

OUR PURPOSE

MORE AND MORE PEOPLE ARE RENTING IN THE UK, AND WE ARE MEETING THIS NEED BY PROVIDING **GREAT HOMES TO RENT.**

WE ARE THE UK'S LARGEST LISTED RESIDENTIAL LANDLORD AND A MARKET LEADER IN THE PRIVATE **RENTED SECTOR. WE THINK AND PLAN FOR** THE LONG TERM.

BY PROVIDING WELL-DESIGNED HOMES IN GREAT LOCATIONS, COUPLED WITH GREAT CUSTOMER SERVICE, WE PROVIDE OUR CUSTOMERS WITH



FINANCIAL

Net rental income

£43.8m

1 +8%

(FY17: £40.4m)

Adjusted earnings

94.0m

1 +26% (FY17: £74.4m)

Cost of debt (at period end)

1-22bps (FY17: 3.4%)

IFRS net assets

195pps

0 +9.5% (FY17: 178pps)

(ROSE)

Total return

120bps (FY17: 7.3%) **Dividend per share**

1 +8% (FY17: 4.86p)

Profit before tax

£100.7m

1 +17% (FY17: £86.3m)

Loan to value

37.1%

⊕-53bps (FY17: 37.7%)

EPRA NNNAV

316pps

(1) +4.3% (FY17: 303pps)

Definitions and additional information relating to all KPIs are shown on pages 18 and 19.

STRATEGIC AND OPERATIONAL

Growth in net rental income

Gross to net (rental margin)

26%

Total secured

Customer retention

27 months

Employee retention

(FY17: 94.5%)

Number of new homes added to the pipeline this year



66

The transformation of your Company is ahead of plan with another strong set of financial results





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Minor, non-material adjustments have been made to this document since its original publication on 13 November 2018.

Strategic report GRAINGER AT A GLANCE

LEADING THE MARKET: TWO ATTRACTIVE PORTFOLIOS

Our regulated tenancies



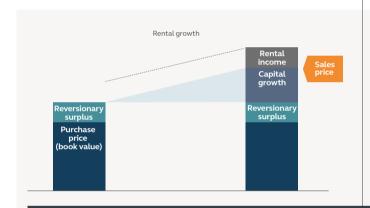
Our PRS properties

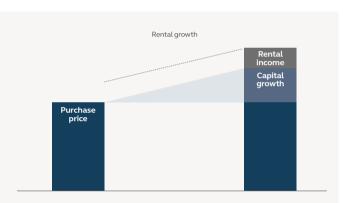
Characteristics

- Generates c.50% of net rental income
- Gross yields of 2-4%
- Attractive rental growth of 5.4% annualised in FY18
- Steady vacancy rates leading to sales, with 41% of vacancies arising from mortality and 25% from moving into assisted living accommodation

Characteristics

- Generates c.50% of net rental income
- Gross yields of existing PRS properties 4-6%
- Gross yields on cost of new investments 5-8%
- Rental growth of 3.0% in FY18
- Occupancy of 97%
- Average customer retention of 27 months





Predictable cash flow generation underpins funding for growth

OUR STRATEGY

Sell properties on vacancy, crystallising the reversionary surplus

OUTLOOK

- Sales of properties on vacancy expected to continue at between 6-7% per year of the portfolio, with average tenant age of 76
- Uplift on sale generates NAV growth, with current year sales c.1% above vacant possession book value
- Provides funds for reinvestment in the PRS portfolio

OUR STRATEGY

- Continue investing in high-yielding properties, securing high-quality schemes with strong rental demand
- Focus on 14 key cities, including London, Manchester, Bristol, Leeds, Birmingham
- Recycling capital into PRS from regulated tenancy sales and asset recycling

OUTLOOK

- Strong and growing rental demand in target locations
- Attractive rental growth prospects
- Strong demand underpins valuations and yields

A well located portfolio (highlights include)

LEEDS
PRS Operational
units

100

PRS Units under

242

Total PRS investment

£58m

MANCHESTER

Why we invest in Manchester

- 8-10% population growth forecast
- 1 in 5 represent our target market (aged 25-34)
- High employment rate
- High graduate retention rate, second only to London

Stat

52%

graduate retention (HESA)



Key project

Clippers Quay (phase 1 complete)

- 614 PRS apartments
- £99m investment
- c.8% targeted gross yield

LONDON

Why we invest in London

- Largest PRS market
- Strongest rental growth prospects

Stat

60%

of households forecast to be renting by 2020 (PwC)



Key project

Argo Apartments, Canning Town (completed)

- 134 PRS apartments
- 97% let in 4 months
- Gross yield on cost of c.8% achieved
- High customer satisfaction

BIRMINGHAM

Why we invest in Birmingham

- Strong economy
- Good rental growth prospects
- Supportive planning environment
- Planned infrastructure investment
- High graduate retention rate 49%

Sta

108_k+

increase in population in last decade (ONS)



Key project

Gilders Yard, Jewellery Quarter (in construction)

- 156 PRS apartments
- £28m investment
- c.7% targeted gross yield

MILTON KEYNES PRS development

7

PRS Units under development

400

Total PRS investment

£95m

BEREWOOD,
HAMPSHIRE
PRS units under
development

104

Total PRS investment

£17m

BRISTOL

Why we invest in Bristol

- Infrastructure improvements
- Supportive demographics
- Lack of purpose built professionally managed assets
- High house price to earnings ratio

Stat

79%

employment rate, above the UK average (ONS)



Key project

Finzels Reach

- 194 PRS apartments
- £46m investment
- c.7% gross yield targeted

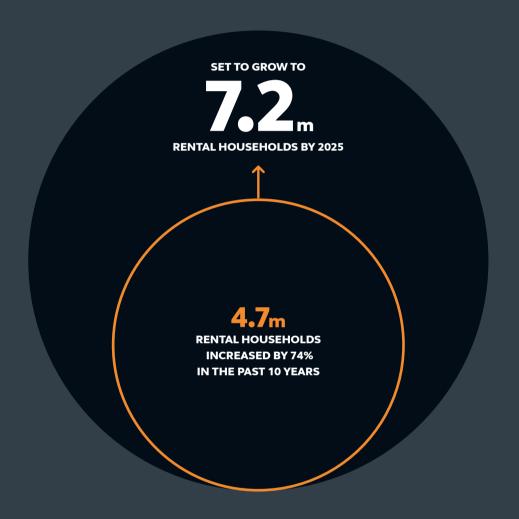
WELLESLEY,
HAMPSHIRE
PRS units under
development

107

Total PRS investment

£22m

A VAST MARKET OPPORTUNITY





Supply of PRS homes in the pipeline (build-to-rent)

132k



Grainger is the market leader with

4,548
PRS units. Remainder of top 10 PRS providers have 10,500 units



Largest growth in renting among 35-44 year olds

100k

new households in 2017



Over 30% of tenants are families with children

38%



Mean age of PRS tenants

40

The PRS has grown rapidly in the last decade and now accounts for 20% of all UK households up from 13% in 2007. The rising cost of home ownership, particularly in large cities, as well as societal lifestyle changes have been key drivers.

Although young people (aged 25-34) remain the most prominent group in the PRS, growth has been recorded across all age groups. The PRS is projected to account for 25% of all households by 2025 (PwC) and, additionally, one third of millennials (c.2.1m people) are forecast to live their whole life in the PRS (Resolution Foundation).

The PRS is largely dominated by buy-to-let landlords, who are estimated to account for 97% of rental supply (IPF), but there are increasing calls for a more institutional and professional approach to managing large scale residential property, designed specifically for the rental market.

MARKET DRIVERS	WHAT'S HAPPENING	ТНЕ ІМРАСТ	HOW OUR STRATEGY IS OPTIMISED TO RESPOND
1. GROWING THE PRIVATE RENTED SECTOR	The number of households in the UK PRS has been steadily increasing for over a decade. This is forecast to continue.	Increasing demand for rental homes.	Investing in our portfolio and growing the number of rental homes we provide.
2. UNDERSUPPLY OF HOUSING	The UK created fewer than 230,000 homes for each of the past 10 years. The Government's target is for 300,000 homes per year.	Upward pressure on house prices and greater demand for rental homes.	Creating high-quality homes for rent. Maintaining high occupancy and customer retention.
3. REDUCTION IN NUMBER OF BUY-TO-LET LANDLORDS	Tax and policy changes have caused small buy-to-let landlords to leave the sector, reducing the number of rental homes available.	Upward pressure on house prices and greater demand for rental homes.	Creating high-quality homes for rent. Maintaining high occupancy and customer retention.
4. LIFESTYLE CHANGES ARE INCREASING DEMAND FOR RENTED PROPERTIES	A trend toward spending on experiences rather than properties means people are delaying owning a home until later in life.	Increasing demand for rental homes.	Providing long-term and flexible tenancies to meet the increasing demand for 'lifestyle' renting.
5. POLICY ENVIRONMENT	Positive recent changes to government policy, particularly the National Planning Policy Framework ('NPPF') and Guidance, in favour of PRS development and professional, large scale landlords.	Some equalisation between PRS development (build-to-rent) and the build-for-sale sector.	Bringing forward more development opportunities to increase our portfolio.
6. PROFESSIONALISATION OF THE PRS	Increasing number of large scale, professional landlords.	Increasing competition. Increasing consumer recognition of two types of rental products, providing an opportunity for differentiation against buy-to-let.	Protecting our intellectual property. First-mover advantage through our regional city strategy. Constantly evolving our product design and customerservice offering.
	→ More on page 4		→ More on page 6

Strategic report BUSINESS MODEL AND STRATEGY

CREATING AND SUSTAINING LONG-TERM VALUE

Our inputs

OUR PEOPLE

Recruiting and retaining top talent with a commitment to excellence and company culture are key focus areas of our people strategy, ensuring alignment to our purpose and core values.

OUR ASSETS

Well-designed, safe and secure rental homes that are priced well, enable us to achieve superior shareholder returns.

FINANCIAL DISCIPLINE

A strong balance sheet is critical to long-term sustainable shareholder value.

RELATIONSHIPS

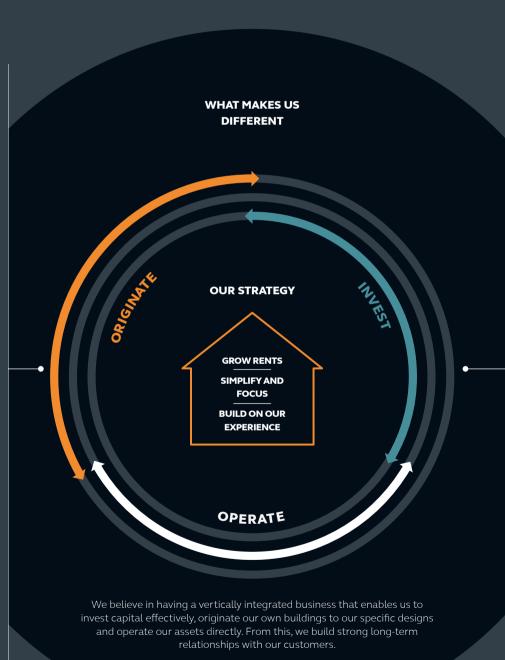
Knowing the market and our customers is critical to finding new opportunities to derive value.

INTELLECTUAL PROPERTY

Our unrivalled knowledge-base is critical to our ability to compete effectively.

TECHNOLOGY

A key growth enabler, it supports the growth of our portfolio and cost maintenance while enhancing service to our customers.



Our integrated approach means that we benefit directly from our experience and can constantly evolve and improve on what we do.

See our KPIs



"

The opportunity in the rental market remains vast and we continue to take actions aligned to our strategic priorities

"

Helen Gordon, CEO





See our business model in action

Page 14

Value creation



GROWING NET RENTAL INCOME AND DIVIDEND

New investments and improving operational efficiencies enable us to grow net rental income and our dividend.



ENHANCING CAPITAL RETURNS

A strategically located portfolio in the strongest markets, coupled with our development activity, generate good capital returns.



STRONG TOTAL RETURNS

Risk adjusted, sustainable and long term.

STRATEGY AND BUSINESS MODEL WORKING TOGETHER

Strategic priority 1:

Grow rents

A clear focus on driving growth in rental income

Strategic priority 2:

Simplify and focus

A simplified strategy, business model and financial structure enable greater returns.

Strategic priority 3:

Build on our experience

Doing what we are good at – providing homes for rent in the UK in line with our core values of being a responsible, long-term landlord.



Value created for our stakeholders

CUSTOMERS

Providing desirable, healthy and well-designed homes for the mid-market.

Delivering great customer service so renting is easy and hassle free.

SHAREHOLDERS

Creating value through growth in our net asset values (EPRA NNNAV) and through increasing our net rental income and dividend.

LOCAL COMMUNITIES

We seek to enhance the places we invest in – for our customers and existing communities. We engage with local stakeholders to shape the future of their area.

SUPPLIERS

We strive for our suppliers to grow in line with our success.

EMPLOYEES

Providing opportunities to grow, develop, be challenged and succeed.

See our stakeholders



Strategic report CHAIRMAN'S STATEMENT



I am pleased to report that 2018 has been a year of significant progress in delivering the strategy, underpinned by a good financial performance. This puts Grainger in a strong position going forward to deliver growth in the business and its returns.

Net rental income growth reflects acquisitions and strong like for like rental growth ahead of the market. Sales from the regulated portfolio and asset recycling initiatives have contributed to the strong profit performance, supported by a continued focus on cost control.

Progress on growing our PRS business continues with the launch of Argo Apartments in London and Clippers Quay in Manchester. Over the next few years around 5,300 PRS units are expected to be added from our pipeline. In parallel, our commitment to the efficient management of our regulated portfolio and delivering good levels of service remains.

During the year the Board carried out a thorough review of the Company's strategy and were very satisfied with the progress made. The key areas discussed included how growth of the PRS portfolio could be accelerated and how the investment in operational efficiency and enhancing customer experience will be delivered.

Our business as a housing provider is important, serving those who either cannot get onto the 'housing ladder' or simply do not want to buy. Forecasts of the growth needed to match demand is not being delivered and that is why we will continue to lobby government to support PRS in order to accelerate housing supply and enable us to deliver good quality homes for rent where people can put down roots.

The Board takes governance requirements very seriously and our aim is to take a leadership position where we can. One of the critical areas of focus is health and safety. The Company has clear plans to ensure that it continues to keep staff, customers and the general public safe. Alongside delivering a customer service culture, keeping safe is one of the highest priorities within the business.

Tony Wray has decided to step down at the AGM in 2019, by which time he will have served over seven years on the Board as a Non-Executive Director. I would like to thank Tony for his significant contribution to the success of the Company and wish him well for the future.

The Board is pleased to see the Company receive external recognition for the service it provides its customers as Asset Manager of the Year at the RESI Awards. The Board has a real expectation of continued progress which will deliver critical competitive advantage going forward.

Following on from the strong financial performance delivered, the Board is pleased to recommend an increase in the final dividend to 3.52p per share, bringing the total for the year to 5.26p per share, up 8% on the prior year.

This performance is testament to the hard work and dedication of every member of the Grainger team. I thank everyone, on behalf of the Board.

Looking ahead, our objective remains the same: to deliver great homes for rent and a great customer experience. We will do this by delivering our growth strategy, investing to improve our operational efficiency and by improving the performance of our portfolio wherever we can.

Mark Clare Chairman

13 November 2018

Strategic report CHIEF EXECUTIVE'S REVIEW



It is less than three years since I presented the strategy to transform Grainger into the UK's leading private rental provider, providing shareholders with resilient and strong returns, and I am pleased that the transformation of your Company is ahead of plan with another strong set of financial results.

The opportunity in the rental market remains vast and we continue to take actions aligned to our strategic priorities: investing in PRS assets to increase net rental income, organisational improvements to simplify and focus the business, and operational enhancements to build on our century of experience in the market.

Our successful, disciplined approach to investment and operations alongside cost control is delivering strong results.

Strategic priority 1: Grow rents

We have achieved our £850m investment target two years ahead of plan, acquiring some of the best PRS development opportunities, whilst securing superior levels of return. These investments will increase our net rental income over the next two to three years, underpinning growth in our dividend. This year saw the successful completion and letting of three important new PRS assets, Argo Apartments in London, which was 97% let in four months; phase 1 of Clippers Quay in Greater Manchester, our largest PRS scheme; and our first 104 family units in Berewood, Hampshire.

Strategic priority 2: Simplify and focus

We continue to streamline the business and its operations. Cost controls remain robust. We have retained a steady level of overheads following the 25% reduction of the previous two years. The reduction in our cost of debt has been a success. The refinancing of our corporate bond earlier this year reduced our cost of debt further to 3.2%. Operational excellence also remains a focus and we have maintained an optimal level of 26% gross to net leakage. The business is now well established and disciplined in its asset recycling, analysing each property for its future growth prospects. We profitably sold £157m worth of assets. These actions place us in a strong position for the growth trajectory we have embarked upon.

Strategic priority 3: Build on our experience

Our reputation as a responsible and high-performing landlord underpins our strategy. We have invested in operational improvements and our digital platform to deliver high-quality customer service, and to improve our customers' lives. Our commitment to health and safety remains the most important aspect of securing our future and licence to operate, and a critical focus area for the Executive management team.

Delivering results

Strong financial performance

With the actions we have taken, I am pleased to report that the underlying financial performance of the business remains strong.

Adjusted earnings increased by 26% in the year to £94.0m (FY17: £74.4m). Net rental income increased further by 8% to £43.8m (FY17: £40.4m). We delivered strong sales performance from our regulated tenancy portfolio and our remaining development activity.

We are focused on driving returns for shareholders, and over the year we delivered a total return of 6.1% (FY17: 7.3%).

Supported by our growth in net rental income, I am pleased to announce the Board is recommending an 8% increase in our total dividend to 5.26p per share (FY17: 4.86p per share), in line with our policy to deliver sustainable, income backed growth and distribute 50% of net rental income.

Investing in the right assets and places

At the end of last year we presented our work on investable cities.

We have clear criteria for where we invest, in areas that have the strongest current rental demand and the greatest rental growth prospects. This enables us to allocate internal resources effectively and has contributed to our investment success.

Our operations team supplement local market insight and sign off the design of the assets prior to acquisition, whilst our development and investment teams ensure that schemes can deliver shareholder value.

Our research and insight into local markets informs our capital allocation, in terms of our investments and our disposals as part of our asset recycling programme.

Strategic report **CHIEF EXECUTIVE'S REVIEW CONTINUED**

Delivering in partnership

Grainger's heritage as a good landlord has enabled it to forge partnerships with landowners in the public and private sectors and with developers.

We have successful partnerships with the Defence Infrastructure Organisation at Wellesley and the London Pensions Partnership at Pontoon Dock, and I am particularly pleased we were selected by the London Borough of Lewisham to deliver c.300 private and social rental homes.

During the year, we brought two successful partnerships to an end: with Dorrington Investment plc and with the Royal Borough of Kensington and Chelsea. The JV with Dorrington was part of our asset recycling strategy. Our exit from this JV was amicable and profitable. The Royal Borough of Kensington and Chelsea has experienced challenges following the tragedy of the fire at Grenfell Tower and Grainger supported the Borough providing them with high-quality homes for the displaced families and bringing our partnership to an appropriate conclusion.

We look forward to replicating these partnerships where they bring access to land to support Grainger's growth strategy.

Enhancing customer operations to secure our leading position

Customer service is a focus area. We have invested in training and improving processes to enable operational staff to deliver better service.

We are seeing signs of the benefits of these investments, with lower voids and arrears, maintained customer retention, increased customer satisfaction and efficient levels of property operating costs.

Enhancing operations through technology

We are investing in our digital platform to create a more efficient and scalable platform to support our growth plans and enable us to manage costs over this period of growth. We launched our Project Connect to improve our operations, enhanced by technology aimed at enabling scalable growth within the business and enhancing the rental experience for our customers, including a digital leasing journey. We have recruited talented specialists in this area and our plans for our customers' digital experience reinforce our vision for greater leadership in the sector.

Recognition as a market leader

Our leading position in the UK PRS was acknowledged during the year with Asset Manager of the Year at the national RESI Awards, and we were a finalist in the Residential Property Company of the Year at the national EG Awards.

Our leadership in sustainability and corporate social responsibility ('CSR') was also recognised, with a Gold Award in EPRA's Sustainability Best Practices Recommendations. We also received recognition

through the Global Real Estate Sustainability Benchmark ('GRESB') where Grainger's PRS fund, GRIP REIT, was awarded Sector Leader and Grainger took third overall among European listed residential peers.

Investing in our people

Without the dedication, commitment, expertise, compassion and enthusiasm of our people, Grainger could not retain our leadership of the sector. Nor would we have the confidence in our future and our growth plans, were it not for those that make up the organisation.

We recognise the importance of our people - and of attracting and retaining the best.

Throughout the year we run our employee engagement programme. This includes a comprehensive annual employee survey, the Best Companies Index. I am delighted that over 80% of employees took part. We have made strides across all areas of the business. It is clear that colleagues are committed to the Company vision, live our values, and come to work focused on delivering great homes for rent.

Grainger's success is a result of our ability to attract and retain highly talented individuals. We have made significant investment in our development team with four senior hires, ensuring we have the right resource in place to deliver our PRS development pipeline.

Delivering great homes to rent

Grainger's focus is on delivering private rental homes for the largest number, and most diverse range of people. We target investment at those earning local average incomes. This ensures our homes are always in high demand and occupancy levels are high, providing sustainable shareholder returns. In turn, the commitment of our operational teams to deliver the best rental experience supports customer retention and the creation of long-term communities within our buildings.

Our ambition is to be the best PRS landlord in the UK, delivering great homes to rent with great customer service. We are well on our way, yet we recognise there is much still to do. The outlook for the business is positive as we deliver numerous developments in our pipeline, and our operational platform undergoes a step change in delivery as a result of our investment in technology and our digital platform.

My thanks go to the Board and shareholders for their ongoing support but, most importantly, I thank the Grainger team for all their outstanding efforts.

Helen Gordon Chief Executive

13 November 2018

INVESTMENT CASE

A compelling investment case, with strong fundamentals

National reach

Presence across the country.

Local knowledge

Local market knowledge provides



Strong balance sheet

Capacity to deliver £1.2bn investment plan.

A well-established network

Scale and strong industry contacts

A disciplined approach to investment and multiple channels

support forwarding-funding acquisitions, direct development, development partnerships and acquiring existing assets.

Market leading operating platform

Unparalleled scale and expertise.

Fully integrated business model, and operations.

Vast market opportunity

by 20<u>25</u>.



Strong future cash flows

Regulated tenancy home sales are expected to generate an average of £100m p.a.

£100m p.a.

Plus asset recycling opportunities

Responsible business

FTSE4Good Index listed, consistent top GRESB performer, with robust governance framework and committed to upholding high environmental, social and ethical standards.







Maintained our inclusion in the FTSE4Good index for eighth consecutive year

Strategic report **CHIEF EXECUTIVE'S REVIEW CONTINUED**

AYEAR OF GROWTH

OCT



Appointment

Director of Michael Robinson

Acquisition – **Forward funding** project

Gilders Yard Birmingham

Investment value

£28m

156

NOV

Acquisition -Stabilised portfolio

Tribe Portfolio Manchester

Investment value

£26m

PRS homes

192

Sale

Sold back interest in 31 homes to Chelsea to house after the Grenfell Tower fire



DEC

Acquisition – Forward funding project

Gore Street Manchester

Investment value

£80m

375

Selected partner of Lewisham **Borough Council**

Besson Street Income-share

PRS homes

c.300



Sustainability

Age UK London delivered training to Grainger employees working on our regulated practice in working with older tenants

JAN

FEB









Acquisition -Forward funding project

Eccy Village

Sheffield Investment value

£32m

237





Appointment Director of Land: Paul McGowan



Appointment Director of

Mike Keaveney

Credit rating upgraded

Grainger's credit rating upgraded to BB+ with and Grainger's upgraded to BBB- investment grade



Sustainability

Nine Grainger participated in the LandAid SleepOut, raising £15,000 towards ending youth



APR

Corporate bond refinancing

- £350m senior secured bond
- BBB- rating
- 3.375% for 10 years
- Reducing cost of debt by 40bps
- Extending debt 4.7 years to 6.5 years



Sustainability

BPF Futures' first site visit held at Argo Apartments, build-to-rent of property



MAY

Acquisition -Forward funding project

YMCA, Milton Kevnes

£63m

261

Sale - Exit JV

Sold our 50% Walworth JV Further Group Proceeds

£67m

Acquisition – **Forward funding** project

Via GRIP REIT East Street Investment Value

£28m

PRS homes

132

JUN

JUL





Fully let - Argo **Apartments**

5% Above ERV

c.8% gross yield on cost

97%

Customer service workshops

Operations team focusing on customer service

Government policy

NPPF updated and build-to-rent



Sustainability

As part of their coursework, year 9 students of Gladesmore School designed amenity space at Apex House Tottenham Charter

AUG



Appointment

Tom Henry

Launch

New customer website for Clippers Quay of digital leasing platform, first Grainger's Connect



SEP



FPRA

GRESB - GRIP wins Sector Leader and Grainger top three

Staff engagement survey

- **-** 81.7%
- Improved score
- Grainger rated as 'One to Watch' with good levels of engagement







GRAINGER IN ACTION

WHAT MAKES **US DIFFERENT-BUILDING STRONG RELATIONSHIPS WITH OUR CUSTOMERS**





ARGO

APARTMENTS E16

Creating, designing and developing new PRS homes provides us with control over the delivery of new buildings. This is important because in this emerging sector there is an undersupply of high-quality investment assets available in the market and our approach enables us to enhance returns.

The success of our recent development, Argo Apartments in Canning Town, is based on our ability to originate, invest and operate our investments fully in-house, and we have organised the business to provide a strong focus on each area.

Find out more online: www.argoapartments.co.uk



homes





gross yield on cost achieved



months, 97% let



GRAINGER IN ACTION

WHAT MAKES US DIFFERENT-CREATING LONG TERM COMMUNITIES FOR OUR RESIDENTS



RENT WELL. LIVE WELL.

Creating spaces and communities is at the heart of what we do. Our Clippers Quay customers will be part of a new rental community on the waterfront, with social events, a great range of retailers and lots of outdoor space.

Find out more online: www.clippersquay.co.uk





purchase price



c.8% gross yield targeted



phase 1 units pre-let













Strategic report **KEY PERFORMANCE INDICATORS**

Our key performance indicators ('KPIs') are aligned to the business strategy. These measures are used by the Board and senior management to actively monitor business performance.

1 Driving our income returns

The following KPIs focus on Grainger's strategic priority to increase overall income returns and improve the resilience and efficiency of the business model which will support increasing dividend distributions.

Net rental income (£m)



KPI definition

Rental income after property

Property operating cost (gross to net)



of gross rental income.

PRS rental growth

(%)



our PRS portfolio.

Adjusted earnings



Profit before tax, valuation assets, derivatives and other adjustments.

Profit before tax (£m)



Profit before tax including and other adjustments.

Increase of 8% driven by acquisitions and

Stable gross to net

Resilient like for like growth in our PRS rental income

26% increase driven by lower

by adjusted earnings growth and valuation gains offset

Link to strategy



See Note 7 to the



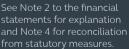


See Note 7 to the













3 Non-financial KPIs

of our business. See Our people, assets and environmental impact on pages 26 to 31.

OUR CUSTOMERS

supports both the valuations of our Further opportunity to improve with our customers.

Link to strategy



months

improvement in average time to resolve complaints

Key to strategy links







 $oxedsymbol{f \pitchfork}$ Grow rents $oxedsymbol{\lozenge}$ Simplify and focus $oxedsymbol{\bigstar}$ Build on our experience

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

② Building our capital returns

287

2016

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.

Total return (ROSE)

EPRA NAV (pence) 330 2016 2017

EPRA NNNAV (pence) 316

303

2017



Loan to value (%)

35.9

2016



Cost of debt (at period end) 3.4

KPI definition

and contingent tax on property revaluations and EPRA NAV after deducting on property revaluations

Growth in EPRA NNNAV combined with total dividend per share in

Ratio of net debt to the market value of properties Cost of debt at the period

and robust valuation challenging property market.

Driven by growth in EPRA NNNAV of 4.3% Decrease of 160bps by disposals as we continue

corporate bond and



See Note 5 to the financial statements and EPRA from page 104.



See Note 5 to the financial statements and EPRA from page 104.





EPRA NNNAV growth of 13p, plus dividend at 5.26p divided by opening EPRA NNNAV of 303p.



of the market value of related assets. See Note 28



See Note 28 to the

OUR PEOPLE

of our strategy and our strong

Link to strategy



OUR IMPACT ON THE ENVIRONMENT

Aligned to our goal of protecting and managing our impact on the

Link to strategy



tonnes of CO,e

EPC ratings 'E' and above (where applicable)

Strategic report **FINANCIAL REVIEW**



FY18 has been a year of strong financial performance, building on the solid foundation of the last two years. With a significantly improved capital structure and a leading operational platform, we are well placed to take the Group's growth strategy to the next level. As our investments in our development pipeline start to come on stream in the coming year, the benefits to both net rental income and our NAV will become evident. The fully integrated business model which we have constructed will help drive robust returns for shareholders for many years.

The actions we have taken to improve our balance sheet, capital structure, cost base and operations, along with our disciplined approach to capital allocation, puts us in a strong position to accelerate our growth strategy and deliver attractive shareholder returns.

Adjusted earnings increased by 26% to £94.0m (FY17: £74.4m), driven by strong like for like rental growth of 4.0% as well as a particularly strong sales performance with £81.8m profit during the year. EPRA NNNAV increased by 4.3% to 316p per share (FY17: 303p per share) with a total shareholder return of 6.1% (FY17: 7.3%) reflecting lower valuation growth than previous years.

We have made good progress on our pipeline with £943m now secured. Upon completion, this will provide a step change in our net rental income and earnings.

The recommended dividend for the year is 5.26p per share, up 8% (FY17: 4.86p per share), in line with our policy of distributing 50% of net rental income.

Highlights

Growing our income return	FY17	FY18	Change
Rental growth (like for like)	3.8%	4.0%	+20bps
Net rental income (Note 7)	£40.4m	£43.8m	+8%
Adjusted earnings (Note 4)	£74.4m	£94.0m	+26%
Adjusted EPS (after tax) (Note 4)	14.3p	18.2p	+27%
Profit before tax	£86.3m	£100.7m	+17%
Dividend per share (Note 15)	4.86p	5.26p	+8%
Earnings per share (diluted) (Note 16)	17.6p	20.9p	+19%

Driving our capital return	FY17	FY18	Change
EPRA NAV per share (Note 5)	343p	348p	+1%
EPRA NNNAV per share (Note 5)	303р	316p	+4%
Net debt (Note 28)	£848m	£866m	+2%
Group LTV (Note 28)	37.7%	37.1%	(53)bps
Cost of debt (average)	3.5%	3.4%	(13)bps
Cost of debt (year end) (Note 27)	3.4%	3.2%	(22)bps
Reversionary surplus	£310m	£277m	(11)%
Total return on shareholder equity	7.3%	6.1%	(120)bps

Income statement

2018 saw us deliver strong earnings performance, with good growth in net rental income combined with a strong sales performance, whilst continuing our focus on cost management. Finance cost came down significantly as we refinanced our corporate bond, securing a low cost of debt for the future. The coming year should see the capital recycled from our asset hierarchy review into our PRS pipeline starting to deliver income.

Income statement £m	FY17	FY18	Change
Net rental income	40.4	43.8	+8%
Profit on sale of assets – residential	60.4	70.1	+16%
Profit on sale of assets – development	14.7	11.7	(20)%
Mortgage income (CHARM) (Note 21)	6.2	5.8	(6)%
Management fees	5.1	7.1	+39%
Overheads	(27.2)	(27.9)	+3%
Other expenses	(1.1)	(1.1)	0%
Joint ventures and associates	2.9	9.6	+231%
Net finance costs	(27.0)	(25.1)	(7)%
Adjusted earnings	74.4	94.0	+26%
Valuation movements	14.4	34.2	
Derivative movements	0.3	(0.1)	
Other adjustments	(2.8)	(27.4)	
Profit before tax continuing operations	86.3	100.7	+17%

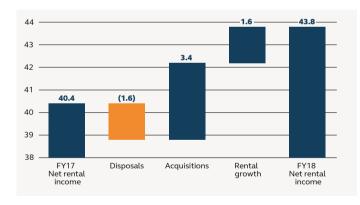
Our focus on driving operational excellence has resulted in rental growth and reduced costs through improved voids, lower arrears and customer retention. The investment we are making in our technology platform will deliver further improvements in coming years and provide us with greater scalability as we continue to grow.

Rental income

Gross rental income has increased by 8% to £59.2m (FY17: £54.6m). Acquisitions and completions added £4.5m of gross rent during the year and more than offset a £2.1m decrease from disposals. Overall like for like rental growth was 4.0%, with 3.0% like for like rental growth in our PRS portfolio and 5.4% in our regulated tenancy portfolio. Our like for like rental growth significantly outperformed the market which was 1.4% over the same period (average based on ONS, Countrywide and HomeLet), demonstrating the quality of our offering and operational excellence.

Net rental income increased by 8% to £43.8m (FY17: £40.4m) in line with our gross rental income growth, with our gross to net stable at 26.0% (FY17: 26.0%), whilst we continue to invest in our operational platform and build scalability for the future.

The split of net rental income between our regulated tenancy portfolio and our PRS portfolio is c.50:50.



Sales

It has been an excellent year for our sales activity delivering £81.8m of profits, up 9% on the year (FY17: £75.1m). Vacant residential sales contributed £49.1m of profits at 0.9% ahead of vacant possession values, reflecting the resilience of our portfolio. Our sales transactions velocity (i.e. keys to cash) of 112 days remains significantly better than the market.

Development activity also had a strong year, with profits from development activities at £11.7m (FY17: £14.7m), the majority of which was from the conclusion of our RBKC partnership. Development profit from sales will slow in FY19 as we focus our development activity on PRS investments.

	FY18		
	Units sold	Revenue £m	Profit £m
Residential sales on vacancy	262	107.4	49.1
Tenanted and other sales	185	40.1	21.0
Residential sales total	447	147.5	70.1
Development activity	-	62.0	11.7
Overall sales	447	209.5	81.8

FY17		
Units sold	Revenue £m	Profit £m
274	110.1	51.1
242	20.7	9.3
516	130.8	60.4
-	83.7	14.7
516	214.5	75.1
	sold 274 242 516	Units sold fm 274 110.1 242 20.7 516 130.8 - 83.7

Overheads

Our cost base remains a key focus for the business, balancing the delivery of a market leading operational platform with our future growth plans. Having reduced overhead cost by 25% since FY15, the overheads for FY18 were relatively flat year-on-year at £27.9m (FY17: £27.2m).

We continue to keep overheads tightly under control whilst at the same time developing a market leading platform to support our plans for growth. We continue to invest in technology that improves both our customer experience and our operational efficiency through streamlining our processes, reducing costs, and delivering a scalable platform for the future. We believe our overheads are at a sustainable level to support our medium term growth plans.

Strategic report FINANCIAL REVIEW CONTINUED

Other adjustments

Other adjustments that are one-off in nature for the year were £27.4m. This includes the cost associated with refinancing our corporate bond, where we incurred a prepayment cost net of tax of £21m.

Grainger is a UK based, tax paying Group with a tax charge of £13.3m (FY17: £12.8m). We continue to work in an open and transparent manner with the tax authorities. HM Revenue and Customs has graded the Group as a 'low risk' tax payer and we are committed to maintaining this status.

Balance sheet

We continue to strengthen our balance sheet, maintaining an efficient capital structure whilst delivering enough firepower to fund our pipeline of opportunities.

Market value balance sheet (£m)	FY17	FY18
Residential – PRS	526	591
Residential – regulated tenancies	1,214	1,107
Residential – mortgages (CHARM)	86	82
Forward funded – PRS work in progress	75	198
Development work in progress	63	100
Investment in JVs/associates	206	146
Total investments	2,170	2,224
Net debt	(848)	(866)
Other assets/liabilities	112	99
EPRA NAV	1,434	1,457
Deferred and contingent tax - trading assets	(123)	(109)
Deferred and contingent tax – investment assets	(21)	(22)
Fair value of fixed rate debt and derivatives	(22)	(2)
EPRA NNNAV	1,268	1,324
EPRA NAV (pence per share)	343	348
EPRA NNNAV (pence per share)	303	316
LTV	37.7%	37.1%

EPRA NNNAV increased by 4% during the year to 316p per share (FY17: 303p per share), driven by valuation growth and a strong earnings performance. EPRA NAV for the year came in at 348p (FY17: 343p per share).

