

Investing in homes since 1912
grainger plc

Renting homes, enriching lives

ANNUAL REPORT AND ACCOUNTS 2019



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We are the UK's largest listed residential landlord in the Private Rented Sector ('PRS'). We design, build, develop, own and operate rental homes. Our existing portfolio extends to c.**9,000** homes worth over **£2.9bn**, and we are creating a further c.**9,000** through our pipeline.



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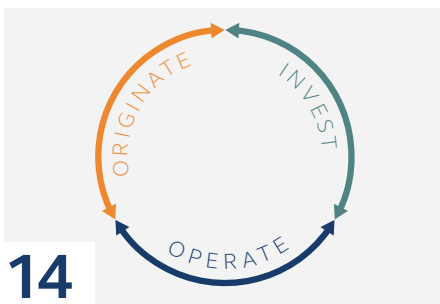
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OUR PURPOSE

Our purpose is to enrich lives by providing high quality rental homes and great customer service.

We target locations where people want to live, and focus on creating spaces that our customers enjoy and making a positive impact in local communities.

FINANCIAL HIGHLIGHTS

S = Statutory measure

INCOME

Profit before tax £131.3m +30% (FY18: £100.7m) S	Adjusted earnings £82.5m -12% (FY18: £94.0m)	Like for like rental growth 3.6% -38bps (FY18: 4.0%)	Net rental income £63.5m +45% (FY18: £43.8m) S	Dividend per share 5.19p +9% (FY18: 4.75p) S
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CAPITAL

IFRS net assets 199pps +6% (FY18: 187pps) S	EPRA NNNNAV 272pps +1% (FY18: 270pps)	EPRA NTA* 278pps +1% (FY18: 274pps)	Loan to value 37.1% 0bps (FY18: 37.1%)	Total property return** 5.0% -100bps (FY18: 6.0%)
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* EPRA Net Tangible Assets ('NTA') is a new measure introduced in 2019 by EPRA. Additional information and definitions for EPRA NTA and all other KPIs are shown on pages 16 and 17.

** Total property return ('TPR') is a performance measure which represents the change in gross asset value, net of capital expenditure incurred, plus net income, expressed as a percentage of gross asset value.



FOR MORE INFORMATION ABOUT
OUR PURPOSE SEE PAGE 5

Rooftop lounge – Hawkins & George, Bristol

GRAINGER AT A GLANCE

A market leader in the UK private rental sector

We design, build, own and operate rental homes across the UK. Our portfolio includes 5,597 PRS homes and 3,343 regulated tenancies.



Brook Place, Sheffield

PORTFOLIO SNAPSHOT

8,940

Total rental homes

£2.9bn

Market value of our portfolio

£70m

Passing net rental income

£302m

Reversionary surplus

OUR BUSINESS

107

Years since foundation

23k+

Customers

246

Employees

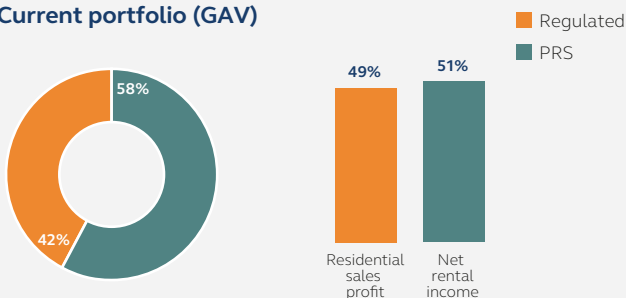


FTSE4Good

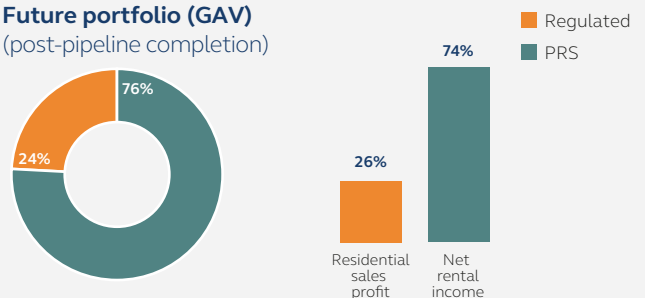
Leading performance on ESG benchmarks (see page 35)

WE HAVE TWO RESIDENTIAL PORTFOLIOS

Current portfolio (GAV)



Future portfolio (GAV) (post-pipeline completion)



PRIVATE RENTED SECTOR ('PRS') PORTFOLIO

We have 5,597 operational PRS homes in our portfolio and a pipeline of a further c.9,000. These well-located assets are in high demand by our customers. With our expert operational team managing our properties directly, our portfolio consistently outperforms.

Our aim is to offer attractive homes to our customers and provide a reliable service for them. This means we have more satisfied customers, who are staying with us for longer, reducing void periods and churn, increasing occupancy and supporting rental growth. Overall, we are delivering strong Shareholder returns by providing our customers with great homes and service.

In FY19 we launched four new build-to-rent schemes across the UK, providing 1,152 new homes. In November 2018, doors opened at Clippers Quay, the largest build-to-rent development to launch outside of London. In March 2019, the Grainger Collection at Wellesley, a suburban development in Aldershot launched, followed by Hawkins & George in Bristol city centre in June 2019. In September, Brook Place, our first Sheffield scheme, welcomed its first residents.



Brook Place, Sheffield



Clippers Quay, Manchester – 614 homes across five buildings on the waterfront in Salford Quays, with over 7,000 sq. ft. of residents amenity space including gym and cinema room.



The Grainger Collection at Wellesley – a mix of 107 family homes and apartments providing the first purpose-built homes for rent at Wellesley, Aldershot.



Hawkins & George, Bristol – a stylish waterside development in Bristol city centre with a mix of 194 studio, 1 and 2 bed apartments and a roof terrace with rooftop lounge.



Brook Place, Sheffield – a mix of 237 studio, 1 and 2 bed homes in Sheffield with a gym, residents lounge and three large roof terraces designed for entertaining.

97.2%

occupancy

4%

net initial yield

+3.4%

annualised like-for-like rental growth

1,152

new homes completed in FY19

9,104

new PRS homes in the pipeline

REGULATED TENANCY ('Regulated') PORTFOLIO



Regulated tenancies are historic lease agreements (pre-1989) whereby the tenant has the right to reside for life, and the rent is below market levels, with reviews undertaken every two years (typically increasing by Retail Price Index + 5%).

On vacancy, this portfolio generates significant cash flows from rental income and sales, which we are reinvesting into new modern rental homes (known as PRS).

This portfolio has significant embedded future value because the properties are held on our balance sheet at a discount to their vacant possession value of between 18-20%, which upon vacant sale is crystallised – known as the reversionary surplus.

The uplift in value on vacancy, or reversionary surplus, is not reflected in our NAV measures but will be captured over time as the properties in this portfolio become vacant (approximately 6% each year) and we sell them.

We actively manage our portfolio and, through our asset-hierarchy strategy, we sell lower performing assets and sub-portfolios ahead of vacancy. This accelerates the reduction of our regulated tenancy portfolio beyond the natural vacancy rate.

As it unwinds over time, this portfolio is a perfectly complementary funding stream for our investment in our PRS pipeline.

2%

typical net yields

c.6%

vacancy rate

+4.4%

annualised rental growth

77

average age of our regulated tenancy customers

CHAIRMAN'S STATEMENT

Significant progress in delivering the strategy

“FY19 has been a transformational year with over 50% of Grainger’s revenue now delivered through resilient rental income.”

Mark Clare
Chairman



Grainger has delivered another strong performance against a backdrop of both political and economic uncertainty. Our strategic focus on the UK PRS continues to deliver real growth in the business, underpinned by a strong demand for rental homes across the country.

FY19 marks a year of transformation for Grainger. Driven by the successful acquisition of the GRIP portfolio and the new investments coming through, the level of recurring net rental income exceeded residential sales profit for the first time. This, in combination with a continued focus on cost control and asset recycling initiatives has delivered a strong financial performance for the year.

Last year the Board identified the need to accelerate growth and I am pleased to say that with the acquisition of GRIP and the growth in the development pipeline, which now stands at c.9,000 units, we have been able to do this. In addition the creation of our joint venture with Transport for London ('TfL') could see us developing an additional 3,000 units over the next five years.

To support this growth the Board continues to focus on ensuring we maintain our 'licence to operate' and that we deliver it in the most efficient manner that we can. A key part of this is Grainger's commitment to a best in class health and safety system and 2019 saw

the roll-out of Live.Safe, a bottom-up programme to ensure that everyone in the business is engaged to ensure that health and safety remains at the forefront of everything that we do.

Our commitment to delivering excellent customer service remains and this is being supported by extensive training and development and investment in CONNECT, our technology platform which brings together leading technologies with best practice ways of working. This will enable us to deliver the increasing growth in the business while enhancing the customer experience and improving efficiency.

Building on our previous sustainability work the Board has agreed an ambitious set of long-term Environmental, Social and Governance commitments going forward. These include the aspiration of net zero carbon operation of our buildings by 2030, and measuring and delivering positive social value for our customers and their communities from what we do. We believe by achieving these commitments, we will ensure the long-term resilience of our business.

During my time at Grainger, I have met with a wide range of colleagues, and I have been impressed with their knowledge and expertise, but most importantly the strong culture and values that they adhere to. It is clear that everyone is committed to one core purpose of delivering great homes

with great service. I would like to take the opportunity to thank the whole Grainger team for their hard work and commitment.

In February 2019, we welcomed Janette Bell to the Board. Janette's breadth of operational experience in customer centric organisations brings immense value to the business, and we welcome Janette's insight.

Following on from a significant increase in net rental income this year and a robust performance, I am pleased to announce a proposed final dividend of 3.46p per share, representing an increase on last year of +9%. This equates to a total dividend for the year of 5.19p per share, an increase of +9% on last year.

Looking forward to the year ahead there is great focus on building our best in class operational platform, driven by the quality of our people and new technology, as well as delivering c.1,000 new homes for our customers across the country. Our focus on continuing to build the longer-term investment pipeline will continue as we pursue our ambition to grow the business significantly over the next five years.

Mark Clare
Chairman

26 November 2019

CHIEF EXECUTIVE'S STATEMENT

Overview and operational highlights



“Our strategy is delivering strong, sustainable returns to Shareholders, ahead of plan.”

Helen Gordon
Chief Executive

This year I am pleased to report your company has undergone further transformation to one with greater and more resilient recurring rental income from a business historically reliant on residential sales.

The strategy we set out three years ago to transition Grainger into the UK's leading private rental home business is delivering strong, sustainable returns to Shareholders, ahead of plan.

The business goes from strength to strength and this year was a year of strong performance, despite more subdued house price growth, as we pivot the business away from a reliance on capital growth and become more heavily focused on recurring rental income through our investment in PRS homes.

Our acquisition this year of the £700m GRIP portfolio, comprising c.1,700 PRS homes, has provided us with a step change in the income profile of the business, with net rental income increasing in the year by 45% to £63.5m (FY18: £43.8m). I was pleased at the high level of Shareholder support for this acquisition. To have the opportunity to buy a portfolio of this scale and quality that we knew well was a rare opportunity. I am pleased to report we have integrated the GRIP portfolio swiftly into the business, making savings and driving returns (see page 9).

Rental growth is at the heart of the PRS investment case and I am pleased to say that underlying like-for-like rental growth is also strong across our portfolio this year, up +3.6% (FY18: 4.0%). Net rental income is now more than double what it was at the start of the strategy, providing Shareholders with resilient returns.

The demand for rental homes is growing. Since 2016 we have committed £1.5bn into new private rental housing. This year we launched new schemes in Bristol, Hampshire, Manchester and Sheffield, over 1,000 new homes of exceptional quality.

Overall, the business has delivered a strong profit before tax of £131.3m, up +30% (FY18: £100.7m), with adjusted earnings of £82.5m (FY18: £94.0m), a movement which reflects our transition as we replace our previous reliance on sales and development returns with recurring net rental income. The valuation of our portfolio continues to prove resilient up +1.9%, EPRA NNNNAV up +1% to 272p per share and EPRA NTA up +1% to 278p per share (FY18: 1.6%, 270p per share and 274p per share respectively).

Whilst our regulated tenancies represent a smaller share of our portfolio, those we sold during the year traded well and we achieved sales prices on average 0.4% above previous valuations.

Our drive toward growing net rental income also enables us to return more to Shareholders by way of dividend and I am pleased to report a proposed final dividend of 3.46p per share, resulting in an increase in DPS of +9% to 5.19p per share (FY18: 4.75p per share).

Our purpose

Our vision for Grainger is simple: to be the leading UK business in providing homes for rent. Through engagement with both our employees and Board there was consensus on Grainger's core purpose:

To enrich lives by providing high quality rental homes and great customer service.

This simple purpose enables us to ensure that all Grainger colleagues are working toward the same end goal, enabling greater collaboration and ultimately, delivering better results for our customers, partners and Shareholders.

CHIEF EXECUTIVE'S STATEMENT CONTINUED



Hawkins & George, Bristol

Growing our business

We know that this business works better when it is bigger. Scale enables us to invest more in our people, processes and technology and leverage our already market leading operational platform. With scale, comes a greater ability to deliver our purpose and leads to greater profitability.

With this in mind, I am pleased to say that our pipeline of new investments is stronger than ever, representing an additional c.9,000 new PRS homes that we will deliver and add to our portfolio over the coming years. This is a doubling of our current portfolio size.

Working in partnership

Grainger has a good reputation for working in partnership and I am pleased that in April of this year TfL selected Grainger as their build-to-rent partner with an initial

seven seed sites, which when developed with TfL will add a further 3,000 homes to our portfolio. The joint venture was signed in under 100 days and the first scheme designs are advanced to achieve planning next year.

Our selection by TfL as their PRS partner against strong competition from across the world is an endorsement of Grainger and of our strategy. This partnership perfectly complements our strategy and growth ambitions.

We also signed our partnership with the London Borough of Lewisham and are making good progress on bringing forward c.300 new homes through the planning process.

These two new partnerships give us access to land and add to our other partnerships with public sector bodies.

Focus on customers, delivers results

We know how important a good home is to our customers and how important satisfied customers are to our success. Customers that are happy stay with us longer and contribute to our communities.

That is why we have continued our focus on improving the customer experience. From customer service training programmes put in place for employees through to gaining greater customer feedback and insights in surveys and focus groups.

We continue to explore what people want from their homes and design our buildings and services to respond.

Our efforts have delivered results with increasing levels of customer satisfaction, and 8 in 10 customers said they 'really like' their Grainger home.

This positive sentiment underpins our strong operational performance, with high occupancy in our PRS portfolio of 97.2%.

Our focus on providing good quality homes and great customer service are delivering positive results with our customers staying with us longer. Our average PRS customer stay has increased to 32 months.

CONNECT – improving our future through investing in technology

This year we began to roll out our new technology platform, CONNECT. The aim of CONNECT is to enhance the customer experience, making renting with Grainger easy, increasing operational efficiency providing scalability, allowing us to grow while controlling costs and securing our licence to operate.

The CONNECT platform is an integrated solution that digitises and puts the entire rental process online, linking together everything from marketing and leasing through to financial reporting and payment processing and ensuring that our health and safety credentials, cyber security and data protection is as good as it can be.

This year we began using the CONNECT online leasing platform on our newly completed schemes, which enables customers to undertake the entire leasing process from the initial viewing through to the signing of a lease completely online, from their laptop or their mobile phone,

“We know how important a good home is to our customers and how important satisfied customers are to our success.”

Helen Gordon
Chief Executive

OUR STRATEGY

Is to be the leading provider of private rental homes in the UK and deliver sustainable, attractive returns to our shareholders, with three strategic priorities: to grow net rental income, simplify and focus, and build on our experience as a responsible landlord.

As our regulated tenancy portfolio unwinds, we are reinvesting this capital into higher yielding private

rental homes. Our research-backed investment strategy has identified key target cities where we are creating clusters of assets to drive better customer service and operational efficiencies, and we are focused on providing high quality private rental homes reflective of local incomes, ensuring that they are accessible to the widest pool of customers possible.

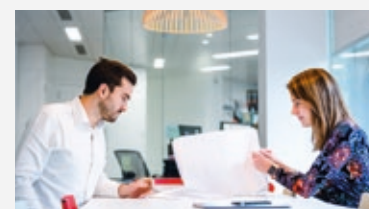


1. GROW RENTS

ACQUISITION OF GRIP PORTFOLIO

SELECTED BY TFL AS THEIR PRS PARTNER

NRI INCREASED BY 45%



2. SIMPLIFY AND FOCUS

INTEGRATION OF GRIP

ENHANCED ACQUISITIONS PROCESS

ACTIVE CITY CHAMPIONS NETWORK



3. BUILD ON OUR EXPERIENCE

ENHANCED BUILDING DESIGNS

INVESTMENT IN OUR TECHNOLOGY PLATFORM, CONNECT

LIVE.SAFE PROGRAMME ROLLED OUT

anywhere in the world. And the results are very positive. Using this new leasing platform, our scheme in Bristol, Hawkins & George, which comprises 194 apartments, was fully leased up in 3.5 months, less than half of the time we thought it would take.

The next phase of CONNECT is shortly due to be rolled out, comprising the MyGrainger customer portal, which enables customers to manage all their questions and queries online if they wish, anytime of day.

Only the best people

Our people are inspirational. I am immensely proud of my colleagues in the business. We have developed a team of people who genuinely care about their customers and fellow colleagues.

Our focus on recruiting the best talent, training and supporting our employees to be the best they can be, is delivering results.

This year we launched the Grainger Academy, a comprehensive training curriculum covering all aspects of the business, to ensure quality customer service, career progression, and as a means of attracting new talent.

We are a diverse workforce. More than half of Grainger employees are females, and 12.5% of our employees are from minority ethnic backgrounds.

Employee happiness is important to us. Each year we undertake an employee survey and we are pleased to say we have continued to see very high levels of engagement with the survey across all our workforce, well above the norm, with 80%

of employees taking the time to give us their feedback.

This year's survey category 'Giving Something Back' told us that colleagues value Grainger's focus on investing in and building local communities within our PRS developments.

Our investment in training and volunteering with the elderly with Age UK and the fundraising to tackle youth homelessness through LandAid are just two examples of charitable activities which colleagues appreciate.

This year we launched a new Mental Health Champions network within the business, where volunteer employees are specially trained and are available to help any colleagues and customers that need support.

CHIEF EXECUTIVE'S STATEMENT CONTINUED

Live.Safe

Ensuring that our customers who live in our properties are safe is imperative for Grainger. This year we launched Grainger's Live.Safe commitment, a comprehensive programme of work and training across our people and the business, which puts Grainger at the forefront of sector-leading safety measures within our properties.

Our ESG (Environmental, Social and Governance) commitments

I am pleased to report a very strong set of results in our ESG benchmarks, including ranking second among our European peer group in GRESB (Global Real Estate Sustainability Benchmark) and receiving a sector-leading 'Prime' rating from ISS (Institutional Shareholder Services) ESG, a Gold Award by EPRA (European Public Real Estate Association) for our sustainability reporting and the second highest rating

of 'AA' from MSCI (Morgan Stanley Capital International) ESG. For the 10th consecutive year we have maintained our FTSE4Good listing.

We will continue to focus on achieving this high level of ESG ranking and are focused on the need to transition our portfolio to a net zero carbon status in operation by 2030.

Helping to shape our sector

As the UK's largest listed residential landlord and leading provider of private rental homes, we believe in taking an active role in helping to shape the residential renting environment for the better.

I am pleased to have the privilege of being this year's President of the British Property Federation ('BPF'), a position of influence within the industry and with its relationship with the British Government. My focus as

President of the BPF is to represent the interests of the real estate industry in the UK, and to be recognised as promoting and making the property industry a force for good.

In addition to Grainger's active involvement with organisations such as the British Property Federation, London First and the European Public Real Estate Association, we take an active role in directly engaging with policy makers on issues relating to the UK's rental housing market. This year we engaged with the Government, relevant Ministers of State, and the Opposition Party, promoting and proving the merits of a larger, more professionally run PRS. We also consulted with the London Mayor and his office, the Greater London Authority, to help shape their view of the PRS and their development of the new London Plan.

The housing shortage and crisis in the UK is complex. Grainger and its expertise and experience within the professional rental sector has a key role in helping deliver a solution.

Securing our future

Three years ago we set out a succinct strategy to transform Grainger into the UK's largest listed residential landlord and leader in the UK PRS. We are delighted to report that our strategic investment decisions, clear focus on operational excellence and quality service is delivering sustainable returns for all our Shareholders, customers and communities.

Grainger is a long-term business. We are committed to the sustainability of this organisation and have put in place strong foundations to secure our long-term future success.

Helen Gordon

Chief Executive

26 November 2019



Brook Place, Sheffield

GRIP acquisition fully integrated and delivering ahead of plan

£17.7m

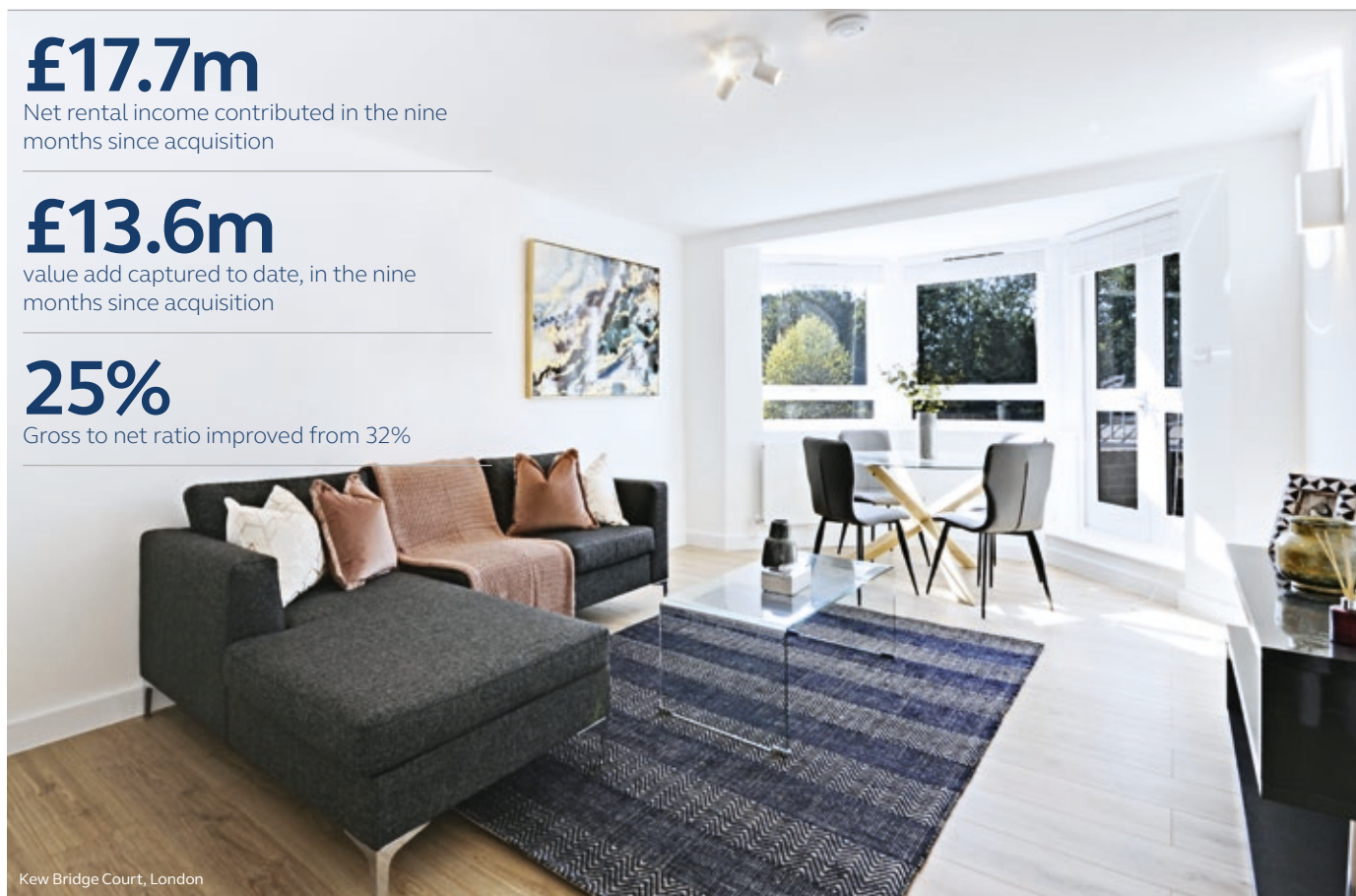
Net rental income contributed in the nine months since acquisition

£13.6m

value add captured to date, in the nine months since acquisition

25%

Gross to net ratio improved from 32%



Kew Bridge Court, London

DELIVERED IN 9 MONTHS SINCE ACQUISITION



Strategic fit

PRS assets

Attractive locations and clusters

Attractive price points

Simplified our Group structure

Unlocked our ability to invest in London and SE on balance sheet



Scale

c.1,700 homes

Transitioned the Group's earning profile and balance sheet



Operational synergies

£4m overheads savings

Gross to net ratio improved from 32% to 25%

Complements existing portfolio



Financial

A significant contributor to +45% increase in Group NRI

£13.6m of additional value add captured

Like-for-like rental growth of +3.0% in nine months

Corporate credit rating subsequently upgraded

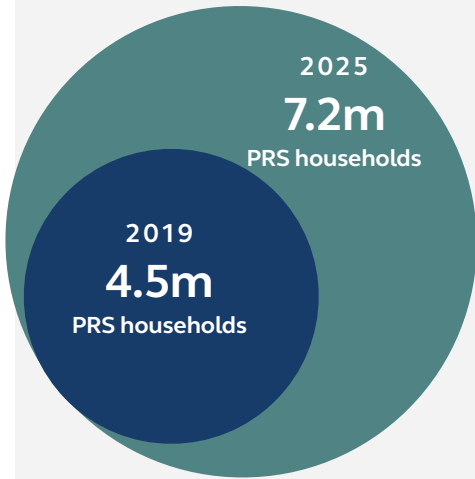
Refinanced and improved the cost of GRIP debt from 3.2% to a blended rate of 2.3%

INVESTMENT CASE

Why our investment case is **strong**

1 Strong market backdrop

Demand for private rental housing is growing rapidly, with PwC predicting that demand for PRS will grow to 7.2m households by 2025, up from 4.5m currently.



2 Our leading platform

With over 100 years of experience, our integrated platform enables us to deliver leading, sustainable returns and great customer service. As we grow we will benefit from significant operational leverage, with enhanced returns through greater scale and efficiencies. Our investment in technology will enhance our platform even further and differentiate Grainger in the market.



Guest Suite – Argo Apartments, London



“Partnerships are instrumental to our success, enabling us to deliver sustainable returns, supporting growth in our pipeline, and unlocking land opportunities.”

Michael Keaveney,
Director of Land & Development



3 A sustainable growth plan

Our pipeline of new PRS investments with robust underwriting provides significant visibility and certainty over our growth trajectory over the medium term.

Our pipeline has the potential to more than double total net rental income, driving earnings and dividend growth.

9,104

Homes in pipeline

4 Partner of choice

Our strong reputation as a long-term, high performing partner has meant that we are the partner of choice for many public and private sector organisations. Partnerships provide us with the opportunity to deliver more, good quality homes with our partners. Examples of our partners include:



5 Strong balance sheet and financial discipline

We have a strong balance sheet to support our strategic growth plans, with the funding capacity to deliver our current secured pipeline. Our research-backed investment approach is both rigorous and comprehensive, ensuring our underwriting is robust and our investments deliver strong, sustainable returns.

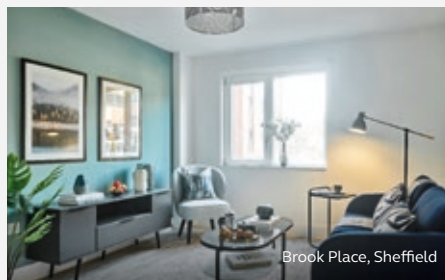


“This year, 82% of the reviews we received online were 5 stars, and 8 out of 10 customers really like their Grainger home.”

Anish Thobhani,
Director of Customer Operations

6 Excellent customer service

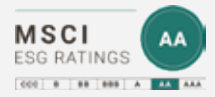
Providing great service to our customers is vital for the long-term success of our business. We regularly seek feedback from our customers in order to improve our homes and service. Our focus on operational excellence is delivering strong results with high occupancy levels and our customers staying with us for longer.



Brook Place, Sheffield

7 A responsible business

We take our responsibilities to all of our stakeholders seriously, and we achieve high ratings from a number of independent, third-party benchmarks for our Environmental, Social and Governance credentials. This year we ranked #2 amongst our peers of European listed residential property companies in the Global Real Estate Sustainability Benchmark. We retained our FTSE4Good rating for the 10th consecutive year. We achieved a top 'Prime' rating from ISS ESG and an 'AA' rating from MSCI's ESG assessment.



MARKET DRIVERS

What's driving growth in our marketplace

Demand for renting in the UK has been steadily increasing for the past decade, and this trend is set to continue as more and more people choose to rent for longer, benefitting from the flexibility and lifestyle benefits that renting provides.

1. GROWING DEMAND

What's happening?

There are currently 4.5m households in the PRS, up from 2.8m in 2007. This now represents a fifth of all households.

Forecasts by PwC suggest that demand for PRS will grow to 7.2m households by 2025.

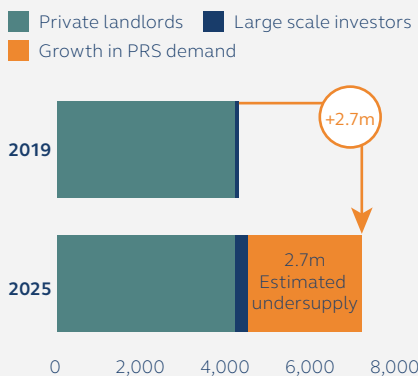
Even when taking account of potential new investment into the sector via build-to-rent (Knight Frank and CBRE estimates), there remains a 2.7m shortfall in supply. This undersupply is being exacerbated by a slow-down in the buy-to-let landlord market.

What does it mean for us?

As more and more people choose to rent, there is a rapidly increasing need for more rental homes. With this comes greater expectations among renters and a growing demand for good quality rental homes and high standards of service.

Grainger is perfectly placed to help meet these growing demands, through our growing pipeline and leading platform.

2.7m projected PRS undersupply
(households, thousands)



Source: ONS; PwC; BPF; Knight Frank; MHCLG; Company Estimates

2. UNDERSUPPLY OF HOUSING

What's happening?

Official estimates suggest that there is a chronic undersupply of housing across the UK. The Government has set a target of 300k new homes to be delivered per annum across England, a level not achieved in many decades.

In 2018, the supply of new homes in England totalled 222k, well below the Government target.

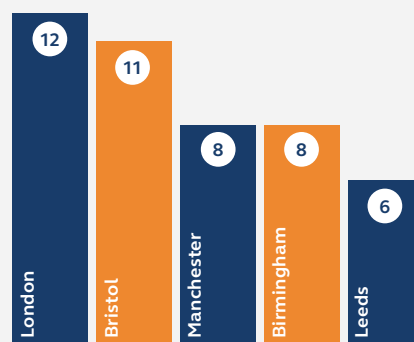
Demand far outstrips supply across all housing tenures.

What does it mean for us?

Grainger is helping alleviate the housing crisis in the UK by creating a significant number of new homes through its growth plans.

The structural undersupply of housing underpins pricing, both capital values and rental yields.

High barriers to home ownership
(Years to save a 10% deposit for first time buyers)



Source: Land Registry; OBR; ONS; Nationwide; Hometrack; HomeUK; Company Estimates

3. REDUCING COMPETITION FROM INDIVIDUAL PRIVATE LANDLORDS

What's happening?

Historically, the UK rental market has been dominated by individual private landlords (often known as buy-to-let investors). Official estimates suggest that 94% of landlords rent property as an individual, not as a business, and thereby only 6% of the market is made up of professional landlords.

But the number of private landlords is reducing, putting further pressure on rental housing supply.

Tax changes, other fiscal measures and additional red tape have significantly disincentivised private landlords in recent years, and many are leaving the market, often taking their properties out of the rental market too.

What does it mean for us?

As private landlords exit the market and supply of rental homes decreases, the need for new supply, such as our pipeline, accelerates. It also means that competition from private landlords is reducing, supporting our lease up and occupancy rates. Conversely, there is a growing professionalisation within the rental sector, which provides us with significant positive tailwinds.

Supply of PRS homes in the UK pipeline (build-to-rent) – Savills, October 2019:

113k



FOR MORE INFORMATION
ABOUT OUR STRATEGY
SEE PAGE 7

4. BROAD POLITICAL SUPPORT FOR CREATION OF GOOD QUALITY RENTAL HOUSING

What's happening?

Across the political spectrum, there is broad agreement that the UK needs more homes, and that a good proportion of these should be for the rental market.

The Conservative Government has put in place a number of changes to policies and the planning system to encourage large scale delivery of professionally managed PRS homes.

The Labour Party has also acknowledged the need for a more professional rental market, with a focus on raising standards among private landlords and the buy-to-let market.

What does it mean for us?

We engage with all political parties. Our focus on mid-market housing, whereby rents are priced in line with local incomes, is welcomed politically. Our focus on communities and customer service meets the political demands for higher standards in the rental market. And our standard offer of longer-term tenancies is progressive and ahead of political expectations.

We are well positioned and aligned to the political aspirations across both main political parties.

5. RECOGNITION AND SUPPORT FOR PRS AMONG LOCAL PLANNING AUTHORITIES IS GROWING

What's happening?

Recognition and support among local planning authorities (those responsible for allocating planning consents) for build-to-rent and professionally run PRS homes is growing rapidly. Since updates were made to the National Planning Policy Framework a year or so ago in support of PRS development, local authorities have begun to include PRS and build-to-rent into their local plans.

With further PRS schemes coming forward, greater familiarity of the sub-sector and asset class is leading to more engaged and informed understanding of the benefits that the good quality PRS housing can bring to local communities. In addition, more local authorities are recognising the opportunity for public sector land to be used to deliver quality homes for local residents through build-to-rent, PRS schemes.

What does it mean for us?

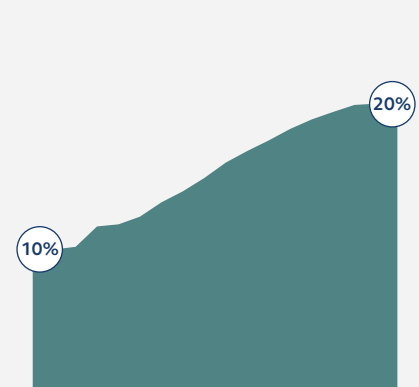
Growing recognition and support for PRS and build-to-rent among local planning authorities means that Grainger will benefit from an increase in the number of investment opportunities across the country.

Opportunities to partner with local authorities and other public sector organisations to help create PRS homes on public sector land, such as our Besson Street partnership with Lewisham Borough Council, our PRS partnership with TfL and with Network Rail at Newbury.

Grainger is the market leader with

8,940 rental homes

PRS doubled since 2000

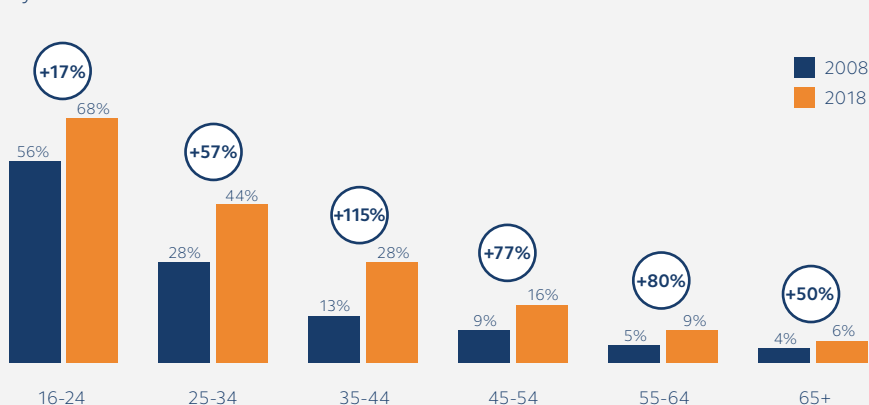


2000

2017

Source: ONS; English Housing Survey

Renting growing across all age groups – people are renting for longer by %



Source: ONS; English Housing Survey

OUR BUSINESS MODEL

Creating sustainable value

OUR INPUTS

Our people

Committed to delivering excellent customer service and fulfilling our purpose.

Our relationships

Working in partnership with suppliers and our partners to deliver long-term, sustainable value.

Technology

Investing in technology to support our sustainable growth and enhance the customer experience.

Our properties

8,940

homes, in well desired locations

Intellectual capital

Expertise and knowledge supports our competitive advantage.

Financial capital

Efficient capital structure, strong balance sheet and our rigorous investment process ensures sustainable returns.

HOW WE CREATE VALUE

Our three-part, integrated operating model ensures we are investing in and designing the best possible assets and providing great service. It enables us to deliver market leading, sustainable returns for our Shareholders.

- 1. Originate**
- 2. Invest**
- 3. Operate**

OUR OUTPUTS

Shareholders

Dividend per share

5.19p

EPRA NTA

278pps

Stakeholders

Customers

32 months

average length of stay (PRS)

Partners

c.7,800

homes being delivered through partnerships

Communities

100+

resident and community events

Employees

91%

of employees participated in Grainger led training



READ MORE
PAGE 59



READ MORE
PAGE 55

1. Originate

1. Planning, design and delivery

Planning and creating buildings to our own specific design, gives us control over the delivery of new PRS homes and ensures our properties are in high demand.

2. Invest

2. Research-backed capital allocation, geographic targeting, acquisitions and asset management

We invest capital effectively through a rigorous investment process, beginning with deep and comprehensive research to identify the locations with greatest demand and greatest growth potential.



3. Operate

3. Lettings, management and customer service

We have more than 100 years of experience in renting homes. We are committed to operational excellence and great customer service to achieve high occupancy rates and sustainable rental growth. Investment in technology and our online digital platform, CONNECT, secures our leading position in the market and enables our continued growth.



FOR MORE INFORMATION
ABOUT OUR STRATEGY
SEE PAGE 7

KEY PERFORMANCE INDICATORS

How we performed

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.

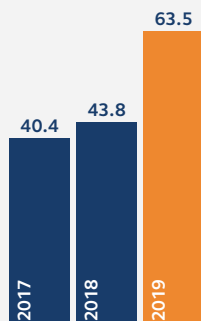
DRIVING OUR INCOME RETURNS

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. We are continuing to transition the income profile towards recurring net rental income and reduce reliance on profit from sales.

PRS rental growth
(%)



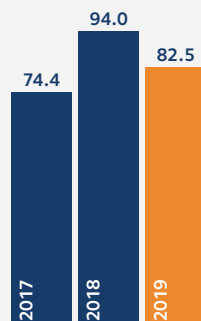
Net rental income
(£m)



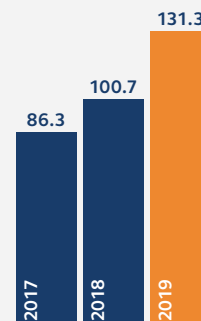
Property operating cost (gross to net)
(%)



Adjusted earnings
(£m)



Profit before tax
(£m)



KPI definition

Like-for-like average growth of rents across our PRS portfolio.

Rental income after property operating expenses.

Property operating costs expressed as a percentage of gross rental income.

Profit before tax, valuation movements on investment assets, derivatives and other adjustments.

Profit before tax including valuation movements and other adjustments.

Comment

Strong like-for-like growth in our PRS rental income outperformed the market (1.9% market average) demonstrating the quality of our offering.

Increase of 45% delivered, including £17.7m from the GRIP acquisition and £1.6m from development completions. Rental growth of £2.3m offset the £1.9m impact of disposals.

Stable gross to net performance demonstrating strong operational efficiency in our portfolio.

Reflects reduced sales volume, the completion of final development for sale contract and the £7m one-off profit on disposal of the WIP JV in FY18 as we continue to transition our business to recurring revenue streams.

Increase of 30% with valuation gains more than offsetting the reduced level of earnings.

Link to strategy






Notes

See Note 6 to the financial statements.

See Note 6 to the financial statements.

See Note 3 to the financial statements for explanation and for reconciliation from statutory measures.

