the related transaction.

Current tax payable or receivable is based on the taxable income for the period and any adjustment in respect of prior periods and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

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 at the end of the reporting period 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.

14 Tax continued

The tax charge for the year of £10.9m (2015: £7.3m) comprises:

	2016 £m	2015 Restated (Note 3) £m
Current tax		
Corporation tax on profit	**8.0**	5.1
Adjustments relating to prior years	**(2.2)**	(3.7)
	5.8	1.4
Deferred tax		
Origination and reversal of temporary differences	**9.0**	6.9
Adjustments relating to prior years	**–**	(1.0)
Impact of tax rate change	**(3.9)**	–
	5.1	5.9
Total tax charge for the year	**10.9**	7.3
Tax charge for the year comprises:		
Tax charge in income statement	**9.7**	7.4
Tax from discontinued operations (excluding gain on sale)	**1.0**	(0.1)
Tax on sale of discontinued operations	**0.2**	–
Total tax charge for the year	**10.9**	7.3

The 2016 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, and to which the Group is committed.

Movements in tax during the year are set out below:

2016 Movement in tax	Opening balance £m	Payments made in the year £m	Disposals/ Transfers £m	Movements recognised in income £m	Movements recognised in other comprehensive income £m	Closing balance £m
Current tax	**3.0**	**(1.9)**	**(2.1)**	**5.8**	**–**	**4.8**
Deferred tax						
Trading property uplift to fair value on business combinations	**18.0**	**–**	**(3.3)**	**(3.3)**	**–**	**11.4**
Investment property revaluation	**12.0**	**–**	**–**	**5.0**	**–**	**17.0**
Accelerated capital allowances	**0.7**	**–**	**–**	**(0.9)**	**–**	**(0.2)**
Short-term timing differences	**(10.5)**	**–**	**1.7**	**4.3**	**–**	**(4.5)**
Actuarial deficit on BPT Limited pension scheme	**(0.5)**	**–**	**–**	**–**	**(0.5)**	**(1.0)**
Equity component of available-for-sale financial asset	**1.2**	**–**	**–**	**–**	**0.2**	**1.4**
Fair value movement in cash flow hedges and exchange adjustments	**(0.6)**	**–**	**–**	**–**	**(1.9)**	**(2.5)**
Deferred tax total	**20.3**	**–**	**(1.6)**	**5.1**	**(2.2)**	**21.6**
Total tax – 2016 movement	**23.3**	**(1.9)**	**(3.7)**	**10.9**	**(2.2)**	**26.4**

	2016 £m	2015 £m
Deferred tax balances are disclosed as follows:		
Deferred tax assets: non-current assets	**8.6**	12.0
Deferred tax liabilities: non-current liabilities	**(30.2)**	(32.3)
Deferred tax	**(21.6)**	(20.3)

Deferred tax has been predominantly calculated at a rate of 17% (2015: 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 financial statements, amounts to £110.4m (2015: £137.5m).

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.

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	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)
Deferred tax	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

The total tax charge for the year of £10.9m (2015: £7.3m) comprises:

	2016 £m	2015 Restated (Note 3) £m
UK Tax	**11.0**	7.4
Overseas Tax	**(0.1)**	(0.1)
	10.9	7.3

The Group's results for this accounting period are taxed at an effective rate of 20% (2015: 20.5%).

14 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% (2015: 20.5%) to the profit before tax. The differences are explained below:

	2016 £m	2015 £m
Profit before tax including discontinued operations	**146.2**	50.0
Profit before tax at a rate of 20% (2015: 20.5%)	**29.2**	10.2
Expenses not deductible for tax purposes	**1.5**	4.9
Share of joint ventures/associates after tax	**(0.5)**	(2.8)
Non-taxable disposal of investments	**(13.2)**	(0.3)
Impact of tax rate changes	**(3.9)**	–
Adjustment in respect of prior periods	**(2.2)**	(4.7)
	10.9	7.3

As shown above, deferred tax has been taken directly to other comprehensive income in relation to the actuarial gain or loss on the BPT Limited pension scheme, the equity component of available for sale financial asset 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 95.

Factors that may affect future tax charges

Changes to the main rate of corporation tax, which falls to 19% from 1 April 2017 and to 17% from 1 April 2020, have been reflected in the calculation of deferred tax assets and liabilities. In addition, a number of changes to the UK corporate tax system have been proposed and will be reflected in the Group's tax accounts, as required, once substantively enacted.

15 Dividends

Accounting Policy
Dividends are recognised through equity when approved by the Company's shareholders or on payment, whichever is earlier.

Dividends paid in the year are shown below:

	2016 £m	2015 £m
Ordinary dividends on equity shares:		
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
Final dividend for the year ended 30 September 2015 – 2.11p per share	**8.7**	–
Interim dividend for the year ended 30 September 2016 – 1.45p per share	**6.0**	–
	14.7	10.4

A final dividend in respect of the year ended 30 September 2016 of 3.05p per share amounting to £12.7m will be proposed at the 2017 AGM. If approved, this dividend will be paid on 10 February 2017 to Shareholders on the register at close of business on 30 December 2016. The 2016 interim dividend of 1.45p per share was paid in July 2016. This gives a total dividend for 2016 of 4.50p per share (2015: 2.75p per share).

16 Earnings per share

Accounting Policy

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 Plan ('LTIP'), Deferred Bonus Plan ('DBP') and SAYE schemes, on which the dividends are being waived.

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 LTIP and DBP, based upon the number of shares that would be issued if 30 September 2016 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 2016			30 September 2015 restated		
	Profit for the year £m	**Weighted average number of shares (millions)**	**Earnings per share pence**	Profit for the year £m	Weighted average number of shares (millions)	Earnings per share pence
Basic earnings per share – continuing and discontinued operations						
Profit attributable to equity holders	**135.3**	**414.4**	**32.6**	42.7	412.5	10.4
Effect of potentially dilutive securities						
Share options and contingent shares	**–**	**1.5**	**(0.1)**	–	2.9	(0.1)
Diluted earnings per share – continuing and discontinued operations						
Profit attributable to equity holders	**135.3**	**415.9**	**32.5**	42.7	415.4	10.3
Basic earnings per share – continuing operations only						
Profit attributable to equity holders	**74.5**	**414.4**	**18.0**	44.0	412.5	10.7
Effect of potentially dilutive securities						
Share options and contingent shares	**–**	**1.5**	**(0.1)**	–	2.9	(0.1)
Diluted earnings per share – continuing and discontinued operations						
Profit attributable to equity holders	**74.5**	**415.9**	**17.9**	44.0	415.4	10.6

17 Investment property

Accounting Policy

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. Investment property falls within Level 3 of the fair value hierarchy as defined by IFRS 13. Further details are given in Note 28.

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.

	2016 £m	2015 £m
Opening balance	**357.8**	332.9
Additions	**79.5**	29.6
Disposals – continuing operations (Note 9)	**(2.4)**	(8.0)
Disposals – discontinued operations	**(9.2)**	(2.2)
Business disposals	**(188.3)**	–
Net transfer to assets classified as held-for-sale (Note 3)	**(3.1)**	(0.4)
Net valuation gains – continuing operations	**20.3**	14.6
Net valuation deficits – discontinued operations (Note 3)	**(0.9)**	(0.7)
Exchange adjustments	**7.6**	(8.0)
Closing balance	**261.3**	357.8

The Group has valued all of its investment property as at 30 September 2016 at fair value. The current use of the property is considered to be highest and best use.

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 £19.4m has arisen on valuation of investment property to fair value as at 30 September 2016 comprising £20.3m on the continuing business and a deficit of £0.9m on the discontinued operations (2015: £13.9m of which £14.6m is continuing and a deficit of £0.7m is discontinued operations) and this has been taken to the income statement.

The historical cost of the Group's investment property as at 30 September 2016 is £219.8m (2015: £362.2m).

Rental income from investment property during the year was £19.6m (2015: £20.8m).

Direct property repair and maintenance costs arising from investment property that generated rental income during the year was £5.1m (2015: £7.6m).

Exchange adjustments of £7.6m (2015: decrease of £8.0m) relate to the Group's German Residential property prior to its disposal. This reflects the movement in the Sterling/Euro exchange rate and is recognised within other comprehensive income.

18 Property, plant and equipment

Accounting Policy

Property, plant and equipment are stated at cost less residual value and comprise fixtures, fittings and equipment. Depreciation is charged to the income statement on a straight-line basis over the estimated useful life ranging from 3-5 years.