Excluded from both EPRA NAV measures is a reversionary surplus of £277m or 66p per share (FY17: £310m). This is the difference between the market value of our assets whilst they are tenanted and the value we could realise if they became vacant today and were sold.

The main difference between EPRA NAV and EPRA NNNAV is the inclusion of deferred and contingent tax liabilities associated with revaluations of our portfolio. Around 83% relates to our trading asset portfolio, which will crystallise on disposal of these assets. We therefore view EPRA NNNAV as an important measure for valuing our balance sheet.

EPRA NNNAV movement	£m	Pence per share
EPRA NNNAV at 30 September 2017	1,268	303
Adjusted earnings	94	22
Revaluations (trading and investment property)	55	13
Corporate bond redemption	(27)	(7)
Disposals (trading assets)	(60)	(14)
Tax (deferred and contingent)	(10)	(2)
Derivatives/other	25	6
Dividends	(21)	(5)
EPRA NNNAV at 30 September 2018	1,324	316

Property portfolio

We delivered a solid portfolio performance for the year with values up by 1.6% (FY17: 3.4%). This was split between our PRS portfolio at 2.6% and our regulated portfolio at 1.1%. The UK housing market indices over the same period were; Halifax 2.5% and Nationwide 2.0%.

		Market value FY18	Change since
Regional performance	Units	£m	FY17
Central and Inner London	1,456	833	(0.2)%
Outer London	441	162	+2.1%
South East	698	168	+5.5%
South West	576	165	+1.8%
East and Midlands	692	122	+5.0%
North West	1,596	189	+3.8%
Other regions	491	59	+1.5%
Total	5,950	1,698	+1.6%

The table above includes wholly-owned PRS and regulated tenancy assets only; it excludes 580 units and £82m of market value relating to mortgages (CHARM) and excludes co-investments.

Portfolio summary - property assets

	<u> </u>			
		Market value	Vacant possession value	Reversionary surplus
	No. units	£m	£m	£m
Residential – PRS	2,841	591	641	50
Residential -				
regulated tenancies	3,109	1,107	1,317	210
Residential -				
mortgages (CHARM)	580	82	81	(1)
Forward funded -				
PRS work in progress	=	198	198	=
Development work				
in progress	-	100	100	=
Wholly-owned assets	6,530	2,078	2,337	259
Co-investments				
(Grainger share)	425	173	191	18
FY18 total				
investments	6,955	2,251	2,528	277
Assets under				
management				
(third- party share)	1,282	523	573	50
Total assets under				
management	8,237	2,774	3,101	327

Financing and capital structure

FY18 was a landmark year in terms of repositioning our capital structure, where we secured longer term debt at lower rates through refinancing our corporate bond.

Our regulated tenancy sales business continues to generate strong cash flows, providing a stable source of capital to help fund our PRS strategy. During the year we generated £135m of cash from this part of the business.

In terms of our capital deployment we invested £218m during the year. This was split between investment in our forwarding funding and development pipeline (£162m), acquisitions of stabilised assets (£26m), affordable homes (£17m) and regulated tenancies (£4m) and a further £9m in refurbishment activities. Of our £943m secured pipeline, we have already invested £425m, leaving an outstanding capital requirement of £518m which can comfortably be covered by future working capital or, indeed, headroom on our debt facilities which amounts to £388m.

Group LTV at FY18 is reduced slightly to 37.1% (FY17 37.7%) as we have continued to deploy our recycled capital into our investment pipeline. Net debt for the Group also increased to £866m (FY17: £848m) and we retain our LTV target range of 40-45%.

During the year we refinanced our corporate bond, issuing a new 10-year £350m corporate bond at 3.375%. We incurred a prepayment cost net of tax of £21m for the previous £275m corporate bond at 5%, which was due to mature in 2020. Overall this action locks us into lower rates for longer and delivers over £3m of savings each year.

As a result of the corporate bond refinancing and other actions wehave taken, cost of debt at the period end stands at 3.2%, a reduction of 22bps from the prior year (FY17 3.4%). Our incremental cost of debt is less than 2%, and our cost of debt would be 3.0% if our debt facilities were fully drawn at the year end.

Our weighted average debt maturity was also lengthened this year from 4.4 years to 5.7 years. Including extension options our weighted average debt maturity stands at 6.1 years.

With the business moving from a reliance on capital appreciation to an increasing income focus we expect to see continued improvement in our business and financial risk profile.

Summary and outlook

We have delivered strong financial results for FY18, which reflects our focus on operational excellence, disciplined investment and cost management.

The investment we are making into our business and operational platform, including technology, will underpin future financial performance as we continue to grow and maintain our position as the UK's largest listed residential landlord and a market leader in the PRS.

The £943m pipeline of PRS investments we have built up since setting out our strategy in January 2016 will significantly increase our net rental income over the next two to three years as the projects complete and are stabilised. This will enable us to both grow our dividend significantly and our NAV over coming years.

The actions we have taken over the recent years to improve our capital structure, operations, and financial discipline to our investments put us in a position for accelerating our growth trajectory and delivering strong shareholder returns.

Vanessa Simms Chief Financial Officer

13 November 2018

Strategic report **OUR STAKEHOLDERS**

UNDERSTANDING AND RESPONDING TO THE NEEDS OF OUR STAKEHOLDERS



CUSTOMERS

Stakeholder expectations

A safe and enjoyable home and for Grainger to provide a good service, responding to their needs promptly.



SHAREHOLDERS

For Grainger to generate long-term, sustainable attractive total returns and to meet Environmental, Social and Governance ('ESG') expectations.



LOCAL COMMUNITIES

For Grainger to act responsibly and make listening to and taking on board local views, preferences and concerns.

How we engage

communication channels. Each resident has a dedicated point of contact and build long-lasting relationships with them. Additionally, customer touch points include a customer care line complaints procedure. We regularly survey our customers to learn how we can better serve them. We run customer focus groups to tailor customers' needs and feedback.

include investor roadshows. conferences, trading updates and property tours. Key engagement events are reported on page 56. We ensure that we are available and accessible to the investment community. We respond annually to a range of ESG benchmarks, as reported on page 26.

including via events, residents' meetings, sponsor local sports and cultural activities

We encourage communities to develop within

Outcomes & examples

High levels of occupancy (97%).

Maintained customer retention levels

84% improvement in average time taken to resolve customer complaints.

Operational changes to improve our

Investment in technology to enhance customer service and enable fully digital self-service. Outputs include new website, digital leasing platform and online portal in development.

During the year in review, we had 239 interactions with investors.

60 pieces of analyst coverage.

Diversified shareholder base

Increased geographic spread among shareholders.

At Wellesley, 305 local residents participated in community activity classes and 15 young people were supported through an employment skills initiative. A green travel plan was developed through consultation to live in the area.

In Haringey, we signed up to the Tottenham Charter and partnered with a local school near and a design project for technology students.

Four residents events held since launch of Argo Apartments.



EMPLOYEES

Stakeholder expectations

For work to be fulfilling and rewarding. To be fairly treated, recognised and remunerated. To operate in a safe and comfortable environment, with



SUPPLIERS

For us to act with integrity and professionalism, pay promptly and ensure that we are protecting the rights of all those employed through our supply chain.



GOVERNMENT

For us to act responsibly as an employer

How we engage

Regular two-way engagement includes biannual employee engagement surveys, monthly cascade meetings all-staff update calls with the CEO, our newsletter and our intranet. Feedback is gathered following specific activities biannual performance review process. We organise a range of employee day and volunteering activities.

Regular supply chain reviews and ensure regulatory compliance and related to GDPR, health and safety,

Strategic partnership board with our largest repairs and maintenance framework agreements, requiring

London Plan, and regular feedback on with government and shadow government

City engagement strategy designed to engage with key stakeholders and map local issues in areas targeted for investment.

targeted investment locations and local authority outreach in collaboration with industry bodies.

Outcomes & examples

High response rate of 81% to reflects organisations with 'good' levels of workplace engagement. Scores have improved in all categories

we held a Company-wide staff conference and employee awards

Customer service training programme delivered to operations team.

89% of customers surveyed were satisfied with repairs and

Conducted nine health and safety audits of our suppliers

partner completed full year without lost time injury in the delivery of services to Grainger.

Positive changes to the UK planning system in the PRS and build-to-rent.

Responded to the Hampton-Alexander Review providing data on females in senior roles as reported on page 29.

DELIVERING STRONG PERFORMANCE THROUGH OUR REVISED SUSTAINABILITY STRATEGY

Our strategy

Following the review of the business's sustainability strategy last year, the focus this year was on embedding the revised strategy into business operations and decision making.

We have responded to the risks and opportunities identified in the materiality review that informed our sustainability strategy:



- Wellbeing: developed an approach to employee wellbeing, and reviewed how we assess the impact of our assets on customers' wellbeing.
- Diversity: carried out internal review of workforce diversity and inclusion.



- Health and safety: undertaking portfolio-wide review of the integrity of apartment front doors.
- Affordability: conducted research into assessing



• Carbon: comprehensively reviewed environmental performance data to improve its coverage. See our greenhouse gas statement on page 78.

Our performance



Grainger has successfully maintained its listing in the FTSE4Good Index for the eighth consecutive year.



On the Global Real Estate Sustainability Benchmark ('GRESB'), GRIP REIT maintained its position as sector leader of the European listed residential group, with Grainger maintaining third place. Both entities named health and wellbeing leaders.



Successfully maintained our Gold EPRA Sustainability Award for the fifth consecutive year. Grainger was one of the first organisations to comply with the new EPRA Sustainability Best Practices Recommendations ('sBPR') to report environmental, social and governance criteria. Our EPRA sBPR Report is available on our website at www.graingerplc.co.uk/responsibility.



On the **Best Companies Index**, Grainger is rated as 'One to Watch' - reflecting organisations with 'good' st companies" levels of workplace engagement. This year was the second consecutive year Grainger participated, with improvements in our overall employee engagement score and in all eight categories of engagement.

OUR SUSTAINABILITY AND CSR COMMITTEE

Grainger's Sustainability and CSR Committee is made up of senior representatives from key areas of our business. It meets monthly to monitor progress of key activities.

Highlights of the year

The Committee's priorities for the year were increasing employee engagement on sustainability and reviewing our approach to community engagement.

Key projects and outputs included:

- updating our charity and volunteering policy;
- monitoring progress towards compliance with Minimum Energy Efficiency Standards;
- reviewing asset-level sustainability risks and key performance indicators: and
- preparing for compliance with the Energy Savings Opportunity Scheme Phase 2 in 2019/20.

Sustainability governance





TREATING PEOPLE POSITIVELY

Delivering excellent customer service

Following the launch of a portfolio-wide satisfaction survey for our PRS customers in 2017, this year we implemented a comprehensive action plan to respond to their feedback. Key activity included delivering a customer service training programme for our operations team, covering topics including personal planning, organisation skills and emotional intelligence. This year's survey demonstrated improvements in customer satisfaction levels for both accommodation and the service provided by Grainger.

Charity partnerships

We continued working with our charity partner, LandAid, to raise funds towards ending youth homelessness. Nine Grainger employees took part in the first LandAid SleepOut, raising over £15,000 (5% of the total raised from the event) and, overall, our fundraising increased by 200% year-on-year.

We also partnered with Age UK London, who delivered training to customer-facing staff on communicating effectively with older and vulnerable residents in our regulated portfolio.

We also work with local partners in the areas around our assets and developments. At Wellesley, Aldershot Enterprise Centre was established in 2015 through a partnership between Grainger, Hampshire County Council and WSX Enterprise to provide local people with support and affordable space to set up their own business. Over 70 new businesses have started to date, creating over 300 jobs over the last three years. The Centre is home to various charities and voluntary sector organisations, and has become a focal point for people who live and work in the area.

What we have achieved

- Improvement in Best Companies employee engagement scores for giving something back and wellbeing (both increased by 4%).
- 1,100 hours of customer service training provided to 70 front-line employees.
- Four schools engaged through employment and skills programmes.
- Maintained average customer retention at 27 months.
- Achieved 12% of staff volunteering and 200% increase in employee fundraising.
- 95% of eligible employees are Company shareholders.

What we are going to do

• Develop an approach to enhance diversity and inclusion within our workforce.



66

Our customer service training programme delivered over 1,100 hours of training to 70 employees

"

Engaging communities throughout the development cycle

Our commitment to community engagement continues throughout the development cycle to ensure our buildings and our residents are integrated into the local community for the long term.

Pre-planning

- Stakeholder mapping and research into local needs
- · Engagement with existing residents
- Develop community engagement plan

Planning and design

- Community forums, events and focus groups to inform design
- Online engagement platform
- Consultation on initial and revised designs

Construction

- Construction impact monitoring
- Employment and skills programmes
- Engagement with local schools
- · Space provided to local charities

Operation

- Dedicated property manager
- Residents events
- Support local businesses and community initiatives

Strategic report **OUR PEOPLE, ASSETS AND ENVIRONMENTAL IMPACT CONTINED**



TREATING PEOPLE POSITIVELY

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43% of Grainger employees have five or more years' service

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Ongoing employee engagement

This year was the second consecutive year we participated in the Best Companies Index, conducting an annual employee engagement survey. In response to feedback provided in the 2017 survey, we introduced a health and wellbeing cashback plan, increased opportunities for employees to participate in charity activity and updated our performance appraisal documentation. This year's results demonstrated an improvement in all categories of engagement, and in all areas of our business. Our plans to continue this improvement include introducing a training and development academy and delivering a programme of wellbeing activities.

A key engagement event held in October 2018 was our all-staff conference, which included a business update and site tour giving all employees an opportunity to experience Clippers Quay. It also launched our annual employee awards, recognising employees who demonstrate exceptional performance aligned to Grainger's values.

Looking after employee wellbeing

The wellbeing of our workforce was identified as a priority and a survey of employees' wellbeing goals has helped focus our approach. This year, we updated our procedures for lone working and delivered new personal safety training to staff in collaboration with the Suzy Lamplugh Trust. Stress awareness training was rolled out to all line managers. We also delivered a series of learning hours designed to help our employees make the most of our benefits programme. Topics included our health and wellbeing cashback plan, pensions and the Company share schemes.

We continue to monitor the effectiveness of our actions against modern slavery and human trafficking. We are improving our procurement processes, which include measures to ensure that the obligations under the Modern Slavery Act 2015 are also adhered to in our supply chain, and continue with our supplier review and audit programme.





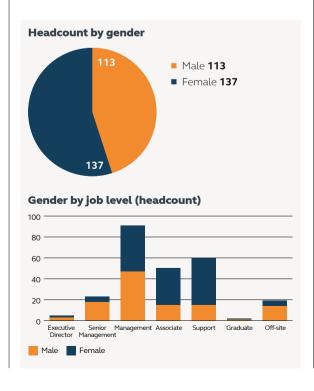
TREATING PEOPLE POSITIVELY

Developing and retaining a diverse workforce

Retaining our workforce is critical to maintaining our knowledge and providing a great service to our customers. We continue to focus on talent retention, through our learning and development programme and our talent forum. 99.6% of employees participated in training in 2018, with topics including the GDPR, anti-bribery, stress awareness and employee benefits. Turnover remained low at 10% and currently 43% of employees have five or more years' service.

We believe widening the pool of people entering our industry is key to ensuring diversity of perspectives and representing our customer base. This year, three graduates completed our two-year scheme and have been placed in new roles across our business, and we have two new graduates who commenced their employment in September. We continue to support apprenticeships directly and through our supply chain, with 55 apprenticeships supported across our operations and our developments.

We work with a number of schools and colleges in proximity to our developments, helping give young people insight into working in real estate. Examples include partnering with Gladesmore Community School in Tottenham to deliver a design project for technology students, and providing site tours to construction students leaving the armed forces at Wellesley.







Hampton-Alexander Review

Grainger submits data annually to the Hampton-Alexander Review and is committed to achieving the targets for FTSE 250 boards and leadership teams to have 33% female representation by 2020.

Due to changes during the year, Grainger's Board now comprises 29% female representation. We are targeting re-establishing at least 33% representation in 2019. We have increased female representation in our leadership team (consisting of members of our Executive Committee and their direct reports) to 45%.

We are committed to change and are working with the British Property Federation ('BPF') on the development of an industry-wide plan for greater diversity and inclusion.

Strategic report **OUR PEOPLE, ASSETS AND ENVIRONMENTAL IMPACT CONTINED**



Ensuring our homes are accessible to local people

We want to invest where our homes will be accessible to the widest range of local residents and local workers. This year, we expanded on the market research undertaken for our target cities by researching local affluence and thresholds of affordability. The findings influence the rents we set and where we invest, ensuring our products are attractive to the local population.

Customer health, safety and wellbeing

Following the Grenfell Tower fire, Grainger reacted quickly to ensure our portfolio was not at risk from cladding. We have since comprehensively reviewed apartment front door integrity across the portfolio and implemented a health and safety management system at Wellesley, Aldershot. A full best in class review of health and safety throughout our business has resulted in the launch of our Live Safe commitment, a key focus area for the coming year.

We have integrated wellbeing into our PRS specification and have evaluated ways to assess the impact of our properties on residents' wellbeing.

Connecting our customers

Through our Connect business transformation programme, we are investing in technology to enhance customer service. This year, we launched a new customer website and the first phase of a digital leasing platform to enhance our customers' online experience.

We have considered how well connected our buildings are, assessing the 'walkability' of all developments and acquisitions using Walk Score. Argo Apartments, Canning Town saw the first partnership between Virgin Media and a build-to-rent landlord to deliver ultra-fast broadband through fibre-to-the-premises ('FTTP').

To further develop the design of our buildings, we gathered data and feedback from our existing build-torent customers on their experiences and use of building amenities. We are conducting focus groups in key regional cities to ascertain renters' expectations and concerns.

Delivering a healthy community at Wellesley

On our masterplan site at Wellesley, we introduced a bespoke health, safety and environmental management system based on ISO 45001 (health) and ISO 14001 (environmental management) standards. The system is for all major stakeholders involved in the development. It will ensure legal compliance, reduce workplace risks and improve employee health as well as promote efficiencies and best practice through experience, acquired knowledge and continual improvement.



What we have achieved

- Maintained excellent performance on the Considerate Constructors Scheme with an average score of 39/50.
- Grainger's affordable homes portfolio has 289 homes in operation and 623 in the pipeline.
- Average Walk Score of completed developments 77 or 'Very Walkable'.
- 3 RIDDOR reportable incidents.
- Head of Sustainability and CSR became an approved Fitwel (a healthier building rating system) assessor.

What we are going to do

- Review the portfolio's capability for electric vehicle charging provision.
- Pilot Fitwel health and wellbeing certification on a new development.
- Explore strengthening environmental requirements through our supply chain, including within development agreements.

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Achieved average score of 39/50 on **Considerate** Constructors Scheme audits of our developments



ENVIRONMENT SECURING OUR FUTURE

Assessing and monitoring risk

We are conscious that climate change presents an emerging risk to our property portfolios and have commenced a project to better understand and assess this risk. In addition to considering property-level risks in our asset acquisition and disposal strategies, we undertook a flood risk review for our regulated portfolio.

We are developing key performance indicators for a range of environmental and socio-economic risks across our existing portfolios. Material climate related risks are reported in our annual submission to CDP's climate change programme (formerly the Carbon Disclosure Project).

Reducing our environmental impact

To better understand our direct environmental impacts, we undertook a comprehensive environmental data review and gap analysis across our portfolio, the results of which are reported in our greenhouse gas statement on page 78 and online EPRA Sustainability Report.

Our work to ensure compliance with Minimum Energy Efficiency Standards regulations applying from 2020 continues on our regulated portfolio. We began engaging with industry bodies and government on the potential standards to apply from 2030.

Other areas of engagement focused on the updated NPPF, Government's Integrated Communities Strategy and the Draft New London Plan. Helen Gordon spoke on the panel at the Government's first housing design quality conference, highlighting the importance of good design in creating long term communities within

buildings. Helen's contribution to the industry was recognised at the RESI Awards 2018, where she was awarded property 'Personality of the Year'.

Piloting modern methods of construction

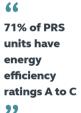
We have successfully trialled off-site construction on our recent developments at Argo Apartments and Clippers Quay (see pages 14 and 16). In 2018, a comprehensive research project evaluated the potential for applying fully modular homes across our portfolio.

What we have achieved

- 71% of PRS properties have EPC ratings A to C and 73% of regulated properties have EPC ratings
- Reduction of 30% in office carbon emissions per employee.
- Reduction of 2% in our location-based carbon emissions with market-based emissions increasing by 6% due to acquisitions (see page 78).
- Expanded coverage of environmental data and purchased renewable energy for 78% of buildings.
- Over 30 interactions with industry bodies and government policymakers, and over 30 property tours delivered.

What we are going to do

- Ensure compliance with Phase 2 of the Energy Savings Opportunity Scheme.
- Integrate sustainability into the facilities management system being developed as part of the Grainger Connect programme.





Engaging with our industry

Grainger employees collaborate with peers in a range of industry associations to improve the collective performance of the residential and property sectors. Grainger's CEO chairs the BPF's Policy Committee and the Director of Corporate Affairs chairs the Communications Committee. Our CEO is also a member of the Bank of England's Residential Property Forum, advising on build-to-rent.

A number of Grainger employees are members of the BPF Futures network and we hosted the first members' site tour at Argo Apartments, with 40 young real estate professionals gaining insight into PRS. This was one of more than 30 tours of Grainger buildings delivered throughout the year to a range of audiences, from investors to government and the media, aimed at increasing build-to-rent's profile.

Strategic report **RISK MANAGEMENT**

RISKS: OUR IDENTIFY, MONITOR AND CONTROL APPROACH

Our risk management framework is designed to identify the principal risks to our business and ensure that they are being appropriately monitored, that controls are in place and that required actions have clear ownership and accountability.

Risk management approach

Good risk management is fundamental for meeting our operational and strategic objectives. The competitive market we operate in requires effective decision making, ensuring we properly assess risks, apply controls and calculate returns. We need to be resilient to risks we have limited control over, by maintaining adequate disaster recovery and business continuity procedures.

We are embedding our risk management culture and applying a 'three lines of defence' model throughout the business. 2017 was a year of designing and implementing enhanced processes with related risk and control matrices. Our focus in 2018 has been on embedding those changes within a culture of continuous improvement, with robust controls forming part of day-to-day activities.

Our overall risk management approach is to nurture a responsive, forward-looking, consistent and accountable culture of risk management.

Rigorous risk assessment

We consider a range of risk categories, including strategic, market, financial, legal or regulatory, operational, IT, project and people. We identify individual risks using both a 'bottom-up' and a 'top-down' approach.

We determine the potential probability and impact of each risk and give it a gross (before mitigation) and net (after mitigation) score. This identifies which risks depend heavily on internal mitigating controls.

We use a risk-scoring matrix to ensure we take a consistent approach when assessing the overall impact. For risks in operational areas, we base their likelihood on how often they occur in a rolling 12-month period. We record their impact and likelihood scores in departmental risk registers. The relevant internal committee reviews these registers at least quarterly. We then collate a Group top risk report for consideration by the Executive Committee and Audit Committee.

This year we have removed the 'Strategy' risk from our principal risks because the implementation of our strategy is well under way. We have modified our 'Market' risk to include transactional elements and have considered the controls we have in place to mitigate this threat. The cyber and information security risk was a new principal risk in 2017. It is considered that the likelihood of the risk has reduced owing to the significant activity and development of our safeguards in this area over the last year.



Current principal risk areas

- 1. Market and transactional (see page 34)
- 2. Financial (see page 34)
- 3. Regulatory (see page 35)
- 4. People (see page 35)
- 5. Supplier (see page 35)
- 6. Health and safety (see page 36)
- 7. Development (see page 36)
- 8. Cyber and information security (see page 36)
- 9. Customers (see page 36)

Movement from 2017



Risk control framework and appetite

The Board has ultimate responsibility for Grainger's risk management and internal control systems, and for determining the Group's risk appetite. We have built on last year's detailed assessment of risk appetite for our principal risks. The Board continues to adopt a generally low tolerance for risk, particularly for regulatory and reputational matters. However, following an in-depth assessment of Grainger's strategy carried out in the summer of 2018, the Board decided to invest in the development business to capitalise on the substantial opportunity within the PRS sector. Our appetite for development risk has increased as a consequence.

To complement the risk framework, we have developed key risk indicators to monitor the change in the level of risk exposure associated with specific processes and activities and to assess whether the business is operating within the set risk appetite.

The Board approves the risk management framework developed by the Executive Committee. Our internal governance structure complements our evolution to a 'three lines of defence' model, with a view to having clear divisions between each line. This framework includes various management committees, with dedicated risk registers, overseeing key investment, operational and corporate functions.

The management committees and the Executive Committee examine the identified risks, reported controls, mitigation and the principal risk report. The Audit Committee supports the Board by monitoring and reviewing the control processes and mitigation for the identified risks. It also ensures we reconsider the principal risks. We monitor the internal control framework for these risks through the Internal Audit monitoring plan and the resulting audit outcomes. For more information on internal controls, please refer to page 54.

Assurance on risk controls is provided by internal management information, internal audits, external audits and Board oversight. We also carried out a process of assurance mapping our principal risks this year.

We have an externally supported whistleblowing hotline that staff can use anonymously if they do not wish to use our other processes for raising concerns.

GDPR compliance has been a major project within Grainger this year. The project has introduced a range of controls in the form of policies, processes and systems to achieve compliance with the legislation and manage the associated risks.

Looking forward to next year the areas of focus will include embedding our GDPR compliance and the new key risk indicators in the business. We are striving to enhance our risk and control environment by leveraging technology to automate processes and increase preventative control systems.



Strategic report PRINCIPAL RISKS AND UNCERTAINTIES

Managing our principal risks and uncertainties

The Directors have systematically assessed the Group's principal risks. They have considered them across four years, which aligns with our viability statement on page 37. The Board has closely considered the potential risks arising from the UK leaving the European Union ('Brexit'). The Board continues to hold the view that the ongoing material lack of supply of homes in the UK substantially mitigates the risks to Grainger that may arise from Brexit. Our opinion is that the Company's exposure to this risk is not materially higher than similar UK-focused businesses. As at the date of this report, there is much uncertainty regarding a potential no-deal Brexit and what this would mean for trade, our economy and the future political landscape. Brexit is still a risk to the business in the context of wider geo-political and economic uncertainty, and the impact this may have on the real estate and capital markets. This being so, the potential risks of Brexit are specified in respect of a number of our principal risks.

Principal risks, uncertainties and opportunities

Risks are considered by the Board as an intrinsic part of strategy setting and consideration of new opportunities.

Category of risk **Risk description** Impact on strategy **Key mitigants** Risk status 1. Market and Weak macro-economic Economic uncertainty • We are transitioning the business to reduce transactional conditions leading to leading to a reduction in reliance on trading income and house long-term flat or negative home ownership and less price inflation. valuation movements and/ demand for assets that we · We have a high proportion of liquid and diverse or the inability to transact are looking to dispose of; assets to enable sales where necessary, a and acquire PRS assets on pressure on rental levels; strategy we successfully employed in the last acceptable terms. This could falling asset values; economic downturn. arise due to poor market subsequent investment • We have a geographically diverse portfolio and conditions associated with constraints on further exercise active asset management to enhance the cyclical nature of the investment into the PRS; returns. We have target towns and cities for real estate sector or covenant compliance future investment Focus on the PRS potentially leverages greater potentially negative risk; unable to provide consequences arising shareholders with customer flexibility and lower overall financial from Brexit. sustainable returns commitment compared with home ownership. in the long term. Renting could be attractive for customers during **Risk opportunity** uncertain economic periods. Capitalise on the substantial opportunity in the PRS. 2. Financial The inability to obtain Lack of finance from credit · We monitor our banking covenants closely sufficient finance arising markets and cash resources; to maintain sufficient capacity. from external factors/events breach of loan and bond • We carry out detailed financial viability (including, but not limited covenants: adverse sensitivity testing and develop clear mitigation

movement in interest rates

could have an unacceptable

impact on the cost of new

debt; inability to fund

acquisitions at the

relevant time.

Impact on our business model







Impact on our strategy



to, Brexit) which impacts the

of the strategy and maintain

ability to fund the delivery

a strong capital structure.

Utilise financial strength

to deliver our strategy and

Risk opportunity

operate our business.

Grow rents



Simplify and focus



Build on our experience

Risk change



Unchanged

contingency plans.

hedging policy.

• We conduct our business within Board-approved

capital operating guidelines and interest rate

Due to our close monitoring of the transactional

pipeline, we can control the timing and number

of acquisitions to reduce cash outflows if needed.

· We have a diversity of finance sources.

· Our strategic focus is to increase income credentials to provide greater interest cover.



Decreased

Category of risk Risk description **Key mitigants** Rick status Impact on strategy 3. Regulatory Failure to meet current Fines, penalties and · We have an ongoing programme of management and staff training, including or additional regulatory sanctions; damage to obligations or anticipate reputation; loss of in relation to GDPR. and respond to changes operational efficiency and · We employ specialist legal, compliance and in regulation that increase competitiveness; increased corporate affairs teams which monitor and cost. These include the costs; reduction in market advise internally, review the regulatory horizon introduction of rent controls

Risk opportunity

may continue.

fostered and which

Enhance the reputation and the long term sustainability of the business.

or similar limitations, the

protection regime imposed

operating framework facing

UK businesses in connection

with Brexit and the political

new privacy and data

by the GDPR, and the

uncertainty that it has

opportunities: impact on ability to finance opportunities; reduced ability to generate rents; inability to build competitive PRS portfolio; attracting adverse publicity regarding a data breach and leading to significant numbers of data subject rights requests.



• We have strict asset management controls and compliance processes which can adapt as required. See page 31 for details of our proactive management of the forthcoming Minimum Energy Efficiency Standards, as an example.

Our position as the UK's leading PRS provider brings a cultural ethos of seeking to adopt best practice.











Failure to attract, retain and develop our people to ensure we have the right skills in the right place at the right time for our strategy; failure to increase female and ethnic minority representation at senior levels within the organisation.



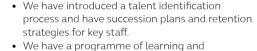
Build expertise and capability in the business to execute strategic goals.

Reduced ability to achieve business plan and strategy; reduced control; inability to grow market share of the PRS; failure to innovate and evolve to maintain competitiveness in a customer-driven market; damage to reputation.











- development for staff, which includes management and leadership training.
- We carry out regular performance reviews and appraisals of staff.
- We identify opportunities for staff to develop, and we provide internal career progression.
- We undertake an annual employee engagement survey and we carry out wellbeing activities.

5. Supplier





A significant failure within, or by, a key third-party supplier or contractor.

Risk opportunity

Maintain a high level of service to our customers and exceed expectations.

Increased costs; inability to achieve performance objectives; legal action and regulatory sanctions; reputational damage: customer dissatisfaction; a restriction on ability to grow platform; negative impact on organisational or portfolio growth plans; increased Grainger workload to reschedule reactive and/or planned maintenance

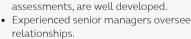


in a timely manner.





counterparty reviews and covenant strength







Strategic report PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Key mitigants Category of risk **Risk description** Rick status Impact on strategy 6. Health A significant health and Harm to customers, tenants, · We have specific management systems and safety incident as a result of compliance assessments to mitigate health and safety employees, contractors or inadequate or inappropriately visitors; possible legal action and safety risk, including technological solutions or fine; subsequent and a programme of audit and assurance. implemented procedures. reputational damage. • We employ a specialist Health and Safety **Risk opportunity** Director and team who are responsible for Maintain a high level of overseeing compliance. compliance which enhances • Our risk management framework applies our reputation as a leader close oversight and reporting of health and in the sector. safety matters. • We have planned and reactive maintenance measures in place. For example, we are in the process of reviewing and replacing flat front doors across our portfolio, whilst also engaging with and having regard to the Dame Judith Hackitt report. • We monitor the capital we deploy to 7. Development We allocate a portion of our Exposure to risk of cost capital to activities which overrun or income shortfall, development matters carefully, following capital carry development risk. affecting achievement of allocation guidelines. the strategy and returns in · We employ an experienced team with specialist **Risk opportunity** developing rent schemes. development skills and have established Take advantage of the Brexit could conceivably relationships with expert advisers and demand for homes development partners. increase labour costs as specifically designed and • We have an established governance structure to well as the ability to source built for renting. materials cost effectively. review and monitor our development schemes. • As part of our PRS strategy, the portfolio of development schemes focuses on build-to-rent assets and does not seek speculative returns from investing in development that is solely for sale. 8. Cyber and The breach of confidential Financial loss; fines; · We employ an experienced IT team and work with information data or technology reputational damage; trusted suppliers, to deploy cyber protection tools. security disruption due to an internal operational and business • Technology is a key part of our strategy. We are or external attack on our disruption; loss of customers; investing in new technology platforms and information systems and loss of employees; share related processes that have 'data security data or by internal security price devaluation; inability to by design' and compliance with GDPR. control failure. serve our customers, manage • We engage external advisers to carry out our properties and conduct regular penetration testing to ensure our **Risk opportunity** our business; competitive systems are robust. Ensure that we are a disadvantage; inability to • Staff training and awareness of our IT policies trustworthy and secure meet contractual obligations. and commitment to data protection. landlord for our customers' data. 9. Customers The failure to implement Negative publicity; increased • We have a leading operational platform with change initiatives to people, substantial experience in managing a portfolio complaints; poor customer processes and technology experience; reputational of over £2bn of assets and of meeting the to fulfil our customer service damage; loss of customers; requirements of our residential customers.

lower rental increases.

• Our new operating model is designed to

• We carry out proactive asset management.

We have restructured to increase staff time in the field and gain greater asset and

• We carry out customer service focused reviews

measuring customer preferences and

focused strategy.

customer knowledge.

satisfaction levels.

provide a platform for optimising a customer-

standards to all our existing

resulting in the loss of our

position as the UK's leading

and future customers

PRS landlord.

Risk opportunity

Establish a leading

for customer service.

reputation in the sector

Strategic report **VIABILITY STATEMENT**

In accordance with provision C.2.2. of the UK Corporate Governance Code, the Board has assessed the prospects of the Group over a longer period that the 12 months that has been required by the 'Going Concern' provision. In doing so, the Board considered the Group's current position and the potential impact of our principal risks and future prospects.

The Group has completed two years of the five-year strategy launched in 2016 with a number of significant milestones set out in the strategy now achieved. A comprehensive review of the Group's progress against this strategy has been completed in the year resulting in the plan being revalidated and extended beyond the original timeframe, reflecting the scale of progress to date, along with the current outlook and future ambitions for the business.

This process resulted in a revised strategic plan being developed with and approved by the Board with year one forming the budget for the next financial year. This plan provides a basis for settling all detailed financial budgets and strategic actions that are subsequently used by the Board to monitor performance and the Remuneration Committee to set targets for annual incentive.

The viability assessment was made with the updated strategy forming the base case and then recognising the principal risks that could have an impact on the future performance of the Group (see pages 34 to 36). The planning review incorporates severe scenario planning, with the amalgamation of multiple risks, including sensitivities to rental levels, asset valuations, financing and costs, in order to assess the potential impact on longer term viability of the Group.

The Group's business model has proven 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, even during challenging market conditions. Currently the Group directly owns £1.7bn of residential property assets which are relatively liquid, as proven throughout previous property cycles.

The Group would remain viable, even in the event of severe and sustained house price deflation, as it would be able to accelerate the natural conversion of our assets to cash including the sale of tenanted assets and reduce or suspend development and acquisition activity. Only an unprecedented and continued longterm lack of liquidity in UK residential property markets would cause any threat to the Group. In this situation, the Group has the option to continue to let assets to generate income and protect overall asset value.

The Board has reviewed its strategic and financial plans in detail and believes that a viability assessment period to September 2022 is appropriate, given this covers the period of the detailed strategy review and incorporates both the investments and returns currently considered as being secured. In addition, any of the principal risks during this period could be managed. The financial plan 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. The Group has secured funding to deliver the secured PRS pipeline and has prepared the strategic plan on this basis. In addition, the Group manages its hedge exposure with interest rate swaps, caps and fixed rate facilities.