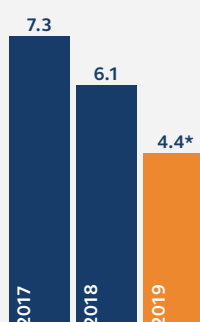
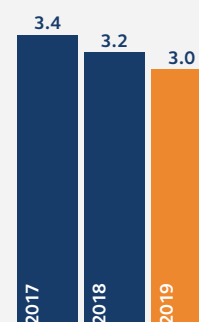
Link to strategy

-  Grow rents
-  Simplify and focus
-  Build on our experience

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

BUILDING OUR CAPITAL RETURNS

The following KPIs capture Grainger's strategy to maximise total returns and capital growth from its residential investments. As described in the financial review on page 21, EPRA Net Tangible Assets ('NTA') is a new measure introduced by EPRA. We consider this to be the most relevant NAV measure for the business as it includes the tax that will crystallise in relation to the trading portfolio, while excluding mark to market movements on fixed rate debts and derivatives. We have therefore replaced EPRA NAV with EPRA NTA as one of our KPIs.

EPRA NTA
(pence)**EPRA NNNAV**
(pence)**Total Accounting Return ('ROSE')**
(%)**Loan to value ('LTV')**
(%)**Cost of debt (at period end)**
(%)**KPI definition**

Market value of property assets, after deducting deferred tax on trading assets, and excluding intangible assets and derivatives.

EPRA NTA after deducting deferred tax on investment property revaluations and including market value adjustments of debt and derivatives.

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

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

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

Comment

1.5% growth in FY19 reflecting a strong trading and robust valuation performance in a challenging property market.

2p growth in the year impacted by adverse mark to market movements in fixed rate debt and derivatives which reduced the measure by 5 pence per share.

Total returns impacted by EPRA NNNAV movement in the year, as a proportion of opening NNNAV.

*2019 adjusted for mark to market movements that are unlikely to crystallise. Including mark to market movements, ROSE would be 2.4%.

LTV remained in line with prior year as we continue to invest in our pipeline.

Reduction of a further 20bps, helped by refinancing activity including the replacement of GRIP borrowing facilities.

Link to strategy**Notes**

See Note 4 to the financial statements and EPRA performance measures from page 159.

See Note 4 to the financial statements and EPRA performance measures from page 159.




See Note 4 to the financial statements and EPRA performance measures from page 159.

Loans as a proportion of the market value of properties and property related assets. See Note 27 to the financial statements.

See Note 27 to the financial statements.

KEY PERFORMANCE INDICATORS CONTINUED

Link to strategy

-  Grow rents
-  Simplify and focus
-  Build on our experience

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

NON-FINANCIAL KPIs

The following metrics capture the non-financial performance of our business. See our people, assets and environmental impact on pages 36 to 38.

OUR CUSTOMERS

Comment

Attracting and retaining customers supports both the valuations of our assets and our net rental income.

Further opportunity to enhance customer service through our CONNECT platform.

32 months

an increase in PRS customer retention rate

21%

reduction in customer complaints received

OUR PEOPLE

Comment

Positive employee engagement underpins the successful delivery of our strategy and our strong financial performance.

80%

response rate to our employee engagement survey

96%

of eligible employees are Shareholders

88.3%

retention rate

OUR IMPACT ON THE ENVIRONMENT

Comment

Aligned to our goal of protecting the long-term future of our business, we are committed to monitoring and managing our impact on the environment to ensure it is as positive as it can be.

1,172 tonnes of CO₂e

our carbon footprint (market-based methodology)

0%

change in market-based carbon emissions

77%

EPC ratings 'C' and above (for PRS properties)

Link to strategy



Link to strategy



Link to strategy



FINANCIAL REVIEW



“We have accelerated our growth strategy and repositioned our income profile through the GRIP acquisition and delivery of our investment pipeline.”

Vanessa Simms
Chief Financial Officer

FY19 has been another year of strong operating performance, benefitting from our leadership position in the Private Rented Sector (PRS). It has been a transformational year as we have accelerated our growth strategy and repositioned our income profile through the successful acquisition of GRIP. We are delivering our pipeline schemes at pace. Going forward our performance will have greater alignment to the PRS fundamentals which remain strong and are underpinned by the underlying supply and demand imbalance in UK housing.

Our earnings and balance sheet now have a greater reliance on our PRS portfolio which provides more resilient returns through recurring net rental income and the strength of our rental growth. During the year we delivered 45% increase in our recurring net rental income and delivered 3.6% like-for-like rental growth.

We are a growth business, but cost control and efficiency are fundamental to how we operate. We continue to drive efficiency across our entire cost base and FY19 delivered further improvements in all areas; our gross to net operating cost ratio improved across our stabilised portfolio, our overheads have remained flat, and our cost of debt has further reduced to 3.0%. Our investment in technology will enable us to take our market leading platform to the next level.

In line with our policy to distribute 50% of net rental income, the proposed dividend for the year is 5.19p per share.

Financial highlights

	FY18	FY19	Change
Income return			
Rental growth (like-for-like)	4.0%	3.6%	(38) bps
Net rental income (Note 6)	£43.8m	£63.5m	+45%
Adjusted earnings (Note 3)	£94.0m	£82.5m	(12)%
Profit before tax (Note 3)	£100.7m	£131.3m	+30%
Earnings per share (diluted) (Note 15)	18.9p	19.8p	+5%
Adjusted EPRA earnings (Note 4)	£26.1m	£28.8m	+10%
Dividend per share (Note 14)	4.75p	5.19p	+9%
Capital return			
EPRA NNNNAV per share (Note 4)	286p		
EPRA NNNNAV post rights issue per share	270p	272p	+1%
EPRA NTA per share (Note 4)	274p	278p	+1%
Net debt (Note 27)	£866m	£1,097m	+27%
Group LTV (Note 27)	37.1%	37.1%	0 bps
Cost of debt (average)	3.4%	3.2%	(21) bps
Cost of debt (year end) (Note 27)	3.2%	3.0%	(17) bps
Reversionary surplus	£277m	£302m	+9%
Total Property Return	6.0%	5.0%	(100) bps
Total Accounting Return (ROSE) (Note 4)*	6.1%	4.4%	(174) bps

* 2019 adjusted for mark to market movements that are unlikely to crystallise, as a proportion of opening NNNNAV. Including mark to market movements, ROSE would be 2.4%.

Income statement

FY19 saw the composition of our earnings move significantly with recurring net rental income now providing a greater contribution to earnings than residential sales profit. This transition to a more resilient earnings profile is a key component of our strategy, and this will grow further as our pipeline continues to deliver.

As our PRS portfolio grows, our focus on cost efficiency enables us to utilise the inherent operational leverage in our business. Our investment in technology will enhance this efficiency whilst we grow our portfolio of homes for rent.

FINANCIAL REVIEW CONTINUED

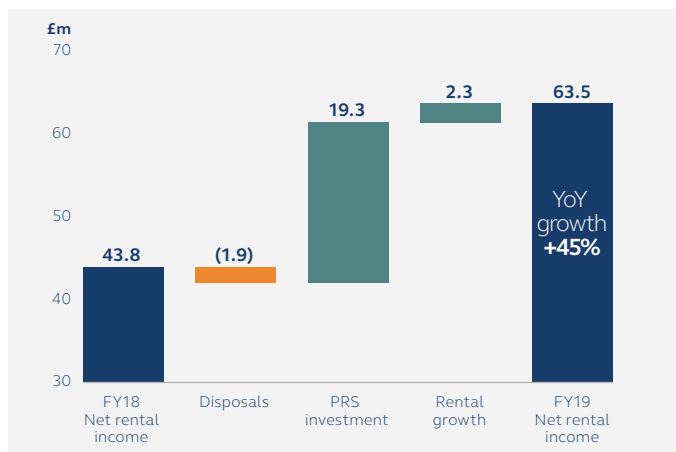
Adjusted earnings decreased by 12% to £82.5m (FY18: £94.0m) following the £7m one-off profit on the disposal of our share in the WIP joint venture in the prior year, combined with reduced development profits on conclusion of our final development for sale contract.

Income statement (£m)	FY18	FY19	Change
Net rental income	43.8	63.5	+45%
Profit on sale of assets – residential	70.1	60.4	(14)%
Profit on sale of assets – development	11.7	7.4	(37)%
Mortgage income (CHARM) (Note 20)	5.8	5.5	(5)%
Management fees	7.1	4.4	(38)%
Overheads	(27.9)	(28.0)	+0%
Pre-contract costs	(1.1)	(0.6)	(45)%
Joint ventures and associates	9.6	2.0	(79)%
Net finance costs	(25.1)	(32.1)	+28%
Adjusted earnings	94.0	82.5	(12)%
Valuation movements	34.2	66.4	
Derivative movements	(0.1)	(0.5)	
Other adjustments	(27.4)	(17.1)	
Profit before tax	100.7	131.3	+30%

Rental income

Net rental income increased by 45% to £63.5m (FY18: £43.8m) with £17.7m delivered from the GRIP acquisition and £1.6m from development completions. Our gross to net operating cost ratio continued to improve, with our stabilised portfolio at 25.2% (FY18: 26.0%) and our overall ratio was 26.1% including our new developments. This reflects the higher cost base during the stabilisation period for the completions in the period.

Our like-for-like rental growth remained strong at 3.6% (FY18: 4.0%) with 3.4% rental growth in our PRS portfolio (FY18: 3.0%) and 4.4% in our regulated tenancy portfolio (FY18: 5.4%). Again, our like-for-like rental growth significantly outperformed the market which was 1.9% over the same period (average based on ONS, Countrywide and HomeLet), demonstrating the quality of our offering. The annual passing rent of our portfolio now stands at £70m, split 70:30 between PRS and regulated tenancies.



Sales

Sales activity during the year has been resilient delivering £67.8m of profits (FY18: £81.8m). In line with expectations, we saw lower volumes of vacant properties available-for-sale following the strong close to FY18, and reduced development activity having now completed our final development for sale contract.

Residential sales

Vacant sales performance remained strong with sales prices achieving 0.4% ahead of previous valuations and our sales transaction velocity stable at 111 days. This reflects the unique resilience of the properties in our regulated tenancy portfolio, as we continue to execute sales at good levels despite an uncertain housing market.

Following the strong performance at the end of FY18, we started the year with a lower opening pipeline, which combined with a slightly lower vacancy rate averaging 5.9% throughout FY19. This resulted in overall lower volumes of vacant properties available-for-sale. Vacant property sales delivered £77.2m of revenue (FY18: £107.4m) and £38.8m of profit (FY18: £49.1m).

Sales of tenanted and other properties delivered £97.3m of revenue (FY18: £40.1m) and £21.6m of profit (FY18: £21.0m). These disposals provide capital for recycling into higher yielding PRS investments, helping to accelerate our strategic transition.

Development activity

Development activity generated £7.4m of profit, 37% below the prior year (FY18: £11.7m) as our development for sale activity completed this year. Our focus is now on developing investment assets for the long term. This means future development profits will be recognised on the balance sheet rather than sales profits going forward.

Sales (£m)	FY18		FY19	
	Revenue	Profit	Revenue	Profit
Residential sales on vacancy	107.4	49.1	77.2	38.8
Tenanted and other sales	40.1	21.0	97.3	21.6
Residential sales total	147.5	70.1	174.5	60.4
Development activity	62.0	11.7	18.6	7.4
Overall sales	209.5	81.8	193.1	67.8

Overheads

Our cost base remains a key focus for the business as we deliver our growth strategy with our leading operating platform. FY19 has seen overheads flat at £28.0m (FY18: £27.9m) in a year that has seen the size of our portfolio increase significantly, demonstrating the inherent operational leverage in our business model.

Finance costs

Finance costs increased with the acquisition of GRIP. The cost of debt decreased to 3.0% at the year end (FY18: 3.2%) as a result of refinancing the £275m GRIP facility. The new facility consists of two tranches; £75m for seven years and £200m for ten years, with a blended interest rate of 2.3%, compared to a previous rate of 3.2%. Our funding strategy remains focused on diversifying our lending sources and aligning our assets and liabilities. As our portfolio transitions to longer term investment assets, we continue to lock into lower rates for the longer term.

Joint ventures and management fees

Profit from our joint ventures and management fees in the period declined following the acquisition of GRIP at the end of the first quarter of this year, and the profitable exit of our WIP joint venture last year, which generated a one-off profit of £7m in FY18. The GRIP portfolio is now fully consolidated into our business, resulting in a reduction in income from joint ventures and lower management fee income.

Balance sheet

Our balance sheet has also seen significant transition in the year with a PRS portfolio that has increased to over £1.5bn (FY18: £591m). Following the rights issue to acquire the GRIP portfolio, we have continued to strengthen our capital structure through refinancing activity. Our LTV remains at 37.1% providing enough capacity to fund our secured pipeline and retain our LTV target range of between 40% to 45%.

Market value balance sheet (£m)	FY18	FY19
Residential – PRS	591	1,526
Residential – regulated tenancies	1,107	1,017
Residential – mortgages (CHARM)	82	76
Forward funded – PRS work in progress	198	160
Development work in progress	100	120
Investment in JVs/associates	146	33
Total investments	2,224	2,932
Net debt	(866)	(1,097)
Other assets/liabilities	99	(14)
EPRA NAV/EPRA NRV*	1,457	1,821
Deferred and contingent tax – trading assets	(109)	(102)
Exclude: intangible assets	(5)	(11)
EPRA NTA*	1,343	1,708
Add back: intangible assets	5	11
Deferred and contingent tax – investment assets	(22)	(19)
Fair value of fixed rate debt and derivatives	(2)	(34)
EPRA NNAV/EPRA NDV*	1,324	1,666

* EPRA Net Reinstatement Value (NRV), Net Tangible Assets (NTA) and Net Disposal Value (NDV) were introduced in October 2019. Definitions are included in Note 4 to the financial statements.

EPRA net asset values (pence per share)	FY18	FY19
EPRA NAV	314	
EPRA NAV – post rights issue	292	297
EPRA NNAV	286	
EPRA NNAV – post rights issue	270	272
EPRA NTA	274	278
Reversionary surplus (excluded from NAV – £m)	277	302
Reversionary surplus (pence per share)	60	49

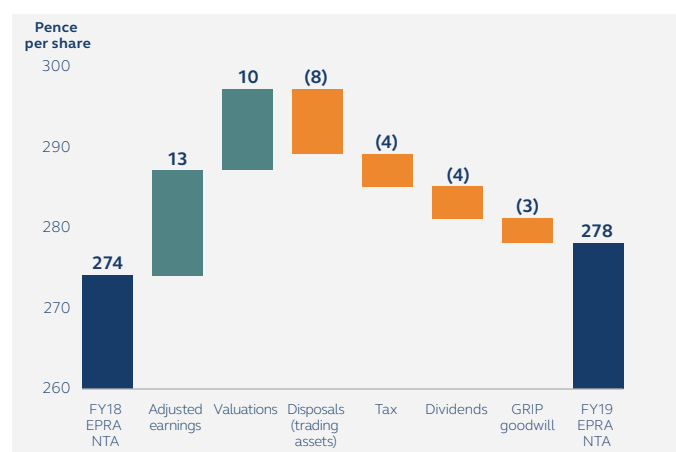
EPRA NAV increased by 2% during the year to 297p per share (FY18: 292p per share). EPRA NNAV increased by 1% during the year to 272p per share (FY18: 270p per share), although this was impacted by a 5p move in the mark to market valuation of debt instruments which is unlikely to crystallise.

Both FY18 EPRA NAV and EPRA NNAV have been restated to reflect the bonus adjustment factor of the rights issue with the potential dilution for those who didn't participate resulting in a post rights EPRA NAV of 292p per share and EPRA NNAV of 270p per share.

Excluded from both EPRA NAV measures is a reversionary surplus of £302m or 49p per share (FY18: £277m). This embedded value in our portfolio is the difference between the market value of our assets whilst they are tenanted and the value we could realise if they became vacant and were sold.

The European Public Real Estate Association ('EPRA') issued new guidelines on its definitions of NAV measures in October 2019. The revision includes the introduction of EPRA Net Tangible Assets ('NTA'), which is the most relevant NAV measure for our business and will therefore be our primary NAV measure going forward. EPRA NTA reflects the tax that will crystallise in relation to the trading portfolio, whilst excluding the volatility of mark to market movements on fixed rate debt and derivatives which are unlikely to be realised.

EPRA NTA movement



FINANCIAL REVIEW CONTINUED

Property portfolio

It was a relatively low year of capital growth for the wider market, however our portfolio continued to deliver growth with values up 1.9% (FY18: 1.6%). Our PRS portfolio delivered the strongest growth at 3.3% with the regulated portfolio broadly flat at -0.3%.

Our regulated portfolio continues to be valued on a discount to vacant possession value, with valuation movements linked to the wider housing market, whereas the majority of our PRS valuations are based upon a net rent and yield basis meaning rental growth is the key driver of valuation. As our PRS portfolio grows our valuation growth will have greater alignment to rental growth, further enhancing the strength of our balance sheet.

Financing and capital structure

We have continued to strengthen our debt structure throughout the year as we diversify our lending sources and align our assets and liabilities. Our cost of debt and maturity profile has improved further as we lock into lower rate debt for the longer term.

	FY18	FY19
Net debt	£866m	£1,097m
Loan to value	37.1%	37.1%
Cost of debt (average)	3.4%	3.2%
Cost of debt (year end)	3.2%	3.0%
Incremental cost of debt	1.8%	1.7%
Headroom	£388m	£430m
Weighted average facility maturity (years)	5.7	5.8
Hedging	91%	98%

During the first half of the year, additional equity of £335m was raised through a rights issue to fund the £397m acquisition of GRIP, which brought £174m of additional debt onto the balance sheet.

Net debt increased to £1,097m from £866m at the start of the year, as a result of the £239m net impact of the GRIP transaction. Our regulated tenancy sales continue to generate strong cash flows to support our reinvestment into our PRS pipeline. We generated £184m of operating cash flow and recycled £88m of assets. This has been offset by £235m of further investment into our pipeline and property portfolio, £4m refinancing costs and the dividend payment of £25m. LTV remained in line with the prior year at 37.1% (FY18: 37.1%).

The lower risk profile of the business following the GRIP transaction supported a corporate credit rating upgrade from S&P to BB+. During the year we also refinanced GRIP's debt facility with a new £275m facility from Rothesay Life. The new facility consists of two tranches; £75m for seven years and £200m for ten years, with a blended interest rate of 2.3% compared to a previous rate of 3.2%. Following the year end, we have also secured a new £50m five-year facility with Wells Fargo, which includes two, one-year extension options.

The financing strategy to diversify our sources of funding and secure a lower cost of debt whilst extending our maturity profile is already well advanced. As the business grows, retaining a flexible and robust financing position remains important to support our growth strategy.

GRIP integration

The acquisition of GRIP, a 1,700 home PRS portfolio, completed on 20 December 2018 and has now been fully integrated into the business. Upon acquisition we immediately aligned the operations with our own portfolio, voluntarily exited GRIP from the REIT regime and delisted it from The International Stock Exchange. This enabled an immediate reduction in the gross to net operating cost ratio from 32% to 25% in addition to c.£4m of annual overhead savings, and the benefits of the refinancing activity.

In addition to operating synergies and cost savings there have been revenue benefits. The portfolio has performed well with like-for-like rental growth of 3.0% and we continue to take advantage of asset management opportunities in the portfolio. During the nine months of ownership we have delivered £13.6m of added value through the asset management activity and valuation growth. In addition, the transaction has given us the freedom to invest in London and the South East on our own balance sheet, which is unlocking our pipeline (including our joint venture with TfL) and will continue to enable further value creation opportunities for many years to come. We have secured £103m of PRS schemes and have £175m in the Planning and Legal process in London and the South East since acquisition.

Summary and outlook

FY19 has been a transformational year for Grainger, having taken significant steps to accelerate our PRS strategy and reposition the income profile of our business. Our returns are increasingly driven by recurring rental income, which has the potential to more than double as our development pipeline completes, and we are now delivering at pace. We continue to grow our investment pipeline and take advantage of the structural growth opportunity within the PRS market, and this provides a clear path to a portfolio that is over 75% PRS.

Our leading operating platform will be further enhanced through our investment in technology over the coming year. Our CONNECT platform is bringing together best of breed technology to enhance our customer experience, improve our productivity and optimise our revenue. CONNECT is the next step to further improve our operational leverage as we grow our business.

The opportunity in the private rented sector is significant and the returns are compelling. The continued structural growth story with continuing undersupply of rental homes compared to demand, provides a strong positive outlook for sustainable rental growth for years to come. Our portfolio of attractive rental homes in high demand locations, our strong operational capability and fully integrated business model places us in an excellent position to continue building on our leadership in the UK residential rental market.

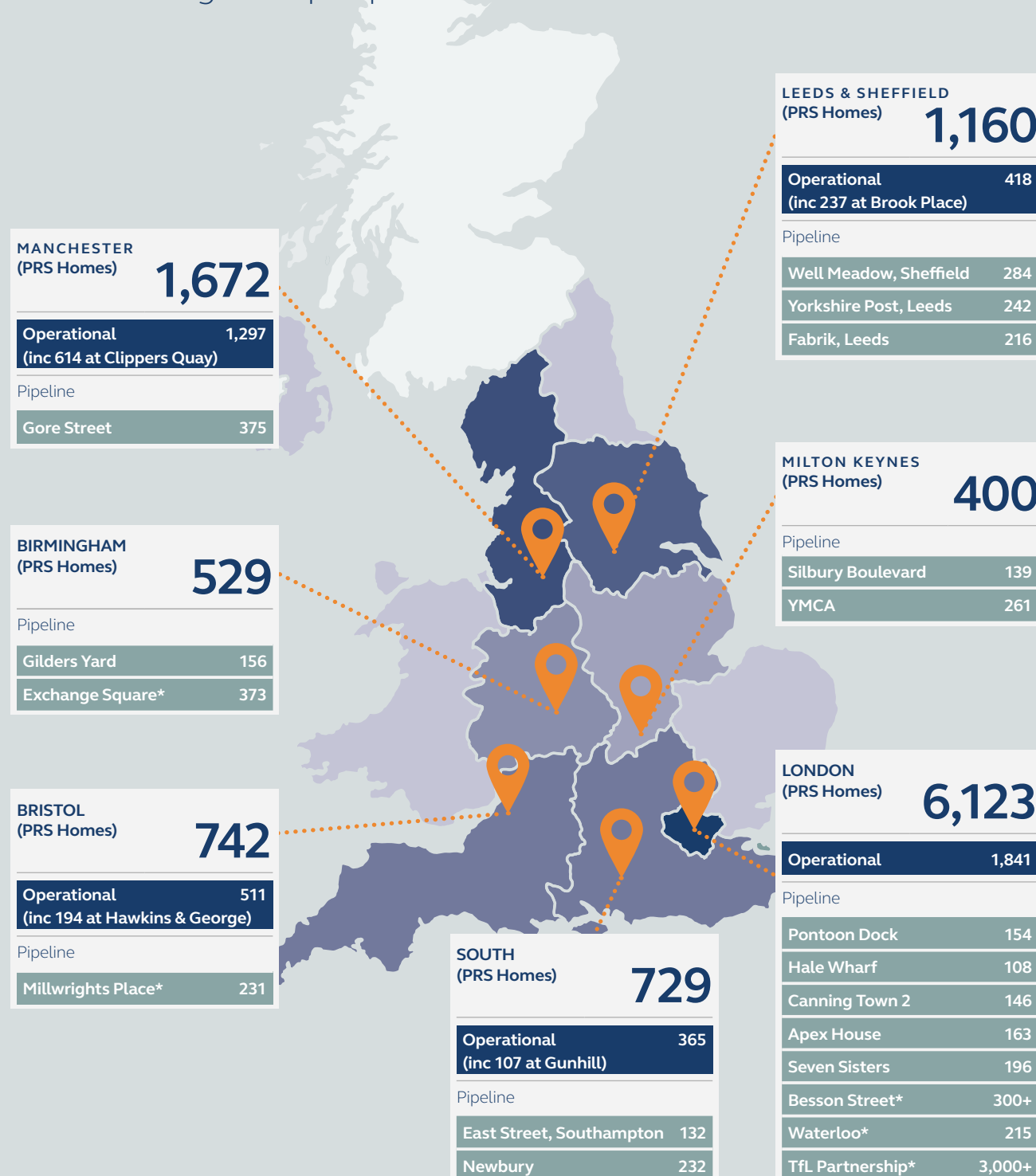
Vanessa Simms
Chief Financial Officer

26 November 2019

Strategic clusters across the UK

KEY LOCATIONS

We use in-depth research to target the cities with the greatest rental demand and growth prospects



* Announced project within the planning & legal pipeline.

We target
the best
locations
where our customers
want to live



ARGO APARTMENTS
CANNING TOWN

134 units



“Our targeted cluster strategy is proving successful and already delivering strong results.”

Andrew Saunderson,
Director of Investments

We recognise that investing in the right locations is critical to our success.

Our target cities strategy is informed by in-depth research including market demographics, macro and micro economics, customer trends, competitor activity, supply and lifestyle analysis.

Of the 62 cities we have analysed in-depth, we have identified 18 as core targets based on existing demand and growth prospects, and we’re successfully securing investment in these locations.

Our in-house city champions maintain a deep knowledge of the local market, building relationships and expertise on the area. Our acquisitions team analyse every opportunity in detail to determine whether it’s the right opportunity for Grainger to invest.

Through delivery of our pipeline, we are creating geographic clusters that provide operational efficiencies, product diversification, and higher rental growth opportunities. A great example of this is our East London Cluster, which upon completion will total 616 homes.

OUR EAST LONDON CLUSTER
616 homes



HALLSVILLE QUARTER
CANNING TOWN 2

146 units
COMPLETING 2022



MILLET PLACE
PONTOON DOCK

236 units
COMPLETING EARLY 2020



ABBEVILLE APARTMENTS
BARKING

100 units

We provide **high quality homes**

that help enrich the lives
of people who rent them





“The development is stunning and designed to such a high standard. We’re so happy with our new home. It’s certainly a different experience of renting.”

Alice, Hawkins & George resident since July 2019



“We are so pleased with how well Hawkins & George has been received. It’s already clear that a very positive, happy and supportive community has developed here.”

Salima Cherrad, Grainger’s resident services manager for Hawkins & George



Residential Development of the Year at the Insider’s 2019 South West Property Awards



Introducing Hawkins & George

Positioned directly on the waterside, forming part of the vibrant new community at Finzels Reach in the centre of Bristol, Hawkins & George is a new addition to our portfolio, and our first scheme in Bristol.

Delivered in partnership with developer Cubex, and launched in June 2019, Hawkins & George is the first development of its kind in the city. With lease-up of all 194 homes achieved in just 3½ months, it is a real success story.

Comprising two distinct buildings – Hawkins Lane and George’s Wharf – the development offers a mix of studio, one and two-bedroom apartments and a range of resident amenities including a stunning wrap-around roof terrace with 360-degree views of the Bristol skyline.

Grainger’s unique offering with professional onsite management, flexible and secure tenancies, communal areas and amenities, has raised the bar, and really set us apart from the competition in Bristol.

3.5 months

Time taken to fully let

7%

gross yield on cost achieved

4.4%

rents ahead of ERV



194 HIGH QUALITY APARTMENTS



ONSITE GYM



RESIDENTS LOUNGE



CO-WORKING SPACE



ROOF TERRACE & EXPERIENCE KITCHEN



WIFI INCLUDED



PET FRIENDLY DEVELOPMENT



We focus on
creating spaces
 our customers
can enjoy
 while making a positive
 impact in local communities



Our integrated business model ensures that our in-house expertise contributes to the design of spaces that we know will work. Our operational experience informs how spaces are used, what materials and amenities work well, and what residents like and dislike.

High quality, well designed homes with considered and innovative amenities ensure our spaces work well for our residents. By creating natural opportunities for interaction through design and hosting resident events, we bring life into the building and support the creation of a community, encouraging friendships that help residents settle and stay for the long term.

Health and wellbeing are a core element of the Grainger offering. Our onsite teams are on hand to ease stress and take the hassle out of renting, our amenities include gyms and workout areas as well as outdoor space. Where possible, we offer pet friendly tenancies.

We are invested for the long term, and we are committed to not only building communities within our buildings, but to benefit the wider communities in which we operate. Placemaking, public realm, and community investment are ways we ensure we add value.





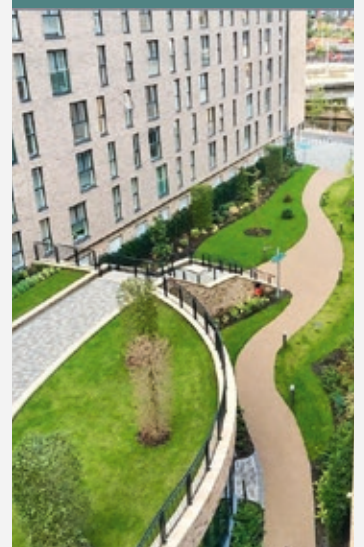
ALL THE INGREDIENTS FOR A GREAT SPACE:

- 1 HIGH QUALITY, INFORMED DESIGN
- 2 CONSIDERED AND INNOVATIVE AMENITY SPACE
- 3 MORE THAN JUST AN APARTMENT
- 4 A FRIENDLY FACE AND A HELPING HAND
- 5 SPACES THAT ENCOURAGE INTERACTION
- 6 ENHANCING HEALTH & WELLBEING

“

“The physical connection we have to people’s lives – the importance of the physical environment to people’s health and wellbeing – means the property sector has a particular responsibility but also a huge opportunity to demonstrate its credentials.”

Helen Gordon at inauguration of her Presidency of the British Property Federation, July 2019



Providing **great customer service**

is at the heart
of everything we do



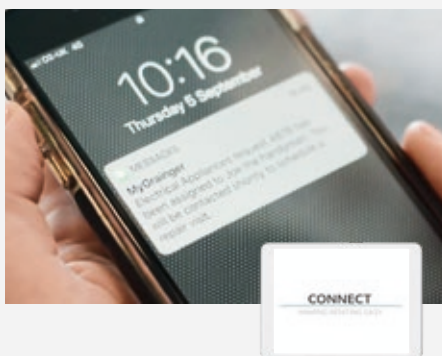
We are committed to providing great customer service. We know that happy customers stay longer, reducing void periods and re-letting costs and ultimately delivering stable and secure income and communities.

Our aim is to make renting easy. Our team members are committed to making our customers' experience a positive one from start to finish. They are there to lend a hand and ensure that our customers enjoy their homes to the fullest.

Our unrivalled integrated operating platform and business model combined with our expertise and highly skilled team, truly differentiates Grainger.

Our on-site team members are the eyes and ears of our business, and by investing in training, technology and in developing our operating platform to further enhance the customer experience, we've seen significant improvements in our customer feedback scores over the last year.

The feedback we receive from our customers on a daily basis is hugely valuable to us, and demonstrates that we really do make a positive difference.



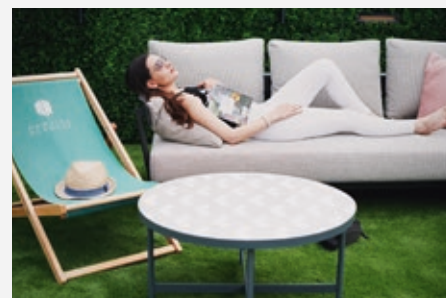
“I was a tenant with Grainger for 10 years, and my experience with them was exemplary. Repairs are handled promptly, and the property agents are helpful, attentive and friendly.”

Ben, Grainger resident



“Beautiful modern apartments just across from the tube/bus station. Helpful concierge staff, very communicative and responsive. Amazing roof terrace with great views of North Greenwich and the city.”

Anshu, Grainger resident



8/10

Customers “really like their Grainger home”
(Annual feedback survey)

21%

Reduction in customer complaints received

4.5

Average Google review ratings across all stabilised build-to-rent sites

82%

Of all online reviews in the last 12 months are 5*

RESOURCES AND RELATIONSHIPS

The resources we need



OUR PEOPLE

Recruiting and retaining the best talent

Our people are at the heart of everything we do. They enable us to deliver on our strategy to be the UK’s best PRS landlord and on our core purpose to deliver great homes and customer service. We therefore recruit, retain and train the best talent.

Our overriding people strategy is focused on this goal. This year we have continued to develop and train our internal talent by supporting them to obtain qualifications and by providing internal and external training and development programmes. We have strengthened our talent pipeline with the recruitment of new team members particularly in our Health and Safety team, our Development team, where new recruits are helping support our joint venture with TfL, and in Operations to support our growing portfolio.

We have a diverse workforce and continue to seek ways of extending this diversity. This year we joined Real Estate Balance – an association focused on addressing the gender imbalance in the property sector – and our HR Director is a member of the BPF Diversity Champions Network. To broaden the diversity of our workforce at entry level, we refreshed our graduate scheme and introduced a number of new apprenticeships.

Response rate to our employee engagement survey

80%

We rolled out our updated induction programme, introduced mental health champions throughout the organisation and held a Company conference at one of our latest completed schemes, providing staff an opportunity to contribute their views and help shape the future of the business.

Engaging with our employees

Our culture ensures everyone who works at Grainger feels part of one team focused on delivering great homes and great customer service. This year, workshops held with Grainger employees in all offices and departments explored what Grainger means to our colleagues and fed into the development of our company purpose statement.

One engagement activity was the refresh and relaunch of our intranet, ReSource. ReSource provides a range of opportunities for two-way engagement, and helps our increasing proportion of site based staff stay connected with our business.

We continued to participate in the Best Companies Employee Engagement survey, with 80% of our employees completing the survey. We undertake a pulse and an annual survey each year. The findings help us understand the challenges facing our employees, identify our strengths and prioritise areas for attention, and develop an action plan in response.

Sector leading approach to learning

A key ingredient to our success is our expertise and experience in our market, with over 100 years in the UK residential sector. Harnessing and protecting the knowledge within our organisation will secure our future success. Across the business we are investing in expanding our intellectual capital through training and development and support for professional qualifications. Our Grainger Academy online learning and development platform has been developed throughout the year. It provides a company-wide curriculum, with a range of training both general and role specific to disseminate best practice throughout our organisation. The Academy has been designed to support the development of our existing employees in their career aspirations, to help new joiners familiarise themselves with our business, and to enable all staff to benefit from Grainger’s unique breadth of experience through a sector leading programme of learning.

41%
of Grainger employees have five or more years’ service

88%
retention rate

91%
of employees participated in training

1,678
learning hours delivered

96%
of eligible employees are Company Shareholders



FOR MORE INFORMATION ABOUT OUR BUSINESS MODEL SEE PAGE 14

RELATIONSHIPS

Partnering to deliver positive outcomes for customers and communities

One of our key success factors is creating strong connections through our relationships. We achieve this through our investment in local communities to create and maintain great places, which in turn ensures that our properties are more attractive to customers and secures the long-term success of our business.

Our positive relationships in our supply chain enable us to deliver better customer service. We continue to look for ways to make further improvements within our supply chain. This year, we are piloting a new approach to delivering efficient and high-quality repairs and maintenance on a select portfolio.

Our strong relationships with other developers enable us to get repeat business for our forward funding acquisitions, supporting our growth by speeding up the transaction process and delivering better schemes.

Partnerships with public sector organisations enable us to help bring forward land in public ownership to deliver much needed homes, and to create long-term income for our public sector partners that can be reinvested into public services.

Our programme of public sector partnerships continues to grow. This year we were selected by TfL as their joint venture partner to deliver more than 3,000 new homes across an initial seven sites across London. This partnership will bring forward land for much needed housing in London, while also generating a long-term income stream for Grainger and TfL, which they can reinvest into London's transport network. This type of partnership provides additional avenues to growth, supporting our pipeline.

Across our national operational footprint, we are working with and investing in local communities to help support their long-term success. One example this year is where we continued to work with Gladesmore Community School near our Apex House development in Tottenham, North London.

We partnered with our architects on the scheme, John McAslan + Partners, to undertake an art project with the students and exhibit their work in the architects' studio. Another example is on a major refurbishment at our Winchester Park scheme in Central London, where we collaborated with our contractor partner, Engie, to renovate the gardens with participation from our residents.

We continue to host a range of events for our residents to ensure our communities within our buildings are thriving. For example, we hosted a Summer party and quiz night at Clippers Quay and held coffee mornings across a number of our buildings. We also organised a trip to the seaside for our residents at Argo Apartments this year. There are great examples across our portfolio of residents coming together organically to organise their own activities, such as a homework club at Abbeville Apartments and an exercise bootcamp on the roof terrace at Argo Apartments. Our forthcoming MyGrainger portal (see page 7) should provide further opportunities for our residents to connect with each other and get the most out of renting with Grainger.

Connected Living London is our joint venture partnership with TfL which will deliver over 3,000 quality, well designed and sustainable homes across seven seed sites in London.

Our partnership is built on three key areas of connectivity: Transport, Technology and Community.

Together we will:

- lead innovation and be an ambassador for PRS
- provide 40% affordable housing and design places that are inclusive for all
- meet the highest standards of sustainability
- deliver secure and stable returns over the long term.

An extensive programme of community engagement activity has commenced to ensure local residents feed into the design of our new places and spaces, and site development plans are progressing well.

7 initial sites

We are jointly developing seven initial sites across London from Southall to Woolwich:



Our shared vision:

To create quality rental homes for London in sustainable communities where people from all backgrounds are living, connecting and thriving.

RESOURCES AND RELATIONSHIPS CONTINUED

TECHNOLOGY

Technology will be a key differentiator for our business as we grow, providing us with greater operational leverage and scalability, and enhancing customer experience.

That is why we are investing in CONNECT, our market leading technology platform. CONNECT will deliver operational excellence which will underpin our future success by:

- enhancing the rental experience for our customers
- increasing operational efficiency and productivity, and
- protecting our licence to operate in the future.

This will, in turn, deliver enhanced returns for our Shareholders.



Our CONNECT platform will provide a premium digital experience for our customers and enable us to grow significantly while controlling costs.

CONNECT fully integrates our customer facing technology, such as leasing and a residents portal, with our internal operating system and utilising data to enhance business intelligence.

- 1. Customer experience** – Enhanced service through our digital platform will drive lease up, rental growth and customer retention.
- 2. Operational efficiency** – Enables automation of high-volume operating activities, enhancing productivity and contributing to the scalability of our platform.
- 3. Customer insight** – Greater asset and customer insight, through business intelligence analytics, enabling continuous improvement and enhancement of our product, operations and investments.
- 4. Revenue optimisation** – Dynamic pricing capabilities will support faster lettings, reducing voids and optimising rental income.

To better demonstrate the value of CONNECT, we have created two videos that bring to life how CONNECT will enhance the customer experience.

WATCH OUR CONNECT VIDEOS AT:
[HTTPS://VIMEO.COM/362324937](https://vimeo.com/362324937)
[HTTPS://VIMEO.COM/362323463](https://vimeo.com/362323463)

CONNECT delivered leasing outperformance at Hawkins & George which was fully let in:

3.5 months



“CONNECT enables our customers to undertake nearly every interaction regarding renting and living in their homes remotely, linking seamlessly with Grainger’s management systems.”

Vanessa Simms, CFO

“It was so easy to apply for an apartment at Clippers Quay. The whole process was really smooth and since everything could be done online I was able to complete everything in my own time. It made what is normally a stressful experience completely hassle-free.”

Abbi, Grainger resident, Clippers Quay

OUR COMMITMENT TO SUSTAINABILITY

Our commitment to sustainability helps us deliver on our purpose to create homes that help enrich the lives of our customers and communities, by providing high quality homes and great customer service.

This year we undertook a comprehensive review of the most material Environmental, Social and Governance issues for our business and our stakeholders.

This included researching our investors' and customers' priorities, assessing our performance in these areas and setting long-term commitments which will enable Grainger to focus our efforts and improve our performance in the areas that matter most.

Our four long-term commitments are to:



PEOPLE

1. Measure and deliver positive social value contribution to our customers and local communities.

2. Ensure Grainger's workforce is reflective of society and our customer base.



ASSETS

3. Deliver enhanced investment decisions through incorporating ESG considerations including risk, costs and returns.



ENVIRONMENT

4. Commit to achieving net zero carbon operation of our buildings (aspiring to 2030).



FTSE4Good

FTSE4Good

Listed in Index since 2010, scoring in 89th percentile



GRESB

Ranked second in European Listed Residential peer group



EPRA

EPRA Retained EPRA Sustainability Gold Award



ISS ESG

Achieved sector leading Prime rating



MSCI ESG

Maintained AA rating

OUR COMMITMENT TO SUSTAINABILITY CONTINUED

People: Treating people positively



COMMUNITY FETE, WELLESLEY

KEY ACHIEVEMENTS:

- 11 mental health champions trained in Mental Health First Aid
- Over 100 residents and community events held across our portfolio
- More than doubled time donated to community projects and charities
- Reduction in mean gender pay gap of 3.8 percentage points
- Joined Real Estate Balance as corporate members
- Increased employee engagement survey score for giving something back by 3%

Supporting our employees to support our customers

During 2019’s Mental Health Awareness Week, Grainger’s 11 mental health champions were trained in Mental Health First Aid. We created a mental health hub on our intranet to share useful resources with our employees. We also continue to highlight our support programmes including our mental health champions, Employee Assistance Programme and counselling provision.