19 Investment in associates

	2016 £m	2015 £m
Opening balance	**108.4**	103.5
Share of profit for the year – continuing	**9.8**	9.6
Share of profit for the year – discontinued	**0.2**	5.8
Dividends received	**(7.5)**	(2.1)
Loans advanced to/(repaid by) associates	**10.5**	(7.2)
Exchange movements	**0.6**	(0.8)
Share of change in fair value of cash flow hedges taken through other comprehensive income	**(0.8)**	(0.4)
Disposal (Note 3)	**(16.1)**	–
Closing balance	**105.1**	108.4

The disposal relates to the sale of Grainger's 25% interest in its German associate MH Grainger JV Sarl which completed on 1 January 2016. The sale generated a profit of £11.2m and forms part of the profit on sale of discontinued operations in Note 3. Grainger invested an additional £10.5m net into GRIP in the year to enable GRIP to make further investment in PRS assets.

As at 30 September 2016, the Group's interest in associates was as follows:

	% of ordinary share capital/units held	Country of incorporation
GRIP REIT PLC	24.9	United Kingdom
Vesta LP	15.0	United Kingdom

19 Investment in associates continued

Although the Group acts as property and/or asset manager for the GRIP REIT PLC, the remaining equity is held by a single investor. This investor is actively involved in the business and in controlling the key financial and operational activities of the business. Accordingly, the Group does not have de facto control of the entity.

G:Res 1 Limited has now been voluntarily wound up and the Group no longer provides any management services to it. 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.

The accounting period end for the GRIP REIT PLC is 31 December 2016. The results for the 12 months to 30 September 2016 and 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:

2016 Summarised income statement

	MH Grainger JV Sarl	GRIP REIT PLC	Vesta LP	Total £m
Net rental income and other income	0.5	4.7	–	5.2
Administration and other expenses	(0.1)	(0.9)	–	(1.0)
Profit on disposal of properties	–	0.2	–	0.2
Operating profit	0.4	4.0	–	4.4
Revaluation gains on investment property	–	9.0	–	9.0
Change in fair value of derivatives	–	(0.2)	–	(0.2)
Interest payable	(0.1)	(2.2)	–	(2.3)
Profit before tax	0.3	10.6	–	10.9
Tax	(0.1)	(0.8)	–	(0.9)
Profit after tax	0.2	9.8	–	10.0

2016 Summarised statement of financial position

	MH Grainger JV Sarl	GRIP REIT PLC	Vesta LP	Total £m
Trading and investment property	–	154.6	–	154.6
Current assets	–	6.5	–	6.5
Total assets	–	161.1	–	161.1
Non-current liabilities	–	(53.6)	–	(53.6)
Current liabilities	–	(2.4)	–	(2.4)
Net assets	–	105.1	–	105.1

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	(0.2)	(0.7)	(0.3)	–	(1.2)
Profit on disposal of properties	0.6	1.0	–	–	1.6
Operating profit	1.7	4.6	(0.3)	–	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	8.9	9.9	(0.3)	–	18.5
Tax	(3.1)	–	–	–	(3.1)
Profit/(loss) after tax	5.8	9.9	(0.3)	–	15.4

2015 Summarised statement of financial position

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

20 Investment in joint ventures

	2016 £m	2015 £m
Opening balance	**70.8**	73.6
Share of profit for the year – continuing	**5.1**	9.0
Share of profit for the year – discontinued	**–**	0.5
Dividends received	**–**	(0.6)
Reversal of impairment/(impairment)	**14.1**	(4.1)
Loan interest received	**0.1**	(0.7)
Disposal	**–**	(14.0)
Loans advanced to joint ventures	**5.5**	7.4
Loans repaid by joint ventures	**(16.7)**	–
Share of change in fair value of cash flow hedges taken through other comprehensive income	**–**	(0.3)
Closing balance	**78.9**	70.8

The closing balance comprises share of net assets of £55.0m (2015: £49.1m) and net loans due from joint ventures of £23.9m (2015: £21.7m).

At 30 September 2016, 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

20 Investment in joint ventures continued

The accounting period end of Curzon Park Limited is 28 February and for King Street Developments (Hammersmith) Limited is 31 March. The results for the 12 months to 30 September 2016 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.

The Group has reversed part of the impairment provision held against the investment, crediting £4.7m to the income statement in the year (2015: £3.2m impairment provision). The carrying value at 30 September 2016 of £9.5m (2015: £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 Compulsory Purchase Order process.

In August 2016 the three companies in Prague in which the Group held a 50% equity stake, sold all of their development land. The Group's share of proceeds amounted to £16.7m. The Group has recorded a profit of £10.7m from its Prague Investment this year which is analysed as follows:

	£m	Income Statement Classification
Reversal of prior year provisions	9.4	Reversal of impairment of joint venture
Share of profit	1.4	Share of profit of joint ventures after tax
Interest receivable on loan notes	0.4	Finance Income
Group sales costs	(0.5)	Other expenses
	10.7	

The above amounts are included under non-recurring in Note 4.

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:

2016 Summarised income statement

	Czech Republic combined £m	Curzon Park Limited £m	King Street Developments (Hammersmith) Limited £m	Walworth Investment Properties Limited £m	Total £m
Net rental income and other income	–	–	–	2.1	2.1
Administration and other expenses	(0.7)	–	–	–	(0.7)
Profit on disposal of properties	3.2	–	–	0.2	3.4
Operating profit	2.5	–	–	2.3	4.8
Net revaluation gains on investment property	–	–	–	2.5	2.5
Interest payable	(0.1)	–	–	(1.7)	(1.8)
Profit before tax	2.4	–	–	3.1	5.5
Tax	(1.0)	–	–	0.6	(0.4)
Profit after tax	1.4	–	–	3.7	5.1

2016 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	–	17.5	6.8	96.6	120.9
Current assets	4.2	0.1	0.1	5.1	9.5
Total assets	4.2	17.6	6.9	101.7	130.4
Non-current liabilities	–	–	–	(30.0)	(30.0)
Current liabilities	(2.0)	(22.0)	(6.9)	(14.5)	(45.4)
Net assets	2.2	(4.4)	–	57.2	55.0

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 Group manages its investment on an aggregate basis.

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

21 Financial interest in property assets

Accounting Policy

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 recorded is as follows: i) the carrying value of the assets is increased by the effective interest rate; ii) Cash received from the instrument in the year is deducted from the carrying value of the asset; and iii) 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 arising from i) and iii) above is recorded through the income statement and is shown on the line 'Income from financial interest in property assets'.

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.

	2016 £m	2015 £m
Opening balance	**93.7**	94.5
Cash received from the instrument	**(9.3)**	(10.0)
Amounts taken to income statement	**5.8**	9.2
Amounts taken to other comprehensive income before tax	**2.9**	–
Closing balance	**93.1**	93.7

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 in the fair value hierarchy within Note 28.

22 Intangible assets

Accounting Policy

Intangible assets comprise computer software and goodwill.

IT software is amortised on a straight-line basis over 4 to 7 years being the estimated useful lives of the assets, from the date they are available for use. Amortisation is charged to the income statement.

Goodwill is tested for impairment based on a value in use calculation at each reporting date.

	Goodwill £m	**IT Software £m**	**Total £m**
Net Book Value at 1 October 2014	0.6	1.6	2.2
Net Book Value at 30 September 2015	0.6	2.1	2.7
Net Book Value at 30 September 2016	**0.6**	**1.5**	**2.1**

23 Inventories

Accounting Policy

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.

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 sale proceeds that the Group expects on sale of a property or current market value net of associated selling costs.

	2016 £m	2015 £m
Residential trading property	**818.8**	1,056.9
Development trading property	**85.5**	95.3
	904.3	1,152.2

The market value of inventories as at 30 September 2016 was £1,553.7m (2015: £1,839.9m).

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.

Amounts relating to inventories that have been recognised as an expense in the consolidated income statement are as follows:

	2016 £m	2015 £m
Carrying value of trading property sold (Note 8)	**63.4**	67.6
Carrying value of construction contract expenses (Note 8)	**24.1**	–
Impairment of inventories to net realisable value	**2.7**	1.2

24 Trade and other receivables

Accounting Policy

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 consolidated income statement.

	2016 £m	2015 £m
Rent and other tenant receivables	**3.1**	11.0
Deduct: Provision for impairment	**(0.5)**	(1.8)
Rent and other tenant receivables – net	**2.6**	9.2
Amounts recoverable on contracts	**50.5**	12.2
Other receivables	**4.2**	2.3
Prepayments	**6.7**	7.9
	64.0	31.6

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 28, 'Financial risk management and derivative financial instruments'.

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

	2016 £m	2015 £m
Pounds Sterling	**62.1**	29.7
Euros	**1.9**	1.9
	64.0	31.6

25 Provisions for other liabilities and charges

Accounting Policy

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.

26 Trade and other payables

Accounting Policy

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

	2016 £m	2015 £m
Deposits received	**2.6**	2.9
Trade payables	**16.0**	12.0
Tax and social security costs	**0.2**	0.5
Accruals	**18.2**	29.5
Deferred income	**1.4**	12.0
	38.4	56.9

Deferred income includes £1.4m (2015: £10.8m) of rent received in advance. 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 28.