Based on the Board's assessment, 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 to September 2022.

Our 2018 Strategic Report, from pages 1 to 37, has been reviewed and approved by the Board of Directors on 13 November 2018.

Vanessa Simms **Chief Financial Officer**

Governance CHAIRMAN'S INTRODUCTION TO GOVERNANCE



Mark Clare Chairman

Highlights

- Full compliance with the Code during the year.
- Board review of strategy which focused on increasing the scale of our PRS business and pipeline, how we best utilise our development capabilities, achieving operational excellence and delivery.
- As part of the Board's continued corporate culture programme, details of our employees' views on the Company and culture were sought and shared with the Board.
- Investor engagement showcasing our product, including development-focused investor presentation.
- · Internal review of Board effectiveness.

Dear shareholders,

This is my second year as Grainger's Chairman, and I have thoroughly enjoyed being part of this exciting business which is leading in the private rented sector ('PRS') and going through much change to deliver its strategy. Whilst the business continues to successfully execute its strategy and carry out its operations, the Directors and I are committed to applying effective corporate governance and promoting the highest standards throughout the Company. I am therefore very pleased to introduce this year's corporate governance report.

Grainger has a long and established heritage in residential property and continues to lead the way in the PRS. The current strategy was launched in January 2016 and the Board and I considered that it was the right time to have a detailed review of Grainger's strategy, which we did during the summer of 2018. We considered issues such as how to materially increase our PRS base through forward funding and direct development opportunities. We spent time reviewing the operational requirements to support a larger scale PRS business, including the technological and people needs in this regard. Lastly, we looked at how the business was developing its customer proposition and the degree of cultural change needed to embed it. The Non-Executive Directors and I challenged the Executive team on their proposals, and as a group we helped shape the strategy to look beyond that articulated in 2016.

As we progress the next phase of our development, the Board will provide continued oversight and advice through this period of change maintaining the appropriate balance between supporting and questioning management. Good governance also means ensuring we have rigorous risk management and controls. The application of the skills and experience of the Directors, coupled with the substantial work of the Audit Committee, provides strong governance for the benefit of all our stakeholders. To learn more about our Board activity in 2018, please see page 44.

Culture

The culture of a business is crucially important to its successful performance over the long term. The Financial Reporting Council ('FRC') 2016 report 'Corporate Culture and the Role of Boards' articulates how directors can influence and contribute to fostering a strong and positive corporate culture. Whilst the culture of the organisation comes up in many aspects of the Board's work, at the September 2018 Board meeting we spent time specifically discussing Grainger's culture. As part of this we received a presentation from the HR Director on our people strategy, employee engagement programme and survey, which included details of our employees' views on the Company. We provide further details on our culture and employee engagement on page 28. During the year, I have also spent time with our employees from across the business, which included visits to our Newcastle office. I took these opportunities to meet with staff and to gauge their views on the business, the strategy and its implementation.

My impression of the culture of the Company is that its staff are proud to work for Grainger and it has an open culture. There is a strong understanding of the strategic direction of business and a drive to achieve it. This openness fosters a willingness across the business to share ideas and engage with the operational changes that are required to deliver those improvements. In particular, staff are enthusiastic about the forthcoming technological changes that will enhance the service to our customers. As a Board, we need to continue to encourage this openness and engagement, and ensure we have a culture that puts customers at the heart of our business.

Compliance with the UK Corporate Governance Code 2016 (the 'Code')

The governance rules applying to all UK companies on the Official List of the UK Listing Authority are set out in the Code, published by the FRC. You can obtain copies of the Code from www.frc.org.uk. The Board fully supports the principles set out in the Code, and confirms we have complied with all its provisions throughout the financial year ended 30 September 2018.

This report sets out Grainger's governance policies and practices, and includes details of how the Company applies the principles and complies with the provisions of the Code.

Throughout 2018 the Board has also been monitoring the consultation and finalisation of the new UK Corporate Governance Code which comes into force next year ('New Code'). The Board and its Committees are working to ensure compliance with the New Code and look forward to reporting our progress in the coming years.

Board composition and independence

In accordance with the Code, all current Directors, with the exception of Tony Wray, who is retiring, will stand for re-election at the 2019 Annual General Meeting ('AGM'). Tony has served on the Board for over six years and during his time he also chaired the Risk and Compliance Committee. In particular, Tony's significant operational expertise has made a substantial contribution to Grainger during a period of material change. On behalf of the Board, I would like to thank Tony for his excellent service to the Company and wish him well for the future.

Details of the Directors are set out on pages 42 and 43, together with a summary of their experience and skills.

The Board reviews Non-Executive Director independence annually, and takes into account each 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 and this remains the case. The Board considers all the Non-Executive Directors to be independent.

Diversity

Grainger believes that a diverse perspective is key to success and supports the aspiration of the Hampton-Alexander Review to promote greater female representation on listed company boards, and achieve 33% female representation. As at the date of this report, Grainger is marginally below this level with 29% Board gender diversity. The Board aims to have at least one-third of directors being female from 2019 onwards.

Diversity is of course much wider than gender. The Board and the Nominations Committee also have regard to the Parker Review on ethnic diversity. Diversity of thought is also hugely important to the Board. By bringing together Executive and Non-Executive Directors with diverse backgrounds and experience, we gain enormously from varied perspectives across a range of issues. Please see page 29 for further details of diversity in our business.

Board evaluation

This year the evaluation of Board effectiveness was carried out internally, with 2017 having been externally facilitated. I also took the opportunity to have 'one-to-one' sessions with each of the Directors to obtain their views on the Board and governance of the Company. We provide further details on page 46.

Stakeholder engagement

The Board regards strong engagement with stakeholders and investors as fundamental to understanding their views. We are also supportive of the emphasis the New Code puts on the wider stakeholder group. Please see page 55 for examples of our work with our stakeholder groups.

Specifically regarding our investors, Helen Gordon and Vanessa Simms had regular meetings with the Company's shareholders and analysts throughout the year. In particular, during 2018 we held a series of individual and group site visits for investors at the Argo Apartments PRS scheme in Canning Town, which culminated in a successful investor presentation day.

When I met with our major shareholders after my appointment, I made it clear that I am happy to engage with them should they wish to. We anticipate that we will engage with fund managers and corporate governance officers of our major shareholders in advance of the AGM in February 2019. We provide further details of our shareholder engagement programme on pages 56 to 58.

Mark Clare

Chairman

13 November 2018

GOVERNANCE FRAMEWORK

Responsible to the Company's shareholders for the long-term success of the Group, its strategy, its values and its governance. Provides leadership of the Group and, either directly or by the operation of Board Committees and delegated authority, applies independent judgement on matters of strategy, performance, resources (including key appointments), the overall approach to risk management and internal control, culture and standards of behaviour.

Audit Committee

Responsible for overseeing the Company's financial statements and reporting. Reviews the work of internal and external auditors and matters of significant judgement by management. It reviews the risk management framework and the integrity of the risk management and internal control systems.

Remuneration Committee

Responsible for determining the reward strategy for the Executive Directors to align their interests with those of the shareholders.

Nominations Committee

Reviews the structure, size and composition of the Board and its Committees. Oversees succession planning for Directors and Executive Committee members. It leads the process for appointing Board Directors.

Executive Committee

This Committee operates under the direction and authority of the Chief Executive. It makes key decisions on matters to ensure achievement of strategic plans, reviews strategic initiatives, ratifies executive decisions and considers the key business risks.

Management Committee

Responsible for the day-to-day management issues of the business and ensuring all senior leaders are briefed on business activity and priorities.

Investment Committee

Reviews and approves material transactions, allocates investment capital and agrees investment hurdle rates.

Operations Board

Responsible for executing operations strategy, performance management, risk management and governance across the operating business.

Development Board

Responsible for the strategy implementation, performance management, risk management and governance in relation to the development business.

Finance Committee

Responsible for financial matters across the Group, which include accounting, financial reporting, tax, treasury, corporate and commercial finance and financial support for the business.

ROLES AND RESPONSIBILITIES OF THE DIRECTORS

Role

Responsibilities



Chairman

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 process and is responsible for ensuring a constructive relationship between Executive and Non-Executive Directors and for fostering open debate with an appropriate balance of challenge and support. In accordance with the Code, the posts of Chairman and Chief Executive are separate, with their roles and responsibilities clearly established, set out in writing and agreed by the Board.



Chief Executive

Responsible for running the business and implementing the Board's decisions. She recommends the strategy to the Board and is responsible for implementing it. She chairs a regular meeting with the Chief Financial Officer and the additional members of the Executive Committee.



Chief Financial Officer

Responsible for the financial stewardship of the Group's resources through compliance and good judgement. She provides financial leadership in the implementation of the strategic business plan and alignment with financial objectives.



Non-Executive Directors

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, competence 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
- · satisfy themselves that financial information is accurate, and that financial controls and systems of risk management are rigorous and secure.

A copy of the standard letter of appointment for a Non-Executive Director is available from the Company Secretary. During the year, the Non-Executive Directors meet periodically without the Executive Directors present and also without the Chairman.



Senior Independent Director

Acts as a sounding board for the Chairman and serves as an intermediary for the other Directors where necessary. The Senior Independent Director will meet shareholders if they have concerns, and where contact through the normal channels has not resolved the issue or is inappropriate. The Senior Independent Director leads the annual performance review of the Chairman.

Board meetings 2017/18

Oct Nov ၀၀၀





















Attendance table to 30 September 2018

•		
Executive Directors	Meetings attended	Meetings eligible to attend
Helen Gordon	8	8
Vanessa Simms	8	8
Non-Executive Directors		
Mark Clare	8	8
Belinda Richards	3	3
Tony Wray	8	8
Andrew Carr-Locke	8	8
Rob Wilkinson	8	8
Justin Read	8	8

Balance of Directors (as at 30 September 2018)

Male

Female



29%

Chairman

Executive Directors

Non-Executive Directors

Governance **BOARD OF DIRECTORS**

THE SKILLS AND EXPERIENCE TO **CONTINUE 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.



Mark Clare Non-Executive Chairman **Appointment:** Appointed Chairman in February 2017

Skills, competence and experience: Mark has wide-ranging experience in a number of sectors and extensive knowledge of the residential property market. He has substantial plc-level experience and is senior independent director of United Utilities Group plc and a non-executive director of Premier Marinas Holdings Limited. Mark was previously chief executive of Barratt Developments plc from 2006 to 2015, and is a former trustee of the Building Research Establishment and the UK Green Building Council. Prior to joining Barratt, he was an executive director of Centrica plc and held a number of senior roles within both Centrica plc and British Gas. Mark has also been a non-executive director of Ladbrokes Coral Group plc and BAA plc, the airports operator.

Tenure: 1 year and 7 months



Vanessa Simms Chief Financial Officer **Appointment:** Appointed to the Board in February 2016

Skills, competence and experience: Vanessa brings extensive financial experience to Grainger from the property sector in the UK. She 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. Vanessa is also a non-executive director of Drax Group plc, the power company.

Tenure: 2 years and 7 months



Helen Gordon **Chief Executive 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 is a non-executive director of Derwent London plc and previously held a number of other non-executive board roles over her career, including British Waterways and the Covent Garden Market Authority. She is also a vice president of the British Property Federation, a director of EPRA and an advisory board member of Cambridge University's Land Economy Department.

Tenure: 2 years and 10 months



Justin Read (A) (R) Non-Executive Director Appointment: Appointed to the Board in February 2017

Skills, competence and experience: Justin has substantial experience in real estate and corporate finance. He was group finance director of SEGRO plc from August 2011 to December 2016. Between 2008 and 2011, Justin was group finance director at Speedy Hire plc. Prior to this, he spent 13 years in a variety of roles at Hanson plc, including deputy finance director, managing director of Hanson Continental Europe, head of corporate development, head of risk management and group treasurer. He was a non-executive director of Carillion plc for a six week period from 1 December 2017. Justin is also a non-executive director of Ibstock plc.

Tenure: 1 year and 7 months



Andrew Carr-Locke (A) N R Non-Executive Director **Appointment:** Appointed to the Board in March 2015 and appointed as Senior Independent Director in February 2018

Skills, competence and experience: Andrew has substantial experience in senior finance positions in listed companies, particularly in the residential property sector. He also has wideranging 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 has previously held non-executive directorships at Dairy Crest plc, Royal Mail Holdings, Venture Production and AWG.

Tenure: 3 years and 6 months



Rob Wilkinson A N R **Non-Executive Director** Appointment: Appointed to the Board in October 2015

Skills, competence and experience: Rob has substantial experience in real estate and corporate finance. He 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, Rob was a managing director with the Goodman Group and also held investment banking positions at UBS and Eurohypo. He is also chairman of the Green Rating Alliance.

Tenure: 2 years and 11 months



Tony Wray A N R **Non-Executive Director 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: 6 years and 11 months

Committee membership

- **E** Executive Committee
- Audit Committee
- Remuneration Committee
- Nominations Committee
- Committee Chairman

Tenure is as at 30 September 2018.

Governance **EFFECTIVENESS**

The standard Board schedule sets seven formal meetings throughout the year, one of which was specifically focused on a review of the Company's longer-term strategy, and an additional meeting was held in the year to consider transactional matters.

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 CEO. They review the list of reserved matters and annual plan regularly, to ensure they are properly covered, together with other key issues as required. At each Board meeting, the CEO provides a review of the business, setting out how it has been progressing

against strategic objectives and details of any issues arising. In addition, items that require formal Board approval are circulated in advance with all supporting paperwork to aid appropriate decisions.

The Board also spent time visiting sites in London, including our development schemes at Argo Apartments, Canning Town and Young Street, Chelsea. The Board also received a number of presentations from the Grainger team during the visits.

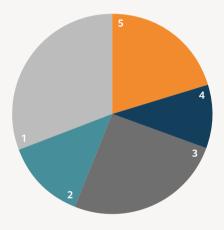
The table below shows examples of the subjects and matters the Board debated and considered throughout the year:

Board activity

1. Strategic 30%

- · Carried out an in-depth review of Grainger's strategy, considering options for growth, the PRS market, development business and operational and financial strategy.
- Received a presentation from Goldman Sachs regarding domestic and international real estate and equities markets, together with an update on merger and acquisition activity in the sector.
- · Considered competitor activity in the PRS sector
- Monitored the economic, legislative and geo-political landscape, including the development of government policy in relation to the residential property sector.
- Reviewed the risk management framework, principal risks and appetite, in particular with regard to the future strategic options for this business, such as increasing development and M&A activity.

How the Board spent its time



5. Property transactions and operations 20%

- · Considered health and safety matters, including a presentation to the Board from the Health and Safety Director, and matters arising in the sector following the Grenfell Tower tragedy and the Dame Hackitt Review.
- · Considered material transactions and business opportunities including, among others, our build-to-rent schemes in Milton Keynes, Southampton and Sheffield, and the disposal of our interest in the Walworth joint venture.
- · Received reports on the progression of our existing development projects in the UK.
- Considered management of our suppliers and our approach to procurement, with particular focus on key repair and maintenance arrangements.
- · Received reports on our customer service performance and other operational KPIs, including our customer service.
- Monitored the progress of our technology change project.

2. People and culture 15%

- Considered the evaluation of the Board's effectiveness.
- Reviewed the culture of the business. the Board and employee engagement. This included the HR Director presenting the results of the annual staff survey to the Board.
- · Received a presentation from the HR Director on our 'People' strategy for the business, including the skills and resourcing required to achieve our strategic ambitions.
- Considered the Gender Pay Gap for the business pursuant to the new legislation.

3. Financial 25%

- · Reviewed the Group's debt and capital structure, including the launch of a new corporate bond
- Considered the Group's financial performance throughout the year.
- Agreed the continued application of the dividend policy.
- · Compared corporate and operating overheads to the business plan.
- · Monitored performance of the agreed KPIs for the business.
- Considered the requirements of a REIT conversion, and the feasibility of this for our business.

4. Governance 10%

- Received briefings on regulatory and governance issues, including the New Code issued by the FRC and the GDPR compliance programme.
- Considered shareholder relations, in particular the feedback from investors and analysts in connection with the 2017 full year results and the 2018 interim results.
- Received reports from the Nominations, Audit and Remuneration Committees.

Information flow

The Chairman and the Company Secretary ensure the Directors receive clear, timely information on all relevant matters. Board papers are circulated well in advance of meetings to ensure there is adequate time for them to be read and to facilitate robust and informed discussion.

The papers contain the CEO's written report, high-level reports on each business area, key figures and papers on specific agenda items. Also, minutes of the Executive Committee meetings and detailed financial and other supporting information are provided. The Board also received presentations throughout the year from various departments, including HR, Legal, Investment, Corporate Finance and Health and Safety, and from external advisers on subjects including financing, regulatory issues for listed companies and business valuation.

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 Director committed enough time to be able to fulfil their duties, and has capacity to continue doing so. None of them has any conflict of interest not disclosed to the Board, in accordance with the Company's Articles of Association.



Grainger's Non-Executive Directors take pride in not governing the business remotely. As part of its regular programme of site visits to get first-hand experience of the Company's activities, in the past year the Board visited our developments at Young Street, Kensington and Argo Apartments, Canning Town. During the visits the Board was shown around the developments by staff leading the projects. This included highlighting the innovative features and tenant facilities incorporated at each site, noting that amenities of this nature form a key part of our strategic proposition in our development pipeline. At the Argo Apartments visit the Board took the opportunity to conduct a full Board Meeting in the amenity space included in the building which can be utilised by tenants to host dinner parties or other gatherings with friends. These visits provided the Board with an invaluable insight into how the Company's strategy is being put into practice.

Access to independent advice

All Directors have access to the advice and services of the Company Secretary, who ensures we follow Board processes and maintain high corporate governance standards. Any Director who considers it appropriate may take independent, professional advice at the Company's expense. None of the Directors did so in the current year.

Engagement with stakeholders

How we engage and interact with our stakeholders is integral to our business. In order to achieve our aim of being the UK's leading residential landlord, we keep in close contact with our employees, customers and investors to ensure that we are aware of each other's key drivers and act in such a way as to maximise our mutual interests.

We seek to develop and improve our stakeholder engagement, through regular communication and continuous improvement in our processes and practices. You can find further details of our engagement with stakeholders at pages 55 to 58 of this report.

Induction and professional development

No new Board members were appointed during the year, but in any event and in accordance with the Code, Grainger's policy is that the Chairman, supported by the Company Secretary, is responsible for ensuring that each Director receives a comprehensive and tailored induction.

The Board is updated on a range of matters throughout the year. Subjects include the business of the Group, legal and regulatory responsibilities of the Company (including updates to the legislative landscape) and changes to accounting requirements. This takes the form of presentations by Grainger senior management and external advisers, and Board papers and briefing materials. We also expect individual Directors to identify their own training needs, and to ensure they are adequately informed about the Group and their responsibilities as a Director.

The Board is confident that all its members have the knowledge, ability and experience to perform the functions required of a director of a listed company.

Governance **EFFECTIVENESS CONTINUED**

Performance evaluation

The annual evaluation of the Board and its Committees for 2018 was led by the Chairman and the Company Secretary through completion of a detailed questionnaire, followed by individual meetings between the Chairman and 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 the 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 below:

- 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.
- Input from each of the Directors regarding the strategic review was effective and constructive.
- The Board would benefit from a new Non-Executive Director with customer-facing skills, good operational experience and a personality that helps drive the diversity of thinking.

- More opportunities should be created for the Non-Executive Directors to interact with the business and its employees more frequently.
- The Board should gain more understanding of the intended customer philosophy and operational procedures that will underpin it.

The Board and its Committees will monitor progress and continue their critical review of the Board's effectiveness during the year ahead. In accordance with the Code, we intend the next external evaluation of the Board to be carried out in 2020.

Re-election of Directors

We continue to adopt the recommendations of the Code that all Directors offer themselves for re-election annually, even though the Company's Articles of Association only require this every three years. Therefore all current Directors, with the exception of Tony Wray who is retiring, will stand for re-election at the 2019 AGM.

In light of the performance evaluation, the Board recommends that all Directors proposed are so re-elected.

External Board evaluation cycle



Governance **EFFECTIVENESS: NOMINATIONS COMMITTEE REPORT**

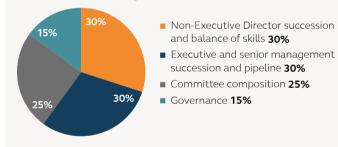


Mark Clare Committee Chairman

Attendance table

Committee member	Member since	Meetings attended	Meetings eligible to attend
Mark Clare (Committee Chairman)	February 2017	2	2
Belinda Richards	February 2014	1	1
Tony Wray	February 2014	2	2
Andrew Carr-Locke	March 2015	2	2
Rob Wilkinson	May 2017	2	2
Justin Read	March 2017	2	2

How the Committee spent its time



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

Dear shareholders,

I am pleased to present the Nominations Committee report for 2018 which details the main activities we undertook during the year. The Nominations Committee plays a fundamental role in ensuring we select and recommend 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. 2017 was a particularly busy year for the Nominations Committee with significant change to the Board and its Committees. Consequently, 2018 has been about embedding these changes whilst focusing on the future make-up of the Board.

Although it is not yet in force, the Committee is also mindful of the New Code and the changes that will flow to the work of the Board and its Committees. In this regard, in May 2018 the Committee reviewed those areas which specifically relate to the Nominations Committee. We will continue to monitor best practice under the new Code as it is implemented.

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.

Governance EFFECTIVENESS: NOMINATIONS COMMITTEE REPORT CONTINUED

Process for Board appointments

Before making an appointment, the Nominations Committee will evaluate the balance of skills, knowledge and experience currently on the Board. Following this a specification of the personal attributes, experience and capabilities required to perform the relevant appointment is produced. In circumstances where external recruitment or benchmarking of an internal candidate is appropriate, an independent external search consultancy will be engaged to help identify appropriate candidates for the role. A recommendation is then made to the Board concerning the appointment of any Director. The Committee also supports the Board in the appointment of the Company Secretary when required.

Main activities of the Committee during the year

The Committee met formally twice during the year to 30 September 2018, supplemented by other discussions to support the work of the Committee. At the formal meetings the Committee considered a number of standing agenda items relating to its key responsibilities detailed above. In applying those responsibilities, the Committee made decisions on a range of matters during the year, the most significant of which are detailed below. Invitations to attend Committee meetings extend to the CEO, HR Director and others as necessary and appropriate.

Non-Executive Directors

As mentioned in the 2017 Committee report, it was agreed that an additional Non-Executive Director would be recruited to add retail consumer-facing skills to the Board, recognising the changing nature of Grainger's business as it delivers its PRS-focused strategy. To assist with the appointment, three independent executive search consultancies were invited to pitch for the engagement to carry out the search. This involved the consultancies making presentations to a Grainger panel comprised of the Chairman, Chief Executive and HR Director. Following this process, the panel recommended the appointment of a consultancy which it considered had the optimal capability for the instruction. The consultancy was subsequently engaged. It is confirmed that the relevant consultancy is not connected with the Company in any other way. In this search process the Committee will base the prospective appointment on merit but also have regard to the benefits of diversity on the Board. This appointment process is still under way and we look forward to reporting further in due course once the appointment is agreed and made.

Tony Wray has served on the Board for over six years at the date of this report, and therefore will be stepping down from the Board at the February 2019 AGM. On behalf of the Board and the Committee I would like to thank Tony for his significant contribution to Grainger over a period of such strategic and operational change.

As reported last year, Belinda Richards was due to retire from the Board at the February 2018 AGM, and consequently Andrew Carr-Locke was to take on the role of Senior Independent Director and Justin Read was to become Chairman of the Remuneration Committee, being positions previously held by Belinda. It is confirmed that these changes duly took place in February 2018 as planned.

Executive succession planning

The Committee received a detailed presentation from the HR Director in relation to our succession plans for key staff in the business and related retention strategies for them. Specifically with regard to succession planning of senior executives, the search for a Director of Land and Development was carried out during the year, and the Committee and Board were kept informed of progress with this search by the Chief Executive. This search was successfully concluded during the year with the appointment of Mike Keaveney to the role.

External non-executive directorships

During the year, both Helen Gordon and Vanessa Simms were appointed as non-executive directors of other listed companies. Helen was appointed to the board of Derwent London plc and Vanessa to Drax Group plc. In considering whether to give approval for the appointments, after close consideration, the Committee was satisfied that the time commitment required for the appointments would not jeopardise the capacity for Helen and Vanessa to perform their roles at Grainger, and that there was no immediate conflict of interest arising. Further, the Committee considered that the experience and insight that would be gained from these directorships would be beneficial for them both, and in turn for the Company. Helen and Vanessa are entitled to retain their fees in respect of these directorships.

Diversity

The Directors are committed to having a balanced Board which includes diversity of perspectives, skills, knowledge and background. For gender diversity specifically, the Board supports the aspiration of the Hampton-Alexander Review to promote greater female representation on listed company boards, and notes the significant progress made in this area in FTSE 350 companies since the original Lord Davies report of 2010. We make all appointments to the Grainger Board on merit, and within this context the Directors will continue to follow best practice on the issue of diversity as it develops further. At the date of this report, female representation at Board level was 29%, which is lower than the 38% reported in 2017. This reduction is owing to Belinda Richards' retirement during the year with no further appointments having been made. The current percentage is also slightly below the 33% level recommended by the Hampton-Alexander Review. The objective for the Board and the Committee is to consistently have at least one-third of the Board being female Directors, and the Board aims to return to a composition which exceeds this threshold in 2019.

Page 29 contains further details of diversity matters across Grainger.

The Board is also mindful of the Parker Review regarding ethnic diversity on UK boards that was published in 2017. The Review recommends that each FTSE 250 board should have at least one director of colour by 2024. The Committee will work with the Board with a view to complying with this recommendation assuming suitable candidates can be found.

Balance of knowledge, skills and experience

The Directors have wide-ranging experience as senior business people. The Board has particular expertise in finance, property and the listed company environment. As mentioned above, we are looking to enhance the blend of skills and experience of the Board by adding an individual with retail consumer-facing skills.

Mark Clare

Chairman of the Nominations Committee

13 November 2018

Experience of the Board



Property experience



Financial experience (leadership or audit capacity)



Retail consumer business experience

29%

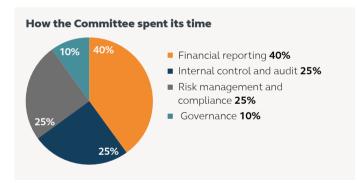
Governance ACCOUNTABILITY: AUDIT COMMITTEE REPORT



Andrew Carr-Locke Committee Chairman

Attendance table

	Member	Meetings	Meetings eligible to
Committee member	since	attended	attend
Andrew Carr-Locke (Committee Chairman)	March 2015	4	4
Tony Wray	November 2011	4	4
Rob Wilkinson	February 2016	4	4
Justin Read	March 2017	4	4



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

Dear shareholders.

This is my third year of chairing Grainger's Audit Committee, and I am pleased to present the Audit Committee report for the year ended 30 September 2018. During the year, the Committee has continued to carry out a key role within the Company's governance framework, supporting the Board in risk management, internal control and financial reporting. This report provides an overview of the significant issues the Committee considered, and its assessment of the Annual Report and Accounts as a whole, including how we have reviewed the narrative reporting to ensure it is an accurate reflection of the financial statements.

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. During the course of the year we have been mindful of the consultation and finalisation of the New Code. In addition, we develop a clear work plan through the year to ensure we fulfil all our responsibilities. At the heart of those responsibilities is ensuring that the Company operates an effective risk assessment and management process, and has an appropriate control framework in place. We are helped by the Internal Audit team at Deloitte, which reports directly to us, and which works to an agreed plan to ensure controls are effective.

Grainger is continuing to undergo significant change. Implementing the PRS strategy requires the introduction of new processes and new systems, much of it via our IT restructure. Therefore, this year the Committee has focused on assessing the risks and controls regarding this changing environment. I also anticipate that over the next two years the work of the Committee will include giving close attention to reviewing the new technological and automated systems and preventative controls to be established. We have also carefully considered the risk management framework to assess its relevance for an increasingly PRS-focused business . The Committee has supported the Board in considering the principal risks and appetite of the Company. We provide details of the risk management framework, principal risks and key mitigants on pages 32 to 36.

The issue of security of personal information is of increasing concern to the public, and Grainger's current and future customers likewise want comfort that their personal data is safe and secure. In this regard the Committee and the Board have closely monitored Grainger's preparations for the regulatory change brought about by the GDPR that came into force in May 2018. This oversight of data protection compliance will continue in 2019 as the change embeds.

One of the Committee's other key responsibilities which we carried out during the year is ensuring the Group's published financial statements show a true and fair view and are consistent with accounting and governance requirements. We also considered

the viability statement closely, having regard to the continued progress of the implementation of our PRS strategy and the overall strategic horizon. This included interrogating the financial models and related sensitivity analysis 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.

As well as our planned work programme, we respond to key matters as they arise. An example of this during the year was to consider the impact upon the Company's statutory income statement, statutory statement of financial position and the EPRA NNNAV of the forthcoming amendment to IAS 40 in relation to the scope for transfers to and from investment property.

Whilst there was no specific FRC review of Grainger's audit this year, the Committee discussed with KPMG the results of its FRC Audit Quality Inspection Report and the proposed improvement plans arising from the mixed findings of the Report. The Committee will closely monitor progress against these plans. Specifically in relation to their work for Grainger, the Committee was satisfied with the work of KPMG and recommends its reappointment.

I believe 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 effectively, a conclusion endorsed by the Board appraisal process.

I would like to record my thanks for the support of the other members of the Committee, to Grainger's Finance and Legal teams, and to our internal and external auditors for their thorough approach.

Andrew Carr-Locke Chairman of the Audit Committee

13 November 2018

Significant matters relating to the Group's 2018 financial statements

The most significant matters considered by the Committee and discussed with the external auditor in relation to the Group's 2018 financial statements were as follows:

1 Property valuations

We received reports and presentations directly from the valuers and management on the assumptions utilised in valuing the Group's property assets, the suggested discount rates for reversionary assets and the valuations. We considered the prevailing valuation methodology and process. As detailed in the 2017 report certain revisions to the valuation process were introduced last year and therefore this is the second year in which the adopted process has been carried out. We were content, after close scrutiny and debate, with the assumptions and judgements applied to the valuations. We also considered that the external valuers were sufficiently independent and report directly to the Committee. KPMG also independently reviews the valuation process and results. The results of the valuations form the basis of management's assessment to support the carrying value of investments in subsidiary companies by the parent company.

2 Recoverability of inventories

Management utilise the valuation information referred to above to perform an assessment of recoverability of inventories. The valuations include references to comparable market evidence of similar transactions along with the Group's own evidence and experience in sales of similar assets. Along with our assessment of property valuations we have considered management's assessment of recoverability of inventories and are satisfied that the approach adopted and results are appropriate.

Invitations to attend meetings

There is a standing invitation to the Chairman of the Board and the Executive Directors, who in turn attended all of the Committee's meetings during the year. The Director of Group Finance and representatives of the internal and external auditors also attended all meetings of the Committee, and both sets of auditors met privately with the Committee during the year.

Role, responsibilities and experience

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

Andrew Carr-Locke, Rob Wilkinson and Justin Read have recent and relevant financial experience as required by the Code. The Committee as a whole has the competence relevant to the

Governance ACCOUNTABILITY: AUDIT COMMITTEE REPORT CONTINUED

sector in which it operates. Please refer to pages 42 and 43 for skills and experience of the Directors and page 49 of the Nominations Committee report.

Terms of reference

The Committee's terms of reference are approved by the Board. We review them at least annually and last reviewed them at the Committee's meeting in February 2018. The Committee's terms of reference comply with the Code and they 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;
- internal audit process;
- external audit process and relationship with the external auditor;
- 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 reports regularly. The Committee understands and, where required, challenges any materiality and unadjusted errors that occur during the year and considers how best to engage with investors on any materiality and adjusted or unadjusted differences.

Meetings

The Committee's main work follows a structured programme of activity agreed at the start of the year. As well as its main work, the Committee undertakes additional work in response to the evolving audit landscape. The following page shows a non-exhaustive list highlighting the Committee's work during the year under review.

Fair, balanced and understandable

The Committee has undertaken a detailed review in assessing whether the 2018 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 about the processes put in place by management to provide the necessary assurance that they have made the appropriate disclosures. The Committee considered management's assessment of items included in the financial statements and the prominence given to those items. This review also included receiving a near final draft of the Annual Report in advance of the November 2018 Committee meeting. This was accompanied by a reminder of the areas the Committee should focus on having regard to the Audit Committee Institute guidance, and how it can be applied to the

draft Annual Report. The Committee, and subsequently the Board, were satisfied that, taken as a whole, the 2018 Annual Report and Accounts is fair, balanced and understandable.

Going concern and financial viability

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 requirements of the Code. The assessment included a review of the principal risks facing the Group, their financial impact, how they were managed, the availability of finance and covenant compliance together with a discussion as to the appropriate period for assessment. The Group's viability statement is on page 37.

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 appointing an external auditor. On three occasions during the year the audit engagement partner made representations to the Committee as to the external auditor's independence. This also 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 this rotation will be due for the 2020 audit. The Committee and KPMG have commenced discussions on audit partner succession to ensure there is an orderly and timely handover of responsibilities.

The Committee appraised KPMG's performance by assessing its audit plan, the quality and consistency of its team and reports received and discussions held with the Committee. In addition, we received feedback from the finance team. We also considered the tone of KPMG's relationship with the Executive, which we assessed as constructive and professional yet independent and robust.

In respect of KPMG's independence, the Committee applies its policy for the use of external auditors for non-audit services. This policy substantially restricts the types of non-audit services that can be rendered and specifies the limited circumstances in which an engagement can be made.

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

- · bookkeeping and preparing financial information;
- the design, supply or implementation of financial information systems;
- appraisal or valuation services;
- · internal audit services; and
- actuarial services.

Governance **KEY ACTIVITIES**

November 2017

- valuer of Grainger's reversionary assets.
- Considered and received matters relating to the 2017

 - » KPMG's year end audit report;

- Noted the tax impact and treatment of the full year results and also that the Company maintained its HMRC 'low risk' status.
- Reviewed the effectiveness of the Committee's performance.
- Board KPMG's re-appointment.

February 2018

- In respect of risk, considered the Group's:
 - » risk management framework, principal risks and mitigants;
 - » assurance map against principal risks; and
- » the revised version of the risk management policy.
- Reviewed Grainger's whistleblowing arrangements.
- Considered KPMG's plan for its review of the 2018 half year results.
- Carried out a detailed evaluation of the performance of the and also identified certain areas for future improvement
- On Internal Audit matters:
 - » considered the five-year core assurance Internal Audit plan; and
 - » received Internal Audit reports on penetration testing and the
- and preparations for the GDPR.
- Reviewed the Audit Committee terms of reference.

May 2018

- Considered issues regarding the 2018 half year results, including:
 - » the draft half year financial statements and announcement;

 - » KPMG's half year review report.

- - » property management and customer care;

- » the progress of ongoing actions from previous Internal Audit

September 2018

- Received an update on Accounting Standards.
- Considered KPMG's audit strategy memorandum and engagement regarding the audit for the full year 2018.
- Considered and approved the forward Internal Audit plan.
- - » Governance review of Grainger's IT change programme
 - » RACM 'spot checks'; and
 - » progress of completing actions from previous internal audits.
- Considered FRC AQR Report on KPMG and its proposed remedial actions.

- - » the risk management framework and the application of the
 - » the development of 'key risk indicators' for parts of the business;
 - » principal risks and risk appetites.
- and financial crime legislation, and our programme of compliance
- Considered the potential impact of the forthcoming revisions

Governance ACCOUNTABILITY: AUDIT COMMITTEE REPORT CONTINUED

Regarding potentially permitted non-audit services, key criteria that must be evidenced to the Committee's satisfaction is that the external auditor is best suited to undertake the relevant services. and that the engagement will not jeopardise external auditor independence. The engagement of KPMG for the provision of non-audit services requires prior approval from the Audit Committee Chairman. In 2018 there was an increase in the level of non-services provided by KPMG. The non-audit services rendered in 2018 are specified in the table below and in each case, after close consideration, the Committee was duly satisfied that the:

- key criteria noted above had been satisfied;
- non-audit services policy had been applied; and
- appointments were in the best interests of the Company and its stakeholders.