Enhancing diversity and inclusion

We continue to explore opportunities to enhance the diversity of our workforce. This year, Grainger became corporate members of Real Estate Balance – an industry organisation which seeks to address the gender imbalance in the property sector, and we continued to support the British Property Federation’s Diversity & Inclusion Champions Network.

“When you take a flight you are instructed to put your own oxygen mask on first before helping others. The same applies to mental health in the workplace.”

Helen Gordon at the Lionheart John O’Halloran Symposium, June 2019

In collaboration with Women in Property South West, we hosted an event at Hawkins & George, with a property tour, networking and presentations from Grainger employees sharing their insight into different roles in PRS.

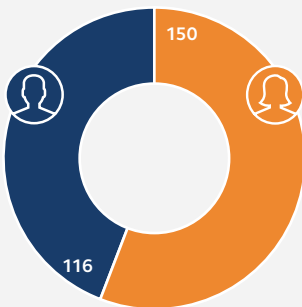
Our performance improved in all areas assessed through the Hampton-Alexander Review and this year for the first time Grainger responded to the Davies review on ethnicity. We also voluntarily published our gender pay gap for 2018, and are pleased to have seen an improvement year-on-year.

Giving something back to our communities

We continue to broaden access to the property sector in partnership with local schools where we are developing. On our Wellesley development site, we partnered with female leaders at organisations throughout our supply chain to host a Women in Construction day, giving young people from local colleges the chance to hear about different roles in construction – from apprentices to surveyors to ecologists. We also hosted our inaugural Community Fete, bringing our residents together with local people to celebrate Wellesley.

This year, we partnered with Age UK on our employee volunteering programme to give our teams valuable insight into the needs of our older and more vulnerable residents on our regulated tenancy portfolio.

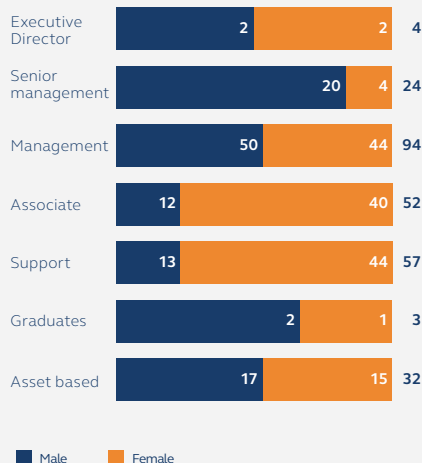
Gender breakdown 2019



56%
of our workforce is female

■ Male ■ Female

Gender breakdown 2019



■ Male ■ Female

Ethnicity breakdown 2019

Ethnic Group	Ethnic Group Description	%
A	White	87.50%
B	Mixed	0.39%
C	Asian or Asian British	6.25%
D	Black or Black British	3.13%
E	Other Ethnic Group	2.73%



Assets: Creating desirable and healthy homes



HAWKINS & GEORGE, BRISTOL

KEY ACHIEVEMENTS:

12 Live.Safe ambassadors representing each area of our business

17 unique sessions of health and safety training provided to 262 employees

Increased average Considerate Constructors Scheme audit score to 40/50

Average WalkScore of pipeline properties 87 out of 100 or 'Very Walkable'

Focus groups delivered in six target cities to inform building design

0 RIDDOR reportable incidents



“Placemaking is an important part of our role. We are proud to be delivering affordable homes and high quality services to all our customers, regardless of tenure.”

Manpreet Dillon, Director of Property Services and Compliance with responsibility for Grainger's affordable housing portfolio

Embedding health and safety into our culture

We formally launched our Live.Safe health and safety commitment in early 2019 with a range of engagement events and activities that reached all team members. These included nationally recognised IOSH Working Safely training for our Live.Safe Ambassadors, personal safety training and Hackitt Review briefings. Throughout the year, we held 17 unique sessions of health and safety training, with employees on average attending three sessions. We also bolstered our Health & Safety team with a dedicated Fire Safety team and new Health & Safety Manager.

Through departmental and individual objectives Live.Safe has been embedded into each area of Grainger's business model:

Originate Safe – Continually review our design brief to drive the highest standards in health and safety. We are committed to traceability of all building materials and are piloting an online application which enables our development and operations teams to track data for fire-stopping projects. Proactively learn lessons for improvement in our development processes when we launch new schemes.

Invest Safe – Undertake comprehensive due diligence for new acquisitions, with health and safety considerations embedded in the investment process model. We have a detailed specification for enhanced fire standards and take a proactive risk-based approach to understanding materials specification, ensuring that we take on board the findings of the Hackitt Review.

Operate Safe – Management plans are informed by our customers and how they use their homes. We ensure detailed risk assessments are carried out prior to occupation. Our approach to health and safety is transparent and visibly communicated to our residents and we hold training and lessons learned forums for site-based team members.

Throughout the year we undertook a comprehensive review of our health and safety policies through consultation with our employees, and made updates to our internal processes and risk assessments that go beyond compliance with new regulations.

Deloitte conducted a third-party audit of our approach and identified a transformation in embedding a health and safety culture throughout our business.

Customer feedback informing the design of our buildings

Throughout the year, we conducted focus groups in target cities where we are developing, to gather views from local renters and inform the design of our buildings. Findings included the importance of delivering a sense of community within our buildings.

Perspectives on potential services and amenities varied depending on the location and provided helpful input to designing communal spaces which work for our diverse range of residents. Environmental issues such as air quality and energy consumption were identified as emerging issues that our customers are interested in, and something we are responding to in our design specification.

Providing solutions to social needs

On our affordable housing portfolio, we work together with our development partners to deliver solutions that meet the wide-ranging needs of residents. One example is a purpose-built flat on our Wellesley site by Bellway Homes for a family with special access needs for their daughter who has a severe disability. Employees of Grainger, Strutt and Parker, Bellway Homes, Rushmoor Borough Council and the family's occupational therapist came together to create a design which would meet all the needs of the family and has delivered a transformation in their living experience.

Over the year we almost doubled the number of affordable homes in our portfolio, with 496 units now operational. This will be bolstered by the upcoming launches of Pontoon Dock, London (Millet Place) and Silbury Boulevard, Milton Keynes (Solstice Apartments) which combine affordable and PRS units with tenure blind design and equal access to amenities for all residents.

OUR COMMITMENT TO SUSTAINABILITY CONTINUED

Environment: Securing our future



APEX HOUSE, LONDON

KEY ACHIEVEMENTS:

- 77% of PRS properties have EPC ratings A to C
- Renewable energy purchased for 79% of properties
- Reduced like-for-like GHG emissions on our property portfolio by 7%
- 17% reduction in office GHG emissions per employee
- Over 20 property tours delivered to Government, media and our investors

Measuring climate-related risks

We completed a comprehensive review of asset level sustainability risks for our PRS portfolio – mapping factors such as walkability, air pollution and flood risk. These risks are considered in our asset hierarchy decisions, and will inform a longer-term project to measure our business’s exposure to climate-related risks and report in alignment with the Recommendations of the Taskforce on Climate-Related Financial Disclosures (‘TCFD’).

Delivering energy efficiency improvements

We continue to make improvements to the performance of our existing buildings through integrating energy efficiency into our on-going refurbishment programme. For example, our recent refurbishment at Bath Street in London included the installation of air source heat pumps to provide heating and hot water.

The materials we are using in new buildings that we are developing are carefully considered to minimise environmental impacts and enhance health and wellbeing for our residents. Examples include using recycled flooring across our portfolio and precast concrete panel facades on our developments, such as at Apex House, Tottenham where the use of these panels has minimised construction traffic, waste,

energy use and noise on site. In operation, the panels are energy efficient and low maintenance, and meet our high standards for health, safety and wellbeing.

This year, we developed an action plan to consolidate our energy procurement – to provide cost efficiencies, identify energy reduction opportunities and achieve 100% renewable energy for all Grainger’s purchased energy. We continued to challenge for industry-wide change, by participating in workshops with Government and our peers on Minimum Energy Efficiency Standards, smart meter innovation and the UK Green Building Council’s Advancing Net Zero framework development.

Improving perceptions of our industry

Our CEO was inaugurated as the President of the BPF for 2019/20, with her first initiative being to announce the findings from a perception audit of the industry and introduce the responding Redefining Real Estate Strategy. Grainger played a key role in delivering the audit and inputting to the development of a social value framework to measure the positive impact we are making as an industry. We look forward to participating in the forthcoming industry-wide social value assessment, and sharing our findings.

HOW GRAINGER IS RESPONDING TO CLIMATE-RELATED RISKS AND OPPORTUNITIES

Governance

Discussions on ESG including climate-related updates are held regularly across all operational and investment committees, including Grainger’s Executive Committee and Group Board meetings.

Strategy

Climate-related risks and opportunities are considered in Grainger’s development, acquisitions and management strategies.

Risk management

Climate-related risk is integrated into Grainger’s corporate risk framework – see page 40.

Metrics and targets

The metrics and targets we use to monitor our performance include the energy efficiency ratings of our properties, building energy intensity and GHG emissions intensity. For more information refer to our GHG statement on page 92 and our EPRA Sustainability Report.

RISK MANAGEMENT

Effective risk management contributing to delivering sustainable growth

Our risk management framework is designed to identify the principal risks to our business and ensure that they are being appropriately monitored, appropriate controls are in place and the 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.

Our overall risk management ethos is to give appropriate balance to being responsive, forward-looking, consistent and accountable. At Grainger, we seek to do this by applying and reinforcing our risk management culture across the business and by adopting a 'three lines of defence' model (see diagram on page 40) throughout the business. As our PRS strategy progresses, it is fundamental that our risk management systems and controls are aligned and evolve

accordingly. In this regard, 2019 was a year particularly focused on embedding those operational changes that have been a feature of the previous two years, and challenging ourselves that our controls and mitigants are effective, robust and form part of our day-to-day activities.

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, and those that require further treatment.

We use a risk-scoring matrix to ensure we take a consistent approach when assessing their 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 process has identified nine principal risks which we monitor accordingly (see pages 41 to 43). We also assess the emerging risks to Grainger, which this year has included consideration of the potential risks and impact of environmental and sustainability issues.

MAPPING OUR KEY RISKS

Current principal risk areas

- 1 Market and transactional (see page 41)
- 2 Financial (see page 41)
- 3 Regulatory (see page 42)
- 4 People (see page 42)
- 5 Supplier (see page 42)
- 6 Health and safety (see page 43)
- 7 Development (see page 43)
- 8 Cyber and information security (see page 43)
- 9 Customers (see page 43)



RISK MANAGEMENT CONTINUED

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 the detailed assessment of risk appetite for our principal risks undertaken in previous years and the Board continues to adopt a generally low tolerance for risk, particularly for regulatory and reputational matters. Regarding development risk, the Board retains the view a medium risk appetite is tolerable in order to continue to capitalise on the substantial opportunity within the PRS, particularly in relation to build-to-rent schemes.

To complement the risk framework, we apply 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 66.

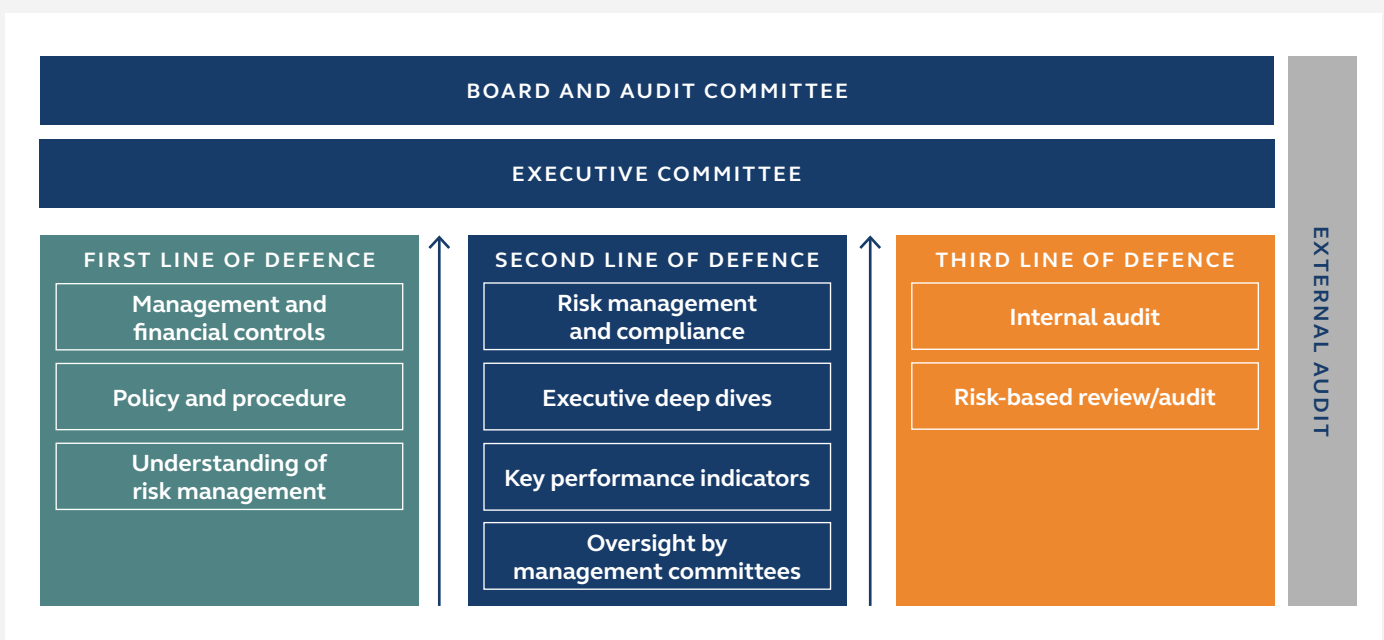
Assurance on risk controls is provided by internal management information, internal audits, external audits and Board oversight. We also carry out a process of assurance mapping our principal and operational risks, and this year looked in depth at progress with the implementation of the various treatments that, once embedded, strengthen our controls framework.

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.

Following our preparations in 2018 for the introduction of the GDPR, 2019 has been focused on embedding a culture of data protection compliance activity into our business-as-usual activities. GDPR compliance activity is monitored and overseen by the Data Protection Committee, consisting of senior staff members from across the key areas of the business. A major health and safety initiative has been carried out during the year, Live.Safe, to embed a culture that puts health and safety at the heart of everything that we do and, in turn, address the potential risks in that regard (see page 37 for further details on Live.Safe).

Looking forward, 2020 will see the full launch of our new technology platform, ‘CONNECT’. This technology will introduce a range of changes to our processes and procedures, including enhancing our risk and control environment by leveraging technology to automate processes and increase the number of preventative controls. Aligned with this process change, we will revise our suite of Risk and Control Matrices (‘RACM’) so that there is effective alignment between both the relevant process and RACM.

RISK CONTROL FRAMEWORK



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 44.




Brexit

There is much uncertainty regarding what impact the UK leaving the European Union ('Brexit') will have on trade, our economy and the future political landscape. At the time of writing the country is facing its third general election in four years, the result of which is highly unpredictable. The Board has closely considered the potential risks arising from Brexit. The Board continues to hold the view that the on-going 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. Nevertheless, as part of prudent business continuity planning, analysis has been carried out to assess those areas where Brexit would have an impact on our operations, and preparations made accordingly. This has included engaging with our supply chain to identify those materials and parts that are sourced from the EU, and assessing alternative non-EU suppliers and/or holding sufficient reserves of stock. Brexit remains 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.

Impact on our business model

-  Originate
-  Invest
-  Operate

Impact on our strategy

-  Grow rents
-  Simplify and focus
-  Build on our experience

1 MARKET AND TRANSACTIONAL



Risk description

Weak macro-economic conditions leading to long-term flat or negative valuation movements and/or the inability to transact and acquire PRS assets on acceptable terms. This could arise due to poor market conditions associated with the cyclical nature of the real estate sector or potentially negative consequences arising from Brexit.

Risk opportunity

Capitalise on the substantial opportunity in the PRS.

Impact on strategy

Economic uncertainty leading to a reduction in home ownership and less demand for disposal of assets; pressure on rental levels; falling asset values; subsequent investment constraints on further investment into the PRS; covenant compliance risk; unable to provide Shareholders with sustainable returns in the long term.



Key mitigants

- We are actively transitioning the business to reduce reliance on trading income and house price inflation.
- We have a high proportion of liquid and diverse assets to enable sales where necessary, as was shown clearly in the last economic downturn.
- We have a geographically diverse portfolio and exercise active asset management to enhance returns and have target towns and cities for future investment.
- Focus on the PRS potentially leverages greater customer flexibility and lower overall financial commitment compared with home ownership. Renting could be attractive for customers during uncertain economic periods.

2 FINANCIAL



Risk description

The inability to obtain sufficient finance arising from external factors/events (including, but not limited to, Brexit) which impacts the ability to fund the delivery of the strategy and maintain a strong capital structure.

Risk opportunity

Utilise financial strength to deliver our strategy and operate our business.

Impact on strategy

Lack of availability from credit markets and cash resources; breach of loan and bond covenants; adverse movement in interest rates could have an unacceptable impact on the cost of new debt; inability to fund acquisitions at the relevant time.



Key mitigants

- We monitor our banking covenants closely to maintain sufficient capacity.
- We carry out detailed financial viability sensitivity testing and develop clear mitigation contingency plans.
- We conduct our business within Board-approved capital operating guidelines.
- We have a diversity of finance sources.
- Due to our close monitoring of the transactional pipeline, we can control the timing and number of new acquisitions to reduce cash outflows if needed.
- Our strategic focus is to increase income credentials to provide greater interest cover.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Impact on our business model

- Originate
- Invest
- Operate

Impact on our strategy

- Grow rents
- Simplify and focus
- Build on our experience

3 REGULATORY



Risk description

Failure to meet current or increased regulatory obligations or anticipate and respond to changes in regulation that increase cost. These include the introduction of rent controls or similar limitations, lack of political support for PRS as a contributor to the shortage of homes in the UK, the operating framework facing UK businesses following the decision to leave the EU and the relatively new privacy and data protection regime imposed by the GDPR.

Risk opportunity

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

Impact on strategy

Fines, penalties and sanctions; damage to reputation; loss of operational efficiency and competitiveness; increased costs; reduction in market opportunities; impact on ability to finance opportunities; 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 exercises.



Key mitigants

- We have an on-going programme of management and staff training, including GDPR.
- We have invested in employing specialist legal, compliance and corporate affairs teams which monitor and advise internally, review the regulatory horizon and have close involvement with leading industry bodies.
- We have strict asset management controls and compliance processes which can adapt as required.
- Our position as the UK's leading PRS provider brings a cultural ethos of seeking to adopt best practice.

4 PEOPLE



Risk description

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; take necessary action to increase the number of females and ethnic minorities at senior levels within the organisation; lack of consideration to Gender Pay Gap information.

Risk opportunity

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

Impact on strategy

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.



Key mitigants

- We have introduced a talent identification process and have succession plans and retention strategies for key staff.
- We have a programme of learning and development for staff, which includes management and leadership training and the introduction of the 'Grainger Academy' for delivering focused 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



Risk description

A significant failure within, or by, a key third-party supplier or contractor; the failure to deliver the full benefits of our technological change ambitions to our key repairs and maintenance suppliers.

Risk opportunity

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

Impact on strategy

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.



Key mitigants

- Our internal controls and management systems regarding contractors/suppliers, which include counterparty reviews and covenant strength assessments, are well-developed.
- Experienced senior managers oversee relationships.
- We have sufficient diversity of key suppliers and relationships with potential suppliers to minimise over-reliance on any one organisation.
- We have controls over our technology suppliers via our CONNECT technology project.

6 HEALTH AND SAFETY



Risk description

A significant health and safety incident owing to inadequate or inappropriately implemented procedures.

Risk opportunity

Maintain a high level of compliance which enhances our reputation as a leader in the sector.

Impact on strategy

Harm to customers, tenants, employees, contractors or visitors; possible legal action or fine; subsequent reputational damage.



Key mitigants

- We have specific management systems and compliance assessments to mitigate health and safety risk, including technological solutions and a programme of audit and assurance.
- We employ a specialist Health & Safety team who are responsible for overseeing compliance.
- Our risk management framework applies close oversight and reporting of health and safety matters.
- We have planned and reactive maintenance measures in place.
- We have closely engaged with the evolving practice following the Grenfell Tower tragedy and the Dame Judith Hackitt report.
- We operate our flagship Live.Safe programme.

7 DEVELOPMENT



Risk description

We allocate a portion of our capital to development activities which may be complex and potentially bring multiple related risks.

Risk opportunity

Take advantage of the demand for homes specifically designed and built for renting.

Impact on strategy

Exposure to risk of cost overrun or income shortfall, affecting achievement of the strategy and returns in developing PRS schemes. Brexit could conceivably increase labour costs as well as the ability to source materials cost effectively.



Key mitigants

- We monitor the capital we deploy to development matters carefully, following capital allocation guidelines.
- We employ an experienced team with specialist development skills and have established relationships with expert advisers and development partners.
- We have an established governance structure to review and monitor our development schemes.
- As part of our strategy, the portfolio of development schemes focuses on PRS assets and does not seek speculative returns from investing in development that is solely for sale.

8 CYBER AND INFORMATION SECURITY



Risk description

The breach of confidential data or technology disruption due to an internal or external attack on our information systems and data or by internal security control failure.

Risk opportunity

Ensure that we are a trustworthy and secure landlord for our customers' data.

Impact on strategy

Financial loss; fines; reputational damage; operational and business disruption; loss of customers; loss of employees; share price devaluation; inability to serve our customers, manage our properties and conduct our business; competitive disadvantage; inability to meet contractual obligations.



Key mitigants

- We employ an experienced IT team and work with trusted suppliers, to deploy cyber protection tools.
- Technology is a key part of our strategy. We are investing in new technology platforms and related processes that have 'data security by design' and compliance with GDPR.
- We engage external advisers to carry out regular penetration testing to ensure our systems are robust.
- Staff training and awareness of our IT policies and commitment to data protection.
- Incident management and business continuity plans.

9 CUSTOMERS



Risk description

The loss of our position as the UK's leading PRS landlord owing to the failure to fulfil our customer proposition and reach our service standards to all our existing and future customers; being unsuccessful in delivering the CONNECT programme.

Risk opportunity

Establish a leading reputation in the sector for customer service and leveraging technology.

Impact on strategy

Negative publicity; increased complaints; poor customer experience; reputational damage; loss of customers; lower rental increases.



Key mitigants

- We have a leading operational platform with substantial experience in managing a portfolio of over £3bn of assets and of meeting the requirements of our residential customers.
- We have close control and oversight of the delivery of the CONNECT programme, and the step-change that will bring in consistently excellent service to our customers.
- We carry out proactive asset management and have restructured to increase staff time in the field to gain greater asset and customer knowledge.
- We carry out customer service focused reviews measuring customer preferences and satisfaction levels.
- Our employees receive customer service training and their performance is measured against key metrics.

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 than the 12 months that have 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 strategic plan is reviewed and approved by the Board each year, with year one forming the budget for the next financial year. This plan provides a basis for setting 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 the 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 Company (see pages 39 to 43). The planning process incorporates severe scenario planning, with the amalgamation of multiple risks which may result from political and economic uncertainty, including sensitivities to rental levels, asset valuations, financing and costs, to assess impact and longer-term viability of the Company.

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 £2.5bn of residential property assets of a granular nature with a number of alternative income generating uses 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 long-term decline in residential property valuations, reduction in rental income and 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 2023 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 key financing risks for the Group are the Group's ability to replace expiring debt facilities and adverse movements in interest rates. The Group has been successful in securing longer-term funding to deliver the secured PRS pipeline and has prepared the strategic plan on this basis. In addition, the Group continues to manage its hedge exposure with interest rate swaps, caps and fixed rate facilities matching almost 100% of its debt liability and maturity.

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 2023.

Our 2019 Strategic Report, from pages 1 to 44, has been reviewed and approved by the Board of Directors on 26 November 2019.

Vanessa Simms
Chief Financial Officer



Private dining – Clippers Quay, Manchester

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

Strong governance will help **enable the implementation** of our strategy

“Grainger continues to lead the way, increasing the scale of its PRS business and delivering operational excellence through its people and technology investment.”

Mark Clare
Chairman



HIGHLIGHTS

- Full compliance with the Code during the year and consideration of the requirements of the New Code.
- Board review of strategy which focused on increasing the scale of our market private rented business and achieving operational excellence and enhanced returns.
- Oversight and approval of the GRIP acquisition and the related rights issue.
- As part of the Board's continued corporate culture programme, it reviewed the Company's values and purpose.
- Close monitoring of the implementation of the Live.Safe initiative.
- Internal review of Board effectiveness.

Grainger's Board has a female representation of:

42%

Dear Shareholders,

This is my third year as Grainger's Chairman, and I remain enthusiastic about being part of this exciting business which continues to lead in the private rented sector ('PRS') and develop and strengthen its operational platform. The Directors and I are committed to applying effective corporate governance and promoting the highest standards of behaviour and values throughout the Company. I am therefore pleased to introduce this year's corporate governance report, which I hope provides you with a clear and meaningful explanation of how the Board and the committees discharge their governance duties and apply the principles of good governance enshrined in the Code.

Grainger continues to lead the way in the PRS. The Board conducted a review of the Company's strategy in June this year, giving particular attention to increasing the scale of our market rented business and how we combine this with achieving operational excellence through the adoption of our new technology platform, CONNECT. We also considered how our new partnership with Transport for London ('TfL') aligns with our growth strategy and what the business needs to do to maximise the opportunities that can be delivered by high-quality partnerships.

At the end of 2018 I spent a day with each of the key members of our Operations team, to understand how they were progressing the delivery of our service proposition. I also got an insight into how delivery of the CONNECT platform will enable us to scale the business whilst delivering enhanced customer service.

During the remainder of the financial year the Board closely monitored the progress of these key initiatives and continues to provide oversight and offer advice to the business through these important stages of its development, whilst maintaining the appropriate balance between supporting and challenging the team.

Good governance also means ensuring we have rigorous risk management and controls in place. The application of the skills and experience of the Directors, coupled with the wide-ranging work of the Audit Committee, provides strong governance for the benefit of all our stakeholders. To learn more about our Board activity in 2019, please see page 52.

CHAIRMAN'S INTRODUCTION TO GOVERNANCE CONTINUED



Culture

The Board believes that the culture of a business, in conjunction with its values, is vitally important to its successful long-term performance. How the Board members, particularly the Executive team, conduct themselves sets the culture within a company – the acceptable way of doing things has to be set from the top.

The Board assesses and monitors the culture of the business to ensure that policy, practices and behaviour throughout are aligned with the Company's purpose, values and strategy.

The culture of the organisation is a regular feature of the Board's work. At the June 2019 Board meeting we considered how Grainger's purpose 'To enrich lives through providing high-quality rental homes and great customer service' tied in with the ESG priorities set and how our talented people can deliver on the commitments made.

This discussion was further expanded in September 2019 resulting in the Board undertaking to lead on commitments to treat people positively, create desirable, healthy homes and to secure our future by reducing our environmental impact.

We provide further details on our culture and employee engagement on page 32. During the year, the Board and I have also spent time with our people from across the business and took these opportunities to gauge their views on the business, the strategy and its implementation.

I believe that the culture of the Company is strong. Our people have a clear understanding of the strategic direction of the business and are engaged and passionate about delivering on this. The increasing expectations of our customers and the pace at which we are growing the business are sharpening our focus on the quality of the experience we know we must deliver and I believe that this has been embraced by both 'front-line' and office-based employees. There is a culture of sharing of best practice and mutual encouragement across the business and the forthcoming technological changes should facilitate and encourage such positive behaviours. The Board will continue to encourage such behaviour and monitor employee and customer surveys for tangible evidence of progress in these areas.

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 2019.

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 2019 the Board has also been reviewing and considering how the principles and requirements of the new UK Corporate Governance Code will apply to Grainger in its next financial year ('the 2018 Code'). The Board and its committees have been updating their terms of reference and taking action to ensure compliance with the new requirements of the 2018 Code and look forward to reporting progress in the coming years.

Board composition and independence

In accordance with the Code, all current Directors will stand for election, or re-election, at the 2020 Annual General Meeting ('AGM'). Janette Bell joined the Board this year and brings a wealth of operational experience in customer centric organisations.

Details of the Directors are set out on pages 50 and 51, 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 a key driver of success. Grainger supports the aspiration of the Hampton-Alexander Review to promote greater female representation on listed company boards and achieve 33% female representation. I am pleased to report that, as at the date of this report, Grainger's Board has 42% female representation.

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 36 for further details of diversity in our business.

Board evaluation

This year, as last year, the evaluation of Board effectiveness was carried out internally. The 2020 evaluation will be externally facilitated as it will have been three years since the previous external review. We provide further details on page 54.

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 2018 Code puts on the wider stakeholder group, particularly the Board's duty under Section 172 of the Companies Act 2006. 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 2019, the rights issue in connection with the acquisition of GRIP entailed a substantial degree of engagement with our investors as is appropriate for a material transaction of that nature. In addition, we have consulted extensively with investors regarding the proposals for our revised Remuneration Policy. This process has been led by our Remuneration Committee Chairman, Justin Read, and more detail is available on pages 68 to 90.

For further details of our Shareholder engagement programme please refer to pages 59 to 60.

Finally, I would like to encourage Shareholders to attend our AGM on 5 February 2020.

Mark Clare
Chairman

26 November 2019

LEADERSHIP

Governance framework

BOARD

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 and senior managers 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. It is supported by sub-committees, each focusing on an area of the business.



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.

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.






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.

ROLES AND RESPONSIBILITIES OF 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	<p>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:</p> <ul style="list-style-type: none"> 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. <p>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.</p>
 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.

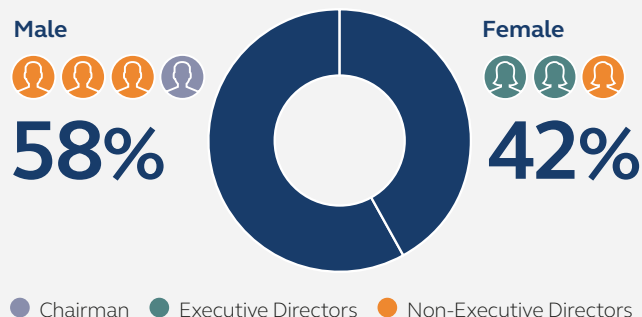
Board meetings 2018/19



Attendance table to 30 September 2019

	Meetings attended	Meetings eligible to attend
Executive Directors		
Helen Gordon	7	7
Vanessa Simms	7	7
Non-Executive Directors		
Mark Clare	7	7
Tony Wray	3	3
Andrew Carr-Locke	7	7
Rob Wilkinson	7	7
Justin Read	7	7
Janette Bell	3	3

Balance of Directors (as at 30 September 2019)



BOARD OF DIRECTORS

The skills and expertise to deliver our strategy



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: 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. She is also the President of the British Property Federation, a director of EPRA and an advisory board member of Cambridge University's Land Economy Department. 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.

Tenure: 3 years and 10 months



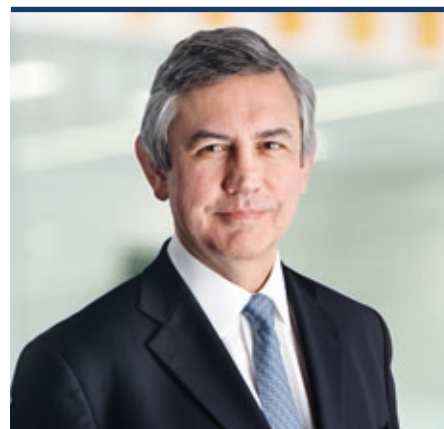
VANESSA SIMMS
Chief Financial Officer



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 is a non-executive director of Drax Group plc and chair of its audit committee. Vanessa is a Fellow Member of the Certified Institute of Accountants. She has worked in finance since 1998 and immediately prior to joining Grainger held a number of senior positions within Unite Group plc, including deputy chief financial officer. Prior to that Vanessa was UK finance director at SEGRO plc.

Tenure: 3 years and 7 months



ANDREW CARR-LOCKE
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 wide-ranging experience as a non-executive director of public companies. Andrew is a Fellow of the Chartered Institute of Management Accountants and was group finance director at George Wimpey plc between 2001 and 2007. He has previously held senior finance roles at Courtaulds Textiles plc, Diageo plc, Bowater-Scott and Kodak. More recently, Andrew was executive chairman of Countryside Properties, where he led the refocus of the company's strategy. Andrew stood down as a director of Countryside Properties in 2014. He has previously held non-executive directorships at Dairy Crest plc, Royal Mail Holdings, Venture Production and AWG.

Tenure: 4 years and 6 months

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



JUSTIN READ
Non-Executive Director

A N R

Appointment: Appointed to the Board in February 2017

Skills, competence and experience: Justin has substantial experience in real estate and corporate finance. Justin is a non-executive director of Ibstock plc and an independent member of the Investment Committee of the Logistics pan-European real estate fund. 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.

Tenure: 2 years and 7 months



JANETTE BELL
Non-Executive Director

A N R

Appointment: Appointed to the Board in February 2019

Skills, competence and experience: Janette was appointed as Chief Executive Officer of P&O Ferries in January 2018. She joined the business in 2012 as Commercial Director and became Managing Director five years later.

Janette is an experienced Board Director, with a breadth of operational experience in customer centric organisations.

She was Sales & Marketing Director for Hammerson plc, the British property development and investment company. Janette has also worked in senior customer strategy and marketing positions at PwC, Tesco and Centrica, where she was Sales and Marketing Director of British Gas Services.

Tenure: 9 months



ROB WILKINSON
Non-Executive Director

A N R

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 Goldman Group and also held investment banking positions at UBS and Eurohypo. He is also chairman of the Green Rating Alliance.

Tenure: 3 years and 11 months

EFFECTIVENESS

The standard Board schedule sets six formal meetings throughout the year, one of which was specifically focused on a review of the Company's longer-term strategy. There was also an additional meeting to approve the acquisition of the GRIP portfolio and the related rights issue.

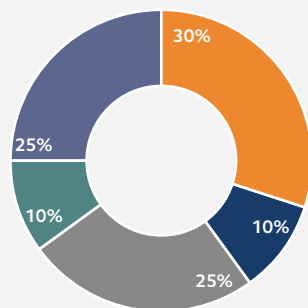
The Board has a list of matters reserved to it, and a rolling annual plan of items for discussion, agreed between the Chairman and the CEO. They review the list of reserved matters and annual plan regularly, to ensure they are properly covered, together with other key issues as required. At each Board 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 spent time visiting our development schemes in Bristol, Aldershot and Berewood during the year. The Board also received a number of presentations from the Grainger team during the visits.

The adjacent table shows examples of the subjects and matters the Board debated and considered throughout the year.

BOARD ACTIVITY

How the Board spent its time



Strategic 30%

- Carried out an in-depth review of Grainger's strategy, considering options for accelerated growth and achieving scale, the current PRS market, development business and operational and financial strategy.
- Received a report from Goldman Sachs on corporate defence, business valuations and ESG trends.
- Received market update reports and presentations from JPMC regarding performance in relation to the market and peer group companies.
- Considered competitor activity in the PRS sector.
- Monitored the economic, legislative and geo-political landscape, received and considered Brexit impact papers.

People and culture 10%

- 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.
- Reviewed and considered the Live.Safe plan to put the health, safety and wellbeing of staff and customers at the centre of the business.
- Received a presentation from the HR Director on our 'People' strategy for the business, including the introduction of the Grainger Academy training programme.
- Considered the ESG strategy for the business.

Financial 25%

- Reviewed the Group's debt and capital structure, including the launch of the rights issue carried out in December 2018.
- 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.

Governance 10%

- Received briefings on regulatory and governance issues, including a progress tracker in relation to the requirements of the 2018 Code issued by the FRC, and the developments in rules relating to external auditors.
- Considered Shareholder relations, in particular the feedback from investors and analysts in connection with the 2018 full year results and the 2019 interim results.
- Received reports from the Nominations, Audit and Remuneration Committees.

Transactions and operations 25%

- Considered, approved and oversaw the acquisition of the 75.1% of the GRIP portfolio held by APG and the rights issue associated with this transaction.
- Reviewed the proposals for our partnership with TfL.
- Considered health and safety matters and the introduction of our Live.Safe approach.
- Considered material transactions and business opportunities including, among others, our PRS schemes in Sheffield, Cardiff and London.
- Received reports on the progression of our existing development projects in the UK.
- Considered management of our suppliers, alternative supplier arrangements and our approach to procurement.
- Received reports on our customer service performance and other operational KPIs. Received a presentation from specialist consultants in relation to our customer service survey.
- Monitored the progress of our technology change project, CONNECT.

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 review, CFO's review, 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 & 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.

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 people, customers, suppliers 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 56 and 57 of this report.

Induction and professional development

Janette Bell was appointed as a Non-Executive Director during the year. In accordance with the Code, the Chairman, supported by the Company Secretary, ensured that she received a comprehensive and tailored induction, including a briefing on the obligations of directors of listed companies and meetings with a number of key members of the business.

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.



Board visit – Hawkins & George, Bristol

EFFECTIVENESS CONTINUED

Performance evaluation

The annual evaluation of the Board and its Committees for 2019 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:

- Overall the feedback was positive, with comments that the Board meetings are generally well managed with a clear structure and framework ensuring the right matters are addressed through the year. Discussions were described as open and honest displaying Board effectiveness in interactions between the Executive and Non-Executive.
- Positive feedback was received in relation to the recruitment process and on-boarding of the new Non-Executive Director, Janette Bell. It was also noted that the visibility of senior Grainger staff had improved.
- It was suggested that allowing more time for the discussion of matters at Board meetings should be considered and the use of Board dinners to discuss specific topics should be extended.
- The Directors felt that a key focus going forward should be the progress of the CONNECT project and development of operational capacity.

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, the next Board evaluation in 2020 will be carried out externally.

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 will stand for election or re-election at the 2020 AGM.

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

RELATIONS WITH STAKEHOLDERS



RELATIONS WITH STAKEHOLDERS CONTINUED

Understanding and **responding** to the needs of our stakeholders



CUSTOMERS



SHAREHOLDERS



LOCAL COMMUNITIES

STAKEHOLDER EXPECTATIONS

For Grainger to provide safe and high-quality homes, and a good service, responding to their needs promptly.

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

For Grainger to act responsibly and make a positive impact to the local area while listening to and taking on board local views, preferences and concerns.

HOW WE ENGAGE

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

We run a comprehensive investor relations programme. Activities include investor roadshows, conferences, trading updates and property tours. Key engagement events are reported on page 60.

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 35.

Extensive local engagement and consultation concerning assets and developments via events, residents' meetings, direct communications and newsletters.

We support local businesses and charities, sponsor local sports and cultural activities and engage with local authorities.

We encourage communities to develop within and around our buildings, through organising residents' events ranging from coffee mornings to pub quizzes.

OUTCOMES AND EXAMPLES

- High levels of occupancy (97.2%).
- Increased customer retention levels (32 months).
- Reduction of 21% in customer complaints received.
- Increased customer NPS score for PRS customers.
- Commenced roll out of our CONNECT technology platform to enhance customer experience and enable fully digital self-service. Outputs include digital leasing platform and MyGrainger online customer portal.
- During the year in review, we had 259 interactions with investors.
- Over 80 pieces of analyst coverage.
- Diversified Shareholder base.
- Increased geographic spread among Shareholders.
- More than doubled employee volunteering activities.
- Continued to partner with local schools on education programmes.
- Hosted Women in Construction Day on our Wellesley development.
- Commenced programme of engagement events for all sites in our Connected Living London joint venture with TfL.
- Over 100 residents and community events held throughout the year.



EMPLOYEES

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

Regular two-way engagement includes biannual employee engagement surveys, monthly cascade meetings from senior management, biannual all-staff update calls with the CEO, our newsletter and our updated intranet platform, ReSource.

Feedback is gathered following specific activities such as training and through a biannual performance review process.

We organise a range of employee events, including charity activities, volunteering, and a Christmas family day.

- High response rate of 80% to Best Companies employee engagement survey.
- More than doubled volunteering, with 15% of employees participating.
- Launched our Live.Safe commitment internally with a week of engagement activities including appointing and training Live.Safe Ambassadors from teams across our business.
- Introduced Mental Health Champions.
- Employee workshops to input into review of Grainger's purpose and values.
- Revised and re-launched our intranet site, ReSource.