27 Interest-bearing loans and borrowings

Accounting Policy

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.

	2016 £m	2015 £m
Current liabilities		
Bank loans	**(1.5)**	124.4
Non-bank financial institution	**101.1**	9.3
Mortgages	**–**	0.2
Corporate bond	**(0.6)**	(0.6)
	99.0	133.3
Non-current liabilities		
Bank loans	**447.7**	537.7
Non-bank financial institution	**23.9**	266.2
Mortgages	**–**	16.8
Corporate bond	**273.1**	272.4
	744.7	1,093.1
Total interest-bearing loans and borrowings	**843.7**	1,226.4

27 Interest-bearing loans and borrowings continued

Information about the Group's exposure to interest rate, foreign currency and liquidity risks is included in Note 28.

The £0.6m debit shown above under current liabilities for the Corporate bond and the £1.5m debit shown under bank loans represent issue costs that will be amortised to the income statement during the next financial year. The Corporate bond and bank loans do not mature until 2020.

The analysis of the loans and borrowings in the below tables (a) to (d) is before deducting unamortised issue costs of £9.0m (2015: £11.1m) relating to the raising of the loan finance. 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 2016, the unamortised premium was £0.6m (2015: £0.7m). In addition, for 2015 only, the balances shown are before adding a fair value adjustment of £8.2m arising from the acquisition of debt.

(a) Analysis of bank loans

	2016 £m	2015 £m
Bank loans – Pounds Sterling	**440.0**	528.7
Bank loans – Euro	**12.1**	140.0
	452.1	668.7

Sterling bank loans include variable rate loans bearing interest at rates between 1.6% and 1.7% above LIBOR and Euro bank loans include variable rate loans bearing interest at a rate of 1.6% above EURIBOR.

The weighted average variable interest rate on bank loans as at 30 September 2016 was 2.0% (2015: 2.3%). Bank loans are secured by fixed and floating charges over specific property and other assets of the Group.

(b) Analysis of non-bank financial institutions

	2016 £m	2015 £m
Fixed rate – Pounds Sterling	**–**	142.1
Variable rate – Pounds Sterling	**125.0**	125.8
	125.0	267.9

The fixed rate loans in 2015 were secured by specific assets within the Retirement Solutions division. £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 and has been repaid since the year end. The balance of £25m is funded by the Homes and Communities Agency and bears interest at 1% over the European Commission reference rate applicable to the UK.

(c) Mortgages

	2016 £m	2015 £m
Mortgages – Euro	**–**	17.0

The mortgages in 2015 were secured by fixed and floating charges over specific investment property in the Group's German Residential portfolio.

(d) Corporate bond

	2016 £m	2015 £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 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.

28 Financial risk management and derivative financial instruments

Accounting Policies

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.

Derivative financial instruments

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.

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.

28 Financial risk management and derivative financial instruments continued

Categories of financial instruments

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

	2016						
	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	–	–	–	93.1	93.1	93.1	–
Current assets							
Trade and other receivables excluding prepayments	57.3	–	–	–	57.3	57.3	–
Derivative financial instruments	–	0.3	–	–	0.3	0.3	–
Cash and cash equivalents	90.7	–	–	–	90.7	90.7	–
Total financial assets	148.0	0.3	–	93.1	241.4	241.4	–

	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	–	–	–	744.7	744.7	771.5	–
Current liabilities							
Interest-bearing loans and borrowings	–	–	–	99.0	99.0	99.0	–
Trade and other payables	–	–	–	38.4	38.4	38.4	–
Derivative financial instruments	–	–	13.1	–	13.1	13.1	–
Total financial liabilities	–	–	13.1	882.1	895.2	922.0	–
Total net financial assets/(liabilities)	148.0	0.3	(13.1)	(789.0)	(653.8)	(680.6)	–

The fair value difference relates to the Group's Corporate Bond, which is stated at amortised cost in the consolidated statement of financial position. The fair value of the bond is calculated as £301.8m (2015: £283.0m). There is no requirement under IAS 39 to revalue these loans to fair value in the consolidated statement of financial position.

Included in cash above is £10.7m (2015: £10.6m) relating to cash held on behalf of tenants, leaseholders and clients comprising Service Charge amounts, Sinking Fund balances, tenant deposits and cash held on behalf of joint ventures. These cash amounts are held by the Group as agent in separate ring-fenced client bank accounts and are excluded from net debt. In addition £37.9m (2015: £39.8m) of the cash balance is restricted in use by underlying financing arrangements comprising either reserve fund amounts or amounts where the release of cash is contingent upon proof of qualifying expenditure.

	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)	–

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 Audit 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.

28 Financial risk management and derivative financial instruments continued

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

The Group sometimes enters 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 2016, £nil (2015: £nil) was outstanding.

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

Tenant deposits of £2.0m (2015: £1.5m) are held which 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 £2.6m, we consider Nil to be not due and not impaired. We consider that all of the £4.2m other receivables balance, and all of the £50.5m amounts recoverable on contracts as not due and not impaired.

As at 30 September 2016, tenant arrears of £0.5m within trade receivables were impaired and fully provided for (2015: £1.8m). The individually impaired receivables are based on a review of outstanding arrears and an assessment of collectability. Impaired receivables and receivables not considered to be impaired are not material to the financial statements and, therefore, no further analysis is provided.

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 2016, the fair value of all interest rate derivatives that had a positive value was £0.3m (2015: £2.0m).

At 30 September 2016, the combined credit exposure arising from cash held at banks, money market deposits and interest rate swaps was £80.3m (2015: £80.2m), which represents 5.0% (2015: 4.7%) of total assets. Deposits were placed with financial institutions with A- or better credit ratings.

The Group has the following cash and cash equivalents:

	2016 £m	2015 £m
Pounds Sterling	**79.4**	83.5
Euros	**11.3**	5.3
	90.7	88.8

At the year end, £42.3m was placed on deposit (2015: £23.4m) at effective interest rates between 0.2% and 0.3% (2015: 0.4% 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 2016 (2015: £1.0m).

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 2016 and as at 30 September 2016 (see Note 2 'Critical accounting estimates and assumptions').

The Group ensures that it maintains sufficient cash for operational requirements at all times. 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 highly 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 2016					
Interest-bearing loans and borrowings	**124.1**	**29.9**	**784.1**	**13.4**	**951.5**
Cash flow hedges	**3.2**	**3.3**	**7.3**	**–**	**13.8**
Trade and other payables	**38.4**	**–**	**–**	**–**	**38.4**

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	More than 5 years £m	Total £m
At 30 September 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

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 2016					
Interest-bearing loans and borrowings (Note 27)	**99.0**	**5.4**	**726.2**	**13.1**	**843.7**
Interest	**25.1**	**24.5**	**57.9**	**0.3**	**107.8**
Financial liability cash flows shown above	**124.1**	**29.9**	**784.1**	**13.4**	**951.5**

28 Financial risk management and derivative financial instruments continued

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	More than 5 years £m	Total £m
At 30 September 2015					
Interest-bearing loans and borrowings (Note 27)	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

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

Maturity of committed undrawn borrowing facilities

	2016 £m	2015 £m
Expiring:		
Between one and two years	**–**	–
Between two and five years	**277.9**	96.7
More than five years	**–**	–
	277.9	96.7

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 (2015: 1 percent) movement in interest rates, a +/– 10 percentage point (2015: 10 percentage point) movement in Sterling and a +/– 1 percentage point (2015: 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 the discount 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 21 provides a reconciliation of movements and amounts recognised in the income statement and other comprehensive income.

Investment property falls within Level 3. The Investment valuations provided by Allsop LLP and CBRE Limited are based on RIC's Professional Valuation Standards, but include a number of unobservable inputs and other valuation assumptions. In prior years, investment property has been included within Level 2. However, as all inputs to their valuation on a property by property basis are not always observable, investment property is better shown within Level 3 and a transfer has been made in the current year to reflect this. 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 for Level 3 is detailed in the table below.

Assets – Level 3	**2016 £m**	2015 £m
Opening balance	**205.2**	203.6
Amounts taken to income statement	**26.1**	11.6
Transfer from Level 2	**246.3**	–
Other movements	**(123.2)**	(10.0)
Closing balance	**354.4**	205.2

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

	2016		2015	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Level 3				
Financial interest in property assets	**93.1**	**–**	93.7	–
Investment property	**261.3**	**–**	111.5	–
	354.4	**–**	205.2	–
Level 2				
Interest rate swaps – in cash flow hedge accounting relationships	**–**	**13.1**	–	5.0
Interest rate swaps – not in cash flow hedge accounting relationships	**–**	**–**	–	30.5
Interest rate caps – not in cash flow hedge accounting relationships	**0.3**	**–**	2.0	–
Investment property	**–**	**–**	246.3	–
Assets classified as held-for-sale	**3.4**	**–**	–	–
	3.7	**13.1**	248.3	35.5

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 EPRA NAV and EPRA 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 3 of the fair value hierarchy as defined by IFRS 13. The statutory book value of trading property is £904.3m and its market value is £649.4m higher at £1,553.7m.

