

Homes have never been so important

ANNUAL REPORT
AND ACCOUNTS 2020



STRATEGIC REPORT

Our purpose	1
Grainger at a glance	2
Chairman's statement	4
Chief Executive's statement	5
Investment case	10
Market drivers	12
Our business model	14
Key performance indicators	16
Financial review	19
Stories	25
People, resources and relationships	34
Section 172 statement	37
Our commitment to sustainability	38
Risk management	44
Principal risks and uncertainties	47
Viability statement	51

GOVERNANCE

Chairman's introduction to governance	52
Leadership and purpose	54
Division of responsibility	64
Composition, succession and evaluation	66
Audit, risk and control	69
Remuneration	74
Directors' report	93

FINANCIAL STATEMENTS

Independent auditor's report	97
Consolidated income statement	104
Consolidated statement of comprehensive income	105
Consolidated statement of financial position	106
Consolidated statement of changes in equity	107
Consolidated statement of cash flows	108
Notes to the financial statements	109
Parent company statement of financial position	151
Parent company statement of changes in equity	152
Notes to the parent company financial statements	153
EPRA performance measures (unaudited)	160
Five year record	164

OTHER INFORMATION

Shareholders' information	166
Glossary of terms	167
Advisers	168



Our purpose is to provide high-quality rental homes and great customer service. This has never been more important than during the unprecedented Covid-19 lockdown. Our homes have never been more fully utilised, and our market leading operating platform has never been more appreciated. It has enabled our residents to focus on the things that really matter during this period.

Although doing some things a little differently, our Covid-19 response strategy ensured we focused on three key areas: innovate, communicate and improve. Doing so has enabled us to operate effectively and support our residents throughout lockdown, delivering our usual high levels of service.



Read our key stories from
2020 on pages 25 to 33



See our financial highlights
on page 20





Leading the way in the UK private rented sector

We are the UK's leading listed provider of private rental homes. We design, own and operate rental homes across the country.

PORTFOLIO SNAPSHOT

8,941

Total rental homes

£3.1bn

Market value of our portfolio

£73.6m

Net rental income

8,950

New PRS homes in the pipeline

OUR BUSINESS

108

Years of operation

23,500+

Customers

304

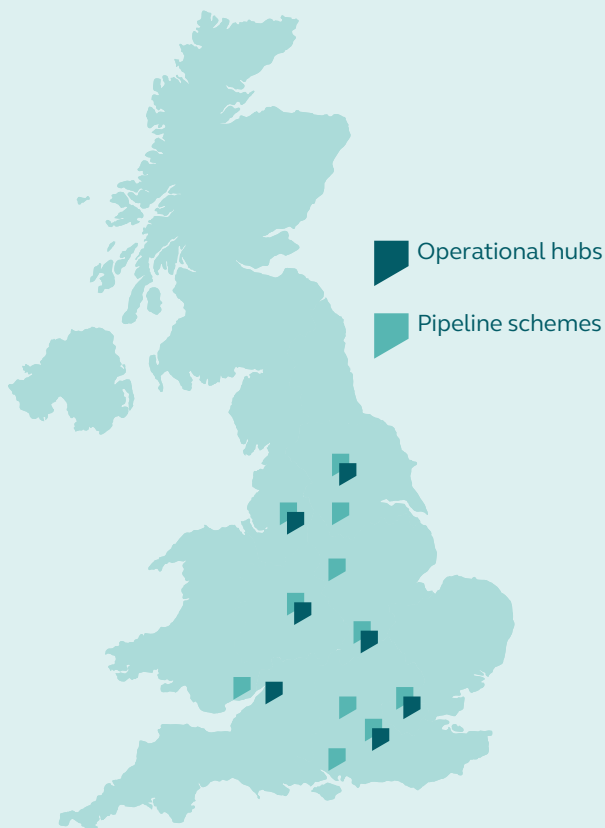
Employees



FTSE4Good

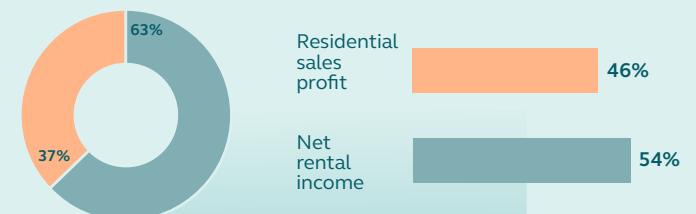
Leading performance on ESG (see page 39)

CURRENT AND FUTURE ASSET CLUSTERS



OUR TRANSITION TO PRS

Current portfolio (GAV) (FY20)



Future portfolio (GAV) (post-pipeline completion)



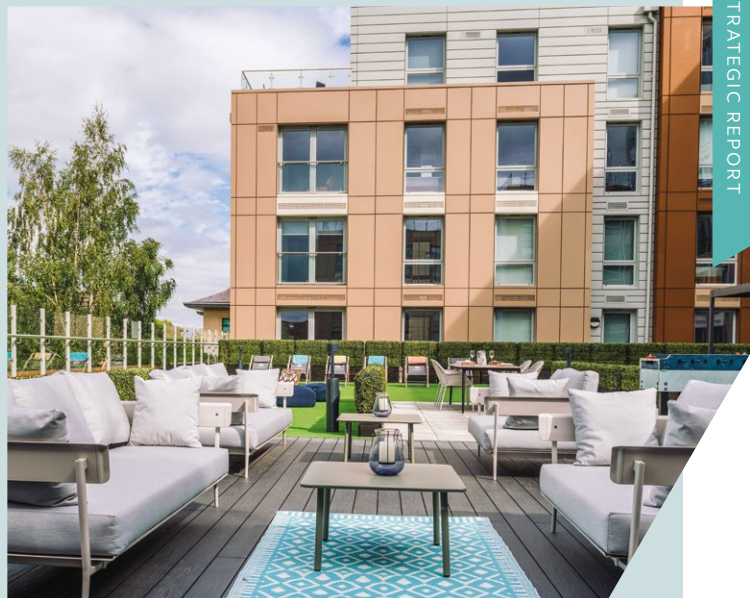
Private Rental Homes

PRIVATE RENTED SECTOR ('PRS') PORTFOLIO

We have thousands of private rental homes across the country, and a further 8,950 in our pipeline. Our homes are well located and rented at reasonable prices ('mid-market').

We have a broad mix of property types to suit all lifestyles and circumstances; from modern apartments to suburban houses in a variety of styles. Unlike many landlords, we manage our properties in-house. Our new buildings are built to the highest standards and specification. They are designed to meet the needs of renters today and tomorrow, with leading technologies including superfast WiFi connections, and a range of indoor and outdoor amenity spaces for residents to enjoy.

We are also developing thousands of new professionally managed rental homes in cities across the UK to meet the demand for high quality homes and help alleviate the severe housing shortage the country is facing.



Solstice Apartments, Milton Keynes – launched in 2020 and offering 139 new rental homes in the heart of Milton Keynes. Residents enjoy a range of amenities, including several outdoor terraces and courtyards, excellent transport links, as well as great shopping and restaurants right on their doorstep.



Millet Place, East London – part of a new gateway to the Thames Barrier Park, Millet Place offers 236 new homes, 82 of which are affordable. Residents enjoy spacious balconies, shared outdoor terraces and park and river views. Adjacent to Pontoon Dock DLR station, residents are well connected to central London and beyond.

97%

average rent collection

5.2%

average gross yield

+2.5%

annualised like-for-like rental growth

34

months – average customer length of stay

Regulated Tenancy Homes

REGULATED PORTFOLIO

We own and manage 2,494 regulated tenancy homes across the UK.

Regulated tenancies are historic tenancy agreements that were created before 1989, where the tenant has the right to reside for life. Rents are set at levels below the open market by independent local rent officers from the Valuation Office Agency.

These properties range in style and, by their nature, are older properties that were built before 1989.

Many of our customers in this portfolio are older, having enjoyed living in their homes for many decades.

When these properties are vacated the rent restrictions are lifted and there is typically an 18-20% uplift in value. In the majority of cases we sell these properties on vacancy and reinvest the proceeds into new modern rental homes (our PRS portfolio). On average, 6-7% of regulated tenancy properties are vacated each year.



2.6%

average gross yield

+4.6%

annualised rental growth

6.4%

annualised vacancy rate

74

average age of regulated tenancy residents

Delivering for all our stakeholders in unprecedented times

Dear Shareholders,

Grainger has delivered another year of strong performance and significant growth, demonstrating good progress and proving its resilience against a backdrop of economic uncertainty.

In February the Company raised additional funds from its Shareholders to fund faster growth. The equity raise was a great success and I would like to thank our Shareholders for their support. As a result we entered this period of significant uncertainty with a very strong balance sheet, strong operating metrics and consequently we have continued to deliver for all our stakeholders.

As we approached lockdown in March the management team were taking significant action to ensure the safety of our employees and customers. Based on a robust analysis of the risks the business faced the Board took the decision to continue to support the growth strategy and the dividend policy agreed.

Throughout this period the Company chose not to use any of the Government's support schemes, it moved most of its people to working at home and started to deploy some of its technology investments to help deliver 'virtually'. The Board would like to thank all of our people, right across the Company, who rose to the challenge of working in this new way.

Being a landlord brings with it great responsibility, which is why health and safety has always been the highest priority for Grainger. The Board remains committed to best in class health and safety standards through the enhanced Live.Safe programme and is pleased that the Housing Minister and the Secretary of State have singled out Grainger for its work in leading the way on building design in relation to fire safety.

Last year the Board signed off on an ambitious set of long-term Environmental, Social and Governance commitments,



and I'm pleased to say good progress has been made on a number of these. From a portfolio-wide study of the social value created by Grainger's buildings to the completion of a renewable energy procurement project and the integration of sustainability considerations into investment decision-making, ESG is firmly embedded across our business.

Grainger also recently joined members from Green Building Councils across the world in signing up to the Net Zero Carbon Buildings Commitment, which requires all buildings within our direct control to operate at net zero carbon by 2030.

The Board remains committed to having a diverse and inclusive organisation and we are pleased with the progress made this year with the establishment of Grainger's first Diversity & Inclusion network, which is already very active.

This year an external review of the Board's effectiveness was carried out and while there were a number of helpful recommendations which are summarised at page 67, the conclusion of the review was that the Board is effective in the way that it works.

In October 2020 Vanessa Simms our CFO announced her intention to leave Grainger to take up a new role elsewhere next year. We are sorry to see Vanessa go and the Board would like to thank her for the tremendous contribution she has made to Grainger over the last four and a half years. We wish her well in her new role.

Following on from strong rental growth and a solid overall performance, I am pleased to announce a proposed final dividend of 3.64p per share. This equates to a total dividend for the year of 5.47p per share, a 5% increase on a per share basis compared to the prior year.

As we look ahead to 2021 and beyond, the business is well positioned. The foundations are solid, and the progress made this year will stand Grainger in good stead for the months and years ahead. Our pipeline will deliver a further 8,950 new high-quality homes and we will continue to build vibrant communities across the UK.

Mark Clare
Chairman

18 November 2020

A good home has never been so important

This year more than ever I am pleased to report that your Company has had an unrelenting focus on providing good, safe homes and great customer service, as our residents have spent more time at home and we have been committed to serving them well. Grainger has proved resilient in the face of challenging times for many businesses and we have continued to invest, grow and improve.



Income

Like-for-like rental growth

3.0%

-69bps
(FY19: 3.6%)

Net rental income

£73.6m

+16%
(FY19: £63.5m)

Adjusted earnings

£81.8m

-1%
(FY19: £82.5m)

Profit before tax

£110.8m

-16%
(FY19: £131.3m)

Dividend per share

5.47p

+5%
(FY19: 5.19p)

Capital

EPRA NTA

285pps

+3%
(FY19: 278pps)

Loan to value

33.4%

-371bps
(FY19: 37.1%)

Total property return

5.4%

+40bps
(FY19: 5.0%)

IFRS net assets

217pps

+9%
(FY19: 199pps)

EPRA NDV

276pps

+1%
(FY19: 272pps)

* Additional information and definitions for all KPIs is included on pages 16 and 17.

+16%

Net rental income growth

+3.0%

Like-for-like rental growth

97%

Average rent collection

We have delivered a strong set of results and now have recurring net rental income at double that at the start of our strategy less than five years ago. Whilst our regulated tenancy business is now a smaller part of our business, we delivered sales profit in line with previous years.

In the first half of the financial year, against a backdrop of political uncertainty, we pushed forward with our strategy for growth. We progressed the lease-up of our regional scheme at Brook Place in Sheffield which launched in September 2019. We launched Solstice Apartments in Milton Keynes in February 2020, followed by our scheme Millet Place at Pontoon Dock in July which is a joint venture with Local Pensions Partnership. In total, we successfully delivered 612 new homes this year.

We have delivered strong growth and our net rental income is up 16%. Our portfolio has proved resilient, with rent collection between 95-99%, which is considerably higher than the commercial real estate sectors. Like-for-like rental growth at 3.0% is lower than last year (FY19: 3.6%) but reflects the increased number of renewals at 2.5% as we have been focused on retaining customers. Our average occupancy was 95%.

The private rental market generally has seen higher levels of churn and pressure on rents and we have outperformed due to the quality of our assets, our mid-market position and importantly, the quality of our people and operating platform.

Our sales are broadly in line with last year. This is a good result bearing in mind the impact of election uncertainty and Brexit in the first half, and the Covid-19 pandemic and the closure of estate agents for a large part of the second half of our financial year.

Our sales team were creative and innovative during this time, establishing direct listings on Rightmove for properties and virtual and socially distanced viewings. It is important to point out that our sales are of older, vacant properties and therefore even at the height of the Covid-19 lockdown we were able to organise safe viewings and continue with sales.

67% of our sales profit this year was delivered in the second half of the financial year during the Covid-19 lockdown, evidencing that our sales have once again proved to be resilient even in challenging times.

A pipeline for growth

In total, our existing PRS portfolio is valued at £1,696m, our secured pipeline is £1,085m and we have a further £429m in planning and legals, with our Transport for London ('TfL') joint venture representing a further potential value of £600m. Our plans will see Grainger's portfolio of PRS homes double again in the next five years.

We have focused on regional high-performing cities. We were successful in securing schemes in Guildford, Birmingham, Cardiff and Nottingham. We also added to our London portfolio in Waterloo and in Canning Town to complement our Argo Apartments scheme, adding a total of 1,475 new homes to our pipeline for growth.

This exciting pipeline of new schemes was the foundation for an equity raise in February this year and this, together with our strong operational cash flows and careful management of cost, meant we went into the Covid-19 pandemic and lockdown with a strong and resilient balance sheet, the details of which you can find in the financial review.

Both quantity and quality of our pipeline for growth has improved. Recent events have not slowed our appetite for growth and we have continued to focus on acquisitions in our target cities. During this time we have also continued to secure planning permissions for 784 new homes for our schemes in joint venture with the London Borough of Lewisham at Besson Street, and our joint venture with TfL at Southall and our Waterloo project redeveloping part of our current estate. We worked with local authorities to progress our schemes through the planning process using remote, online planning committee meetings.

We remain disciplined in assessing the future desirability of our homes in terms of specification, geography and scale and have undertaken over £67m of asset recycling, making the most of the resilience in investment values of the private rented sector market during this time.

We will continue to be rigorous in the analysis of our existing portfolio and new opportunities to ensure that we maintain the best quality portfolio to deliver enhanced Shareholder returns and good long-term rental homes.



“Our plans will see Grainger's portfolio of rental homes double again in the next five years.”

HELEN GORDON
CHIEF EXECUTIVE



The strength of our people

The Grainger team has been remarkable during this year, demonstrating their enthusiasm for improving the way we care for our customers and homes. We have found new ways of working and harnessed new technology. As the Government was asking everyone to work from home where possible, the Grainger team responded with a clear strategy to innovate, communicate and improve the business during the Covid-19 lockdown.

In our innovation we found new ways of working. Harnessing our investment in technology meant that with the exception of cleaning, security and maintenance employees, as a business we went to 100% home-working in just three days, returning safely to the offices gradually from May. We used technology to organise sales and lettings and customer service. We communicated more with our customers and set up a 'buddy system' through our Resident Services team to establish how our customers were coping with the Covid-19 lockdown and whether we could do anything to support them. We also communicated with our suppliers, developers and contractors to ensure that their businesses were resilient.