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.

Regular supply chain reviews and customer satisfaction surveys to ensure regulatory compliance and service levels, including matters related to GDPR, health and safety, and modern slavery.

Strategic partnership board with our largest repairs and maintenance partner, which meets quarterly.

Set standards for suppliers on framework agreements, requiring registration with Constructionline.

- 90% of customers surveyed were satisfied with repairs and maintenance service.
- Continued health and safety audits of our managing agents and contractors, with all meeting or exceeding our requirements.
- Largest repairs and maintenance partner completed full year without lost time injury in the delivery of services to Grainger.



GOVERNMENT

For Grainger to act responsibly as an employer and as a housing provider. To support Government in delivering its objectives such as increasing provision of high-quality homes and meeting its net zero carbon ambitions.

Regular contributions to government consultations, including the New London Plan, and regular feedback on government policies. Numerous meetings with government and shadow government ministers, and officials.

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

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

- Positive engagement with Government and Opposition ministers on the benefits of a professionally run private rented sector.
- Regular engagement with Mayor of London and the Greater London Authority to shape views on build-to-rent and its inclusion in the New London Plan.
- Property tours hosted for local government and Greater London Authority representatives.
- Helen Gordon appointed as President of the British Property Federation, a position with great influence over the property industry's relationship with Government.
- Provided a workshop for lead property directors of Government departments.

RELATIONS WITH STAKEHOLDERS CONTINUED



Seven Sisters Regeneration, London

SEVEN SISTERS INDOOR MARKET

Grainger has been a stakeholder in the area for 15 years and is committed to the long-term success of the Seven Sisters regeneration scheme, including the market, which is unique to the area, and sits firmly at the heart of our plans. As well as delivering new homes and jobs, our scheme includes a brand new, purpose-built indoor market.

The development is opposed by a small, but vocal, sub-group of traders and local residents. The UN Office of the High Commissioner for Human Rights has expressed concern that the rights of these traders may be infringed by the development. We have worked hard to understand and address those concerns

throughout the regeneration process. To better support the traders and allay their concerns, we have made several promises, secured by Section 106 legal agreement, to relocate all licensed traders to a temporary indoor market located just 60m away, before returning them to the new purpose-built market. In addition, we have put in place a package of financial support for the traders, which includes a rent-free period, rent reductions, and guaranteed rents for up to five years.

We have worked closely with traders for many years and continue to do so. This includes holding drop-in sessions, one to one meetings and 'all trader' meetings. We will ensure that we involve the traders in the design of the new market, to ensure it retains the authenticity of the current market.



“I am extremely happy for the move to go ahead. The new market will bring a new perspective to the community surrounding the market, as Latinos in the UK. This move will benefit all communities, not just one. The new market will have a positive impact on all of us, generation to generation.”

Vivianna, owner of Latin Accommodation

RELATIONS WITH SHAREHOLDERS

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 election and re-election intend to attend the 2020 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 250 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 2019 AGM. We anticipate a similar pre-AGM engagement process will take place in 2020. There has also been a substantial engagement process in relation to our proposed Remuneration Policy. Please see pages 68 to 78 of our Remuneration Committee report for details.

over 250

investor engagements



Hawkins & George, Bristol

CASE STUDY OF INVESTOR PRESENTATION AT HAWKINS & GEORGE, FINZELS REACH, BRISTOL

Objective: To provide investors and prospective investors with an insight into the work undertaken by Grainger making connections that deliver sustainable returns.

Presented by Grainger's Executive management and senior team, this provided an update on the following areas:

- Our pipeline of investments
- Connecting with the public sector
- Delivering a leading customer experience

- CONNECT: enhancing returns through technology
- Delivering sustainable returns.

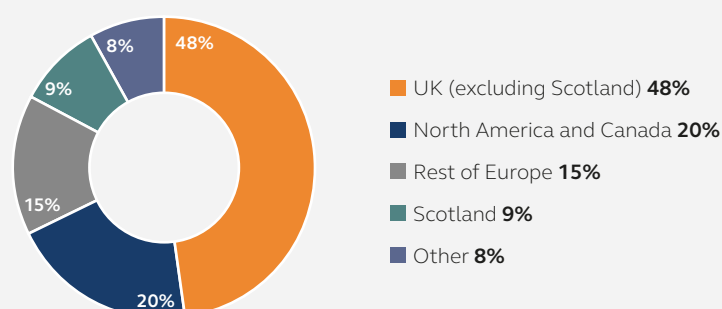
Hosted at Grainger's latest PRS offering, Hawkins & George, which was launched in June 2019, the presentation gave investors the opportunity to view the building's amenity space and apartments.

The presentation was attended by over 40 top investors, sell side analysts and brokers with positive feedback received.

Attendance at investor meetings

Chief Executive	92%
Chief Financial Officer	90%
Senior executive	95%

Shareholders by region



RELATIONS WITH SHAREHOLDERS CONTINUED

**Key Shareholder events 2018/19**

An on-going 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.

NOVEMBER 2018	<ul style="list-style-type: none"> • Full year results presentation London • Full year investor roadshow London, Edinburgh, New York and Boston • Investor property tours London • Rights issue
DECEMBER 2018	<ul style="list-style-type: none"> • Investor conference London
FEBRUARY 2019	<ul style="list-style-type: none"> • AGM
MARCH/ APRIL 2019	<ul style="list-style-type: none"> • Two US investor conferences Miami and New York • Investor property tours London
MAY 2019	<ul style="list-style-type: none"> • Half year results presentation London • Half year investor roadshow London and Amsterdam • Investor conference and property tour London
JUNE 2019	<ul style="list-style-type: none"> • Investor conference London • Investor property tours London
JULY/ AUGUST 2019	<ul style="list-style-type: none"> • Investor roadshow Montreal and Toronto • Investor property tours London
SEPTEMBER 2019	<ul style="list-style-type: none"> • Investor conference London • Investor conference Madrid • Investor property tours London • Capital Markets Day at Hawkins & George, Bristol

Substantial shareholdings

At 30 September 2019 and 31 October 2019 (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 2019		31 October 2019	
	Holding million	Holding %	Holding million	Holding %
BlackRock Inc.	55.1	9.0%	58.3	9.5%
Aberdeen Standard Investments	32.0	5.2%	29.4	4.8%
The Vanguard Group Inc	25.3	4.1%	26.3	4.3%
APG Asset Management NV	25.8	4.2%	25.8	4.2%
Columbia Threadneedle Investments	23.8	3.9%	24.7	4.0%
Schroder Investment Management Ltd	29.3	4.7%	23.9	3.9%
Norges Bank Investment Management	21.7	3.5%	21.6	3.5%
Legal & General Investment Management Limited	21.2	3.4%	20.5	3.3%
Aberforth Partners LLP	19.2	3.1%	19.2	3.1%

EFFECTIVENESS: NOMINATIONS COMMITTEE REPORT



“The Committee ensures that the Board has the right people to lead the Company.”

Mark Clare Chairman

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 2019 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.

2019 was a significant year for the Nominations Committee with changes to the Board and its committees.

Although it is not yet in force, the Committee is also mindful of the 2018 Code and the changes that will flow to the work of the Board and its committees.

We will continue to monitor best practice under the 2018 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.

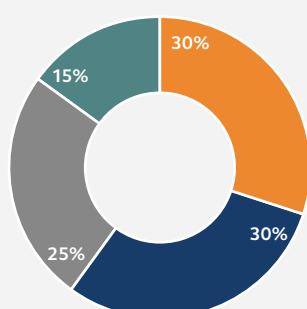
Process for Board appointments

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.

ATTENDANCE TABLE

Committee member	Member since	Meetings attended	Meetings eligible to attend
Mark Clare (Committee Chairman)	February 2017	1	1
Tony Wray	February 2014	1	1
Andrew Carr-Locke	March 2015	1	1
Rob Wilkinson	May 2017	1	1
Justin Read	March 2017	1	1
Janette Bell	February 2019	0	0

How the Committee spent its time



- Non-Executive Director succession and balance of skills **30%**
- Executive and senior management succession and pipeline **30%**
- Committee composition **25%**
- Governance **15%**

EFFECTIVENESS: NOMINATIONS COMMITTEE REPORT CONTINUED

Main activities of the Committee during the year

The Committee met formally once during the year to 30 September 2019, 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 2018 committee report, it was agreed that a 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 private rented-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, Russell Reynolds. The consultancy was subsequently engaged. It is confirmed that the relevant consultancy is not connected with the Company in any other way.

After a rigorous and comprehensive search process, Janette Bell was appointed to the Board as a Non-Executive Director. Janette has significant operational experience in customer centric organisations. Janette is currently the Chief Executive of P&O Ferries Limited, having been appointed to the role in 2018 after joining in 2012 as its Commercial Director. Immediately prior to this she was Group Sales & Marketing Director at Hammerson plc. Janette's previous experience also includes PwC, Tesco plc and British Gas (part of Centrica plc), where she held a number of senior sales and marketing positions. Janette undertook

a comprehensive induction programme of meetings with senior Grainger team members, key contacts from our brokers, bankers and valuers, and training and update presentations from our auditors and company solicitors. I have already been impressed by Janette's contribution at Board meetings and believe that her knowledge and experience will be a very valuable addition to the business.

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, a number of senior appointments were made during the year, including David Prescott as Director of Strategy & Corporate Finance, Manpreet Dillon as Director of Property Services and Compliance, Ben Taylor as Director of Trading Portfolio, John Blackledge as Health & Safety Director and Phil Elsdon as Health & Safety Manager.

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 42%, a significant increase on the 29% reported in 2018. This increase results from the appointment of Janette Bell and the retirement of Tony Wray during the year. The current percentage is ahead of 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.

Page 36 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. The Committee notes the appointment of Manpreet Dillon as a member of the Executive Committee.

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. Following the appointment of Janette Bell, the Board now has expertise in retail consumer-facing skills.

Mark Clare

Chairman of the Nominations Committee
26 November 2019

EXPERIENCE OF THE BOARD**Property experience****72%****Financial experience (leadership or audit capacity)****86%****Operational consumer experience****42%**

ACCOUNTABILITY: AUDIT COMMITTEE REPORT



“The Committee ensures that the Company operates robust risk management and control procedures and accurate financial reporting systems.”

Andrew Carr-Locke
Chairman of the Audit Committee

The Audit Committee currently comprises four independent Non-Executive Directors, chaired by the Senior Independent Director.

Dear Shareholders,

This is my fourth year of chairing Grainger's Audit Committee. I am pleased to present the Audit Committee report for the year ended 30 September 2019. 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.

Governance

As a matter of course, the Committee considers its terms of reference each year, taking into account changes to Grainger and to external governance requirements. In this regard, we have during the course of the year been mindful of the consultation on, and finalisation of, the 2018 Code,

which will apply to the Company from the next financial year.

Risk and controls

A key responsibility of the Committee is ensuring that the Company operates an effective risk assessment and management process and has an appropriately robust 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.

2019 has been a particularly turbulent year politically, and therefore our work on risk and controls has rightly involved monitoring broader market conditions and residential rental property trends as well as the risks arising from Brexit. The Committee has also 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 39 to 43.

Change

Grainger is continuing to undergo significant change as the business progresses the implementation of its private rented strategy. Developing a scalable platform and focusing on customer satisfaction is at the heart of the strategy and requires change in the business. Our new technology operating platform, the CONNECT project, is central to the new processes and systems that we are putting into place. It enhances our control environment through automation.

Data protection

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. We have seen significant regulatory fines issued to institutions who have experienced data breaches this year. The Committee and the Board have closely monitored Grainger's preparations for and implementation of a regime to comply with the requirements of the GDPR and the Data Protection Act 2018 and receive regular reports on developments in this area.

ATTENDANCE TABLE

Committee member	Member since	Meetings attended	Meetings eligible to attend
Andrew Carr-Locke (Committee Chairman)	March 2015	4	4
Tony Wray	November 2011	2	2
Rob Wilkinson	February 2016	4	4
Justin Read	March 2017	4	4
Janette Bell	February 2019	2	2

How the Committee spent its time



ACCOUNTABILITY: AUDIT COMMITTEE REPORT CONTINUED

Like most companies, Grainger is targeted by cyber fraudsters from time to time. This reinforces the need for companies to have robust cyber security, data protection systems and controls in place. It is important that such systems are regularly challenged and questioned to ensure that they are sufficiently sophisticated and fit for purpose in an ever-changing technological environment. The controls we have in place have prevented a number of attempted fraudulent activities.

Financial statements

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 market rented 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 of changes to presentation of segmented financial information following the acquisition of GRIP, along with changes to EPRA performance reporting measures.

Auditors

The standard of auditing is of crucial importance to Grainger and the Committee has received briefings and carefully considered the significant developments in this area in the last 12 months. The Committee has reviewed, received reports on and considered the significant developments that have occurred in relation to the future of the auditing profession in the last year. The Committee has considered the conclusions on the Kingman review of the FRC, the CMA study of the statutory audit market, the BEIS Select Committee report on the future of audit and the Brydon review into the quality and effectiveness of audit. We have also undertaken reviews of the internal and external auditors and identified areas for improvement. The Committee was pleased to note the significant improvement made in the performance of our external auditor, KPMG, in this year's Audit Quality Review.

The Committee has also overseen the process of appointing our new audit partner, Richard Kelly, following the retirement of Bill Holland from KPMG in Summer 2019. The Committee wishes to thank Bill for his diligent work over the four years of his appointment.

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.

During the year Tony Wray retired from the Board and consequently the Committee. I would like to record my thanks to Tony for his valued contribution to the work of the Committee over the years, and also take the opportunity to welcome Janette Bell. I would also like to recognise the other members of the Committee and Grainger's Finance and Legal teams for their high standard of support and our internal and external auditors for their thorough approach.

Andrew Carr-Locke

Chairman of the Audit Committee

26 November 2019

Significant matters relating to the Group's 2019 financial statements

The most significant matters considered by the Committee and discussed with the external auditor in relation to the Group's 2019 financial statements were as follows:

1 Property valuations

Property valuation continues to be the most significant matter for consideration. In this respect, 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. 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.

3 Acquisition of GRIP

Management presented the proposed accounting treatment in respect of the acquisition of GRIP as a business combination in accordance with IFRS 3, and the subsequent impairment of goodwill. We are satisfied that the approach adopted is 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 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 sector in which it operates. Please refer to pages 50 and 51 for skills and experience of the Directors and page 61 for 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 May 2019. 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; and
- 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. There have been no differences of this nature in this or the previous financial years.

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. Page 67 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 2019 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 2019 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 2019 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 44.

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 the audit partner to cross-sell non-audit services to audit clients. KPMG duly applies the requirement to rotate audit partners every five years. As stated above, this process has been accelerated due to the retirement of the current audit partner and a replacement audit partner has been appointed.

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.

ACCOUNTABILITY: AUDIT COMMITTEE REPORT CONTINUED

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.

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.

KPMG was engaged to provide services to the Company as part of our acquisition of the remainder of the GRIP portfolio and the associated rights issue, including review of financial information on the target, the enlarged Group, working capital and financial position and prospects report, and Class 1 circular and adviser liaison. In addition, KPMG advised on the provision of comfort letters for the Company and target in respect of significant change, financial extraction and comfort letters required for US and international investors. The timescales for the project included shortening the year end close process and dovetailing of information of both Grainger and GRIP. KPMG were considered to be best placed to undertake this work given their knowledge of the business, their involvement in the year end audit, our systems and control environment in the unusual circumstance that the target was already partially owned by the Group. The deadline for the acquisition necessitated the use of KPMG as an alternative adviser would have required significant further time to

review the position. Separate engagement teams were used for elements of the work undertaken.

The non-audit service provided by KPMG, set out in the table below, related primarily to the GRIP acquisition and was approved by the Committee in 2018. In making their decision, 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.

	Year ended 30 September 2019 £
Schedule of fees paid to KPMG	
Statutory audit of Grainger Group	335,000
Total audit fees	335,000
Half year review	35,000
GRIP acquisition	267,000
Non-statutory certificate on Berewood Development site	8,000
Total non-audit fees	310,000

Services in relation to the GRIP acquisition included Reporting Accountant and Diligence services in respect of the acquisition and rights issue.

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. KPMG have been the Company's auditors for four years and as such 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 embedding the GDPR compliance project undertaken last year as part of how the business deals with data protection issues on a day-to-day basis. Both the Board and the Committee received regular updates from senior management on this. An Internal Audit report at the end of 2018 concluded that we had set up well in this area but that compliance would continue to be monitored and would form part of the on-going core programme.



KEY ACTIVITIES:

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 2019 included reviews of:

- Investment (including sales, acquisitions, forward funding and valuations);
- Insurance;
- Complaints;
- Health & Safety; and
- Treasury.

The plan for 2020 includes reviews of:

- Development and refurbishment;
- Lettings and on-boarding customers;
- Revenue and collections;
- IT operations;
- Tax and Payroll functions;
- Cyber penetration testing;
- Governance of CONNECT; and
- RACM spot checks.

NOVEMBER 2018

- Received a presentation from the independent external valuer of Grainger's reversionary and market rented assets.
- Considered and received matters relating to the 2018 full year, including:
 - management's summary of the accounting positions;
 - KPMG's year end audit report;
 - going concern review of the business; and
 - the draft Annual Report and Accounts.
- 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.
- Considered KPMG's independence and recommended to the Board KPMG's re-appointment.

FEBRUARY 2019

- Received an update on the rotation of the KPMG audit partner.
- Received an Internal Audit report into purchase ledger and data protection.
- 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.
- Considered KPMG's plan for its review of the 2019 half year results.
- Received an update on accounting matters following the GRIP acquisition.
- Carried out a detailed evaluation of the performance of the internal and external auditors. Considered them to be effective and also identified certain areas for future improvement.
- Reviewed the policies on non-audit work and tax.

MAY 2019

- Reviewed the Audit Committee terms of reference.
- Considered issues regarding the 2019 half year results, including:
 - the draft half year financial statements and announcement;
 - the effect of the acquisition of the GRIP portfolio and associated rights issue;
 - management's judgements and assessment; and
 - KPMG's half year review report.
- Received Internal Audit reports on:
 - investment;
 - acquisition;
 - forward funding;
 - disposal valuation; and
 - complaints.
- Received an update on various reports and reviews of the audit profession.

SEPTEMBER 2019

- Received an update on Accounting Standards.
- Considered the 2019 draft viability statement and related analysis.
- Considered KPMG's audit strategy memorandum and engagement regarding the audit for the full year 2019.
- Considered and approved the forward Internal Audit plan.
- Received Internal Audit reports on:
 - insurance;
 - RACM 'spot checks'; and
 - progress of completing actions from previous internal audits.
- Reviewed reports on:
 - internal controls;
 - the risk management framework and the application of the 'three lines of defence' model;
 - the development of 'key risk indicators' for parts of the business; and
 - principal risks.

REMUNERATION COMMITTEE REPORT



“This year the Committee’s work has been largely focused on the review of our remuneration policy.”

Justin Read
Committee Chairman

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Dear Shareholders,

I am pleased to present on behalf of the Board the Directors’ Remuneration report for the year ended 30 September 2019. This year we continued to apply the Remuneration Policy that was approved by Shareholders on 8 February 2017. This policy is due to expire during 2020. Consequently, we have undertaken a comprehensive review of senior executive pay arrangements and will be asking Shareholders to approve a revised policy at the next AGM in February 2020. There will also be the usual advisory vote on the other aspects of this remuneration report and a vote to approve amendments to the Company’s Long Term Incentive Plan (‘LTIP’) to reflect the proposed changes to the Remuneration Policy.

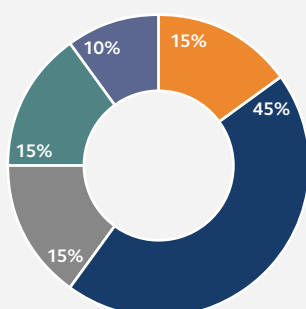
Business context and aims of the new policy

Since 2016, management has successfully transitioned the Company towards the private rented sector, becoming the market leader in the sector. The progress made on the three core principles underpinning the strategy has exceeded expectations:

- **Grow rents:** rental income has increased in the year by 45%.
- **Simplify and focus:** Non-core businesses have been sold and a programme of asset recycling has successfully accelerated our move towards PRS.
- **Build on our heritage/experience:** We are developing a compelling customer offering and are continuing to invest in technology to leverage scale and deliver improved service.

The next stage of the strategy is to build further on our market leading position, driving growth in net rental income and gaining greater advantage from operational leverage. We will continue to improve efficiency in our operating platform through further investment in technology and will exploit the efficiencies of a larger PRS portfolio. This will deliver increased and more predictable profitability as PRS net rental income grows, which in turn will underpin more sustainable Shareholder returns.

How the Committee spent its time



- Governance and reporting **15%**
- Remuneration Committee adviser selection, policy development and investor communication **45%**
- Executive share plans **15%**
- Performance monitoring and review, including rights issue related matters **15%**
- Senior management remuneration and retention **10%**

Aligned with this growth aim, the Committee's key objectives when reviewing the 2020 policy were to ensure that:

- incentive measures are aligned with strategy execution and taking advantage of further growth opportunities in PRS;
- the executive team is appropriately and fairly incentivised, noting that variable pay outcomes under the previous policy have not, in the Committee's opinion, fully reflected the positive Shareholder experience;
- packages are competitive against comparable FTSE Real Estate and FTSE 250 companies more generally; and
- our remuneration policies and practices are in line with good market practice following the publication of the UK Corporate Governance Code last year.

New Remuneration Policy

In order to meet the design objectives set out above, the Committee is proposing the following policy changes:

Policy change	Commentary and rationale
<p>1. Long-term incentive:</p> <ul style="list-style-type: none"> • Increase LTIP grant levels to 200% of salary (from 175%) for the CEO and to 175% of salary (from 130%) for the CFO • Remove exceptional 200% of salary limit • Bonus opportunity to remain unchanged at 140% of salary and 120% of salary for the CEO and CFO respectively. 	<p>Since joining Grainger in 2016 our Executive Directors have embarked on a strategy of investing in high-quality homes and transitioning the Company towards PRS. Having repositioned the Company successfully, the next stage of the strategy is to build on our position and increase the scale of the business through PRS opportunities. The reason for increasing the LTIP award level alongside the introduction of a new PRS investment measure (see Implementation of Policy section below) is to incentivise our executives to deliver greater scale through PRS, which is key to building operational efficiencies and thus enhancing returns.</p> <p>It is also essential that we retain our experienced and highly regarded executive team. The Committee has used benchmarking data with care and only to sense check that packages are appropriate for real estate companies of our size and scale. The exercise showed that while bonus opportunities and total remuneration appear below market levels against real estate peers and the FTSE 250, the Committee has sought to address market positioning by focusing on the LTIP to provide greater retention and alignment with Shareholders, which would not necessarily be the case if other elements of remuneration were increased.</p>
<p>2. Shareholding guideline:</p> <ul style="list-style-type: none"> • Share retention post vesting toughened • Post cessation guideline will apply for two years • Treatment of vested and unvested shares 	<p>Rather than retaining 50% of the net of tax LTIP awards which vest, 100% of both vested deferred bonus and LTIP awards (net of tax) will need to be retained until the 200% of salary guideline has been met.</p> <p>Reflecting emerging views in this area, Executive Directors will be expected to retain the lower of actual shares held and shares equal to 200% of salary for two years post cessation in respect of shares which vest from future grants of deferred bonus and LTIP awards. Buyout awards and own shares purchased will be excluded from this calculation. For good leavers' LTIP awards vesting post cessation, the holding period will continue to apply until the second anniversary of cessation to tie in with this guideline. In order to reduce complexity and administration, there will be no holding period for awards that vest more than two years post cessation.</p>
<p>3. Malus and clawback provisions:</p> <ul style="list-style-type: none"> • Triggers enhanced 	<p>In light of evolving good practice in this area, additional triggers will apply as set out in the Remuneration Policy table on pages 72 to 74.</p>
<p>4. Pension:</p> <ul style="list-style-type: none"> • Workforce aligned 	<p>Reflecting good practice in this area and Shareholders' views, the pension contribution rate for new Executive Directors will be in line with the general workforce rate of 10% of salary.</p>

The above changes are subject to approval of the new Remuneration Policy at the February 2020 AGM.

REMUNERATION COMMITTEE REPORT CONTINUED

Applying the policy in 2019/20

Base salaries

For the 2019/20 period, the base salaries of the Executive Directors will be increased by 2.5% with effect from 1 January 2020, in line with the typical increase given to the majority employee population. See page 89 for more details.

Annual bonus

Following a thorough review of incentive metrics and in light of the Company's strategic direction, ROSE will be replaced by a PRS Net Rental Income measure. Details of the proposed approach are as follows:

2020 measures	2019 measures	Rationale
Adjusted Earnings (35%)	Adjusted Earnings (40%)	An important KPI, profit is measured before tax, valuation movements on investment assets, derivatives and other adjustments.
PRS Net Rental Income (35%)	-	To incentivise the management team to focus on growing income and reducing cost. The measure is directly aligned to Shareholder performance since Grainger's policy is to pay 50% of Net Rental Income to its Shareholders as dividends. This provides a more immediate and tangible target which can be more directly driven by management and has significant alignment with current strategy.
-	ROSE (40%)	While ROSE continues to be an important KPI, it is no longer considered an appropriate annual bonus performance measure given that its measurement depends to a large extent on year end balance sheet valuations which can be impacted by mark to market debt related derivatives which are unlikely to crystallise. However, given that 3 year TPR (see LTIP below) and 1 year Adjusted Earnings targets potentially reward many of the same behaviours which drive ROSE, most of the balance sheet disciplines associated with ROSE will not be lost.
Operational objectives (30%)	Operational objectives (20%)	This has been upweighted to reflect the importance of progress against non-financial initiatives covering areas such as portfolio positioning, technology, customers, health & safety, ESG and our people.

One-quarter of any bonus earned will continue to be subject to deferral into the Company's shares for the period of three years.

Long Term Incentive Plan

Subject to Shareholder approval of the policy contained within this remuneration report, the 2020 LTIP grants for the CEO and CFO will be over shares with a face value of 200% of salary and 175% of salary respectively.

Total Shareholder Return ('TSR') relative to other real estate companies will continue to apply to 50% of the awards to provide a significant degree of 'relative' performance. A change from last year's measure is the degree of stretch required for full vesting. Reflecting the increased quantum, the TSR part of the 2020 LTIP awards will vest in full for an upper quintile ranking or higher (which is tougher than the upper quartile stretch applying to previous awards).

Total Property Return ('TPR') continues to be an important measure and will apply for one-quarter of the award. 25% of this part of the award will vest for 5%p.a. growth with full vesting for 8%p.a. or higher. Again, reflecting the increased quantum, the Committee believes that the proposed 5% to 8% p.a. range under the TPR measure is more challenging than the 5% to 9% p.a. range used last year given

(i) the softening of the housing market, particularly in London and the South East, (ii) the increasing amount of capital tied up in our growing PRS development pipeline, and (iii) our withdrawal from speculative development for sale. The move to PRS drives growth in net rental income and will result in increased and more predictable, lower risk returns and more sustainable profitability. The Committee is of the view that it is important to set a very stretching but achievable upper target to ensure that the LTIP retains its incentivisation impact for the three-year period. An 8% p.a. TPR for the upper end of the target range would represent a significant achievement given the Board's assessment of likely future market conditions and having regard to the TPR being achieved by most other UK real estate companies.

A new, third measure, Secured PRS Investment, will apply for 25% of the award. While the PRS net rental income measure in the short-term bonus is designed to incentivise management to generate more operating profit out of existing PRS assets and PRS assets nearing completion, the new PRS Secured Investment LTIP metric will incentivise

delivery of the future PRS investment pipeline; it is about building scale and improving the consistency of returns in the medium term and we thus believe that this specific objective sits well within the LTIP.

The Secured PRS Investment targets are considered to be commercially sensitive and therefore cannot be shared with Shareholders in advance. Balancing Shareholder desires for transparency with the need to protect our negotiating position in future transactions is difficult. We believe that publishing investment targets (or minimum return requirements) could undermine deal flow and future returns. However, we can confirm that there has been no change to the internal investment hurdle rates that we will use to evaluate transactions and no change to either the internal approval processes or the external communication policy for such transactions. We can also advise that the threshold (for 25% vesting) will be higher than the amount of Secured PRS Investment (excluding the incremental impact of the GRIP acquisition) achieved in the last three years being £640m in the 36 months to 31 July 2019. The stretch target represents

a significant challenge when taking into account the greater external competition for such schemes and the Company's higher loan-to-value ratio of 37.1% at September 2019 compared with 35.9% at September 2016, the first year end since the new strategy was launched.

Taking on board Shareholder feedback received during the Shareholder consultation, the Committee will undertake two 'quality' assessments in assessing the PRS Investment vesting. Further details are provided in the Annual Report on Remuneration. A qualitative update on progress against the targets will be provided in the 2020 and 2021 reports and full retrospective disclosure of the targets will be provided following vesting.

Based on the above, the Committee is satisfied that the LTIP targets are more stretching than last year's targets.

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.

2019 performance and reward

In 2019, 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 our Executive Directors performed against key performance objectives.

With regard to the performance during the year, we achieved adjusted earnings of £82.5m and ROSE of 4.4%. The performance against adjusted earnings was between threshold and the maximum target and ROSE was below the threshold of 4.5%. When we combined these figures with the strategic targets, annual bonuses were calculated at 27.4% of the maximum available. Full disclosure

of the actual targets set, and performance against those targets, is on pages 80 to 82.

With our LTIP, the February 2017 awards will vest in February 2020. The performance targets for this award related to TPR (50% of award) and relative TSR (50% of award). For the performance period ended 30 September 2019, TPR has increased by 5.9% p.a. which is above the threshold of 5% p.a. and below maximum of 9% p.a.. This will result in 41.8% vesting of this part of the award. TSR growth over the period ranked the Company just above median against the real estate peer group which resulted in 29.8% of this part of the award vesting. Therefore 35.8% of the overall award will vest.

Regulatory changes

In carrying out the remuneration review, the Committee has considered the various changes to the regulatory environment and in particular the revised UK Corporate Governance Code and the new legislation requiring companies to make additional pay disclosures. The Committee has sought to align practice and disclosures to the new requirements: This includes:

- retaining the existing discretion contained in our bonus and LTIP schemes to permit the Committee to override formulaic outcomes;
- clarification of our policy on the treatment of vested and unvested share awards in the event of cessation of employment and the introduction of a post cessation shareholding policy;
- a comprehensive review of the recovery and withholding provisions in our incentive schemes to reflect best practice in this area;
- pension equalisation with the workforce for new director appointments; and
- updated terms of reference to reflect the expanded scope of the Remuneration Committee.

In addition, the Committee has ensured that the new policy and practices are consistent with the six factors set out in Provision 40 of the Code:

- Clarity – the policy is well understood by our Directors and has been clearly articulated to Shareholders and proxy voting agencies.

- Simplicity – the Committee believes the current, market standard remuneration structure is simple and well understood. We have purposefully avoided any complex structures which have the potential to deliver unintended outcomes.
- Risk – our Policy and approach to target setting seek to discourage any inappropriate risk-taking. Measures are a blend of Shareholder return, financial and non-financial objectives and the targets are very stretching, which might lead to inappropriate actions being taken. Malus and clawback provisions apply.
- Predictability – executives' incentive arrangements are subject to individual participation caps. An indication of the range of values in packages is provided in the reward scenario charts on page 78. Deferred bonus and LTIP awards provide alignment with the share price and their values will depend on share price at the time of vesting.
- Proportionality – there is a clear link between individual awards, delivery of strategy and our long-term performance.
- Alignment to culture – pay and policies cascade down the organisation and are fully aligned to Grainger's culture.

As mentioned above, we have undertaken a comprehensive review of our Remuneration Policy and hope you will support the binding and advisory remuneration votes and the resolution to approve changes to the LTIP rules. I would like to thank all Shareholders and proxy voting agencies that participated in the Shareholder consultation exercise and the helpful feedback that has contributed to the new policy.

We look forward to your support on the resolution relating to remuneration at the AGM on 5 February 2020.

Justin Read

Chairman of the Remuneration Committee
26 November 2019

REMUNERATION POLICY

This part of the Directors' Remuneration report sets out the Directors' Remuneration Policy (the 'Policy') which, subject to Shareholder approval at the 2020 Annual General Meeting, shall take binding effect from the date of that meeting and shall be in place for the next three-year period unless a new Policy is presented to Shareholders before then. Subject to approval by Shareholders, all payments to Directors during the policy period will be consistent with the approved Policy.

This Policy takes into account the provisions of the 2018 UK Corporate Governance Code and other good practice guidelines from institutional Shareholders and Shareholder bodies.

Summary of the key changes from the previous Policy

The key differences between the Policy approved by Shareholders in 2017 and the 2020 Policy are as follows:

- An increase to the LTIP annual award limit from a face value of 175% of salary to 200% of salary for the Chief Executive, and from 130% of salary to 175% of salary for other Executive Directors. The exceptional award limit which permits LTIP awards of up to 200% of salary has been removed.
- The shareholding guidelines have been toughened. Rather than retaining half of the net of tax number of vested LTIP awards which vest, Executive Directors will be required to retain all net of tax vested LTIP and deferred bonus share awards until the shareholding guideline has been met. The guideline will continue to operate on the basis that there is a general expectation that it will be met within five years, but this is not a firm requirement.
- A post cessation shareholding guideline of 200% of salary will operate for two years after leaving employment. The policy on the treatment of vested and unvested share awards has been formalised. Where LTIP awards vest post cessation, the post-vesting holding period will continue to apply until the second anniversary of cessation to tie in with the post cessation shareholding guideline. There will be no holding period for awards vesting more than two years post cessation.
- Malus and clawback provisions in the bonus and LTIP have been reviewed and additional triggers have been included for future awards.
- Pension contribution rates (as a percentage of salary) for new Directors and employees promoted to the Board will be aligned with the workforce contribution rate.

The following table summarises the main elements of the Executive Directors' Remuneration Policy for 2020 onwards, the key features of each element, their purpose and linkage to our strategy. Details of the remuneration arrangements for the Non-Executive Directors are set out on page 89.

Base salary

Purpose and link to strategy	To enable the recruitment and retention of individuals of the necessary calibre to execute the Company's business strategy.
Operation	<p>Reviewed annually and typically effective from 1 January. Changes to salary levels will take into account the:</p> <ul style="list-style-type: none"> • role, experience, responsibilities and personal performance; • average change in total workforce salary; • total organisational salary budgets; and • Company performance and other economic or market conditions. <p>Salaries are benchmarked periodically and are set by reference to companies of a similar size and complexity.</p>
Opportunity	<p>Salaries will be eligible for increases during the three-year period that the Remuneration Policy operates.</p> <p>During this time, salaries may be increased each year (in percentage of salary terms) in line with increases granted to the wider workforce.</p> <p>Increases beyond those granted to the wider workforce (in percentage of salary terms) may be awarded in certain circumstances such as where there is a change in responsibility, experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Company.</p> <p>Where new joiners or recent promotions have been placed on a below market rate of pay initially, a series of increases above those granted to the wider workforce (in percentage of salary terms) may be given over the following few years' subject to individual performance and development in the role.</p>
Framework to assess performance	The Committee considers individual salaries at the appropriate Committee meeting each year after having due regard to the factors noted in operating the salary policy.

Benefits

Purpose and link to strategy	To aid recruitment and retention of high-quality executives.
Operation	Executive Directors may receive a benefit package which includes a car allowance, private medical insurance, life assurance, ill health income protection, travel insurance and health check-up. Other ancillary benefits (including relocation expenses) may be offered, as required.
Opportunity	There is no maximum as the value of benefits may vary from year to year depending on the cost to the Company from third-party providers.
Framework to assess performance	N/A

Pension

Purpose and link to strategy	To aid recruitment and retention of high-quality executives and enable long-term savings through pension provision.
Operation	The Company may contribute directly into an occupational pension scheme (an Executive Director's personal pension) or pay a salary supplement in lieu of pension. If appropriate, a salary sacrifice arrangement can apply. The pension contribution or allowance is based on 15% of basic salary for the current Directors. For any new Executive Director appointments to the Board, the Committee will align pension provision (in percentage of salary terms) to the majority workforce level.
Opportunity	
Framework to assess performance	N/A

Annual bonus

Purpose and link to strategy	To reward and incentivise the achievement of annual targets linked to the delivery of the Company's strategic priorities for the year.
Operation	Bonus measures and targets are reviewed annually and any payout is determined by the Committee after the end of the financial year, based on performance against targets set for the financial period. Up to 75% of any bonus that becomes payable is paid in cash with the remainder deferred into shares for three years. Deferred bonus share awards typically vest subject to continued employment. Individuals may be able to receive a dividend equivalent payment on deferred bonus shares at the time of vesting equal to the value of dividends which would have accrued during the vesting period. The dividend equivalent payment may assume the reinvestment of dividends on a cumulative basis.
Opportunity	Maximum bonus potential is capped at: <ul style="list-style-type: none"> • 140% of salary for the Chief Executive; and • 120% of salary for other Executive Directors.
Framework to assess performance	Bonus performance measures are set annually and will be predominantly based on challenging financial targets set in line with the Group's strategic priorities and tailored to each individual role as appropriate, for example, targets relating to adjusted earnings. For a minority of the bonus, strategic or operational objectives may operate. The Committee has the discretion to vary the performance measures used from year to year depending on the economic conditions and strategic priorities at the start of each year. Details of the performance measures used for the current year and targets set for the year under review and performance against them will be provided in the Annual Report on Remuneration. For financial targets, and where practicable in respect of operational or strategic targets, bonus starts to accrue once the threshold target is met (0% payable) rising on a graduated scale to 100% for stretch performance. The Committee may adjust bonus outcomes, based on the application of the bonus formula set at the start of the relevant year, if it considers the quantum to be inconsistent with the performance of the Company, business or individual during the year. For the avoidance of doubt this can be to zero and bonuses may not exceed the maximum levels detailed above. Any use of such discretion would be detailed in the Annual Report on Remuneration. In the event that there was (i) a misstatement of the Company's results; (ii) a miscalculation or an assessment of any performance conditions that was based on incorrect information; (iii) misconduct on behalf of an individual, (iv) the occurrence of an insolvency or administration event; (v) reputational damage; or (vi) serious health and safety events; malus and/or clawback provisions may apply (to the extent to which the Committee considers that the relevant individual was involved (directly or through oversight) in such events) for three years from the date of payment of any bonus or the grant of any deferred bonus share award (which may be extended by the Remuneration Committee for a further two years to allow an investigation to take place).

REMUNERATION POLICY CONTINUED

Long Term Incentive Plan ('LTIP')

Purpose and link to strategy	To incentivise and reward the delivery of strategic priorities and sustained performance over the longer term. To provide greater alignment with Shareholders' interests.
Operation	The LTIP provides for awards of free shares (i.e. either conditional shares or nil-cost options) normally on an annual basis which are eligible to vest after three years subject to continued service and the achievement of challenging performance conditions. Vested awards are subject to a two-year post-vesting holding period. In exceptional circumstances such as due to regulatory or legal reasons, vested awards may also be settled in cash. Dividend equivalent payments may be made on vested LTIP awards and may assume the reinvestment of dividends, on a cumulative basis.
Opportunity	Following the approval of this Policy, awards in any financial year are capped at: <ul style="list-style-type: none"> • 200% of salary for the Chief Executive; and • 175% of basic salary for other Executive Directors.
Framework to assess performance	The Committee may set such performance conditions on LTIP awards as it considers appropriate (whether financial or non-financial). The choice of measures and their weightings will be determined prior to each grant. 25% of awards will vest for threshold performance with full vesting taking place for equalling, or exceeding, the maximum performance targets. No awards vest for performance below threshold. A graduated vesting scale operates between threshold and maximum performance levels. The Committee may adjust LTIP vesting outcomes, based on the result of testing the performance condition, if it considers the quantum to be inconsistent with the performance of the Company, business or individual during the three-year performance period. For the avoidance of doubt this can be to zero. Any use of such discretion would be detailed in the Annual Report on Remuneration. In the event that there was (i) a misstatement of the Company's results; (ii) a miscalculation or an assessment of any performance conditions based on incorrect information; (iii) misconduct on behalf of an individual, (iv) the occurrence of an insolvency or administration event, (v) reputational damage, or (vi) serious health and safety events, malus and/or clawback provisions may apply (to the extent to which the Committee considers that the relevant individual was involved (directly or through oversight) in such events) for three years from an award becoming eligible to vest (which may be extended by the Remuneration Committee for a further two years to allow an investigation to take place).