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 EPRA NAV and EPRA 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 £275m and their fair value is £301.8m.

Interest rate swaps and caps are all classified as either current assets or current liabilities.

The notional principal amount of the outstanding interest rate swap and cap contracts as at 30 September 2016 was £462.2m (2015: £493.1m).

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.

28 Financial risk management and derivative financial instruments continued

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.

As at 30 September 2016 the Group's only fixed rate debt was the £275m quoted corporate bond due December 2020, which has been valued using quoted market prices, consistent with the approach as at 30 September 2015. JC Rathbone Associates Limited has valued the Group's fixed rate debt on a replacement basis, taking into account the difference between the fixed rates for the Group's borrowings and the market value and prevailing interest rates 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 £m	Fair value £m
Fixed rate loan facilities – 30 September 2016	275.0	301.8
Fixed rate loan facilities – 30 September 2015	464.8	497.1

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 and caps. This subjects the Group to fair value risk as the value of the financial derivatives fluctuates in line with variations in interest rates. However, the Group seeks to cash flow hedge account where applicable. The Group is, however, driven by commercial considerations when hedging its interest rate risk and is not driven by the strict requirements of the hedge accounting rules under IAS 39 if this is to the detriment of achieving the best commercial arrangement.

Hedging activities are carried out under the terms of the Group's hedging policies and are regularly reviewed by the Board to ensure compliance with this policy. The Board reviews its policy on interest rate exposure regularly with a view to establishing that it is still relevant in the prevailing and forecast economic environment. The current Group treasury policy is to maintain floating-rate exposure of no greater than 30% of expected borrowing. As at 30 September 2016, 87% (2015: 77%) 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 £1.8m (2015: an increase of £7.4m). Similarly, a 1% decrease would increase annual profits by £1.8m (2015: a decrease of £7.4m).

Based on the Group's interest rate profile at the statement of financial position date, a 1% increase in interest rates would increase the Group's equity by £14.5m (2015: £15.6m). Similarly, a 1% decrease would decrease the Group's equity by £14.5m (2015: £15.6m).

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 2016, the market value of derivatives designated as cash flow hedges under IAS 39, is a net liability of £13.1m (2015: £5.0m). The total ineffectiveness of cash flow hedges recognised within the income statement totals a gain of £nil (2015: £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 £9.9m (2015 charge restated: £6.3m) in the income statement analysed as follows:

	2016 £m	2015 restated (Note 3) £m
Fair value movement on derivatives not designated as cash flow hedges	**(9.9)**	(6.7)
Amounts reclassified from equity to the income statement	**–**	0.4
	(9.9)	(6.3)

At 30 September 2016, the market value of derivatives not designated as cash flow hedges under IAS 39, is a net asset of £0.3m (2015: a liability of £28.5m). 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 2016.

Hedged debt

	2016 £m	2015 £m
Hedged debt maturing:		
Within one year	**1.3**	90.2
Between one and two years	**1.3**	36.7
Between two and five years	**203.3**	109.1
Over five years	**256.3**	257.1
	462.2	493.1

Interest rate profile – including the effect of derivatives and amortisation of issue costs

	2016					2015				
	Weighted average interest rate %	**Average maturity years**	**Sterling £m**	**Euro £m**	**Gross Debt Total £m**	Weighted average interest rate %	Average maturity years	Sterling £m	Euro £m	Gross Debt Total £m
Fixed rate	**5.2**	**4.3**	**275.0**	**–**	**275.0**	5.5	7.2	437.0	18.6	455.6
Hedged rate	**3.4**	**3.3**	**462.2**	**–**	**462.2**	4.4	3.8	445.3	47.8	493.1
Variable rate	**2.9**	**3.5**	**102.8**	**12.1**	**114.9**	3.0	4.4	189.3	90.6	279.9
	3.9	**3.6**	**840.0**	**12.1**	**852.1**	4.5	5.2	1,071.6	157.0	1,228.6

At 30 September 2016, the fixed interest rates on the interest rate swap contracts vary from 0.69% to 1.96% (2015: 1.11% to 5.23%); the weighted average rates are shown in the table above.

Foreign exchange risk

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

28 Financial risk management and derivative financial instruments continued

The Group's statement of financial position translation exposure is summarised below:

	2016 Euro £m	2015 Euro £m
Gross foreign currency assets	**11.4**	89.2
Gross foreign currency liabilities	**(12.1)**	(83.3)
Net exposure	**(0.7)**	5.9

As at 30 September 2016, 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 £0.4m (2015: £0.2m) and equity by Nil (2015: £0.5m).

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. As at 30 September 2016, the Group had available headroom of £321m. The £100m loan from M&G Investments Management Limited was repaid on 6 October 2016. There are no other material maturities of committed borrowings until 2020.

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 35%–45%, 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 2016, the weighted average cost of debt was 3.9% (2015: 4.6%) and the WACC was 6.02% (2015: 6.22%). Investment and development opportunities are evaluated using a risk adjusted WACC in order to ensure long-term shareholder value is created.

29 Pension costs

Accounting Policy

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 outgoings (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.

Defined contribution scheme

The Group operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the Group in independently administered funds. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Pension arrangements for Directors are disclosed in the report of the Remuneration Committee and the Directors' Remuneration report on pages 62 to 85. The pension cost charge in these financial statements represents contributions payable by the Group. The charge of £1.0m (2015: £1.0m) is included within employee remuneration in Note 11.

Defined benefit scheme

In addition to the above, the Group also operates a final salary defined benefit pension scheme, the BPT Limited Retirement Benefits Scheme. The assets of the scheme are held separately in funds administered by Trustees and are invested with Rathbones Investment Management Limited, 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.

29 Pension costs continued

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 2016 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 2016, by a qualified independent actuary.

Principal actuarial assumptions under IAS 19 (per annum)

	2016	2015
Discount rate	2.25%	3.70%
Retail Price Index (RPI) inflation	3.10%	3.10%
Consumer Price Index (CPI) inflation	2.10%	2.10%
Salary increases	3.60%	3.60%
Rate of increase of pensions in payment	5.00%	5.00%
Rate of increase for deferred pensioners	2.10%	2.10%

Demographic assumptions

	2016	2015
Mortality tables for pensioners	100% of S2PA CMI 2015 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 2016		30 September 2015	
	Male	Female	Male	Female
Life expectancy for a current 60-year-old (years)	87.2	88.6	87.6	89.3
Life expectancy at age 60 for an individual aged 40 in 2016 (years)	89.5	90.2	90.1	90.9

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 2016		30 September 2015	
	Market value £m	**% of total scheme assets**	Market value £m	% of total scheme assets
Equities	**12.2**	**41%**	10.4	39%
Bonds	**11.7**	**40%**	10.8	40%
Properties	**–**	**–**	0.5	2%
Cash	**1.5**	**5%**	1.2	4%
Insurance policies	**4.1**	**14%**	4.0	15%
Total value of assets	**29.5**	**100%**	26.9	100%
The actual return on assets over the year was	**2.9**		0.8	

The assets of the scheme were transferred from Friends Life in the year and are now held with Rathbone Investment Management Limited 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

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Market value of scheme assets	**29.5**	26.9	25.8	22.8	21.7
Present value of scheme liabilities	**(34.7)**	(28.6)	(28.0)	(26.9)	(27.5)
Scheme deficit at 30 September	**(5.2)**	(1.7)	(2.2)	(4.1)	(5.8)

History of assets, liabilities, experience gains and losses

	2016	2015	2014	2013	2012
Gains/(losses) arising on scheme liabilities:					
Due to experience	**–**	–	£0.5m	–	–
Percentage of defined benefit obligation	**–**	–	1.8%	–	–
Due to change of basis	**£(6.0)m**	£(0.4)m	£(1.2)m	£0.9m	£(4.0)m
Percentage of defined benefit obligation	**(17.3)%**	(1.4)%	(4.3)%	3.3%	(14.5)%
Experience adjustments:					
Gains/(losses) arising on scheme assets	**£1.9m**	£(0.2)m	£1.6m	£(0.2)m	£2.0m
Percentage of scheme assets	**6.4%**	(0.7)%	6.2%	(0.9)%	9.2%

29 Pension costs continued

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

	2016 £m	2015 £m
Market value of scheme assets at the start of the year	**26.9**	25.8
Interest income	**1.0**	1.0
Employer contributions	**0.6**	1.1
Actual return on assets less interest	**1.9**	(0.2)
Benefits paid	**(0.9)**	(0.8)
Market value of scheme assets at the end of the year	**29.5**	26.9

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

	2016 £m	2015 £m
Value of defined benefit obligation at the start of the year	**28.6**	28.0
Interest on pension scheme liabilities	**1.0**	1.0
Actuarial gains: changes in demographic assumptions	**(2.1)**	–
Actuarial losses: changes in financial assumptions	**8.1**	0.4
Benefits paid	**(0.9)**	(0.8)
Value of defined benefit obligation at the end of the year	**34.7**	28.6

Amounts recognised in the consolidated statement of comprehensive income

	2016 £m	2015 £m
Actual return on assets less interest	**1.9**	(0.2)
Actuarial loss on defined benefit obligation	**(6.0)**	(0.4)
	(4.1)	(0.6)

The loss shown in the above table of £4.1m (2015: loss of £0.6m) has been included in the consolidated statement of comprehensive income on page 95.