In the first half of the year we undertook a comprehensive review of best practice with our Resident Services teams and reworked over 300 separate activities which deliver excellent service to our customers. This was subsequently turned into an induction, training and continuous improvement manual and will be used to ensure consistently high standards as this business continues to grow.

I am proud of the level of support and engagement the Grainger team has shown this year. Internally, our employee engagement has improved across all areas of the business with scores on "giving something back" being particularly high.

This is one of the reasons we devised our Community Engagement plan which I describe later.

We have also used this year to refresh the Grainger values. Following extensive internal consultation we have evolved our values to ensure they align with the business we are today and that they represent all of our stakeholders.

Our new values: • People at the heart; • Every home matters; • Leading the way; and • Exceeding expectations, demonstrate our commitment to being a best in class landlord, employer and partner, whilst also reaffirming our ambitions to lead the UK private rented sector.

The Grainger team is leading the way in a new market. Our business model is designed to benefit from collaboration. Our leadership team in this relatively new sector is supported by our innovation and creativity, and the collaboration between Grainger's in-house specialists is essential. It was for this reason that we started a detailed return to office planning at the end of April this year to make our offices Covid secure and available for employees from the end of May. The majority of our teams in London, Newcastle and Manchester started working on a rota basis from late July.

Our commitment to continue to invest in our workforce meant that we invested in several areas of their personal development. The Grainger Academy, which provides online and face to face learning, launched several new modules enabling anyone with spare capacity during the Covid-19 lockdown to spend time investing in their own personal development. We switched our Flexible Manager programme online and launched a new initiative which flows from our talent management activities to invest in young leaders of the future in the business.

We continued to recruit into important roles during this time including our Chief Information Officer, our Head of Operations and Onboarding, our Head of Health and Safety, our Head of Research and our Head of Procurement. I make no apology for sharing with you a lot of detail about the quality and commitments and investment in the Grainger team. Their activities have and will continue to provide better customer service and enhanced returns for Shareholders.

Our new values

-  People at the heart
-  Every home matters
-  Leading the way
-  Exceeding expectations



Weavers Yard, Newbury

“The business successfully withstood these testing times and did not furlough any employees nor did we seek Government support.”

Covid-19

The second half of our financial year has been dominated by the Covid-19 pandemic.

The business successfully withstood these testing times and we did not furlough any employees nor did we seek any Government support, and we continue to pay a dividend. Shareholders were justifiably requesting more insight and understanding of the impact of Covid-19 on our business and we increased Shareholder engagement and moved both our half year presentation and our capital markets update to online presentations. We also undertook almost double the number of Shareholder meetings.

Our strategy to concentrate on strong recurring income from one of the most utilised real estate sectors and our strategy to concentrate on the mid-market has proved resilient as it protected Shareholder value.

As we went into the Covid-19 lockdown, we made considerable investment in responding to Government requests to evaluate how the various Government initiatives could help our residents.

Our rent collection and customer collection teams were able to guide residents through the help available. We wrote to our customers asking them to make contact if they had any financial worries or queries. Whilst this was an additional burden for the teams, it did ensure that we could help our vulnerable residents and we have maintained rent collections at above 95% since March with our September rent collection at 99%.

All of our development and contracting partners responded quickly to new forms of working to create a Covid secure environment, enabling the construction teams to continue.

Delays have been held to a minimum on all but two schemes, where we delayed start on site in order to avoid starting the schemes at the height of the lockdown.

Government

Grainger’s leadership in the private rented sector, as well as my role as President of the British Property Federation (July 2019 to July 2020), enabled us increased access and engagement with Government at a time when they were concerned about the ability of renters to pay rent. The Government held meetings with us to discuss our concerns about increased support for renters, the ban on evictions and remedies for anti-social behaviour.

Our country’s undersupply of good quality housing has been a key concern of governments over the last 25 years. Grainger’s contribution to solving this problem by developing a high-quality, professionalised private rented sector has led to high levels of government engagement.

In the first half we saw a change of government and a new team at the Ministry for Housing, Communities and Local Government (‘MHCLG’). We engaged with them on many aspects of Government policy. In addition to the Covid-19 response and supporting renters, we discussed topics such as health and safety, regulatory reform, the planning white paper and the impact of rent controls on the investment market.

Whilst some European countries advocate rent control, in March the Secretary of State wrote to the Mayor of London setting out his reasoning why he would not support rent control and the detrimental impact it would have on investment in the housing market.

The Government also acknowledged our leadership in health and safety in the design of new homes.

Health and safety

Grainger is the market leader with the largest operational PRS portfolio in the UK and we are determined that leadership should include a leadership in health and safety matters. It is essential that all Grainger residents feel safe in their home and all Grainger employees feel safe in their workplaces. Live.Safe is our internal health and safety cultural change programme which was launched in March 2019. This year we updated this to Live.Safe 2.0.

We commissioned an independent safety survey across the business in February and again in August and can see improvements across the whole business. We can also benchmark ourselves against other industries and real estate companies and we exceed our benchmark in six out of eight factors. Our commitment is strong to improving this further. We are harnessing technology to support our inspection, analysis, controls and compliance.

I am proud that the Housing Minister and Secretary of State have singled out Grainger for its work in leading the way on building design in relation to fire safety.

The investment we have made into health and safety in our new build projects will future-proof our homes; and our programme of improvements to our older schemes is underway, supported by a dedicated team.

Environmental

Future-proofing our portfolio and protecting the environment is at the heart of our bold move to achieve net zero carbon operation in our buildings by 2030. This means we will improve our portfolio, harness new technologies and commission greener buildings.

The Company has taken major steps forward this year as we joined the UK Green Building Council and our Board approved our pathway to 2030. More details on our work can be found on page 40.

Our commitment to community engagement has also improved during the year. We undertook a comprehensive review of not only how we support and engage the communities in our buildings, but also in the wider communities. The whole business created a community blueprint of best practice for community engagement from the design and planning of our buildings through to settling our residents into the community and the powerful impact that can have on people's perceptions of home and citizenship.

Concluding remarks

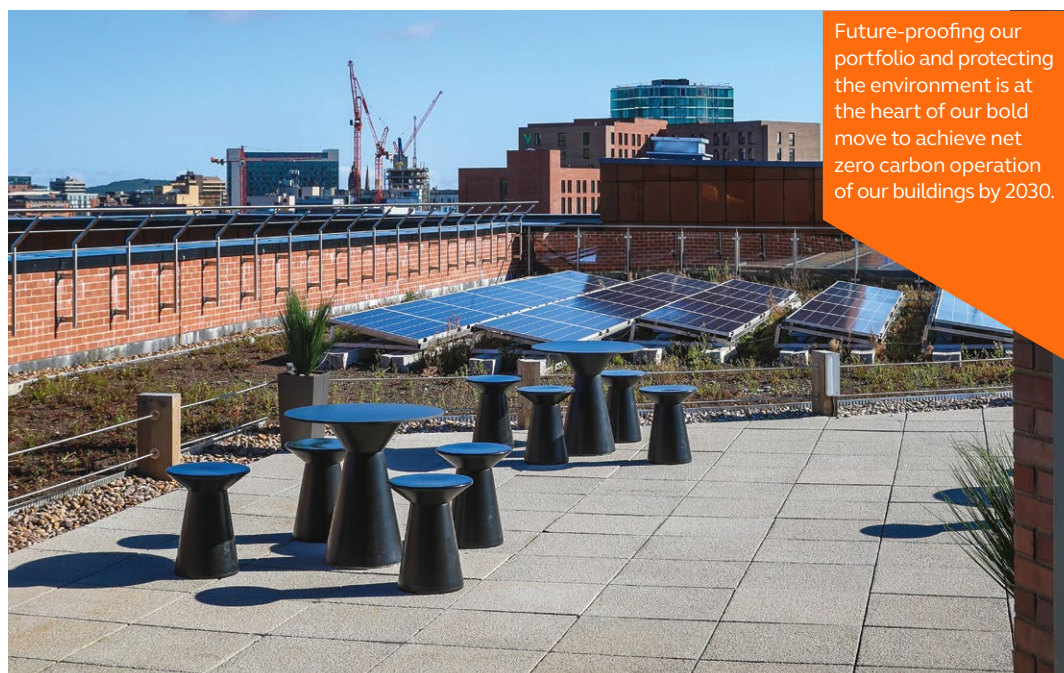
We have a strong business in a resilient sector. The PRS market is forecast to continue to grow significantly, and, as a market leader with a secured pipeline of over £1bn, we are particularly well placed for the future. Our continued growth this year despite the challenging conditions of Covid-19 pandemic proves the strengths of our strategy, operating platform and business model. By continuing to provide exceptional homes and exceptional service, we look forward to serving more customers and communities as well as providing growing returns for our Shareholders.

I would like to thank all the Grainger team for their outstanding effort in delivering this year's strong performance.

Helen Gordon
Chief Executive

18 November 2020

Brook Place, Sheffield



Future-proofing our portfolio and protecting the environment is at the heart of our bold move to achieve net zero carbon operation of our buildings by 2030.

Why our investment case is strong

The market leader in a compelling sector

By investing in the UK private rented sector, we aim to deliver superior Shareholder returns that are both long-term and resilient. We are directly investing in the best assets in the best locations using in-house proprietary research, and leveraging our leading operating platform enables us to outperform the market.



Grainger's operational strength

- **Experienced operational team**
Managing our properties and supporting our customers
- **Enabled by technology**
Supporting our teams and customers via our CONNECT platform
- **Quality of offering**
High quality homes and continuously improving our offer
- **Integrated model**
Resident Services teams managing homes and supporting customers



Grainger's investment strength

- **Balance sheet strength**
Balanced and flexible funding structure
- **Investment underwriting**
Disciplined, research based approach
- **Mid-market pricing**
- **Geographically diverse portfolio**
London and regional customers
- **Investing in areas of deepest demand**

Sector resilience

- **Growing rental demand set to continue and accelerate**
- **Demand proven resilient through cycles**
- **Structural undersupply supports long term performance**
- **Stretched home ownership affordability supports rental demand further**
- **Diversified, large customer base a significantly lower risk profile to other property asset classes**
- **Limited competition provides a significant market opportunity**



“I was a tenant with Grainger in two properties over six years in London and could not fault their service. Quick to respond to any issue, fair with any rent increase and all-round professional in their dealings. Would highly recommend!”

ROSS, FORMER GRAINGER RESIDENT (ONLINE REVIEW)

Strong financial position

We are in a strong position financially. We are well-capitalised and we employ strict cost management discipline, with a low cost of debt, strong balance sheet and high liquidity. This will provide us with significant operational leverage as we grow the business.

£650m

committed headroom available

33.4%

loan to value

6.6 years

average debt maturity (incl. extension options)

Exceeding expectations

We believe that great service can truly differentiate Grainger. Our market-leading in-house operating platform sets us apart. We know that happy residents stay longer and we know that delivering a great home and an excellent, hassle-free experience makes our residents happy.

8 in 10

residents “really like” their Grainger home

89%

of all online reviews were 5 star this year.

34 months

average PRS customer length of stay

Our partnerships

Grainger is a good partner. 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.

This year we made great progress on schemes we are delivering in partnership – launching Millet Place in partnership with the Local Pension Partnership, and breaking ground in Newbury with West Berkshire Council and Network Rail. We also secured planning committee approval for our Besson Street scheme with the London Borough of Lewisham, and submitted four planning applications for Connected Living London, our joint venture partnership with TfL.

In September 2020, we reached our first milestone with TfL, securing planning committee approval for 460 new homes in Southall.

A responsible business

Grainger has always had a strong social purpose and we take our commitment to deliver value for all of our stakeholders seriously. Last year we introduced our four long-term ESG commitments, which focus our attention on areas of material importance to our business – committing to net zero carbon for the operation of our buildings by 2030, integrating ESG into investment decisions, delivering social value for our customers and communities, and enhancing the diversity of our workforce.

We are progressing well against these commitments, with highlights from this year including developing our blueprint for best practice community engagement (see page 42) and signing up to the World Green Building Council’s Net Zero Carbon Buildings Commitment (see page 40). Our ESG disclosure and performance continues to be recognised through a number of third-party benchmarks.



What is driving growth in our marketplace?

UK PRS continues to grow

The UK has an increasing need for high-quality housing. The supply-demand imbalance within the UK private rented sector provides Grainger with an excellent market opportunity to help meet the growing need for well located, quality, professionally managed homes.

Growing demand

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

What this means for Grainger...

With more people choosing to rent, and renting for longer, there is a greatly increased need for more rental homes. With this comes greater expectations from 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 large pipeline and leading operating platform.

Under-supply of homes

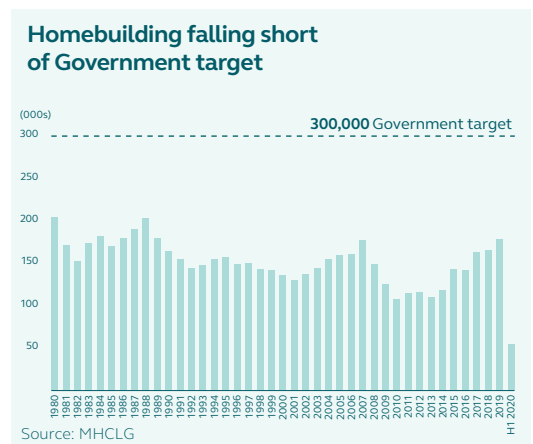
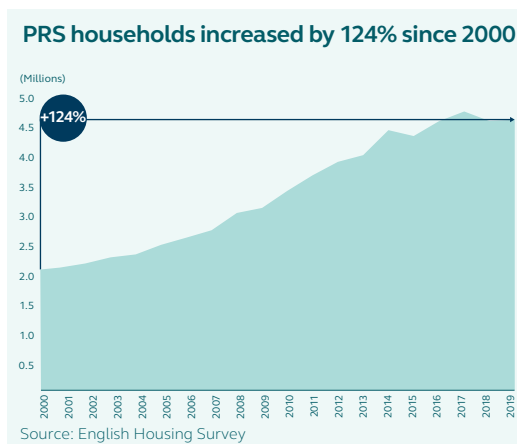
Official estimates suggest that there is a chronic under-supply of housing across the UK with demand far outstripping supply across all housing tenures.

Meanwhile, existing rental supply is reducing as buy-to-let landlords continue to exit the market, and with new housing delivery levels falling significantly behind demand, the supply shortfall is exacerbated.

What this means for Grainger...

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

The structural under-supply of housing underpins pricing, both capital values and rental yields.





Reducing competition from individual private landlords

The UK rental market has historically been dominated by individual private landlords (often known as buy-to-let investors).

According to Savills, Build to Rent accounts for just 1% of all private rented homes in the UK, compared to 45% in the US and 35% in Germany.

Whilst demand for renting is increasing, in recent years, the number of individual private landlords has continued to decrease. Tax and legislative changes have significantly disincentivised smaller private landlords with many leaving the market, putting further pressure on rental housing supply.

What this means for Grainger...

With individual private landlords exiting the market and the supply of rental homes decreasing, the need for new supply is exacerbated. Grainger's pipeline supports the delivery of this much-needed new supply.

With competition from private landlords reducing, our lease-up and occupancy rates are likely to further benefit.

Government support

There remains broad agreement across the political spectrum that the UK needs more homes, and more homes for rent. Recognising the challenges today's renters can face, there is also growing Government support for a more professionalised private rental sector within the UK.

Whilst legislative and regulatory changes are serving to deter smaller private landlords, the 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 and moved swiftly to reject proposals such as rental controls, which would have had a detrimental impact on investment and supply into the sector.

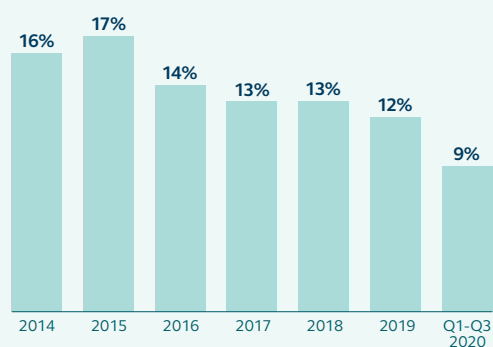
What this means for Grainger...

The growing professionalisation within the rental sector provides Grainger with significant positive tailwinds.