Savings related share schemes

Purpose and link to strategy	To encourage employees to make a long-term investment in the Company's shares.
Operation	All employees, including the Executive Directors, are eligible to participate on the same terms in the Company's Save As You Earn ('SAYE') scheme and Share Incentive Plan ('SIP'), both of which are approved by HMRC and subject to the limits prescribed.
Opportunity	SAYE: Participants may invest up to £500 per month (or such other amount as may be permitted by HMRC from time to time) for three or five-year periods in order to purchase shares at the end of the contractual period at a discount of up to 20% to the market price of the shares at the commencement of the saving period. SIP: Participants can invest up to £150 per month (or such other amount as may be permitted by HMRC from time to time) in shares in the Company, and the Company may then, subject to certain limits, double that investment. The Company may also allocate free shares annually on a percentage of basic pay, subject to a maximum of £3,600 (or such other amount as may be permitted by HMRC from time to time). Dividend payments on SIP shares are reinvested and must be held in trust for three years.
Framework to assess performance	N/A

Shareholding guidelines

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

A post cessation shareholding guideline will operate. From the approval of this Policy, Executive Directors will be expected to retain the lower of actual shares held and shares equal to 200% of salary for two years post cessation in respect of shares which vest from future grants of deferred bonus and LTIP awards. Buyout awards and own shares purchased are excluded from this.

NOTES TO THE FUTURE POLICY FOR EXECUTIVE DIRECTORS

Choice of performance measures and approach to target setting

The annual bonus measures are selected to provide direct alignment with the short-term operational targets of the Company. Care is taken to ensure that the short-term performance measures are always supportive of the long-term objectives. This is especially important in a business which has a long-term investment horizon. The LTIP performance measures are selected to ensure that the Executives are encouraged in, and appropriately rewarded for, delivering against the Company's key long-term strategic goals so as to ensure a clear and transparent alignment of interests between Executives and Shareholders and the generation of long-term sustainable returns. The performance metrics that are used for annual bonus and long term incentive plans are a sub-set of the Group's KPIs.

Under the annual bonus plan for the first year of operating the Policy in 2020, bonuses will be based 35% on adjusted earnings, 35% on PRS Net Rental Income and 30% on strategic or operational objectives.

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

Use of PRS Net Rental Income is aligned with our PRS-focused strategy and incentivises growth in PRS rental income after the deduction of property operating expenses.

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

In respect of long-term performance targets, LTIP awards granted in the first year of the Policy will vest subject to (i) relative TSR targets against sector peers, (ii) challenging TPR targets, and (iii) stretching targets relating to the securing PRS Investments.

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

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

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

Discretion

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

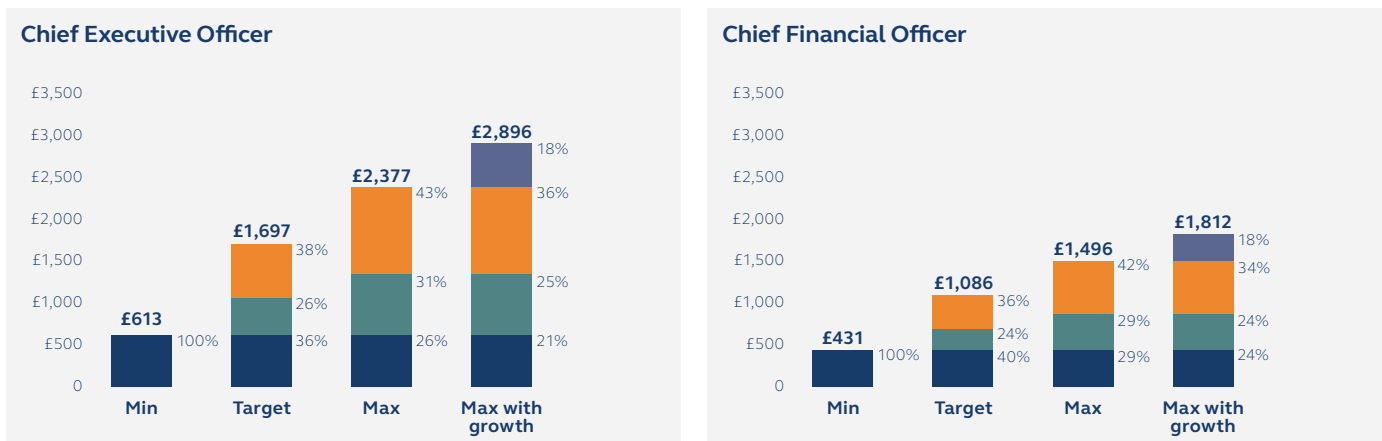
- the individual(s) participating in the plans;
- the timing of grant of award and/or payment;
- the size of an award and/or payment;
- the determination of vesting;
- dealing with a change of control (e.g. the timing of testing performance targets) or restructuring;
- determination of a 'good/bad leaver'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

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

REMUNERATION POLICY CONTINUED

Reward scenarios for Executive Directors

The Company's Remuneration Policy results in a significant proportion of remuneration received by Executive Directors being dependent on Company performance. The composition and total value of the Executive Directors' remuneration package for the financial year 2019/20 at minimum, on-target, maximum performance and maximum with share price growth scenarios are set out in the charts below.



■ Total fixed remuneration ■ Annual bonus ■ LTIP ■ Share price growth

Assumptions used in determining the level of payout under given scenarios are as follows:

- Minimum = base salary at 1 January 2020, estimated 2019/20 benefits and 15% of salary pension contribution (fixed pay)
- On-target = 60% payable of the 2020 annual bonus and 62.5% vesting of the 2020 LTIP awards
- Maximum = 100% payable of the 2020 annual bonus and 100% vesting of the 2020 LTIP awards (based on a face value of 200% of salary for the CEO and 175% of salary for the CFO)
- Maximum with share price growth = as per maximum but with a 50% share price growth assumed on LTIP awards

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

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

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

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

The LTIP is operated at the most senior tiers of Executives, as this arrangement is reserved for those anticipated as having the greatest potential to influence Company level performance.

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

How the views of employees are taken into account

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

The Chief Executive Officer holds 'all employee' conference calls to give staff an overview of Company strategy and provide staff with the opportunity to ask any questions. In addition, the CEO and Board members regularly visit offices and meet with staff to gauge overall opinions. During the year we have introduced CEO breakfast meetings with new staff. Annual employee engagement surveys are carried out, the results of which are presented to the Board by the HR Director.

How the views of Shareholders are taken into account

The Remuneration Committee considers Shareholder feedback received in relation to the AGM each year and guidance from Shareholder representative bodies more generally. This feedback, plus any additional feedback received during any meetings held with Shareholders from time to time, is then considered as part of the Committee's on-going review of Remuneration Policy (as has been the case in relation to the proposed Policy changes).

Approach to recruitment remuneration

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

Base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. In certain cases, this may include setting a salary below the market rate but with an agreement on future increases up to the market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate. Pension provision, in percentage of salary terms, will be aligned to the general workforce level.

The maximum level of variable remuneration which may be granted (excluding buyout awards as referred to below) is an annual bonus of 140% of salary and LTIP award of 200% of salary (as per the limits in the Policy table).

In relation to external appointments, the Committee may offer compensation that it considers appropriate to take account of awards and benefits that will or may be forfeited on resignation from a previous position. Such compensation would reflect the performance requirements, timing and such other specific matters as the Committee considers relevant. This may take the form of cash and/or share awards. The policy is that the maximum payment under any such arrangements (which may be in addition to the normal variable remuneration) should be no more than the Committee considers is required to provide reasonable compensation to the incoming Executive Director.

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

In the case of an employee who is promoted to the position of Executive Director, the Policy set out above would apply from the date of promotion but there would be no retrospective application of the Policy in relation to existing incentive awards or remuneration arrangements. Accordingly, prevailing elements of the remuneration package for an existing employee would be honoured and form part of the on-going remuneration of the employee. These would be disclosed to Shareholders in the following year's Annual Report on Remuneration.

Non-Executive Director appointments will be through letters of appointment. Non-Executive Directors' base fees, including those of the Chairman, will be set at a competitive market level, reflecting experience, responsibility and time commitment. Fees will typically be reviewed bi-annually. Additional fees are payable for the chairmanship of the Audit and Remuneration Committees and for the additional responsibilities of the Senior Independent Director.

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

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

If an Executive Director's employment is to be terminated, the Committee's policy in respect of the contract of employment, in the absence of a breach of the service agreement by the Executive Director, is to agree a termination payment based on the value of base salary and contractual pension amounts and benefits that would have accrued to the Executive Director during the contractual notice period. The policy is that, as is considered appropriate at the time, the departing Executive Director may work, or be placed on garden leave, for all or part of their notice period, or receive a payment in lieu of notice in accordance with the service agreement. The Committee will also seek to apply the principle of mitigation where possible so as to reduce any termination payment to a leaving Executive Director, having had regard to the circumstances.

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

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

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

REMUNERATION POLICY CONTINUED

Any bonus payment will normally be delayed until the performance conditions have been determined for the relevant period and be subject to a pro rata reduction for the portion of the relevant bonus year that the individual was employed.

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

If treated as a good leaver, awards will be eligible to vest subject to performance conditions, which will be measured over the original performance period (unless the Committee elected to test performance to the date of cessation of employment), and be subject to a pro rata reduction (unless the Committee considered it inappropriate to do so) to reflect the proportion of the vesting period actually served. Where awards vest within two years of cessation, the post vesting holding period will continue to apply until the second anniversary of cessation. There will be no holding period for awards vesting more than two years after cessation.

Any LTIP awards which vest pre-cessation but which are still subject to the two-year holding period will need to be retained by the individual (either on a post-tax basis or as unexercised awards) post cessation, until the relevant two-year holding period has expired.

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

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

Where the Executive Director participates in one or more of the Company's HMRC approved share plans, awards may vest or be exercisable on or following termination of employment in certain good leaver circumstances, where permissible, in accordance with the rules of the plan and relevant legislation.

External appointments

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

Non-Executive Directors' letters of appointment

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

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

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

Non-Executive Directors' fees

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

Non-Executive Directors

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

ANNUAL REPORT ON REMUNERATION

This Annual Report on Remuneration sets out details of how the Company's Remuneration Policy for Directors was implemented during the financial year ended 30 September 2019. This report has been prepared in accordance with the provisions of the Companies Act 2006 and related Regulations. An advisory resolution to approve this report (and the Annual Statement) will be put to Shareholders at the 2020 AGM.

1. Single total figure of remuneration for each Director

The remuneration of Directors showing the breakdown between components with comparative figures for 2018 is shown below.

This table and the details set out in Notes 1 to 7 on pages 79 to 85 of this report have been audited by KPMG LLP.

2019	Salary and fees ¹ £'000	Taxable benefits ² £'000	Share incentive Plan £'000	Annual bonus ³ £'000	LTIP awards ⁴ £'000	Pension benefits £'000	Total £'000
Executive Directors							
Helen Gordon	479	16	4	185	312	72	1,068
Vanessa Simms	333	16	4	110	161	50	674
	812	32	8	295	473	122	1,742
Non-Executive Directors⁵							
Mark Clare	165	-	-	-	-	-	165
Andrew Carr-Locke	65	-	-	-	-	-	65
Rob Wilkinson	47	-	-	-	-	-	47
Justin Read	56	-	-	-	-	-	56
Janette Bell	30	-	-	-	-	-	30
	363	-	-	-	-	-	363
Former Non-Executive Director							
Tony Wray ⁶	16	-	-	-	-	-	16
Totals	1,191	32	8	295	473	122	2,121

1 Executive Directors' salaries during the year under review increased by 2.5% in line with the wider employee population from 1 January 2019. At that date, Helen Gordon's base salary was £481,873 and Vanessa Simms' base salary was £335,216.

2 Taxable benefits are comprised of a car allowance and private medical insurance.

3 In line with the Remuneration Policy, 25% of the bonus is deferred into shares for three years.

4 Please see Note 3 on page 82 for information in relation to the LTIP awards that are due to vest in February 2020.

5 Janette Bell joined the Board on 6 February 2019. The fees 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.

6 Tony Wray retired from the Board on 6 February 2019.

ANNUAL REPORT ON REMUNERATION CONTINUED

1. Single total figure of remuneration for each Director continued

2018	Salary and fees £'000	Taxable benefits ¹ £'000	Share Incentive Plan £'000	Annual bonus ² £'000	LTIP awards ³ £'000	Pension benefits £'000	Other ⁴ £'000	Total £'000
Executive Directors								
Helen Gordon	468	16	4	474	68	70	74	1,174
Vanessa Simms	325	16	4	290	12	49	–	696
	793	32	8	764	80	119	74	1,870
Non-Executive Directors								
Mark Clare	165	–	–	–	–	–	–	165
Tony Wray	47	–	–	–	–	–	–	47
Andrew Carr-Locke	61	–	–	–	–	–	–	61
Rob Wilkinson	47	–	–	–	–	–	–	47
Justin Read	53	–	–	–	–	–	–	53
	373	–	–	–	–	–	–	373
Former Non-Executive Director								
Belinda Richards	23	–	–	–	–	–	–	23
Totals	1,189	32	8	764	80	119	74	2,266

1 Taxable benefits are comprised of a car allowance and private medical insurance.

2 In line with the Remuneration Policy, 25% of the bonus was deferred into shares for three years as set out on page 83 under Note 4.

3 Please see Note 3 on page 82 for information in relation to the LTIP awards that vested in January 2019.

4 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, comprising 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). There is now a nil balance for this award.

2. Annual bonus awards – performance assessment for 2019

In determining the bonus outcomes for 2019, the Committee took into account the Company's financial performance and achievements against key short-term objectives established at the beginning of the year. 80% of the bonus was based on adjusted earnings and ROSE performance with the remainder based on achievement against non-financial, strategic objectives. The targets applying to each financial measure and performance against the targets for 2019 are set out in the table below.

Financial performance (80% of the 2019 annual bonus opportunity)

Measure	Weighting	Threshold (0% out-turn)		Target (60% out-turn)	Maximum (100% out-turn)	2019 performance	Out-turn (% of max element)
Bonus							
Adjusted earnings	40%	90% of budget (£78.0m)		100% of budget (£86.7m)	120% of budget (£104.0m)	95.2% of budget (£82.5m)	31%
Bonus							
Measure	Weighting	Threshold (0% out-turn)	(10% out-turn)	Target (60% out-turn)	Maximum (100% out-turn)	2019 performance	Out-turn (% of max element)
Bonus							
ROSE	40%	4.5%	4.75%	7%	12%	4.4%	0%

Payouts for performance between threshold and target and between target and maximum is determined on a straight-line basis.

The ROSE as detailed above at 4.4% was calculated from the closing EPRA NNNNAV of 272p per share plus the dividend of 5.19p per share for the year and 5p per share mark to market adjustment, divided by the opening EPRA NNNNAV of 270p per share.

This adjustment is explained in further detail on page 17 and has had no impact on the remuneration of the Executive Directors.

As a result of performance against the financial objectives, a bonus of 12% out of 80% became payable.

Non-financial performance (20% of the 2019 annual bonus opportunity)

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.

Chief Executive and Chief Financial Officer

Objective	Measure	Performance assessment
GRIP integration		
Deliver the integration of GRIP to secure gross to net alignment with Grainger levels.	Delivery of GRIP integration with a 26% gross to net achieved for the GRIP portfolio for the measurement period July to September 2019.	Achieved in full (5%) with 25% gross to net for the relevant period in line with wider business.
CONNECT		
Deliver first phase of CONNECT technology project to improve operational performance.	Delivery of first phase of CONNECT regarding the core functionality of the platform.	Partial achievement (1%) with delivery of digital lead to lease launched in the year and the design of 'My Grainger' portal. Remaining elements of CONNECT to be delivered in 2020.
Asset recycling		
Continue asset recycling (including GRIP) and identify and deliver cash receipts into the business.	Asset recycling levels (excluding vacant regulated tenancy sales) of £75m by year end for full opportunity.	Achieved in full (5%) with release of £88m of capital from recycling of assets for PRS investment.
Operational excellence		
<ul style="list-style-type: none"> Successfully launch and implement the Live.Safe programme being Grainger's key Health & Safety initiative. 	External review and assessment of each area of the business by Internal Auditors.	Achieved in full (1%), following report from Internal Auditors to the Audit Committee.
<ul style="list-style-type: none"> Improve customer service feedback levels. 	Reduce the time to close complaints to ten working days.	Not achieved due to change in methodology of complaints handling.
	Material improvement in customer satisfaction NPS score.	Achieved in full (1%) with a material increase in NPS.
	Positive feedback from customers regarding quality of repairs and maintenance service.	Achieved in full (1%) with a level of 90% score reached.
<ul style="list-style-type: none"> Design services/repairs procurement strategy. 	Complete design of strategy and obtain Board approval of it.	Achieved in full (1%) with strategy presented to the Board in March 2019, and following approval is now in nine-month proof of concept stage.

Pursuant to the above assessment, the Committee determined that 15% of the maximum 20% of this part of the bonus would be payable and was appropriate in the circumstances.

ANNUAL REPORT ON REMUNERATION CONTINUED

2. Annual bonus awards – performance assessment for 2019 continued

It is the Committee's approach to view the performance in the round at the end of the year. The total bonuses earned were 27.4% of the maximum bonus opportunity for each of the Chief Executive and Chief Financial Officer respectively.

	Bonus opportunity	2019 bonus payable (out of 100% maximum)	Bonus earned – payable in cash	Bonus earned – deferred in shares for three years ¹
Helen Gordon	140% of salary	27.4%	£138,502	£46,167
Vanessa Simms	120% of salary	27.4%	£82,585	£27,528

¹ The deferred bonus share awards will be granted after the announcement of annual results.

3. LTIP awards – performance assessment for 2019

LTIP awards vesting in February 2020

The awards made to Executive Directors in February 2017, and which are due to vest on 9 February 2020, are based on 50% on relative TSR targets measured over a three-year period to 30 September 2019 and 50% on TPR. Performance against the vesting schedule can be summarised as follows:

Measure	Weighting	Threshold (25% vesting)	Maximum (100% vesting)	Actual performance	Out-turn (% of max element)
LTIP					
Relative TSR versus the constituents of the FTSE 350 Real Estate Supersector	50%	Median ranking	Upper quartile ranking or better	TSR of 26.72% placed Grainger just above median	29.8%
TPR (three-year growth)	50%	5% p.a.	9% p.a.	5.9% p.a.	41.8%

Grainger ranked above median against the TSR peer group which resulted in 29.8% of this part of the award vesting. TPR growth of 5.9% p.a. over the three-year period resulted in 41.8% of this part of the award vesting. In aggregate, 35.8% of the February 2017 LTIP award will vest in February 2020. The value of these awards shown in the single figure table are based on the average three-month share price to 30 September 2019 of 239.7p.

LTIP awards vested in January 2019

The awards made to Executive Directors in January 2016, and which vested in January 2019, were based on EPRA NNNNAV and absolute TSR targets measured over a three-year period. Performance against the vesting schedule can be summarised as follows:

Measure	Weighting	Threshold	Maximum	Actual performance	Out-turn (% of max element)
LTIP					
Three-year growth in TSR (annual compound) ¹	50%	5%	15%	3.97%	0%
EPRA NNNNAV (increase over three years relative to HPI, as measured by Halifax and Nationwide)	50%	1.5%	3.0%	1.7%	15.8%

¹ Actual TSR over the performance period, at 3.97% p.a., was lower than the forecast TSR of 10.03% p.a. included in last year's Directors' Remuneration report. This in turn has resulted in a decrease in the vesting result from 50.3% to NIL.

As announced on 17 January 2019, the actual level of vesting of the 2016 LTIP award of 7.9% was lower than that forecast of 33.1% in the 2018 Annual Report and Accounts. This variance was due to the actual absolute TSR measure for the performance period from 12 January 2016 to 11 January 2019 being 3.97%, which was below the 5% vesting threshold for the TSR measure. This was due to the measurement period coinciding with the rights issue and a period of volatility in the share price. The share price on the date of vesting was 225.2p. The 2018 single figure of total remuneration table on page 80 has been updated accordingly.

4. Share scheme interests awarded during the year

	LTIP share awards (12 December 2018)		DBSP share awards (12 December 2018)	
	Number	Face value £'000	Number	Face value £'000
Helen Gordon	374,640	823	55,256	118
Vanessa Simms	193,602	425	33,863	73

The face value of LTIP share awards for Helen Gordon and Vanessa Simms is based on a price of 219.60p, being the average share price for the five business days immediately preceding the award being made on 12 December 2018. The face value of 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 after grant, dependent upon continued employment and satisfying the performance criteria. Half of the award is subject to a relative TSR condition (measured against the FTSE 350 Real Estate Supersector constituents) with the other half subject to a TPR condition.

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 quartile relative TSR performance or better. The TPR performance condition requires three-year growth in TPR to be above 5% p.a. for 25% of this part of the award to vest, with vesting then increasing on a straight-line basis to 100% for 9% p.a. 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') awards for Helen Gordon and Vanessa Simms, relating to a 25% deferral of the 2018 annual bonus into Company shares, is based on a price of 214.40p, being the closing share price on the business day immediately preceding the award being made on 12 December 2018. The awards will be eligible to vest in three years subject to continued employment as set out in the policy on page 73.

5. Payments for loss of office and to past Directors

Tony Wray retired from the Board on 6 February 2019, having completed seven years of service as a Non-Executive Director. In line with the terms of his letter of appointment, Tony received a pro rata payment of fees for the period in office.

ANNUAL REPORT ON REMUNERATION CONTINUED

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 2019 Number ¹	Market price at date of vesting (p)	Vesting date ²
Helen Gordon	LTIP shares	11-Jan-16	381,270	30,089	351,181	-	225.2	23-Jan-19
	LTIP shares	09-Feb-17	364,254	-	-	364,254	-	09-Feb-20
	LTIP shares	11-Dec-17	316,297	-	-	316,297	-	11-Dec-20
	LTIP shares	12-Dec-18	374,640	-	-	374,640	-	12-Dec-21
	DBSP	11-Dec-17	37,681	-	-	37,681	-	11-Dec-20
	DBSP	12-Dec-18	55,256	-	-	55,256	-	12-Dec-21
Vanessa Simms	LTIP shares	11-Feb-16	157,962	12,466	145,496	-	225.2	23-Jan-19
	LTIP shares	09-Feb-17	188,235	-	-	188,235	-	09-Feb-20
	LTIP shares	11-Dec-17	163,453	-	-	163,453	-	11-Dec-20
	LTIP shares	12-Dec-18	193,602	-	-	193,602	-	12-Dec-21
	DBSP	11-Dec-17	23,210	-	-	23,210	-	11-Dec-20
	DBSP	12-Dec-18	33,863	-	-	33,863	-	12-Dec-21

1 Outstanding awards granted before the Ex-Rights Date (3 December 2018) were adjusted in January 2019 in accordance with the scheme rules, as approved by the Remuneration Committee and by applying the HMRC approved formula (the number of options were increased by multiplying the number of shares under option by 1.1066102 and rounding the result down to the nearest whole number of shares and the exercise price was reduced by multiplying the exercise price under option by 0.9036606).

2 The performance conditions that apply to awards granted in the year under review are set out on pages 87 and 88 and for the previous financial year were set out in full in the previous Annual Report and Accounts.

All employee share options under SAYE

		Share options at 1 Oct 2018 ¹	Granted in year	Lapsed in year	Exercised during year	Exercise price (p)	Market price on exercise (p)	Gains on exercise of share options (£)	Share options at 30 Sep 2019	Exercise price (p)	Earliest exercise date	Latest exercise date
Helen Gordon	SAYE	11,941	-	-	11,941	150.7	245.0	10,836	-	150.78	01-Sep-19	01-Mar-20
	SAYE	-	9,326	193.0	-	-	-	-	9,326	193.0	01-Sep-22	01-Mar-23
Vanessa Simms	SAYE	9,475	-	-	-	-	-	-	9,475	189.9	01-Sep-20	01-Mar-21

1 Outstanding awards granted before the Ex-Rights Date (3 December 2018) were adjusted in January 2019 in accordance with the scheme rules, as approved by the Remuneration Committee and by applying the HMRC approved formula (the number of options were increased by multiplying the number of shares under option by 1.1066102 and rounding the result down to the nearest whole number of shares and the exercise price was reduced by multiplying the exercise price under option by 0.9036606). The number of options set out as at 1 October 2018 set out the adjusted number.

The closing trade share price on 30 September 2019 was 247.5p. The highest trade share price during the year was 272.9p and the lowest was 205.8p.

All-employee share awards under the SIP

	Ordinary shares of 5p each	
	1 Oct 2018 shares	30 Sept 2019 ¹ shares
Executive Directors		
Helen Gordon	2,438	4,637
Vanessa Simms	2,094	4,291

1 Since 30 September 2019, Helen Gordon and Vanessa Simms acquired shares in the Company through the Grainger Employee Share Incentive Scheme (238 ordinary 5p shares in the case of Helen Gordon and 240 ordinary 5p shares in the case of Vanessa Simms).

Total shareholding at 30 September 2019

Directors share interests and shareholding requirements are set out below. In order that their interests are aligned with those of Shareholders, Executive Directors are expected to build up and maintain a personal shareholding equal to 200% of basic salary in the Company. The table below sets out the Directors' interests in shares.

In thousands ('000)	Beneficially owned shares at 30 September 2019 ¹	Vested but unexercised share awards	Unvested share awards	Total interests held at 30 September 2019 ²	Total interests held at 30 September 2018	Shareholding as % of basic salary ³
Executive Directors						
Helen Gordon	237	–	1,157	1,399	1,144	124
Vanessa Simms	38	–	611	654	512	31
Non-Executive Directors						
Andrew Carr-Locke	15	–	–	15	–	N/A
Rob Wilkinson	21	–	–	21	–	N/A
Mark Clare	147	–	–	147	–	N/A
Justin Read	21	–	–	21	–	N/A
Janette Bell	–	–	–	–	–	N/A

1 Helen Gordon acquired 70,609 ordinary 5p shares, part of the Rights Issue and 11,941 ordinary 5p shares as a result of her SAYE options maturing during the year. Vanessa Simms also acquired 10,701 ordinary 5p shares during the Rights Issue.

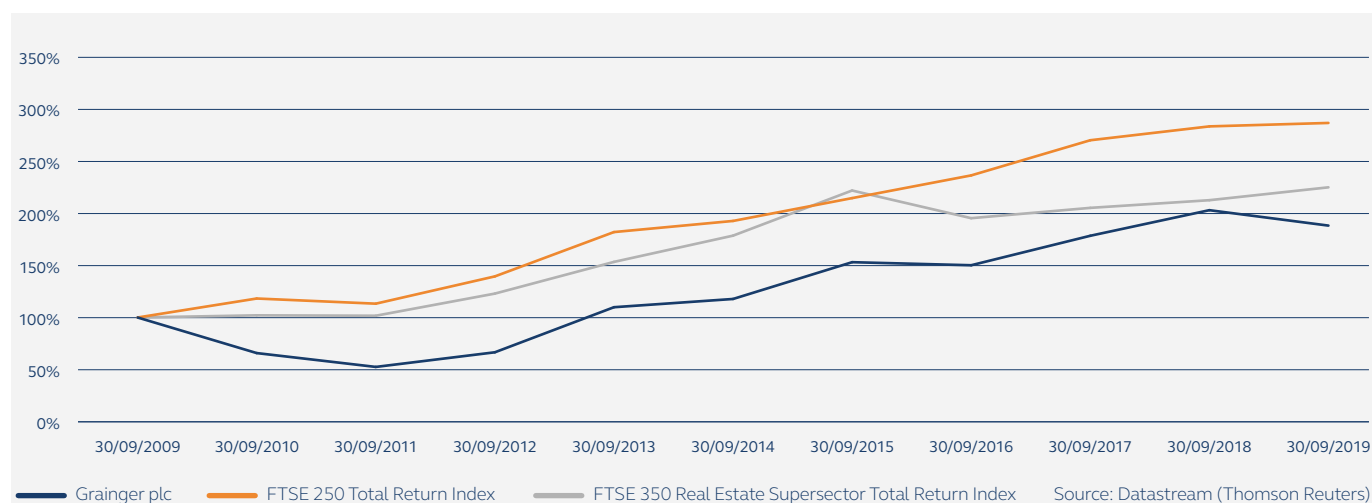
2 The total interests include beneficially owned shares, shares held in the SIP trust and unvested share awards.

3 The value of shares held (calculated as at 30 September 2019 when the share price was 247.5p) includes shares owned beneficially and those purchased under the SIP. If unvested DBSP awards (which vest subject to continued employment only) and the February 2017 LTIP awards (due to vest in February 2020 for which performance has already been tested) were to be included, the value of shares held (on a post-tax basis) would rise to 180% of basic salary in the case of Helen Gordon and to 77% of basic salary in the case of Vanessa Simms.

7. Performance graph and history of CEO single figure table

Total shareholder return

This graph shows the percentage change by 30 September 2019 of £100 invested in Grainger plc on 30 September 2009 compared with the value of £100 invested separately in both the FTSE 250 Index and the FTSE 350 Real Estate Supersector Index.



ANNUAL REPORT ON REMUNERATION CONTINUED

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 %
2019	Helen Gordon	1,068	27	36
2018	Helen Gordon	1,174	72	8
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	-

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 2018 and 2019, excluding LTIP and pension contributions, for the Chief Executive and for the average of all other employees in the Group was as follows:

	Percentage change 2018-19		
	Base salary	Taxable Benefits	Annual bonus
Chief Executive ¹	2.35%	0%	-61%
Employee population	2.35%	0%	-5%

¹ The base salary for the Chief Executive has increased with effect from 1 January 2019 by 2.5% in line with the majority employee population.

10. Relative importance of spend on pay

The difference in actual expenditure between 2018 and 2019 on remuneration for all employees, in comparison to profit before tax 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
(£m)

+£30.6m

+30.4%

2019: £131.3m
(2018: £100.7m)

Dividend
(£m)

+£9.8m

+44.7%

2019: £31.7m
(2018: £21.9m)

Total employee pay
(£m)

+£0.1m

+0.6%

2019: £17.7m
(2018: £17.6m)

11. Statement of implementation of Remuneration Policy for 2020

Base salary

In line with the increase given to the majority 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 2020.

Annual bonus

As detailed in the Annual Statement and Summary Remuneration Policy, the structure and metrics to operate for the 2020 annual bonus are as follows:

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

Following a review of Directors' remuneration in the context of a new Policy for approval in 2020, the Committee considered carefully the choice of measures in both the annual bonus and LTIP schemes. In recent years, the bonus has been based on adjusted earnings, ROSE and operational objectives. In order to reflect our PRS-focused strategy, for 2020 ROSE has been replaced with a PRS Net Rental Income measure. While ROSE remains an important KPI, the Committee considers a combination of PRS Net Rental Income and adjusted earnings to be the more important short-term priorities for 2020 and are targets which can be effectively applied throughout the business. In order to ensure we continue to deliver on key non-financial targets, operational objectives will apply for a significant minority of the overall bonus.

The table below sets out the performance targets and their respective weightings for 2020:

Metric	Weighting	Rationale and description
Adjusted earnings	35%	Incentivises operational success in achieving rental growth, income from sales and reduction in operational and finance costs relative to a challenging budget.
PRS NRI	35%	Rental income from PRS after property operating expenses incentivises management to focus on growing income and reducing cost.
Operational objectives	30%	Each of the headline metrics is underpinned by defined measurable milestones or a range of targets set with reference to budgeted objectives. These are consistent with the strategy and targeted objectives for the year agreed by the Board. Due to matters of commercial sensitivity it would not be in the interests of the Company to disclose the precise operational targets for the annual bonus at the date of production of this report. Details of the objectives and the performance achieved will be disclosed retrospectively in the 2020 Annual Report.

The Committee has set a sliding scale of targets for the financial measures around the Group's budget for the year. For the adjusted earnings measure, the threshold and maximum targets have been set at 90% and 110% of budget. This is a reduction from last year's upper stretch (120% of budget) to ensure that the maximum remains achievable and is aligned to the Board's risk tolerance. A 95% to 105% range applies to the PRS NRI budgeted figure. The Committee is satisfied that the targets for all measures represent a real stretch to management. Consistent with previous years, 60% of the bonus opportunity is payable for achieving a stretching budget/target.

In line with our policy, 25% of any bonus earned will be delivered as a deferred bonus share award which will vest after three years.

LTIP

Subject to the approval of the Policy by Shareholders at the 2020 AGM, it is expected that the LTIP awards to be made to the Executive Directors in the year ending 30 September 2020 will be at the levels detailed below and subject to a two-year holding period:

- Chief Executive: 200% of salary
- Chief Financial Officer: 175% of salary

As specified on page 69, strong progress has been made on the strategic goals, and therefore the LTIP is to be repositioned to align for the next phase of the strategy, in particular building scale in PRS.

ANNUAL REPORT ON REMUNERATION CONTINUED

11. Statement of implementation of Remuneration Policy for 2020 continued

As mentioned above, the Committee undertook a review of incentive measures. Over the last three years LTIP awards have been granted with 50% based on relative TSR and 50% on absolute TPR targets. Following a detailed review and useful feedback from major investors, the 2020 award will be subject to three measures – 50% on relative TSR against other real estate peers, 25% on TPR growth targets and 25% on a new measure, Secured PRS Investment.

The performance measures to apply for the 2020 LTIP will be as follows:

Metric	Weighting	Targets			Rationale for metric
Relative TSR (versus FTSE 350 Real Estate Supersector constituents)	50%	Performance level	Ranking	Vesting	Relative TSR is an important measure as it compares the shareholder returns we deliver relative to other UK real estate companies. Consistent with previous years, Relative TSR will determine 50% of the overall award. Given the absolute nature of TPR, Secured PRS Investment and the financial measures used in the bonus scheme, a 50% weighting on relative TSR retains a significant degree of relative focus in the overall incentive package. Reflecting the increase to LTIP quantum, the maximum target for full vesting has been increased from upper quartile to upper quintile performance.
		Below Threshold	Below median	0%	
		Threshold	Median	25%	
		Maximum	Upper quintile	100%	
TPR	25%	Performance level	TPR	Vesting	Rewards for achieving the key pillars of our long-term strategy – delivering strong income growth and capital returns. The Committee is of the view that the proposed 5% to 8% p.a. range under the TPR measure is more challenging than the 5% to 9% p.a. range used last year given (i) the softening of the housing market, particularly in London and the South East; (ii) the increasing amount of capital tied up in our growing PRS development pipeline; and (iii) our withdrawal from speculative development for sale. The move to PRS drives growth in net rental income and the Committee believes will result in increased and more predictable, lower risk returns and more sustainable profitability. The Committee considers that it is important to set a very stretching but achievable upper target to ensure that the LTIP keeps its incentivisation impact for the three-year period. The Committee believes an 8% p.a. TPR for the upper end of the target range would represent a significant achievement given the Board's assessment of likely future market conditions and having regard to the TPR being achieved by most other UK real estate companies.
		Below Threshold	<5% p.a.	0%	
		Threshold	5% p.a.	25%	
		Maximum	8% p.a.	100%	
Secured PRS Investment	25%	The actual targets are considered to be commercially sensitive at this time, but a qualitative assessment of progress will be provided in the 2020 and 2021 remuneration reports and full retrospective disclosure of the targets and achievement will be set out in the 2022 report.			Secured PRS Investment (effectively the Company's pipeline of future development opportunities) provides management with a clear focus on driving growth in long-term PRS Rental Income and on achieving greater scale and operating efficiency. The Committee will evaluate the quality of investments when determining the PRS Investment vesting outcome. Firstly, the Committee will consider the extent to which there was any material unapproved variation from the basis upon which any individual scheme was initially approved. Secondly, a post investment review will be undertaken to ensure that investments remain of sufficient quality in light of then current market conditions. If the Committee has concerns on either front, it may take appropriate corrective action, which could include disregarding any particular investment for the purposes of the overall target.

The Committee is satisfied that, in aggregate, the LTIP targets are more stretching than last year's. As mentioned above, the 50% on TSR has been made more challenging with full vesting now requiring upper quintile performance rather than upper quartile. The TPR range is considered more challenging than the prior year range in light of current market conditions and the new PRS Secured Investment measure would require exceptional performance with the threshold target above the PRS Investment achieved in the last three years.

In addition to more challenging targets, enhanced 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. The triggers are set out in the Remuneration Policy table.

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' ('NED') fee levels have not increased since 1 October 2017 and it is proposed that NED fees are increased in line with the typical increase given to the wider employee population, i.e. 2.5% with effect from 1 January 2020. Current fee levels are as follows:

	1 January 2020	1 January 2019
Basic Non-Executive Director fee	£48,175	£47,000
Additional fee for chairing Board Committee	£9,738	£9,500
Additional fee for Senior Independent Director duties	£8,200	£8,000
Chairman's fee	£169,125	£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.

12. Directors' service agreements and letters of appointment

Executive Directors	Contract commencement date	Notice period
Helen Gordon	November 2015	12 months
Vanessa Simms	February 2016	6 months

Non-Executive Directors	Date of initial appointment
Mark Clare	February 2017
Andrew Carr-Locke	March 2015
Rob Wilkinson	October 2015
Justin Read	February 2017
Janette Bell	February 2019

Former Non-Executive Director	
Tony Wray	October 2011

ANNUAL REPORT ON REMUNERATION CONTINUED

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	4	4
Tony Wray	February 2016	1	1
Mark Clare	May 2017	4	4
Janette Bell	May 2019	3	3
Andrew Carr-Locke	April 2015	4	4
Rob Wilkinson	May 2017	4	4

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 also met outside the meetings to discuss the new Remuneration Policy.

Following a competitive tender, the Committee appointed FIT Remuneration Consultants LLP ('FIT') as its independent adviser in February 2019. 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 FIT for services to the Committee during the 2019 financial year were £42,500. The Committee's previous adviser, Korn Ferry Hay, was paid £35,183 for the period until February 2019 (2018: £46,769). The increased fees in 2019 reflect the fact that during the year the Committee undertook a comprehensive review of the 2020 Remuneration Policy and related stakeholder engagement. FIT 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 6 February 2019, the Directors' Remuneration report received the following votes from Shareholders:

	Directors' Remuneration report	
	Total number of votes	% of votes cast
For	486,197,843	99.55
Against	2,186,503	0.45
Total votes cast (for and against)	488,384,346	100
Votes withheld	2,426,665	-

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 15 to the financial statements on page 124 in relation to the dividend waiver arrangements.

Information incorporated by reference

The Corporate Governance Statement on pages 45 to 94 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 (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements;
- 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 complies with that law and those regulations.

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

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic report 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.

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 27 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 ESG 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 2018 to 30 September 2019

	Tonnes of CO ₂ e					
	2018 location- based	2019 location- based	Trend location- based	2018 market- based	2019 market- based	Trend market- based
Emissions from						
Combustion of fuels and operation of facilities	849	811	-4%	849	811	-4%
Electricity, heat, steam and cooling for own use	905	836	-8%	325	361	11%
Total footprint	1,754	1,647	-6%	1,174	1,172	0%

Company's chosen intensity measurement:

Emissions reported above per £m value of assets under management ¹	0.71	0.65	-9%	0.47	0.46	-3%
Emissions reported above per owned unit ²	0.29	0.20	-34%	0.20	0.14	-29%
Emissions reported above per employee ³	6.93	6.19	-11%	4.64	4.41	-5%

Scope 3 Global GHG emissions data for period 1 October 2018 to 30 September 2019

	2018	2019	Trend
Emissions from			
Fuel and energy-related activities ⁴	364	318	-15%
Business travel (air, rail and vehicles)	71	57	-24%
Estimated customer energy use (tCO ₂) ⁵	27,295	26,170	-4%
Grainger office occupation (landlord-obtained) ⁶	31	31	0%

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. Due to our acquisition of the GRIP portfolio and completion of new developments, the number of owned units has increased by 2,469 units compared to FY18.

3 Total number of employees of Grainger plc on the last day of the financial year.

4 Includes WTT emissions from fuels and electricity transmission and distribution losses.

5 This has been estimated based on a sample of Energy Performance Certificates ('EPCs') and reported in CO₂ only.

6 Includes landlord-obtained emissions for London Bridge office only.

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 2018 to 30 September 2019 and we report emissions for the previous year to demonstrate trends.

In FY19 we increased the scope of our GHG reporting to include emissions from recent acquisitions and newly completed developments. A small number of recently developed properties are excluded from our reporting because data is not yet available and we will gather data in FY20 to enable them to be included in our future reporting.

Grainger's total location-based GHG emissions have decreased by 6%, whilst market-based emissions have remained static. Market-based Scope 2 emissions have increased by 11% due to acquisitions and the increase in intensity of the residual mix emissions factor which is used to calculate emissions on a small sample of properties where contractual instruments are not available.