Schedule of fees paid to KPMG	Year ended 30 September 2018 £
Statutory audit of Grainger Group	241,500
Total audit fees	241,500
Half year review	32,000
Reporting accountant – corporate bond	35,000
Corporate finance activity	135,000
Non-statutory certificate on Berewood	
Development site	5,000
Total non-audit fees	207,000

The Committee was also satisfied that the overall levels of audit related and non-audit fees were not of a material level relative to the income of the external auditor firm as a whole.

External auditor tenure

The Company confirms that it has complied with the Competition and Markets Authority's Order for the year. Due to the relatively recent appointment of KPMG in 2015, the Committee was satisfied that it was not optimal to tender external audit services in the current year. The Committee noted that a competitive tender for the external auditor must be held no later than 2025.

The Committee monitors the performance of the external auditor, providing an in-depth evaluation of its performance following the external audit, and then makes a recommendation to the Board. When considering the appropriateness of the re-appointment of KPMG, we considered in our review, the ratio of audit to non-audit fees and the effectiveness of the audit process, together with other relevant review processes. We were satisfied that we should recommend the re-appointment of KPMG.

Internal controls

The Board, assisted by the Audit Committee, is responsible for reviewing the operation and effectiveness of the Group's internal controls. This internal control system is designed to manage risks as far as possible, acknowledging that no system can eliminate the risk of failure to achieve business objectives entirely. The Board did not identify any significant failings or weaknesses in the year.

The Board is also responsible for ensuring that appropriate systems are in place to enable it to identify, assess and manage key risks. The preparation of financial statements and the wider financial reporting process and control system are monitored by the adoption of an internal control framework to address principal financial reporting risks. This includes risks emerging as a result of changes to the business or accounting standards. The effectiveness of the controls is evaluated by a combination of review by all of the Grainger management committees and boards, and the internal and external auditors.

A key project in the year was the GDPR compliance project. Both the Board and the Committee received regular updates from senior management. In 2019 an Internal Audit report will provide further assurance in relation to our actions in this area.

Internal Audit

Deloitte is appointed by the Company as Internal Auditor. Internal Audit focuses on the areas of greatest risk to the Company. Audits are considered during an annual audit planning cycle. This is informed by the results of current and previous audit testing, the Company's strategy, performance and the risk management process. Additional audits may be identified during the year in response to changing priorities and requirements. The Committee approves the plan and monitors progress accordingly. All Internal Audit findings are graded, appropriate remedial actions agreed, and progress monitored and reported to the Committee.

Internal Audit has a direct reporting line to the Chairman of the Audit Committee. We assess the effectiveness of Internal Audit by reviewing its reports, feedback from the Chief Financial Officer, and through meetings with the Chairman of the Audit Committee without management being present.

The Internal Audit programme for 2018 gave attention to the Group's core operational processes and the risk and controls in that regard. The plan for 2019 and thereafter has been designed to align with the implementation programme for the PRS focused strategy. This approach will give attention to providing assurance, process improvement and insights for Grainger's core processes, complemented by an appropriate number of targeted risk reviews on principal risks or areas of management concern.

Governance **RELATIONS WITH STAKEHOLDERS**

How does the Board consider shareholder and stakeholder views?



Governance **RELATIONS WITH STAKEHOLDERS CONTINUED**

Key shareholder events 2017/18

An ongoing dialogue with our shareholders is fundamental to ensuring that there is an understanding of the strategy and governance of the business, and that the Board is aware of the issues and concerns of our investors. In this section of the report we highlight the key activities of our shareholder engagement programme throughout the year.

October 2017

Two investor conferences London

Full year results presentation London

Full year investor roadshow London and Edinburgh

January 2018

Two investor property tours London

Investor conference London

March 2018

Two US investor conferences Miami and New York

Investor conference London

Property tour London

February 2018

Full year investor roadshow Amsterdam

Investor property tour London

AGM

May 2018

Two investor conferences London

Half year results presentation London

Half year investor roadshow London and Edinburgh

Property tour London

June 2018

Half year investor roadshow Amsterdam

Property tour Manchester

Investor conference

Paris

Property tour London

September 2018

Investor conferences London

Investor conference Berlin

Investor presentation and lunch

Argo Apartments, London

Substantial shareholdings

At 30 September 2018 and 31 October 2018 (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 2018		31 October 2018	
Holding million	Holding %	Holding million	Holding %
32.1	7.7%	32.2	7.7%
27.5	6.6%	27.3	6.5%
23.1	5.5%	24.1	5.8%
15.5	3.7%	15.6	3.7%
15.5	3.7%	15.4	3.7%
15.4	3.7%	15.4	3.7%
14.7	3.5%	14.7	3.5%
14.2	3.4%	14.2	3.4%
13.7	3.3%	13.4	3.2%
12.9	3.1%	12.9	3.1%
	Holding million 32.1 27.5 23.1 15.5 15.5 15.4 14.7 14.2 13.7	Holding million % 32.1 7.7% 27.5 6.6% 23.1 5.5% 15.5 3.7% 15.5 3.7% 15.4 3.7% 14.7 3.5% 14.2 3.4% 13.7 3.3%	Holding million Holding million 32.1 7.7% 32.2 27.5 6.6% 27.3 23.1 5.5% 24.1 15.5 3.7% 15.6 15.5 3.7% 15.4 15.4 3.7% 15.4 14.7 3.5% 14.7 14.2 3.4% 14.2 13.7 3.3% 13.4

Frequently asked questions	
The market	Demand for renting continues to outstrip supply.
What is the competitive landscape like at the moment?	The PRS continues to attract significant interest among institutional investors. However, it is estimated that the PRS will grow from 4.7m households to 7.2m by 2025, and the current supply of new purpose built PRS stock is c.130,000 units.
	We have over 4,500 operational PRS units, with an anticipated pipeline of a further c.5,300 units, positioning us as one of the largest players in the market. We have demonstrated our ability to deliver on our strategy through the success of securing PRS investments.
Outlook What is the scale of your	Grainger's intention has always been to grow beyond the £850m target, which was an initial metric set out along with our PRS strategy in January 2016.
PRS investment ambitions?	Scale is important in the PRS market, and the opportunity for growth, supported by growing demand, is vast.
	We will continue to invest at pace and in a disciplined manner, supported by our established asset recycling programme, gearing (within our target range of 40-45% LTV) and the resilient cash flow generated from our regulated tenancy business.
Overheads Overheads have been reduced a lot, but are they going to increase again as you grow?	Overheads have been reduced by 25% since January 2016. We have restructured the business to this level in order to support our growth plans. Therefore we do not expect to see overheads materially rise as we increase our portfolio, with the exception of wage inflation due to our investment in our operational platform.
Affordability Are you concerned about your	As part of our investment process, we undertake detailed mapping of the local consumer market including job profiles, personal income levels, commuting patterns and economic growth forecasts.
customers' ability to afford rising rents and housing costs?	When underwriting and pricing our properties, we aim to set rents within levels that are affordable to those living locally with average incomes. This mid-market approach ensures that are properties are accessible to the widest range of people.
Operational platform You have the market leading operational platform. Will you	We continue to invest in our operational platform, which provides us with significant competitive advantage, including investing in technology to enable us to increase our scalability and enhance our customer experience.
leverage off it and seek to offer your operational platform to others entering the market?	We are not seeking to offer our operational platform to third parties but are actively pursuing partnerships where the third party can bring a PRS development opportunity we could not otherwise acquire. A good example is our newly established partnership with the London Borough of Lewisham, where we are working together to develop c.300 new homes on land owned by the Borough.
	together to develop e.300 new nomes on tand owned by the borough.

Governance **RELATIONS WITH STAKEHOLDERS CONTINUED**

Case study of investor presentation at Argo Apartments Objective

To provide investors and prospective investors with an insight into the work undertaken by Grainger's development division and how development adds value to the business.

Presented by Grainger's Executive management and senior development team, this provided progress to date on current projects and outlined future opportunities, with a focus on three strands of development:

- · Forward funding
- Direct development

Hosted at Grainger's latest PRS offering, Argo Apartments, which was launched in January 2018, the presentation gave investors the opportunity to view the building's amenity space and apartments.

The presentation was attended by over 20 top investors and sell side analysts, with positive feedback received.

The Group's website includes a comprehensive investor relations section, containing all RNS announcements, share price information, annual documents available for download and similar materials. All the Directors standing for re-election intend to attend the 2019 AGM and be available to answer questions. All shareholders can attend the AGM, which is a means of communication with smaller and private shareholders.

We send out the notice of meeting and Annual Report and Accounts at least 20 working days before the meeting. We hold separate votes 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 can also lodge their votes through the CREST system.

The Board believes that understanding the views of its shareholders is a fundamental principle of good corporate governance. Strong engagement with stakeholders and investors is key to achieving this.

Investor relations are based on the financial reporting calendar, with additional engagement when considered beneficial to the Company. We have held more than 230 engagements with shareholders, analysts and potential investors in the year. Helen Gordon and Vanessa Simms held the vast majority of these meetings, and manage the Group's investor relations programme with the Director of Corporate Affairs. We always seek feedback at these meetings and present it to the Board. In addition, the Company Secretary engaged with a combination of fund managers and corporate governance officers of the Company's major shareholders before the 2018 AGM. We anticipate a similar pre-AGM engagement process will take place in 2019.

Attendance at key investor meetings

Chief Executive	95%
Chief Financial Officer	92%
Senior executive	89%



Governance **REMUNERATION COMMITTEE REPORT**



Justin Pead Committee Chairman

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How the Committee spent its time



Dear shareholders,

This is my first year as Chairman of the Remuneration Committee and I am pleased to present, on behalf of the Board, the 2018 Directors' Remuneration report.

What is in this report?

This Directors' Remuneration report sets out a summary of the Remuneration Policy approved by shareholders at the Company's Annual General Meeting ('AGM') on 8 February 2017. It took effect on that date and will continue to apply for another year. You can find a full copy of the policy in the 2016 Annual Report or on our website.

This statement and report will be subject to an advisory vote at the AGM on 6 February 2019.

This report also discloses the amounts paid to our Executive and Non-Executive Directors for the year ended 30 September 2018.

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. We have prepared it in line with the recommendations of the Code and the requirements of the UKLA Listing Rules.

Our approach to remuneration

As detailed in the Strategic report, our focus continues to be on growing rental income, simplifying and focusing the business and building on our experience to position the Company for future long-term growth. All of these factors are supported by our focus on continuously improving our customers' experiences with us. How successful we are in executing our strategy for the benefit of our stakeholders is measured by the long-term value we create as a business. This value is underpinned by the income growth we achieve through retaining and growing our customer base whilst also generating capital returns.

These metrics form part of our key performance indicators that are tracked through to our incentives. The long-term focus in our strategy is supported through our Long-Term Incentive Plan ('LTIP') under which our performance is tested over three years and, as a minimum, the after tax number of vested shares must be held for a period of five years. Our annual bonus plan rewards for delivering our short-term financial and operational goals, with part of any bonus earned deferred into the Company's shares for a period of three years. Incentive out-turns are then linked to share ownership guidelines that require a shareholding of equal value to 200% of salary to be built.

Governance REMUNERATION COMMITTEE REPORT CONTINUED

The performance metrics used in our incentive programmes include shareholder return metrics alongside earnings growth and strategic targets. These are reviewed periodically to ensure they continue to support our strategy and, in particular, that the range of targets set remain appropriate for current commercial circumstances.

The above policy will be subject to a review in 2019 in line with the relevant regulations that require us to seek shareholder approval for a new remuneration policy at the 2020 AGM, being three years since our current policy was approved by shareholders. A review of policy is timely given ongoing developments in market practice and best practice, including the recent updated recommendations included in the New Code.

We would note that we go into a policy review year from a position of strength with over 98% of our shareholders approving our 2017 application of remuneration policy at the 2018 AGM.

2018 performance and reward

In 2018, supporting our strategy and aligned with the overview noted above, the majority of the annual bonus was subject to a combination of adjusted earnings and ROSE targets. These measures combined to ensure that Executive Directors focused on improving profit from their day-to-day activities, at the same time as maximising the value of Grainger's underlying assets. In addition, we based a minority of the bonus opportunity on how well each of our Executive Directors performed on an individual scorecard of key performance objectives.

With regard to the performance during the year, we achieved adjusted earnings of £94m and ROSE of 6.1%. The performance against adjusted earnings was £16.6m ahead of the target set for the year of £77.4m, and ROSE was in the lower half of the 4.5% - 12% performance range. When we combined these figures with the strategic targets, annual bonuses were calculated at c.72% of the maximum available. Full disclosure of the actual targets set, and performance towards those targets, is on pages 67 to 69. With our LTIP, the 2016 awards will vest in January 2019. The 2016 LTIP award was delayed by a month due to a closed period during December 2015 and this was made in January 2016. The performance targets for this award related to EPRA NNNAV (50% of award) and absolute total shareholder return ('TSR') (50% of award). For the performance period ended 30 September 2018, EPRA NNNAV has increased by 20% against the 11% increase in the Halifax and Nationwide House Price indices. This will result in 15.8% vesting of this part of the award. TSR up to 22 October 2018 was an annualised compound increase of approximately 10% over the three-year performance period (ending 11 January 2019). If this level of TSR is maintained for the reminder of the period it will, subject to that share price performance, result in 50.3% of this part of the award vesting. In aggregate, therefore, the estimated vesting of the total award is in the region of 33%. Actual vesting levels will be determined in January 2019 and included in next year's Annual Report on Remuneration.

In light of the strong performance achieved over the relevant performance periods, and in particular the returns generated for our shareholders, the Committee is comfortable, overall, with the level of variable pay earned and the forecast for the 2016 LTIP.

Implementing the policy for 2019

For the 2018/19 period, the base salaries of the Executive Directors will be increased with effect from 1 January 2019, in line with the typical increase given to the wider employee population. See page 73 for more details.

It is proposed that in applying the Remuneration Policy for the forthcoming year, we will retain the same broad structure and performance measures as was the case for 2018.

In support of the Company's current strategy, Executive Directors will continue to earn the annual bonus based on performing to a combination of challenging adjusted earnings and ROSE targets, with a small but significant proportion of the total bonus opportunity reserved for achieving tailored strategic personal objectives. One-quarter of any bonus earned will continue to be subject to deferral into the Company's shares, to provide a link between attaining short-term objectives and longer-term performance. In addition, recovery and withholding provisions will continue to apply to any bonus earned in relation to 2019.

For the LTIP the three-year performance targets will, as per the prior year, relate to an equal combination of total property return ('TPR') and relative TSR compared to our sector peers. As with the annual bonus, strict recovery and withholding provisions apply, along with a two-year holding period on any shares that vest.

For 2019, our general approach to target setting in respect of adjusted earnings and strategic targets will remain consistent with the approach taken in 2018. Details of the 2019 bonus structure are included on page 74 and the Committee is comfortable that the degree of stretch in the overall bonus is no less challenging than the structure in place for 2018, giving appropriate allowance for current circumstances.

The choice of metrics is considered to remain fully aligned with our PRS-led strategy and overall objective of maximising suitable shareholder returns. In line with best practice, the Committee also retains the discretion to override incentive plans' formulaic outcomes if it considers there to be an inconsistency between performance and reward.

As a result of ongoing developments in market practice, specifically in relation to the enforceability of clawback and the use of Committee discretion, a review of the Company's annual bonus and LTIP documentation was completed during the year. While the conclusion of the review was that the current documentation was in line with current good practice, the Committee made a number of minor amendments to bring current processes into line with best practice (e.g. introducing the requirement for directors to countersign acceptance of incentive plan terms, including the malus and clawback provisions and incentive plan override).

In addition, I would highlight that Grainger continues to operate the SAYE and SIP share schemes in line with the principle of broad employee share ownership and regularly encourages employees to become owners in the Company, by providing frequent awareness sessions, annual presentations, Q&A sessions and assistance in joining available share schemes.

Board changes

Belinda Richards retired from the Board on 7 February 2018, having completed six years of service as a Non-Executive Director and having chaired the Audit, Risk and Remuneration Committees, as well as being the Company's Senior Independent Director during her appointment. In line with the terms of her letter of appointment, Belinda received a pro-rata payment of fees for the period in office.

Corporate governance developments

The Committee has considered recent changes in corporate governance best practice (introduced by the New Code and new secondary legislation).

In relation to the New Code, whilst noting that the new disclosure requirements become effective for companies with financial years commencing on or after 1 January 2019, we already comply with some of the new recommendations and intend to consider more of the detail as part of our forthcoming policy review. In relation to how best to take into account employee feedback on Directors' remuneration, the Committee is overseeing an audit of the current practices within Grainger on taking employees' views into consideration. The audit will, once complete, be provided to the Committee for review and in order to agree the most appropriate approach going forward for Grainger. This will form part of a broader Board exercise as to how to best consider stakeholder views more generally. The Board will conclude this process, along with its work on the requirements of the new secondary legislation, well before these new corporate governance developments require Grainger to comply in the 2019/20 financial year.

Shareholder engagement

The Committee is committed to maintaining an ongoing dialogue with shareholders and other stakeholders on the issue of executive remuneration, and we welcome any feedback you may have.

We look forward to your support on the resolution relating to remuneration at the AGM on 6 February 2019.

Justin Read

Chairman of the Remuneration Committee

13 November 2018

Governance REMUNERATION POLICY SUMMARY

Overview of the Executive Directors' Remuneration Policy

Our Executive Directors' Remuneration Policy was approved by shareholders at the AGM on 8 February 2017 and it is intended to apply for the full three-year period permitted by the applicable regulatory regime. You can find the full policy on our website. Below is a summary of the policy. Details of the remuneration arrangements for the Non-Executive Directors are on page 75.

Base salary

Purpose and link to strategy	To enable the recruitment and retention of individuals of the calibre necessary to execute the Company's business strategy.
Operation	Reviewed annually and effective from 1 January. Decision may be influenced by the following factors: • 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 to companies of a similar size and complexity.
Opportunity	Salaries will be eligible for increases during the three-year operational period, in line with percentage increases granted to the wider workforce. Increases beyond these may be awarded in certain circumstances, such as a change in responsibility or experience, or a significant increase in the scale of the role, or size, value or complexity of the Group. Where new joiners or recent promotions have been placed initially on pay below market rate, a series of percentage increases above those granted to the wider workforce may be considered, subject to individual performance and development in the role.
Framework to assess performance	The Committee considers individual salaries at the appropriate meeting each year, after considering 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-ups. Other ancillary benefits, including relocation expenses, as required.
Opportunity	The value of benefits may vary from year to year depending on the cost from providers.

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 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 a month (or other amount 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% of the market price of the shares at the commencement of the saving period.
	SIP: Participants can invest up to £150 a month (or other amount permitted by HMRC from time to time) in shares in the Company, and the Company matches that investment. The Company may also allocate free shares annually on a percentage of basic pay, subject to a maximum of £3,600 (or other amount permitted by HMRC from time to time). Dividend payments on SIP shares are reinvested into shares.

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 value of benefits may vary from year to year depending on the cost from providers.
Framework to assess performance	The pension contribution or allowance is based on 15% of basic salary.

Annual bonus

Purpose and link to strategy	To incentivise achievement of annual targets.
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. Bonus will be predominantly based on demanding financial targets (for example, ROSE and adjusted earnings) and a minority of other performance targets (for example, strategic targets).
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, are provided in the Annual Report on Remuneration.
	Malus and clawback provisions apply and withholding provisions may apply for three years from the date of payment of any bonus.

Long-term incentive plans

Purpose and	To incentivise sustained performance over the longer term.
link to strategy	To encourage greater shareholder alignment through personal investment in the Company's shares.
Operation	Long-term incentive plans are provided under the 2007 LTIP and the 2017 LTIP (collectively referred to as 'LTIP'). LTIP provides for awarding share options (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 demanding performance conditions.
	Shares are subject to a two-year post-vesting holding period for awards granted under the 2017 LTIP. 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; and130% 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 forfeited from a previous employer).
Framework to assess performance	Granted subject to a blend of demanding financial (for example, TPR) and TSR 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. Malus and clawback provisions apply.

Governance REMUNERATION POLICY SUMMARY CONTINUED

Shareholding guidelines

The Executive Directors are expected to build up a shareholding of equivalent value to 200% of their base salary. As a minimum, half the after-tax number of vested LTIP shares granted from 2018 must be retained towards satisfaction of this guideline, which is expected to be met within five years of its introduction (subject to personal circumstances).

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

As the Executive Directors have the greater potential to influence overall Group performance, their Remuneration Policy is more heavily weighted towards variable pay than that for other employees. The Committee considers any general basic salary increase for the broader Company when determining the annual salary review for the Executive Directors.

How the views of employees and shareholders are taken into account

The HR Director attends and reports to the Remuneration Committee regularly and in doing so takes into consideration and reports on the employees' views collected via staff-wide surveys and other cascade/feedback sessions. This process will be reviewed once the current FRC consultation into remuneration committee engagement with the wider workforce is complete.

The Remuneration Committee considers shareholder feedback received from the AGM, along with guidance from shareholder representative bodies and any feedback received during meetings with shareholders, as part of its ongoing review of remuneration policy.

Approach to recruitment remuneration

When setting the remuneration package for a new Executive Director, the Committee will apply the principles in the Remuneration Policy.

For appointments from outside the Company, the Remuneration Committee may offer compensation that it considers appropriate and reasonable for awards and benefits forfeited from a previous position. This would reflect the performance requirements, timing and other specific matters the Committee considers relevant, and could be in cash 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.

In the case of an employee who is promoted to the position of Executive Director, it is the Company's policy to honour the terms of existing award commitments.

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

The Company can terminate Executive Directors' service contracts with up to one year's notice, and the Director can terminate it with at least six months' notice.

If an Executive Director's employment is to be terminated, and in the absence of a breach of the service agreement by the Executive Director, the Committee's policy is to agree a termination payment based on the base salary and contractual pension amounts and benefits that would have accrued during the notice period. The departing Executive Director may work, or be placed on leave, for all or part of their notice period, or receive a payment in lieu of notice in accordance with the service agreement. Depending on the circumstances, the Committee may also apply the principle of mitigation, to reduce any termination payment.

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 due to redundancy, retirement with the agreement of the Company, ill health, 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 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 the individual was employed.

Share-based incentives granted to an Executive Director will be based on the relevant plan rules. The default treatment will be for outstanding awards to lapse on cessation of employment. For awards granted under the Company's LTIPs, 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 elects 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 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, with awards then vesting on the normal vesting date. It is the Company's policy to honour pre-existing award commitments.

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' fees

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

Non-Executive Directors

Itoli Exceutive Dii	66675
Purpose and link to strategy	To provide a competitive fee which will attract high-calibre individuals who, through their experience, can further the interests of the Group.
Operation	The fees for Non-Executive Directors (including the Chairman) are typically reviewed every second year, or more frequently if required.
	The Chairman and Non-Executive Directors receive an annual fee paid in cash. They 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 for chairing the Company's key committees or for performing the Senior Independent Director role.
	Non-Executive Directors are reimbursed for travel and related business expenses reasonably incurred in performing their duties.
	The Committee (without the Chairman) determines the Chairman's fee and recommends it to the Board. The Chairman and Executive Directors determine the Non-Executive Directors' fees.
Opportunity	Fee levels can be increased to ensure they continue to recognise the time commitment of the role, fee levels for Non-Executive Directors in general, and fee levels in companies of a similar size and complexity.

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.

Governance ANNUAL REPORT ON REMUNERATION

1. Single total figure of remuneration for each Director

The details set out in Notes 1 to 7 on pages 66 to 72 of this report have been audited by KPMG LLP.

	a	b		c	d	e		f
	Salary and fees ¹	Taxable benefits ²	Share incentive Plan	Annual bonus³	LTIP awards⁴	Pension benefits⁵	Other ⁶	Total ⁷
2018	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Executive Directors								
Helen Gordon	468	16	4	474	346	70	74	1,452
Vanessa Simms	325	16	4	290	143	49	-	827
	793	32	8	764	489	119	74	2,279
Non-Executive Directors ⁸								
Mark Clare	165	-	-	-	-	-	-	165
Tony Wray	47	-	-	-	-	-	-	47
Andrew Carr-Locke	61	-	-	-	-	-	-	61
Rob Wilkinson	47	-	-	-	-	-	-	47
Justin Read ⁸	53	-	-	-	-	-	-	53
	373	-	_	-	-	-	-	373
Former Non-Executive Director								
Belinda Richards ⁹	23	-	-	_	_	-	_	23
Totals	1,189	32	8	764	489	119	74	2,675

- 1 The salaries awarded to the Executive Directors during the year under review increased by 2.2% in line with the wider employee population. Helen Gordon's base salary is £470,120 and Vanessa Simms' base salary is £327,040, both with effect from 1 January 2018.
- 2 Taxable benefits include a car allowance and private medical insurance.
- 3 In line with the 2017 Remuneration Policy, 25% of the bonus is deferred into shares for three years.
- 4 In line with the requirements of the Remuneration Reporting Regulations, the 2018 LTIP vesting values are based on the forecast value of the awards due to vest on 11 January 2019 (50% of the award is based on EPRA NNNAV performance measured over the three years to 30 September 2018, and 50% of the award is based on absolute TSR measured over the three-year period to 11 January 2019). The growth in Grainger's EPRA NNNAV over the three-year period to 30 September 2018 was 1.7 times the increase in the Halifax and Nationwide House Price indices over the same period. For this part of the award, this results in 15.8% being eligible to vest. Absolute TSR performance based on an assessment period measured to 22 October 2018 results in an annualised TSR of 10.03%. This in turn results in a projected vesting level of 50.3%, for this part of the award. In aggregate, this results in current estimated vesting being 33.1% of the total award. The applicable performance period is due to end on 11 January 2019. The share price for valuing the award is the three-month average share price to 28 September 2018 (303.6p) 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. In addition, the total LTIP value of the award vesting in January 2019 in respect of Nick Jopling is £172,607, Nick, being a former Director of Grainger. The 2017 LTIP value has been restated and reflects the actual value of the awards that vested in December 2017.
- 5 The pension benefits are based on 15% of base salary.
- 6 Please see Note 6 on page 71 in relation to the vesting of the Tranche 3 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 achievement of a ROSE of 6.1% and adjusted earnings of £94m in a challenging market context. In addition, substantial strategic progress was also made with the PRS strategy being delivered and embedded in the business.
- 8 The salaries for Non-Executive Directors reflect payments in relation to any chairmanship roles (as applicable during the year under review or the preceding year) and in some cases pro-rata adjustments are made to reflect the changes in respect of such roles being taken part way through the relevant year.
- 9 On 7 February 2018 Belinda Richards retired from the Board.

	a	b		С	d	е		f
2017	Salary and fees¹ £'000	Taxable benefits ² £'000	Share Incentive Plan £'000	Annual bonus³ £'000	LTIP awards ⁴ £'000	Pension benefits ⁵ £'000	Other ⁶ £'000	Total ⁷ £'000
Executive Directors	1 000	1 000	1.000	1 000	E 000	E 000	1 000	£ 000
Helen Gordon	460	16	1	390	_	69	49	985
Vanessa Simms	320	17	1	240	=	48	=	626
	780	33	2	630	-	117	49	1,611
Former Executive Director ⁴								
Nick Jopling	357	16	5	236	344	54		1,012
Non-Executive Directors ⁸								
Mark Clare	104	_	-		-	-	-	104
Belinda Richards	62	_	-		-	-	-	62
Tony Wray	45	-	_	-	-	-	-	45
Andrew Carr-Locke	54	_	-		-	-	-	54
Rob Wilkinson	45	_	_	_	-	_	-	45
Justin Read	28	_	_	_	-	_	-	28
	338	_	-	_	-	-	_	338
Former Non-Executive Director								
Margaret Ford	53	_	_	-	-	-	_	53
Totals	1,528	49	7	866	344	171	49	3,014

2. Annual bonus awards - performance assessment for 2018

Actual performance against the targets set for 2018 are listed below (straight-line pay outs occur between the relevant performance points). All Executive Directors during the year of review were eligible to participate in the 2018 annual bonus plan.

Below are the financial targets set at the start of the year (which were considered as challenging as those set in prior years and detailed in last year's Directors' Remuneration report) 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)	2018 performance	Out-turn (% of max element)
							Bonus
Adjusted earnings	40%	90% of budge (£69.7m)	t	100% of budget (£77.4m)	120% of budget (£92.9m)	121.4% of budget (£94m)	100%
Measure	Weighting	Threshold (0% out-turn)	(10% out-turn)	Target (60% out-turn)	Maximum (100% out-turn)	2018 performance	Out-turn (% of max element)
							Bonus
ROSE	40%	4.5%	4.75%	7%	12%	6.1%	40%

The ROSE as detailed above at 6.1% was calculated from the closing EPRA NNNAV of 316p per share plus the dividend of 5.26p per share for the year, divided by the opening EPRA NNNAV per share of 303p.

In respect of the personal performance targets set for each Executive Director, these were set against a range of strategic targets at the start of the year. 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.

Governance ANNUAL REPORT ON REMUNERATION CONTINUED

2. Annual bonus awards - performance assessment for 2018 continued **Chief Executive**

Measure	Objective	Performance assessment
Asset recycling Plan to release £250m over three years with 2018 releasing: • £60m = 3% • £90m = 5%	Design a clear action plan and steps for further simplification and focus of the portfolio to release capital for further PRS investment.	Achieved in full with the release of £157.3m of capital from the recycling of assets for PRS investment.
Customer service Improve response time to customer complaints. Reduce number of outstanding complaints at year end as a percentage of the number of units in the portfolio at year end. Implement measurement of quality of response as measured by customer feedback.	Develop improvement in customer service culture with a clear action plan and initiatives to achieve a step change in the organisation.	Achieved in part with: an 84% reduction in average time to resolve and close customer complaints over the year under review; a reduction in the number of complaints as a percentage of the portfolio from 6.3% to 5.8%; and an improvement of the Net Promoter Score (c.6%) which is embedded in the organisation as a key measure of customer satisfaction.
Joint Ventures/Partnerships Simplification of joint ventures or similar arrangements.	Further business simplification in the form of exiting and/or restructuring arrangements with partners.	Achieved in full pursuant to the execution of transactions, including: • sale of interest in WIP; and • RBKC partnership conclusion.
Investment pipeline 5% if achieved by 31 August 2018, 3% thereafter.	Achieve £850m secured pipeline.	Achieved in respect of the 3% measure.

Pursuant to the above assessment, the Committee determined that the payment of 16% of the maximum 20% of this part of the bonus would be payable and was appropriate in the circumstances.

Chief Financial Officer

Measure	Objective	Performance assessment
Asset recycling Plan to release £250m over three years with 2018 releasing: • £60m = 3% • £90m = 5%	Design a clear action plan and steps for further simplification and focus of the portfolio to release capital for further PRS investment.	Achieved in full with the release of £157.3m of capital from the recycling of assets for PRS investment.
Customer service	Develop improvement in	Achieved in part with:
 Improve response time to customer complaints. Reduce number of outstanding complaints at year end as a percentage of the number of units in the portfolio at year end. Implement measurement of quality of response as measured by customer feedback. 	customer service culture with a clear action plan and initiatives to achieve a step change in the organisation.	 an 84% reduction in average time to resolve and close customer complaints over the year under review; a reduction in the number of complaints as a percentage of the portfolio from 6.3% to 5.8%; and an improvement of the Net Promoter Score (c.6%) which is embedded in the organisation as a key measure of customer satisfaction.
Joint Ventures/Partnerships	Further business	Achieved in full pursuant to the execution of transactions,
Simplification of joint ventures	simplification in the form of	including:
or similar arrangements.	exiting and/or restructuring arrangements with partners.	sale of interest in WIP; andRBKC partnership conclusion.
Corporate finance – bond Completion of the transaction.	Secure a transformational financing transaction to improve capital structure.	Achieved in full with successful launch of a £350m corporate bond with a coupon of 3.375% for 10 years.

Pursuant to the above assessment, the Committee determined that the payment of 18% of the maximum 20% of this part of the bonus would be payable and was appropriate in the circumstances.

The total bonuses earned, therefore, were 72% and 74% of the maximum bonus opportunity for each of the Chief Executive and Chief Financial Officer respectively.

3. LTIP awards - performance assessment for 2018

The awards made to Executive Directors in January 2016, and which are due to vest in January 2019, are based on EPRA 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 January 2019

Measure	Weighting	Threshold	Maximum	Actual/forecast performance	Out-turn (% of max element)
					LTIP
Three-year growth in TSR (annual compound) ¹	50%	5%	15%	10.03%	50.3%
EPRA NNNAV (increase over three years relative to HPI,					
as measured by Halifax and Nationwide) ²	50%	1.5%	3.0%	1.7%	15.8%

- 1 The applicable performance measurement period is the three years to 11 January 2019. The performance reported above, therefore, is a forecast based on performance measured to 22 October 2018 (using the three month average share price to this date for the purposes of calculating the annualised TSR). The 22 October 2018 was chosen as the performance measurement date since it is the latest practicable date for running the analysis for 2018 reporting purposes. Actual performance for the TSR element of the award will be determined once the performance period concludes and the actual vesting result will be included in a restated 2018 single figure total in next year's Annual Report on Remuneration.
- 2 Performance measurement period three years to 30 September 2018. EPRA NNNAV increased by 20% between September 2015 and September 2018 while the average increase in the Halifax and Nationwide House Price indices over the same period was 11%.

The forecast vesting value of the awards made in January 2016, subject to the above performance targets, is included in the 2018 single figure table above.

The awards made to Executive Directors in December 2014, and which vested in December 2017, were based on EPRA NNNAV and absolute TSR targets measured over a three-year period. Performance against the vesting schedule can be summarised as follows:

LTIP awards vested in December 2017

Measure	Weighting	Threshold	Maximum	Actual performance	Out-turn (% of max element)
					LTIP
Three-year growth in TSR (annual compound) ¹	50%	5%	15%	15.3%	100%
EPRA NNNAV (increase over three years relative to HPI, as measured by Halifax and Nationwide) ²	50%	1.5%	3.0%	1.6%	6%

¹ Performance measurement period three years to 16 December 2017. Actual performance over the performance period, at 15.3%, was higher than the forecast included in last year's Directors' Remuneration report which had been estimated at 14%. This in turn resulted in an increase in the vesting result from 90% to 100% which has been included in a restated 2017 single figure table on page 73.

² Performance measurement period three years to 30 September 2017.

Governance **ANNUAL REPORT ON REMUNERATION CONTINUED**

4. Share scheme interests awarded during the year

	LTIP share a	LTIP share awards DBSP		OBSP share awards	
		Face value		Face value	
	Number	£'000	Number	£'000	
Helen Gordon	285,825	805	34,051	98	
Vanessa Simms	147,706	416	20,974	60	

The face value of LTIP share awards for Helen Gordon and Vanessa Simms is based on a price of 281.64p, being the average share price for the five business days immediately preceding the award being made on 11 December 2017. The face value of performance shares awarded was 175% of salary for Helen Gordon and 130% of salary for Vanessa Simms.

The awards will be eligible to vest in three years, dependent upon continued employment and satisfying the performance criteria. Half of the award is subject to a relative TSR growth condition (versus FTSE 350 Real Estate Supersector constituents) with the other half subject to a TPR condition (both measured over three financial years, starting with the financial year the award was granted in).

The relative TSR performance condition requires Grainger's three-year relative TSR performance versus the comparator group to be at least at median for 25% of this part of the award to vest, with vesting then increasing on a straight-line basis to 100% for upper guartile relative TSR performance or better. The TPR performance condition requires three-year growth in TPR to be above 5% for 25% of this part of the award to vest, with vesting then increasing on a straight-line basis to 100% for 9% growth or better. Following vesting, a two-year holding period is applied on vested shares.

The face value of the deferred bonus share plan ('DBSP') share awards for Helen Gordon and Vanessa Simms, relating to a 25% deferral of the 2017 annual bonus into Company shares, is based on a price of 286.5p, being the closing share price on the business day immediately preceding the award being made on 11 December 2017. The awards will be eligible to vest in three years subject to continued employment as set out in the policy on page 63.

5. Payments for loss of office and to past Directors

Belinda Richards retired from the Board on 7 February 2018, having completed six years of service as a Non-Executive Director and having chaired the Audit, Risk and Remuneration Committees, as well as being the Company's Senior Independent Director during her appointment. In line with the terms of her letter of appointment, Belinda received a pro-rata payment of fees for the period in office.