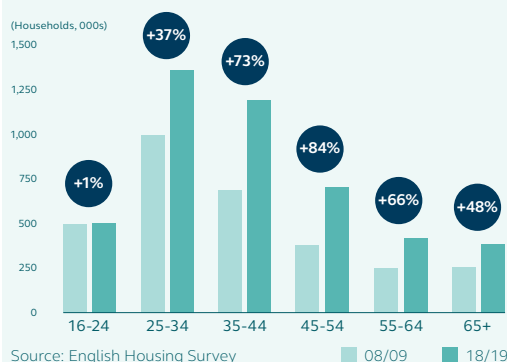
Our market leading position and depth of experience and expertise enables us to work with other bodies to influence and contribute to political debates, supporting the drive for positive legislative change for the benefit of the sector.

Our focus on mid-market housing, with rents aligned to 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 longer-term tenancies go beyond political expectations.

% of total GB property sales to buy-to-let landlords shrinking



Significant growth in 25-54 age brackets



Our fully integrated business model and operating platform sets us apart from our competitors

Our inputs



Our people

People are at the heart of everything we do. With a real diversity of skills across the business our people are passionate about quality, service and making a real difference for our residents.

[Read more pages 34 to 35](#)



Technology

Leading the way with technology, supporting our sustainable growth and enhancing the customer experience.

[Read more page 28](#)



Intellectual capital

Driven by in-house research we have a wealth of expertise and knowledge providing competitive advantage.

[Read more pages 25 to 33](#)



Our relationships

Building relationships with our residents, suppliers and partners to deliver long-term, sustainable value.

[Read more pages 58 to 61](#)



Our properties

8,941

well located homes

[Read more pages 2, 3 and 32](#)



Financial capital

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

[Read more pages 19 to 24](#)

Our outputs

Shareholders

Dividend per share

5.47p

EPRA NTA

285pps

[Read more on our performance pages 16 to 18](#)

Stakeholders

Customers

34 months

average length of stay (PRS customers)

Partners

c.7,750

homes being delivered through partnerships

Communities

200+

in-person and virtual resident and community events

Employees

92%

of employees participated in Grainger led training

How we create value

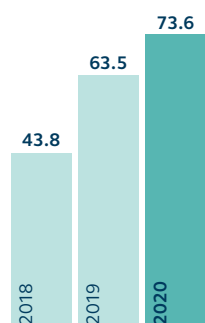
Our fully integrated business model and operating platform ensures we are investing in and designing the best possible assets and providing great service. It enables us to deliver market leading, sustainable returns for our Shareholders, and a positive impact for all stakeholders.



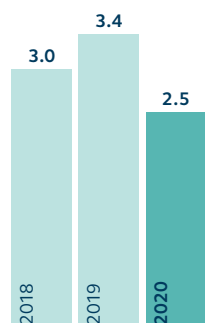
Driving income returns

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.

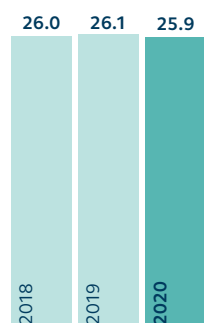
Net rental income
(£m)



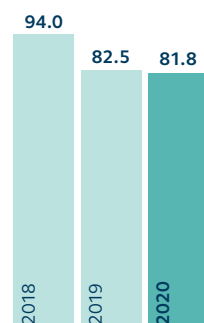
PRS rental growth
(%)



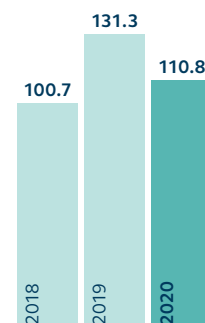
Property operating cost (gross to net) (%)



Adjusted earnings
(£m)



Profit before tax
(£m)



KPI definition

Gross rental income after deducting property operating expenses.

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

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

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

Profit before tax is a statutory IFRS measure as presented in the Group’s consolidated income statement.

Comment

Increase of 16% delivered, including £12.0m from PRS investment and £1.5m rental growth, offset by £3.4m impact of disposals.

2.5% like-for-like growth in our PRS rental income achieved in challenging market conditions with positive growth across all regions.

Improved gross to net performance demonstrating strong operational efficiency in our portfolio as we continue to stabilise new openings.

Marginal reduction with the increase in net rental income offset by lower development for sale profits as we continue to transition our business to recurring revenue streams.

Reduction in profit before tax reflects lower valuation gains in a challenging market.

Link to strategy



Notes

See Note 6 to the financial statements.

See Glossary on page 167 for definition and calculation basis.

See Note 6 to the financial statements.

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

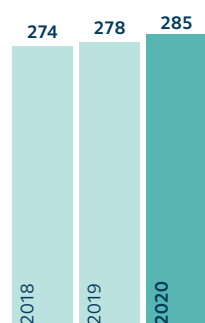
See consolidated Group income statement on page 104.

Building our capital returns

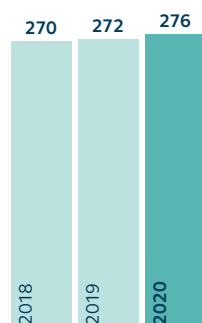
The following KPIs focus on Grainger's strategic priority to increase overall income returns and improve the resilience and efficiency of the business model which will support increasing dividend distributions.

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

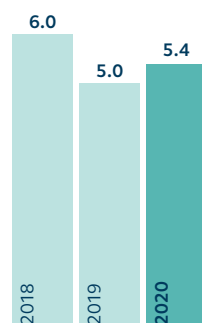
EPRA NTA (pence)



EPRA NDV (pence)



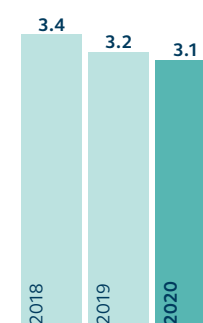
Total Property Return ('TPR') (%)



Loan to value (‘LTV’) (%)



Cost of debt (average) (%)



KPI definition

EPRA NTA (Net Tangible Assets) is the market value of property assets, after deducting deferred tax on trading assets, and excluding intangible assets and derivatives.

Comment

3% growth in FY20 reflecting a strong trading and resilient valuation performance with a challenging property market backdrop.

Link to strategy



Notes

See Note 4 to the financial statements for reconciliation to statutory measures and EPRA performance measures from page 160.

EPRA NDV (Net Disposal Value) is EPRA NTA after deducting deferred tax on investment property revaluations and including market value adjustments of debt and derivatives.

4p growth in the year impacted by adverse market movements in fixed rate debt and derivatives which reduced the measure by 3p per share.



Previously known as EPRA NNAV. See Note 4 to the financial statements for reconciliation to statutory measures and EPRA performance measures from page 160.

TPR is the change in gross asset value, (net of capital expenditure), plus net income, expressed as a percentage of opening gross asset value.

Returns of 5.4% in FY20 demonstrating resilient overall returns from our property portfolio.



See Alternative Performance Measures on page 165 for calculation.

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

Following the successful equity raise, LTV reduced to 33.4%.



See Alternative Performance Measures on page 165 for calculation.

Average cost of debt for the year including costs and commitment fees.

Average cost of debt at 3.1% following refinancing activity as we lock into favourable rates for longer term with average debt maturity now at 6.6 years.



See Note 27 to the financial statements for further detail regarding capital risk management.

[Link to strategy](#)



Non-financial KPIs

The following metrics capture the non-financial performance of our business. Refer to People, Resources and Relationships (pages 34 to 36) and Sustainability (pages 38 to 43) for further information.



OUR CUSTOMERS AND COMMUNITIES

We believe creating thriving communities helps attract and retain customers, and this year we developed a blueprint for best practice community engagement.

Our investment in customer service training and processes, supported by our digital platform delivers continued improvements in customer feedback.

34 months

average length of stay of our PRS customers

89%

of online reviews received this year had a 5* rating

200+

resident and community events

[Link to strategy](#)



OUR PEOPLE

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

This year our engagement approach played a key role in supporting business resilience during Covid-19.

80%

response rate to our employee engagement survey

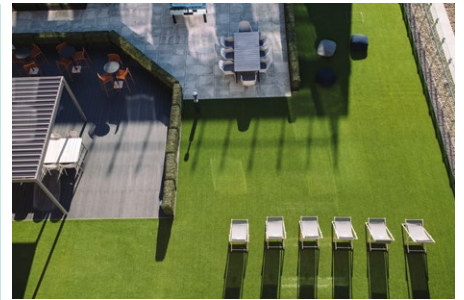
94%

of eligible employees are Shareholders

93%

retention rate

[Link to strategy](#)



OUR IMPACT ON THE ENVIRONMENT

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 and achieving our commitment to the net zero carbon operation of our buildings.

1,221 tonnes of CO₂e

our carbon footprint (market-based methodology)

-21%

change in market-based carbon emissions

80%

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

[Link to strategy](#)





Enhancing performance through our in-house operating platform

FY20 has been another year of good performance, benefiting from our strategic transition into the Private Rented Sector (PRS) and the strength of our in-house operating platform. Our business has performed well and proven resilient in a challenging market given the uncertainty from Brexit, a UK general election and the impact of the Covid-19 lockdown. Our performance has a greater alignment to the performance fundamentals of PRS which remain strong and are underpinned by an on-going undersupply of housing.

+16%
Net rental income growth

285_p
EPRA NTA per share

5.4%
Total property return

“Our balance sheet is strong with good liquidity to support our growth strategy.”

Financial highlights

	FY19	FY20	Change
Income return			
Rental growth (like-for-like)	3.6%	3.0%	(69) bps
Net rental income (Note 6)	£63.5m	£73.6m	+16%
Adjusted earnings (Note 3)	£82.5m	£81.8m	(1)%
Profit before tax (Note 3)	£131.3m	£110.8m	(16)%
Earnings per share (diluted) (Note 15)	19.8p	14.2p	(28)%
Adjusted EPRA earnings (Note 4)	£28.8m	£26.1m	(9)%
Dividend per share (Note 14)	5.19p	5.47p	+5%
Capital return			
EPRA NTA per share (Note 4)	278p	285p	+3%
Net debt	£1,097m	£1,032m	(6)%
Group LTV (Note 27)	37.1%	33.4%	(371) bps
Cost of debt (average)	3.2%	3.1%	(12) bps
Reversionary surplus	£302m	£301m	(0)%
Total Property Return	5.0%	5.4%	40 bps
Total Accounting Return (NTA basis) (Note 4)	3.7%	3.6%	(16) bps

We continue to increase our proportion of earnings generated from net rental income. During the year we increased net rents by 16% further increasing the reliance on recurring rental income. We have also continued to sell well, with sales in line with the prior year. This performance has been driven by the strength of our in-house operating platform, our mid-market strategy, and the strength of our balance sheet.

Our balance sheet is strong with good liquidity to support our growth strategy. We raised £187m of equity in February and issued a £350m bond in July with good support from our investors and both offerings were oversubscribed multiple times. With significant headroom we are well placed to manage any near-term economic uncertainty and take advantage of the potential opportunities that present themselves in our market.

The resilience of our business is reflected in our ability to maintain our dividend policy and we continue to distribute 50% of our net rental income, and the proposed dividend for the year is 5.47p per share.

Income statement

We have continued to enhance the composition of our earnings with a further increase in the proportion of earnings derived from recurring net rental income which now represents 54% of our income. This transition is a key component of our strategy and recurring net rental income will grow further as our pipeline continues to deliver. Our continued focus on driving cost efficiency enables us to utilise the inherent operational leverage in our business as we continue to manage our costs and invest in technology to further support this position.

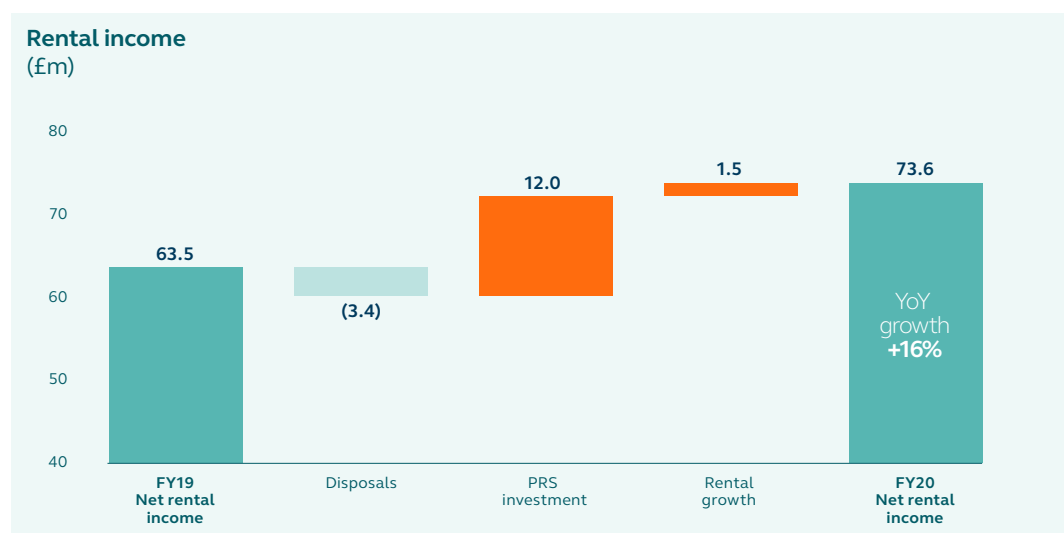
Adjusted earnings decreased marginally by 1% to £81.8m (FY19: £82.5m) with the increase in net rental income offset by lower development profits of £4.2m (FY19: £7.4m) as we conclude our development for sale activity and focus our development activity on our PRS investment pipeline.

Income statement (£m)	FY19	FY20	Change
Net rental income	63.5	73.6	+16%
Profit on sale of assets – residential	60.4	59.4	(2)%
Profit on sale of assets – development	7.4	4.2	(43)%
CHARM income (Note 20)	5.5	5.1	(7)%
Management fees	4.4	3.5	(20)%
Overheads	(28.0)	(28.7)	+2%
Pre-contract costs	(0.6)	(0.6)	+0%
Joint ventures and associates	2.0	(0.7)	(135)%
Net finance costs	(32.1)	(34.0)	+6%
Adjusted earnings	82.5	81.8	(1)%
Valuation movements	66.4	29.7	(55)%
Derivative movements	(0.5)	–	(100)%
Other adjustments	(17.1)	(0.7)	(96)%
Profit before tax	131.3	110.8	(16)%

Rental income

Net rental income increased by 16% to £73.6m (FY19: £63.5m) with £12.0m delivered from PRS investment and £1.5m from rental growth offset by a reduction of £3.4m from asset disposals as part of our asset recycling programme and the natural vacancy in our regulated portfolio. Our gross to net operating cost ratio continues to improve as we grow the business, with our stabilised portfolio at 25.0% (FY19: 25.2%) and our overall ratio at 25.9% (FY19: 26.1%) which includes our new developments.

Despite the challenging market conditions, our like-for-like rental growth remained resilient at 3.0% (FY19: 3.6%) with 2.5% rental growth in our PRS portfolio (FY19: 3.4%) and 4.6% in our regulated tenancy portfolio (FY19: 4.4%), with positive growth across all regions. Rent collections have remained consistently high at an average of 97% paid on time over the year and 99% in the month of September, demonstrating the strength of our in-house operations and customer relationships.



+3.0%

Like-for-like rental growth

£63.6m

of sales profit

Sales price

2.0%

above valuation

67%

Sales profit in H2

Sales

Sales profits remained resilient despite the impact on the wider housing market from Brexit, the general election and the Covid-19 lockdown. We delivered £63.6m of sales profit (FY19: £67.8m) with the profit relating to residential sales broadly in line with the prior year and a decrease in development as we conclude our development for sale activity. Our sales activity continues to provide strong cash generation to fund further investment in our PRS investment pipeline.

Residential sales

Our residential sales continued to deliver a strong and consistent cash flow despite the challenges of the market. Over the year we continued to sell well with both volumes and pricing in line with our expectation at the start of the year.

This strong performance was a result of the actions we have taken to enable the sales process to continue throughout the Covid-19 lockdown through selling vacant properties safely, leveraging direct marketing, virtual viewings and a reconfigured sales process to ensure minimal disruption.