GHG emissions from energy consumption in our property portfolio have decreased by 4%. However, Scope 1 emissions from natural gas consumption have increased slightly due to a gas leak at one property during FY19. Emissions for those assets under Grainger's control in FY18 and FY19 have decreased by 7% (location-based) and by 1% (market-based).

In addition, emissions relating to Grainger's business travel have decreased significantly due to investment in video conferencing technology and a reduction in mileage travelled.

Methodology

Grainger follows the GHG Protocol Corporate Standard (revised edition), DEFRA Environmental Reporting Guidelines 2019 and ISO14064: Part 1 standard for its reporting, and we take the operational control approach to reporting. We have used the UK Government conversion factors 2019 for location-based reporting and the Association of Issuing Bodies European Residual Mixes 2018 for market-based reporting for 2019. We used emission factors from the same sources in 2018. We have reported on all emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

For market-based emissions Grainger has used contractual instruments where there is data readily available. We purchase 100% renewable electricity tariffs for 79% of applicable properties, which has resulted in lower Scope 2 emissions using the market-based approach compared to 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, gas consumed in Grainger's offices, as well as 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 electricity are included. We also report emissions from business travel and landlord-obtained electricity recharged to Grainger for one occupied office (London Bridge).

Restatements and estimation

We have recalculated emissions for FY18 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. This includes updating the scope of reporting to include some recently acquired properties and completed developments for which data was not available in FY18. Our market-based emissions have been updated from those reported in FY18 as we are able to report more accurate data using contractual instruments that were not previously available. In addition, we are restating the FY18 emissions for Scope 3 business travel, due to a change in our methodology for calculating emissions from grey fleet.

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 FY19 4% of Scope 1 emissions and 12% of Scope 2 emissions have been estimated.

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 (tCO₂e/employee) to align with our financial reporting. We have seen a significant reduction in emissions per owned units due to the acquisition of the GRIP portfolio of c.1,700 units. These properties were previously managed by Grainger and within our operational control, therefore the related emissions were already included in our reporting prior to acquisition.

DIRECTORS' REPORT CONTINUED

Third-party review

Carbon Credentials has reviewed and analysed the data provided by Grainger (note: this does not represent formal assurance) and has carried out calculations in line with best practice (see Methodology section).

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.

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 & Safety Director. This includes using online risk management systems for identifying, mitigating and reporting real time health and safety management information. The Health & 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 & Safety Director gives a presentation to the Board at least once a year. We launched our Live.Safe health and safety commitment this 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 32.

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 2019 (2018: £nil).

Takeover directive

On a change of control, the main bank facility (included in Note 26 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 26) 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

26 November 2019

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 2019 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, 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 2019 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 first appointed as auditor by the Shareholders on 6 February 2015. The period of total uninterrupted engagement is for the five financial years ended 30 September 2019. 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 £23.0m (2018: £18.0m) 0.9% (2018: 1%) of total assets

Coverage

100% (2018: 100%) of Group total assets

Key audit matters

vs 2018

Recurring risks

Valuation of investment properties ▲

Recoverability of inventories ▼

Recoverability of parent company's investment in subsidiaries ◀▶

Event driven

New: The impact of uncertainties of the UK leaving the European Union ◀▶

New: Going concern ◀▶

2. Key audit matters: including 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, 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.

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

	The risk	Our response
<p>The impact of uncertainties due to the UK exiting the European Union on our audit</p> <p>Group and parent company refer to page 41 (principal risks and uncertainties) and page 63 (Audit Committee report).</p>	<p>Unprecedented levels of uncertainty</p> <p>All audits assess and challenge the reasonableness of estimates, in particular as described in the valuation of investment properties and the recoverability of inventories below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.</p> <p>In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the Directors' statement 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.</p> <p>Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with full range of possible effects unknown.</p>	<p>We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:</p> <ul style="list-style-type: none"> • Our Brexit knowledge: considering the Directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. • Sensitivity analysis: when addressing the valuation of investment properties and the recoverability of inventories and other areas that depend on forecasts, comparing the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considering adjustments to discount rates for the level of remaining uncertainty. • Assessing transparency: as well as assessing individual disclosures as part of our procedures on the valuation of investment properties and the recoverability of inventories considering all of the Brexit related disclosures together, including those in the Strategic report, comparing the overall picture against our understanding of the risks. <p>Our results</p> <p>As reported under the valuation of investment properties and the recoverability of inventories, we found the resulting estimates and related disclosures and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.</p>

	The risk	Our response
<p>Valuation of investment properties (£1,574.6m; 2018: £589.7m)</p> <p>Refer to page 63 (Audit Committee report) and pages 110–113 and 125 (accounting policy and financial disclosures).</p>	<p>Subjective valuation</p> <p>The valuation approach adopted by the Directors varies between portfolios:</p> <ul style="list-style-type: none"> For properties let into the private rental market, including within the GRIP portfolio, and the majority of affordable housing properties, valuation is derived by applying a yield to the estimated rental value or net income of the property. Yield is based on market evidence and is an inherently judgemental input. There is a risk that applying an inappropriate yield could lead to a material difference in valuation. For properties under construction which are to be let into the private rental market, including within the GRIP portfolio, a consistent valuation methodology is adopted. Additional adjustments are then made for capital expenditure not yet incurred and development and stabilisation risk. There is an additional risk that these adjustments could be inappropriate and result in a material difference in valuation. For individual properties, including those within the GRIP portfolio, valuation is determined by estimating 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 evidence, which in some cases may be limited. This means 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 house price inflation (“HPI”) and discount rate assumptions could be inappropriate which could lead to a material misstatement in valuation. <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of investment properties has a high degree of estimation uncertainty, with a potential range of outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements Note 2 disclose the sensitivity estimated by the Group.</p>	<p>Our procedures in respect of all property types identified included:</p> <ul style="list-style-type: none"> Methodologies: with the assistance of our own property valuation specialists, challenging the methodologies used for the specific portfolios with reference to market practice. Sensitivity analysis: performing sensitivity analyses over the key assumptions that have a material effect on the valuation. Assessing valuer’s credentials: assessing the objectivity, professional qualifications and experience of the external valuers engaged by the Group, through discussion with them and by reading their valuation reports. Attendance at Group valuation meetings: attending the Group’s meetings with their external valuer, and challenging the market evidence presented by the valuer with the help of our own property valuation specialists. Assessing transparency: assessing whether the Group’s disclosure about the sensitivity of fair value changes in key assumptions reflected the uncertainties inherent in the property valuations. <p>Our additional procedures in respect of private rented sector properties, including within the GRIP portfolio, and affordable housing properties included:</p> <ul style="list-style-type: none"> Yield rates: with the assistance of our property valuation specialists, challenging the yield rates applied using our understanding of the nature of the assets and comparing to available market data. <p>Our additional procedures in respect of properties under construction which are to be let into the private rental market, including within the GRIP portfolio, included:</p> <ul style="list-style-type: none"> Test of details: for a sample of properties, agreeing the adjustments made for capital expenditure not yet incurred to the latest supplier funding assessment. Our valuation expertise: using our property valuation specialists, critically assessing the adjustments made for development and stabilisation risk with reference to sector practice. <p>Our additional procedures in respect of individual properties, including those within the GRIP portfolio, included:</p> <ul style="list-style-type: none"> Comparing Valuations: challenging the inputs used in valuations and comparing the valuations to recent comparable transactions. <p>Our additional procedures in respect of the Tricomm portfolio included:</p> <ul style="list-style-type: none"> Benchmarking assumptions: comparing the HPI assumption included in the discounted cash flow model to market indices and discount rates to market information including gilts and benchmarked risk premiums. <p>Our results</p> <p>We found the resulting valuation of investment properties to be acceptable.</p>

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

	The risk	Our response
<p>Recoverability of inventories (trading properties) (£700.0m; 2018: £799.3m) Refer to page 63 (Audit Committee report), pages 110-113 and 130 (accounting policy and financial disclosures).</p>	<p>Subjective valuation Inventory is carried at the lower of cost and net realisable value ('NRV'). For residential properties which are currently vacant or expected to be vacant on disposal, NRV is based on vacant possession ('VP') value which is estimated with reference to comparable market evidence and the Group's own experience, both of which are limited. This means that VP valuation is inherently subjective and susceptible to misstatement. Where properties are expected to be sold with a tenant in situ a discount is applied to reflect the fact that the property is tenanted. The discount applied is estimated with reference to comparable market evidence and the Group's own experience, both of which are limited. This means that the valuation is inherently subjective and susceptible to misstatement. The effect of these matters is that, as part of our risk assessment, we determined that the recoverability of inventories (trading properties) has a high degree of estimation uncertainty, with a potential range of outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements Note 2 disclose the sensitivity estimated by the Group.</p>	<p>In addition to the procedures set out in respect of all investment property portfolios our procedures included:</p> <ul style="list-style-type: none"> • Historical comparisons: comparing the year end valuation with the sales price achieved for the properties after the year end. • Control design: assessing the appropriateness of the design and implementation of the Directors valuation process and observing supporting evidence for a sample of properties. • Attendance at Group valuation meetings: attending, with our property valuation specialists, the Group's regional valuation meetings with their external valuer, and assessing whether the inputs and comparable evidence used in the Group's valuation were sufficiently challenged by the external valuer. <p>Our results We found the carrying value of trading properties to be acceptable.</p>

	The risk	Our response
<p>Going concern</p> <p>Group and parent company</p> <p>Refer to page 63 (Audit Committee report) and page 108 (basis of preparation).</p>	<p>Disclosure quality</p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.</p> <p>The risks most likely to adversely affect the Group's and Company's available financial resources over this period were:</p> <ul style="list-style-type: none"> • the impact of Brexit on demand in the private rental sector; and • political risks linked to government policy on housing. <p>There are also less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in the reduction of available financial resources.</p> <p>The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Funding assessment: considering the availability and sufficiency of the financing arrangements in place at the Group, in the context of the planned refinance. • Historical comparisons: assessing historical forecasting accuracy, by comparing forecast results to those actually achieved by the Group. • Sensitivity analysis: considering sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking into account reasonably possible (but not unrealistic) adverse effects that could arise from changes to the government's housing policy, and risks individually and collectively resulting from Brexit. • Benchmarking assumptions: comparing the key assumptions used in the cash flow forecast of HPI and interest rates, to externally derived data. • Assessing transparency: assessing the completeness and accuracy of the going concern disclosures in the Annual Report and considering whether they reflect the risks associated with the Group's ability to continue as a going concern. <p>Our results</p> <p>We found the going concern disclosure without any material uncertainty to be acceptable.</p>
<p>Recoverability of parent company's investment in subsidiaries</p> <p>(£661.8m; 2018: £846.1m)</p> <p>Refer to page 152 (accounting policy) and page 153 (financial disclosures).</p>	<p>Low risk, high value</p> <p>The carrying amount of the parent company's investment in subsidiaries represents 55.0% (2018: 87.2%) 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.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Test of details: comparing the carrying amount of 100% of investments with the relevant subsidiaries' 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. <p>Our results</p> <p>We found the Group's assessment of the recoverability of investment in subsidiaries to be acceptable.</p>

We continue to perform procedures over the recoverability of development trading properties. However, as the majority of the development trading properties have traded out or are now transferred to investment property, and the degree to which the market valuation of the remaining schemes is below the carrying value has reduced compared to previous years, we have determined that there is no longer a significant risk surrounding the recoverability of this balance. Therefore we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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 £23.0m (2018: £18.0m), determined with reference to a benchmark of Group total assets of which it represents 0.9% (2018: 1%).

In addition, we applied a lower materiality of £3.7m (2018: £3.4m) 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 for which we believe

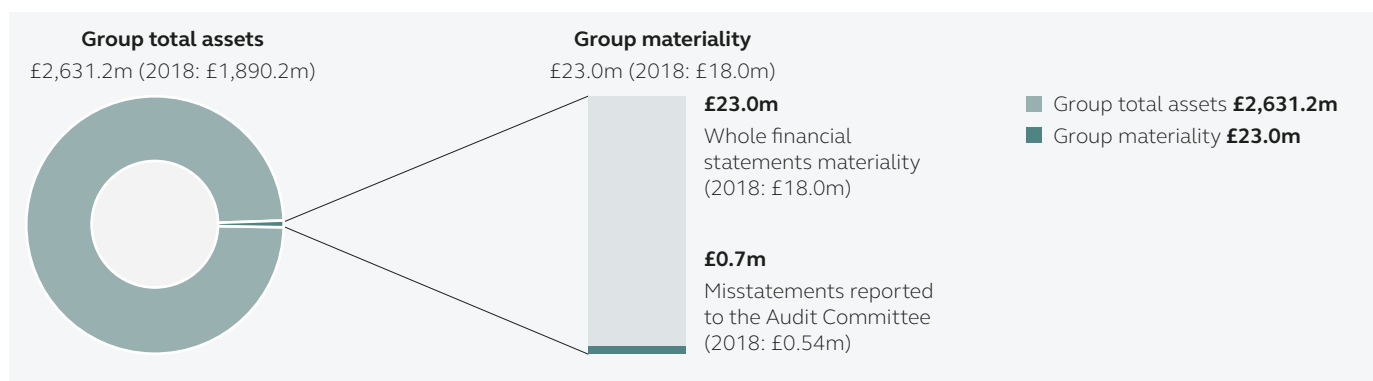
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GRAINGER PLC CONTINUED

misstatement of a lesser amount than materiality for the financial statements as a whole could be reasonably 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 £20.0m (2018: £15.0m) determined with reference to a benchmark of company net assets of which it represented 2.8% (2018: 3%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.7m (2018: £0.54m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group team performed the audit of the Group as if it were 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 (2018: 100% of Group revenue, Group profit before tax and Group total assets).



4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see Section 2 of this report). Based on this work, 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 12 months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 44 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 44 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 Statement 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.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

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 11 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.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 91, 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.

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

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 or other irregularities (see below), 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 general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, landlord regulation and certain aspects of company legislation recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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.

**Richard Kelly (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

26 November 2019

CONSOLIDATED INCOME STATEMENT

For the year ended 30 September

	Notes	2019 £m	2018 £m
Group revenue	5	222.8	270.7
Net rental income	6	63.5	43.8
Profit on disposal of trading property	7	66.6	81.2
Profit on disposal of investment property	8	1.9	1.4
Income from financial interest in property assets	20	4.2	6.5
Fees and other income	9	4.4	7.1
Administrative expenses		(28.0)	(27.9)
Other expenses		(4.4)	(1.1)
Profit on disposal of joint venture	19	-	7.0
Impairment of goodwill	38	(12.7)	-
Impairment of inventories to net realisable value	22	(0.4)	(0.5)
Reversal of impairment of joint venture	19	9.8	5.5
Operating profit		104.9	123.0
Net valuation gains on investment property	16	57.5	22.6
Change in fair value of derivatives	27	(0.4)	(0.2)
Finance costs	12	(32.8)	(27.2)
Finance income	12	0.3	2.1
Corporate bond redemption	12	-	(27.4)
Share of profit of associates after tax	18	0.4	7.2
Share of profit of joint ventures after tax	19	1.4	0.6
Profit before tax	11	131.3	100.7
Tax charge	13	(16.4)	(13.3)
Profit for the year attributable to the owners of the Company		114.9	87.4
Basic earnings per share (2018 restated, note 1d)	15	19.9p	19.0p
Diluted earnings per share (2018 restated, note 1d)	15	19.8p	18.9p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September

	Notes	2019 £m	2018 £m
Profit for the year	3	114.9	87.4
<i>Items that will not be transferred to the consolidated income statement:</i>			
Actuarial (loss)/gain on BPT Limited defined benefit pension scheme	28	(3.2)	0.5
<i>Items that may be or are reclassified to the consolidated income statement:</i>			
Fair value movement on financial interest in property assets	20	-	(0.5)
Changes in fair value of cash flow hedges		(17.8)	3.2
Other comprehensive income and expense for the year before tax		(21.0)	3.2
<i>Tax relating to components of other comprehensive income:</i>			
Tax relating to items that will not be transferred to the consolidated income statement	13	0.6	(0.1)
Tax relating to items that may be or are reclassified to the consolidated income statement	13	3.0	(0.5)
Total tax relating to components of other comprehensive income		3.6	(0.6)
Other comprehensive income and expense for the year after tax		(17.4)	2.6
Total comprehensive income and expense for the year attributable to the owners of the Company		97.5	90.0

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September

	Notes	2019 £m	2018 £m
ASSETS			
Non-current assets			
Investment property	16	1,574.6	589.7
Property, plant and equipment	17	0.3	0.3
Investment in associates	18	11.7	134.0
Investment in joint ventures	19	21.6	11.6
Financial interest in property assets	20	76.4	82.2
Retirement benefits	28	–	0.9
Deferred tax assets	13	5.6	3.4
Intangible assets	21	11.2	4.7
		1,701.4	826.8
Current assets			
Inventories – trading property	22	700.0	799.3
Trade and other receivables	23	40.5	150.4
Derivative financial instruments	27	–	4.4
Cash and cash equivalents	27	189.3	109.3
		929.8	1,063.4
Total assets		2,631.2	1,890.2
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	26	1,176.8	960.1
Retirement benefits	28	1.7	–
Provisions for other liabilities and charges	24	1.2	1.3
Deferred tax liabilities	13	32.7	29.9
		1,212.4	991.3
Current liabilities			
Interest-bearing loans and borrowings	26	100.0	1.1
Trade and other payables	25	73.6	70.7
Provisions for other liabilities and charges	24	0.4	0.7
Current tax liabilities		4.0	7.4
Derivative financial instruments	27	17.3	3.4
		195.3	83.3
Total liabilities		1,407.7	1,074.6
NET ASSETS		1,223.5	815.6
EQUITY			
Issued share capital	29	30.7	20.9
Share premium account		436.5	111.4
Merger reserve	31	20.1	20.1
Capital redemption reserve		0.3	0.3
Cash flow hedge reserve	31	(14.3)	0.5
Available-for-sale reserve	31	–	6.0
Retained earnings	32	750.2	656.4
TOTAL EQUITY		1,223.5	815.6

The financial statements on pages 103 to 149 were approved by the Board of Directors on 26 November 2019 and were signed on their behalf by:

Helen Gordon
Director

Vanessa Simms
Director

Company registration number: 125575

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 1 October 2017		20.9	111.1	20.1	0.3	(2.1)	6.5	588.5	-	745.3
Profit for the year	3	-	-	-	-	-	-	87.4	-	87.4
Other comprehensive income/(loss) for the year		-	-	-	-	2.6	(0.5)	0.5	-	2.6
Total comprehensive income		-	-	-	-	2.6	(0.5)	87.9	-	90.0
Award of SAYE shares	29	-	0.3	-	-	-	-	-	-	0.3
Purchase of own shares	29	-	-	-	-	-	-	(0.3)	-	(0.3)
Share-based payments charge	30	-	-	-	-	-	-	1.1	-	1.1
Dividends paid	14	-	-	-	-	-	-	(20.8)	-	(20.8)
Total transactions with owners recorded directly in equity		-	0.3	-	-	-	-	(20.0)	-	(19.7)
Balance as at 30 September 2018		20.9	111.4	20.1	0.3	0.5	6.0	656.4	-	815.6
Profit for the year	3	-	-	-	-	-	-	114.9	-	114.9
Other comprehensive loss for the year		-	-	-	-	(14.8)	-	(2.6)	-	(17.4)
Total comprehensive income		-	-	-	-	(14.8)	-	112.3	-	97.5
Issue of share capital	29	9.8	324.8	-	-	-	-	-	-	334.6
Award of SAYE shares	29	-	0.3	-	-	-	-	-	-	0.3
Purchase of own shares	29	-	-	-	-	-	-	(1.0)	-	(1.0)
Share-based payments charge	30	-	-	-	-	-	-	1.7	-	1.7
Dividends paid	14	-	-	-	-	-	-	(25.2)	-	(25.2)
Fair value of non-controlling interest acquired through business combination	38	-	-	-	-	-	-	-	3.1	3.1
Acquisition of non-controlling interest	38	-	-	-	-	-	-	-	(3.1)	(3.1)
Transfer of available-for-sale reserve	31	-	-	-	-	-	(6.0)	6.0	-	-
Total transactions with owners recorded directly in equity		9.8	325.1	-	-	-	(6.0)	(18.5)	-	310.4
Balance as at 30 September 2019		30.7	436.5	20.1	0.3	(14.3)	-	750.2	-	1,223.5

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 September

	Notes	2019 £m	2018 £m
Cash flow from operating activities			
Profit for the year		114.9	87.4
Depreciation and amortisation	11	1.5	0.9
Impairment of goodwill	38	12.7	-
Net valuation gains on investment property	16	(57.5)	(22.6)
Net finance costs	12	32.5	25.1
Corporate bond redemption	12	-	27.4
Share of profit of associates and joint ventures	18, 19	(1.8)	(7.8)
Profit on disposal of investment property	8	(1.9)	(1.4)
Share-based payments charge	30	1.7	1.1
Change in fair value of derivatives	27	0.4	0.2
Reversal of impairment of joint venture	19	(9.8)	(5.5)
Profit on disposal of joint venture	19	-	(7.0)
Income from financial interest in property assets	20	(4.2)	(6.5)
Tax	13	16.4	13.3
Cash generated from operating activities before changes in working capital		104.9	104.6
Decrease/(increase) in trade and other receivables		110.5	(3.0)
(Decrease)/increase in trade and other payables		(2.7)	23.9
Decrease in provisions for liabilities and charges		(0.7)	(0.1)
Decrease in inventories		27.8	42.0
Cash generated from operating activities		239.8	167.4
Interest paid		(37.1)	(30.4)
Tax paid		(18.0)	(10.2)
Payments to defined benefit pension scheme	28	(0.6)	(0.5)
Net cash inflow from operating activities		184.1	126.3
Cash flow from investing activities			
Acquisition of subsidiary net of cash acquired		(350.9)	-
Acquisition of non-controlling interest	38	(3.1)	-
Proceeds from sale of investment property		59.4	5.0
Proceeds from sale of joint venture	19	-	67.0
Proceeds from financial interest in property assets	20	10.0	9.9
Dividends received	18, 19	-	2.3
Investment in associates and joint ventures	18, 19	(2.9)	(5.2)
Loans advanced to associates and joint ventures	18, 19	(6.7)	(5.4)
Loans repaid by associates and joint ventures	18, 19	5.7	14.0
Acquisition of investment property	16	(212.6)	(179.7)
Acquisition of property, plant and equipment and intangible assets		(7.9)	(2.9)
Net cash outflow from investing activities		(509.0)	(95.0)
Cash flow from financing activities			
Net proceeds from issue of share capital	29	334.6	-
Awards of SAYE shares	29	0.3	0.3
Purchase of own shares	29	(1.0)	(0.3)
Corporate bond redemption	26	-	(25.8)
Proceeds from new borrowings		430.2	650.3
Payment of loan costs		(4.3)	(3.0)
Repayment of borrowings		(329.7)	(611.6)
Dividends paid	14	(25.2)	(20.8)
Net cash inflow/(outflow) from financing activities		404.9	(10.9)
Net increase in cash and cash equivalents			
		80.0	20.4
Cash and cash equivalents at the beginning of the year	27	109.3	88.9
Cash and cash equivalents at the end of the year	27	189.3	109.3

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 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 Group financial statements for the year ended 30 September 2019 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 150 to 158.

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 financial position of the Group, including details of its financing and capital structure, is set out in the Financial review on pages 19 to 22. The Directors have assessed the future funding commitments of the Group and compared these to the level of committed loan facilities and cash resources over the medium term. In making this assessment, consideration has been given to compliance with borrowing covenants along with the uncertainty inherent in future financial forecasts and, where applicable, reasonable sensitivities have been applied to the key factors affecting financial performance for the Group. The Directors have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future period, and not less than 12 months from the date of these financial statements. For this reason, it continues to adopt the Going Concern basis of accounting in preparing its consolidated financial statements.

(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 details are provided in Note 18 and 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 2019 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.

A business combination may also require the recognition of identifiable intangible assets by the Group. An intangible asset is deemed to be identifiable if it is able to be separated or divided from the other assets acquired in the business combination and sold, licensed or exchanged for something else of value, even if the intention to do so is not present on behalf of the Group. Where an intangible asset is not individually separable, it may still meet the separability criterion if it is separable in combination with a related contract, identifiable asset or liability.

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.

Refer to Note 38 for business combinations in the current year.

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

A number of new standards and amendments to standards have been issued in the year and were effective for the Group from 1 October 2018. The most significant of these, and their impact on the Group's accounting, are set out below:

i) IAS 40 Investment Property

The amendment to IAS 40 widened the scope for transfers to and from investment property. Where there is a clear intention by the Group to hold PRS rental assets for the long term, such properties were identified as eligible for potential reclassification from trading property to investment property. Where the Group's objective to dispose of assets remains valid, for example portfolios where the intention is to dispose of assets gradually to realise maximum economic value for the Group, such assets are deemed as not requiring reclassification, even if their disposal is not deemed to be imminent.

The Group has prospectively applied the amendment and has assessed its property classifications across its entire portfolio at the effective date. Trading property with a cost of £71.5m and market value of £73.4m was reclassified as investment property. Further details are shown in Note 16.

ii) IFRS 9 Financial Instruments

IFRS 9 largely replaced IAS 39 Financial Instruments: Recognition and Measurement, which was previously 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.

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 does 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 removed the held to maturity loans and receivables and available-for-sale classifications that were previously available under IAS 39. On adoption of the new standard, CHARM has been reclassified from an available-for-sale asset to FVTPL. The fair value difference between the updated projected cash flows using the effective interest rate applicable at acquisition compared to the year end effective interest rate is now taken through the statutory income statement as opposed to other comprehensive income. The impact on the financial statements is detailed in Note 20.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. Accounting policies continued

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.

There has been no material impact on the impairment of trade and other receivables following the change in approach.

Hedge accounting

The hedge relationships in place for the Group as at 30 September 2018 for interest rate swaps continued to qualify as continuing hedges following adoption of the new standard. No other derivative instruments were designated as hedging relationships under IFRS 9. As a result, there has been no impact following the adoption of the new standard.

iii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaced IAS 11 Construction Contracts and IAS 18 Revenue, both of which were previously used by the Group. The standard applies to the recognition of the Group's revenue including proceeds from the disposal of trading property, contract revenue and property and asset management fees and revenue from construction contracts (outlined in Note 7). It does not apply to gross rental income which at the date of reporting is covered by IAS 17 Leases.

Under IFRS 15, revenue is recognised by the Group as follows:

Proceeds from the disposal of trading property – revenue is recognised following the sale of trading property when performance obligations have been met and control has been transferred to the buyer. This is deemed to be on legal completion.

Contract revenue – revenue is recognised over the duration of the contract as performance obligations, being construction of assets, are carried out. Cash from contract revenue is recovered on the sale of properties.

Property and asset management fees – revenue is recognised as performance obligations are met under the Group's respective property and asset management fee arrangements. The performance obligations include facilities management, procurement of suppliers, service charge management, insurance management, arrears management, health and safety monitoring and accounting services. Property and asset management fees are recovered on a quarterly basis.

The Group has considered the adoption of IFRS 15 and, given the nature of the revenue recognition applied, no adjustments were required in either the current or prior year. Comparatives have therefore not been restated and, on transition, there has been no material impact on the Group.

New standards not yet effective

i) IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and is effective for the Group from 1 October 2019. As a lessor, the Group's position is substantially unchanged. As a lessee of office space, the asset and corresponding lease liability will be presented in the statement of financial position and in the notes to the financial statements upon adoption of the standard.

On 1 October 2019, the Group expects to recognise property, plant and equipment of £2.2m and a corresponding lease liability of £3.2m, with an adjustment to retained earnings on transition.

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

(d) Prior period restatement

Following the rights issue completed in December 2018, pence per share comparatives have been restated using a bonus adjustment factor of 1.1066. This is based on the ratio of a mid-market share price of 255.3 pence per share on 30 November 2018, the business day before the shares started trading ex-rights and the theoretical ex-rights price at that date of 230.7 pence per share. Restated comparatives include diluted earnings per share – adjusted (Note 3), EPRA NAV and EPRA NNNAV (Note 4), dividends (Note 14) and earnings per share (Note 15).

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 on-going 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, EPRA NTA and EPRA NNNNAV, 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 4. 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. This includes details of key estimates and assumptions, along with which an independent professional adviser has been utilised to determine valuations for each asset category. In all cases, forming these valuations inherently includes elements of judgement and subjectivity with regards to the selection of unobservable inputs.

	Notes	PRS £m	Reversionary £m	Other £m	Total £m	Valuer	% of properties for which external valuer provides valuation
Trading property		131.3	528.6	40.1	700.0		
Investment property		1,550.7	23.9	-	1,574.6		
Financial asset (CHARM)		-	76.4	-	76.4		
Total statutory book value		1,682.0	628.9	40.1	2,351.0		
Trading property							
Residential	(i)	17.5	812.1	-	829.6	Allsop LLP	69%
GIInvest	(ii)	184.2	181.4	-	365.6	Allsop LLP	100%
Developments	(iii)	13.5	-	40.1	53.6	CBRE Limited	90%
Total trading property		215.2	993.5	40.1	1,248.8		
Investment property							
Residential	(i)	155.0	23.9	-	178.9	Allsop LLP	99%
Developments	(iii)	66.4	-	-	66.4	CBRE Limited	100%
Tricomm housing	(iv)	123.1	-	-	123.1	Allsop LLP	100%
Affordable housing	(v)	91.7	-	-	91.7	Allsop LLP	100%
GRIP	(vi)	658.0	-	-	658.0	CBRE Limited/ Allsop LLP	100%
New build PRS	(vii)	456.5	-	-	456.5	CBRE Limited	100%
Total investment property		1,550.7	23.9	-	1,574.6		
Financial asset (CHARM) ¹	(viii)	-	76.4	-	76.4	Allsop LLP	
Total assets at market value		1,765.9	1,093.8	40.1	2,899.8		
Statutory book value		1,682.0	628.9	40.1	2,351.0		
Market value adjustment ²		83.9	464.9	-	548.8		
Total assets at market value		1,765.9	1,093.8	40.1	2,899.8		
Net revaluation gain recognised in the income statement for wholly-owned properties		57.5	-	-	57.5		
Net revaluation gain relating to joint ventures and associates ³	(ix)	0.1	-	-	0.1		
Net revaluation gain recognised in the year³		57.6	-	-	57.6		

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 20.

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 4 for market value net asset measures.

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

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 2019. A structured sample of these in-house valuations was reviewed by Allsop LLP, an external independent

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. Critical accounting estimates and judgements continued

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 64% 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 2019 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 74% 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 2019 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 90% 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 10% of the portfolio is a Directors' Valuation.

iv) Tricomm housing – Allsop LLP provided an investment valuation as at 30 September 2019 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 nil in 2020, 2.00% in 2021, 3.50% in 2022, 2023 and 2024 and 2.75% thereafter. The discount rates applied to the cash flows range between 3.35% (core income) and 8.75% (on reversion).

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 (EUJ-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) GRIP – In line with the residential portfolio, older GRIP properties and groups of individual units are valued by Allsop LLP on a discount to vacant possession value basis on the assumption these assets would be sold individually. At 30 September 2019, Allsop LLP valued 11% of the GRIP portfolio. CBRE Limited values GRIP's PRS blocks in accordance with RICS professional valuation standards where fair value is the same as market value. At 30 September 2019, CBRE Limited valued 89% of the GRIP portfolio.

vii) New build PRS – CBRE Limited assessed the fair value of the completed assets and assets in the course of construction. The principal approach was to value the properties 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.

viii) Financial asset (CHARM) – The valuation methodology adopted for the CHARM asset is set out in Note 20 to the financial statements.

CHARM is valued using projected cash flows and applies key unobservable inputs being house price inflation and discount rates. As such it is classified as a level 3 asset (Note 27). The assumptions used to value the asset reflect an increase in house prices of between 2.60% and 3.91% p.a. 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.

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.

ix) Joint ventures and associates – For assets held within JVs and associates, CBRE Limited value the assets on the same basis described for new build PRS assets. 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. Gains or losses taken through the consolidated income statement represent the Group's share of valuation gains.

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, with vacant possession being determined in line with the approach detailed in Note 2.1i). The Group has a net realisable value provision of £7.4m as at 30 September 2019 (2018: £7.8m). The provision includes specific properties which are vacant and properties expected to become vacant in the future.

Sensitivity analysis

Changes to key assumptions could impact both income and financial position. The impact of changes to key assumptions is considered for the valuation of property assets and the net realisable value of trading property using a range of reasonable changes and have been applied to asset categories where sensitivities could have the largest impact. 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 reasonably possible changes. The table below sets out potential impacts that may result from changes to certain assumptions:

		Increase		Decrease	
		Income statement impact £m	Statement of financial position impact £m	Income statement impact £m	Statement of financial position impact £m
Residential and GInvest	2.0% change in house prices (NRV provision impact)	1.0	1.0	(1.0)	(1.0)
Tricomm housing	0.25% change in discount rate	(2.1)	(2.1)	2.1	2.1
Tricomm housing	0.25% change in HPI rate	1.8	1.8	(1.8)	(1.8)
GRIP	0.1% change in gross yield	(11.8)	(11.8)	12.3	12.3
New build PRS	0.1% change in gross yield	(7.8)	(7.8)	8.3	8.3
Financial asset (CHARM)	0.25% change in HPI rate	1.1	1.1	(1.1)	(1.1)
Financial asset (CHARM)	1.0% change in discount rate	(5.1)	(5.1)	5.7	5.7

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.

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.

Following the amendments to IAS 40, the Group transferred trading property with a cost of £71.5m and market value of £73.4m to investment property. Further details are shown in Note 16.

2) Business combination

In line with the Group's accounting policy on business combinations (Note 1(b)iii), the Group has considered whether the acquisition of GRIP REIT plc ('GRIP') constitutes a business combination or an asset acquisition. The Group concluded the acquisition constituted a business combination due to the integrated set of activities acquired in addition to the properties. The acquisition and related transaction costs have therefore been accounted for in accordance with IFRS 3 in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. Critical accounting estimates and judgements continued

As this acquisition has been categorised as a business combination, any premium paid over the fair value of the assets acquired is treated as goodwill in the consolidated balance sheet at the time of acquisition. Goodwill of £12.7m arising in respect of the transaction was recognised on acquisition, as detailed in Note 38.

Goodwill was subsequently assessed for impairment. IAS 40 does not allow a portfolio premium to be ascribed to individual property values and, as a result, an impairment charge for the full £12.7m was taken to the consolidated income statement in the current year.

3. 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, that are one-off in nature, which do not form part of the normal on-going revenue or costs of the business and, either individually or in aggregate, are material to the reported Group results.

£m	2019				2018			
	Statutory	Valuation	Other adjustments	Adjusted earnings	Statutory	Valuation	Other adjustments	Adjusted earnings
Group revenue	222.8	-	-	222.8	270.7	-	-	270.7
Net rental income	63.5	-	-	63.5	43.8	-	-	43.8
Profit on disposal of trading property	66.6	(0.7)	-	65.9	81.2	(0.8)	-	80.4
Profit on disposal of investment property	1.9	-	-	1.9	1.4	-	-	1.4
Income from financial interest in property assets	4.2	1.3	-	5.5	6.5	(0.7)	-	5.8
Fees and other income	4.4	-	-	4.4	7.1	-	-	7.1
Administrative expenses	(28.0)	-	-	(28.0)	(27.9)	-	-	(27.9)
Other expenses	(4.4)	-	3.8	(0.6)	(1.1)	-	-	(1.1)
Profit on disposal of joint venture	-	-	-	-	7.0	-	-	7.0
Impairment of goodwill	(12.7)	-	12.7	-	-	-	-	-
Impairment of inventories to net realisable value	(0.4)	0.4	-	-	(0.5)	0.5	-	-
Reversal of impairment of joint venture	9.8	(9.8)	-	-	5.5	(5.5)	-	-
Operating profit	104.9	(8.8)	16.5	112.6	123.0	(6.5)	-	116.5
Net valuation gains on investment property	57.5	(57.5)	-	-	22.6	(22.6)	-	-
Change in fair value of derivatives	(0.4)	0.2	0.2	-	(0.2)	0.2	-	-
Finance costs	(32.8)	-	0.4	(32.4)	(27.2)	-	-	(27.2)
Finance income	0.3	-	-	0.3	2.1	-	-	2.1
Corporate bond redemption	-	-	-	-	(27.4)	-	27.4	-
Share of profit of associates after tax	0.4	0.2	-	0.6	7.2	(5.0)	-	2.2
Share of profit of joint ventures after tax	1.4	-	-	1.4	0.6	(0.2)	-	0.4
Profit before tax	131.3	(65.9)	17.1	82.5	100.7	(34.1)	27.4	94.0
Tax charge for the year	(16.4)	-	-	-	(13.3)	-	-	-
Profit for the year attributable to the owners of the Company	114.9	-	-	-	87.4	-	-	-
Diluted earnings per share – adjusted (2018 restated, Note 1d)	-	-	-	11.5p	-	-	-	16.4p

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 on-going 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.

Profit before tax in the adjusted columns above of £82.5m (2018: £94.0m) is the adjusted earnings of the Group. Adjusted earnings per share assumes tax of £15.7m (2018: £17.9m) in line with the current effective rate of 19.0% (2018: 19.0%), divided by the weighted average number of shares as shown in Note 15.

Other adjustments in 2019 primarily relate to the acquisition of GRIP, comprising £12.7m goodwill written off and £3.6m transaction costs relating to acquisition, restructuring and refinancing costs. In addition, the Group incurred £0.8m costs in relation to the successful Tfl joint venture bid. In 2018, £27.4m other adjustments were recorded in relation to the previous corporate bond redeemed in the year, being £25.8m gross prepayment cost and £1.6m expense of unamortised costs.

4. 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 are the Executive Directors. The two significant segments for the Group are PRS and Reversionary.

Following the acquisition of GRIP in December 2018, the provision of management information relating to segmental reporting has been amended. The amended format improves clarity of reporting, separating the previous Residential segment to enable visibility of performance between PRS and Reversionary segments, aligned to the management of the organisation. The PRS segment includes stabilised PRS assets as well as PRS under construction due to direct development and forward funding arrangements, both for wholly-owned assets and the Group's interest in joint ventures and associates as relevant. The Reversionary segment includes regulated tenancies, as well as CHARM. The previously reported Development segment that included legacy strategic land and development arrangements is reported in the Other segment, along with administrative expenses. Comparatives have been restated in accordance with the revised segmental reporting.

The key operating performance measure of profit or loss used by the CODM is adjusted earnings before tax, valuation and other adjustments. Historically, the CODM reviewed by segment two key statement of financial position measures of net asset value, being EPRA Net Asset Value ("EPRA NAV") and EPRA Triple Net Asset Value ("EPRA NNAV"). In October 2019, EPRA issued new guidelines on its definitions of NAV measures. The revision includes the introduction of EPRA Net Tangible Assets (NTA), which is considered to be a more relevant NAV measure for the Group and we are reporting this as our primary NAV measure going forward. EPRA NTA reflects the tax that will crystallise in relation to the trading portfolio, whilst excluding the volatility of mark to market movements on fixed rate debt and derivatives which are unlikely to be realised.

Information relating to the Group's operating segments is set out in the tables below. The tables distinguish between adjusted earnings on a segmental basis. Valuation and other adjustments are not reviewed by the CODM on a segmental basis and should be read in conjunction with Note 3.