6. Directors' shareholdings and share interests

Performance share awards

		Awards granted	Maximum award Number	Awards vested Number	Awards lapsed Number	Maximum outstanding awards at 30 Sep 2018 Number	Market price at date of vesting (p)	Vesting date ¹
Helen Gordon	Buy-out awards	12 Jan 16	50,045	26,524	23,521	-	232.5	19 May 16
	(three tranches) ²						254.8	07 Mar 17
							280.2	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
	LTIP shares	09 Feb 17	329,162	_		329,162	-	09 Feb 20
	LTIP shares	11 Dec 17	285,825	_		285,825	-	11 Dec 20
	DBSP	11 Dec 17	34,051	_		34,051	-	11 Dec 20
Vanessa Simms	LTIP shares	11 Feb 16	130,995	_	-	130,995	-	11 Jan 19
	Matching shares	11 Feb 16	11,750	_		11,750		11 Jan 19
	LTIP shares	09 Feb 17	170,101	_	_	170,101	-	09 Feb 20
	LTIP shares	11 Dec 17	147,706	_	_	147,706	-	11 Dec 20
	DBSP	11 Dec 17	20,974	_	_	20,974	_	11 Dec 20

- 1 The performance conditions that apply to awards granted in the year under review are set out on pages 74 and 75, and for the previous financial year were set out in full in the previous Annual Report and Accounts.
- 2 As previously disclosed, Helen Gordon received a buy-out award on joining the Company. The award was structured in three tranches. Tranche 1 included 33,122 shares, of which 5,520 shares vested in May 2016 and 27,602 lapsed at the same time. Tranche 2 included 69,328 shares, of which 21,353 vested in March 2017 and 47,975 shares lapsed at the same time. Tranche 3, included 50,045 shares, of which 26,524 shares vested in March 2018 and 23,521 lapsed at the same time. The number of shares vesting in relation to Tranches 1 to 3 related to the Committee's assessment of the value forfeited having had regard (where relevant) to the performance targets applying to the awards originally granted (i.e. the adjustments reflected the Committee's assessment of the number of shares that would have vested in her previous employment, following application of the performance conditions attached to the relevant awards, with the assessment made based on publicly disclosed information by her previous employer).

The total number of shares included in the table above is the opening number of shares at the start of the year under review that remained eligible to vest (i.e. relating to Tranche 3), and the movement during the year related to the vesting and lapsing of Tranche 3 shares. There is now a nil balance for this award.

Share options

			Granted in year	Lapsed in year	Exercised during year								
		Share options at 1 Oct 2017	Number	Grant price (p)	Number	Number	Exercise price (p)	Market price on exercise (p)	Gains on exercise of share options (£)	Share options at 30 Sep 2018	Exercise price (p)	Earliest exercise date	Latest exercise date
Helen Gordon	SAYE	10,791	=	=	-	=	=	=	=	10,791	166.8	01 Sep 19	01 Mar 20
Vanessa Simms	SAYE	8,563	-	-	-	-	-	-	-	8,563	210.2	01 Sep 20	01 Mar 21

The closing trade share price on 28 September 2018 was 300p. The highest trade share price during the year was 322p and the lowest was 267.4p.

Governance **ANNUAL REPORT ON REMUNERATION CONTINUED**

6. Directors' shareholdings and share interests continued

Directors' shareholdings

	Ordin	Ordinary shares of 5p each (thousands)					
	1 Oct 2017 Shares	30 Sep 2018¹ shares	Value at 30 Sep 2018 £'000	% Current salary²			
Executive Directors							
Helen Gordon	103	140	421	89%			
Vanessa Simms	12	23	68	21%			

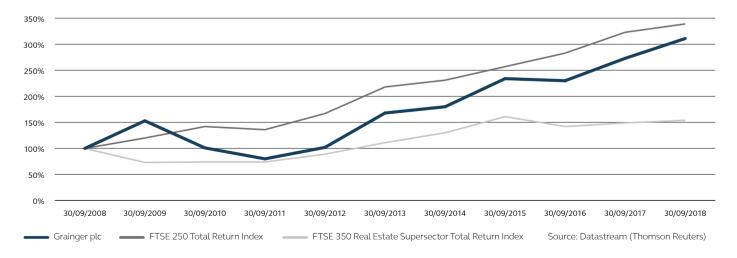
- 1 Since 30 September 2018, Helen Gordon and Vanessa Simms acquired shares in the Company through the Grainger Employee Share Incentive Scheme (1,246 ordinary 5p shares each).
- 2 The Company's share ownership guidelines require Executive Directors (subject to personal circumstance) to build a share ownership of equal value to 200% of salary over five years. The value of shares held (calculated as at 28 September 2018 when the share price was 300p) are detailed in the table above. The current levels of share ownership reflect the length of service for each Executive Director, with the Chief Executive having served two years and 10 months and the Chief Financial Officer having served two years and seven months. These values do not include any shares that are scheduled to vest on 11 January 2019. The salary percentage if the share options currently held under the DBSP share plan (subject to continued employment only) were to be included in the above calculation would increase the share ownership guideline to 111% in the case of Helen Gordon and 41% in the case of Vanessa Simms.

		Ordinary shares of 5p each (thousands)		
	Beneficia	l		
Non-Executive Directors	1 Oct 17	30 Sep 18		
Tony Wray	10	10		
Andrew Carr-Locke	10	10		
Rob Wilkinson	10	14		
Mark Clare	100	100		
Justin Read	14	14		

7. Performance graph and table

Total shareholder return

This graph shows the percentage change by 30 September 2018 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.



8. 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 %
2018	Helen Gordon	1,452	72	33
2017	Helen Gordon	985	61	N/A
2016 ¹	Helen Gordon (from 4 January 2016)	882	73	N/A
2016	Andrew Cunningham (to 4 January 2016)	376		-
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 ²	Andrew Cunningham	583	22	=

¹ Helen Gordon's single figure of 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 of total remuneration for 2016.

9. Percentage change in remuneration of Chief Executive and employees

The percentage change in remuneration between 2017 and 2018, excluding LTIP and pension contributions, for the Chief Executive and for the average of all other employees in the Group was as follows:

	Percenta	Percentage change 2017–18			
	- Base salary	Taxable Benefits	Annual bonus		
Chief Executive ¹	2%	0%	22%		
Employee population ²	0%	5%	0%		

¹ The base salary for the Chief Executive has increased with effect from 1 January 2018 by 2.2% in line with the wider population. The bonus opportunity and other benefits for the Chief Executive have remained unchanged in 2018.

10. Relative importance of spend on pay

The difference in actual expenditure between 2017 and 2018 on remuneration for all employees, in comparison to profit before taxcontinuing operations and distributions to shareholders by way of dividend, is set out in the charts below. Profit before tax is considered to be an appropriate financial metric as it is not impacted by changes in tax rates which are outside of the direct control of the Company.

Profit before tax - continuing operations (£m)

+£14.4m

+16.7%

2018: £100.7m (2017: £86.3m) Dividend

(fm)

+£1.7m

+8.4%

2018: £21.9m (2017: £20.2m) Total employee pay

(£m)

-£1.2m

-0.6%

2018: £17.6m (2017: £18.8m, which includes £0.8m termination payments following restructure)

 $^{2\ \ \}text{Andrew Cunningham was acting Chief Executive for most of 2009 due to the absence through illness of Rupert Dickinson.}$

The 2017 figures for the employee population included the amounts paid to an executive director who has since left the business. If these payments were excluded from the 2017 figures, the year on year changes to 2018 would be 2% for the base salary, 8% for the taxable benefits and 12% for the annual bonus.

Governance ANNUAL REPORT ON REMUNERATION CONTINUED

11. Statement of implementation of Remuneration Policy for 2019

In line with the typical increase given to the wider employee population, the Remuneration Committee determined that the base salaries for the two Executive Directors should be increased by 2.5% with effect from 1 January 2019.

Annual bonus

As detailed in the Annual Statement and Summary Remuneration Policy, the structure and metrics to operate for the 2019 annual bonus are as follows:

• Chief Executive: 140% of salary • Chief Financial Officer: 120% of salary

With regard to the level of bonus earned, 25% will be deferred into Grainger shares for three years. The range of targets to apply to the 2019 annual bonus are to remain the same as in 2018 for both the adjusted earnings element (i.e. the same performance range around budget is being retained) and level of returns targeted under the ROSE element. However, reflecting that the 2019 budget includes lower levels of forecast asset sales (which is consistent with our increased focus on delivering greater certainty of income returns), the absolute level of adjusted earnings required at the target performance level has not been set at a premium to the 2019 actual result. Full retrospective disclosure of the actual targets will be included in next year's Directors' Remuneration report (subject to considering any perceived areas of commercial sensitivity). The Committee is comfortable that the targets set for 2019 and summarised below are at least as challenging as the targets set in 2018 in light of our forward planning and the wider economic context.

The table below sets out the performance targets and their respective weightings for 2019:

Metric	Weighting	Rationale and description					
Adjusted earnings	40%	Incentivises operational success in achieving rental growth, income from sales and reduction in operational and finance costs relative to a challenging budget.					
		Performance level	Budget	Payout			
		Threshold	90%	0%			
		Target	100%	60%			
		Maximum	120%	100%			
		Straight line between pe	erformance points.				
ROSE	40%	Incentivises the delivery of targeted levels of return from our property portfolio which is aligned wi a strong balance sheet in respect of the EPRA NNNAV performance and dividend level.					
		Performance level	Payout				
		4.50%	0%				
		4.75%	10%				
		7%	60%				
		12%	100%				
		A graduated vesting scale operates between performance points.					
Strategic personal objectives	20%	with reference to budgete for the year agreed by the of the Company to disclos	ed objectives. These are consist Board. Due to matters of com se the precise personal targets he objectives and the performa	measurable milestones or a range of targets set tent with the strategy and targeted objectives amercial sensitivity it would not be in the interests for the annual bonus at the date of production ance achieved will be disclosed retrospectively			

LTIP

It is expected that the LTIP awards to be made to the Executive Directors in the year ending 30 September 2019 will be at the levels detailed below and subject to a two-year holding period:

• Chief Executive: 175% of salary • Chief Financial Officer: 130% of salary

The performance measures to apply for 2019 will be as follows:

Metric	Targets			Rationale for metric		
TSR (versus FTSE 350	Ranking	Budget		Incentivises executives to achieve above median sec		
Real Estate Supersector constituents)	Below median	0%		TSR, which is a targeted outcome of an effective		
	Median	25%		execution of our strategy.		
	Upper quartile	100%				
	Straight line betw	een performar	nce points.			
TPR	Performance level	TPR	Payout	Rewards for achieving the key pillars of our long-term		
	Threshold	<5%	0%	strategy – income growth and capital returns.		
	Target	5%	25%			
	Maximum	9%	100%			
	Straight line betw three-year averag		nce points,			

As detailed in the Remuneration Policy, strict recovery and withholding provisions apply to both LTIP and annual bonus awards, which will enable the Committee to reclaim or adjust future variable pay awards if there is 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 result does not reflect broader Company performance over the relevant performance periods.

Non-Executive Directors' fees

The Non-Executive Directors' fee levels have not increased since 1 October 2017. Current fee levels are as follows:

• Basic Non-Executive Director fee: £47,000

• Additional fee for chairing Board Committee: £9,500

• Additional fee for Senior Independent Director duties: £8,000

• Chairman's fee: £165,000

In respect of Helen Gordon's and Vanessa Simms' appointments as non-executive directors of Derwent London plc and Drax Group plc respectively, it is noted that the Board approved that the fees payable pursuant to these directorships may be retained by the individuals.

Governance ANNUAL REPORT ON REMUNERATION CONTINUED

12. Directors' service agreements and letters of appointment

	Contract commencement date	Notice period	
Executive Directors			
Helen Gordon	November 2015	12 months	
Vanessa Simms	February 2016	6 months	
	Date of initial appointment		
Non-Executive Directors			
Mark Clare	February 2017		
Tony Wray	October 2011		
Andrew Carr-Locke	March 2015		
Rob Wilkinson	October 2015		
Justin Read	February 2017		
Former Non-Executive Director			
Belinda Richards	April 2011		

13. Details of the Remuneration Committee, advisers to the Committee and their fees

The Remuneration Committee currently comprises five 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
Justin Read (Committee Chairman since February 2018)	May 2017	3	3
Belinda Richards (Committee Chairman until February 2018)	March 2015	1	1
Mark Clare	May 2017	3	3
Tony Wray	February 2016	3	3
Andrew Carr-Locke	April 2015	3	3
Rob Wilkinson	May 2017	3	3

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

The Committee appointed Korn Ferry Hay Group ('KFH') as advisers. Their role is to keep the Committee informed of developments in the market and best practice, and to support the Committee in implementing the Remuneration Policy. Total fees paid or payable (as applicable) to KFH for services to the Committee during the 2018 financial year were £46,769 (2017: £33,840). 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.

14. Statement of voting at general meeting

At the AGM held on 7 February 2018, the Directors' Remuneration report received the following votes from shareholders:

	Directors' Remune	ration report
	Total number of votes	% of votes cast
For	306,176,534	98.84
Against	3,580,060	1.16
Total votes cast (for and against)	309,756,594	100
Votes withheld	13.691	_

Governance **DIRECTORS' REPORT**

In accordance with the UK Financial Conduct Authority's Listing Rules ('LR'), 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 112 in relation to the dividend waiver arrangements.

Information incorporated by reference

The Corporate Governance Statement on pages 38 to 80 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 in respect of the Annual Report and the financial statements

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 International Financial Reporting Standards as adopted by the European Union ('EU IFRS') 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, relevant and reliable;
- for the Group financial statements, state whether they have been prepared in accordance with EU IFRS;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Governance **DIRECTORS' REPORT CONTINUED**

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

Financial risk management

Details are included in Note 28 to the financial statements.

Directors' indemnities and insurance

The Company has in place contractual entitlements for the Directors of the Company and its subsidiaries to claim indemnification by the Company for certain liabilities they might incur in the course of their duties. We have established these arrangements, which constitute qualifying third-party indemnity provision and qualifying pension scheme indemnity provision, 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. The Company also maintains an appropriate level of Directors' and officers' liability insurance.

Sustainability

A full breakdown of Environmental, Social and Governance performance for the company and our property portfolios in alignment with the EPRA Sustainability Best Practices Recommendations is available on our website at www.graingerplc.co.uk/responsibility.

Scope 1 and 2 Global GHG emissions data for period 1 October 2017 to 30 September 2018

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	Tonnes of CO₂e						
Emissions from	2017 location- based	2018 location- based	Trend location- based	2017 market- based	2018 market- based	Trend market- based	
Combustion of fuels and operation of facilities	771	697	-10%	771	697	-10%	
Electricity, heat, steam and cooling for own use	698	747	7%	229	362	58%	
Total footprint	1,469	1,444	-2%	1,000	1,059	6%	
Company's chosen intensity measurement:							
Emissions reported above per £m value of assets							
under management ¹	0.54	0.58	7%	0.37	0.43	15%	
Emissions reported above per owned unit ²	0.24	0.24	-1%	0.17	0.18	7%	
Emissions reported above per employee ³	6.83	5.71	-16%	4.65	4.18	-10%	

Scope 3 Global GHG emissions data for period 1 October 2017 to 30 September 2018

Emissions from	2017	2018	Trend
Electricity transmission and distribution losses	65	70	8%
Business travel (air, rail and vehicles)	97	90	-7%
Estimated tenant energy use (tCO ₂) ⁴	29,381	27,295	-7%
Grainger office occupation (landlord-obtained)	N/R ⁵	31	=

- 1 Value of assets under management ('AUM') on the last day of the financial year, expressed in £m.
- 2 Number of owned units on the last day of the financial year within the scope of data collection.
- 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 CO2 only.
- 5 N/R = Not Reported. Includes landlord-obtained emissions for London Bridge office only. Data was not available in 2017 due to metering changes.

Summary

Grainger complies with the greenhouse gas ('GHG') emissions reporting requirements of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. Grainger reports all material GHG emissions using 'tonnes of CO₂ equivalent' ('tCO₂e') as the unit of measurement. Our reporting period for GHG emissions is 1 October 2017 to 30 September 2018 and we report emissions for the previous year to demonstrate the trend.

In 2018 we increased the scope of our GHG reporting to include emissions from the following assets and portfolios:

- Grainger's portfolio of affordable homes which was not previously captured in our reporting.
- Newly developed PRS asset Argo Apartments and recent acquisitions in the GRIP REIT portfolio.
- Recent Grainger acquisitions, including a large portfolio of acquired properties in Liverpool, Leeds and Manchester which was not previously captured in our reporting.
- The Aldershot office located on Grainger's Wellesley development site.

This change in boundary has resulted in an increase of 13% in the Company's GHG emissions from property portfolios. However, emissions for those assets under Grainger's control in 2017 and 2018 have decreased by 6%. In addition, emissions relating to Grainger's owned fleet have reduced by 47% due to a reduction in the number of vehicles and mileage travelled. Grainger's market-based emissions have increased by 58% due to the number of PRS acquisitions now included, many of which are yet to transfer onto renewable energy contracts. Some of these properties were acquired before the reporting year but data was not available to enable prior reporting.

Methodology

Grainger follows the GHG Protocol Corporate Standard (revised edition), DEFRA Environmental Reporting Guidelines and ISO 14064: Part 1 standard for its reporting. We have used the UK Government conversion factors 2018 for location-based reporting and the Association of Issuing Bodies European Residual Mixes 2017 for market-based reporting for calculating 2018 emissions. We have reported on all emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. We have used the operational control consolidation method. These sources fall within our consolidated financial statements.

For market-based emissions Grainger has used contractual instruments where there is data readily available. We purchase 100% renewable electricity tariffs for 78% of applicable properties, which has resulted in lower Scope 2 emissions using the market-based approach compared with the location 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 gas consumed in Grainger's offices and fuel consumption in vehicles owned or leased by Grainger. 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 in its own offices.

Scope 3 data

This includes estimated emissions from electricity used by Grainger's tenants in its buildings based on EPC analysis and extrapolation. Emissions from the transmission and distribution of Grainger's Scope 2 electricity are included. Also reported are emissions from business travel and electricity recharged to Grainger for one office (London Bridge) where it is a tenant.

A more detailed breakdown of our carbon footprint for our property portfolios and the methodology used is available in our EPRA Sustainability Performance Measures Report, available on our website at www.graingerplc.co.uk/responsibility.

Restatements and estimation

We have recalculated emissions for 2017 as we are able to report more accurate and complete data for Scope 1 and Scope 2 emissions from energy consumption in our property portfolios and occupied offices. Our Scope 2 market-based emissions for 2017 have also been restated, as although our renewable energy contract has been in place since 2016 this was not reported fully last year.

We have also restated our associated Scope 3 emissions from electricity transmission and distribution losses, estimated tenant emissions and business travel. Our restated estimated tenant emissions are significantly higher than reported last year due to an improvement in the accuracy of our estimation methodology and the inclusion of Grainger's affordable housing portfolio, previously not reported. Our 2017 Scope 1 and 2 emissions were previously reported as 1,450 tCO₂e and our Scope 3 emissions as 17,311 tCO₂e.

Where Grainger-obtained utility consumption data is partially unavailable or unreliable for an asset, estimation has been undertaken by extrapolating actual data to fill gaps in consumption. For 2018 13% of Scope 1 emissions and 19% of Scope 2 emissions have been estimated. For more information on restated data and the estimation methodology used, please refer to Grainger's EPRA Sustainability Performance Measures Report.

Governance **DIRECTORS' REPORT CONTINUED**

Intensity metrics

We have used three intensity metrics: emissions by market value of AUM (tCO2e/£m value of AUM), emissions per the number of owned units (tCO₂e/owned unit) and emissions per number of employees in line with our financial reporting (tCO₂e/employee).

Third party review

The energy consumption and associated GHG emissions data reported in this statement has been reviewed and analysed by JLL (note: this does not represent formal assurance) with calculations carried out in line with best practice (see methodology section).

Health and safety

Grainger has a well-developed health and safety management system for the internal and external control of health and safety risks, managed by the Health and Safety Director. This includes using online risk management systems for identifying, mitigating and reporting real time health and safety management information. The Health and Safety Committee is responsible for overseeing health and safety management. It consists of members of staff from across the organisation. The Committee continues to monitor legal compliance in health and safety through audit and implementation of improvements, to enable the Group to become 'best in class'. Further oversight is also carried out by the Operations Board. In addition, a health and safety report is provided to each meeting of the Board of Directors, and the Health and Safety Director gives a presentation to the Board at least once a year.

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 their employment within the Company continues, and that we arrange appropriate training where necessary. It is Company policy that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee engagement

The Group places considerable value on the engagement of its employees and has continued its practice of keeping them informed on and involved in business and strategic matters, for example through team meetings, presentations by senior management and regular all-staff conference calls hosted by the Executives. For more information on our people, see page 28.

Independent auditor and disclosure of information to auditor

As far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware. Each Director has taken the steps they ought to have taken as Directors, to make themselves aware of any relevant audit information, and to establish that the Company's auditor is aware of that information.

Political donations

In accordance with the Company's policy, we made no political donations in 2018 (2017: f.nil).

Takeover directive

On a change of control, the main bank facility (included in Note 27 to 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

13 November 2018

Financial statements INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GRAINGER PLC

1. Our opinion is unmodified

We have audited the financial statements of Grainger plc ("the Company") for the year ended 30 September 2018 which comprise the Consolidated Income Statement, the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Parent Company Statement of Financial Position and the Parent Company Statement of Changes in Equity, and the related notes, including the accounting policies.

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 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders on 6 February 2015. The period of total uninterrupted engagement is for the four financial years ended 30 September 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality:		
Group financial statements as a whole	£18.0m (2017: £16.0m) 1% (2017: 1%) of total assets	
Coverage	100% (2017: 100%) of Group total assets	
Risks of material misstatement		vs 2017
Recurring risks	Valuation of investment properties	•
	Recoverability of inventories	⊕⊕

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, unchanged from 2017, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Financial statements INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GRAINGER PLC CONTINUED

The risk

Valuation of

investment

properties

(£589.7m;

Subjective valuation

The valuation approach adopted by the Directors varies between portfolios:

- For properties let into the private rental 2017: £391.0m) market and the majority of affordable Refer to page 51 housing properties, valuation is derived by (Audit Committee applying a gross initial yield to the estimated Report), pages 96 to rental value of the property. Yield is based 100 (critical accounting on market evidence and an inherently estimates and unobservable judgement in respect of rental judgements), page 113 growth. There is a risk that applying an (accounting policy and inappropriate yield could lead to a material financial disclosures). difference in valuation.
 - Property held in residential portfolios is valued by determining vacant possession ("VP") value and applying a discount to reflect the fact that the property is tenanted. • Both VP value and the discount applied are estimated with reference to comparable market evidence and the Group's own experience, which in some cases may be limited. This means that the valuation is inherently subjective and susceptible to misstatement.
 - For the Tricomm portfolio, valuation is based on a discounted cash flow model produced by an external valuer. There is a risk that the assumptions of house price inflation ("HPI") and discount rates could be inappropriate which could lead to a material misstatement in valuation;

Our response

Our procedures in respect of all property types identified included:

- Methodologies and key assumptions: sought assistance from our own property valuation specialists to assess the methodologies and key assumptions used in the valuations adopted by the Directors for use in the financial statements; and
- Sensitivity analysis: performing sensitivity analyses over the assumptions and considering the outcomes with reference to benchmarks to identify the key assumptions affecting the valuation.

Our additional procedures in respect of the private rented sector properties and affordable housing properties included:

• Yield rates: assessed the yield rates applied using our understanding of the nature of the assets and comparing to available market data.

Our additional procedures in respect of property held in UK residential portfolios included:

- Control design: assessed the design of the Directors' valuation process and observed that supporting evidence for a sample of properties;
- Attended Group valuation meetings as observers: attended, as observers, the Group's regional valuation meetings with their external valuer, and observed the degree of challenge by the external valuer to valuation inputs and the evidence presented by management; and
- Comparing valuations: challenged the inputs used in the valuations and compared to comparable transactions.

Our additional procedures in respect of the Tricomm portfolio included:

- Benchmarking assumptions: compared the HPI assumption included in the discounted cash flow model to market indices and the discount rates to market information including gilts and benchmarked risk premiums.
- Assessing transparency: assessed whether the Group's disclosures about the sensitivity of fair values to changes in key assumptions reflected the uncertainties inherent in the property valuations.
- Data integrity: assessed the completeness and accuracy of the property information provided by the Group to the external valuers by agreeing key inputs, such as address, rental income, occupancy and current tenancy details to property contracts on a sample basis.

Our results

We found the valuation of investment properties to be acceptable.

Recoverability of inventories (trading properties)

(Inventories - trading properties: £799.3m; 2017: £841.3m)

Refer to page 51 (Audit Committee Report), pages 96 to 100 (critical accounting estimates and judgements), page 118 (accounting policy and financial disclosures).

The risk

Subjective valuation:

Inventory is carried at the lower of cost and net realisable value ("NRV"). The Directors' assessment of NRV of inventory differs between residential properties and developments:

- For residential trading property NRV is based on vacant possession ("VP") value which is estimated with reference to comparable market evidence and the Group's own experience, which in some cases may be limited. This means that the VP valuation is inherently subjective and susceptible to misstatement.
- · For development trading property where the intention is to develop further prior to sale, NRV is the forecast selling price less the remaining costs to complete and sell. There is a risk that the total forecast profits on a development may be overestimated and an impairment may not be recorded. This risk is highest for developments where the current carrying value exceeds the current market value.

Our response

In addition to the procedures set out in respect of UK residential portfolio investment properties, our procedures for residential properties included:

• Historical comparisons: Comparing the year end valuation with the sales prices achieved for property sales after the year end date;

For development trading properties our procedures included:

- Benchmarking assumptions: challenging the key assumptions in the Group's plans and forecasts using third party data and the Group's historic experience of costs and revenues;
- Sensitivity analysis: performing sensitivity analyses on estimated future costs and sales prices to assess the headroom before an adjustment to the carrying value is required; and
- Comparing valuations: 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 as determined by the Group's external valuer.

Our results

We found the carrying value of residential and development trading properties to be acceptable.

Recoverability of parent company's investment in subsidiaries (f846.1m: 2017: £899.6m)

Refer to page 51 (Audit Committee Report), page 142 (accounting policy) and page 143 (financial disclosures)

Subjective valuation:

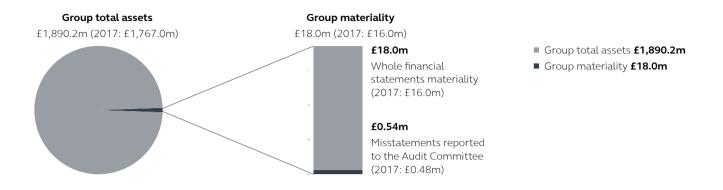
The carrying amount of the parent company's investments in subsidiaries represents 87.2% (2017: 92.3%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.

Our procedures included:

• Tests of detail: comparing the carrying amount of 100% of investments with the relevant subsidiaries' prior year financial statements and current year draft balance sheets to identify whether their net assets, being an approximation of their recoverable amount, were in excess of their carrying amount.

We found the Group's assessment of the recoverability of the investments in subsidiaries to be acceptable.

Financial statements INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GRAINGER PLC CONTINUED



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

Materiality for the Group financial statements as a whole was set at £18.0m (2017: £16.0m), determined with reference to a benchmark of Group total assets of which it represents approximately 1% (2017: 1%).

In addition, we applied lower materiality of £3.4m (2017: £3.0m) to specific income statement accounts, namely net rental income, profit on disposal of trading properties, administrative expenses, fees and other income, other expenses, income from financial interest in property assets, finance costs, finance income, share of profit of associates and share of profit of joint ventures. This has been calculated as 5% of Adjusted Earnings (being profit before tax, valuation movements and other adjustments for "one-off" items as set out in note 4). We believe misstatement of these specific income statement item s 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.

Materiality for the parent company financial statements as a whole was set at £15.0m (2017: £16.0m) determined with reference to a benchmark of company net assets, of which it represented approximately 3% (2017: 5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.54m (2017: £0.48m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

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 Group revenue, Group profit before tax and Group total assets (2017: 100% of Group revenue, Group profit before tax and Group total assets).

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- if the related statement under the Listing Rules set out on page 37 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

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

Disclosures of principal risks and longer-term viability

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

- the Directors' confirmation within the Viability Statement on page 37 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability Statements of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

Corporate governance disclosures We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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.

We have nothing to report in these respects.

Financial statements INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GRAINGER PLC CONTINUED

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 77, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation), and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

In addition we considered the impact of laws and regulations in the specific areas of regulations applicable to landlords and health and safety recognising the nature of the group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Bill Holland (Senior Statutory Auditor)

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

13 November 2018

Financial statements CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER

	Notes	2018 £m	2017 £m
Group revenue	110tes	270.7	264.7
Net rental income	7	43.8	40.4
Profit on disposal of trading property	8	81.2	73.7
Profit on disposal of investment property	9	1.4	2.2
Income from financial interest in property assets	21	6.5	5.3
Fees and other income	10	7.1	5.1
Administrative expenses		(27.9)	(27.2)
Other expenses		(1.1)	(3.9)
Profit on disposal of joint venture	20	7.0	_
Impairment of inventories to net realisable value	23	(0.5)	(5.4)
Reversal of impairment/(impairment) of joint venture	20	5.5	(3.6)
Operating profit before net valuation gains on investment property		123.0	86.6
Net valuation gains on investment property	17	22.6	18.0
Operating profit after net valuation gains on investment property		145.6	104.6
Change in fair value of derivatives	28	(0.2)	0.2
Finance costs	13	(27.2)	(29.1)
Finance income	13	2.1	2.1
Corporate bond redemption	13	(27.4)	_
Share of profit of associates after tax	19	7.2	4.3
Share of profit of joint ventures after tax	20	0.6	4.2
Profit before tax - continuing operations	12	100.7	86.3
Tax charge for the year - continuing operations	14	(13.3)	(12.8)
Profit after tax - continuing operations		87.4	73.5
Discontinued operations			
Profit after tax for the year for discontinued operations	3	-	1.2
Profit for the year attributable to the owners of the Company	33	87.4	74.7
Basic earnings per share	16	21.0p	18.0p
Diluted earnings per share	16	20.9p	17.9p
Basic earnings per share – continuing operations only	16	21.0p	17.7p
Diluted earnings per share – continuing operations only	16	20.9p	17.6p

Financial statements CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER

		2018	2017
	Notes	£m	£m
Profit for the year - continuing operations	4	87.4	73.5
Items that will not be transferred to the consolidated income statement:			
Actuarial gain on BPT Limited defined benefit pension scheme	29	0.5	4.6
Items that may be or are reclassified to the consolidated income statement:			
Fair value movement on financial interest in property assets	21	(0.5)	(1.0)
Exchange differences on translating foreign operations		_	(0.2)
Changes in fair value of cash flow hedges		3.2	11.9
Other comprehensive income and expense for the year before tax - continuing operations		3.2	15.3
Tax relating to components of other comprehensive income:			
Tax relating to items that will not be transferred to the consolidated income statement	14	(0.1)	(0.8)
Tax relating to items that may be or are reclassified to the consolidated income statement	14	(0.5)	(1.8)
Total tax relating to components of other comprehensive income – continuing operations		(0.6)	(2.6)
Other comprehensive income and expense for the year after tax - continuing operations		2.6	12.7
Total comprehensive income and expense for the year after tax - continuing operations		90.0	86.2
Profit after tax – discontinued operations	3	-	1.2
Total comprehensive income and expense for the year attributable to the owners			
of the Company		90.0	87.4

Financial statements CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER

	Notes	2018 £m	2017 £m
ASSETS			
Non-current assets			
Investment property	17	589.7	391.0
Property, plant and equipment	18	0.3	0.7
Investment in associates	19	134.0	123.2
Investment in joint ventures	20	11.6	74.4
Financial interest in property assets	21	82.2	86.1
Retirement benefits	29	0.9	-
Deferred tax assets	14	3.4	9.7
Intangible assets	22	4.7	2.4
		826.8	687.5
Current assets			
Inventories – trading property	23	799.3	841.3
Trade and other receivables	24	150.4	145.9
Derivative financial instruments	28	4.4	3.4
Cash and cash equivalents	28	109.3	88.9
·		1,063.4	1,079.5
Total assets		1,890.2	1,767.0
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	27	960.1	924.6
Retirement benefits	29	_	0.2
Provisions for other liabilities and charges	25	1.3	1.3
Deferred tax liabilities	14	29.9	32.6
		991.3	958.7
Current liabilities			
Interest-bearing loans and borrowings	27	1.1	1.1
Trade and other payables	26	70.7	48.8
Provisions for other liabilities and charges	25	0.7	0.8
Current tax liabilities		7.4	7.4
Derivative financial instruments	28	3.4	4.9
		83.3	63.0
Total liabilities		1,074.6	1,021.7
NET ASSETS		815.6	745.3
EQUITY			
Issued share capital	30	20.9	20.9
Share premium account		111.4	111.1
Merger reserve	32	20.1	20.1
Capital redemption reserve	52	0.3	0.3
Cash flow hedge reserve	32	0.5	(2.1)
Available-for-sale reserve	32	6.0	6.5
Retained earnings	33	656.4	588.5
TOTAL EQUITY		815.6	745.3

The financial statements on pages 87 to 139 were approved by the Board of Directors on 13 November 2018 and were signed on their behalf by:

Helen Gordon Director

Vanessa Simms Director

Company registration number: 125575

Financial statements CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Issued share capital £m	Share premium account £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	110003	2111		LIII						
1 October 2016		20.9	110.8	20.1	0.3	(12.0)	7.3	527.7	0.1	675.2
Profit for the year	33	-	_	_	_	_	_	74.7	_	74.7
Other comprehensive										
income/(loss) for the year		_	-	-	_	9.9	(0.8)	3.6	_	12.7
Total comprehensive										
income		_	_	_	_	9.9	(0.8)	78.3		87.4
Award of SAYE shares	30	-	0.3	-	=	-	-	-	_	0.3
Purchase of own shares	30, 33	_	-	-	_	-	-	(0.3)	_	(0.3)
Share-based										
payments charge	31	-	-	-	-	-	-	2.1	_	2.1
Elimination of non-										
controlling interests		_	-	-	_	-	-	-	(0.1)	(0.1)
Dividends paid	15	_	_	_	_		-	(19.3)		(19.3)
Total transactions										
with owners recorded										
directly in equity			0.3					(17.5)	(0.1)	(17.3)
Balance as at										
30 September 2017		20.9	111.1	20.1	0.3	(2.1)	6.5	588.5	-	745.3
Profit for the year	33	-	-	-	-	-	-	87.4	-	87.4
Other comprehensive										
income/(loss) for the year						2.6	(0.5)	0.5		2.6
Total comprehensive						2.6	(O. F.)	07.0		00.0
income	20					2.6	(0.5)	87.9		90.0
Award of SAYE shares	30	-	0.3	-	-	-	-	-	-	0.3
Purchase of own shares	30, 33	-	-	-	-	-	-	(0.3)	-	(0.3)
Share-based	21									
payments charge	31	-	-	-	-	-	-	1.1	-	1.1
Dividends paid	15			-				(20.8)	-	(20.8)
Total transactions with owners recorded										
directly in equity		_	0.3	_	_	_	_	(20.0)		(19.7)
Balance as at			0.5					(20.0)		(13.7)
30 September 2018		20.9	111.4	20.1	0.3	0.5	6.0	656.4		815.6

Financial statements **CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 30 SEPTEMBER

	Notes	2018 £m	2017 £m
Cash flow from operating activities	Notes	III	
Profit for the year		87.4	74.7
Depreciation and amortisation	12	0.9	0.9
Net valuation gains on investment property	17	(22.6)	(18.0)
Net finance costs	13	25.1	27.0
Corporate bond redemption	13	27.4	27.0
Share of profit of associates and joint ventures	19, 20	(7.8)	(8.5)
Profit on disposal of investment property	9	(1.4)	(2.2)
Share-based payments charge	31, 33	1.1	2.1
Change in fair value of derivatives	28	0.2	(0.2)
(Reversal of impairment)/impairment of joint venture	20	(5.5)	3.6
Profit on disposal of joint venture	20	(7.0)	5.0
Income from financial interest in property assets	21	(6.5)	(5.3)
Tax	14	13.3	13.1
Cash generated from operating activities before changes in working capital	14	104.6	87.2
Increase in trade and other receivables		(3.0)	(78.8)
Increase in trade and other receivables Increase in trade and other payables		23.9	15.5
			(0.2)
Decrease in provisions for liabilities and charges Decrease in inventories		(0.1) 42.0	61.2
		167.4	84.9
Cash generated from operating activities		(30.4)	(27.1)
Interest paid			
Tax paid	20	(10.2)	(11.8)
Payments to defined benefit pension scheme	29	(0.5)	(0.5)
Net cash inflow from operating activities		126.3	45.5
Cash flow from investing activities		5.0	9.4
Proceeds from sale of investment property	20	67.0	9.4
Proceeds from sale of joint venture	21	9.9	11.3
Proceeds from financial interest in property assets Dividends received	19,20	2.3	4.8
	19, 20	(5.2)	(8.8)
Investment in associates and joint ventures	19,20	(5.4)	(9.5)
Loans advanced to associates and joint ventures	·	14.0	
Loans repaid by associates and joint ventures	19,20		5.0
Acquisition of investment property	17	(179.7)	(118.9)
Acquisition of property, plant and equipment and intangible assets		(2.9)	(0.8)
Net cash outflow from investing activities		(95.0)	(107.5)
Cash flow from financing activities	20	0.3	0.2
Awards of SAYE shares	30	0.3	0.3
Purchase of own shares	30, 33	(0.3)	(0.3)
Corporate bond redemption	13	(25.8)	- 220.0
Proceeds from new borrowings		650.3	320.0
Payment of loan costs		(3.0)	(3.1)
Repayment of borrowings	45	(611.6)	(237.6)
Dividends paid	15	(20.8)	(19.3)
Net cash (outflow)/inflow from financing activities		(10.9)	60.0
Net increase/(decrease) in cash and cash equivalents		20.4	(2.0)
Cash and cash equivalents at the beginning of the year	28	88.9	90.7
Net exchange movements on cash and cash equivalents		-	0.2
Cash and cash equivalents at the end of the year	28	109.3	88.9

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.