Vacant property sales remained robust delivering £65.9m of revenue (FY19: £77.2m) and £35.2m of profit (FY19: £38.8m). The annualised vacancy rate within our regulated tenancy portfolio was 6.4%. The prices achieved were strong with the sales prices 2.0% ahead of previous valuations on average and a sales transaction velocity (keys to cash) of 120 days

(FY19: 111 days). This again demonstrates the resilience of returns generated by our regulated portfolio throughout the economic cycle. Sales of tenanted and other properties delivered £72.8m of revenue (FY19: £97.3m) and £24.2m of profit (FY19: £21.6m).

Development activity

Development for sale activity generated £4.2m of profit, 43% below the prior year (FY19: £7.4m) as we shift our development focus to our PRS investment assets where gains are accounted for through the balance sheet.

Overheads

Maintaining an efficient operating platform is a key business objective with an inflationary increase in FY20 to £28.7m (FY19: £28.0m). Despite a significant increase in the size of our business over recent years our overheads are positioned for growth and have remained flat as the benefits of scale feed directly into increased earnings.

Joint ventures

Income from joint ventures and associates decreased to £(0.7)m loss (FY19: £2.0m profit) which reflects our share of pre-planning costs in the development phases, whilst the prior year benefited from three months of profit from GRIP, our co-investment vehicle with APG, prior to our acquisition.

Profit before tax is below the previous year as a result of lower levels of valuation uplift on our investment assets.

Sales (£m)	FY19		FY20	
	Revenue	Profit	Revenue	Profit
Residential sales on vacancy	77.2	38.8	65.9	35.2
Tenanted and other sales	97.3	21.6	72.8	24.2
Residential sales total	174.5	60.4	138.7	59.4
Development activity	18.6	7.4	5.4	4.2
Overall sales	193.1	67.8	144.1	63.6

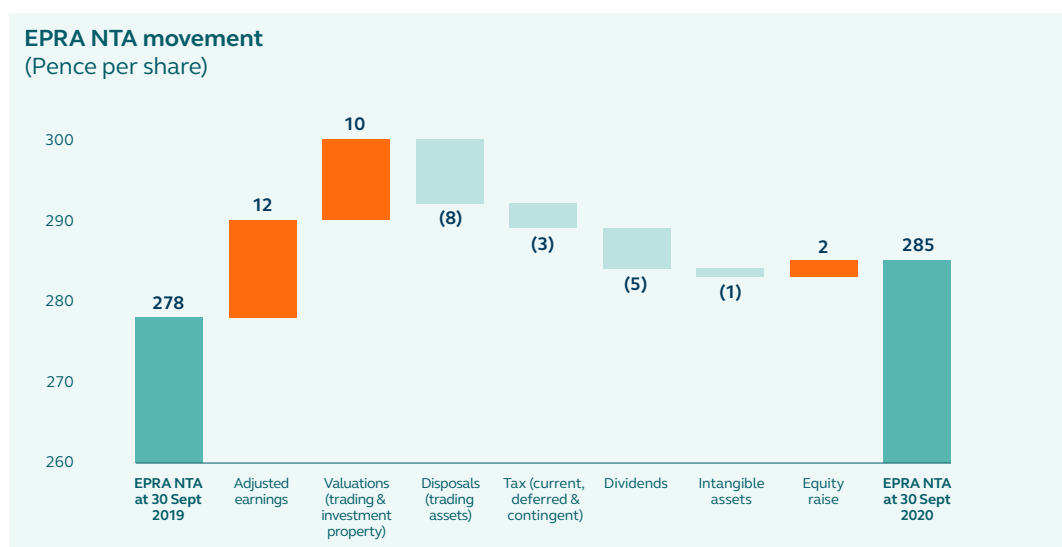
Balance sheet

Our balance sheet is in a strong position with significant headroom to support the further growth in our PRS portfolio. Our PRS portfolio now makes up 63% of our overall asset base with this proportion set to grow as our pipeline continues to deliver.

Market value balance sheet (£m)	FY19	FY20
Residential – PRS	1,526	1,624
Residential – regulated tenancies	1,017	968
Residential – mortgages (CHARM)	76	73
Forward Funded – PRS work in progress	160	231
Development work in progress	120	147
Investment in JVs/associates	33	42
Total investments	2,932	3,085
Net debt	(1,097)	(1,032)
Other liabilities	(14)	-
EPRA NRV	1,821	2,053
Deferred and contingent tax – trading assets	(102)	(109)
Exclude: intangible assets	(11)	(23)
EPRA NTA	1,708	1,921
Add back: intangible assets	11	23
Deferred and contingent tax – investment assets	(19)	(24)
Fair value of fixed rate debt and derivatives	(34)	(57)
EPRA NDV	1,666	1,863
EPRA NRV pence per share	297	304
EPRA NTA pence per share	278	285
EPRA NDV pence per share	272	276
Reversionary surplus (excluded from NAV – £m)	302	301
Reversionary surplus (pence per share)	49	45

The EPRA NAV measures exclude the reversionary surplus in our portfolio which stands at £301m. This represents the difference between the market value of our assets used in our balance sheet and the value we could realise if they became vacant.

EPRA Net Tangible Assets (NTA) is the most relevant NAV measure for our business as it reflects the tax that will crystallise on our trading portfolio, whilst excluding the mark to market movements on fixed rate debt and derivatives which are unlikely to be realised. The table below shows how EPRA NTA has grown during the year.



EPRA NTA increased by 3% during the year to 285p per share.

33.4%

Loan to Value

£650m

headroom

3.1%

cost of debt

EPRA NTA increased by 3% during the year to 285p per share (FY19: 278p per share). The growth has been delivered through 10pps valuation growth, 4pps increase through earnings and sales profits above the market valuation, offset by tax and dividend payments. The investment in our CONNECT technology platform is excluded from EPRA NTA.

Property portfolio performance

Our portfolio delivered valuation growth of 3.1% despite the uncertain market backdrop. Our stabilised PRS portfolio increased by 2.5% and regulated portfolio at 4.0%, with positive growth across all regions. The valuation movements reflect differing valuation methodologies across our portfolio with our regulated portfolio valued on a discount to vacant possession value, 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 growth.

Financing and capital structure

Our capital structure is in the strongest position it has been in for a number of years as we have executed our funding strategy to diversify our lending sources and align our assets and liabilities. Following the equity raise and bond issue during this financial year, our LTV now stands at 33.4% (FY19: 37.1%), our average cost of debt in the year was down to 3.1% (FY19: 3.2%), and an increased weighted average debt maturity of 6.6 years (FY19: 5.8 years).

Net debt decreased from £1,097m to £1,032m. In addition to the equity raise and bond issue, we generated £104m of operating cash flow and £67m proceeds from asset recycling and invested £224m into our pipeline and property portfolio, which were the key movements in the year.

Following our £350m bond issue in July we now have no debt maturities until November 2022.

Our liquidity position is strong with £650m of total available headroom, ensuring that we have enough funding capacity to finance our entire committed investment pipeline comfortably within our target LTV range. This low risk approach to balance sheet management was reflected in S&P reiterating our credit rating and outlook statement in May at a time of particular uncertainty as a result of the Covid-19 lockdown.

	FY19	FY20
Net debt	£1,097m	£1,032m
Loan to value	37.1%	33.4%
Cost of debt	3.2%	3.1%
Incremental cost of debt	1.7%	1.6%
Headroom	£430m	£650m
Weighted average facility maturity (years)	5.8	6.6
Hedging	98%	100%

Summary and outlook

Our strategic transition to a PRS focused business was rooted in the compelling, resilient, low risk returns that we believed we could generate, and the long-term supply-demand imbalance in rental housing that underpins this investment case remains as relevant as ever. In a year where the market experienced challenging events our business model continued to deliver a strong performance.

Whilst there may be some near-term economic challenges ahead, the fundamentals of our business remain in very good shape. Our strong balance sheet ensures that we will be well placed to optimise on the market opportunity and continue to grow our business.

Vanessa Simms

Chief Financial Officer

18 November 2020



Homes have never been so important

Grainger's existing commitment to innovation, health and safety, and wellbeing enabled us to adapt well during Covid-19 and coupled with our clear investment strategy, ensures we are suitably equipped to respond to evolving future demands and rental needs.

Our key stories from 2020:

- 1 Our homes have been intensively used and tested during Covid-19
- 2 The importance of leading with innovation
- 3 Promoting wellbeing and future living
- 4 A strong pipeline of targeted locations



Our homes have been intensively used and tested during Covid-19

This year, the value of a safe, secure home was amplified. With an enforced lockdown, our homes became a protective space, a workplace, a temporary school, a social space, a gym, and many things in between.



Our homes stood up to the rigours of the new demands people made of them during lockdown.

Our Covid-19 response strategy to innovate, communicate and improve has ensured we have continued to deliver throughout this period, finding new ways to continue with sales and lettings during lockdown, supporting our residents and collecting on average 97% of our rents, whilst also investing the time to further train and develop our employees.

Every home matters

The Covid-19 lockdown brought to the forefront the importance of a well maintained, good quality home with cleverly designed spaces, particularly for sharers and families. For many years health and wellbeing has been integral to our investment and design processes, ensuring where possible the provision of balconies, terraces, gardens and access to local parks.

With many people home-working and home-schooling for a large part of the year, Grainger's strong and fast WiFi connection also proved vital.

As a landlord, our responsibility to our residents goes beyond bricks and mortar. Through our Live.Safe programme, our aim is to always deliver the highest levels of safety and security, but with Covid-19 we recognised the need to do more and go further to ensure that through our hygiene standards, building protocol and management processes, we were doing everything possible to protect our employees, residents and partners. We responded quickly to be able to safely bring our Resident Services teams back to site in July in order to be there for our residents.

People at the heart

Our Covid-19 response focused on three critical areas: innovate, communicate and improve. Our aim was to emerge even stronger. To have stronger relationships, stronger processes and for our employees to be better equipped to deliver great service.

It is a deeply personal relationship when you're providing someone's home and we build relationships with our residents because we care. Throughout Covid-19, we enhanced communication to our residents, primarily to make sure they were okay, but also to ensure they were receiving the support they needed.

Operationally, we responded quickly and effectively, transitioning the entire business to remote working in a matter of days. The implications of Covid-19 forced big changes to our working practices, but we discovered innovative ways of working to ensure we could still maintain our high standards of service from a distance.

Our operating model, driven by an in-house team, has delivered exceptional performance and ensured that we could keep our operations going without having to rely on others. This has added value for our Shareholders and reaffirms our resilience for the future.



“Through the pandemic Grainger were good at introducing new hygiene measures and keeping residents informed.”

CHRISTOPHER,
GRAINGER RESIDENT (ONLINE REVIEW)



The importance of leading with innovation

Innovation is critical to achieving our ambition of emerging stronger from Covid-19. Our commitment to lead with technology through our CONNECT programme is building an industry leading platform that will enhance our service offering and is creating a scalable operating platform for growth.

The events of 2020 have highlighted the importance of working innovatively and using technology to support business operations.

Leading the way

Our online leasing journey, a key component of our ongoing investment in technology “CONNECT”, enabled Grainger to quickly adapt to the restrictions of lockdown by undertaking virtual viewings and home tours across our portfolio. Through this element of CONNECT, customers are able to find, view and secure their new home online.

When estate agents were locked down, the adaptability of our sales team in using direct listings with Rightmove and linking it to our online leasing journey maintained sales momentum throughout lockdown, securing many sales whilst most of the industry remained closed.

Across the business we’ve found new ways of working, from conducting virtual property visits and inspections to hosting virtual resident events.

Our commitment to technology was further strengthened with the appointment of Paul Glibbery, our Chief Information Officer, responsible for driving Grainger’s technology transformation and continuing to evolve our CONNECT platform.

In view of the intense activity of our teams this year, we took the decision to launch further enhancements to our CONNECT platform in 2021.

Exceeding expectations

As we grow, it’s important that we have consistent service across our portfolio. We continue to strengthen our operations by investing in training and improvement programmes.

Live.Safe, our health and safety programme, continues to set standards as an industry leader, particularly in the fire safety of our buildings.

On-site, our Resident Services teams are delivering an excellent, hassle-free rental experience. To enhance this, this year we’ve delivered our new Resident Services Manager induction and training programme, detailing over 300 processes required for the successful operation of a Grainger home. This investment, combined with dedicated training and development for all team members, ensures a consistent approach for all Grainger residents, further raises our standards, brings best practice elements from across our business, supports our operations as we scale up, and provides opportunities for our team members to move within Grainger.



Promoting wellbeing and future living

At Grainger, we don't build houses, we build homes and communities. We know that happy residents stay longer, and we use our experience and understanding of our existing residents needs and wants to inform the design process in our future schemes.

Wellbeing has been integral to our design philosophy for some time now and is becoming increasingly important to our residents.



Access to the outdoors

Our build-to-rent resident amenity spaces serve as an extension to a resident's home, providing places to relax, entertain, work and socialise, both inside and outside of our buildings.

Our three most recent launches – Brook Place (Sheffield), Solstice Apartments (Milton Keynes) and Millet Place (East London) – all provide multiple and extensive outdoor terraces for residents to enjoy. Many of our homes also offer balconies and in the case of Solstice Apartments and Millet Place, residents have the additional benefit of a beautiful park on their doorstep.



Health and fitness

A core offering within a Grainger build-to-rent scheme is a gym or fitness area, providing residents with convenience and additional opportunities to interact with others.

Our shared spaces also work well as venues for wellness classes, with some developments having hosted rooftop yoga and pilates. In lockdown, as part of our Wellness Wednesday's initiative at Clippers Quay, weekly virtual yoga sessions were held with a trained instructor, which was later rolled-out to residents at our other buildings.



Mapping and measuring wellbeing

As wellbeing becomes more important to our residents, it is increasingly something we consider in our asset acquisition and recycling. For example, we consider the WalkScore of our properties – a measure of how walkable a location is to local amenities. We are recycling assets with low WalkScores, whilst our development pipeline has an average WalkScore of 89/100 or "Very Walkable."

We have mapped the locations of our properties against the Index of Access to Healthy Assets and Hazards to inform asset management decision-making.

We have also reviewed our development specification against the wellbeing related building certifications Fitwel and Home Quality Mark, to identify further opportunities to support resident wellbeing through the design and operation of our buildings.

As measured through the Index of Access to Healthy Assets and Hazards, the locations of our current and pipeline build-to-rent assets outperform the national average of 5.5 with an average decile score of 3.9 for access to natural environment (green spaces including parks and recreational spaces, and blue space including rivers, canals and lakes).



Future spaces

All of Grainger's operational and pipeline build-to-rent developments have a co-working space available for residents to use.

Our standard superfast WiFi offering, included within the rent, means that residents are up and running from the day they move in. Responding to this year's increase in home-working and to further help customers during the pandemic, we are more than doubling the internet bandwidth for our residents free of charge.

An increase in the numbers of people now working from home at least some of the time, makes elements such as these that little bit more appealing and valuable to residents.



“During these tough times Louise has really shown commitment to her residents, even courtesy calls to check on tenants' wellbeing. Well done Grainger for going that extra mile; it does matter.”

MR. QUICK
GRAINGER RESIDENT (ONLINE REVIEW)

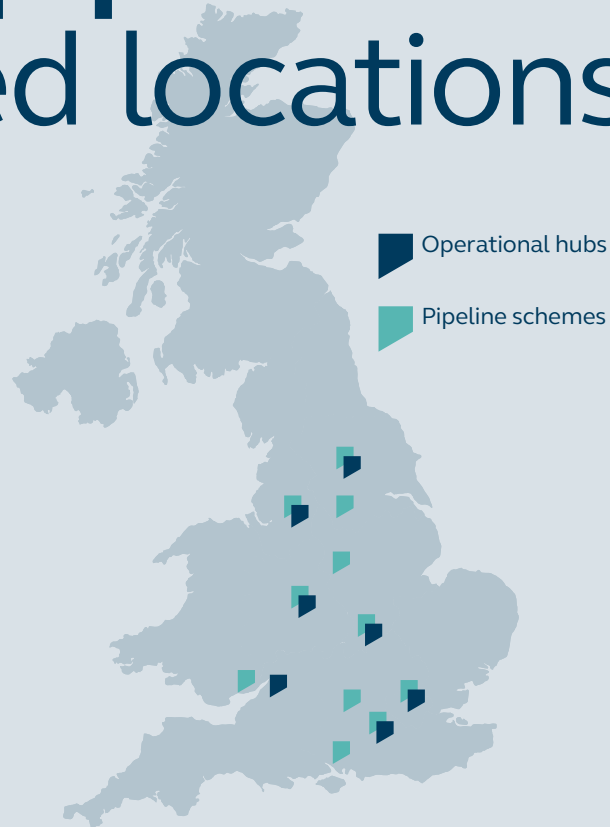
A strong pipeline of targeted locations

Our targeted cities strategy, which informs all new investments, is driven by in-depth research into market demographics, macro and micro economics, customer, competitor, supply and lifestyle analysis.