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, until 31 January 2020.

A full actuarial valuation is currently in progress based on the scheme assets and liabilities as at 1 July 2016. The Group and the Trustees will review the results of the valuation on completion. In line with paragraph 23 of IFRIC 14, no additional liability is recognised as the additional contributions under the funding plan will reduce the future contributions payable into the Scheme.

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 £0.6m
RPI 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 £1.6m

30 Issued share capital

Accounting Policy

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.

	2016 £m	2015 £m
Allotted, called-up and fully paid:		
418, 374,535 (2015: 418,256,902) ordinary shares of 5p each	**20.9**	20.9

During the year, The Grainger Employee Benefit Trust has not acquired any shares (2015: 2,000,000 shares at cost of £4.1m). The Group paid £0.6m (2015: £0.6m) to the share incentive plan during the year for the purchase of matching shares and free shares in the scheme. The total cost of acquiring own shares of £0.6m (2015: £4.7m) has been deducted from retained earnings within Shareholders' equity.

As at 30 September 2016, share capital included 1,733,127 (2015: 3,656,096) shares held by The Grainger Employee Benefit Trust and 1,506,300 (2015: 1,506,300) shares held by Grainger plc as treasury shares. The total of these shares is 3,239,427 (2015: 5,162,396) with a nominal value of £161,971 (2015: £258,120) and a market value as at 30 September 2016 of £7.5m (2015: £12.3m).

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

	Number	Nominal value £'000
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
Options exercised under the SAYE scheme	117,633	5
At 30 September 2016	**418,374,535**	**20,918**

Share options

Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans comprising awards under a Long-Term Incentive Plan ('LTIP'), 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.

30 Issued share capital continued

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.

The Company operates a SAYE share option scheme available to employees. The number of shares subject to options as at 30 September 2016, 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	**2016 number**	2015 number
SAYE share options				
2011	98.7	2014–17	**–**	20,316
2012	68.9	2015–18	**74,018**	107,716
2013	115.1	2016–19	**44,561**	95,427
2014(A)	173.1	2017–20	**163,578**	187,488
2014(B)	151.3	2018–20	**474,352**	524,494
2015	173.3	2018–21	**199,320**	215,979
2016	166.8	2019–21	**291,834**	–
Total SAYE share options			**1,247,663**	1,151,420

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

	Opening position	**Exercised**	**Granted**	**Lapsed**	**Closing position**
SAYE scheme					
2011	20,316	**(20,316)**	**–**	**–**	**–**
2012	107,716	**(33,698)**	**–**	**–**	**74,018**
2013	95,427	**(39,448)**	**–**	**(11,418)**	**44,561**
2014(A)	187,488	**(6,413)**	**–**	**(17,497)**	**163,578**
2014(B)	524,494	**(13,678)**	**–**	**(36,464)**	**474,352**
2015	215,979	**(4,080)**	**–**	**(12,579)**	**199,320**
2016	–	**–**	**291,834**	**–**	**291,834**
	1,151,420	**(117,633)**	**291,834**	**(77,958)**	**1,247,663**
Weighted average exercise price (pence per share)	147.30	**108.40**	**166.80**	**154.40**	**155.10**

For those share options exercised during the year, the weighted average share price at the date of exercise was 225.1p (2015: 229.5p). For share options outstanding at the end of the year, the weighted average remaining contractual life is 2.8 years (2015: 3.4 years). There were 25,014 (2015: 33,698) share options exercisable at the year end with a weighted average exercise price of 115.1p (2015: 68.9p).

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

For the LTIP 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 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. In addition to the normal DBP scheme, an enhanced DBP scheme (EDBP) is 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 LTIP. Share options were granted to employees of the Group during the year under the SAYE scheme. The main assumptions used to value the share awards and SAYE options granted during the year are set out in the tables below.

31 Share-based payments

Share awards:

	LTIP		LTIP		DBP		SAYE	
Award date	11 January 2016 Market based	11 January 2016 Non-market based	11 February 2016 Market based	11 February 2016 Non-market based	12 January 2016 Basic	12 January 2016 Enhanced	21 July 2016 3 year scheme	21 July 2016 5 year scheme
Number of shares on grant	**404,955**	**404,955**	**71,373**	**71,372**	**56,502**	**97,468**	**225,833**	**66,001**
Exercise price (£)	–	–	–	–	–	–	1.668	1.668
Vesting period from date of grant (years)	3	3	3	3	1–3	1–5	3	5
Exercise period after vesting (years)	7	7	7	7	3	3	–	–
Share price at grant (£)	2.40	2.40	2.10	2.10	2.40	2.40	2.23	2.23
Expected risk free rate (%)	0.8	0.8	0.8	0.8	n/a	n/a	0.11	0.15
Expected dividend yield (%)	1.2	1.2	1.2	1.2	1.2	1.2	1.1	1.1
Expected volatility (%)	29.1	29.1	28.8	28.8	n/a	n/a	27.3	34.2
Fair value (£)	0.92	2.32	0.78	2.03	2.40	2.40	0.66	0.82

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

The share-based payments charge recognised in the income statement is £1.9m (2015: £2.0m).

Movements in options and options exercisable under the SAYE scheme as at 30 September 2016 are shown in Note 30.

31 Share-based payments continued

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

Scheme	Opening balance	Awards vested	Awards granted	Awards lapsed	Closing position
LTIP					
10 December 2012	1,449,341	**(1,420,895)**	**–**	**(28,446)**	**–**
13 December 2012	165,649	**(162,336)**	**–**	**(3,313)**	**–**
9 December 2013	843,046	**–**	**–**	**(165,064)**	**677,982**
16 December 2014	1,029,199	**–**	**–**	**(458,715)**	**570,484**
11 January 2016	–	**–**	**809,910**	**(216,523)**	**593,387**
12 January 2016*	–	**(5,520)**	**152,495**	**(27,602)**	**119,373**
11 February 2016	–	**–**	**142,745**	**–**	**142,745**
Total	3,487,235	**(1,588,751)**	**1,105,150**	**(899,663)**	**2,103,971**

* The grant of LTIP awards made on 12 January 2016 was made to Helen Gordon as replacement of awards made by her previous employer. The fair value of these awards is based on the assumptions relating to previous LTIP awards. Please see section 4 of the remuneration report on page 78 for further details.

Scheme	Opening balance	Awards vested	Awards granted	Awards lapsed	Closing position
DBP					
6 December 2010	32,653	**(32,653)**	**–**	**–**	**–**
12 December 2011	67,582	**(40,676)**	**–**	**–**	**26,906**
21 December 2012	168,306	**(156,165)**	**–**	**–**	**12,141**
9 December 2013	192,927	**(47,933)**	**–**	**–**	**144,994**
16 December 2014	85,752	**(18,804)**	**–**	**(4,082)**	**62,866**
12 January 2016	–	**(6,381)**	**56,502**	**–**	**50,121**
EDBP					
16 December 2014	163,860	**(24,390)**	**–**	**–**	**139,470**
12 January 2016	–	**(11,356)**	**97,468**	**–**	**86,112**
Total	711,080	**(338,358)**	**153,970**	**(4,082)**	**522,610**

32 Changes in equity

The consolidated statement of changes in equity is shown on pages 97 and 98. 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 33.

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.

Available for sale reserve

The fair value movements in the valuation of the CHARM financial asset, net of tax, are taken to this reserve.

33 Movement in retained earnings

The retained earnings reserve comprises various elements. Those elements, and the movements in each, are set out below:

	Share-based payment reserve £m	Treasury shares bought back and cancelled £m	Investment in own shares £m	Translation reserve £m	Retained earnings £m	Total retained earnings reserve £m
Balance as at 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
Profit for the year	**–**	**–**	**–**	**–**	**135.3**	**135.3**
Actuarial loss on BPT Limited pension scheme net of tax	**–**	**–**	**–**	**–**	**(3.5)**	**(3.5)**
Exchange adjustments offset in reserves net of tax	**–**	**–**	**–**	**1.1**	**–**	**1.1**
Recycling of exchange adjustments to income statement net of tax	**–**	**–**	**–**	**(3.5)**	**–**	**(3.5)**
Purchase of own shares	**–**	**–**	**(0.6)**	**–**	**–**	**(0.6)**
Award of shares from own shares	**(0.6)**	**–**	**0.6**	**–**	**–**	**–**
Share-based payments charge	**1.9**	**–**	**–**	**–**	**–**	**1.9**
Dividends	**–**	**–**	**–**	**–**	**(14.7)**	**(14.7)**
Balance as at 30 September 2016	**3.8**	**(7.8)**	**(15.0)**	**0.3**	**546.4**	**527.7**

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.