2019 Income statement

£m	PRS	Reversionary	Other	Total
Group revenue				
Segment revenue – external	67.9	134.1	20.8	222.8
Net rental income	42.6	20.6	0.3	63.5
Profit on disposal of trading property	1.6	56.9	7.4	65.9
Profit on disposal of investment property	1.9	–	–	1.9
Income from financial interest in property assets	–	5.5	–	5.5
Fees and other income	2.1	0.1	2.2	4.4
Administrative expenses	–	–	(28.0)	(28.0)
Other expenses	(0.6)	–	–	(0.6)
Net finance costs	(19.4)	(11.9)	(0.8)	(32.1)
Share of trading profit of joint ventures and associates after tax	0.7	–	1.3	2.0
Adjusted earnings	28.9	71.2	(17.6)	82.5
Valuation movements				65.9
Other adjustments				(17.1)
Profit before tax				131.3

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. Segmental information continued

A reconciliation from adjusted earnings to adjusted EPRA earnings is detailed in the table below, with further details shown in the EPRA performance measures on page 159:

£m	PRS	Reversionary	Other	Total
Adjusted earnings	28.9	71.2	(17.6)	82.5
Profit on disposal of investment property	(1.9)	-	-	(1.9)
Previously recognised profit through EPRA market value measures	-	(51.8)	-	(51.8)
Adjusted EPRA earnings	27.0	19.4	(17.6)	28.8

2018 Income statement – restated

The table below has been restated in accordance with revised segmental reporting:

£m	PRS	Reversionary	Other	Total
Group revenue				
Segment revenue – external	37.8	167.5	65.4	270.7
Net rental income	23.3	20.1	0.4	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	4.7	0.1	2.3	7.1
Administrative expenses	-	-	(27.9)	(27.9)
Other expenses	(1.1)	-	-	(1.1)
Profit on disposal of joint venture	-	-	7.0	7.0
Net finance costs	(10.5)	(12.8)	(1.8)	(25.1)
Share of trading profit of joint ventures and associates after tax	2.2	-	0.4	2.6
Adjusted earnings	20.0	81.9	(7.9)	94.0
Valuation movements				34.1
Other adjustments				(27.4)
Profit before tax				100.7

A reconciliation from adjusted earnings to adjusted EPRA earnings is detailed in the table below:

£m	PRS	Reversionary	Other	Total
Adjusted earnings	20.0	81.9	(7.9)	94.0
Profit on disposal of investment property	(1.4)	-	(7.0)	(8.4)
Previously recognised profit through EPRA market value measures	-	(59.5)	-	(59.5)
Adjusted EPRA earnings	18.6	22.4	(14.9)	26.1

Segmental assets

The principal net asset value measures reviewed by the CODM are EPRA NAV, EPRA NNAV and, following the new guidelines issued in October 2019, EPRA NTA. 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.

EPRA NAV is the Group's statutory net assets plus the adjustment required to increase the value of trading stock from its statutory accounts value of the lower of cost and net realisable value to its market value. In addition, the statutory statement of financial position amounts for both deferred tax on property revaluations and derivative financial instruments net of deferred tax, including those in joint ventures and associates, are added back to statutory net assets. Finally, the market value of Grainger plc shares owned by the Group are added back to statutory net assets. For the Group, EPRA NAV is aligned with EPRA Net Reinstatement Value (NRV), which was introduced in EPRA's October 2019 guidelines.

EPRA NTA assumes that entities buy and sell assets, thereby crystallising certain levels of deferred tax liabilities. For the Group, deferred tax in relation to revaluations of its trading portfolio is taken into account by applying the expected rate of tax to the adjustment that increases the value of trading stock from its statutory accounts value of the lower of cost and net realisable value, to its market value. The measure also excludes all intangible assets on the statutory balance sheet, including goodwill.

EPRA NNNAV reverses some of the adjustments made between statutory net assets, EPRA NAV and EPRA NTA. All of the adjustments for the value of derivative financial instruments net of deferred tax, including those in joint ventures and associates, are reversed. The adjustment for the deferred tax on investment property revaluations excluded from EPRA NAV and EPRA NTA are also reversed, as is the intangible adjustment in respect of EPRA NTA, except for goodwill which remains excluded. In addition, adjustments are made to net assets to reflect the fair value, net of deferred tax, of the Group's fixed rate debt. For the Group, EPRA NNNAV is broadly aligned with EPRA Net Disposal Value (NDV), which was introduced in EPRA's October 2019 guidelines, with the only difference being the exclusion of goodwill from EPRA NDV which, at the reporting date, is £0.5m.

ROSE of 4.4% is calculated from the closing EPRA NNNAV of 272p per share plus the dividend of 5.19p per share for the year and 5p per share mark to market adjustment, divided by the opening EPRA NNNAV of 270p per share which has been adjusted for the potential dilution for shareholders who didn't participate in the rights issue.

These measures are set out below by segment along with a reconciliation to the summarised statutory statement of financial position. Additional disclosures, including the previous and new EPRA NAV measures, are included on pages 159 to 164.

2019 Segment net assets

£m	PRS	Reversionary	Other	Total	Pence per share
Total segment net assets (statutory)	979.3	224.5	19.7	1,223.5	199
Total segment net assets (EPRA NAV)	1,090.4	689.9	40.6	1,820.9	297
Total segment net assets (EPRA NTA)	1,068.2	610.5	29.4	1,708.1	278
Total segment net assets (EPRA NNNAV)	1,048.8	610.5	6.9	1,666.2	272

2019 Reconciliation of EPRA NAV measures

£m	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	EPRA NAV balance sheet	Adjustments to deferred and contingent tax and intangibles	EPRA NTA balance sheet	Adjustments to derivatives, fixed rate debt and intangibles	EPRA NNNAV balance sheet
Investment property	1,574.6	-	1,574.6	-	1,574.6	-	1,574.6
Investment in joint ventures and associates	33.3	-	33.3	-	33.3	-	33.3
Financial interest in property assets	76.4	-	76.4	-	76.4	-	76.4
Inventories – trading property	700.0	548.8	1,248.8	-	1,248.8	-	1,248.8
Cash and cash equivalents	189.3	-	189.3	-	189.3	-	189.3
Other assets	57.6	3.6	61.2	(11.2)	50.0	18.2	68.2
Total assets	2,631.2	552.4	3,183.6	(11.2)	3,172.4	18.2	3,190.6
Interest-bearing loans and borrowings	(1,276.8)	-	(1,276.8)	-	(1,276.8)	(23.4)	(1,300.2)
Deferred and contingent tax liabilities	(32.7)	27.7	(5.0)	(101.6)	(106.6)	(19.4)	(126.0)
Other liabilities	(98.2)	17.3	(80.9)	-	(80.9)	(17.3)	(98.2)
Total liabilities	(1,407.7)	45.0	(1,362.7)	(101.6)	(1,464.3)	(60.1)	(1,524.4)
Net assets	1,223.5	597.4	1,820.9	(112.8)	1,708.1	(41.9)	1,666.2

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

£m	PRS	Reversionary	Other	Total
EPRA NTA				
Investment property	1,550.7	23.9	-	1,574.6
Investment in joint ventures and associates	16.3	-	17.0	33.3
Financial interest in property assets	-	76.4	-	76.4
Inventories – trading property	215.2	993.5	40.1	1,248.8
Cash and cash equivalents	114.2	70.0	5.1	189.3
Other assets	6.5	6.1	37.4	50.0
Total segment EPRA NTA assets	1,902.9	1,169.9	99.6	3,172.4
Interest-bearing loans and borrowings	(770.6)	(472.2)	(34.0)	(1,276.8)
Deferred and contingent tax liabilities	(22.2)	(79.4)	(5.0)	(106.6)
Other liabilities	(41.9)	(7.8)	(31.2)	(80.9)
Total segment EPRA NTA liabilities	(834.7)	(559.4)	(70.2)	(1,464.3)
Net EPRA NTA assets	1,068.2	610.5	29.4	1,708.1

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. Segmental information continued

2018 Segment net assets

The table below has been restated in accordance with revised segmental reporting:

£m	PRS	Reversionary	Other	Total	Pence per share restated (Note 1d)
Total segment net assets (statutory)	486.0	244.3	85.3	815.6	187
Total segment net assets (EPRA NAV)	607.6	754.7	94.8	1,457.1	314
Total segment net assets (EPRA NTA)	586.5	666.9	89.5	1,342.9	290
Total segment net assets (EPRA NNNAV)	564.6	666.9	92.2	1,323.7	286

2018 Reconciliation of EPRA NAV measures

£m	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	EPRA NAV balance sheet	Adjustments to deferred and contingent tax and intangibles	EPRA NTA balance sheet	Adjustments to derivatives, fixed rate debt and intangibles	EPRA NNNAV balance sheet
Investment property	589.7	-	589.7	-	589.7	-	589.7
Investment in joint ventures and associates	145.6	0.4	146.0	-	146.0	(0.4)	145.6
Financial interest in property assets	82.2	-	82.2	-	82.2	-	82.2
Inventories – trading property	799.3	607.1	1,406.4	-	1,406.4	-	1,406.4
Cash and cash equivalents	109.3	-	109.3	-	109.3	-	109.3
Other assets	164.1	2.7	166.8	(4.7)	162.1	9.6	171.7
Total assets	1,890.2	610.2	2,500.4	(4.7)	2,495.7	9.2	2,504.9
Interest-bearing loans and borrowings	(961.2)	-	(961.2)	-	(961.2)	(3.4)	(964.6)
Deferred and contingent tax liabilities	(29.9)	27.9	(2.0)	(109.5)	(111.5)	(21.6)	(133.1)
Other liabilities	(83.5)	3.4	(80.1)	-	(80.1)	(3.4)	(83.5)
Total liabilities	(1,074.6)	31.3	(1,043.3)	(109.5)	(1,152.8)	(28.4)	(1,181.2)
Net assets	815.6	641.5	1,457.1	(114.2)	1,342.9	(19.2)	1,323.7

In order to provide further analysis, the following table sets out EPRA NTA by segment in accordance with revised segmental reporting:

£m	PRS	Reversionary	Other	Total
EPRA NTA				
Investment property	564.4	25.3	-	589.7
Investment in joint ventures and associates	134.4	-	11.6	146.0
Financial interest in property assets	-	82.2	-	82.2
Inventories – trading property	278.0	1,082.2	46.2	1,406.4
Cash and cash equivalents	44.9	54.6	9.8	109.3
Other assets	4.8	4.8	152.6	162.2
Total segment EPRA NTA assets	1,026.5	1,249.1	220.2	2,495.8
Interest-bearing loans and borrowings	(394.6)	(480.2)	(86.5)	(961.3)
Deferred and contingent tax liabilities	(21.1)	(87.8)	(2.6)	(111.5)
Other liabilities	(24.3)	(14.2)	(41.6)	(80.1)
Total segment EPRA NTA liabilities	(440.0)	(582.2)	(130.7)	(1,152.9)
Net EPRA NTA assets	586.5	666.9	89.5	1,342.9

5. 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.

	2019 £m	2018 £m
Gross rental income (Note 6)	85.9	59.2
Gross proceeds from disposal of trading property (Note 7)	132.5	204.4
Fees and other income (Note 9)	4.4	7.1
	222.8	270.7

6. 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 management, repair and maintenance costs are deducted from gross rental income to determine net rental income.

	2019 £m	2018 £m
Gross rental income	85.9	59.2
Property operating expenses	(22.4)	(15.4)
	63.5	43.8

7. Profit on disposal of trading property

Accounting policy

Property is regarded as sold when performance obligations have been met and control has been transferred to the buyer. This is generally deemed to be on legal completion as at this point the buyer is able to determine the use of the property and has rights to any cash inflows or outflows in respect of the property. 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 are recognised over time in the consolidated income statement, with performance obligations satisfied continually across the period in which the asset is created or enhanced. Control of the asset is transferred to the customer across the construction period rather than upon completion of the asset in its entirety as, per the contract in place, this is when the customer gains their residual interest. The input method used to measure progress is the value of work completed, denoted by the costs incurred to date, and revenue is subsequently recognised at the margin stipulated in the contract. This is also when the Group become entitled to the consideration arising from the contract. Revenues are recognised as contract assets in trade and other receivables (Note 23) and will be recovered on completion of the development.

	2019 £m	2018 £m
Proceeds from disposal of trading property	127.2	160.5
Contract revenue	5.3	43.9
Gross proceeds from disposal of trading property	132.5	204.4
Selling costs	(2.2)	(4.1)
Net proceeds from disposal of trading property	130.3	200.3
Carrying value of trading property sold (Note 22)	(59.2)	(85.1)
Carrying value of contract expenses (Note 22)	(4.5)	(34.0)
	66.6	81.2

Amounts relating to contract revenue and expenses included in the above table relate to the Group's development of properties in the arrangement with the Royal Borough of Kensington and Chelsea. The Group managed and funded the construction of a number of sites and received a developer's priority return at a fixed rate margin recoverable from the sale of completed residential units to third-parties. The agreement is a cost-plus contract and following construction concluding in 2019, minimal judgement around the recoverability of contract revenue is required. The credit risk on recoverability is considered to be low.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. 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 generally deemed to be on legal completion. Profits or losses are calculated by reference to the carrying value of the property sold.

	2019 £m	2018 £m
Gross proceeds from disposal of investment property	60.6	5.1
Selling costs	(1.2)	(0.1)
Net proceeds from disposal of investment property	59.4	5.0
Carrying value of investment property sold (Note 16)	(57.5)	(3.6)
	1.9	1.4

9. Fees and other income

	2019 £m	2018 £m
Property and asset management fee income	3.8	6.5
Other sundry income	0.6	0.6
	4.4	7.1

10. Employees

	2019 £m	2018 £m
Wages and salaries	13.6	14.1
Social security costs	1.4	1.5
Other pension costs – defined contribution scheme (Note 28)	1.0	0.9
Share-based payments (Note 30)	1.7	1.1
	17.7	17.6

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

	2019 Number	2018 Number
Residential	150	136
Development	20	13
Shared services	74	70
Group	11	11
	255	230

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 79 to 85.

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.

	2019 £'000	2018 £'000
Aggregate Directors' remuneration	1,640	2,097
Aggregate amount of gains on exercise of share options	11	–
Aggregate amount of money or assets received or receivable under scheme interests	80	74
	1,731	2,171

None of the Directors (2018: none) were members of the Group defined benefit scheme or the defined contribution scheme.

Key management compensation

	2019 £m	2018 £m
Short-term employee benefits	8.0	6.7
Post-employment benefits	0.4	0.4
Share-based payments	1.2	0.7
	9.6	7.8

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

11. Profit before tax

	2019 £m	2018 £m
Profit before tax is stated after charging:		
Depreciation of property, plant and equipment	0.3	0.4
Amortisation of intangible assets	1.2	0.5
Bad debt expense	-	0.2
Operating lease payments	1.0	0.8
Auditor's remuneration (see below)	0.6	0.4

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

Auditor's remuneration

	2019 £'000	2018 £'000
Services as auditor to the Company	129	95
Services as auditor to Group subsidiaries	206	146
Group audit fees	335	241
Audit related assurance services	35	32
Reporting accountant – corporate bond	-	35
Services related to corporate finance transactions	267	135
Other assurance services	8	5
Non-audit fees	310	207
Total fees	645	448

During the year the largest non-audit fees paid to KPMG LLP were £267,000 in relation to services related to corporate finance transactions and £35,000 in relation to a review of the interim financial information included in the half yearly financial report.

12. Finance costs and income

	2019 £m	2018 £m
Finance costs		
Bank loans and mortgages	23.2	17.2
Non-bank financial institution	2.1	2.0
Corporate bond	11.9	13.2
Interest capitalised under IAS 23	(7.6)	(8.0)
Other finance costs	3.2	2.8
	32.8	27.2
Corporate bond redemption	-	27.4
	32.8	54.6
Finance income		
Interest receivable from associates and joint ventures (Note 34)	(0.1)	(0.6)
Other interest receivable	(0.2)	(1.5)
	(0.3)	(2.1)
Net finance costs	32.5	52.5

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. Finance costs and income continued

During the year the Group refinanced loans acquired from the acquisition of GRIP. A new £275.0m facility was agreed, consisting of two tranches; £75.0m for seven years and £200.0m for ten years, with a blended interest rate of 2.3%. Unamortised costs of £0.4m were expensed on redemption of the previous £225.0m facility, which was due to mature in 2020.

13. 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.

The tax charge for the year of £16.4m (2018: £13.3m) recognised in the consolidated income statement comprises:

	2019 £m	2018 £m
Current tax		
Corporation tax on profit	16.4	17.7
Adjustments relating to prior years	(1.9)	(7.4)
	14.5	10.3
Deferred tax		
Origination and reversal of temporary differences	0.6	(0.5)
Adjustments relating to prior years	1.3	3.5
	1.9	3.0
Total tax charge for the year	16.4	13.3

The 2019 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, which was again awarded following a review in 2019, and to which the Group is committed.

The Group's results for this year are taxed at an effective rate of 19.0% (2018: 19.0%).

The tax charge for the year is lower (2018: lower) than the charge for the year derived by applying the standard rate of corporation tax in the UK of 19.0% (2018: 19.0%) to the profit before tax. The differences are explained below:

	2019 £m	2018 £m
Profit before tax	131.3	100.7
Income tax at a rate of 19.0% (2018: 19.0%)	24.9	19.1
Expenses not deductible for tax purposes	3.9	1.7
Share of joint ventures/associates after tax	(0.3)	(1.0)
Revaluation of investment properties and indexation allowance	(8.7)	(4.2)
Difference between tax and accounting profit on disposal of fixed assets and investments	(2.6)	1.6
Other temporary differences	(0.2)	-
Adjustment in respect of prior periods	(0.6)	(3.9)
Amounts recognised in the income statement	16.4	13.3

In addition to the above, a deferred tax credit of £3.6m (2018: deferred tax charge of £0.6m) was recognised within other comprehensive income comprising:

	2019 £m	2018 £m
Actuarial (loss)/gain on BPT Limited pension scheme	(0.6)	0.1
Equity component of available-for-sale financial asset	-	(0.1)
Fair value movement in cash flow hedges and exchange adjustments	(3.0)	0.6
Amounts recognised in other comprehensive income	(3.6)	0.6

Deferred tax balances comprise temporary differences attributable to:

	2019 £m	2018 £m
Deferred tax assets		
Short-term temporary differences	1.4	3.1
Losses carried forward	0.3	-
Actuarial deficit on BPT Limited pension scheme	0.9	0.3
Fair value movement in derivative financial instruments and cumulative exchange adjustments	3.0	-
	5.6	3.4
Deferred tax liabilities		
Trading property uplift to fair value on business combinations	(8.3)	(9.3)
Investment property revaluation	(19.7)	(18.6)
Short-term temporary differences	(3.6)	(0.8)
Fair value movement in financial interest in property assets	(1.1)	(1.1)
Fair value movement in derivative financial instruments and cumulative exchange adjustments	-	(0.1)
	(32.7)	(29.9)
Total deferred tax	(27.1)	(26.5)

Deferred tax has been predominantly calculated at a rate of 17.0% (2018: 17.0%) 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 £93.3m (2018: £103.2m) and will be realised as the properties are sold.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14. 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:

	2019 £m	2018 £m
Ordinary dividends on equity shares:		
Final dividend for the year ended 30 September 2017 – 2.95p per share (restated Note 1d)	–	13.6
Interim dividend for the year ended 30 September 2018 – 1.57p per share (restated Note 1d)	–	7.2
Final dividend for the year ended 30 September 2018 – 3.18p per share (restated Note 1d)	14.7	–
Interim dividend for the year ended 30 September 2019 – 1.73p per share	10.5	–
	25.2	20.8

Subject to approval at the AGM, the final dividend of 3.46p per share (gross) amounting to £21.2m will be paid on 10 February 2020 to Shareholders on the register at the close of business on 27 December 2019. Shareholders will again be offered the option to participate in a dividend reinvestment plan and the last day for election is 17 January 2020. An interim dividend of 1.73p per share amounting to a total of £10.5m was paid to Shareholders on 5 July 2019.

15. Earnings per share

Accounting policy**Basic**

Basic earnings per share is calculated by dividing the profit or loss attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held both in Trust and as treasury shares to meet its obligations under the Long-Term Incentive Plan ('LTIP') and Deferred Bonus Plan ('DBP') on which the dividends are being waived.

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares in issue by the dilutive effect of ordinary shares that the Company may potentially issue relating to its share option schemes and contingent share awards under the LTIP and DBP, based upon the number of shares that would be issued if 30 September 2019 was the end of the contingency period. Where the effect of the above adjustments is antidilutive, they are excluded from the calculation of diluted earnings per share.

	30 September 2019			30 September 2018 Restated (Note 1d)		
	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						
Profit attributable to equity holders	114.9	578.5	19.9	87.4	460.6	19.0
Effect of potentially dilutive securities						
Share options and contingent shares	–	2.7	(0.1)	–	2.4	(0.1)
Diluted earnings per share						
Profit attributable to equity holders	114.9	581.2	19.8	87.4	463.0	18.9

16. 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 27.

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.

	2019 £m	2018 £m
Opening balance	589.7	391.0
Additions	212.6	179.7
Acquired through business combination (Note 38)	700.8	-
Transfer from inventories (Note 1(c))	71.5	-
Disposals (Note 8)	(57.5)	(3.6)
Net valuation gains	57.5	22.6
Closing balance	1,574.6	589.7

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 2019 is £1,432.9m (2018: £489.4m).

Direct property repair and maintenance costs arising from investment property that generated rental income during the year were £11.3m (2018: £2.8m).

17. 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18. Investment in associates

	2019 £m	2018 £m
Opening balance	134.0	123.2
Share of profit for the year	0.4	7.2
Dividends received	-	(2.2)
Further investment ¹	-	5.2
Investment eliminated on consolidation following acquisition	(109.7)	-
Loan eliminated on consolidation following acquisition	(18.2)	-
Loans advanced to associates	5.1	5.2
Loans repaid by associates	-	(4.9)
Share of change in fair value of derivatives taken through other comprehensive income	0.1	0.3
Closing balance	11.7	134.0

The closing balance comprises share of net assets of £nil (2018: £109.2m) and net loans due from associates of £11.7m (2018: £24.8m). At the balance date, there is no expectation of credit losses on loans due.

The investment and loan eliminated on consolidation following acquisition of £109.7m and £18.2m respectively represents the Group's share of net assets in GRIP which became a subsidiary of Grainger on 20 December 2018 (see Note 38).

As at 30 September 2019, the Group's interest in associates was as follows:

	% of ordinary share capital held	Country of incorporation	Accounting period end
Vesta LP	20.0	UK	30 September

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:

2019 Summarised income statement

£m	GRIP REIT PLC ²	Vesta LP	Total
Net rental income and other income	1.4	-	1.4
Administration and other expenses	(0.2)	-	(0.2)
Operating profit	1.2	-	1.2
Revaluation gains on investment property	-	0.1	0.1
Change in fair value of derivatives	(0.3)	-	(0.3)
Interest payable	(0.6)	-	(0.6)
Profit before tax	0.3	0.1	0.4
Tax	-	-	-
Profit after tax	0.3	0.1	0.4

2019 Summarised statement of financial position

Trading and investment property	-	11.7	11.7
Current assets	-	1.0	1.0
Total assets	-	12.7	12.7
Current liabilities	-	(12.7)	(12.7)
Net assets	-	-	-

1 There were no additional amounts invested by the Group in GRIP in the period prior to its acquisition in December 2018 (2018: £5.2m).

2 Following GRIP becoming a subsidiary of Grainger on 20 December 2018, GRIP's assets and liabilities are consolidated in full into the Group statement of financial position and are no longer reflected within the investment in associates balance. The amounts shown in the income statement above represent the trading performance to the date of acquisition.

2018 Summarised income statement

£m	GRIP REIT 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	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	171.9	4.6	176.5
Current assets	13.5	2.0	15.5
Total assets	185.4	6.6	192.0
Non-current liabilities	(53.3)	–	(53.3)
Current liabilities	(22.9)	(6.6)	(29.5)
Net assets	109.2	–	109.2

19. Investment in joint ventures

	2019 £m	2018 £m
Opening balance	11.6	74.4
Share of profit for the year	1.4	0.6
Dividends received	–	(0.1)
Reversal of impairment	9.8	5.5
Further investment ¹	2.9	–
Loans advanced to joint ventures	1.6	0.2
Loans repaid by joint ventures	(5.7)	(9.1)
Disposal	–	(60.0)
Share of change in fair value of derivatives taken through other comprehensive income	–	0.1
Closing balance	21.6	11.6

¹ Grainger invested £2.9m into Connected Living London (BTR) Limited in the year (2018: £nil).

The closing balance comprises share of net assets of £4.1m (2018: net liabilities of £0.2m) and net loans due from joint ventures of £17.5m (2018: £11.8m). At the balance date, there is no expectation of credit losses on loans due.

As at 30 September 2018, the Group held an impairment provision against loans made to the Curzon Park Limited joint venture totalling £9.8m. The impairment was a result of the joint venture's land valuation being impacted by the High Speed Rail Network. During the year, following progress made in the process of valuing the affected land, it was determined that the risk of recoverability in respect of the joint venture loan was remote and as such the impairment has been reversed in full. There are currently no impairments held against loans to joint ventures at the reporting date.

In the prior year, 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 prior year consolidated income statement represent the trading performance to the date of disposal.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19. Investment in joint ventures continued

At 30 September 2019, the Group's interest in joint ventures was as follows:

	% of ordinary share capital held	Country of incorporation	Accounting period end
Connected Living London (BTR) Limited	51	UK	30 September
Curzon Park Limited	50	UK	31 March
Helical Grainger (Holdings) Limited	50	UK	31 March
Lewisham Grainger Holdings LLP	50	UK	30 September
CCZ a.s.	50	Czech Republic	30 September

During the year, the Group was selected by Transport for London ('TfL') as their PRS partner to develop over 3,000 new homes across an initial number of seed sites in London. Connected Living London (BTR) Limited was formed as the JV entity. The Group's ownership share of the entity is 51%, however, as the Group and TfL have equal voting rights and equal board representation in the JV entity we are not able to exercise control over significant decisions of the business. As a result, the Group equity accounts for its investment.

Effective 28 August 2018, two of the three Czech Republic companies the Group had an interest in, being CCY a.s. and Prazsky Projekt a.s., were liquidated. The Group's remaining joint venture interest 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:

2019 Summarised income statement

£m	Connected Living London (BTR) Limited	Curzon Park Limited	Helical Grainger (Holdings) Limited	Lewisham Grainger Holdings LLP	CCZ a.s.	Walworth Investment Properties Limited	Total
Profit on disposal of properties	-	1.4	-	-	-	-	1.4
Profit before tax	-	1.4	-	-	-	-	1.4
Tax	-	-	-	-	-	-	-
Profit after tax	-	1.4	-	-	-	-	1.4

2019 Summarised statement of financial position

	Connected Living London (BTR) Limited	Curzon Park Limited	Helical Grainger (Holdings) Limited	Lewisham Grainger Holdings LLP	Czech ¹ Republic combined	Walworth Investment Properties Limited	Total
Current assets	3.3	18.6	0.1	1.1	-	-	23.1
Total assets	3.3	18.6	0.1	1.1	-	-	23.1
Current liabilities	(0.4)	(17.2)	(0.1)	(1.1)	(0.2)	-	(19.0)
Net assets/(liabilities)	2.9	1.4	-	-	(0.2)	-	4.1

2018 Summarised income statement

£m	Connected Living London (BTR) Limited	Curzon Park Limited	Helical Grainger (Holdings) Limited	Lewisham Grainger Holdings LLP	Czech ¹ Republic combined	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

£m	Connected Living London (BTR) Limited	Curzon Park Limited	Helical Grainger (Holdings) Limited	Lewisham Grainger Holdings LLP	Czech ¹ Republic combined	Walworth Investment Properties Limited	Total
Current assets	–	19.3	9.1	–	0.4	–	28.8
Total assets	–	19.3	9.1	–	0.4	–	28.8
Current liabilities	–	(19.3)	(9.1)	–	(0.6)	–	(29.0)
Net liabilities	–	–	–	–	(0.2)	–	(0.2)

¹ 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.

20. 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 IFRS 9 and is measured at fair value through profit and loss.

It is initially recognised at fair value 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'.

	2019 £m	2018 £m
Opening balance	82.2	86.1
Cash received from the instrument	(10.0)	(9.9)
Amounts taken to income statement	4.2	6.5
Amounts taken to other comprehensive income before tax	–	(0.5)
Closing balance	76.4	82.2

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 27.

Following the Group's adoption of IFRS 9, differences arising from updated projected cash flows using the effective interest rate of acquisition compared to year end which were previously recognised in other comprehensive income are now recognised through the consolidated income statement. The accumulated fair value adjustments of £6.0m recognised in the available-for-sale reserve were transferred to retained earnings on transition.

21. Intangible assets

Accounting policy

Intangible assets comprise computer software and goodwill.

Computer software is amortised on a straight-line basis over 5-10 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.

	2019 £m	2018 £m
Opening balance	4.7	2.4
Additions	7.7	2.8
Amortisation	(1.2)	(0.5)
Closing balance	11.2	4.7

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

22. 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.

	2019 £m	2018 £m
Opening balance	799.3	841.3
Additions	36.3	77.6
Transfer to investment property (Note 1(c))	(71.5)	–
Disposals (Note 7)	(63.7)	(119.1)
Impairment of inventories to net realisable value	(0.4)	(0.5)
Closing balance	700.0	799.3

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 is unlikely to be within the 12 months subsequent to the balance sheet date 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:

	2019 £m	2018 £m
Carrying value of trading property sold (Note 7)	59.2	85.1
Carrying value of contract expenses (Note 7)	4.5	34.0
Impairment of inventories to net realisable value	0.4	0.5

23. 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 an expectation of cash shortfalls over the expected life of the amounts due. The movement in the provision is recognised in the consolidated income statement.

	2019 £m	2018 £m
Rent and other tenant receivables	2.5	2.3
Deduct: Provision for impairment	(0.7)	(0.5)
Rent and other tenant receivables – net	1.8	1.8
Contract assets	18.5	112.0
Other receivables	18.0	34.8
Prepayments	2.2	1.8
Closing balance	40.5	150.4

Contract assets primarily relate to revenue receivable on the arrangement with the Royal Borough of Kensington and Chelsea (Note 7). The balance of the contract asset has reduced as the contract nears completion. Between the year end and the date of approval of these financial statements, a further £2.9m has been recovered on the contract in the form of cash receipts.

Other receivables include £4.0m (2018: £15.6m) due from land sales, which is receivable no later than July 2020.

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 27 'Financial risk management and derivative financial instruments'.

24. 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.

25. 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.

	2019 £m	2018 £m
Deposits received	7.5	3.1
Trade payables	17.5	20.6
Tax and social security costs	1.0	0.5
Accruals	42.8	44.4
Deferred income	4.8	2.1
Closing balance	73.6	70.7

26. 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.

	2019 £m	2018 £m
Current liabilities		
Bank loans – Pounds Sterling	100.0	1.1
	100.0	1.1
Non-current liabilities		
Bank loans – Pounds Sterling	483.8	533.4
Bank loans – Euros	0.9	0.9
Non-bank financial institution	345.7	79.8
Corporate bond	346.4	346.0
	1,176.8	960.1
Total interest-bearing loans and borrowings	1,276.8	961.2

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26. Interest-bearing loans and borrowings continued

(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 2019 was 2.4% (2018: 2.4%). 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 £6.2m (2018: £6.6m) will be amortised over the life of the loans to which they relate.

(b) Non-bank financial institution

During the year the Group refinanced loans acquired from the acquisition of GRIP. A new £275.0m facility was agreed, consisting of two tranches; £75.0m for seven years and £200.0m for ten years, with a blended interest rate of 2.3%. Under IFRS 9, the refinance constitutes an extinguishment of the previous debt. As such, unamortised costs of £0.4m in relation to the previous GRIP facility were expensed to the consolidated income statement.

The weighted average variable interest rate on non-bank loans as at 30 September 2019 was 2.4% (2018: 2.8%). Unamortised costs in relation to these fixed rate loans of £4.3m (2018: £1.7m) will be amortised over the life of the loans to which they relate.

(c) Corporate bond

During the prior year the Group refinanced its corporate bond, issuing a new ten-year £350.0m corporate bond at 3.375% due April 2028. Prepayment costs of £25.8m were incurred and unamortised costs of £1.6m were expensed on redemption of the previous £275.0m bond, which was due to mature in 2020.

As at 30 September 2019 unamortised costs in relation to the £350.0m corporate bond stood at £2.4m (2018: £2.6m), and the outstanding discount was £1.2m (2018: £1.4m).

(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 2019, unamortised costs totalled £12.9m (2018: £10.9m) and the outstanding discount was £1.2m (2018: £1.4m).

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.

£m	2019				2018			
	Loans and borrowings	Interest payable	Derivatives used for hedging the liabilities from financing activities		Loans and borrowings	Interest payable	Derivatives used for hedging the liabilities from financing activities	
			Assets	Liabilities			Assets	Liabilities
Opening balance	961.2	6.3	(4.4)	3.4	925.7	5.0	(3.4)	4.9
<i>Changes from financing cash flows</i>								
Proceeds from loans and borrowings	430.2	-	-	-	650.3	-	-	-
Repayment of borrowings	(329.7)	-	-	-	(611.6)	-	-	-
Transaction costs related to loans and borrowings	(4.3)	-	-	-	(3.0)	-	-	-
Corporate bond redemption	-	-	-	-	(25.8)	-	-	-
Total changes from financing cash flows	96.2	-	-	-	9.9	-	-	-
<i>Other changes</i>								
Liabilities acquired through business combination	216.2	1.2	-	-	-	-	-	-
Gross interest accrued	-	36.6	-	-	-	32.3	-	-
Gross interest paid	-	(37.7)	-	-	-	(31.0)	-	-
Amortisation of borrowing costs net of premiums	3.2	-	-	-	(0.2)	-	-	-
Corporate bond redemption	-	-	-	-	25.8	-	-	-
Changes to fair value of derivatives through profit and loss	-	-	0.4	-	-	-	0.2	-
Changes in fair value of derivatives through hedging reserve	-	-	4.0	13.9	-	-	(1.2)	(1.5)
Total other changes	219.4	0.1	4.4	13.9	25.6	1.3	(1.0)	(1.5)
Closing balance	1,276.8	6.4	-	17.3	961.2	6.3	(4.4)	3.4

27. Financial risk management and derivative financial instruments

Accounting policy

Cash and cash equivalents

Cash and cash equivalents include 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 on-going basis. This effectiveness testing is re-performed at each period end to ensure that the hedge remains highly effective.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecasted transaction is ultimately recognised in the 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.

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 fair value through profit and loss (previously 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. Financial risk management and derivative financial instruments continued

Categories of financial instruments

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

£m	2019						
	Loans and receivables/ cash and cash equivalents	Assets at fair value through profit and loss	Derivatives used for hedging	Other financial assets	Total book value	Fair value adjustment	Fair value
Non-current assets							
Financial interest in property assets	-	76.4	-	-	76.4	-	76.4
Current assets							
Trade and other receivables excluding prepayments	38.3	-	-	-	38.3	-	38.3
Cash and cash equivalents	189.3	-	-	-	189.3	-	189.3
Total financial assets	227.6	76.4	-	-	304.0	-	304.0
£m	2018						
	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	-	-	-	1,176.8	1,176.8	23.4	1,200.2
Current liabilities							
Interest-bearing loans and borrowings	-	-	-	100.0	100.0	-	100.0
Trade and other payables	-	-	-	73.6	73.6	-	73.6
Derivative financial instruments	-	-	17.3	-	17.3	-	17.3
Total financial liabilities	-	-	17.3	1,350.4	1,367.7	23.4	1,391.1
Net financial assets/(liabilities)	227.6	76.4	(17.3)	(1,350.4)	(1,063.7)	(23.4)	(1,087.1)
£m	2018						
	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
£m	2018						
	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	-	-	-	960.1	960.1	3.4	963.5
Current liabilities							
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)

The fair value difference relates to the Group's corporate bond and the non-bank loans, which are stated at amortised cost in the consolidated statement of financial position. The fair value of the bond is calculated as £371.8m (2018: £345.5m) based on quoted prices in traded markets. The fair value of the non-bank loans is calculated as £351.6m (2018: £82.9m) and is calculated by independent financial advisers (Centrus Group) by reference to quoted iboxx index rates. There is no requirement under IFRS 9 to revalue these loans to fair value in the consolidated statement of financial position.

Included in cash above is £10.0m (2018: £14.4m) 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, £47.9m (2018: £35.6m) 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 loan to value ('LTV'):

	2019 £m	2018 £m
Gross debt	1,276.8	961.2
Cash (excluding client cash)	(179.3)	(94.9)
Net debt	1,097.5	866.3
Market value of properties	2,823.4	1,996.1
Other property related assets	138.0	336.2
Total market value of properties and property related assets	2,961.4	2,332.3
LTV	37.1%	37.1%

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 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 23). Each purchaser is subject to financial due diligence prior to sale. At 30 September 2019, £4.0m (2018: £15.6m) was outstanding.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. Financial risk management and derivative financial instruments continued

The Group also has credit risk relating to trade receivables. Under IFRS 9, the Group is required to provide for any expected credit losses arising from trade receivables. 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 £6.0m (2018: £2.6m) 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 £18.0m other receivables balance and all of the £18.5m contract assets are considered not due and not impaired.

As at 30 September 2019, tenant arrears of £0.7m within trade receivables were impaired and fully provided for (2018: £0.5m). The impaired receivables are based on a review of expected credit losses. 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 2019, the fair value of all interest rate derivatives that had a positive value was £nil (2018: £4.4m).

At 30 September 2019, the combined credit exposure arising from cash held at banks, money market deposits and interest rate swaps was £189.3m (2018: £100.5m), which represents 7.2% (2018: 5.3%) of total assets. Deposits were placed with financial institutions with A- or better credit ratings.

The Group has the following cash and cash equivalents:

	2019 £m	2018 £m
Pounds Sterling	187.3	107.6
Euros	2.0	1.7
	189.3	109.3

At the year end, £96.3m was placed on deposit (2018: £34.7m) at effective interest rates between 0.2% and 0.7% (2018: 0.2% and 0.6%). 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 2019 (2018: £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 loans are not secured directly against any property allowing operational flexibility.

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 and other 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 2019.

£m	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
At 30 September 2019					
Interest-bearing loans and borrowings (Note 26)	97.3	147.9	334.9	696.7	1,276.8
Interest on borrowings	33.3	28.6	79.4	84.2	225.5
Interest on derivatives	2.7	3.2	11.5	0.9	18.3
Trade and other payables	73.6	-	-	-	73.6
At 30 September 2018					
Interest-bearing loans and borrowings (Note 26)	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

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

Maturity of committed undrawn borrowing facilities

	2019 £m	2018 £m
Expiring:		
Between one and two years	-	-
Between two and five years	299.1	329.1
Over five years	-	-
	299.1	329.1

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:

£m	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Level 3				
CHARM	76.4	-	82.2	-
Investment property	1,574.6	-	589.7	-
	1,651.0	-	671.9	-
Level 2				
Interest rate swaps – in cash flow hedge accounting relationships	-	17.3	4.2	3.4
Interest rate caps – not in cash flow hedge accounting relationships	-	-	0.2	-
	-	17.3	4.4	3.4

The significant unobservable inputs affecting the carrying value of the CHARM portfolio are house price inflation and discount rates. Assumptions used are detailed in Note 2 and reconciliation of movements and amounts recognised in the consolidated income statement and, for the prior year, other comprehensive income are detailed in Note 20.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. Financial risk management and derivative financial instruments continued

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 2019 was £563.5m (2018: £459.6m).

In accordance with IFRS 9, 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:

	2019 £m	2018 £m
Assets – Level 3		
Opening balance	671.9	477.1
Amounts taken to income statement	61.7	29.1
Other movements	917.4	165.7
Closing balance	1,651.0	671.9

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 NNNNAV measures:

£m	Accounting basis	Classification if fair valued	2019		2018	
			Book value	Fair value	Book value	Fair value
Inventories – trading property	Lower of cost and net realisable value	Level 3	700.0	1,248.8	799.3	1,406.4
Corporate bond	Amortised cost	Level 1	350.0	371.8	350.0	345.5
Non-bank loans	Amortised cost	Level 3	350.0	351.6	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 IFRS 9 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 2019, 98% (2018: 91%) of the Group's net borrowings were economically hedged to fixed or capped rates.

Based on the Group's interest rate profile at the statement of financial position date, a 1% increase in interest rates would decrease annual profits by £1.8m (2018: £1.5m). Similarly, a 1% decrease would increase annual profits by £1.8m (2018: £1.5m).

Based on the Group's interest rate profile at the statement of financial position date, a 1% increase in interest rates would increase the Group's equity by £14.3m (2018: £16.5m). Similarly, a 1% decrease would decrease the Group's equity by £14.3m (2018: £16.5m).

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 IFRS 9, these movements in fair value are recognised directly in other comprehensive income rather than the consolidated income statement.

As at 30 September 2019, the market value of derivatives designated as cash flow hedges under IFRS 9 is a net liability of £17.3m (2018: net asset of £0.8m). No amount is recognised within the income statement for ineffectiveness of cash flow hedges (2018: £nil). The fair value movement on derivatives not in hedge accounting relationships resulted in a charge of £0.4m (2018: £0.2m) in the consolidated income statement.