Through this detailed analysis we have identified 22 target cities within the UK.

As we continue to deliver our pipeline, we are creating geographic clusters that provide operational efficiencies, product diversification, and higher rental growth opportunities.

This year, the opening of Millet Place at Pontoon Dock added to our existing East London cluster of over 500 operational homes and 278 in the pipeline. Launching later this year, The Filaments (previously known as Gore Street) will be a fantastic new addition to our Manchester portfolio, creating a cluster of over 1,500 operational rental homes.



Local knowledge

Our in-house city champions keep their fingers on the pulse in each market, building local relationships and an expertise on the area.

Our acquisitions team analyse every opportunity in explicit detail to determine whether it is the right opportunity for Grainger to invest in.

8,950

homes in the pipeline

£2.1bn

value of the pipeline



Our regional portfolio

This year we strengthened our regional portfolio with new developments added to the pipeline in cities such as Nottingham, Cardiff and Guildford. These acquisitions support our growth within the regions and complement our existing pipeline which includes: Birmingham, Bristol, Leeds, London, Newbury, Sheffield and Southampton amongst others.

We've also achieved successful lease-ups in the regions, with Brook Place in Sheffield and Hawkins & George in Bristol both fully leased ahead of schedule.

February's equity raise provided the opportunity to further bolster our regional presence, securing funding for Exchange Square in Birmingham, Capital Quarter in Cardiff and a new development by Nottingham station.

Our London portfolio

London remains an attractive city for renters and investors alike. Our London pipeline was strengthened this year with the acquisition of our third development in Hallsville Quarter, Canning Town. This is part of our East London cluster.

We made good progress on our other pipeline developments in Tottenham, with Apex Gardens and Hale Wharf due to complete in FY21.

We've secured planning permission for our schemes in Waterloo and Besson Street, Lewisham, and our partnership with TfL has seen four planning applications submitted.

In total, our secured London pipeline spans six developments comprising 1,284 new homes.





Our people

Our people are at the heart of everything we do, from leading the way in our operations, to exceeding our customers' expectations.

This year, in a challenging environment, our people demonstrated their resilience, passion and commitment more than ever. Our commitment to improvement, innovation and communication delivered our highest levels of employee engagement and supported the development and progression of our workforce.

80%

response rate to Best Companies Index employee engagement survey

3,100+

hours of training delivered to Grainger employees

42%

of employees have five years' + service

Our values



Every home matters



People at the heart

Renting homes, enriching lives



Leading the way



Exceeding expectations



“Despite a really unsettling time, our senior leadership team have been brilliant; regular all-staff calls to keep us informed and motivated, wellness checks, IT support 24/7. I couldn’t be more proud to work for Grainger.”

GRAINGER EMPLOYEE



Continued commitment to learning

Grainger is committed to high-quality training and learning for all employees across all career stages. This year we continued to roll out The Grainger Academy. The Academy is our in-house, sector leading learning and development platform which provides a range of core and function-specific training covering topics from compliance to customer service. Overall in the year, 92% of employees participated in over 60 training sessions covering a range of topics.

In addition, 25 employees are undertaking external qualifications via our further education policy and our graduate scheme.

We recruited a number of new people into the business during the year, in particular for on-site roles at our new developments with 11 recruits. A key investment during the year was in the development of a bespoke induction and training programme for our Residents Services Management teams which will ensure consistency in delivering excellent customer service within our buildings.

We continued our focus on widening access to our industry and supporting internal progression. This year we launched a new apprenticeship scheme, hiring apprentices into our Finance and IT divisions. We also introduced a new Future Leaders Programme, designed to develop our future talent pipeline. The programme will be delivered by a third party and aims to develop middle managers to prepare them for leadership roles, with additional benefits being to promote gender diversity at senior levels and to encourage business area cross fertilisation.

High levels of employee engagement

We were proud to see employee engagement levels as measured through our Pulse survey for the Best Companies Index reach new heights during lockdown, in response to the many initiatives we introduced to help all employees remain connected and supported. In our full year survey, we improved our scores in all categories compared to the previous full survey, and in particular achieved our highest scores to date for the themes of “Giving Something Back” and “My Manager”, reflecting our commitment and investment in these areas.

The support programmes we have in place for our employees, including Grainger’s Mental Health Champions and Employee Assistance Programme, helped maintain high levels of engagement and resilience during the Covid-19 lockdown. We also introduced a new partnership with Carers UK to support employees with caring responsibilities.

Grainger is committed to enhancing the diversity of our workforce and ensuring all employees feel included and supported at work. We have achieved the targets of the Hampton-Alexander Review for 33% representation of women on FTSE 350 boards and in Executive Committee and Direct Reports by the end of 2020, with female representation of 42% on our main Board and 33% combined Executive Committee and Direct Reports. The launch of our employee-led diversity and inclusion network (see page 43) is designed to raise awareness of our diversity agenda and celebrate inclusion within our business.

Health and safety at the heart of our culture

This year we continued our commitment to embedding the highest standards of health and safety into the culture of our business and those organisations that deliver services on our behalf. The evolution of our Live.Safe programme continued with engagement activities involving our employees and partners and we introduced a new, comprehensive Health and Safety Management System (aligned to ISO standards) which combines policies and procedures with a programme of specific training for every Grainger employee.

We introduced a Covid-19 working group made up of representatives from across the business, to ensure we are safeguarding the welfare of our employees, customers and partners, and provided guidance to employees on how to gain maximum comfort at their home workstations.

This year we began using the Safety Climate Tool (SCT) developed by the Health and Safety Executive to benchmark our performance on embedding health and safety into our organisational culture. We conducted the survey twice during the year – in February and in August – and were pleased to see an improvement in Safety Culture in each of the eight factors measured by the survey. We also improved our performance when benchmarked against the 130 organisations from all sectors that respond to the survey, with six out of eight factors scoring above the benchmark average in our August survey.



“I’m proud that the Housing Minister and Secretary of State have singled out Grainger for its work in leading the way on building design in relation to fire safety.”

HELEN GORDON,
CHIEF EXECUTIVE

Through digital consultation, our community engagement programme for Connected Living London reached a more diverse audience:

2 million

people reached through social media

32,732

participated in feedback polls or visited project websites

1,652

pieces of written feedback received



Connected Living London’s Southall Sidings development (CGI).

Relationships

Our experiences during the Covid-19 lockdown demonstrated the importance of collaboration and the strength of our partnerships more than ever.

Reaching out to our customers to ensure they raised any concerns with us was central to our approach. We introduced a buddy system for build-to-rent customers where our on-site teams provided a one-to-one contact and support network for our residents, and paid particular attention to the welfare of our more vulnerable residents who needed additional support.

Ensuring our residents continued to feel part of our community was important and we increased digital communications and events. At Brook Place, Sheffield, residents took part in a fitness challenge to raise money for a local hospital and at Clippers Quay, Manchester, “Wellbeing Wednesdays” launched providing free virtual yoga sessions for residents. Our employees supported our corporate charity partners with virtual fundraising events and we offered space to the NHS. We also innovated in our approach to investor engagement, ensuring more interaction than ever with our investors (see page 62 for details).

Delivering progress on our pipeline

We remained close to our development partners and contractors during lockdown, and were able to continue progressing our pipeline.

Our partnership with Transport for London – Connected Living London – is progressing well, with four planning applications submitted during the year. Existing communities around the sites are informing the design of these new developments, with an extensive digital community engagement programme that has reached over 2 million local people. The site plans and building designs take into account the feedback we have received, such as a desire for more green space, and will meet the high

standards for sustainability agreed in the joint venture’s sustainable development framework.

We also achieved significant milestones on a further two partnership projects during the year, securing planning permission for our Besson Street development in Lewisham, South London – a joint venture with the London Borough of Lewisham – and launching Millet Place at Pontoon Dock in East London, a partnership with the London Pensions Partnership that has delivered a mix of 236 private rented and affordable homes next to the Thames Barrier Park.

Shaping our industry response

We undertook extensive engagement with our industry and Government representatives, designed to shape the future of rental living and respond to growing expectations for professional, safe and well managed rental homes. This included direct engagement with the Ministry for Housing, Communities and Local Government and the Greater London Authority’s Housing Taskforce. We were invited to present to the Government’s Industry Safety Steering Group (‘ISSG’) and were recognised for setting a high bar for protecting the safety of our buildings and residents.

During her British Property Federation Presidency, Helen Gordon oversaw the launch of the sector’s new strategy Redefining Real Estate, which seeks to demonstrate the positive impact real estate brings to local communities and economies. We continued our involvement in many of the organisation’s committees and associated projects relating to communications, policy, build-to-rent and sustainability. This year we became corporate members of the UK Green Building Council to collaborate with our sector on the transition to a low carbon economy.

Section 172 statement

Section 172 statement

The Board takes its responsibilities to all stakeholders seriously, and has acted consistently to promote the long-term success of the Company for the benefit of Shareholders, whilst having due regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006.

An overview of the key channels and processes used for engagement with our stakeholders and outcomes from this engagement during the year are set out on page 56. A summary of the Board's activity and how matters raised through engagement have been considered in key decisions taken during the year is provided on page 57.

The following diagram sets out the location of the most relevant disclosures to each matter set out in section 172 elsewhere in this report.

Section 172 matter	Overview	FY20 comment	Relevant disclosures
The long term	Grainger is committed to being a long-term investor in homes and communities, and delivering long-term success to our Shareholders	The Board undertook a comprehensive review of the business's long-term strategy during the year	 Business Model page 14
Employees	Employees are at the heart of our business and our people strategy focuses on delivering the highest levels of learning and development, wellbeing and inclusion	New methods for employee engagement were introduced during the year and the Board was kept informed on the extensive employee engagement activities undertaken during and after lockdown. Janette Bell has been designated as the Non-Executive Director responsible for employee engagement and consultation	 Our People page 34  Employee Engagement page 35
Business relationships with suppliers, customers and partners	The relationships with our key partners and suppliers are critical to our ability to deliver and maintain high-quality rental homes. Strong relationships with our customers supports retention and creates a community within our buildings	In particular, the Board considered the impact of Covid-19 on the business's relationships with suppliers and contractors, customers and partners and fed into the development of the business's Covid-19 response. The Board also received reports on key supplier succession plans	 Relationships page 36  Live.Safe page 35
The community and the environment	We consider communities to encompass those created within our buildings as well as those around them, and actively seek ways to promote thriving communities and to minimise our impact on the environment	The Board played a key role in defining the business's long-term ESG commitments including in relation to social value and net zero carbon. Updates on our progress were provided at biannual Board meetings and the Board signed off our Community Engagement Plan	 Sustainability pages 38 to 43
High standards of business conduct	Grainger is proud to be a FTSE4Good business and adheres to the highest standards of business conduct in interactions with all our stakeholders	Our values set the standards of conduct for all involved in our organisation, and were refreshed in FY20 following consultation with the Board and our employees	 Our Values page 34  Governance page 52
Shareholders	We conduct regular direct engagement with our Shareholders through a range of channels, and ensure key issues raised are factored into strategic decision-making	This year we continued our extensive programme of investor engagement, and innovated our delivery with more virtual engagement than ever before	 Shareholder Engagement page 62



Our commitment to sustainability is supported by a robust governance framework, extensive stakeholder engagement and our long-term ESG commitments which focus on areas material to our business where we can make the most positive impact.

Following the introduction of our long-term commitments in FY19, this year the Board agreed priority actions to support progress against each commitment. All areas of the business have been engaged in delivering these actions and we have made a strong start towards our 2030 roadmap.



“Our commitment to net zero carbon operation of our buildings is central to our environmental leadership in the residential sector.”

CHARLOTTE HOPKINSON,
HEAD OF SUSTAINABILITY & CSR

Our long-term ESG commitments:

- 1 Achieve net zero carbon operation of our buildings by 2030.
- 2 Deliver enhanced investment decisions through incorporating ESG considerations including risk, costs and returns.
- 3 Deliver positive social value contribution to our customers and local communities.
- 4 Ensure Grainger’s workforce is reflective of society.

A strong social purpose and commitment to sustainability

1

Our commitment:

Achieve net zero carbon operation of our buildings by 2030.

Our roadmap towards net zero carbon operation of our buildings

Innovating to deliver lean, clean and green buildings

Our commitment to the net zero carbon operation of our buildings by 2030 requires us to increase the energy efficiency of our buildings (“be lean”), use low carbon technologies within our buildings (“be clean”), and to procure renewable energy (“be green”).

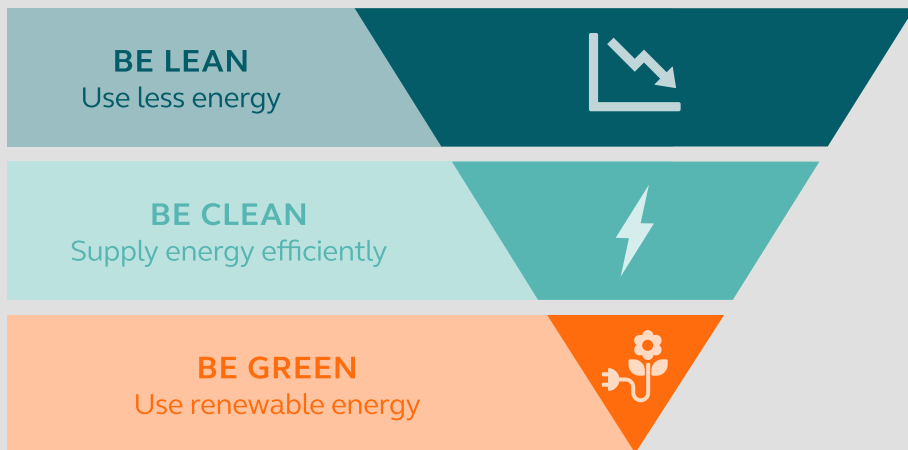
During the year, we completed a renewable energy procurement project to transition outstanding supplies onto one Grainger contract for green electricity. This increased the proportion of renewable electricity purchased to 83% of properties and we began trialling a renewable contract for void units in our buildings. With research suggesting the majority of tenants do not switch their energy contract, we hope this will influence the energy our residents use, further reducing the carbon emissions generated from our buildings.

Collaborating to support net zero carbon

Grainger is now a corporate member of the UK Green Building Council, an industry body representing leadership on sustainability and our employees are contributing to projects seeking to collate and document best practice on climate change and social value.

One of our first actions was joining other members in calling on the Prime Minister to ensure a clean, inclusive and resilient recovery from coronavirus; Helen Gordon was amongst more than 200 prominent business leaders in signing a letter to Government requesting that post Covid-19 recovery efforts drive investment in low carbon innovation.

We have now joined members from Green Building Councils across the world in signing up to the Net Zero Carbon Buildings Commitment for the operation of our buildings, which requires all buildings within our direct control to operate at net zero carbon by 2030, and all buildings to meet net zero carbon by 2050.



Air source water heater – Solstice Apartments, Milton Keynes

We have continued with our refurbishments programme to improve the energy efficiency of our buildings by upgrading lighting systems, installing lighting controls and adding insulation, achieving energy consumption reductions of up to 51%. For more details see our Streamlined Energy and Carbon Report on page 94.

For many years we have been piloting and increasing our investment in renewable energy technologies. This year saw the first major rollout of air source heat pumps at our new build-to-rent asset, Solstice Apartments in Milton Keynes. The heat pumps provide hot water for our residents more efficiently than other technologies and use five times less electricity than a typical water heater.



2

Our commitment:

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

89

average WalkScore
of our secured pipeline

80%

of PRS properties
rated EPC band A-C

142

air source heat
pumps installed

60%

of build-to-rent properties
have low carbon heating

50%

less CO₂ produced on average
by Grainger properties compared
to a typical home

We are integrating ESG into our investment decisions

Considering sustainability throughout the asset lifecycle

We have integrated sustainability considerations into investment decision-making throughout the lifecycle of our assets, from acquisitions to sales.