34 List of subsidiaries, associates and joint ventures

A full list of all subsidiaries, joint ventures, associates and other related undertakings as at 30 September 2016 is set out in the notes to the parent company financial statements on pages 164 to 167.

35 Related party transactions

During the year ended 30 September 2016, the Group transacted with its associates and joint ventures (details of which are set out in Notes 19 and 20). The Group provides a number of services to its associates and joint ventures. 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:

	2016		2015	
	Fees recognised £'000	**Year end balance £'000**	Fees recognised £'000	Year end balance £'000
GRIP REIT PLC	**3,670**	**1,745**	3,398	1,527
Grainger Stuttgart Portfolios	**301**	**–**	924	–
New Sovereign Reversions Limited	**–**	**–**	704	–
Walworth Investment Properties Limited	**40**	**40**	40	40
	4,011	**1,785**	5,066	1,567

On 1 January 2016, the Group sold its 25% equity interest in MH Grainger JV Sarl and its investment in Grainger Stuttgart Portfolio one GmbH & Co Kg and Grainger Stuttgart Portfolio two GmbH & Co Kg. The fees shown in the table above in 2016 represent asset management fees earned by the Group from 1 October 2015 upto completion on 1 January 2016.

On 1 June 2015, the Group sold its 50% equity interest in New Sovereign Reversions Limited. The fees shown in the table above in 2015 represent asset management fees earned by the Group from 1 October 2014 upto completion on 1 June 2015.

	2016			2015		
	Interest recognised £'000	**Year end loan balance £m**	**Interest rate %**	Interest recognised £'000	Year end loan balance £m	Interest rate %
GRIP REIT PLC	**795**	**19.9**	**Nil and 4.75**	1,010	24.1	4.75
MH Grainger JV Sarl	**–**	**–**	**–**	97	–	7.50
Grainger Stuttgart Portfolios	**–**	**–**	**–**	11	–	8.00
New Sovereign Reversions Limited	**–**	**–**	**–**	(12)	–	LIBOR + 2.35
Czech Republic combined*	**388**	**(3.6)**	**4.00**	–	6.9	1.25
Curzon Park Limited*	**–**	**19.5**	**Nil**	–	19.5	Nil
King Street Developments (Hammersmith) Limited	**–**	**6.8**	**Nil**	–	5.9	Nil
Walworth Investment Properties Limited	**455**	**6.7**	**7.00**	456	6.6	7.00
Vesta LP	**–**	**0.1**	**Nil**	–	0.1	Nil
	1,638	**49.4**		1,562	63.1	

* The amount disclosed above is the gross loan amount. Some provisions have been made against the loans.

The Group's key management are the only other related party. Details of key management compensation is provided in Note 11.

36 Operating leases

Accounting Policy

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.

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

	2016 £m	2015 £m
Operating lease payments due:		
Not later than one year	**0.8**	1.1
Later than one year and not later than five years	**3.7**	4.3
Later than five years	**1.1**	1.9
	5.6	7.3

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.

There are no contingent rents recognised within net rental income in 2016 or 2015 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 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.

37 Contingent liabilities

The properties in certain subsidiary companies forming a 'guarantee Group' with a market value of £1,181.1m 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 2016, total guarantees amounted to £2.3m (2015: £2.8m).

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 2017 and any payments are likely to be spread over a number of years.

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

38 Capital commitments

	2016 £m	2015 £m
	117.1	63.1

The Group has current commitments under a number of its PRS projects totalling £117.1m as at 30 September 2016 (2015: £63.1m).

39 Post balance sheet events

An irrevocable prepayment notice was delivered to M&G Investments Management Limited on the 29 September 2016, setting out the early repayment terms of the £100m term loan due 2021. The loan was subsequently repaid in full on 6 October 2016 utilising headroom on the Group's Core Facilities.

On 28 November 2016, the Group agreed and signed two new £50m bi-lateral term loans with HSBC and RBS. The initial term of each loan is 5 years. The HSBC facility agreement has an option to extend the maturity for a further one year.

On 28 November 2016, the Group agreed to aquire a PRS, build-to-rent development at Finzels Reach in Bristol for £45.7m. The site will deliver 194 private rental homes and is expected to complete at the beginning of 2019.

Parent company statement of financial position

As at 30 September

	Notes	2016 £m	2015 £m
Fixed assets			
Investments	2	**893.3**	934.4
Current assets			
Trade and other receivables	3	**35.9**	30.2
Cash at bank and in hand		**25.8**	5.3
		61.7	35.5
Creditors: amounts falling due within one year	4	**(321.3)**	(204.5)
Net current liabilities		**(259.6)**	(169.0)
Total assets less current liabilities		**633.7**	765.4
Creditors: amounts falling due after more than one year			
Interest-bearing loans and borrowings	5	**(272.5)**	(371.2)
Net assets		**361.2**	394.2
Capital and reserves			
Called-up share capital	6	**20.9**	20.9
Share premium account		**110.8**	110.7
Capital redemption reserve		**0.3**	0.3
Retained earnings		**229.2**	262.3
Total Shareholders' funds		**361.2**	394.2

The financial statements on pages 159 to 167 were approved by the Board of Directors on 1 December 2016 and were signed on its behalf by:

Helen Gordon
Director

Vanessa Simms
Director

Financial Statements – Parent company statement of changes in equity

As at 30 September

	Issued share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance as 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)
Balance as at 30 September 2015	**20.9**	**110.7**	**0.3**	**262.3**	**394.2**
At 1 October 2015	20.9	110.7	0.3	262.3	394.2
Loss for the year	–	–	–	(19.7)	(19.7)
Share-based payments charge	–	–	–	1.9	1.9
Purchase of own shares	–	–	–	(0.6)	(0.6)
Award of SAYE shares	–	0.1	–	–	0.1
Dividends paid	–	–	–	(14.7)	(14.7)
Balance as at 30 September 2016	**20.9**	**110.8**	**0.3**	**229.2**	**361.2**

1 Accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS101). The financial statements have been prepared on a going concern basis under the historical cost convention, in accordance with the Companies Act 2006.

These are the first financial statements of the Company to be prepared under FRS 101. The Company's date of transition to FRS 101 is 1 October 2014. The previous financial statements were prepared in accordance with previously applicable UK accounting standards. The adoption of FRS 101 has not resulted in any change to the recognition and measurement principles previously adopted and so the disclosure requirements of IFRS 1 are not included and the comparatives have not been restated, other than for certain presentational changes. The Company has notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the Company in these financial statements.

The application of FRS 101 has enabled the Company to take advantage of certain disclosure exemptions that would have been required had the Company adopted International Financial Reporting Standards in full. The exemptions that have been applied in the preparation of these financial statements are:

- A cash flow statement and related notes have not been presented.
- Disclosures in respect of new standards and interpretations that have been issued but which are not yet effective have not been provided.
- Disclosures in respect of transactions with wholly owned subsidiaries have not been made.
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instruments: DIsclousres have not been made.

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 £19.7m (2015: £20.5m). These financial statements present information about the Company as an individual undertaking and not about its Group.

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the Company's financial statements.

(b) 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.

(c) Tax

Corporation tax is provided on taxable profits or losses at the current rate.

Deferred tax is recognised in respect of all temporary 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 temporary 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.

1 Accounting policies continued

(d) 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.

(e) Share-based payments

Under the share-based compensation arrangements set out Note 31, 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.

(f) 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	2016 £m	2015 £m
At 1 October	**1,021.5**	1,017.5
Additions	**1.9**	4.0
Disposals	**(48.2)**	–
At 30 September	**975.2**	1,021.5

Included within additions of £4.0m in 2015 was an investment in Greit Limited of £2.0m. The remaining additions relate to share-based payments.

Impairment	2016 £m	2015 £m
At 1 October	**87.1**	89.2
Additional provision	**–**	–
Reversal of impairment provisions	**(5.2)**	(2.1)
At 30 September	**81.9**	87.1
Net carrying value	**893.3**	934.4

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 reversal of £5.2m (2015: reversal of £2.1m) has been made. A list of the subsidiaries of the Company is contained within Note 8 on pages 164 to 167.

3 Trade and other receivables

	2016 £m	2015 £m
Amounts owed by Group undertakings	**35.4**	28.9
Other receivables	**0.5**	1.3
	35.9	30.2

Amounts due in both 2016 and 2015 are all due within one year.