Financial statements NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

Accounting policies applicable throughout 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.

The Group financial statements for the year ended 30 September 2018 have been prepared in accordance with EU endorsed International Financial Reporting Standards ('EU IFRS'), 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'), which are presented on pages 140 to 148.

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. 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; and financial interest in property assets.

The preparation of financial statements in conformity with EU 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.

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 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, which include covenant compliance forecasts. These projections show that the Group will meet its covenant requirements.
- ii) Banking facilities The Directors have reviewed the available headroom on the Group. Cash flow projections confirm that the Group will remain within its facilities for a minimum period of at least 12 months beyond the date of signing of these financial statements.

On this basis the Directors consider the Group will be able to meet its liabilities as they fall due for a period of at least 12 months from the date these financial statements were approved and have prepared the financial statements on a going concern basis.

(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 joint venture and associate results for the 12 months to 30 September 2018 and the financial position as at that date have been equity accounted in these financial statements.

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 assets 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 the 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 of a business are expensed in the consolidated income statement under the heading 'Other expenses'.

Goodwill on acquisition of subsidiaries is included within this caption in the consolidated 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.

Financial statements NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. Accounting policies continued

(c) Adoption of new and revised International Financial Reporting Standards and interpretations

An amendment to IAS 7 Statement of Cash Flows was issued by the International Accounting Standards Board ('IASB') in January 2016 and came into effect for the Group in the current financial year.

Under the new guidelines, the Group is required to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities. This reconciliation has been presented in Note 27. In accordance with IAS 7, no comparative information for preceding periods is required upon first application of the new requirements.

A number of new standards and amendments to standards have been issued but are not yet effective for the Group. The most significant of these, and their potential impact on the Group's accounting, are set out below:

i) IAS 40 Investment Property (effective 1 October 2018)

The amendment to IAS 40 widens the scope for transfers to and from investment property. Previously the standard provided an exhaustive list to evidence a change in use that would permit a transfer. This is now a non-exhaustive list of examples of circumstances that could represent a property's change in use.

A change in management's intention does not alone constitute a change in use. Transfers to and from investment property can only occur when the property meets or ceases to meet the definition of an investment property and there is evidence of change in use.

On transition, the Group is required to assess property classifications across its entire portfolio held at the effective date (1 October 2018) and, if applicable, reclassify property to reflect the conditions as at that date.

A review of the Group's property portfolio held as at 30 September 2018 has been undertaken. Trading property with a cost of £75.9m and market value of £78.8m has been identified as requiring reclassification to investment property. There have been no properties identified that are classified as investment property that would be reclassified as trading property.

There will be limited impact to the market value balance sheet and related metrics including EPRA NAV, EPRA NNNAV and LTV as these already reflect the market value of properties. There will however be a valuation uplift of £2.9m taken through the statutory income statement, impacting statutory net profit before and after tax, as well as statutory earnings per share. The adjusted earnings of the Group, a non-statutory measure, will not be impacted.

ii) IFRS 9 Financial Instruments (effective 1 October 2018)

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement, which is currently used by the Group. The new standard sets out the classification, recognition and measurement requirements for financial assets and liabilities, impairment provisioning and general hedge accounting.

The key changes that will follow the adoption of this standard are:

- classification of financial assets according to their contractual cash flow characteristics;
- impairments of financial assets based on prospective expected credit losses rather than retrospective objective evidence of impairment;
- changes to hedge accounting effectiveness testing; and
- changes to disclosures

Classification, recognition and measurement of financial assets and liabilities

The standard applies to the Group's financial assets consisting of CHARM, receivables, derivatives and cash, as well as financial liabilities consisting of borrowings, payables and derivatives.

IFRS 9 retains almost all of the existing classification, recognition and measurement requirements of IAS 39 on financial liabilities and will not have an impact on the Group's financial liabilities for financial results and reporting.

For financial assets, the permissible measurement bases are now amortised cost, fair value through other comprehensive income ('FVOCI') and fair value through profit and loss ('FVTPL'). IFRS 9 has abolished the held to maturity loans and receivables and available-for-sale classifications that were previously available under IAS 39. CHARM is therefore impacted by this change as it is currently classified as an available-for-sale asset.

As a result, CHARM will need to be reclassified from available-for-sale to FVTPL. The implication of the reclassification is that the fair value difference between the updated projected cashflows using the effective interest rate applicable at acquisition compared to the year-end effective interest rate will now be taken through the statutory income statement as opposed to other comprehensive income.

This will impact statutory net profit before and after tax, as well as statutory earnings per share. This will not impact the Group's adjusted earnings, statutory net assets, EPRA NAV, EPRA NNNAV or LTV as the fair value and deferred tax positions remain unchanged.

IFRS 9 has retrospective application, which requires the new standard to be applied to transactions as if those requirements had always been applied. There are however exceptions from the requirement to restate comparatives, allowing the accounting to be reflected in the year of adoption which the Group will utilise. Effective 1 October 2018, the Group will transfer £6.0m from the available-for-sale reserve to retained earnings, on transition to the new standard.

Expected credit loss model of impairment

The new standard no longer requires a loss event to occur before an impairment to financial assets is recognised. IFRS 9 requires an entity to recognise an expected credit loss, being the present value of all cash shortfalls over the expected life of the entity's various financial assets.

Of the Group's financial assets, the standard will apply to trade receivables. Trade receivables held at 30 September 2018 were £2.3m, with an impairment provision recognised under IAS 39 of £0.5m.

Management have assessed the impact of impairment losses were the new standard to be applied at 30 September 2018, utilising both historical data and forward-looking macro-economic information. Based upon this assessment, the Group would have recognised an impairment provision of £0.5m at 30 September 2018 under IFRS 9. Given that the provision is broadly consistent on transition, the expected credit loss model will not have a material effect on the remainder of the financial assets held by the Group.

Hedge accounting

Hedge accounting continues to be optional under the new standard, though the removal of the '80-125% test' in favour of a more principles-based approach allows greater scope for entities to hedge account.

The current hedge relationships in place for the Group as at 30 September 2018 for interest rate swaps will qualify as continuing hedges upon adoption of the new standard. No other derivative instruments are expected to be designated as hedging relationships under IFRS 9. As a result, there will be no quantitative impact on the results of the Group.

Disclosures

IFRS 9 will require new disclosures, particularly around credit risk and expected credit losses. The relevant disclosures will be presented in the notes to the financial statements upon adoption of the new standard.

Financial statements NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. Accounting policies continued

iii) IFRS 15 Revenue from Contracts with Customers (effective 1 October 2018)

IFRS 15 replaces IAS 11 Construction Contracts and IAS 18 Revenue, both of which are currently used by the Group. The new standard sets out a five-step model for the recognition of revenue and establishes the principles to apply to the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The key changes that will follow the adoption of this standard are:

- identifying performance obligations based on contracts with customers and recognising revenue either at a point in time or over time in accordance with the performance obligations; and
- increased revenue disclosures that arise from contracts with customers.

Revenue recognition

This standard applies to Grainger's revenue including proceeds from disposal of trading and investment property, property and asset management fees and revenue from construction contracts. It does not apply to gross rental income or CHARM revenue which as at the date of reporting are covered by IAS 17 and IAS 39 respectively.

The revenue recognition point for the Group's revenue streams impacted by the standard is not expected to differ following the adoption of the new standard. As a result, the effects of the new standard will be immaterial to the Group's financial results.

Disclosures

IFRS 15 will require new qualitative disclosures and the relevant disclosures will be presented in the notes to the financial statements upon adoption of the new standard.

iv) IFRS 16 Leases (effective 1 October 2019)

IFRS 16 replaces IAS 17 Leases which is currently used by the Group. The standard sets out the criteria to recognise, measure, present and disclose leases.

The key changes that will follow the adoption of this standard are:

- a single lessee accounting model that removes the distinction between operating and finance leases. The previous off-balance sheet financing permitted by operating leases will now be brought on balance sheet by recognising the asset and corresponding liability; and
- the standard includes two recognition exemptions for lessees leases of 'low-value' assets and short-term leases.

As a lessor, the Group's position is substantially unchanged.

As a lessee of office space, the assets and the corresponding lease liabilities will now be required to be measured and presented on the balance sheet and in the notes to the financial statements. Although these leases are currently off-balance sheet, they will have an immaterial impact on the overall net assets and the consolidated income statement of the Group.

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 judgements

The Group's significant accounting policies are stated in the relevant notes to the Group financial statements. The preparation of financial statements requires management to exercise judgement in applying the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis with revisions recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving a higher degree of judgement or complexity are set out below.

Estimates

1) Valuation of property assets

Residential trading property is carried in the statement of financial position at the lower of cost and net realisable value and investment property is carried at fair value. The Group does, however, in its principal non-GAAP net asset value measures, EPRA NAV and EPRA NNNAV, include trading property at market value. The adjustment in the value of trading property is the difference between the statutory book value and its market value as set out in Note 5. For investment property, market value is the same as fair value. In respect of trading properties, market valuation is the key assumption in determining the net realisable value of those properties.

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:

5.1 - 27.7
5.1 – 5.1
22.6
- 82.2 2,078.3
607.1
- 82.2 1,471.2
- 82.2 2,078.3
- 82.2 82.2 Allsop LLP
589.7
263.6 CBRE Limited 98%
50.8 Allsop LLP 100%
121.4 Allsop LLP 100%
153.9 Allsop LLP 71%
· · · · · · · · · · · · · · · · · · ·
1,406.4
84.3 CBRE Limited 83%
369.5 Allsop LLP 100%
952.6 Allsop LLP 71%
- 82.2 1,471.2
- 82.2 82.2
- 589.7
799.3
properties for which Financial external valuer Others assets Total provides £m £m £m Valuer valuation
Financial exte Others assets Total

¹ Allsop provide vacant possession values used by the Directors to value the financial asset in accordance with the accounting policy set out in Note 21.

² The market value adjustment is the difference between the statutory book value and the market value of the Group's properties. Refer to Note 5 for market value

³ Includes the Group's share of joint ventures and associates revaluation gain after tax.

Financial statements NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. Critical accounting estimates and judgements continued

i) Residential - The Group's own in-house qualified team provided a vacant possession value for the majority of the Group's UK residential properties as at 30 September 2018. A structured sample of these in-house valuations was reviewed by Allsop LLP, an external independent valuer. Valuing the large number of properties in this 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 with those of the external valuer, around 72% 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.

Allsop LLP has provided the Directors with the following opinion on the Directors' Valuation.

Property held in the Residential Portfolio was valued as at 30 September 2018 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. Allsop LLP valued approximately 80% of the 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 recommends a discount to apply to the vacant possession valuations to establish the market value of each property. For property in the Residential Portfolio, the discounts are established by tenancy type and are based on evidence gathered by Allsop LLP from recent transactional market evidence. The Directors have adopted the discounts recommended by Allsop LLP.

ii) GInvest - All of the property owned by the Group in the GInvest portfolio was valued as at 30 September 2018 by Allsop LLP.

The market value 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) Developments - The current market value of the Group's land and property held within the development segment has been assessed by CBRE Limited, external independent valuers. Their valuation, representing 83% 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 17% of the portfolio is a Directors' Valuation.

iv) Tricomm Housing - Allsop LLP provided an investment valuation as at 30 September 2018 for 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. The investment valuation is 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 2.00% in 2019, 2.75% in 2020, 3.00% in 2021, 2022 and 2023 and 2.75% thereafter. The discount rates applied to the cash flows range between 3.55% and 8.75%.

v) Affordable housing - For properties let on affordable rents, social rents or sold on shared ownership leases, Allsop LLP valued the assets on the basis of Existing Use Value for Social Housing ('EUV-SH') in line with RICS Global Standards. Properties subject to intermediate rents have been valued at market value as these assets are not restricted as social housing in perpetuity.

vi) PRS build-to-rent assets - CBRE Limited assessed the fair value of the completed assets and assets in the course of construction. 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. Where applicable, estimated costs required to complete construction have been taken into account. The valuation has been prepared in accordance with RICS Professional Valuation Standards where fair value is the same as market value.

vii) Financial asset (CHARM) - The valuation methodology adopted for the CHARM asset is set out in Note 21 to the financial statements.

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 2.85% and 3.85% 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 income stream.

The fair value of the interest changes as cash flows are realised and a decrease of £0.5m (2017: £1.0m) 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.

viii) Joint ventures and associates - Property assets in the associate GRIP REIT PLC were valued at 30 September 2018 by CBRE Limited. The market value of the properties takes into account whether the block is managed as a whole or as a group of individual units and valued accordingly. Valuation on the basis of how the properties are managed is deemed to be the highest and best use of property.

The valuation of properties under construction assesses the market value of the property upon completion less estimated cost of work to complete and where appropriate, an adjustment to take into account the remaining construction and stabilisation risks.

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

As required by RICS Professional Valuation Standards, 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.

2) Net realisable value of trading property

The Group's residential trading properties are carried in the consolidated statement of financial position at the lower of cost and net realisable value.

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 £7.8m as at 30 September 2018 (2017: £8.1m). The provision includes specific properties which are vacant and properties expected to become vacant in the future.

3) 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 are 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 a corresponding impact on income or loss in the consolidated income statement.

Financial statements NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. Critical accounting estimates and judgements continued

Changes to key assumptions could impact both income and financial position. The impact of changes to key assumptions is considered for assets using a range of reasonable changes. The Group measures its market risk exposure internally by running various sensitivity analyses. The Directors consider that the range of potential movements set out in the table below represent reasonable possible changes. The table below sets out potential impacts that may result from changes to certain assumptions:

		2018	2018		
		Income statement impact £m	Statement of financial position impact £m	Income statement impact £m	Statement of financial position impact £m
Increase of 2% in house prices	GRIP	3.4	3.4	3.4	3.4
Decrease of 2% in house prices	GRIP	(3.4)	(3.4)	(3.4)	(3.4)
Increase of 2% in house prices	NRV provision	0.9	0.9	1.0	1.0
Decrease of 2% in house prices	NRV provision	(1.1)	(1.1)	(1.1)	(1.1)
Increase of 25bps in HPI rate	CHARM	0.2	1.2	0.2	1.3
Decrease of 25bps in HPI rate	CHARM	(0.2)	(1.2)	(0.2)	(1.3)
Increase of 1% in discount rate	CHARM	_	(5.5)	_	(5.9)
Decrease of 1% in discount rate	CHARM	-	6.2	-	6.6
Increase of 25bps in discount rate	Tricomm Housing	(2.2)	(2.2)	(2.3)	(2.3)
Decrease of 25bps in discount rate	Tricomm Housing	2.3	2.3	2.3	2.3
Increase of 25bps in HPI rate	Tricomm Housing	1.9	1.9	1.7	1.7
Decrease of 25bps in HPI rate	Tricomm Housing	(1.8)	(1.8)	(1.7)	(1.7)
Increase of 25bps in gross yield	PRS build-to-rent	(2.9)	(2.9)	(1.3)	(1.3)
Decrease of 25bps in gross yield	PRS build-to-rent	3.3	3.3	1.4	1.4

Judgements

1) 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 either to 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. The classification of the Group's properties is a significant judgement which directly impacts the statutory net asset position, as trading properties are held at the lower of cost and net realisable value, whilst investment properties are held at fair value, with gains or losses taken through the consolidated income statement.

2) 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 other adjustments that are considered to be 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 other adjustments is a significant judgement made by management and is a matter referred to the Audit Committee for approval.

Other adjustments in 2018 comprise costs in relation to the redemption of the previous corporate bond of £27.4m, being £25.8m gross prepayment cost and £1.6m expense of unamortised costs. In 2017, £2.8m other adjustments were recorded, being a provision for historic non-core businesses of £1.6m and costs in relation to the implementation of strategic operations of £1.2m.

3. Discontinued operations

Accounting policy

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 income statement and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

The 2017 comparatives presented represent activities relating to the disposal of the remaining assets and in winding down the remaining business in Germany.

Discontinued operations		2018	2017
For the year ended 30 September	Notes	£m	£m
Group revenue		-	0.4
Net rental income		-	0.2
Profit on disposal of trading property, investment property and assets held-for-sale		-	0.7
Fees and other income		_	0.8
Administrative expenses		-	(0.2)
Profit before tax		-	1.5
Current tax		-	
Current tax on discontinued operations	14	_	(0.3)
Profit after tax		-	1.2
Basic earnings per share - discontinued operations		-	0.3p
Diluted earnings per share – discontinued operations		-	0.3p

Cash flow from discontinued operations:

	2018 £m	2017 £m
Net cash outflow from operating activities	-	(0.4)
Net cash outflow from investing activities	-	(8.0)
Net cash outflow from financing activities	-	(5.1)
Net cash outflow	-	(6.3)

Financial statements NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. Analysis of profit before tax

The table below provides adjusted earnings, which 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 other adjustments (previously non-recurring), 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.

	2018			2017				
£m	Statutory	Valuation	Other adjustments	Adjusted earnings	Statutory	Valuation	Other adjustments	Adjusted earnings
Group revenue	270.7	-	-	270.7	264.7	-	_	264.7
Net rental income	43.8	-	-	43.8	40.4	_	=	40.4
Profit on disposal of trading property	81.2	(0.8)	-	80.4	73.7	(0.8)		72.9
Profit on disposal of investment property	1.4	-	-	1.4	2.2	-		2.2
Income from financial interest in property assets	6.5	(0.7)	-	5.8	5.3	0.9		6.2
Fees and other income	7.1	-	_	7.1	5.1	-	_	5.1
Administrative expenses	(27.9)	-	_	(27.9)	(27.2)	-	_	(27.2)
Other expenses	(1.1)	-	_	(1.1)	(3.9)	-	2.8	(1.1)
Profit on disposal of joint venture	7.0	-	_	7.0	-	-	_	_
Impairment of inventories to net realisable value	(0.5)	0.5	_	_	(5.4)	5.4	_	_
Reversal of impairment/(impairment) of joint								
venture	5.5	(5.5)	-	_	(3.6)	3.6		
Operating profit before net valuation								
gains on investment property	123.0	(6.5)	-	116.5	86.6	9.1	2.8	98.5
Net valuation gains on investment property	22.6	(22.6)	-	-	18.0	(18.0)		
Operating profit after net valuation								
gains on investment property	145.6	(29.1)	-	116.5	104.6	(8.9)	2.8	98.5
Change in fair value of derivatives	(0.2)	0.2	-	-	0.2	(0.2)	_	-
Finance costs	(27.2)	-	-	(27.2)	(29.1)	-	=	(29.1)
Finance income	2.1	-	-	2.1	2.1	=	-	2.1
Corporate bond redemption	(27.4)	-	27.4	-	-	-		-
Share of profit of associates after tax	7.2	(5.0)	-	2.2	4.3	(1.8)	-	2.5
Share of profit of joint ventures after tax	0.6	(0.2)		0.4	4.2	(3.8)		0.4
Profit before tax - continuing operations	100.7	(34.1)	27.4	94.0	86.3	(14.7)	2.8	74.4
Tax charge for the year - continuing operations	(13.3)				(12.8)			
Profit after tax - continuing operations	87.4				73.5			
Discontinued operations - profit before tax	-				1.5			
Tax charge for the year – discontinued operations	-				(0.3)			
Profit for the year attributable								
to the owners of the Company	87.4				74.7			
Diluted comings now shows adjusted				10.3				142-
Diluted earnings per share - adjusted				18.2p		-		14.3p

Income from financial interest in property assets ('CHARM') comprises income from the asset calculated at the effective interest rate shown as adjusted earnings, and any movements in future cash flow projections related to the asset are shown within valuations. Further details are included in Note 21.

Profit before tax in the adjusted columns above of £94.0m (2017: £74.4m) is the adjusted earnings of the Group. Adjusted earnings per share assumes tax of £17.9m (2017: £14.5m) in line with the current effective rate of 19.0% (2017: 19.5%), divided by the weighted average number of shares as shown in Note 16.

Other adjustments in 2018 comprises costs in relation to the previous corporate bond of £27.4m, being £25.8m gross prepayment cost and £1.6m expense of unamortised costs. In 2017, £2.8m other adjustments were recorded, being a provision for historic non-core businesses of £1.6m and costs in relation to the implementation of strategic operations of £1.2m.

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. The three significant segments for continuing operations are Residential, Development and Funds.

The title 'Other' has been included in the tables below to reconcile the segments to the figures reviewed by the CODM and includes certain central costs that cannot be allocated to the operating segments. The key operating performance measure of profit or loss used by the CODM is adjusted earnings before tax, valuation and other adjustments. The CODM reviews by segment two key statement of financial position 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 other adjustments and should be read in conjunction with Note 4.

2018 Income statement

£m	Residential	Development	Funds	Other	Total
Group revenue					
Segment revenue – external	201.4	64.2	4.6	0.5	270.7
Net rental income	43.5	0.3	-	_	43.8
Profit on disposal of trading property	68.7	11.7	_	_	80.4
Profit on disposal of investment property	1.4	-	-	-	1.4
Income from financial interest in property assets	-	-	-	5.8	5.8
Fees and other income	0.2	1.8	4.6	0.5	7.1
Administrative expenses	(7.0)	(1.7)	(0.6)	(18.6)	(27.9)
Other expenses	(0.1)	(1.0)	-	_	(1.1)
Profit on disposal of joint venture	_	-	7.0	_	7.0
Net finance costs	(27.3)	3.6	(1.4)	_	(25.1)
Share of trading profit of joint ventures and associates after tax	_	(0.1)	2.7	_	2.6
Adjusted earnings	79.4	14.6	12.3	(12.3)	94.0
Valuation movements					34.1
Other adjustments					(27.4)
Profit before tax - continuing operations					100.7

2017 Income statement - continuing operations

fm	Residential	Development	Funds	Other	Total
Group revenue					
Segment revenue – external	179.2	81.3	4.1	0.1	264.7
Net rental income	40.3	0.1			40.4
Profit on disposal of trading property	58.2	14.7			72.9
Profit on disposal of investment property	2.2	-			2.2
Income from financial interest in property assets	-	-		6.2	6.2
Fees and other income	0.3	0.7	4.1	_	5.1
Administrative expenses	(6.1)	(1.6)	(0.6)	(18.9)	(27.2)
Other expenses	(0.6)	(0.3)	(0.1)	(0.1)	(1.1)
Net finance costs	(26.6)	1.2	(1.6)		(27.0)
Share of trading profit of joint ventures and associates after tax	-	0.1	2.8		2.9
Adjusted earnings	67.7	14.9	4.6	(12.8)	74.4
Valuation movements					14.7
Other adjustments					(2.8)
Profit before tax - continuing operations					86.3

Financial statements NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. Segmental information continued

Segmental assets

The two principal net asset value measures reviewed by the CODM are EPRA NAV and EPRA NNNAV. These measures reflect the current market value of trading property owned by the Group rather than the lower of historical cost and net realisable value. These measures are considered to be a more relevant reflection of the value of the assets owned by the Group (see EPRA performance measures on page 149 for definitions).

These measures are set out below by segment along with a reconciliation to the summarised statutory statement of financial position:

2018 Segment net assets

	Continuing					Pence per
<u>£m</u>	Residential	Development	Funds	Other	Total	share
Total segment net assets (statutory)	485.5	136.0	86.9	107.2	815.6	-
Total segment net assets (EPRA NAV)	1,115.8	139.4	87.3	114.6	1,457.1	348
Total segment net assets (EPRA NNNAV)	986.1	139.3	86.9	111.4	1,323.7	316

^{&#}x27;Other' includes CHARM assets.

2018 Reconciliation of EPRA NAV measures

		Adjustments to market value,				
£m	Statutory balance sheet	deferred tax and derivatives	EPRA NAV balance sheet	Deferred and contingent tax	Derivatives/ fixed rate debt	EPRA NNNAV balance sheet
Investment property	589.7	_	589.7	-	-	589.7
Investment in joint ventures and associates	145.6	0.4	146.0	_	(0.4)	145.6
Financial interest in property assets	82.2	-	82.2	_	_	82.2
Inventories – trading property	799.3	607.1	1,406.4	_	_	1,406.4
Cash and cash equivalents	109.3	-	109.3	_	_	109.3
Other assets	164.1	2.7	166.8	_	4.9	171.7
Total assets	1,890.2	610.2	2,500.4	-	4.5	2,504.9
Interest-bearing loans and borrowings	(961.2)	_	(961.2)	-	(3.4)	(964.6)
Deferred and contingent tax liabilities	(29.9)	27.9	(2.0)	(131.1)	-	(133.1)
Other liabilities	(83.5)	3.4	(80.1)	-	(3.4)	(83.5)
Total liabilities	(1,074.6)	31.3	(1,043.3)	(131.1)	(6.8)	(1,181.2)
Net assets	815.6	641.5	1,457.1	(131.1)	(2.3)	1,323.7

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

fm	Residential	Development	Funds	Other	Total
EPRA NNNAV assets					
Investment property	589.7	-	-	-	589.7
Investment in joint ventures and associates	12.2	(0.6)	134.0	-	145.6
Financial interest in property assets	-	-	-	82.2	82.2
Inventories – trading property	1,360.2	46.2	-	-	1,406.4
Cash and cash equivalents	43.7	5.7	-	59.9	109.3
Other assets	5.6	140.2	2.7	23.2	171.7
Total segment EPRA NNNAV assets	2,011.4	191.5	136.7	165.3	2,504.9
EPRA NNNAV liabilities					
Interest-bearing loans and borrowings	(890.4)	(21.0)	(49.8)	(3.4)	(964.6)
Deferred and contingent tax liabilities	(131.0)	(0.1)	-	(2.0)	(133.1)
Other liabilities	(3.9)	(31.1)	-	(48.5)	(83.5)
Total segment EPRA NNNAV liabilities	(1,025.3)	(52.2)	(49.8)	(53.9)	(1,181.2)
Net EPRA NNNAV assets	986.1	139.3	86.9	111.4	1,323.7

2017 Segment net assets

		Continuing				
<u>£</u> m	Residential	Development	Funds	Other	Total	Pence per share
Total segment net assets (statutory)	394.5	135.9	113.5	101.4	745.3	=
Total segment net assets (EPRA NAV)	1,069.0	133.6	122.0	109.9	1,434.5	343
Total segment net assets (EPRA NNNAV)	932.3	134.7	112.7	88.5	1,268.2	303

^{&#}x27;Other' includes CHARM assets.

2017 Reconciliation of EPRA NAV measures

		Adjustments to market value,				
	Statutory	deferred tax	EPRA NAV	Deferred and	Derivatives/	EPRA NNNAV
<u>£</u> m	balance sheet	and derivatives	balance sheet	contingent tax	fixed rate debt	balance sheet
Investment property	391.0	=	391.0	=	=	391.0
Investment in joint ventures and associates	197.6	8.5	206.1	(7.7)	(0.8)	197.6
Financial interest in property assets	86.1	=	86.1	=	=	86.1
Inventories - trading property	841.3	645.8	1,487.1	=	=	1,487.1
Cash and cash equivalents	88.9	=	88.9	=	=	88.9
Other assets	162.1	3.6	165.7	=	8.0	173.7
Total assets	1,767.0	657.9	2,424.9	(7.7)	7.2	2,424.4
Interest-bearing loans and borrowings	(925.7)		(925.7)		(24.8)	(950.5)
Deferred and contingent tax liabilities	(32.6)	26.4	(6.2)	(136.1)	_	(142.3)
Other liabilities	(63.4)	4.9	(58.5)		(4.9)	(63.4)
Total liabilities	(1,021.7)	31.3	(990.4)	(136.1)	(29.7)	(1,156.2)
Net assets	745.3	689.2	1,434.5	(143.8)	(22.5)	1,268.2

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

fm	Residential	Development	Funds	Other	Total
EPRA NNNAV assets					
Investment property	391.0	=	_	_	391.0
Investment in joint ventures and associates	15.8	(0.5)	182.3	=	197.6
Financial interest in property assets	=	=	=	86.1	86.1
Inventories – trading property	1,445.7	41.4	=	=	1,487.1
Cash and cash equivalents	34.1	8.0	0.4	46.4	88.9
Other assets	17.4	124.8	2.0	29.5	173.7
Total segment EPRA NNNAV assets	1,904.0	173.7	184.7	162.0	2,424.4
EPRA NNNAV liabilities					_
Interest-bearing loans and borrowings	(819.9)	(34.4)	(71.2)	(25.0)	(950.5)
Deferred and contingent tax liabilities	(141.2)	1.1	(0.8)	(1.4)	(142.3)
Other liabilities	(10.6)	(5.7)	_	(47.1)	(63.4)
Total segment EPRA NNNAV liabilities	(971.7)	(39.0)	(72.0)	(73.5)	(1,156.2)
Net EPRA NNNAV assets	932.3	134.7	112.7	88.5	1,268.2

Financial statements NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. Group revenue

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.

	2018	2017
	£m	£m
Gross rental income (Note 7)	59.2	54.6
Gross proceeds from disposal of trading property (Note 8)	204.4	205.0
Fees and other income (Note 10)	7.1	5.1
	270.7	264.7

7. Net rental income

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.

	2018	2017
	£m	£m
Gross rental income	59.2	54.6
Property operating expenses	(15.4)	(14.2)
	43.8	40.4

8. Profit on disposal of trading property

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 consolidated income statement in accordance with the stage of completion of the contract. Revenues are recognised as amounts recoverable on contracts in trade and other receivables (Note 24) and will be recovered on completion of the development.

	2018 £m	2017 £m
Proceeds from disposal of trading property	160.5	169.1
Revenue from construction contract	43.9	35.9
Gross proceeds from disposal of trading property	204.4	205.0
Selling costs	(4.1)	(3.8)
Net proceeds from disposal of trading property	200.3	201.2
Carrying value of trading property sold	(85.1)	(100.6)
Carrying value of construction contract expenses	(34.0)	(26.9)
	81.2	73.7

Amounts relating to the construction contract included in the table above relate to the Group's development of properties in the arrangement with the Royal Borough of Kensington and Chelsea. The Group is managing and funding the construction of a number of sites and is receiving a developer's priority return at a fixed rate margin recoverable 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 IAS 11 Construction Contracts, and is expected to conclude in early 2019.

9. Profit on disposal of investment property

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.

	2018	2017
	£m	£m
Gross proceeds from disposal of investment property	5.1	9.5
Selling costs	(0.1)	(0.1)
Net proceeds from disposal of investment property	5.0	9.4
Carrying value of investment property sold (Note 17)	(3.6)	(7.2)
	1.4	2.2

10. Fees and other income

	2018 £m	2017 £m
Property and asset management fee income	6.5	5.1
Other sundry income	0.6	-
	7.1	5.1

11. Employees

	2018	2017
	£m	£m
Wages and salaries	14.1	13.3
Termination benefits	-	0.8
Social security costs	1.5	1.7
Other pension costs - defined contribution scheme (Note 29)	0.9	0.9
Share-based payments (Note 31)	1.1	2.1
	17.6	18.8

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

	2018	2017
	Number	Number
Residential	136	121
Development	13	8
Shared services	70	75
Group	11	11
	230	215

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 66 to 72.

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.

	2018	2017
	£'000	£'000
Aggregate Directors' remuneration	2,097	2,602
Aggregate amount of gains on exercise of share options	-	41
Aggregate amount of money or assets received or receivable under scheme interests	74	537
	2,171	3,180

None of the Directors (2017: none) were members of the Group defined benefit scheme or the defined contribution scheme.

11. Employees continued

Key management compensation

	2018	2017
	£m	£m
Short-term employee benefits	6.7	5.9
Post-employment benefits	0.4	0.4
Share-based payments	0.7	1.6
Payments for loss of office	-	0.1
	7.8	8.0

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

12. Profit before tax

	2018 £m	2017 £m
Profit before tax is stated after charging:		
Depreciation of fixtures, fittings and equipment	0.4	0.5
Amortisation of IT software	0.5	0.4
Bad debt expense	0.2	0.1
Operating lease payments	0.8	0.9
Auditor's remuneration (see below)	0.4	0.3

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

Auditor's remuneration

	2018 £'000	2017 £'000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	95	84
Fees payable to the Company's auditor and its associates for other audit services to the Group:		
The audit of the Company's subsidiaries pursuant to legislation	146	126
Group audit fees	241	210
Audit related assurance services	32	31
Reporting accountant – corporate bond	35	
Corporate finance activity	135	-
Other services	-	41
Other assurance services	5	9
Non-audit fees	207	81
Total fees	448	291

Following the disposal of our share of Walworth Investment Properties Limited, the relevant proportion of amounts paid to the auditor for the audit of the financial statements of joint ventures is £nil (2017: £4,100).

During the year the largest non-audit fees paid to KPMG LLP were £135,000 in relation to corporate finance activity, £35,000 in relation to the issue of a comfort letter on the issuance of the new corporate bond and £32,000 in relation to a review of the interim financial information included in the half yearly financial report.

13 Finance costs and income

	2018	2017
	£m	£m
Finance costs		
Bank loans and mortgages	17.2	16.2
Non-bank financial institution	2.0	0.3
Corporate bond	13.2	13.6
Interest capitalised under IAS 23	(8.0)	(3.4)
Other finance costs	2.8	2.4
	27.2	-
Corporate bond redemption	27.4	-
	54.6	29.1
Finance income		
Interest receivable from associates and joint ventures (Note 35)	(0.6)	(0.8)
Other interest receivable	(1.5)	(1.3)
	(2.1)	(2.1)
Net finance costs	52.5	27.0

During the year the Group refinanced its corporate bond, issuing a new 10 year £350m corporate bond at 3.375%. Prepayment costs of £25.8m were incurred and unamortised costs of £1.6m were expensed on redemption of the previous £275m bond, which was due to mature in 2020.

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 tax 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 £13.3m (2017: £13.1m) recognised in the consolidated income statement comprises:

	2018	2017
	£m	£m
Current tax		
Corporation tax on profit	17.7	14.1
Adjustments relating to prior years	(7.4)	0.3
	10.3	14.4
Deferred tax		
Origination and reversal of temporary differences	(0.5)	3.5
Adjustments relating to prior years	3.5	(4.8)
	3.0	(1.3)
Total tax charge for the year	13.3	13.1
Tax charge for the year comprises:		
Tax charge in the income statement – continuing operations	13.3	12.8
Tax from discontinued operations	-	0.3
Total tax charge for the year	13.3	13.1

The 2018 current tax adjustments relating to prior years include adjustments to recognise utilisation of tax losses and other reliefs available to the Group, which have been included in submitted tax returns, whilst deferred tax adjustments relate primarily to differences between the tax and accounting value of fixed assets.