Grainger's Board papers for proposed acquisitions include an overview of the potential implications of the acquisition on the environment and communities, and we have developed internal sustainability criteria to assess potential acquisitions and identify key risks and opportunities.

We continue to review our specification for new developments, ensuring sustainability considerations are taken into account where we can influence the design of our pipeline.

During the year we have stepped up our asset recycling programme. Decisions on which assets to hold for the long term and which to recycle include a number of considerations, including sustainability criteria such as transport access and walkability, and the energy efficiency rating of the asset.

Managing climate-related risks

As climate change presents an increasing material risk to our business, we have reviewed physical and transition climate risk information for our existing assets and we take any potential risks into account when purchasing a property. During the year we undertook a comprehensive review of our business continuity plan, to ensure we can adapt to and mitigate the increasing threat from extreme weather events.

Climate-related issues are regularly discussed at meetings of the Board of Directors and Executive Committee, and this year we made the decision to add climate change to our principal risks (see page 50). We are establishing a working group to oversee Grainger's compliance with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and intend to report fully in alignment with the recommendations from FY21.

3

Our commitment:

Deliver positive social value contribution to our customers and local communities.

We don't just build houses, we build homes and communities

Developing a blueprint for best in class community engagement

Grainger is invested in our communities for the long-term, and we believe that creating thriving communities within and around our assets helps our residents put down roots in an area, driving engagement and integration between our residents and other local stakeholders.

This year we undertook a comprehensive review of community engagement throughout all areas of our business, to develop a blueprint for best practice community engagement. Over 20 employees from teams across the business have participated in workshops to discuss current best practice approaches and identify further opportunities for improvement. The Covid-19 lockdown demonstrated more than ever how important the communities within our buildings are to our residents, but also highlighted the desire of our residents to support the wider communities around where they live. The findings from this project will support our Resident Services management teams and others to identify opportunities to drive further engagement and build a successful community with high resident retention, a thriving local economy and a pleasant environment for local people.



Communicating our social value story

Supporting our long-term commitment to measure the social value we deliver to our customers and communities, we joined the British Property Federation's social value steering group and have commenced our journey to understand the social value created by Grainger's buildings and developments. Information for a range of social value metrics has been collated, analysed and assessed against some potential frameworks for measuring social value. These frameworks typically focus on the construction phase of new development. We know that in addition to the social value from their construction, the operation of our buildings makes a significant contribution to local employment and supporting local businesses, and we are putting in processes to fully capture and report this impact.

40

New direct jobs created – a 15% increase in our workforce

6

jobs – 15% of new roles – to those not in employment, education or training

79%

Local people hired for new PRS sites



Our blueprint for best practice community engagement is helping us consider how to maximise community engagement at each stage of the property lifecycle, and to build and handover strong and mutually beneficial stakeholder relationships at each stage from design to operation:

Our Besson Street scheme in Lewisham, London will deliver 324 new homes including 35% affordable, and a range of community facilities for local people, including a GP surgery and pharmacy and new community space. Consulting with local residents and community organisations and incorporating their feedback into our designs was a critical part of securing resolution to grant planning permission.

Our strategic development sites at Wellesley, Aldershot and Berewood, Waterlooville have dedicated community managers who work closely with our residents and local communities to deliver integrated and inclusive places. Initiatives include employment and skills programmes with local schools, providing discounted and free space to local charities and improvements to the local natural habitat.

We hire local people to join our on-site resident services teams as we believe local knowledge helps our customers get to know their area, to support local businesses and to deliver an integrated community. At Solstice Apartments, Milton Keynes which launched during lockdown, our team got stuck in helping residents working for the NHS access local discounts and support.

4

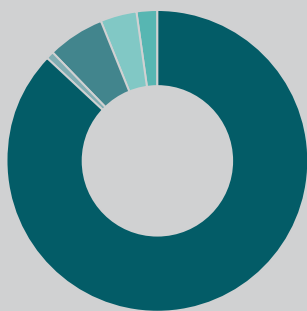
Our commitment:

Ensure Grainger's workforce is reflective of society.



Collaboration to enhance diversity and inclusion

Ethnicity



- White **87%**
- Mixed **1%**
- Asian or Asian British **6%**
- Black or Black British **4%**
- Other **2%**

Introducing our employee diversity network

This year we launched an employee-led diversity and inclusion network, with 29 participants – c.10% of employees, representing multiple Grainger offices, buildings and different areas of our business. The network is open to all employees with all areas of diversity included.

The Group's objectives include raising awareness of the diverse cultural mix within Grainger's workforce and further promoting inclusion and engagement between our employees and our customers.

A management committee provides governance and strategic oversight and sub-groups have been established to develop and implement actions in the areas of internal and external communications, recruitment and events.

The group meets monthly and has already demonstrated high levels of passion, enthusiasm and an appetite for learning.

The network's first initiative was the development of a diversity calendar providing employees with an opportunity to share their experiences of celebrating awareness days and events specific to their culture. Employees across the business are learning about different cultures, and in the future, we hope to also celebrate these occasions in our buildings with our customers.

Activities planned for FY21 include a series of learning hours with external speakers attending to educate and inspire our employees on a range of diversity issues.

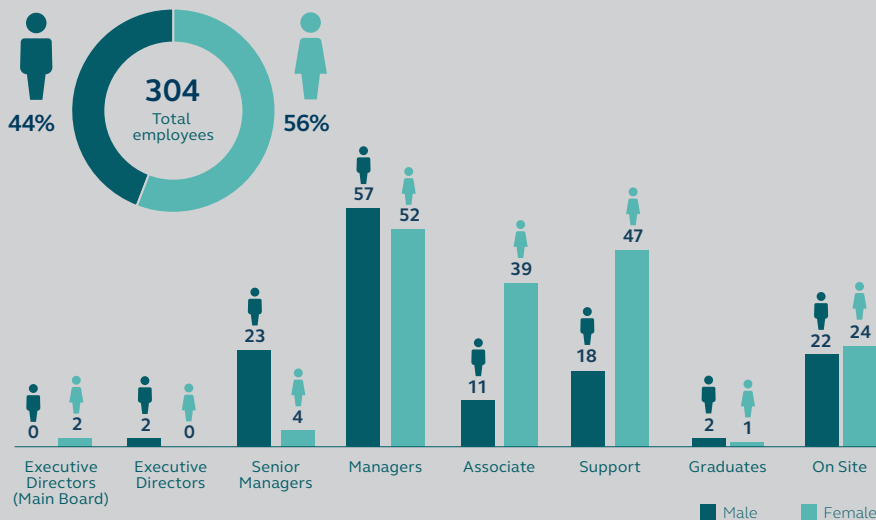
Inclusive operation of our assets

Increasingly, matters relating to diversity and inclusion are featuring strongly in engagement with our employees, our customers and our industry.

Following some analysis of the customer data for our build-to-rent assets, we have identified locations where there is a strong concentration of residents from a particular background and culture. We hope to use this as an opportunity to engage with our customers and celebrate their heritage within the communities in our buildings.

We are also considering how we can foster inclusion through how we design, market and operate our buildings. We have reviewed the potential opportunities to consider diversity and inclusion in all touch points with our customers from marketing to occupation and plan to incorporate these into our operating processes next year.

Gender



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, suitable controls are in place and the required actions have clear ownership and accountability.

Risk management approach

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 throughout the business (see diagram on page 45). As our PRS strategy progresses, it is fundamental that our risk management systems and controls are aligned and evolve accordingly.

In this regard, 2020 was a year particularly focused on demonstrating our organisational resilience both in a preventative and adaptive capacity in response to both the Covid-19 pandemic and revising our processes and controls in preparation for further enhancements to be delivered through our technology platform CONNECT.

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.

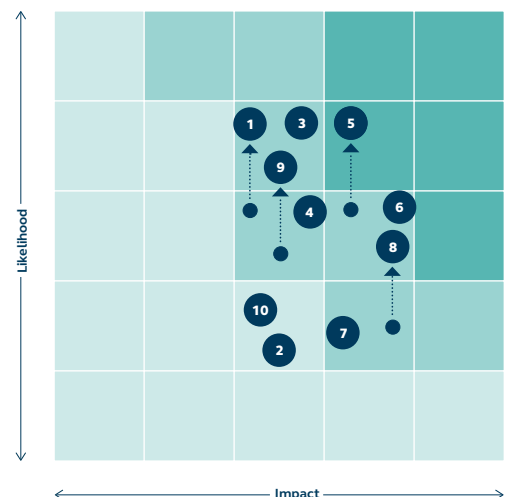
This process has identified ten principal risks which we monitor accordingly (see pages 47 to 50). Given the unprecedented effect of Covid-19, a thorough review of the risks to the business has been carried out and in particular considering them “through the lens” of Covid-19 and its impact. Following this review, certain risk descriptions and mitigants have been amended accordingly to take account of this perspective. Also, 2020 has seen the addition of ‘Climate Change’ as a principal risk. We have monitored climate change over previous years as an emerging risk and it is now considered appropriate for climate change to be regarded as a principal risk. Identification and management of this risk is integrated into our ESG and sustainability strategy, for more details of which please refer to pages 39 to 43.

We have enhanced our risk framework further by introducing a structured approach to the identification and assessment of emerging risks. Our internal committees are tasked with identifying risks on the horizon which may develop or already exist but are difficult to quantify. We use a ‘risk radar’ to capture these risks which are monitored continuously and reviewed regularly.

MAPPING OUR KEY RISKS AND MOVEMENT

Current principal risk areas

- 1 Market and transactional
 - 2 Financial
 - 3 Regulatory
 - 4 People
 - 5 Supplier
 - 6 Health and safety
 - 7 Development
 - 8 Cyber and information security
 - 9 Customers
 - 10 Climate change (New)
-> Indicates risk movement from last year



Given the challenges posed by Covid-19 and the on-going impact it has, we have also taken the time to consider the interconnectivity of our key risks and also how one risk arising can increase the likelihood and/or impact of another risk. This holistic view has assisted in assessing our risks in the round rather than in isolation, and also whether the controls in our framework are likely to continue to be robust in an amalgamated and complex risk scenario.

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. The detailed assessment of risk appetite for our principal risks remains the same for 2020 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.

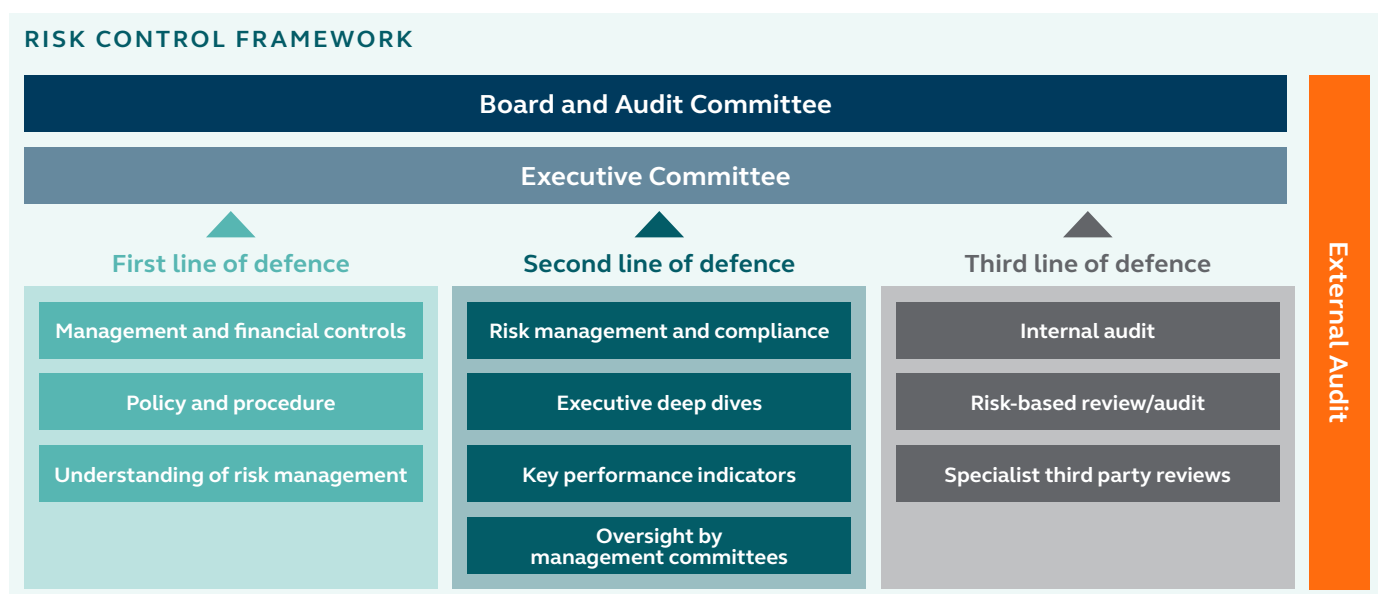
The Board approves the risk management framework developed by the Executive Committee. Our internal governance structure complements our evolution to a ‘three lines of defence’ model, with a view to having clear divisions between each line. This framework includes various management committees, with 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 72.

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. This year we looked in depth at continuing to enhance the ownership of controls within Grainger’s first line. We have an externally supported whistleblowing hotline that our people can use anonymously if they do not wish to use our other processes for raising concerns.

The data protection activities of the business have been integrated into Grainger’s business as usual processes overseen by the Data Protection Committee, consisting of senior people from across the key areas of the business. The Board and Audit Committee are updated regularly on matters arising and activities undertaken to develop our data protection compliance regime. Our health and safety initiative, Live.Safe, which embeds a culture that puts health and safety at the heart of everything that we do, has remained a priority, especially in response to the Covid-19 pandemic.



Looking forward to 2021, whilst there is much uncertainty, it is anticipated that Covid-19 will still be prevalent in society, and therefore the application of a robust risk management framework and controls will continue to be fundamentally important, as well as having the flexibility to adapt to changing external conditions. We also expect that we will see the benefits and efficiencies of our technology platform, CONNECT, fully embedded into the business. This technology has introduced 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.

Our stakeholders and Covid-19

The Covid-19 pandemic has impacted our entire risk landscape. We have incorporated commentary into each principal risk and continue to monitor a new or second wave pandemic as an emerging risk. The table opposite contains some examples of the measures we have taken in response to Covid-19 in relation to some of our stakeholder groups.

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 51.

Principal risks, uncertainties and opportunities

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

Colleagues

The health and wellbeing of our colleagues has been our absolute priority.

We have invested in additional IT to enable all our people to work from home and trialled this before the Government lockdown.

We put in place support mechanisms for anyone facing mental health challenges, including mental health champions and created a mental health hub containing useful information.

The CEO provides monthly ‘all staff’ calls to keep colleagues informed and engage with our people.

Operations

A thorough risk assessment was carried out on those tasks that involved interaction with our customers and suppliers.

In order to continue operations safely we have followed Government guidelines. At our offices we have maintained social distancing rules by operating a one-way system, taken extra hygiene measures and staggered patterns of working.

We have been innovative in the way some of our processes have needed to flex to adapt to social distancing rules such as virtual viewings of properties for sale and to let.



Suppliers

We have worked collaboratively with our supply chain to understand potential impacts caused by Covid-19.

We have a Planned Proactive Maintenance Plan in place which has been assessed continuously throughout the period of lockdown.

We have remained close to our development partners and contractors during lockdown and were able to continue progressing our pipeline.

Customers

Non-payment of rent will seriously impact our business. We have offered assistance to those that need it and agreed payment plans where appropriate.

We have enhanced communications with our customers to ensure they were receiving the support they needed.

The routine repairs and maintenance cycle has been managed by dealing with individual circumstances such as customers who are shielding or self isolating and compliance with social distancing rules.

PRINCIPAL RISKS AND UNCERTAINTIES

Managing our principal risks and uncertainties

Brexit

On 31 January 2020 the UK left the EU. However, significant uncertainty remains over its relationship with the EU and other nations. Attention has since turned to negotiating the future EU-UK relationship beyond a transition period that ends on 31 December 2020. Meeting this deadline is likely to be a substantial challenge, and arguably more so in the context of nations grappling with the Covid-19 pandemic. Notwithstanding this uncertainty, 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 the post-Brexit transition period. Our opinion is that the Company's exposure to this risk is not materially higher than similar UK-focused businesses. We have previously conducted analysis 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.