4 Creditors: amounts falling due within one year

	2016 £m	2015 £m
Variable rate loan (Note 5)	**100.0**	–
Bank loans and overdrafts	**2.7**	–
Amounts owed to Group undertakings	**214.3**	200.1
Accruals and deferred income	**4.3**	4.4
	321.3	204.5

Amounts owed to Group undertakings are interest free and are repayable on demand.

5 Interest-bearing loans and borrowings

	2016 £m	2015 £m
Variable rate – Pounds Sterling	**–**	100.0
Unamortised issue costs	**–**	(0.6)
	–	99.4
5% Guaranteed Secured Bonds due 2020	**275.0**	275.0
Unamortised issue costs	**(3.1)**	(3.9)
	271.9	271.1
Unamortised bond premium	**0.6**	0.7
Total interest-bearing loans and borrowings	**272.5**	371.2

The variable rate loan shown in Notes 4 and 5 is secured by floating charges over the assets of the Group. The loan bears interest at 4% (2015: 4%) over LIBOR. The amount due in more than five years is Nil (2015: £60.0m). This loan has been repaid since the year end.

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.

6 Called-up share capital

	2016 £m	2015 £m
Allotted, called-up and fully paid		
418,374,535 (2015: 418,256,902) ordinary shares of 5p each	**20.9**	20.9

Details of movements in issued share capital during the year and the previous year are provided in Note 30 to the Group financial statements on page 151.

Details of share options and awards granted by the Company are provided in Note 30 to the Group financial statements on pages 151 to 153 and discussed within the Remuneration Committee's report on pages 62 to 85.

7 Other information

Dividends
Information on dividends paid and declared is given in Note 15 to the Group financial statements on page 124.

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

8 List of subsidiaries, associates and joint ventures

A full list of of the Group's subsidiaries, associates, joint ventures and other related undertakings as at 30 September 2016 is set out below:

		Proportion of nominal value of ordinary shares held by:	
Company	Country of incorporation	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 (Residential Investments) Limited	United Kingdom	100%	
BPT (Residential Management Services) Limited	United Kingdom	100%	
BPT 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%	
Crofton Estate Management Company Limited	United Kingdom	100%	
Crossco (No. 103) Limited	United Kingdom	100%	
Curzon Park Limited	United Kingdom	50%	
Derwent Developments (Curzon) Limited	United Kingdom	100%	

8 List of subsidiaries, associates and joint ventures

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%	
Ekacroft Limited	United Kingdom	100%	
Faside Estates Limited	United Kingdom	100%	
Frincon Holdings 1986 Limited	United Kingdom	100%	
Frincon Holdings Limited	United Kingdom	100%	
GIP Limited	United Kingdom	100%	
Globe Brothers Estates Limited	United Kingdom	100%	
Grainger (Aldershot) Limited	United Kingdom	100%	100%
Grainger (Clapham) 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) Limited	United Kingdom	100%	
Grainger Asset Management Limited	United Kingdom	100%	100%
Grainger Bradley Limited	United Kingdom	100%	
Grainger Developments Limited	United Kingdom	100%	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 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 European Ventures Limited Liability Partnership	United Kingdom	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 Limited Liability Partnership	United Kingdom	100%	
Grainger Invest No.2 Limited Liability Partnership	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 Maidenhead 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%	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 REIT 1 Limited	United Kingdom	100%	
Grainger REIT 2 Limited	United Kingdom	100%	
Grainger REIT 3 Limited	United Kingdom	100%	
Grainger Residential Limited	United Kingdom	100%	100%

8 List of subsidiaries, associates and joint ventures continued

Company	Country of incorporation	Proportion of nominal value of ordinary shares held by:	
		Group %	Company %
Grainger Residential Management Limited	United Kingdom	100%	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 Treasury Property Investments Limited Partnership	United Kingdom	100%	
Grainger Treasury Property (2006) Limited Liability Partnership	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%
GRIP REIT Plc	United Kingdom	24.9%	
GRIP UK Holdings Limited	United Kingdom	24.9%	
H I Tricomm Holdings Limited	United Kingdom	100%	
Harborne Tenants Limited	United Kingdom	100%	
Home SGO Properties Limited	United Kingdom	100%	
Infrastructure Investors Defence Housing (Bristol) Limited	United Kingdom	100%	
Ingleby Court Management Limited	United Kingdom	100%	
Jesmond Place Management Limited	United Kingdom	70%	
King Street Developments (Hammersmith) Limited	United Kingdom	50%	
Kings Dock Mill (Liverpool) Management Company Limited	United Kingdom	100%	
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	17%	
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%	
Northumberland & Durham Property Trust Limited	United Kingdom	100%	
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 Limited	United Kingdom	100%	
Planfirst Limited	United Kingdom	100%	
Portland House Holdings Limited	United Kingdom	100%	
Redoubt Close Management Limited	United Kingdom	3%	
Residential Leases Limited	United Kingdom	100%	
Residential Tenancies Limited	United Kingdom	100%	
Rotation Finance Limited	United Kingdom	100%	100%
Sandown (Whitley Bay) Management Limited	United Kingdom	51%	
Sixty-two Stanhope Gardens Limited	United Kingdom	20%	
Southvale Investments Limited	United Kingdom	100%	100%
Stagestar Limited	United Kingdom	25%	
Suburban Homes Limited	United Kingdom	100%	
The Bradford Property Trust Limited	United Kingdom	100%	
The Chancel Management Company Limited	United Kingdom	96%	
The Greenhalgh Court Management Company Limited	United Kingdom	77%	

Company	Country of incorporation	Proportion of nominal value of ordinary shares held by: Group %	Company %
The Owners of the Middlesbrough Estate Limited	United Kingdom	100%	
The Sandwarren Management Company Limited	United Kingdom	100%	
The Tilt Estate Company Limited	United Kingdom	100%	
Tricomm Housing (Holdings) Limited	United Kingdom	100%	
Tricomm Housing Limited	United Kingdom	100%	
Vesta Limited Partnership	United Kingdom	15%	
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%	
Wellesley Residents Trust Limited	United Kingdom	100%	
West Waterlooville Developments Limited	United Kingdom	100%	
1 Ifield Road Management Limited	United Kingdom	50%	
16 Beverley Terrace Limited	United Kingdom	33%	
19 Ifield Road Management Limited	United Kingdom	100%	
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.	Czech Republic	50%	
CCZ a.s.	Czech Republic	50%	
Prazsky Projekt a.s.	Czech Republic	50%	
Grainger FRM GmbH	Germany	100%	
Grainger FRM General Partner GmbH	Germany	100%	
Grainger FRM (No.1) GmbH & Co. Kg	Germany	94.9%	
Grainger Portfolio 3 GmbH	Germany	100%	
Kew Bridge Court Guernsey Limited	Guernsey	24.9%	
G:Res-Co4 Limited	Jersey	24.9%	
GRIP Jersey Property Holdings (2016) 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	22.2%	
The Grainger Residential Property Unit Trust	Jersey	24.9%	

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 5 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 5 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 NAV and EPRA 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 the reversionary portfolio rental levels are at a sub-market level.

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 numbers presented in the tables below for EPRA Earnings, EPRA Earnings per share, EPRA NIY and EPRA Vacancy Rate, relate to continuing operations only. The 2015 comparatives have been restated to exclude discontinued operations. See Note 3 to the financial statements for further details of discontinued operations.

The EPRA measures being reported and the calculation of EPRA earnings, EPRA NAV, EPRA NNNAV and EPRA NIY are set out below:

	2016	2015
EPRA Earnings	**£41.8m**	£22.5m[2]
EPRA Earnings per share	**10.1p**	5.4p[2]
EPRA NAV	**£1,379.5m**	£1,334.1m
EPRA NAV per share	**330p**	319p
EPRA NNNAV	**£1,199.5m**	£1,101.5m
EPRA NNNAV per share	**287p**	263p
EPRA Net Initial Yield (NIY)[1]	**4.3%**	4.4%[2]
EPRA Vacancy Rate[1]	**2.1%**	2.5%[2]

1 Excludes property that is vacant and is being marketed for sale.
2 Restated to exclude discontinued operations.

2 EPRA earnings – continuing

	2016			2015 restated		
	Earnings £m	**Shares (millions)**	**Pence per share**	Earnings £m	Shares (millions)	Pence per share
Earnings per IFRS income statement – continuing operations	**74.5**	**414.4**	**18.0**	44.0	412.5	10.7
Adjustments to calculate EPRA Earnings, exclude:						
i) Changes in value of investment properties, development properties held for investment and other interests	**(20.3)**	**–**	**(4.9)**	(14.6)	–	(3.5)
ii) Profits or losses on disposal of investment properties, development properties held for investment and other interests	**(1.6)**	**–**	**(0.4)**	(0.4)	–	(0.1)
iii) Profits or losses on sales of trading properties including impairment charges in respect of trading properties[1]	**2.7**	**–**	**0.7**	1.2	–	0.3
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	**9.9**	**–**	**2.4**	6.3	–	1.5
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	**1.5**	**–**	**0.4**	1.4	–	0.3
x) Adjustments i) to viii) in respect of joint ventures	**(24.9)**	**–**	**(6.1)**	(15.4)	–	(3.8)
xi) Minority interests in respect of the above	**–**	**–**	**–**	–	–	–
EPRA Earnings/Earnings per share	**41.8**	**414.4**	**10.1**	22.5	412.5	5.4

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 under this heading in both years relates to an impairment provision made against trading stock.