At 30 September 2019, the market value of derivatives not designated as cash flow hedges under IFRS 9 is £nil (2018: £0.2m). 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

	2019 £m	2018 £m
Hedged debt maturing:		
Within one year	-	-
Between one and two years	100.0	-
Between two and five years	408.3	459.6
Over five years	-	-
	508.3	459.6

Interest rate profile – including the effect of derivatives and amortisation of issue costs

	2019					2018				
	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	3.0	8.7	700.0	-	700.0	3.4	9.5	425.0	-	425.0
Hedged rate	3.1	3.6	508.3	-	508.3	3.1	5.5	459.6	-	459.6
Variable rate	2.7	3.6	81.7	0.9	82.6	2.7	2.3	88.0	0.9	88.9
	3.0	5.8	1,290.0	0.9	1,290.9	3.2	5.7	972.6	0.9	973.5

At 30 September 2019, the fixed interest rates on the interest rate swap contracts vary from 0.69% to 1.96% (2018: 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 2019, the Group had available headroom of £430.5m.

(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 2019, the weighted average cost of debt was 3.0% (2018: 3.2%). Investment and development opportunities are evaluated using a risk adjusted WACC in order to ensure long-term Shareholder value is created.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

28. 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 considers 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 68 to 90. The pension cost charge in these financial statements represents contributions payable by the Group. The charge of £1.0m (2018: £0.9m) is included within employee remuneration in Note 10.

(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.

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 2019 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 2019, by a qualified independent actuary.

i) Principal actuarial assumptions under IAS 19 (p.a.)

	2019 %	2018 %
Discount rate	1.70	2.80
Retail Price Index ('RPI') inflation	3.30	3.05
Consumer Prices Index ('CPI') inflation	2.30	2.05
Salary increases	3.80	3.55
Rate of increase of pensions in payment	5.00	5.00
Rate of increase for deferred pensioners	2.30	2.05

ii) Demographic assumptions

	2019	2018
Mortality tables for pensioners	S2PA base tables CMI 2018 mortality projections 1.25% p.a. long-term rate	100% of S2PA CMI 2015 model with a long-term rate of improvement of 1.50% p.a. for males and 1.00% for females
Mortality tables for non-pensioners	As for pensioners	As for pensioners

iii) Life expectancies

	30 September 2019		30 September 2018	
	Male	Female	Male	Female
Life expectancy for a current 60-year-old (years)	86	88	88	89
Life expectancy at age 60 for an individual aged 45 (years)	88	89	89	90

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

28. Pension costs continued

Market value of scheme assets

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

	30 September 2019		30 September 2018	
	Market value £m	% of total scheme assets	Market value £m	% of total scheme assets
Equities	16.0	49	15.6	50
Bonds	12.6	38	11.1	36
Cash	0.5	2	0.9	3
Insurance policies	3.7	11	3.6	11
Total value of assets	32.8	100	31.2	100
The actual return on assets over the year was	2.3		0.8	

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.

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

	2019 £m	2018 £m
Market value of scheme assets at the start of the year	31.2	30.8
Interest income	0.9	0.9
Employer contributions	0.6	0.5
Actuarial return on assets less interest	1.4	(0.1)
Benefits paid	(1.3)	(0.9)
Market value of scheme assets at the end of the year	32.8	31.2

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

	2019 £m	2018 £m
Value of defined benefit obligation at the start of the year	30.3	31.0
Interest on pension scheme liabilities	0.9	0.8
Actuarial loss/(gain) on changes in financial assumptions	4.6	(0.6)
Benefits paid	(1.3)	(0.9)
Value of defined benefit obligation at the end of the year	34.5	30.3

Amounts recognised in the consolidated statement of comprehensive income

	2019 £m	2018 £m
Actuarial return on assets less interest	1.4	(0.1)
Actuarial (loss)/gain on defined benefit obligation	(4.6)	0.6
	(3.2)	0.5

The loss shown in the above table of £3.2m (2018: gain of £0.5m) has been included in the consolidated statement of comprehensive income on page 104.

The prior year 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.

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.

A full actuarial valuation is currently in progress based on the scheme assets and liabilities as at 1 July 2019. The Group and the Trustees will review the results of the valuation on completion.

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 £1.5m/(£1.6m)
Salary movement of 0.25% p.a.	Increase/(decrease) in deficit of £nil/£nil
Life expectancies movement of one year	Increase/(decrease) in deficit of £1.0m/(£1.0m)

29. 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.

Issue of share capital

In December 2018, the Group completed a 7 for 15 rights issue at an issue price of 178.0p raising a total amount of £334.5m net of costs. The rights issue increased the number of shares in issue by 194,758,445 shares, with shares being issued with a nominal value of £0.05 per share. This increased issued share capital by £9.7m and the share premium account by £324.8m.

	2019 £m	2018 £m
Allotted, called-up and fully paid:		
613,788,451(2018: 418,825,400) ordinary shares of 5p each	30.7	20.9

During the year, The Grainger Employee Benefit Trust has acquired 384,651 shares at a cost of £0.7m (2018: none acquired). The Group paid £0.3m (2018: £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 £1.0m (2018: £0.3m) has been deducted from retained earnings within Shareholders' equity.

As at 30 September 2019, share capital included 1,086,259 (2018: 828,576) shares held by The Grainger Employee Benefit Trust and 1,506,300 (2018: 1,506,300) shares held by Grainger plc as treasury shares. The total of these shares is 2,592,559 (2018: 2,334,876) with a nominal value of £129,628 (2018: £116,744) and a market value as at 30 September 2019 of £6.4m (2018: £7.0m).

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

	Number	Nominal value £'000
At 30 September 2017	418,611,685	20,930
Options exercised under the SAYE scheme	213,715	11
At 30 September 2018	418,825,400	20,941
Issue of shares under the rights issue	194,758,445	9,738
Options exercised under the SAYE scheme (Note 30)	204,606	10
At 30 September 2019	613,788,451	30,689

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30. 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

	LTIP		LTIP		DBSP	DBP	SAYE		
	12 December 2018 Market-based	12 December 2018 Non-market-based	26 September 2019 Market-based	26 September 2019 Non-Market-based	12 December 2019	17 December 2018 Basic	17 December 2018 Enhanced	9 July 2019 3-year scheme	9 July 2019 5-year scheme
Award date									
Number of shares on grant	445,841	445,841	33,299	33,299	126,431	38,834	102,984	294,301	62,174
Exercise price (£)	-	-	-	-	-	-	-	1.93	1.93
Vesting period from date of grant (years)	3	3	3	3	3	1-3	1-5	3	5
Exercise period after vesting (years)	7	7	7	7	3	3	3	-	-
Share price at grant (£)	2.18	2.18	2.45	2.45	2.19	2.12	2.50	2.50	2.50
Expected risk free rate (%)	0.75	0.75	0.75	0.75	N/A	N/A	N/A	0.48	0.51
Expected dividend yield (%)	N/A	N/A	N/A	N/A	2.2	2.2	2.2	2.2	2.2
Expected volatility (%)	24.1	24.1	24.1	24.1	N/A	N/A	N/A	23.4	24.7
Fair value (£)	1.18	2.18	1.18	2.18	2.19	2.12	2.12	0.60	0.65

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 £1.7m (2018: £1.1m).

(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 Total Property Return measured over three years from the date of grant.

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

Awards	Opening balance	Rights issue adjustment	Awards granted	Awards vested	Awards lapsed	Closing balance
LTIP						
11 January 2016	529,093	56,404	-	(46,207)	(539,290)	-
11 February 2016	142,745	15,217	-	(12,466)	(145,496)	-
8 February 2017	555,511	59,222	-	-	-	614,733
11 December 2017	591,977	63,111	-	-	(94,299)	560,789
12 December 2018	-	-	891,682	-	(104,735)	786,947
26 September 2019	-	-	66,598	-	-	66,598
Total	1,819,326	193,954	958,280	(58,673)	(883,820)	2,029,067

(b) DBP scheme

Awards granted under the DBSP relate to the compulsory deferral of 25% of any bonus paid to Executive Directors as described in the Remuneration Committee report. Shares granted in this scheme have no further performance conditions other than continued employment. There is a three-year vesting period from the date of grant, after which time participants can choose to exercise their awards.

Awards granted under the DBP scheme have no specific performance conditions other than 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 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:

Awards	Opening balance	Rights issue adjustment	Awards granted	Awards vested	Awards lapsed	Closing balance
DBSP						
01 December 2017	93,063	9,920	-	-	-	102,983
12 December 2018	-	-	126,431	-	(13,992)	112,439
DBP						
12 January 2016	24,615	2,617	-	(27,232)	-	-
11 January 2017	26,002	2,769	-	-	-	28,771
21 December 2017	35,525	3,784	-	-	-	39,309
17 December 2018	-	-	38,834	-	-	38,834
EDBP						
16 December 2014	68,388	6,940	-	(12,972)	(3,256)	59,100
12 January 2016	48,256	4,472	-	(7,832)	(4,160)	40,736
11 January 2017	72,868	6,334	-	(7,968)	(11,214)	60,020
21 December 2017	49,272	4,052	-	(5,260)	(11,238)	36,826
17 December 2018	-	-	102,984	(7,030)	(9,372)	86,582
Total	417,989	40,888	268,249	(68,294)	(53,232)	605,600

(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 2019, 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) ¹	Exercise period	Opening balance	Rights issue adjustment	Awards granted	Awards exercised	Awards lapsed/cancelled	Closing balance
SAYE								
2013	104.0	2016-19	3,909	-	-	(3,909)	-	-
2014A	156.4	2017-20	54,590	5,817	-	(57,531)	-	2,876
2014B	136.7	2018-20	155,399	16,558	-	(5,156)	(12,571)	154,230
2015	156.6	2018-21	54,797	4,066	-	(26,496)	(5,746)	26,621
2016	150.7	2019-22	183,714	19,567	-	(107,091)	(17,789)	78,401
2017	189.9	2020-23	193,606	20,146	-	(2,237)	(42,177)	169,338
2018	228.6	2021-24	183,631	19,092	-	(2,186)	(128,025)	72,512
2019	193.0	2022-25	-	-	356,475	-	(4,662)	351,813
			829,646	85,246	356,475	(204,606)	(210,970)	855,791
Weighted average exercise price (pence per share)			194.4	175.4	193.0	153.1	206.1	180.1

¹ Exercise prices have been adjusted to reflect the impact of the rights issue (Note 29).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30. Share-based payments continued

For those share options exercised during the year, the weighted average share price at the date of exercise was 247.8p (2018: 282.9p). For share options outstanding at the end of the year, the weighted average remaining contractual life was 1.9 years (2018: 1.8 years). There were 21,380 (2018: 34,647) share options exercisable at the year end with a weighted average exercise price of 151.5p (2018: 199.5p).

(d) SIP scheme

Awards under the SIP scheme have been based on the share price at the date of the award.

31. Changes in equity

The consolidated statement of changes in equity is shown on page 106. Further information relating to reserves is provided below. Movements on the retained earnings reserve are set out in Note 32.

(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 IFRS 9 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, were previously taken to this reserve. Following the adoption of IFRS 9, CHARM has been reclassified as an asset held at fair value through profit and loss. On transition, the £6.0m available-for-sale reserve balance was transferred to retained earnings.

32. 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 2019 is a balance of £7.8m (2018: £7.8m) relating to treasury shares bought back and cancelled.

Investment in own shares

Included within retained earnings at 30 September 2019 is a balance of £6.2m (2018: £8.4m) relating to investments in own shares.

33. List of subsidiaries, joint ventures and associates

A full list of all subsidiaries, joint ventures, associates and other related undertakings as at 30 September 2019 is set out in the notes to the parent company financial statements on pages 155 to 158.

34. Related party transactions

During the year ended 30 September 2019, the Group transacted with its associates and joint ventures (details of which are set out in Notes 18 and 19). 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:

£'000	2019		2018	
	Fees recognised	Year end balance	Fees recognised	Year end balance
GRIP REIT PLC ¹	840	–	3,798	1,048
Walworth Investment Properties Limited	–	–	23	–
Lewisham Grainger Holdings LLP	341	341	–	–
Vesta LP	803	126	712	–
	1,984	467	4,533	1,048

	2019			2018		
	Interest recognised £'000	Year end loan balance £m	Interest rate %	Interest recognised £'000	Year end loan balance £m	Interest rate %
GRIP REIT PLC ¹	124	–	–	647	18.2	Nil and 4.75
CCZ a.s.	(6)	(0.4)	4.00	(45)	(0.4)	4.00
Curzon Park Limited ²	–	16.2	Nil	–	21.9	Nil
Helical Grainger (Holdings) Limited ³	–	–	–	–	7.5	Nil
King Street Developments (Hammersmith) Limited ³	–	–	–	–	0.3	Nil
Lewisham Grainger Holdings LLP	–	1.7	Nil	–	–	–
Vesta LP	–	11.7	Nil	–	6.6	Nil
	118	29.2		602	54.1	

1 Amounts recognised from GRIP REIT PLC relate to pre-acquisition fees and interest where the Group's interest was classified as an associate. Following the acquisition, the results of GRIP REIT PLC are consolidated in full into the results of the Group.

2 The amount disclosed above is the gross loan amount. The £9.8m provision previously held against the loan was reversed in the current year.

3 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.

The Group's key management are the only other related party. Details of key management compensation are provided in Note 10.

35. 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:

	2019 £m	2018 £m
Operating lease payments due:		
Not later than one year	13.3	3.6
Later than one year and not later than five years	27.9	9.7
Later than five years	73.1	62.4
	114.3	75.7

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

35. Operating leases continued

There are no contingent rents recognised within net rental income in 2019 or 2018 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:

	2019 £m	2018 £m
Operating lease payments due:		
Not later than one year	1.0	0.9
Later than one year and not later than five years	2.4	2.8
Later than five years	–	0.1
	3.4	3.8

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.

36. Contingent liabilities

Properties in certain subsidiary companies form a 'guarantee group' with a market value of £1,369.3m and provide the security for the Group's core debt facility.

Barclays Bank PLC and Lloyds Bank PLC have provided guarantees under performance bonds. As at 30 September 2019, total guarantees amounted to £3.6m (2018: £2.9m).

37. Capital commitments

The Group has current commitments under a number of its PRS projects totalling £735.3m as at 30 September 2019 (2018: £607.5m).

38. Business combinations

On 20 December 2018, the Group completed the acquisition of the remaining 75.1% interest in GRIP from joint venture partner APG for cash consideration of £396.6m. This comprised cash consideration paid for the remaining shares of £341.3m and the separate repayment of loans and accrued interest owing to APG totalling £55.3m.

The acquisition of GRIP was accounted for as a business combination due to the integrated set of activities acquired in addition to the properties. Accordingly, transaction and subsequent structuring costs incurred in relation to the acquisition of £3.0m have been expensed in the consolidated income statement.

For the period 20 December 2018 to 30 September 2019, GRIP contributed revenue of £23.6m and profit of £23.9m to the Group's results. If the acquisition had occurred on 1 October 2018, the consolidated revenue would have been £229.5m and consolidated profit would have been £129.9m for the year ended 30 September 2019.

The fair value of the identifiable assets and liabilities of GRIP acquired as at the date of acquisition were:

	Note	Fair value recognised on acquisition £m
Investment property	16	700.8
Trade and other receivables		0.9
Cash and cash equivalents		45.7
Trade and other payables		(12.7)
Interest-bearing loans and borrowings		(289.7)
Derivative financial instruments		(1.2)
Total identifiable net assets acquired		443.8

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Material assets acquired	Valuation technique
Investment property	GRIP's property portfolio was valued externally by CBRE Limited. The valuations took into account whether the block is managed as a whole or 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 the 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.
Interest-bearing loans and borrowings	Nominal amounts owed to lenders plus interest payable that has been adjusted for the difference between the contractual interest rate on the loans and borrowings and the market interest rate. The Directors do not consider the difference between the contractual interest rate and the market interest rate to result in a material adjustment.

Goodwill arising from the acquisition has been recognised as follows:

	£m
Consideration transferred	341.3
Fair value of non-controlling interest acquired	3.1
Fair value of pre-existing equity interests	109.7
Recognition of deferred tax liability on acquisition	2.4
Fair value of identifiable net assets recognised	(443.8)
Goodwill	12.7

Goodwill recognised on acquisition of £12.7m represents the premium paid over the fair value of the net assets acquired. Goodwill has been subsequently assessed for impairment. As no definitive and measurable portfolio premium can be ascribed to the combined value of the properties, an impairment charge for the full amount of goodwill recognised on acquisition has been taken to the Group's consolidated income statement.

As part of the acquisition, the Group acquired the non-controlling interest held by APG in GRIP for £3.1m. This cost forms part of the acquisition of GRIP.

Following the acquisition, there remained a 10% non-controlling interest in GRIP Unit Trust 6, a wholly-owned subsidiary of the Group, held by BY Development Limited. On 13 May 2019, the 10% non-controlling interest was acquired by the Group for £3.1m.

Under the terms of the acquisition contract with APG, contingent consideration may be payable if the Group subsequently disposed of all or substantially all of the shares or assets of GRIP within one year of the acquisition. The Directors consider the likelihood of this to be remote, and as such, have not provided for this.

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

As at 30 September

	Notes	2019 £m	2018 £m
Fixed assets			
Investments	2	661.8	846.1
Current assets			
Trade and other receivables	3	445.0	94.6
Cash at bank and in hand		96.6	30.0
		541.6	124.6
Creditors: amounts falling due within one year	4	(16.0)	(18.2)
Net current assets		525.6	106.4
Total assets less current liabilities		1,187.4	952.5
Creditors: amounts falling due after more than one year			
Interest-bearing loans and borrowings	5	(485.5)	(484.9)
NET ASSETS		701.9	467.6
Capital and reserves			
Issued share capital	6	30.7	20.9
Share premium account		436.5	111.4
Capital redemption reserve		0.3	0.3
Retained earnings		234.4	335.0
TOTAL EQUITY		701.9	467.6

The financial statements on pages 150 to 158 were approved by the Board of Directors on 26 November 2019 and were signed on their behalf by:

Helen Gordon
Director

Vanessa Simms
Director

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 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
Loss for the year	-	-	-	(76.1)	(76.1)
Issue of share capital	9.8	324.8	-	-	334.6
Award of SAYE shares	-	0.3	-	-	0.3
Purchase of own shares	-	-	-	(1.0)	(1.0)
Share-based payments charge	-	-	-	1.7	1.7
Dividends paid	-	-	-	(25.2)	(25.2)
Balance as at 30 September 2019	30.7	436.5	0.3	234.4	701.9

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 loss for the year was £76.1m (2018: profit of £162.2m). 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 30 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.

(f) Borrowings

Borrowings are initially recognised at the fair value of consideration received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

2. Investments

Cost of investment	2019 £m	2018 £m
At 1 October	917.9	977.3
Additions	1.7	66.6
Disposals	-	(126.0)
At 30 September	919.6	917.9
Impairment	2019 £m	2018 £m
At 1 October	71.8	77.7
Additional provisions	186.2	-
Reversal of impairment provisions	(0.2)	(5.9)
At 30 September	257.8	71.8
Net carrying value	661.8	846.1

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 of £186.0m (2018: reversal of £5.9m) has been made. Impairments in the current year are due to internal property restructuring activities carried out by the Group to achieve corporate simplification and efficiencies. The overall impact on the Group's consolidated results is £nil.

A list of the subsidiaries of the Company is contained within Note 8 on pages 155 to 158.

3. Trade and other receivables

	2019 £m	2018 £m
Amounts owed by Group undertakings	445.0	92.5
Other receivables	-	2.1
	445.0	94.6

Amounts due in both 2019 and 2018 are all due within one year.

4. Creditors: amounts falling due within one year

	2019 £m	2018 £m
Amounts owed to Group undertakings	9.8	12.8
Tax and social security costs	0.8	-
Accruals and deferred income	5.4	5.4
	16.0	18.2

Amounts owed to Group undertakings are unsecured, bear no interest, and are repayable on demand.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

5. Interest-bearing loans and borrowings

	2019 £m	2018 £m
Variable rate – loans	140.0	140.0
Unamortised issue costs	(0.9)	(1.1)
	139.1	138.9
Corporate bond	350.0	350.0
Unamortised issue costs	(2.4)	(2.6)
	347.6	347.4
Unamortised bond discount	(1.2)	(1.4)
Total interest-bearing loans and borrowings	485.5	484.9

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% (2018: Between 1.6% and 1.8%) over LIBOR.

During the prior year the Group refinanced its corporate bond, issuing a new ten-year £350.0m corporate bond at 3.375% due April 2028. Prepayment costs of £25.8m were incurred and unamortised costs of £1.6m were expensed on redemption of the previous £275.0m bond, which was due to mature in 2020.

As at 30 September 2019 unamortised costs in relation to the £350.0m corporate bond stood at £2.4m (2018: £2.6m), and the outstanding discount was £1.2m (2018: £1.4m).

6. Issued share capital

	2019 £m	2018 £m
Allotted, called-up and fully paid:		
613,788,451 (2018: 418,825,400) ordinary shares of 5p each	30.7	20.9

Details of movements in issued share capital during the year and the previous year are provided in Note 29 to the Group financial statements on page 143.

Details of share options and awards granted by the Company are provided in Note 30 to the Group financial statements on pages 144 to 146 and discussed within the Remuneration Committee's report on pages 68 to 90.

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 14 to the Group financial statements on page 124.

Subject to approval at the AGM, the final dividend of 3.46p per share (gross) amounting to £21.2m will be paid on 10 February 2020 to Shareholders on the register at the close of business on 27 December 2019. Shareholders will again be offered the option to participate in a dividend reinvestment plan and the last day for election is 17 January 2020. An interim dividend of 1.73p per share amounting to a total of £10.5m was paid to Shareholders on 5 July 2019.

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 2019 is set out below:

Company	% effective holding	Direct/Indirect	Registered office
1 Ifield Road Management Limited	50%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
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 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 Property Holdings Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Bromley Property Investments Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Cambridge Place Management Company Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
CCZ a.s.	50%	Indirect	Věžeňská 116/5, PSČ 110 00, Prague, Czech Republic
Chrisdell Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
City North 5 Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
City North Group Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
City North Properties Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Connected Living London Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Connected Living London (BTR) Limited	51%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Connected Living London (RP) Limited	51%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Connected Living London (Limmo) Limited	51%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Connected Living London (Southall) Limited	51%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Connected Living London (OpCo) Limited	51%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Connected Living London (Nine Elms) Limited	51%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Connected Living London (Woolwich) Limited	51%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Connected Living London (Arnos Grove) Limited	51%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Connected Living London (Cockfosters) Limited	51%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Connected Living London (Montford Place) Limited	51%	Indirect	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%	Indirect	1a Dorchester Court, Greenlands Road, Staines, TW18 4LS
Faside Estates Limited	100%	Indirect	Broxden House, Lamberkine Drive, Perth, PH1 1RA

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

8. List of subsidiaries, associates and joint ventures continued

Company	% effective holding	Direct/Indirect	Registered office
Frincon Holdings 1986 Limited	100%	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 (Hallsville) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger (Hallsville Block D1) 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
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 Development Management Limited	100%	Direct	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 Europe (No. 2) Limited ²	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 Limited 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
Grainger 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
Grainger 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, NE1 4JE
Grainger Newbury Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger OCCC Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Pearl Holdings Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Pearl Limited	100%	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
Grainger 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

Company	% effective holding	Direct/Indirect	Registered office
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
Grainger Residential Management Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Rural Limited ²	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Serviced Apartments Limited ²	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 Investments 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
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	100%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Jersey Property Holdings (2016) Limited	100%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 1 Limited	100%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 2 Limited	100%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 3 Limited	100%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 4 Limited	100%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 5 Limited	100%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 6 Limited	100%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 7 Limited	100%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 8 Limited	100%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP REIT PLC	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
GRIP Unit Trust	100%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Unit Trust 1	100%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Unit Trust 2	100%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Unit Trust 6	100%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP UK Holdings Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
GRIP UK Property Developments Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
GRIP UK Property Investments Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
H I Tricomm Holdings Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Harborne Tenants Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Helical Grainger (Holdings) Limited	50%	Indirect	5 Hanover Square, London, W1S 1HQ
Home SGO Properties Limited ²	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Infrastructure Investors Defence Housing (Bristol) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Ingleby Court Management Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Jesmond Place Management Limited	70%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Kew Bridge Court Guernsey Limited	100%	Indirect	1st and 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey, GY1 1EW
King Street Developments (Hammersmith) Limited	50%	Indirect	5 Hanover Square, London, W1S 1HQ
Kings Dock Mill (Liverpool) Management Company Limited ¹	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Langwood Properties Limited	100%	Indirect	Broxden House, Lamberkine Drive, Perth, PH1 1RA

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

8. List of subsidiaries, associates and joint ventures continued

Company	% effective holding	Direct/Indirect	Registered office
Lewisham Grainger Holdings Limited Liability Partnership	50%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Manor Court (Solihull) Management Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Margrave Estates Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Mariners Park Estate North Management Company Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Mariners Park Estate South Management Company Limited	9%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
N & D London Investments	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
N & D London Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
N & D Properties (Midlands) Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Northumberland & Durham Property Trust Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Oakleigh House (Sale) Management Company Limited	69%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
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	100%	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 UK except where the registered office indicates otherwise.

¹ Company limited by guarantee.

² Company placed into liquidation subsequent to the year end.

EPRA PERFORMANCE MEASURES (UNAUDITED)

1. Introduction

The EPRA Best Practices Recommendations ('EPRA BPR') previously used by the Group were issued by EPRA's Reporting and Accounting Committee in November 2016. In October 2019, EPRA released updated guidelines that revised the approach to the calculation of NAV. The new guidelines introduce EPRA Net Reinstatement Value (NRV), EPRA Net Tangible Assets (NTA) and EPRA Net Disposal Value (NDV) and will replace EPRA NAV and EPRA NNNAV, historically reported by the Group. Other EPRA performance measures contained in the latest EPRA BPR guide remain substantially unchanged.

EPRA NTA is considered to become the most relevant NAV measure for the Group and we expect this to be the primary NAV measure going forward. EPRA NTA reflects the tax that will crystallise in relation to the trading portfolio, whilst excluding the volatility of mark to market movements on fixed rate debt and derivatives which are unlikely to be realised.

On transition, all EPRA NAV metrics have been disclosed in the report to highlight differences that arise following the adoption of the new guidelines.

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/NRV	Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term property business model. This measure is consistent with NAV as defined and disclosed in the Financial review and in Note 4 to the Group financial statements.
3) EPRA NTA	EPRA NAV / EPRA NRV adjusted to include deferred tax on assets that may be sold by the business and exclude intangible assets. This measure is consistent with NTA as defined and disclosed in the Financial review and in Note 4 to the Group financial statements.
4) EPRA NNNAV/NDV	EPRA NAV / EPRA NRV adjusted to include the fair values of i) financial instruments, ii) debt and iii) deferred taxes. This measure is consistent with NNNAV as defined and disclosed in the Financial review and in Note 4 to the Group financial statements. EPRA NDV includes an additional adjustment to exclude goodwill recognised on a company's statutory balance sheet.
5i) 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.
5ii) 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).
6) EPRA Vacancy Rate	Estimated Market Rent Value ('ERV') of vacant space divided by ERV of the whole portfolio.
7) 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 measures in relation to the above table.

The Group continues to have a substantial trading portfolio 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 the EPRA NAV measures. 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.

EPRA PERFORMANCE MEASURES (UNAUDITED) CONTINUED

1. Introduction continued

Summary

	2019	2018
Adjusted EPRA Earnings	£28.8m	£26.1m
Adjusted EPRA Earnings per share	5.0p	5.6p
EPRA NAV/NRV	£1,820.9m	£1,457.1m
EPRA NAV/NRV per share	297p	314p
EPRA NTA	£1,708.1m	£1,342.9m
EPRA NTA per share	278p	290p
EPRA NNNAV	£1,666.2m	£1,323.7m
EPRA NNNAV per share	272p	286p
EPRA NDV	£1,665.7m	£1,323.2m
EPRA NDV per share	272p	286p
EPRA Net Initial Yield (NIY)	2.8%	2.6%
Adjusted EPRA NIY	4.0%	3.8%
EPRA Vacancy Rate	2.6%	3.4%
Adjusted EPRA Cost Ratio (including direct vacancy costs)	29.9%	26.9%
Adjusted EPRA Cost Ratio (excluding direct vacancy costs)	28.5%	26.3%

2. EPRA Earnings

	2019			2018 Restated (Note 1d)		
	Earnings £m	Shares millions	Pence per share	Earnings £m	Shares millions	Pence per share
Earnings per IFRS income statement	131.3	581.2	22.6	100.7	463.0	21.7
Adjustments to calculate EPRA Earnings, exclude:						
i) Changes in value of investment properties, development properties held for investment and other interests	(56.2)	-	(9.7)	(23.3)	-	(5.0)
ii) Profits or losses on disposal of investment properties, development properties held for investment and other interests	(1.9)	-	(0.3)	(8.4)	-	(1.8)
iii) Profits or losses on sales of trading properties including impairment charges in respect of trading properties	(52.1)	-	(9.0)	(59.8)	-	(12.9)
iv) Tax on profits or losses on disposals	-	-	-	-	-	-
v) Negative goodwill/goodwill impairment	12.7	-	2.2	-	-	-
vi) Changes in fair value of financial instruments and associated close-out costs	0.8	-	0.1	27.6	-	5.9
vii) Acquisition costs on share deals and non-controlling joint venture interests	3.8	-	0.7	-	-	-
viii) Deferred tax in respect of EPRA adjustments	-	-	-	-	-	-
ix) Adjustments i) to viii) in respect of joint ventures	(9.6)	-	(1.6)	(10.7)	-	(2.3)
x) Non-controlling interests in respect of the above	-	-	-	-	-	-
Adjusted EPRA Earnings/Earnings per share	28.8	581.2	5.0	26.1	463.0	5.6

Adjusted EPRA Earnings have been divided by the average number of shares shown in Note 15 to the Group financial statements to calculate earnings per share.

3. EPRA NAV and EPRA NNNAV

The following is presented in accordance with the November 2016 EPRA BPR guidelines:

EPRA NAV

	2019			2018 Restated (Note 1d)		
	Net assets £m	Shares millions	NAV pence per share	Net assets £m	Shares millions	NAV pence per share
NAV from the financial statements	1,223.5	613.8	199	815.6	463.5	176
Include:						
i.a) Revaluation of investment property	-	-	-	-	-	-
i.b) Revaluation of investment property under construction	-	-	-	-	-	-
i.c) Revaluation of other non-current investments	6.5	-	1	7.0	-	1
ii) Revaluation of tenant leases held as finance leases	-	-	-	-	-	-
iii) Revaluation of trading properties	548.8	-	90	607.1	-	131
Exclude:						
iv) Fair value of financial instruments	14.4	-	2	(0.8)	-	-
v.a) Deferred tax	27.7	-	5	27.9	-	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	-	-
EPRA NAV/EPRA NAV per share	1,820.9	613.8	297	1,457.1	463.5	314
Rights issue	-	-	-	334.5	150.1	(22)
EPRA NAV/EPRA NAV per share post rights issue	1,820.9	613.8	297	1,791.6	613.6	292

EPRA NNNAV

	2019			2018 Restated (Note 1d)		
	Net assets £m	Shares millions	NNNAV pence per share	Net assets £m	Shares millions	NNNAV pence per share
EPRA NAV	1,820.9	613.8	297	1,457.1	463.5	314
Include:						
i) Fair value of financial instruments	(14.3)	-	(2)	0.5	-	-
ii) Fair value of debt	(19.4)	-	(3)	(2.8)	-	-
iii) Deferred tax	(121.0)	-	(20)	(131.1)	-	(28)
EPRA NNNAV/EPRA NNNAV per share	1,666.2	613.8	272	1,323.7	463.5	286
Rights issue	-	-	-	334.5	150.1	(16)
EPRA NNNAV/NAV per share post rights issue	1,666.2	613.8	272	1,658.2	613.6	270

EPRA PERFORMANCE MEASURES (UNAUDITED) CONTINUED

4. EPRA NRV, EPRA NTA and EPRA NDV

	2019			2018		
	EPRA NRV £m	EPRA NTA £m	EPRA NDV £m	EPRA NRV £m	EPRA NTA £m	EPRA NDV £m
IFRS Equity attributable to shareholders	1,223.5	1,223.5	1,223.5	815.6	815.6	815.6
Include/Exclude:						
i) Hybrid Instruments	-	-	-	-	-	-
Diluted NAV	1,223.5	1,223.5	1,223.5	815.6	815.6	815.6
Include:						
ii.a) Revaluation of IP (if IAS 40 cost option is used)	-	-	-	-	-	-
ii.b) Revaluation of IPUC (if IAS 40 cost option is used)	-	-	-	-	-	-
ii.c) Revaluation of other non-current investments	6.5	6.5	6.5	7.0	7.0	7.0
iii) Revaluation of tenant leases held as finance leases	-	-	-	-	-	-
iv) Revaluation of trading properties	557.1	455.5	455.5	613.4	503.9	503.9
Diluted NAV at Fair Value	1,787.1	1,685.5	1,685.5	1,436.0	1,326.5	1,326.5
Exclude:						
v) Deferred tax in relation to fair value gains of IP	19.4	19.4	-	21.6	21.6	-
vi) Fair value of financial instruments	14.4	14.4	-	(0.5)	(0.5)	-
vii) Goodwill as a result of deferred tax	-	-	-	-	-	-
viii.a) Goodwill as per the IFRS balance sheet	-	(0.5)	(0.5)	-	(0.5)	(0.5)
viii.b) Intangible as per the IFRS balance sheet	-	(10.7)	-	-	(4.2)	-
Include:						
ix) Fair value of fixed interest rate debt	-	-	(19.3)	-	-	(2.8)
x) Revalue of intangibles to fair value	-	-	-	-	-	-
xi) Real estate transfer tax	-	-	-	-	-	-
NAV	1,820.9	1,708.1	1,665.7	1,457.1	1,342.9	1,323.2
Rights issue	-	-	-	334.5	334.5	334.5
NAV post rights issue	1,820.9	1,708.1	1,665.7	1,791.6	1,677.4	1,657.7
Fully diluted number of shares	613.8	613.8	613.8	463.5	463.5	463.5
NAV pence per share	297	278	272	314	290	286
NAV pence per share post rights issue	297	278	272	292	274	270

5. EPRA NIY

		2019 £m	2018 £m
Investment property – wholly-owned		1,574.6	589.7
Investment property – share of JVs/Funds		13.5	173.2
Trading property (including share of JVs)		1,248.8	1,406.4
Less: developments		(293.7)	(301.7)
Completed property portfolio		2,543.2	1,867.6
Allowance for estimated purchasers' costs		–	15.7
Gross up completed property portfolio valuation	B	2,543.2	1,883.3
Annualised cash passing rental income		96.0	66.9
Property outgoings		(24.0)	(17.4)
Annualised net rents	A	72.0	49.5
EPRA NIY	A/B	2.8%	2.6%
<hr/>			
Gross up completed property portfolio valuation		2,543.2	1,883.3
Adjustments to completed property portfolio in respect of regulated tenancies		(1,017.3)	(1,107.4)
Adjusted gross up completed property portfolio valuation	b	1,525.9	775.9
Annualised net rents		72.0	49.5
Adjustments to annualised cash passing rental income in respect of newly completed developments and refurbishment activity		11.8	–
Adjustments to property outgoings in respect of newly completed developments and refurbishment activity		(3.2)	–
Adjustments to annualised cash passing rental income in respect of regulated tenancies		(26.6)	(27.4)
Adjustments to property outgoings in respect of regulated tenancies		6.4	7.1
Adjusted annualised net rents	a	60.4	29.2
Adjusted EPRA NIY	a/b	4.0%	3.8%

EPRA PERFORMANCE MEASURES (UNAUDITED) CONTINUED

6. EPRA Cost Ratio

		2019 £m	2018 £m
Administrative expenses		28.0	27.9
Property operating expenses		22.4	15.4
Share of Joint Ventures expenses		0.8	3.8
Management fees		(4.4)	(6.5)
Other operating income/recharges intended to cover overhead expenses		-	-
Exclude:			
Investment property depreciation		-	-
Ground rent costs		(0.2)	(0.1)
EPRA Costs (including direct vacancy costs)	A	46.6	40.5
Direct vacancy costs		(2.1)	(1.0)
EPRA Costs (excluding direct vacancy costs)	B	44.5	39.5
Gross rental income		85.9	59.2
Less: ground rent income		(0.4)	(0.6)
Add: share of Joint Ventures (gross rental income less ground rents)		1.9	9.2
Add: adjustment in respect of profits or losses on sales of properties		68.5	82.6
Gross Rental Income and Trading Profits	C	155.9	150.4
Adjusted EPRA Cost Ratio (including direct vacancy costs)	A/C	29.9%	26.9%
Adjusted EPRA Cost Ratio (excluding direct vacancy costs)	B/C	28.5%	26.3%

FIVE YEAR RECORD

For the year ended 30 September 2019

	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m
Group revenue	193.1	219.9	264.7	270.7	222.8
Gross proceeds from property sales	149.3	164.8	214.5	209.5	193.1
Gross rental income	46.7	51.9	54.6	59.2	85.9
Gross fee income	5.0	5.9	5.1	6.5	3.8
Operating profit	79.5	88.7	98.5	116.5	112.6
Profit before tax	51.4	84.2	86.3	100.7	131.3
Profit after tax	44.0	74.5	73.5	87.4	114.9
Dividends paid	10.4	14.7	19.3	20.8	25.2
	Pence	Pence	Pence	Pence	Pence
Basic earnings per share	9.7	16.2	16.0	19.0	19.9
Dividends per share	2.5	4.1	4.4	4.8	5.2
	Pence	Pence	Pence	Pence	Pence
EPRA NAV per share	288.2	298.0	309.7	314.4	296.7
EPRA NNNNAV per share	238.0	259.1	273.8	285.6	271.5
Share price at 30 September	215.1	207.8	242.4	271.1	246.0
	%	%	%	%	%
Return on capital employed ('ROCE')	11.0	8.4	5.2	5.3	3.8
Return on shareholder equity ('ROSE')	10.0	10.6	7.3	6.1	4.4

The 2015 results in the table above have been restated in order to be comparable with future results following disposals completed in 2016.

Following the rights issue completed in December 2018, all pence per share results have been restated.

SHAREHOLDERS' INFORMATION

Financial calendar

AGM	5 February 2020
Payment of 2019 final dividend	10 February 2020
Announcement of 2020 interim results	May 2020
Announcement of 2020 final results	November 2020

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 2019	246.0p
Lowest price during the year	205.8p
Highest price during the year	272.9p

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 0GA

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
NE1 4JE

Company registration number **125575**

GLOSSARY OF TERMS

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 on-going revenue or costs of the business.

Cap

Financial instrument which, in return for a fee, guarantees an upper limit for the interest rate on a loan.

CHARM

The CHARM portfolio is a financial interest in equity mortgages held by the Church of England Pensions Board as mortgagee.

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.

European Public Real Estate Association ('EPRA')

A not-for-profit association with a membership of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors. EPRA published its latest Best Practices Recommendations in October 2019. Further information, including definitions and measures adopted by Grainger can be found on pages 159 to 164.

Estimated Rental Value ('ERV')

The market rental value of lettable space as determined by the Group's external valuers at the balance sheet date. For properties which have not yet reached practical completion, ERV is determined by management's assessment of market rents.

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.

Investment value or market value

Open market value of a property subject to relevant tenancy in place.

Like-for-like rental growth ('LFL')

The change in gross rental income in a period as a result of tenant renewals or a change in tenant. Applies to changes in gross rents on a comparable basis and excludes the impact of acquisitions, disposals and changes resulting from refurbishments.

Loan to Value ('LTV')

Ratio of net debt to the market value of properties and property related assets.

Net Initial Yield ('NIY')

Annualised net passing rents as a percentage of the property's open market value.

Net Rental Income ('NRI')

Gross rental income less property operating expenses, ground rents paid and service charge expenditure.

Net Asset Value ('NAV')

Net assets divided by the number of ordinary shares in issue as at the balance sheet date.

Passing rent

The annual rental income receivable on a property as at the balance sheet date.

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.

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.

Swap

Financial instrument to protect against interest rate movements.

Tenanted residential

Activity covering the acquisition, renting out and subsequent sale (usually on vacancy) of residential units subject to a tenancy agreement.

Total Accounting Return ('TAR')/
Return on Shareholder Equity ('ROSE').

The growth in the net asset value of the Group plus dividends paid in the year, calculated as a percentage of the opening net asset value.

Total Property Return ('TPR')

A performance measure which represents the change in gross asset value, net of capital expenditure incurred, plus net income, expressed as a percentage of gross asset value.

Total Shareholder Return ('TSR')

Return attributable to Shareholders on the basis of share price growth with dividends reinvested.

Vacant Possession ('VP') value

Open market value of a property free from any tenancy.

Weighted Average Cost of Capital ('WACC')

The weighted average cost of funding the Group's activities through a combination of Shareholders' funds and debt.

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