1 MARKET AND TRANSACTIONAL

INCREASED ▲



Risk description

A significant short to medium economic contraction/recession leading to flat or negative valuation movements pursuant to an external factor including the coronavirus pandemic.

Impact on strategy

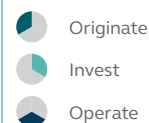
An economic downturn leads to either a lack of appetite for individual assets that the Group is disposing of, or, a lack of appetite from investors for assets being disposed of as part of our asset recycling strategy. Pressure on rental levels; falling asset values; subsequent investment constraints on further investment into the PRS; covenant compliance risk; unable to provide Shareholders with sustainable returns in the long term.



Key mitigants

- We have actively transitioned the business to reduce reliance on trading income and house price inflation.
- Regulated tenancies provide a secure income and are appealing to investors due to the inherent discount to vacant possession and a higher level of certainty around rental growth.
- The unmodernised nature of our regulated stock is always appealing to potential purchasers on individual asset sales.
- 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 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.

Impact on our business model






Impact on our strategy

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




Cultural link to values

- Every home matters
- People at the heart
- Leading the way
- Exceeding expectations





Impact on our business model

-  Originate
-  Invest
-  Operate

Impact on our strategy

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

Cultural link to values

-  Every home matters
-  People at the heart
-  Leading the way
-  Exceeding expectations

2 FINANCIAL

UNCHANGED



Risk description

The inability to obtain sufficient finance to fund our growth strategy and operations arising from external factors/events (including, but not limited to the Covid-19 pandemic or Brexit) which impacts the ability to fund the delivery of the strategy and maintain a strong capital structure.

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 conduct our business within Board-approved capital operating guidelines and interest rate hedging policy.
- We have a diversity of financing 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.
- We carry out detailed financial viability sensitivity testing and develop clear mitigation contingency plans.
- We undertook a £187m equity raise in February 2020 and issued a new £350m corporate bond in July 2020 which increased our headroom and funding capacity enabling us to fully fund our committed PRS pipeline.
- We do not commit to further investment without having the funding in place to facilitate this.

3 REGULATORY

UNCHANGED



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 plus reform of building regulations, particularly around fire safety. The operating framework facing UK businesses following its departure from the EU and the uncertainty surrounding the future relationship and changes to the regulatory environment arising in response to the Covid-19 pandemic is currently unclear.

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.



Key mitigants

- We have an on-going programme of management and staff training.
- 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, for example senior representation with the BPF to campaign on relevant issues.
- We have well-established relationships with expert law firms and other professional services organisations who keep us updated about forthcoming changes to the regulatory framework.
- We have strict asset management controls and compliance processes which can also adapt to change.
- Our position as the UK's leading PRS provider brings a cultural ethos of seeking to adopt best practice.

4 PEOPLE

UNCHANGED



Risk description

Failure to attract, retain, and develop an inclusive and diverse workforce to ensure we have the right skills in the right place at the right time to deliver our strategy. Failure to adapt to the prevailing government guidance regarding working in offices or remotely in connection with restrictions imposed by the Covid-19 pandemic.

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; increased staff turnover.



Key mitigants

- We have a talent identification process and have succession plans and retention strategies in place for key people.
- We have a programme of learning and development for our people, which includes management and leadership training and the 'Grainger Academy' for delivering focused training.
- We carry out regular performance reviews and appraisals of our people.
- We identify opportunities for our people to develop, and we provide internal career progression.
- We undertake an annual employee engagement survey from which we produce an action plan to address the issues identified and we carry out wellbeing activities.
- We are committed to raising awareness and encouraging diversity amongst the workforce through a diversity network initiative.
- The wellbeing and safety of our workforce is at the forefront of our decision-making.

5 SUPPLIER

INCREASED ▲



Risk description

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

Supply chain disruption and ability to service our Planned Proactive Maintenance Plan.

The liquidity of our supply chain caused by a reduction in supply as a result of lockdown.

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 CONNECT operating platform will support us to control and monitor our supply chain.
- Our Procurement Strategy sets our intent towards internal controls and management systems regarding contractors/suppliers which include counterparty reviews and covenant strength assessments are well developed.
- We have developed contingency plans which can be put into action in the event of the failure of a key supplier.
- Dedicated contractor management role to oversee relationships.
- We have sufficient diversity of key suppliers and relationships with potential suppliers to minimise over-reliance on any one organisation.

6 HEALTH AND SAFETY

UNCHANGED



Risk description

A significant health and safety incident or near-miss occurrence, owing to inadequate or inappropriately implemented procedures.

Unsafe workplaces and homes affecting our people and customers due to the risks of the Covid-19 pandemic.

Impact on strategy

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



Key mitigants

- In response to the Covid-19 pandemic, we have carried out thorough and robust risk assessments of each of our offices ensuring they are safe for a return to office working. We have increased communications with our customers and adapted procedures to deal with individual circumstances.
- We have introduced a specific health and safety management system, supported by a cultural change vehicle, Live.Safe.
- Our improved technology platform, CONNECT, will deliver efficient recording and reporting.
- We employ a specialist Health and Safety team who are responsible for overseeing the health and safety regulatory framework.
- Our risk management framework applies a system of close oversight and reporting of health and safety matters.
- We have planned and reactive maintenance measures in place, which assess gas, electrical, water, asbestos, fire and mechanical services.
- We are frequently reviewing innovative renewable energy sources as an alternative to gas fuel.

7 DEVELOPMENT

UNCHANGED



Risk description

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

Impact on strategy




Exposure to risk of cost overrun, cost inflation, income shortfall and yield expansion, affecting achievement of the strategy and returns in developing rent schemes. Our supply chains and availability of labour have been impacted by the economic uncertainty caused by the Covid-19 pandemic and Brexit.






Key mitigants

- We monitor the capital we deploy to development matters carefully, following capital allocation guidelines.
- We carry out thorough due diligence and substantial research before committing to a scheme, ensuring we have a good understanding of the relevant context.
- The extent to which we monitor cost inflation, rents and yields allow us to understand if the risk is increasing.
- We employ an experienced team with specialist development skills and have established relationships with expert advisers and development partners.
- We have an established governance structures both internally and on-site to review and monitor our development schemes.
- As part of our PRS strategy, the portfolio of development schemes now focuses on build-to-rent assets and does not seek speculative returns from investing in development that is solely for sale.





Impact on our business model

-  Originate
-  Invest
-  Operate

Impact on our strategy

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

Cultural link to values

-  Every home matters
-  People at the heart
-  Leading the way
-  Exceeding expectations

8 CYBER AND INFORMATION SECURITY

INCREASED ▲



Risk description

The loss 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. Our Cyber Security risk exposure has changed due to the adoption of our CONNECT cloud based operating platform.

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

- The move to a cloud based operating platform has required a step change in our approach to security. We have increased the capacity and capability of our IT team, by appointing a specialist Security & Configuration Manager.
- We are investing in new technology that incorporates 'data security by design' and is GDPR compliant.
- For greater assurance we have appointed a Cloud Security partner to ensure our CONNECT platform is secure and resilient, and that our security capabilities have been assessed and validated with a plan for continuous improvement.
- We regularly conduct penetration testing and vulnerability assessments using multiple independent specialists to ensure our systems are robust.
- Staff training and awareness of our IT policies and commitment to data protection.

9 CUSTOMERS

INCREASED ▲



Risk description

The failure to fulfil our customer proposition and our service standards heightened by a period of uncertainty and change caused by lockdown measures and social distancing rules.

Impact on strategy

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



Key mitigants

- We have followed Government guidance ensuring our customers' safety is at the forefront of decision-making.
- We have increased our communications with our customers to ensure they are informed and kept up to date.
- We have managed and supported individual circumstances arising from the pandemic.
- We have a leading operating platform with substantial experience in managing a portfolio of approximately £3bn of assets and of meeting the requirements of our residential customers.
- Our operating model is designed to provide a platform for optimising a customer-focused strategy.
- Our proactive asset management means we can gather 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.

10 CLIMATE CHANGE

NEW ✨



Risk description

The impacts of climate change on Grainger's business and operations including: an extreme weather event; changes in weather patterns; transition to a zero-carbon economy; customer preference for more energy efficient properties.

Impact on strategy

Business disruption; infrastructure damage; communication network damage; increased insurance costs; increased wear and tear on buildings; cost of investment adaptation measures.

Decreased asset value; asset impairment or early retirement of existing assets.

Additional capital expenditure to adapt buildings; increased disclosure requirements; tougher building standards.

Risk to Company brand and reputation.



Key mitigants

- We have a Business Continuity Programme which is reviewed by our Crisis Management team and was recently tested during the Covid-19 pandemic.
- We work closely with Government bodies to stay abreast of regulatory developments.
- We are members of leading industry bodies who influence policy on energy efficiency and emerging building standards.
- Due diligence of assets includes physical risks and transition risks.
- We analyse data on specific property attributes such as flood risk and subsidence.
- We are a responsible business with a strong commitment to minimising our negative environmental impacts and achieving net zero carbon for the operation of our buildings by 2030.
- We have a detailed climate change and sustainability strategy and roadmap, with clear objectives and actions to achieve net zero carbon for the operation of our buildings by 2030.

VIABILITY STATEMENT

In accordance with the 2018 UK Corporate Governance Code, the Board has assessed the prospects of the Group over a longer period than the 12 months required by the 'Going Concern' provision. In doing so, the Board conducted the review considering the Group's financial position (see pages 19 to 24), business strategy (see page 14) and the potential impact of our principal risks and future prospects (see pages 44 to 50).

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 settling all detailed financial budgets and strategic actions that are subsequently used by the Board to monitor performance and the Remuneration Committee to set targets for the annual incentive.

The Board has reviewed its strategic and financial plans in detail and believes that a viability assessment period to September 2024 is appropriate, given this covers the period of the detailed strategy review and incorporates both the timescales for investments and returns currently considered as being secured.

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 £2.6bn 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, significant reduction in rental income and lack of liquidity in UK residential property markets is a scenario that could conceivably cause a material 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 financing risks of the Group are also considered to have an impact on the Group's financial viability. The two principal financing risks for the Group are the Group's ability to replace expiring debt facilities and adverse movements in interest rates. The Group has 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.

The viability assessment was made with the Group strategy forming the base case and then recognising the principal risks that could have an impact on the future performance of the Company. These risks consider changes to the macro-economic environment including the impact of the Covid-19 pandemic. 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 level, asset valuations, financing and costs, to assess impact and longer-term viability of the Company.

The sensitivity analysis involved modelling a number of scenarios. The most extreme downturn scenario, reflecting a severe economic downturn and extended Covid-19 pandemic, incorporated the following assumptions:

- Reducing property valuations by 12%;
- Reducing rental levels by 12%;
- Cost inflation for construction and operating costs of 10%; and
- Interest rates increase by 2% for the duration of the review period.

Throughout this downside scenario, the Group had sufficient resources to remain in operation and compliant with its banking covenants. This scenario testing, together with the Group's strong financial position, current rent collection and lettings evidence, and mitigation actions available including selling assets and deferring non-committed capital expenditure, supports the Group's ability to continue to meet its liabilities as they fall due.

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 2024.

Our 2020 Strategic Report, from pages 1 to 51, has been reviewed and approved by the Board of Directors on 18 November 2020.

Vanessa Simms
Chief Financial Officer

A strong governance framework ensures we lead the business effectively, whilst considering the interests of all our stakeholders

Highlights

- ▶ Oversight and leadership of the response to the challenges presented to the business by Covid-19.
- ▶ Full compliance with the new Corporate Governance Code during the year.
- ▶ Board review of strategy in the context of the impact of Covid-19.
- ▶ Oversight and approval of the development and renewal of the Company's values.
- ▶ Review and approval of successful equity raise to fund capital investment.
- ▶ External review of Board effectiveness.



Dear Shareholders,

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, in which we describe our governance arrangements, the operation of the Board and its committees, and how the Board discharged its responsibilities.

The disruption caused by the Covid-19 pandemic and the speed with which it has impacted all our lives is truly unprecedented. I am pleased to say the Company set as priorities, keeping our customers and employees safe whilst doing the right thing for our Shareholders.

The Board itself continued to operate as normal, meeting remotely and maintaining close oversight of the business and its operations. As a result, we were able to provide strong support to the management team based on robust scenario planning whilst considering the needs of all the Company's stakeholders.

This year, our customers have spent more time than ever in their homes and this has increased their expectations. Meeting these expectations is a challenge that has been embraced by both our 'front-line' and home or office-based employees.

Colleagues have utilised new technologies and shared best practice, fostering an environment of mutual encouragement and support across the business. The Board will continue to encourage such behaviour and monitor employee and customer surveys for tangible evidence of progress in these areas.



“Grainger continues to increase the scale of its PRS business and deliver operational excellence through its culture, people and investment in technology.”

This financial year has also seen significant change with regard to corporate governance for Grainger as the new UK Corporate Governance Code 2018 (the ‘Code’) came into force for us. Whilst the Board has kept its governance arrangements under review, the changes required have now been put in place. The Board will continue to work to ensure they are fully embedded going forward.

The Board conducted an assessment of the Company’s strategy in June of this year in light of the impact of the pandemic. We concluded that the fundamentals of our strategy, to deliver great homes and excellent customer service, into a rental market with a large structural supply and demand imbalance continued to be sound.

Good governance also means ensuring we have rigorous risk management and controls in place. This is more important than ever in times of challenge. 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 2020, please see page 57.

Mark Clare
Chairman

18 November 2020

IN THIS REPORT

Leadership and Purpose

The Board’s primary function is to promote the long-term sustainable success of the Company. It does this by leading by example, promoting the culture of the business and ensuring effective engagement with, and considering the interests of stakeholders. More information can be found on pages 54 to 63.

Division of Responsibility

The Board ensures that the Company has the correct balance of Executive and Non-Executive Directors in order to lead the Company effectively, with clear definition of the respective responsibilities of the Board and the executive leadership of the Company. Please see pages 64 to 65 for more details.

Composition, Succession and Evaluation

The Board maintains an appropriate balance of skills, experience and knowledge to ensure that it can effectively lead and govern the Company. Effective evaluation of Board performance and succession planning are crucial in this. To find out more please see pages 66 to 68.

Audit, Risk and Control

The Board sets the Company’s strategy, taking account of the need to balance risk and reward. With the oversight of the Board, the Audit Committee has established formal and transparent processes to oversee the independence and effectiveness of internal and external audit functions. Pages 69 to 73 provide details of these activities.

Remuneration

Our Remuneration Policy aims to ensure that the Executive team is appropriately and fairly incentivised, and aligned with long-term, sustainable strategic execution. We also monitor wider colleague remuneration across the business. More information is available at pages 74 to 92.

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 a non-executive director and chairman designate of Aggreko plc, 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: 3 years and 7 months



Helen Gordon
Chief Executive



Appointment: Appointed to the Board in November 2015

Skills, competence and experience: Helen is a highly experienced, proven and well regarded real estate investor. She has significant experience working across a wide range of real estate asset classes, including residential property. This is combined with an extensive knowledge of the City. Helen is a non-executive director of Derwent London plc, vice chairman of EPRA and an advisory board member of Cambridge University's Land Economy Department. Helen is the former President of the British Property Federation, having stepped down in 2020 at the end of her term. She 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.

Tenure: 4 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. Vanessa is currently serving her notice period and will leave Grainger in 2021.

Tenure: 4 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. Andrew was executive chairman of Countryside Properties, where he led the refocus of the company's strategy. He has previously held non-executive directorships at Dairy Crest plc, Royal Mail Holdings, Venture Production and AWG.

Tenure: 5 years and 6 months

Board meetings 2019/20

Board meeting Site visit

October	November 	December	January	February 	March
April 	May 	June 	July	August	September



Justin Read

Non-Executive Director



Appointment: Appointed to the Board in February 2017

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

Tenure: 3 years and 7 months



Janette Bell

Non-Executive Director



Appointment: Appointed to the Board in February 2019

Skills, competence and experience: Janette is the Non-Executive Director responsible for employee engagement. Janette was recently appointed as the managing director of FirstBus, part of FirstGroup plc. Janette joined P&O Ferries in 2012, and held the position of chief executive officer from January 2018 to September 2020. 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: 1 year and 9 months



Rob Wilkinson

Non-Executive Director



Appointment: Appointed to the Board in October 2015

Skills, competence and experience: Rob has substantial experience in real estate and corporate finance. He is a chartered accountant and the chief executive of AEW Europe, a leading European real estate investment manager. Prior to joining AEW Europe in 2009, Rob was a managing director with the Goodman Group and also held investment banking positions at UBS and Eurohypo. He is also chairman of the Green Rating Alliance.