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

The Group's results for this year are taxed at an effective rate of 19.0% (2017: 19.5%).

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 19.0% (2017: 19.5%) to the profit before tax. The differences are explained below:

	2018	2017
	£m	£m
Profit before tax including discontinued operations	100.7	87.8
Profit before tax at a rate of 19.0% (2017: 19.5%)	19.1	17.1
Expenses not deductible for tax purposes	1.7	1.7
Share of joint ventures/associates after tax	(1.0)	(0.8)
Revaluation of investment properties and indexation allowance	(4.2)	=
Difference between tax and accounting profit on disposal of fixed assets and investments	1.6	(0.4)
Adjustment in respect of prior periods	(3.9)	(4.5)
Amounts recognised in the income statement	13.3	13.1

In addition to the above, a deferred tax charge of £0.6m (2017: £2.6m) was recognised within other comprehensive income comprising:

	2018 £m	2017 £m
Deferred tax		
Actuarial deficit on BPT Limited pension scheme	0.1	0.8
Equity component of available-for-sale financial asset	(0.1)	(0.2)
Fair value movement in cash flow hedges and exchange adjustments	0.6	2.0
Amounts recognised in other comprehensive income	0.6	2.6

Deferred tax balances comprise temporary differences attributable to:

	2018 £m	2017 £m
Deferred tax assets		
Accelerated capital allowances	_	0.3
Short-term temporary differences	3.1	4.2
Losses carried forward	_	4.5
Actuarial deficit on BPT Limited pension scheme	0.3	0.2
Fair value movement in derivative financial instruments and cumulative exchange adjustments	-	0.5
	3.4	9.7
Deferred tax liabilities		
Trading property uplift to fair value on business combinations	(9.3)	(10.3)
Investment property revaluation	(18.6)	(20.7)
Short-term temporary differences	(0.8)	(0.4)
Equity component of available-for-sale financial asset	(1.1)	(1.2)
Fair value movement in derivative financial instruments and cumulative exchange adjustments	(0.1)	-
	(29.9)	(32.6)
Total deferred tax	(26.5)	(22.9)

Deferred tax has been predominantly calculated at a rate of 17% (2017: 17%) in line with changes to the main rate of corporation tax from 1 April 2020 which have been substantively enacted.

In addition to the tax amounts shown above, contingent tax based on EPRA market value measures being tax on the difference between the carrying value of trading properties in the statement of financial position and their market value has not been recognised by the Group. This contingent tax amounts to £103.2m (2017: £109.8m).

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 a period 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.

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:

	2018 £m	2017 £m
Ordinary dividends on equity shares:		
Final dividend for the year ended 30 September 2016 – 3.05p per share	-	12.7
Interim dividend for the year ended 30 September 2017 – 1.60p per share	_	6.6
Final dividend for the year ended 30 September 2017 – 3.26p per share	13.6	=
Interim dividend for the year ended 30 September 2018 – 1.74p per share	7.2	=
	20.8	19.3

Subject to approval at the AGM, the final dividend of 3.52p per share (gross) amounting to £14.7m will be paid on 11 February 2019 to shareholders on the register at the close of business on 14 December 2018. Shareholders will again be offered the option to participate in a dividend reinvestment plan and the last day for election is 18 January 2019. An interim dividend of 1.74p per share amounting to a total of £7.2m was paid to shareholders on 5 July 2018.

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 Save As You Earn ('SAYE') scheme, 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 2018 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	30 September 2018			30 September 2017		
	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	87.4	416.3	21.0	74.7	415.6	18.0	
Effect of potentially dilutive securities							
Share options and contingent shares	_	2.1	(0.1)	_	2.3	(0.1)	
Diluted earnings per share – continuing and discontinued operations							
Profit attributable to equity holders	87.4	418.4	20.9	74.7	417.9	17.9	
Basic earnings per share – continuing operations only							
Profit attributable to equity holders	87.4	416.3	21.0	73.5	415.6	17.7	
Effect of potentially dilutive securities							
Share options and contingent shares	-	2.1	(0.1)	=	2.3	(0.1)	
Diluted earnings per share - continuing operations only							
Profit attributable to equity holders	87.4	418.4	20.9	73.5	417.9	17.6	

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 repair and maintenance costs are charged to the consolidated 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 consolidated 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 consolidated income statement of the period in which this occurs.

	2018 £m	2017 £m
Opening balance	391.0	261.3
Additions	179.7	118.9
Disposals (Note 9)	(3.6)	(7.2)
Net valuation gains	22.6	18.0
Closing balance	589.7	391.0

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 judgements'.

The historical cost of the Group's investment property as at 30 September 2018 is £489.4m (2017: £307.2m).

Direct property repair and maintenance costs arising from investment property that generated rental income during the year were £2.8m (2017: £3.4m).

18. Property, plant and equipment

Accounting policy

Property, plant and equipment are stated at cost less residual value and depreciation 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

	2018	2017
	£m	£m
Opening balance	123.2	105.1
Share of profit for the year	7.2	4.3
Dividends received	(2.2)	=
Further investment ¹	5.2	8.8
Loans advanced to associates	5.2	4.5
Loans repaid by associates	(4.9)	_
Share of change in fair value of derivatives taken through other comprehensive income	0.3	0.5
Closing balance	134.0	123.2

¹ The Group invested a total additional £5.2m (2017: £8.8m) into GRIP REIT PLC in the year to enable further investment in PRS assets.

The closing balance comprises share of net assets of £109.2m (2017: £98.7m) and net loans due from associates of £24.8m (2017: £24.5m).

As at 30 September 2018, the Group's interest in associates was as follows:

	% of ordinary share capital/units held	Country of incorporation	Accounting period end
GRIP REIT PLC	24.9	United Kingdom	31 December
Vesta LP	20.0	United Kingdom	30 September

Although the Group acts as property and/or asset manager for 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. The accounting period end for GRIP REIT PLC is 31 December. The results for the 12 months to 30 September 2018 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:

2018 Summarised income statement

2018 Summarised income statement				
6	GRIP RE	-	Veste LD	Takal
<u>fm</u>	PL		Vesta LP	Total
Net rental income and other income	4.	9	-	4.9
Administration and other expenses	(0.	7)	-	(0.7)
Profit on disposal of properties	0.	2	-	0.2
Operating profit	4.	4	-	4.4
Revaluation gains on investment property	4.	9	-	4.9
Change in fair value of derivatives	0.	1	-	0.1
Interest payable	(2.	2)	-	(2.2)
Profit before tax	7.	2	-	7.2
Tax		-	-	-
Profit after tax	7.	2	-	7.2
2018 Summarised statement of financial position				
Trading and investment property	17 ⁻	1.9	4.6	176.5
Current assets	1:	3.5	2.0	15.5
Total assets	18:	5.4	6.6	192.0
Non-current liabilities	(5:	3.3)	-	(53.3)
Current liabilities	(2)	2.9)	(6.6)	(29.5)
Net assets	109	9.2	-	109.2

2017 Summarised income statement

	GRIP REIT		
£m	PLC	Vesta LP	Total
Net rental income and other income	4.9	-	4.9
Administration and other expenses	(0.7)	-	(0.7)
Profit on disposal of properties	0.2	-	0.2
Operating profit	4.4	-	4.4
Revaluation gains on investment property	1.6	-	1.6
Change in fair value of derivatives	0.2	-	0.2
Interest payable	(1.9)	-	(1.9)
Profit before tax	4.3	-	4.3
Tax	_	-	-
Profit after tax	4.3	=	4.3
2017 Summarised statement of financial position Trading and investment property	166.7	1.3	168.0
Current assets	11.5	_	11.5
Total assets	178.2	1.3	179.5
Non-current liabilities	(53.3)	_	(53.3)
Current liabilities	(26.1)	(1.4)	(27.5)
Net assets	98.8	(0.1)	98.7
20. Investment in joint ventures			
		2018 £m	2017 £m
			70.0

	2018	2017
	£m	£m
Opening balance	74.4	78.9
Share of profit for the year	0.6	4.2
Dividends received	(0.1)	(4.8)
Reversal of impairment/(impairment)	5.5	(3.6)
Loan interest received	-	(0.4)
Loans advanced to joint ventures	0.2	5.0
Loans repaid by joint ventures	(9.1)	(5.0)
Disposal	(60.0)	=
Exchange movements	-	(0.1)
Share of change in fair value of derivatives taken through other comprehensive income	0.1	0.2
Closing balance	11.6	74.4

The closing balance comprises share of net liabilities of £0.2m (2017: net assets of £54.6m) and net loans due from joint ventures of £11.8m (2017: £19.8m).

On 2 May 2018, the Group disposed of its joint venture interest in Walworth Investment Properties Limited to the joint venture partner, Dorrington Investment plc. The consideration received was £67.0m, resulting in a profit on sale of £7.0m. The amounts shown in the income statement below represent the trading performance to the date of disposal.

At 30 September 2018, the Group's interest in joint ventures was as follows:

	% of ordinary share capital/units held	Country of incorporation	Accounting period end
Curzon Park Limited	50	United Kingdom	28 February
Helical Grainger (Holdings) Limited	50	United Kingdom	31 March
Lewisham Grainger Holdings LLP	50	United Kingdom	30 September
CCZ a.s.	50	Czech Republic	30 September

20. Investment in joint ventures continued

During the year, the Group was selected by Lewisham Borough Council as preferred partner on its Besson Street Build to Rent development opportunity to deliver up to 300 PRS homes on local authority owned land. Lewisham Grainger Holdings LLP was formed to undertake this development.

Effective 28 August 2018, two of the three Czech Republic companies the Group had an interest in, being CCY a.s. and Prazsky Projeckt a.s., were liquidated. The Group's remaining joint venture interest at 30 September 2018 is the holding in CCZ a.s.

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:

2018 Summarised income statement

£m	Czech Republic combined*	Curzon Park Limited	Helical Grainger (Holdings) Limited	Walworth Investment Properties Limited	Total
Net rental income and other income	-	-	_	1.3	1.3
Administration and other expenses	(0.1)	-	-	-	(0.1)
Operating profit	(0.1)	-	-	1.3	1.2
Revaluation gains on investment property	-	-	-	0.2	0.2
Change in fair value of derivatives	-	-	-	0.1	0.1
Interest payable	_	_	_	(0.7)	(0.7)
Profit before tax	(0.1)	-	-	0.9	0.8
Tax	_	-	-	(0.2)	(0.2)
Profit after tax	(0.1)	-	-	0.7	0.6

2018 Summarised statement of financial position

Current assets	0.4	19.3	9.1	-	28.8
Total assets	0.4	19.3	9.1	-	28.8
Current liabilities	(0.6)	(19.3)	(9.1)	-	(29.0)
Net liabilities	(0.2)	_	_	_	(0.2)

2017 Summarised income statement

Profit on disposal of properties Operating profit				0.1	0.1
Operating profit	0.1		-	2.0	2.1
Revaluation gains on investment property	=	-	-	3.8	3.8
Interest payable	_	-	_	(1.5)	(1.5)
Profit before tax	0.1	_	_	4.3	4.4
Tax	_	_	_	(0.2)	(0.2)
Profit after tax	0.1	_	_	4.1	4.2

2017 Summarised statement of financial position

Net assets		(4.5)	_	59.1	54.6
Current liabilities	(0.6)	(22.0)	(5.4)	(8.4)	(36.4)
Non-current liabilities	_	_	_	(40.0)	(40.0)
Total assets	0.6	17.5	5.4	107.5	131.0
Current assets	0.6	0.1	1.1	5.6	7.4
Trading and investment property	-	17.4	4.3	101.9	123.6
£m	Czech Republic combined*	Curzon Park Limited	Helical Grainger (Holdings) Limited	Walworth Investment Properties Limited	Total

^{*} The results and financial position of the three Czech Republic companies to the date of liquidation of CCY a.s. and Prazsky Projekt a.s. have been aggregated in the above tables as individually they are not material and the Group manages its investment on an aggregate basis.

21. Financial interest in property assets ('CHARM' portfolio)

Accounting policy

The CHARM portfolio 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 carried at fair value.

It 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 assets; 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 consolidated 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 consolidated income statement as gains and losses from financial interest in property assets.

	2018	2017
	£m	£m
Opening balance	86.1	93.1
Cash received from the instrument	(9.9)	(11.3)
Amounts taken to income statement	6.5	5.3
Amounts taken to other comprehensive income before tax	(0.5)	(1.0)
Closing balance	82.2	86.1

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 judgements', and the financial asset is included within the fair value hierarchy within Note 28.

22. Intangible assets

Accounting policy

Intangible assets comprise computer software and goodwill.

Computer software is amortised on a straight-line basis over 5-7 years being the estimated useful lives of the assets, from the date they are available for use. Amortisation is charged to the consolidated income statement.

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

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

	2018 £m	2017 £m
Residential trading property	756.5	797.6
Development trading property	42.8	43.7
	799.3	841.3

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.

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 2019 and any payments are likely to be spread over a number of years.

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

	2018 £m	2017 £m
Carrying value of trading property sold (Note 8)	85.1	100.6
Carrying value of construction contract expenses (Note 8)	34.0	26.9
Impairment of inventories to net realisable value	0.5	5.4

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.

	2018 £m	2017 £m
Rent and other tenant receivables	2.3	2.1
Deduct: Provision for impairment	(0.5)	(0.6)
Rent and other tenant receivables – net	1.8	1.5
Amounts recoverable on contracts	112.0	86.8
Other receivables	34.8	49.4
Prepayments	1.8	8.2
	150.4	145.9

Amounts recoverable on contracts primarily relate to revenue receivable on the arrangement with the Royal Borough of Kensington and Chelsea (Note 8). Between the year end and the date of approval of these financial statements, £54.6m has been recovered on the contract in the form of cash receipts.

Other receivables includes £15.6m (2017: £29.0m) due from land sales, which is receivable no later than July 2019.

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'.

25. Provisions for other liabilities and charges

Accounting policy

Provisions are recognised when: i) the Group has a present obligation as a result of a past event; ii) it is probable that an outflow of resources will be required to settle the obligation; and iii) 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.

	2018 £m	2017 £m
Deposits received	3.1	3.2
Trade payables	20.6	14.6
Tax and social security costs	0.5	9.1
Accruals	44.4	19.9
Deferred income	2.1	2.0
	70.7	48.8

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 consolidated 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 consolidated statement of financial position date.

	2018 £m	2017 £m
Current liabilities		
Non-bank financial institution	1.1	1.1
	1.1	1.1
Non-current liabilities		
Bank loans – Pounds Sterling	533.4	637.7
Bank loans – Euros	0.9	6.2
Non-bank financial institution	79.8	7.6
Corporate bond	346.0	273.1
	960.1	924.6
Total interest-bearing loans and borrowings	961.2	925.7

(a) Bank loans

Sterling bank loans include variable rate loans bearing interest at rates between 1.6% and 1.8% 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 2018 was 2.4% (2017: 2.0%). Bank loans are secured by fixed and floating charges over specific property and other assets of the Group.

Unamortised costs in relation to bank loans of £6.6m (2017: £7.2m) will be amortised over the life of the loans to which they relate.

(b) Non-bank financial institution

£7.6m is funded by a loan from Homes England and bears interest at 1% over the European Commission reference rate applicable to the UK. The remaining £75.0m is funded by a fixed rate loan from Rothesay Life PLC, at a rate of 2.8%. Unamortised costs in relation to the fixed rate loan of £1.7m (2017: £nil) will be amortised over the life of the loan.

(c) Corporate bond

A new £350.0m, 3.375% corporate bond was issued at 99.588% in April 2018. The discount on issuance is being amortised to the consolidated income statement using an effective interest basis. Unamortised costs and the outstanding discount in relation to the corporate bond are, in total, £4.0m and will be amortised over the remaining life of the bond.

The unamortised costs and the outstanding premium in relation to the previous £275.0m corporate bond were amortised up until the date of redemption at which point the remaining balance of £1.6m was expensed to the consolidated income statement.

(d) Other loans and borrowings information

The above analyses of loans and borrowings are net of unamortised loan issue costs and the discount on issuance of the corporate bond. As at 30 September 2018, unamortised costs totalled £10.9m (2017: £9.6m) and the outstanding discount was £1.4m (2017: a premium of £0.4m).

In accordance with IAS 7 Statement of Cash Flows, the Group is required to detail any changes in liabilities that arise from financing activities throughout the year. These changes are detailed below.

Changes in liabilities from financing activities

	D	erivatives used fo liabilities fr	r hedging the om financing activities
£m	Loans and borrowings	Assets	Liabilities
Balance at 1 October 2017	925.7	(3.4)	4.9
Changes from financing cash flows			
Proceeds from loans and borrowings	650.3	_	_
Repayment of borrowings	(611.6)	_	_
Transaction costs related to loans and borrowings	(3.0)	_	_
Corporate bond redemption	(25.8)	_	_
Total changes from financing cash flows	9.9	_	_
Other changes			
Amortisation of borrowing costs	3.0	_	_
Interest payable	27.2	_	_
Interest paid	(30.4)	_	_
Corporate bond redemption	25.8	_	_
Changes to fair value of derivatives through profit and loss	-	0.2	_
Changes in fair value of derivatives through hedging reserve	_	(1.2)	(1.5)
Total other changes	25.6	(1.0)	(1.5)
Balance at 30 September 2018	961.2	(4.4)	3.4

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 consolidated income statement, unless the derivatives qualify for cash flow hedge accounting, and have been designated as such, 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 ongoing basis. This effectiveness testing is re-performed at each period end to ensure that the hedge remains highly effective.

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

Fair value estimation

The fair values of interest rate derivatives are based on a discounted cash flow model using market information.

28. Financial risk management and derivative financial instruments continued

Derecognition of financial assets and liabilities

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

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:

				2018			
£m	Loans and receivables/ cash and cash equivalents	Assets at fair value through profit and loss	Derivatives used for hedging	Available- for-sale	Total book value	Fair value adjustment	Fair value
Non-current assets							
Financial interest in property							
assets	-	-	-	82.2	82.2	-	82.2
Current assets							
Trade and other receivables							
excluding prepayments	148.6	-	-	-	148.6	-	148.6
Derivative financial instruments	-	0.2	4.2	-	4.4	-	4.4
Cash and cash equivalents	109.3	-	-	-	109.3	-	109.3
Total financial assets	257.9	0.2	4.2	82.2	344.5	-	344.5

				2018			
£m	Loans and receivables/ cash and cash equivalents	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total book value	Fair value adjustment	Fair value
Non-current liabilities							
Interest-bearing loans and borrowings Current liabilities	-	-	-	960.1	960.1	3.4	963.5
Interest-bearing loans and borrowings	_	_	_	1.1	1.1	_	1.1
Trade and other payables	_	_	_	70.7	70.7	_	70.7
Derivative financial instruments	_	_	3.4	_	3.4	_	3.4
Total financial liabilities	_	_	3.4	1,031.9	1,035.3	3.4	1,038.7
Net financial assets/(liabilities)	257.9	0.2	0.8	(949.7)	(690.8)	(3.4)	(694.2)

				2017			
fm	Loans and receivables/ cash and cash equivalents	Assets at fair value through profit and loss	Derivatives used for hedging	Available- for-sale	Total book value	Fair value adjustment	Fair value
Non-current assets							
Financial interest							
in property assets	_	_	_	86.1	86.1	_	86.1
Current assets							
Trade and other receivables							
excluding prepayments	137.7	_	_	_	137.7	_	137.7
Derivative financial instruments	=	0.4	3.0	=	3.4	=	3.4
Cash and cash equivalents	88.9	_	_	-	88.9	_	88.9
Total financial assets	226.6	0.4	3.0	86.1	316.1	_	316.1

£m	Loans and receivables/ cash and cash equivalents	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total book value	Fair value adjustment	Fair value
Non-current liabilities							
Interest-bearing loans and borrowings Current liabilities	_	_	_	924.6	924.6	24.8	949.4
Interest-bearing loans and borrowings	_	_	_	1.1	1.1	_	1.1
Trade and other payables	-	-	-	48.8	48.8	-	48.8
Derivative financial instruments	-	_	4.9	=	4.9	-	4.9
Total financial liabilities	-	-	4.9	974.5	979.4	24.8	1,004.2
Net financial assets/(liabilities)	226.6	0.4	(1.9)	(888.4)	(663.3)	(24.8)	(688.1)

The fair value difference relates to the Group's corporate bond and the Rothesay Life loan, which are stated at amortised cost in the consolidated statement of financial position. The fair value of the bond is calculated as £345.5m (2017: £299.8m previous corporate bond) based on quoted prices in traded markets. The fair value of the Rothesay Life loan is calculated as £82.9m (2017: £nil) based on a discounted cash flow model using observable market rates. 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 £14.4m (2017: £11.3m) 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 in client bank accounts and are excluded from net debt. In addition, £35.6m (2017: £29.0m) 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.

The table below sets out the calculation of net debt and LTV:

	2018 £m	2017 £m
Gross debt	961.2	925.7
Cash (excluding client cash)	(94.9)	(77.6)
Net debt	866.3	848.1
Market value of properties	1,996.1	1,878.1
Other property related assets	336.2	372.4
Total market value of properties and property related assets	2,332.3	2,250.5
LTV	37.1%	37.7%

28. Financial risk management and derivative financial instruments continued

Financial risk management

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

The Group's policies on financial risk management are approved by the Board of Directors and implemented by Group treasury. Written policies and procedures cover interest rate risk, credit risk, the use of derivative and non-derivative financial instruments and investment of excess liquidity. 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, credit availability risk, house price risk in relation to the Tricomm Housing portfolio, the CHARM portfolio and our financial interest in property assets, and capital risk.

Financial risk factors

1) Credit risk

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

The Group's financial interest in property assets (CHARM) 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 land sales contracts within the Development division under which a proportion of the consideration is deferred and recognised within other receivables (Note 24). Each purchaser is subject to financial due diligence prior to sale. At 30 September 2018, £15.6m (2017: £29.0m) 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 are 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 £2.6m (2017: £2.5m) are held that provide some security against rental arrears and property dilapidations caused by the tenant. The Group does not hold any other collateral as security. Of the net trade receivables balance of £1.8m, we consider £nil to be not due and not impaired. All of the £34.8m other receivables balance and all of the £112.0m amounts recoverable on contracts are considered not due and not impaired.

As at 30 September 2018, tenant arrears of £0.5m within trade receivables were impaired and fully provided for (2017: £0.6m). 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 2018, the fair value of all interest rate derivatives that had a positive value was £4.4m (2017: £3.4m).

At 30 September 2018, the combined credit exposure arising from cash held at banks, money market deposits and interest rate swaps was £100.5m (2017: £80.0m), which represents 5.3% (2017: 4.5%) of total assets. Deposits were placed with financial institutions with A- or better credit ratings.

The Group has the following cash and cash equivalents:

	2018 £m	2017 £m
Pounds Sterling	107.6	83.2
Euros	1.7	5.7
	109.3	88.9

At the year end, £34.7m was placed on deposit (2017: £35.3m) at effective interest rates between 0.2% and 0.6% (2017: 0.2% and 0.3%). 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 2018 (2017: £1.0m).

2) Liquidity risk

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

Although the Group's core funding is subject to 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 within its covenants during 2018 and as at 30 September 2018 (see Note 1 'Accounting policies - Going concern').

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 consolidated 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 using yield curves as at 30 September 2018.

	Less than	Between	Between	More than	
<u>fm</u>	1 year	1 and 2 years	2 and 5 years	5 years	Total
At 30 September 2018					
Interest-bearing loans and borrowings (Note 27)	1.1	1.1	537.6	421.4	961.2
Interest on borrowings	28.0	29.7	76.5	67.8	202.0
Interest on derivatives	1.6	0.5	(1.1)	(2.1)	(1.1)
Trade and other payables	70.7	-	-	-	70.7
At 30 September 2017					
Interest-bearing loans and borrowings (Note 27)	1.1	1.1	920.2	3.3	925.7
Interest on borrowings	29.3	31.5	59.0	0.1	119.9
Interest on derivatives	2.4	1.3	0.5	(2.6)	1.6
Trade and other payables	48.8	-	-	-	48.8

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

28. Financial risk management and derivative financial instruments continued

Maturity of committed undrawn borrowing facilities

	2018 £m	2017 £m
Expiring:		
Between one and two years	-	-
Between two and five years	329.1	218.8
Over five years	-	-
	329.1	218.8

3) Market risk

The Group is exposed to market risk through interest rates, the availability of credit and house price movements relating to the Tricomm Housing portfolio and the CHARM portfolio. The approach the Group takes to each of these risks is set out below. The Group is not significantly exposed to equity price risk or to commodity price risk.

Fair values

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

	2018	2018			
£m	Assets	Liabilities	Assets	Liabilities	
Level 3				-	
CHARM	82.2	_	86.1	_	
Investment property	589.7	_	391.0	_	
	671.9	-	477.1		
Level 2					
Interest rate swaps – in cash flow hedge accounting relationships	4.2	3.4	3.0	4.9	
Interest rate caps – not in cash flow hedge accounting relationships	0.2	_	0.4	_	
	4.4	3.4	3.4	4.9	

The significant unobservable inputs affecting the carrying value of the CHARM portfolio are house price inflation and the effective interest rate. Assumptions used are detailed in Note 2 and reconciliation of movements and amounts recognised in the consolidated income statement and other comprehensive income are detailed in Note 21.

The investment valuations provided by Allsop LLP and CBRE Limited are based on the RICS Professional Valuation Standards, but include a number of unobservable inputs and other valuation assumptions.

The fair value of swaps and caps were valued in-house by a specialised treasury management system, using first a discounted cash flow model and market information. The fair value 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 and caps are observable, they all fall within Level 2.

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 2018 was £459.6m (2017: £460.9m).

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 consolidated 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 the cash flow hedge reserve via other comprehensive income.

The reconciliation between opening and closing balances for Level 3 is detailed in the table below:

	2018	2017
Assets – Level 3	£m	£m
Opening balance	477.1	354.4
Amounts taken to income statement	29.1	23.3
Other movements	165.7	99.4
Closing balance	671.9	477.1

The following assets and liabilities are excluded from the above table as fair value is not the accounting basis for the Group's financial statements, but is the basis for the Group's EPRA NAV and EPRA NNNAV measures:

			2018		2017	
£m	Accounting basis	Classification if fair valued	Book value	Fair value	Book value	Fair value
Inventories – trading property	Lower of cost and net realisable value	Level 3	799.3	1,406.4	841.3	1,487.1
Corporate bond	Amortised cost	Level 1	350.0	345.5	275.0	299.8
Rothesay Life Loan	Amortised cost	Level 1	75.0	82.9	-	-

(a) 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 2018, 91% (2017: 79%) 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 £1.5m (2017: £2.0m). Similarly, a 1% decrease would increase annual profits by £1.5m (2017: £2.0m).

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 £16.5m (2017: £9.9m). Similarly, a 1% decrease would decrease the Group's equity by £16.5m (2017: £9.9m).

Upward movements in medium and long-term interest rates, associated with higher interest rate expectation, increase the value of the Group's interest rate swaps that provide protection against such moves. The converse is true for downward movements in the interest yield curve. Where the Group's swaps qualify as effective hedges under IAS 39, these movements in fair value are recognised directly in other comprehensive income rather than the consolidated income statement.

As at 30 September 2018, the market value of derivatives designated as cash flow hedges under IAS 39 is a net asset of £0.8m (2017: net liability of £1.9m). No amount is recognised within the income statement for ineffectiveness of cash flow hedges (2017: £nil). The fair value movement on derivatives not in hedge accounting relationships resulted in a charge of £0.2m (2017: a gain of £0.2m) in the consolidated income statement.

28. Financial risk management and derivative financial instruments continued

At 30 September 2018, the market value of derivatives not designated as cash flow hedges under IAS 39 is a net asset of £0.2m (2017: £0.4m). 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:

Hedged debt

	2018 £m	2017 £m
Hedged debt maturing:		
Within one year	-	-
Between one and two years	-	-
Between two and five years	459.6	460.9
Over five years	-	
	459.6	460.9

Interest rate profile – including the effect of derivatives and amortisation of issue costs

			2018					2017		
	Weighted average interest rate %	Average maturity years	Sterling £m	Euros £m	Gross debt total £m	Weighted average interest rate %	Average maturity years	Sterling £m	Euros £m	Gross debt total £m
Fixed rate	3.4	9.5	425.0	-	425.0	5.2	3.3	275.0	-	275.0
Hedged rate	3.1	5.5	459.6	-	459.6	2.9	4.0	460.9	-	460.9
Variable rate	2.7	2.3	88.0	0.9	88.9	2.3	4.0	192.8	6.2	199.0
	3.2	5.7	972.6	0.9	973.5	3.4	3.8	928.7	6.2	934.9

At 30 September 2018, the fixed interest rates on the interest rate swap contracts vary from 0.69% to 1.96% (2017: 0.69% to 1.96%); the weighted average rates are shown in the table above.

- **(b) Credit availability risk** Credit availability risk relates to the Group's ability to refinance its borrowings at the end of their terms or to secure additional financing where necessary. The Group maintains relationships with a range of lenders and maintains sufficient headroom through cash and committed borrowings. On 30 September 2018, the Group had available headroom of £388.6m.
- (c) 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.
- (d) 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 deems a range of gearing of up to 45% 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 2018, the weighted average cost of debt was 3.2% (2017: 3.4%). 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 future accrual of benefits 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 consolidated 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 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 consolidated statement of financial position date.

The pension scheme assets comprise investments in equities, bonds, insurance policies and cash, managed by Rathbones Investment Management Limited. These assets are measured at fair value in the statement of financial position.

The amount shown in the statement of financial position is the net of the present value of the defined benefit obligation and the fair value of the scheme assets. When there is a surplus the Group consider the requirements of IFRIC 14 and whether there is economic benefit available as a refund of this surplus, or through a reduction in future contributions. When an unconditional right to future economic benefit exists, there is no restriction on the amount of surplus recognised.

There are no current or past service costs as the scheme is closed to new members and future accrual. 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.

(a) 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 funds do 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 59 to 76. The pension cost charge in these financial statements represents contributions payable by the Group. The charge of £0.9m (2017: £0.9m) is included within employee remuneration in Note 11.

(b) 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. No benefits have accrued since 30 June 2003, although active members retain a final salary link.
- Deferred members: former employees of the Group.
- 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 Consumer Prices Index ('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 Credit Method. The approximate overall duration of the scheme's defined benefit obligation as at 30 September 2018 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 2016, updated to 30 September 2018, by a qualified independent actuary.

i) Principal actuarial assumptions under IAS 19 (per annum)

	2018	2017
	%	%
Discount rate	2.80	2.65
Retail Price Index ('RPI') inflation	3.05	2.90
Consumer Prices Index ('CPI') inflation	2.05	1.90
Salary increases	3.55	3.40
Rate of increase of pensions in payment	5.00	5.00
Rate of increase for deferred pensioners	2.05	1.90

ii) Demographic assumptions

	2018	2017
Mortality tables for pensioners	100% of S2PA CMI 2015 model with a	100% of S2PA CMI 2015 model with a
	long-term rate of improvement of 1.50% p.a.	long-term rate of improvement of 1.50% p.a.
	for males and 1.00% for females	for males and 1.00% p.a. for females
Mortality tables for non-pensioners	As for pensioners	As for pensioners

iii) Life expectancies

	30 September 2018		30 September 2017	
	Male	Female	Male	Female
Life expectancy for a current 65-year-old (years)	87.5	88.8	87.4	88.7
Life expectancy at age 65 for an individual aged 45 (years)	89.2	90.0	89.1	89.9

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 Septem	30 September 2018		ber 2017
	Market value £m	% of total scheme assets	Market value £m	% of total scheme assets
Equities	15.6	50%	15.4	50%
Bonds	11.1	36%	11.1	36%
Cash	0.9	3%	0.4	1%
Insurance policies	3.6	11%	3.9	13%
Total value of assets	31.2	100%	30.8	100%
The actual return on assets over the year was	0.8		1.8	

The assets of the scheme are held with Rathbones 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.

29. Pension costs continued

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

	2018 £m	2017 £m
Market value of scheme assets at the start of the year	30.8	29.5
Interest income	0.9	0.7
Employer contributions	0.5	0.5
Actuarial return on assets less interest	(0.1)	1.2
Benefits paid	(0.9)	(1.1)
Market value of scheme assets at the end of the year	31.2	30.8

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

	2018 £m	2017 £m
Value of defined benefit obligation at the start of the year	31.0	34.7
Interest on pension scheme liabilities	0.8	0.8
Actuarial gains: changes in financial assumptions	(0.6)	(1.6)
Experience adjustment	-	(1.8)
Benefits paid	(0.9)	(1.1)
Value of defined benefit obligation at the end of the year	30.3	31.0

Amounts recognised in the consolidated statement of comprehensive income

	2018	2017
	£m	£m
Actuarial return on assets less interest	(0.1)	1.2
Experience adjustment	-	1.8
Actuarial gain on defined benefit obligation	0.6	1.6
	0.5	4.6

The gain shown in the above table of £0.5m (2017: £4.6m) has been included in the consolidated statement of comprehensive income on page 88.

Future funding obligation

The Trustees are required to carry out an actuarial valuation every three years. The last actuarial valuation of the scheme was performed by the Actuary for the Trustees as at 1 July 2016. This valuation revealed a funding shortfall of £3.6m. As a result of this valuation, the Group agreed a recovery plan with the Trustees to pay additional contributions to eliminate the deficit by 30 April 2022. Based on this plan, the Group expects to pay £0.6m p.a. to the scheme until 30 April 2022. The next actuarial valuation is due to be performed as at 1 July 2019.

The plan asset has not been restricted as the Group has an unconditional right to a refund of the surplus. 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 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 0.25% p.a. Increase/decrease in deficit of 4.6%/4.3% Salary movement of 0.25% p.a. Increase/decrease in deficit of 0.1% Life expectancies movement of one year Increase/decrease in deficit of 3%

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.

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.

	2018 £m	2017 £m
Allotted, called-up and fully paid:		
418,825,400 (2017: 418,611,685) ordinary shares of 5p each	20.9	20.9

During the year, The Grainger Employee Benefit Trust has not acquired any shares (2017: none acquired). The Group paid £0.3m (2017: £0.3m) 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 £0.3m (2017: £0.3m) has been deducted from retained earnings within Shareholders' equity.

As at 30 September 2018, share capital included 828,576 (2017: 1,240,060) shares held by The Grainger Employee Benefit Trust and 1,506,300 (2017: 1,506,300) shares held by Grainger plc as treasury shares. The total of these shares is 2,334,876 (2017: 2,746,360) with a nominal value of £116,744 (2017: £137,318) and a market value as at 30 September 2018 of £7.0m (2017: £7.4m).

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

	Number	Nominal value £'000
At 30 September 2016	418,374,535	20,918
Options exercised under the SAYE scheme	237,150	12
At 30 September 2017	418,611,685	20,930
Options exercised under the SAYE scheme (Note 31)	213,715	11
At 30 September 2018	418,825,400	20,941

31. Share-based payments

Accounting policy

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 consolidated 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.

Share awards

	LTI	P	DBP		SAYE	
Award date	11 December 2017 Market based	11 December 2017 Non-market based	21 December 2017 Basic	21 December 2017 Enhanced	11 July 2018 3 year scheme	11 July 2018 5 year scheme
Number of shares on grant	295,988	295,989	35,525	69,156	174,265	10,077
Exercise price (£)		-	_		2.530	2.530
Vesting period from date of grant (years)	3	3	1-3	1-5	3	5
Exercise period after vesting (years)	7	7	3	3	_	-
Share price at grant (£)	2.86	2.86	2.88	2.88	3.03	3.03
Expected risk free rate (%)	0.52	0.52	N/A	N/A	0.81	1.00
Expected dividend yield (%)	N/A	N/A	1.6	1.6	1.6	1.6
Expected volatility (%)	24.6	24.6	N/A	N/A	25.7	29.1
Fair value (£)	1.83	2.86	2.88	2.88	0.74	0.99

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

The share-based payments charge recognised in the consolidated income statement is £1.1m (2017: £2.1m).

(a) LTIP scheme

One-half of the awards under the LTIP scheme 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.