3 EPRA NAV

	2016			2015		
	Net assets £m	**Shares (millions)**	**NAV pence per share**	Net assets £m	Shares (millions)	NAV pence per share
NAV from the financial statements	**675.2**	**418.4**	**161**	564.9	418.3	135
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	**649.4**	**–**	**155**	687.7	–	165
iv) Value of own shares[1]	**7.5**	**–**	**2**	12.3	–	3
Exclude:						
v) Fair value of financial instruments	**10.7**	**–**	**3**	26.8	–	6
vi.a) Deferred tax	**28.4**	**–**	**7**	30.0	–	7
vi.b) Goodwill as a result of deferred tax	**–**	**–**	**–**	–	–	–
Include/exclude:						
Adjustments i) to v) above in respect of joint venture interests	**8.3**	**–**	**2**	12.4	–	3
EPRA NAV/EPRA NAV per share	**1,379.5**	**418.4**	**330**	1,334.1	418.3	319

1 The Grainger measures of NAV and NAV per share disclosed in Note 5 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 NNNAV

	2016			2015		
	Net assets £m	**Shares (millions)**	**NAV pence per share**	Net assets £m	Shares (millions)	NAV pence per share
EPRA NAV	**1,379.5**	**418.4**	**330**	1,334.1	418.3	319
Include:						
i) Fair value of financial instruments	**(12.0)**	**–**	**(3)**	(27.9)	–	(7)
ii) Fair value of debt	**(22.3)**	**–**	**(5)**	(25.8)	–	(6)
iii) Deferred tax	**(145.7)**	**–**	**(35)**	(178.9)	–	(43)
EPRA NNNAV/EPRA NNNAV per share	**1,199.5**	**418.4**	**287**	1,101.5	418.3	263

5 EPRA net initial yield (NIY)

	2016 £m	2015 restated £m
Market value of wholly-owned market rented assets[1]	**412.9**	356.7
Allowance for estimated purchasers' costs	**11.5**	10.0
Grossed up market value of wholly-owned market rented assets	**424.4**	366.7
Annualised passing rental income	**24.3**	21.4
Property outgoings	**(6.0)**	(5.3)
Annualised net rents	**18.3**	16.1
EPRA NIY	**4.3%**	4.4%

1 Based on Grainger's wholly-owned market rented portfolio of property assets excluding assets under construction which has a market value as at 30 September 2016 of £461m (2015: £399m) but excluding interests in garages, ground rents and land amounting to £48m (2015: £42m).

Five year record

For the year ended 30 September 2016

	2012 £m	2013 £m	2014 £m	2015 restated £m	**2016** **£m**
Revenue	311.4	283.2	319.1	193.1	**219.9**
Gross proceeds from property sales	250.5	347.1	267.2	149.3	**164.8**
Gross rental income	89.8	71.3	57.4	46.7	**51.9**
Gross fee income	10.0	12.5	12.3	5.0	**5.9**
Operating profit before valuation and non-recurring items (OPBVM)	126.4	107.6	107.5	79.5	**88.7**
Profit/(loss) before tax	(1.7)	64.3	81.1	51.4	**84.2**
Profit after tax	0.4	53.6	74.7	44.0	**74.5**
Dividends taken to equity	7.6	8.0	8.5	10.4	**14.7**

	Pence	Pence	Pence	Pence	**Pence**
Earnings per share	0.1	13.1	18.1	10.7	**18.0**
Dividends per share	1.9	2.0	2.5	2.8	**4.5**

	Pence	Pence	Pence	Pence	**Pence**
Gross net asset value per share	223.0	242.0	290.6	319.0	**329.7**
Triple net asset value per share	157.1	194.7	242.0	263.4	**286.7**
Share price at 30 September	107.7	174.8	185.5	238.0	**230.0**

	%	%	%	%	**%**
Return on capital employed (ROCE)	5.9	8.1	17.0	11.0	**8.4**
Return on shareholder equity (ROSE)	3.8	25.2	25.6	10.0	**10.6**

The 2015 results in the table above have been restated in order to be comparable with 2016 results following the disposals made in the current financial year. All other years are as previously reported and have not been restated.

Financial calendar

AGM	8 February 2017
Payment of 2016 final dividend	10 February 2017
Announcement of 2017 interim results	May 2017
Announcement of 2017 final results	November 2017

Share price

During the year ended 30 September 2016, the range of the closing mid-market prices of the Company's ordinary shares were:

Price at 30 September 2016	230.0p
Lowest price during the year	193.1p
Highest price during the year	252.5p

Daily information on the Company's share price can be obtained on our website www.graingerplc.co.uk or by telephone from FT Cityline on 09058 171 690. Please note that FT Cityline is a chargeable service.

Capital gains tax

The market value of the Company's shares for capital gains tax purposes at 31 March 1982 was 2.03p.

Website

Website address www.graingerplc.co.uk

Shareholders' enquiries

All administrative enquiries relating to shareholdings (for example, notification of change of address, loss of share certificates, dividend payments) should be addressed to the Company's registrar at:

Capita IRG plc
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire
HD8 0LA

Share dealing service

A share dealing service is available to existing Shareholders to buy or sell the Company's shares via Capita Share Dealing Services. Online and telephone dealing facilities provide an easy to access and simple to use service.

For further information on this service, or to buy or sell shares, please contact: www.capitadeal.com – online dealing
0870 458 4577 – telephone dealing

Please note that the Directors of the Company are not seeking to encourage Shareholders to either buy or sell their shares. Shareholders in any doubt as to what action to take are recommended to seek financial advice from an independent financial adviser authorised by the Financial Services and Markets Act 2000.

Company Secretary and registered office

Adam McGhin
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Company registration number 125575

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.

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.

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

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

Adjusted earnings
Profit before tax before valuation movements and non-recurring items.

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.

EPRA NAV
Shareholders' funds adjusted for the market value of property assets held as stock but before deduction for deferred tax on property revaluations and before adjustments for the fair value of derivatives.

Hedging
The use of financial instruments to protect against interest rate movements.

Interest cover
Profit on ordinary activities before interest and tax divided by net interest payable.

Loan to value ('LTV')
Ratio of net debt to the market value of properties.

EPRA NNNAV
EPRA 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.

Operating Profit before Valuation Movements ('OPBVM')
Operating profit before valuation movements and non-recurring items.

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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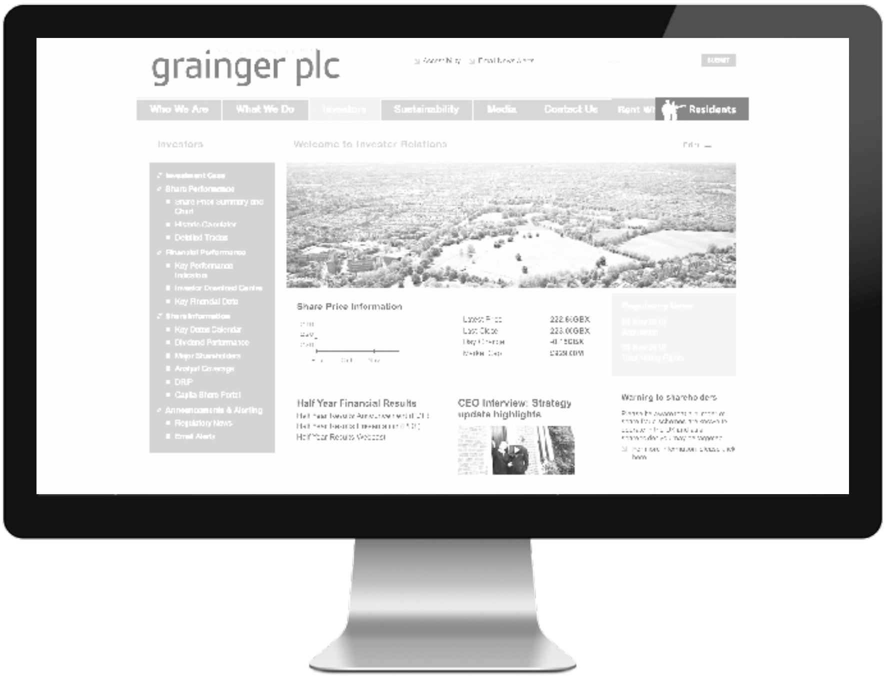

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