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

Scheme	Opening balance	Awards granted	Awards vested	Awards lapsed	Closing balance
LTIP					
16 December 2014	570,484	_	(302,356)	(268,128)	_
11 January 2016	593,387	_	_	(64,294)	524,093
12 January 2016*	50,045	_	(26,524)	(23,521)	_
11 February 2016	142,745	_	_	_	142,745
8 February 2017	688,948	_	_	(133,437)	555,511
11 December 2017	-	591,977	_	_	591,977
Total	2,045,609	591,977	(328,880)	(489,380)	1,819,326

The grant of LTIP awards made on 12 January 2016 was made to Helen Gordon as replacement for 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 6 of the Remuneration report on page 71 for further details.

(b) DBP scheme

Awards granted under the DBP scheme have no specific performance conditions other than the Company meeting its target for operating profit before valuation movements and other adjustments ('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.

The movement in DBP/EDBP awards during the year is as follows:

Scheme	Opening balance	Awards granted	Awards vested	Awards lapsed	Closing balance
DBP					
9 December 2013	3,333	_	(3,333)	_	_
16 December 2014	44,640	_	(44,640)	_	_
12 January 2016	35,535	_	(4,852)	(6,068)	24,615
11 January 2017	33,765	_	(1,725)	(6,038)	26,002
21 December 2017	-	35,525	_	_	35,525
EDBP					
16 December 2014	97,696	_	(24,423)	(4,885)	68,388
12 January 2016	57,616	_	(1,560)	(7,800)	48,256
11 January 2017	94,606	_	(2,070)	(19,668)	72,868
21 December 2017	-	69,156	_	(19,884)	49,272
Total	367,191	104,681	(82,603)	(64,343)	324,926

31. Share-based payments continued

(c) SAYE share option scheme

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

The number of shares subject to options as at 30 September 2018, the periods in which they were granted and the periods in which they may be exercised and the movement during the year are given below:

	Exercise price (pence)	Exercise period	Opening balance	Awards granted	Awards exercised	Awards lapsed/ cancelled	Closing balance
SAYE scheme							
2012 - 5 year	68.9	2015-18	4,354	-	(4,354)	-	-
2013 - 5 year	115.1	2016-19	6,515	_	(2,606)	_	3,909
2014A - 3 year	173.1	2017-20	61,867	_	(7,277)	_	54,590
2014B - 3 year	151.3	2018-20	331,511	-	(144,124)	(31,988)	155,399
2015 - 3 year	173.3	2018-21	134,555	-	(53,561)	(26,197)	54,797
2016 - 3 year	166.8	2019-22	221,840	-	(1,199)	(36,927)	183,714
2017 – 3 year	210.2	2020-23	224,145	-	(594)	(29,945)	193,606
2018 – 3 year	253.0	2021-24	-	184,342	_	(711)	183,631
			984,787	184,342	(213,715)	(125,768)	829,646
Weighted average exercise price							
(pence per share)	193.7						

For those share options exercised during the year, the weighted average share price at the date of exercise was 282.9p (2017: 251.6p). For share options outstanding at the end of the year, the weighted average remaining contractual life was 1.8 years (2017: 2.1 years). There were 34,647 (2017: 11,631) share options exercisable at the year end with a weighted average exercise price of 199.5p (2017: 134.1p).

(d) SIP scheme

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

32. Changes in equity

The consolidated statement of changes in equity is shown on page 90. Further information relating to reserves is provided below. Movements on the retained earnings reserve are set out in Note 33.

(a) 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.

(b) 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.

(c) 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, including:

Treasury shares bought back and cancelled

Included within retained earnings at 30 September 2018 is a balance of £7.8m (2017: £7.8m) relating to treasury shares bought back and cancelled.

Investment in own shares

Included within retained earnings at 30 September 2018 is a balance of £8.4m (2017: £10.4m) relating to investments in own shares.

34. List of subsidiaries, joint ventures and associates

A full list of all subsidiaries, joint ventures, associates and other related undertakings as at 30 September 2018 is set out in the notes to the parent company financial statements on pages 145 to 148.

35. Related party transactions

During the year ended 30 September 2018, 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:

	2018		2017	
£'000	Fees recognised	Year end balance	Fees recognised	Year end balance
GRIP REIT PLC	3,798	1,048	3,737	2,815
Walworth Investment Properties Limited	23	-	40	40
Vesta LP	712	-	234	=
	4,533	1,048	4,011	2,855

		2018			2017		
	Interest recognised £'000	Year end loan balance £m	Interest rate %	Interest recognised £'000	Year end loan balance £m	Interest rate %	
GRIP REIT PLC	647	18.2	Nil and 4.75	764	23.1	Nil and 4.75	
Czech Republic combined	(45)	(0.4)	4.00	(99)	(0.5)	4.00	
Curzon Park Limited ¹	_	21.9	Nil	_	21.9	Nil	
Helical Grainger (Holdings) Limited ¹	_	7.5	Nil	-	9.9	Nil	
King Street Developments (Hammersmith) Limited ²	-	0.3	Nil	_	_	-	
Walworth Investment Properties Limited	_	-	-	156		7.00	
Vesta LP	_	6.6	Nil	_	1.4	Nil	
	602	54.1		821	55.8		

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.

² King Street Developments (Hammersmith) Limited is a wholly-owned subsidiary of Helical Grainger (Holdings) Limited in which the Group has a 50% joint venture interest.

36. Operating leases

Accounting policy

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

(a) Group as lessor

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

	2018 £m	2017 £m
Operating lease payments due:		
Not later than one year	3.6	3.0
Later than one year and not later than five years	9.7	8.5
Later than five years	62.4	96.1
	75.7	107.6

There are no contingent rents recognised within net rental income in 2018 or 2017 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 in respect of these regulated tenancies and so these are excluded from the above analysis.

(b) Group as lessee

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

	2018 £m	2017 £m
Operating lease payments due:		
Not later than one year	0.9	1.0
Later than one year and not later than five years	2.8	3.2
Later than five years	0.1	0.5
	3.8	4.7

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.

37. Contingent liabilities

The properties in certain subsidiary companies form a 'quarantee Group' with a market value of £1,279.7m provide the security for the Group's core debt facility.

Barclays Bank PLC and Lloyds Bank PLC have provided quarantees under performance bonds relating to the Group's UK Development division. As at 30 September 2018, total guarantees amounted to £2.9m (2017: £3.1m).

38. Capital commitments

The Group has current commitments under a number of its PRS projects totalling £607.5m as at 30 September 2018 (2017: £136.2m).

39. Post balance sheet events

On 18 October 2018, the maturity date on £50m of sterling bank loans was extended by a further year, increasing weighted average debt maturity to 5.8 years.

On 8 November 2018, the Group confirmed the signing of a joint venture agreement with Lewisham Borough Council to deliver up to 300 purpose-built PRS homes at Besson Street, New Cross Gate, for a cost to the Group of c.£51m.

On 9 November 2018, the Group agreed to forward fund and acquire a PRS, build-to-rent development in Tottenham Hale, North London, comprising 108 private rental homes for £41m.

Financial statements PARENT COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER

	Notes	2018 £m	2017 £m
Fixed assets			
Investments	2	846.1	899.6
Current assets			
Trade and other receivables	3	94.6	46.1
Cash at bank and in hand		30.0	28.8
		124.6	74.9
Creditors: amounts falling due within one year	4	(18.2)	(237.5)
Net current assets/(liabilities)		106.4	(162.6)
Total assets less current liabilities		952.5	737.0
Creditors: amounts falling due after more than one year			
Interest-bearing loans and borrowings	5	(484.9)	(411.9)
NET ASSETS		467.6	325.1
Capital and reserves			
Issued share capital	6	20.9	20.9
Share premium account		111.4	111.1
Capital redemption reserve		0.3	0.3
Retained earnings		335.0	192.8
TOTAL EQUITY		467.6	325.1

The financial statements on pages 140 to 148 were approved by the Board of Directors on 13 November 2018 and were signed on their behalf by:

Helen GordonVanessa SimmsDirectorDirector

Financial statements PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

	Issued share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance as at 1 October 2016	20.9	110.8	0.3	229.2	361.2
Loss for the year	=	=	_	(18.9)	(18.9)
Award of SAYE shares	_	0.3	=	=	0.3
Purchase of own shares	_	=	=	(0.3)	(0.3)
Share-based payments charge	_	=	=	2.1	2.1
Dividends paid	_		-	(19.3)	(19.3)
Balance as at 30 September 2017	20.9	111.1	0.3	192.8	325.1
Profit for the year	_	=	=	162.2	162.2
Award of SAYE shares	_	0.3	-	_	0.3
Purchase of own shares	_		-	(0.3)	(0.3)
Share-based payments charge	-	-	-	1.1	1.1
Dividends paid	-	-	_	(20.8)	(20.8)
Balance as at 30 September 2018	20.9	111.4	0.3	335.0	467.6

Financial statements NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1. Company accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). The financial statements have been prepared on a going concern basis under the historical cost convention, in accordance with the Companies Act 2006.

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 as follows:

- 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: Disclosures 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 profit for the year was £162.2m (2017: loss of £18.9m). 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 the recoverable amount improves due to changes in economic conditions, impairment provisions are reversed, with all provision movements recognised in profit and loss.

(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 end of the reporting period, 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 that 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 end of the reporting period. Deferred tax is measured on a non-discounted basis.

(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 in Note 31 to the Group financial statements, 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.

1. Company accounting policies continued

(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

At 30 September	917.9	977.3
Disposals	(126.0)	
Additions	66.6	2.1
At 1 October	977.3	975.2
Cost of investment	2018 £m	2017 £m

Impairment	2018 £m	2017 £m
At 1 October	77.7	81.9
Reversal of impairment provisions	(5.9)	(4.2)
At 30 September	71.8	77.7
Net carrying value	846.1	899.6

The Directors believe that the carrying value of the investments is supported by their underlying net assets. After an assessment of net recoverable value a net impairment reversal of £5.9m (2017: reversal of £4.2m) has been made. A list of the subsidiaries of the Company is contained within Note 8 on pages 145 to 148.

3. Trade and other receivables

	2018	2017
	£m	£m
Amounts owed by Group undertakings	92.5	46.1
Other receivables	2.1	-
	94.6	46.1

Amounts due in both 2018 and 2017 are all due within one year.

4. Creditors: amounts falling due within one year

	2018	2017
	£m	£m
Amounts owed to Group undertakings	12.8	225.0
Tax and social security costs	-	8.3
Accruals and deferred income	5.4	4.2
	18.2	237.5

Included in the prior year within amounts owed to Group undertakings was an unsecured loan with a year end balance totalling finil (2017: £222.8m). The loan bore interest at LIBOR plus margin plus costs, which averaged 3.75% in the year (2017: 3.95%). Interest payable and similar charges for the year amounted to £4.2m (2017: £9.9m). All other amounts owed to Group undertakings are unsecured, bear no interest, and are repayable on demand.

Financial statements NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

5. Interest-bearing loans and borrowings

	2018	2017
	£m	£m
Variable rate – loans	140.0	140.0
Unamortised issue costs	(1.1)	(1.1)
	138.9	138.9
Corporate bond	350.0	275.0
Unamortised issue costs	(2.6)	(2.4)
	347.4	272.6
Unamortised bond (discount)/ premium	(1.4)	0.4
Total interest-bearing loans and borrowings	484.9	411.9

The variable rate loans are secured by floating charges over the assets of the Group. The loans bear interest at rates between 1.6% and 1.8% (2017: Between 1.6% and 1.8%) over LIBOR.

A new £350.0m, 3.375% corporate bond was issued at 99.588% in April 2018. The discount on issuance is being amortised to the income statement using an effective interest basis. Unamortised costs and the outstanding discount in relation to the corporate bond are, in total, £4.0m and will be amortised over the remaining life of the bond.

The unamortised costs and the outstanding premium in relation to the previous corporate bond were amortised up until the date of redemption at which point the remaining balance of £1.6m unamortised cost was expensed to the income statement.

6. Issued share capital

	2018 £m	2017 £m
Allotted, called-up and fully paid:		
418,825,400 (2017: 418,611,685) 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 133.

Details of share options and awards granted by the Company are provided in Note 31 to the Group financial statements on pages 134 to 136 and discussed within the Remuneration Committee's report on pages 59 to 76.

7. Other information

Dividends

The Company's dividend policy is aligned to our strategy to grow rental income, with 50% of net rental income being distributed. Around one-third of the payment is made through the interim dividend based on half year results, with the balance paid through the final dividend, subject to approval at the AGM. The Company has sufficient distributable reserves to support this policy. Information on dividends paid and declared is given in Note 15 to the Group financial statements on page 112.

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 the Group's subsidiaries, associates, joint ventures and other related undertakings as at 30 September 2018 is set out below:

Company	% effective	Direct/ Indirect	Registered office
1 Ifield Road Management Limited	50%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
12 Nevern Square (Management Company) Limited	25%	Indirect	1st Asset Management Limited, 7-9 Tryon Street, London, SW3 3LG
16 Beverley Terrace Limited	33%	Indirect	16 Beverley Terrace, North Shields, NE30 4NT
16 Castlebar Road Management Company Limited	50%	Indirect	16a Castlebar Road, London, W5 2DP
19 Ifield Road Management Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
31-37 Disbrowe Road Freehold Company Limited	50%	Indirect	102 Fulham Palace Road, London, W6 9PL
36 Finborough Road Management Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
45 Ifield Road Management Limited	67%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
86 Holland Park Freehold Limited	33%	Indirect	17 Kensington Place, London, W8 7PT
174 Bishops Road Limited ¹	50%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Atlantic Metropolitan (U.K.) Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
BPT (Assured Homes) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
BPT (Bradford Property Trust) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
BPT (Residential Investments) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
BPT (Residential Management Services) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
BPT Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Berewood Estate Management Limited ¹	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Besson Street Limited Liability Partnership	50%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Besson Street Second Member Limited	50%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Brierley Green Management Company Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Bromley No.1 Holdings Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Bromley No. 1 Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Bromley No.1 Holdings Limited	100%		
	100%	Indirect Indirect	Citygate, St. James' Boulevard, Newcastle upon Tyne, NE1 4JE
Bromley Property Investments Limited			Citygate, St. James' Boulevard, Newcastle upon Tyne, NE1 4JE
Cambridge Place Management Company Limited	100% 50%	Indirect Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE Vězeňská 116/5, PSČ 110 00, Prague, Czech Republic
CCZ a.s. Chrisdell Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
	100%		
City North 5 Limited		Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
City North Branerties Limited	100%	Direct Indirect	Citygate, St. James' Boulevard, Newcastle upon Tyne, NE1 4JE
City North Properties Limited	100%		Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Crofton Estate Management Company Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Crossco (No. 103) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Curzon Park Limited	50%	Indirect	7a Howick Place, London, SW1P 1DZ
Derwent Developments (Curzon) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Derwent Developments Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Derwent Nominees (No 2) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Dorchester Court (Staines) Residents Association Limited	6%	Indiract	1a Dorchaster Court Crooplands Dood Staines TW10 4LS
Faside Estates Limited	100%	Indirect	1a Dorchester Court, Greenlands Road, Staines, TW18 4LS 5 Atholl Place, Perth, PH1 5NE
	100%	Indirect	
Frincon Holdings 1986 Limited		Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Frincon Holdings Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
GIP Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Globe Brothers Estates Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger (Aldershot) Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger (Clapham) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger (Hadston) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger (Hornsey) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger (London) Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger (Octavia Hill) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE

Financial statements NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

8. List of subsidiaries, associates and joint ventures continued

Company	% effective holding	Direct/ Indirect	Registered office
Grainger (Peachey) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Asset Management Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Bradley Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Developments Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Employees Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Enfranchisement No. 1 (2012) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Enfranchisement No. 2 (2012) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Enfranchisement No. 3 (2012) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Europe (No. 2) Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Europe (No. 3) Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Europe (No. 4) Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Europe Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger European Ventures			
imited Liability Partnership	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger FRM GmbH	100%	Indirect	Grüneburgweg 58-62, 60322 Frankfurt am Main, Germany
Grainger Finance (Tricomm) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Finance Company Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Homes (Gateshead) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Homes Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Housing & Developments Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Invest (No. 1 Holdco) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Invest No. 1 Limited Liability Partnership	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
frainger Invest No. 2 Limited Liability Partnership	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger K&C Lettings Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Kensington & Chelsea Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Frainger Land & Regeneration Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Maidenhead Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NET 4JE
Grainger Newbury Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NET 4JE
Grainger OCCC Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NET 4JE
Grainger Pearl Holdings Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Pearl Limited		Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Pearl (Salford) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Pimlico Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Portfolio 3 GmbH	100%	Indirect	Grüneburgweg 58-62, 60322 Frankfurt am Main, Germany
Grainger Properties Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
rainger Property Services Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger PRS Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger RAMP Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Real Estate Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger REIT 1 Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger REIT 2 Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger REIT 3 Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Residential Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
rainger Residential Management Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
irainger Rural Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Serviced Apartments Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Seven Sisters Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Southwark Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Treasury Property			
nvestments Limited Partnership	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Treasury Property (2006) Limited Liability Partnership	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE

Company	% effective holding	Direct/ Indirect	Registered office
Grainger Tribe Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Trust Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Unitholder No 1 Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Greit Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
G:Res-Co 4 Limited	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Jersey Property Holdings (2016) Limited	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 1 Limited	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 2 Limited	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 3 Limited	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 4 Limited	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 5 Limited	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 6 Limited	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 7 Limited	22.4%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 8 Limited	22.4%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP REIT PLC	24.9%	Indirect	8 Sackville Street, London W1S 3DG
GRIP Unit Trust	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Unit Trust 1	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
RIP Unit Trust 2	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
RIP Unit Trust 6	22.4%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
RIP UK Holdings Limited	24.9%	Indirect	8 Sackville Street, London, W1S 3DG
RIP UK Property Developments Limited	24.9%	Indirect	8 Sackville Street, London, W1S 3DG
RIP UK Property Investments Limited	24.9%	Indirect	8 Sackville Street, London, W1S 3DG
I Tricomm Holdings Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
larborne Tenants Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
lelical Grainger (Holdings) Limited	50%	Indirect	5 Hanover Square, London, W1S 1HQ
letical Grainger (Flotdings) Elimited	50%	Indirect	5 Hanover Square, London, W15 1HQ
lome SGO Properties Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
nfrastructure Investors Defence	10070	manect	Citygate, 3t James Boutevard, Newcastle upon Tyne, NET 43E
Housing (Bristol) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
ngleby Court Management Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
esmond Place Management Limited	70%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
ew Bridge Court Guernsey Limited	24.9%	Indirect	1st and 2nd Floors, Elizabeth House, Les Ruettes Brayes,
Emage court odernsey Emilied	21.570	mancec	St Peter Port, Guernsey, GY1 1EW
(ing Street Developments (Hammersmith) Limited	50%	Indirect	5 Hanover Square, London, W1S 1HQ
(ings Dock Mill (Liverpool) Management			1 / /
Company Limited ¹	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
angwood Properties Limited	100%	Indirect	5 Atholl Place, Perth, PH1 5NE
ewisham Grainger Holdings Limited			
iability Partnership	50%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
1anor Court (Solihull) Management Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
1argrave Estates Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
1ariners Park Estate North Management			
ompany Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
lariners Park Estate South Management			
ompany Limited	11%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
& D London Investments	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
& D London Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
I & D Properties (Midlands) Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Iorthumberland & Durham Property Trust Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Dakleigh House (Sale) Management			
Company Limited	69%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE

Financial statements NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

8. List of subsidiaries, associates and joint ventures continued

Company	% effective holding	Direct/ Indirect	Registered office
Park Developments (Liverpool) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Park Estates (Liverpool) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Park Estates Investments (Liverpool) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
PHA Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Portland House Holdings Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Redoubt Close Management Limited	3%	Indirect	Portmill House, Portmill Lane, Hitchin, SG5 1DJ
Residential Leases Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Residential Tenancies Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Rotation Finance Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Sandown (Whitley Bay) Management Limited	51%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Sixty-Two Stanhope Gardens Limited	20%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Stagestar Limited	25%	Indirect	31 Radipole Road, Parsons Green, Fulham, London, SW6 5DN
Suburban Homes Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
The Bradford Property Trust Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
The Chancel Management Company Limited	96%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
The Grainger Residential Property Unit Trust	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
The Owners of the Middlesbrough Estate Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
The Sandwarren Management Company Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Tricomm Housing (Holdings) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Tricomm Housing Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Vesta (General Partner) Limited	30%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Vesta Limited Partnership	20%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Victoria Court (Southport) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Wansbeck Lodge Management Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Warren Court Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Warwick Square Management Company Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Wellesley Residents Trust Limited ¹	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
West Waterlooville Developments Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE

All subsidiaries, associates and joint ventures are incorporated in the United Kingdom except where the registered office indicates otherwise.

¹ Company limited by guarantee.

Financial statements **EPRA PERFORMANCE MEASURES (UNAUDITED)**

1. Introduction

The EPRA Best Practices Recommendations ('EPRA BPR') were issued by EPRA's Reporting and Accounting Committee in August 2011 and the quidance was subsequently updated in November 2016. 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.

The Group is supportive of EPRA's initiative and, in this report, is disclosing against six of the EPRA measures: EPRA Earnings, EPRA NAV, EPRA NNNAV, EPRA NIY, EPRA Vacancy Rate and EPRA Cost Ratios.

The Group is predominantly a trading company and a significant portion of its cost base is related to trading activities. It is therefore not appropriate to eliminate profits on disposal of trading property as recognised on the consolidated income statement. An adjustment to profits on disposal of trading property has been made with reference to trading property revaluation gains previously recognised in EPRA NAV and EPRA NNNAV. This adjustment has been made to EPRA Earnings so that earnings are marked-to-market. This adjustment has also been applied to adjusted EPRA cost ratio to appropriately reflect the Group's cost base.

Summary

	2018	2017
Adjusted EPRA Earnings	£33.1m	£21.8m
Adjusted EPRA Earnings per share	7.9p	5.2p
EPRA NAV	£1,457.1m	£1,434.5m
EPRA NAV per share	348p	343p
EPRA NNNAV	£1,323.7m	£1,268.2m
EPRA NNNAV per share	316p	303р
EPRA NIY	2.6%	2.4%
Adjusted EPRA NIY	3.8%	3.8%
EPRA Vacancy Rate	2.6%	3.4%
Adjusted EPRA Cost Ratio (including direct vacancy costs)	31.4%	35.7%
Adjusted EPRA Cost Ratio (excluding direct vacancy costs)	30.6%	35.1%

Financial statements EPRA PERFORMANCE MEASURES (UNAUDITED) CONTINUED

2. EPRA Earnings

	2018			2017		
	Earnings £m	Shares millions	Pence per share	Earnings £m	Shares millions	Pence per share
Earnings per IFRS income statement						
- continuing operations	100.7	418.4	24.0	86.3	417.9	20.6
Adjustments to calculate EPRA Earnings, exclude:						
i) Changes in value of investment properties,						
development properties held for investment						
and other interests	(23.3)	-	(5.6)	(17.1)	_	(4.1)
ii) Profits or losses on disposal of investment						
properties, development properties held for			,	()		()
investment and other interests	(1.4)	-	(0.3)	(2.2)	_	(0.5)
iii) Profits or losses on sales of trading properties						
including impairment charges in respect of	(=o o)		44.4.0	(45.0)		(4.4.0)
trading properties	(59.8)	-	(14.2)	(45.8)	=	(11.0)
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	27.6	-	6.6	(0.2)	=	=
vii) Acquisition costs on share deals and						
non-controlling joint venture interests	-	-	-	=	=	=
viii) Deferred tax in respect of EPRA adjustments	-	_	-	_	_	_
ix) Adjustments i) to viii) in respect of joint ventures	(10.7)	-	(2.6)	0.8	_	0.2
x) Non-controlling interests in respect						
of the above	-	-	-	_		
Adjusted EPRA Earnings/Earnings per share	33.1	418.4	7.9	21.8	417.9	5.2

Adjusted EPRA Earnings have been divided by the average number of shares shown in Note 16 to the Group financial statements to calculate earning per share.

The Group has reviewed its EPRA performance measurement reporting and has revised its approach to EPRA Earnings disclosure to align itself closer to the EPRA BPR. Prior year EPRA earnings have been adjusted to report on a consistent basis.

3. EPRA NAV

	2018			2017		
	Net assets £m	Shares millions	NAV pence per share	Net assets £m	Shares millions	NAV pence per share
NAV from the financial statements	815.6	418.8	195	745.3	418.6	178
Include:						
i.a) Revaluation of investment property	-	-	-		_	
i.b) Revaluation of investment property under construction	_	_	_	_	_	_
i.c) Revaluation of other non-current investments	7.0	_	2	7.4	_	2
ii) Revaluation of tenant leases held as finance leases	_	_	_	-	_	-
iii) Revaluation of trading properties	607.1	_	145	645.8	_	155
Exclude:						
v) Fair value of financial instruments	(0.8)	-	_	1.2	_	_
v.a) Deferred tax	27.9	_	6	26.4	_	6
v.b) Goodwill as a result of deferred tax	-	_	_	_	_	_
Include/exclude:						
Adjustments i) to v) above in respect						
of joint venture interests	0.3			8.4	<u> </u>	2
EPRA NAV/EPRA NAV per share	1,457.1	418.8	348	1,434.5	418.6	343

4. EPRA NNNAV

		2018		2017		
	Net assets £m	Shares millions	NAV pence per share	Net assets £m	Shares millions	NAV pence per share
EPRA NAV	1,457.1	418.8	348	1,434,5	418.6	343
Include:						
i) Fair value of financial instruments	0.5	_	_	(1.9)	_	_
ii) Fair value of debt	(2.8)	-	(1)	(20.6)	-	(5)
iii) Deferred tax	(131.1)	-	(31)	(143.8)	_	(35)
EPRA NNNAV/EPRA NNNAV per share	1,323.7	418.8	316	1,268.2	418.6	303

Financial statements **EPRA PERFORMANCE MEASURES (UNAUDITED) CONTINUED**

5. EPRA NIY

		2018 £m	2017 £m
Investment property – wholly owned		589.7	391.0
Investment property – share of JVs/Funds		173.2	269.5
Trading property (including share of JVs)		1,406.4	1,487.1
Less: developments		(301.7)	(137.6)
Completed property portfolio		1,867.6	2,010.0
Allowance for estimated purchasers' costs		15.7	14.2
Gross up completed property portfolio valuation	В	1,883.3	2,024.2
Annualised cash passing rental income		66.9	66.8
Property outgoings		(17.4)	(17.4)
Annualised net rents	А	49.5	49.4
EPRA NIY	A/B	2.6%	2.4%
Gross up completed property portfolio valuation		1,883.3	2,024.2
Adjustments to completed property portfolio in respect of regulated tenancies		(1,107.4)	(1,491.5)
Adjusted gross up completed property portfolio valuation	b	775.9	532.7
Annualised net rents		49.5	49.4
Adjustments to annualised cash passing rental income in respect of regulated tenancies		(27.4)	(39.3)
Adjustments to property outgoings in respect of regulated tenancies		7.1	10.3
Adjusted annualised net rents	a	29.2	20.4
6. EPRA Cost Ratio		2018	2017
		£m	2017 £m
Administrative expenses		27.0	
Property operating expenses		27.9	27.2
Share of Joint Ventures expenses		27.9 15.4	27.2 14.2
Management fees			
ÿ		15.4	14.2 3.8
Other operating income/recharges intended to cover overhead expenses		15.4 3.8	14.2 3.8
Other operating income/recharges intended to cover overhead expenses Exclude:		15.4 3.8	14.2 3.8
Other operating income/recharges intended to cover overhead expenses Exclude: Investment property depreciation		15.4 3.8 (6.5) -	14.2 3.8 (5.1) -
Other operating income/recharges intended to cover overhead expenses Exclude: Investment property depreciation Ground rent costs		15.4 3.8 (6.5) - - (0.1)	14.2 3.8 (5.1) - - (0.1)
Other operating income/recharges intended to cover overhead expenses Exclude: Investment property depreciation Ground rent costs EPRA Costs (including direct vacancy costs)	А	15.4 3.8 (6.5) - (0.1) 40.5	14.2 3.8 (5.1) - (0.1) 40.0
Other operating income/recharges intended to cover overhead expenses Exclude: Investment property depreciation Ground rent costs EPRA Costs (including direct vacancy costs) Direct vacancy costs		15.4 3.8 (6.5) - (0.1) 40.5 (1.0)	14.2 3.8 (5.1) - (0.1) 40.0 (0.6)
Other operating income/recharges intended to cover overhead expenses Exclude: Investment property depreciation Ground rent costs EPRA Costs (including direct vacancy costs) Direct vacancy costs EPRA Costs (excluding direct vacancy costs)	A B	15.4 3.8 (6.5) - (0.1) 40.5 (1.0) 39.5	14.2 3.8 (5.1) - (0.1) 40.0 (0.6) 39.4
Other operating income/recharges intended to cover overhead expenses Exclude: Investment property depreciation Ground rent costs EPRA Costs (including direct vacancy costs) Direct vacancy costs EPRA Costs (excluding direct vacancy costs) Gross rental income		15.4 3.8 (6.5) - (0.1) 40.5 (1.0) 39.5 59.2	14.2 3.8 (5.1) - (0.1) 40.0 (0.6) 39.4 54.6
Other operating income/recharges intended to cover overhead expenses Exclude: Investment property depreciation Ground rent costs EPRA Costs (including direct vacancy costs) Direct vacancy costs EPRA Costs (excluding direct vacancy costs) Gross rental income Less: ground rent income		15.4 3.8 (6.5) - (0.1) 40.5 (1.0) 39.5 59.2 (0.6)	14.2 3.8 (5.1) - (0.1) 40.0 (0.6) 39.4 54.6 (0.6)
Other operating income/recharges intended to cover overhead expenses Exclude: Investment property depreciation Ground rent costs EPRA Costs (including direct vacancy costs) Direct vacancy costs EPRA Costs (excluding direct vacancy costs) Gross rental income Less: ground rent income Add: share of Joint Ventures (gross rental income less ground rents)		15.4 3.8 (6.5) - (0.1) 40.5 (1.0) 39.5 59.2 (0.6) 9.2	14.2 3.8 (5.1) - (0.1) 40.0 (0.6) 39.4 54.6 (0.6) 10.1
Other operating income/recharges intended to cover overhead expenses Exclude: Investment property depreciation Ground rent costs EPRA Costs (including direct vacancy costs) Direct vacancy costs EPRA Costs (excluding direct vacancy costs) Gross rental income Less: ground rent income Add: share of Joint Ventures (gross rental income less ground rents) Add: Adjustment in respect of profits or losses on sales of properties	В	15.4 3.8 (6.5) - (0.1) 40.5 (1.0) 39.5 59.2 (0.6) 9.2 61.2	14.2 3.8 (5.1) - (0.1) 40.0 (0.6) 39.4 54.6 (0.6) 10.1 48.0
Other operating income/recharges intended to cover overhead expenses Exclude: Investment property depreciation Ground rent costs EPRA Costs (including direct vacancy costs) Direct vacancy costs EPRA Costs (excluding direct vacancy costs) Gross rental income Less: ground rent income Add: share of Joint Ventures (gross rental income less ground rents) Add: Adjustment in respect of profits or losses on sales of properties Gross Rental Income	B	15.4 3.8 (6.5) - (0.1) 40.5 (1.0) 39.5 59.2 (0.6) 9.2 61.2 129.0	14.2 3.8 (5.1) - (0.1) 40.0 (0.6) 39.4 54.6 (0.6) 10.1 48.0
Other operating income/recharges intended to cover overhead expenses Exclude: Investment property depreciation Ground rent costs EPRA Costs (including direct vacancy costs) Direct vacancy costs EPRA Costs (excluding direct vacancy costs) Gross rental income Less: ground rent income Add: share of Joint Ventures (gross rental income less ground rents) Add: Adjustment in respect of profits or losses on sales of properties	В	15.4 3.8 (6.5) - (0.1) 40.5 (1.0) 39.5 59.2 (0.6) 9.2 61.2	14.2 3.8 (5.1) - (0.1) 40.0 (0.6) 39.4 54.6 (0.6) 10.1 48.0

Financial statements **FIVE YEAR RECORD**

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	2014	2015	2016	2017	2018
	£m	£m	£m	£m	£m
Group revenue	319.1	193.1	219.9	264.7	270.7
Gross proceeds from property sales	267.2	149.3	164.8	214.5	209.5
Gross rental income	57.4	46.7	51.9	54.6	59.2
Gross fee income	12.3	5.0	5.9	5.1	6.5
Operating profit before valuation movements and other adjustments ('OPBVM')	107.5	79.5	88.7	98.5	116.5
Profit before tax	81.1	51.4	84.2	86.3	100.7
Profit after tax	74.7	44.0	74.5	73.5	87.4
Dividends paid	8.5	10.4	14.7	19.3	20.8
	Pence	Pence	Pence	Pence	Pence
Basic earnings per share	18.1	10.7	18.0	17.7	21.0
Dividends per share	2.5	2.8	4.5	4.9	5.3
	Pence	Pence	Pence	Pence	Pence
EPRA NAV per share	290.6	319.0	329.7	342.6	347.9
EPRA NNNAV per share	242.0	263.4	286.7	302.8	316.0
Share price at 30 September	185.5	238.0	230.0	268.2	300.0
	%	%	%	%	%
Return on capital employed ('ROCE')	17.0	11.0	8.4	5.2	5.3
Return on shareholder equity ('ROSE')	25.6	10.0	10.6	7.3	6.1

The 2015 results in the table above have been restated in order to be comparable with future results following disposals completed in 2016. 2014 has not been restated.

Other information SHAREHOLDERS' INFORMATION

Financial calendar

AGM	6 February 2019	
Payment of 2018 final dividend	11 February 2019	
Announcement of 2019 interim results	May 2019	
Announcement of 2019 final results	November 2019	

Share price

During the year ended 30 September 2018, the range of the closing mid-market prices of the Company's ordinary shares were:

Price at 30 September 2018	300.0p
Lowest price during the year	267.4p
Highest price during the year	322.0p

Daily information on the Company's share price can be obtained on our website **www.graingerplc.co.uk** or by telephone from FT Cityline on **09058 171 690**. Please note that FT Cityline is a chargeable service.

Capital gains tax

The market value of the Company's shares for capital gains tax purposes at 31 March 1982 was 2.03p.

Website

Website address www.graingerplc.co.uk

Shareholders' enquiries

All administrative enquiries relating to shareholdings (for example, notification of change of address, loss of share certificates, dividend payments) should be addressed to the Company's registrar at:

Link Asset Services

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 Link 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.linksharedeal.com** – online dealing **0371 664 0445** – 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

Grainger plc

Citygate

St James' Boulevard

Newcastle upon Tyne

NE14JE

Company registration number 125575

Other information **GLOSSARY OF TERMS**

Property

CHARM

The CHARM portfolio is a financial interest in equity mortgages held by the Church of England Pensions Board as mortgagee.

Investment value or market value

Open market value of a property subject to relevant tenancy in place.

Private rented sector ('PRS')

Housing tenure classification that relates to residential units owned by the private sector to provide rental accommodation. This excludes units owned by government authorities and housing associations.

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

Activity covering the acquisition, renting out and subsequent sale (usually on vacancy) of residential units subject to a tenancy agreement.

Vacant possession ('VP') value

Open market value of a property free from any tenancy.

Financial

Adjusted earnings

Profit before tax before valuation movements and other adjustments that are considered to be one-off in nature, which do not form part of the normal ongoing revenue or costs of the business.

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.

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.

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.

EU IFRS

International Financial Reporting Standards, as adopted by the EU. mandatory for UK-listed companies for accounting periods ending on or after 31 December 2005.

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.

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 and property related assets.

Operating profit before valuation movements ('OPBVM')

Operating profit before valuation movements and other adjustments.

Return on capital employed ('ROCE')

Operating profit after net valuation movements on investment properties plus the share of results from joint ventures/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 shareholder equity ('ROSE')

Growth in NNNAV in the year plus the dividend per share relating to each year as a percentage of opening NNNAV.

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.

Other information **ADVISERS**

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Camarco 107 Cheapside London EC2V 6DN

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Other bankers

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AIB Group (UK) PLC
HSBC Bank PLC
Lloyds Bank Corporate Markets PLC
National Westminster Bank PLC
Nationwide Building Society
Natwest Markets PLC
Santander UK PLC
Svenska Handelsbanken AB (publ)

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Stockbrokers

JP Morgan Cazenove Limited 25 Bank Street London E14 5JP

Numis Securities Limited 10 Paternoster Square London EC4M 7LT

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