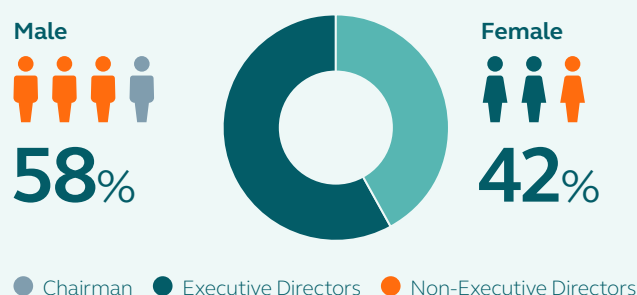
Tenure: 4 years and 11 months

(E)	Executive Committee
(A)	Audit Committee
(R)	Remuneration Committee
(N)	Nominations Committee
(O)	Committee Chairman

Attendance table to 30 September 2020

	Meetings attended	Meetings eligible to attend
Executive Directors		
Helen Gordon	8	8
Vanessa Simms	8	8
Non-Executive Directors		
Mark Clare	8	8
Andrew Carr-Locke	8	8
Rob Wilkinson	8	8
Justin Read	8	8
Janette Bell	8	8

Balance of Directors (as at 30 September 2020)



Purpose

Grainger's purpose is to enrich lives by providing high-quality rental homes and great customer service. The Board keeps this purpose in mind when considering all decisions it takes.

Culture

The Board believes that the culture of a business, in conjunction with its values, is vitally important to its successful long-term performance and is integral to all that we do, including governance. How the Board members, particularly the Executive team, conduct themselves sets the culture within the Company.

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. In November 2019, the Board received a detailed presentation from the HR Director on culture and engagement and how it supports our strategy. The Board was informed of our employee engagement survey results, highlighting what we do well and the areas where the Company and its senior management can improve.

The Board oversaw and approved the recent renewal of the Company's values. For more information about our values see page 34.

We provide further details on our culture and employee engagement on page 58. 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 firmly believe that the culture of the Company is strong and has enabled us to perform well in these very challenging market conditions. Our people understand and support the strategic direction of the business and are focused on delivering it.

Stakeholder engagement

The Board believes that good engagement with stakeholders and investors is key to understanding their views. We are also supportive of the emphasis the Code puts on the wider stakeholder group, particularly the Board's duty under Section 172 of the Companies Act 2006. In order to achieve our aim of being the UK's leading residential landlord, we keep in contact with our people, customers, suppliers and investors to ensure that we harness their views and communicate the Company's progress. Please see page 37 for our Section 172 Statement and page 58 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 2020, the equity raise and bond issue entailed a substantial degree of engagement with our investors as is appropriate for material transactions of that nature. We have also been in regular communication with our investors regarding the impact of Covid-19 on the Company.

On 29 September 2020 we held a virtual capital markets event, providing details of our performance and the resilience of our business. More details can be found on page 63.

Compliance with the 2018 Corporate Governance 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 Financial Reporting Council ('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 2020.

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.

This marks the first year in which we report under the Code and the Board has welcomed the positive changes and challenges it has brought about. As required by the Code, this report describes our activities and key achievements during the year, giving Shareholders and stakeholders the necessary information to evaluate how the Code's Principles have been applied.

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 topics of interest to the Board. Minutes of the Executive Committee meetings and detailed financial and other supporting information are also provided. The Board received presentations throughout the year from various departments, including HR, Legal, Investment, Finance, Operations, Development and Health and Safety, and from external advisers on subjects including financing, regulatory issues for listed companies and business valuation. The papers also contain information on how stakeholder interests have been taken into account when considering decisions taken by the Company.

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. This year, there were additional meetings in February, to approve the equity raise, and April, to review the impact of the Covid-19 pandemic on the Company, including viability scenario stress testing.

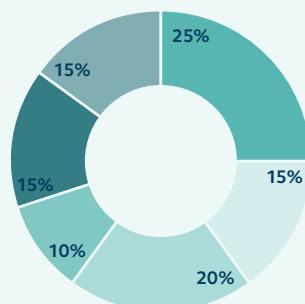
The Board has a list of matters reserved to it, and a rolling annual plan of items for discussion, agreed between the Chairman and the CEO. They review the list of reserved matters and annual plan regularly, to ensure they are properly covered, together with other key issues as required. At each Board 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 scheme in Aldershot this year. The Board would ordinarily have made a number of further site visits but the ability to do so was curtailed by the Covid-19 related restrictions. The Board intends to resume a programme of site visits once conditions permit this.

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 25%

- Carried out an in-depth review of Grainger's strategy, considering whether or not it needed to be revised as a result of Covid-19. It considered further opportunities for growth in the current PRS market, the development business and operational and financial strategy.
- 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 updated Brexit and Covid-19 impact papers.
- Considered the ESG strategy for the business and reviewed progress reports throughout the year.
- Reviewed and signed off the community engagement plan.

People and culture 15%

- Received reports on the activities to increase the diversity of the business including the launch of the Employee diversity and inclusion network.
- Reviewed the culture of the business and employee engagement. This included the HR Director presenting the results of the annual employee engagement survey to the Board.
- Reviewed and considered the Live.Safe 2.0 updated plan to put the health, safety and wellbeing of our people and customers at the centre of the business.
- Reviewed and discussed the requirement of the Code in relation to the employee voice being 'heard' in the boardroom and appointment of Janette Bell as the Non-Executive Director responsible for this.

Financial 20%

- Received reports on the potential impact of Covid-19 on the Company.
- Reviewed the Group's debt and capital structure, including the equity raise in February 2020 and the bond issue in July 2020.
- 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.
- Received reports on interaction with the credit ratings agencies and insurance providers.

Governance 10%

- Considered the external evaluation of the Board's effectiveness.
- Received briefings on regulatory and governance issues including the development of rules relating to external auditors.
- Considered Shareholder relations, in particular the feedback from investors and analysts in connection with the 2019 full year results and the 2020 interim results.
- Embedding the reporting requirements of the New Code.
- Received reports from the Nominations, Audit and Remuneration Committees.

Transactions 15%

- Reviewed reports on the progress of our development schemes proceeding in partnership with TFL.
- Considered material transactions and business opportunities including, among others, our PRS schemes in Nottingham, Guildford and Milton Keynes.
- Received reports on the progression of our existing development projects in the UK.

Operations 15%

- Considered health and safety matters including a presentation from the Health and Safety Director and the roll out of our Live.Safe 2.0 approach.
- Received reports on the remote working measures implemented in response to Covid-19 and other actions undertaken to ensure the continuing effective operation of the business.
- Received reports and updates on the detailed review of the Resident Services Manager role and the skills and approach required.
- Monitored and inputted into the progress of our technology change project, CONNECT.
- Received reports on strategy and developments from the Company's affordable housing arm, Grainger Trust.
- 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.

How the Board understands and responds to the needs of our stakeholders





The Board takes the interests of stakeholders into account when making decisions. The relevance of each stakeholder group may increase or decrease by reference to the issue in question, so the Board seeks to understand the needs and priorities of each group during its deliberations. This, together with the combination of the consideration of long-term consequences of decisions and the maintenance of our reputation for high standards of business conduct, is integral to the way the Board operates.

We have continued to embed stakeholder interests into the culture and operating model of our business by providing training to management committees that make investment decisions. Papers presented to these committees include a section on stakeholders' interests.

Throughout the year the Board considered proposed acquisitions of potential development sites, to progress our PRS strategy. In making its decisions, the Board took into account the following s172 considerations, the proposed developments will:

- provide a long-term benefit for the business;
- on practical completion, provide increased revenue and capital growth to Shareholders;
- create a number of long-term employment opportunities for our people;
- provide housing stock for customers in the local community;
- generate profitable work opportunities for suppliers;
- improve amenities for local communities; and
- have manageable impact on the environment through careful thought and planning.

How the business understands and responds to the needs of our stakeholders



Customers



Shareholders



Local communities

Stakeholder expectations

For Grainger to provide safe, high-quality homes and good service, whilst 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 a transparent complaints procedure. We regularly survey our customers to understand how we can improve our service and run customer focus groups to tailor the design of our buildings to our customers' needs.

We run a comprehensive investor relations programme. Activities include investor roadshows, conferences, trading updates and property tours. Key engagement events are reported on page 62.

We ensure that we are available and accessible to the investment community, in particular enhancing transparency and virtual engagement throughout the Covid-19 pandemic.

We respond annually to a range of ESG benchmarks, as reported on page 41.

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 and building relationships with the local community. All of our people have access to our community engagement blueprint guidance and relevant training.

Customer outcomes and examples

- Average length of stay among PRS customers strong at 34 months.
- Reduction of 42% in customer complaints received.
- 8 in 10 customers surveyed "really like" their Grainger home (FY19: 8/10).
- Delivered new Resident Services Manager induction and training programme to ensure consistent experience for all Grainger customers.
- Introduced buddy system to support customers during Covid-19 lockdown.

- During the year in review, we had 258 investor meetings (including group meetings).
- Over 70 pieces of analyst coverage.
- Ten investor conferences/events attended
- Four Roadshows and held a Virtual Capital Markets Day with 85 investors in attendance.
- Increased geographic outreach and continued to diversify the geographic representation among Shareholders (see page 63).
- Further broadened our Shareholder base.
- Launched new corporate website to enhance investor communications.

- Completed Community Engagement Blueprint project to define best practice community engagement at all stages of the property lifecycle.
- Increased fundraising through a series of events supporting charity partners Age UK and LandAid.
- Continued extensive community consultation for developments in our Connected Living London joint venture with TfL.
- Over 200 residents and community events held throughout the year including 100 virtual events.



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, regular all-staff update calls with the CEO, and our intranet platform.

We introduced a Non-Executive Director responsible for employee engagement. Feedback is also gathered following specific activities such as training and through a biannual performance review process.

We organise a range of employee events, including virtual charity fundraising events.

- No employees were furloughed.
- Introduced new employee engagement strategy during Covid-19 lockdown, focused on communication, innovation and improvement.
- Achieved strongest performance to date on Best Companies Index Pulse survey conducted during lockdown.
- Launched our employee-led diversity and inclusion network.
- Refreshed our Live.Safe commitment and introduced a new Health and Safety Management System with training for all employees.
- Revised and re-launched our Company values.



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 data protection, 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.

- 91% of customers surveyed were satisfied with repairs and maintenance service.
- Focused on prompt payment during Covid-19, reducing average days to make payment to 20 days.
- Supported repairs and maintenance partners to continue service delivery during lockdown.



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 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.

- Extensive engagement through private meetings, correspondence and property tours with Government ministers and officials and via British Property Federation.
- Engagement with Mayor of London and the Greater London Authority, directly and indirectly via London First.
- Attended and gave evidence to the GLA's Housing Taskforce.
- Presented to the Industry Safety Standards Board, chaired by Dame Judith Hackitt; and recognised as an exemplar business, leading on health and safety in housing.
- Helen Gordon completed British Property Federation presidency, overseeing the launch of a new strategy for the sector 'Redefining Real Estate'.



Key Shareholder events 2019/20

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/ DECEMBER 2019	<ul style="list-style-type: none"> • Full Year Results Presentation and live webcast London • Full Year Results Investor Roadshow – London and virtual meetings internationally • Investor property tours London
JANUARY/ FEBRUARY 2020	<ul style="list-style-type: none"> • Amsterdam Investor Roadshow • AGM • Investor meetings regarding the equity raise
MARCH/ APRIL 2020	<ul style="list-style-type: none"> • Citi Global Property CEO Conference – Miami • Kempen Real Estate Conference – New York • Bank of America Merrill Lynch European Real Estate Conference
MAY/JUNE 2020	<ul style="list-style-type: none"> • Virtual Half Year Results Presentation • Virtual Half Year Results Roadshow • EPRA Virtual Corporate Access Day • Barclays Investor Conference • Kempen Investor Conference • Morgan Stanley European Real Estate Conference • Berenberg Virtual Fireside Chat • Peel Hunt Virtual Investor Event
JULY/ AUGUST 2020	<ul style="list-style-type: none"> • Consultation with investors regarding the bond issue
SEPTEMBER 2020	<ul style="list-style-type: none"> • Virtual EPRA Investor Conference • Virtual Capital Markets Event

Substantial shareholdings

At 30 September 2020 and 30 October 2020 (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 2020		30 October 2020	
	Holding million	Holding %	Holding million	Holding %
BlackRock Inc.	52.3	7.76	55.7	8.26
The Vanguard Group Inc	29.7	4.41	29.5	4.38
Aberdeen Standard Investments	27.6	4.10	26.2	3.89
Columbia Threadneedle Investments	25.0	3.70	25.1	3.73
AXA Investment Management	22.4	3.32	21.8	3.23
APG Asset Management NV	21.7	3.22	21.7	3.22

Relations with Shareholders

The Group's website includes a comprehensive investor relations section, containing all Regulatory News Service ('RNS') announcements, share price information, annual documents available for download and similar materials. In light of current Government restrictions we are currently considering the process for conducting our 2021 AGM. We wish to facilitate engagement between our Shareholders and Directors, while protecting the safety of all. More details of the arrangements will be provided in our Notice of Meeting.

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.

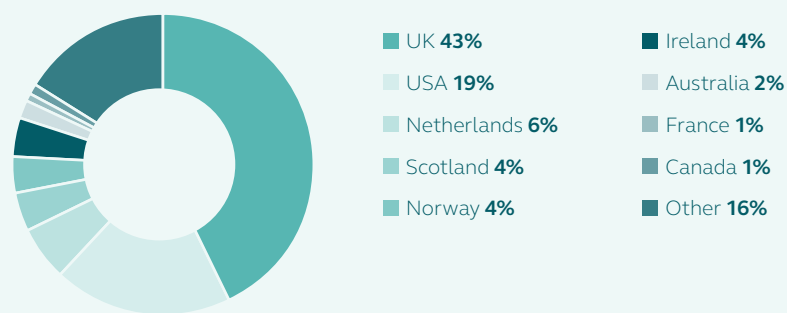
Investor relations are based on the financial reporting calendar, with additional engagement when considered beneficial to the Company. We have held more than 250 meetings with Shareholders, analysts and potential investors in the year. Helen Gordon and Vanessa Simms held the vast majority of these meetings 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 2020 AGM. We anticipate a similar pre-AGM engagement process will take place in 2021.

Over **250**
investor meetings

Attendance at investor meetings

Chief Executive	92%
Chief Financial Officer	91%
Senior executive	93%

Shareholders by region



Virtual capital markets event

On 29 September 2020, we hosted a virtual investor update, replacing our usual Capital Markets Day.

Objective: To provide an opportunity for us to update investors and prospective investors on our performance and our Covid-19 response strategy.

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

- A trading update
- Our focus on health and wellbeing
- Our analysis of urbanisation trends
- Our product resilience in the current marketplace

The presentation was attended by over 135 people, comprising top investors, sell side analysts and brokers with positive feedback received.




Attendees were shown a video walk through of Millet Place, our new build-to-rent development in East London.



Governance framework



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	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: <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. A copy of the standard letter of appointment for a Non-Executive Director is available from the Company Secretary. During the year, the Non-Executive Directors meet periodically without the Executive Directors present and also without the Chairman.
	Senior Independent Director	Acts as a sounding board for the Chairman and serves as an intermediary for the other Directors where necessary. The Senior Independent Director will meet Shareholders if they have concerns, and where contact through the normal channels has not resolved the issue or is inappropriate. The Senior Independent Director leads the annual performance review of the Chairman.



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

MARK CLARE
CHAIRMAN OF THE
NOMINATIONS COMMITTEE

Dear Shareholders,

I am pleased to present the Nominations Committee report for 2020 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.

2020 marked the first year that the Company reported under the provisions of the 2018 Code and this report reflects the changes flowing from that, including a greater oversight of the Company’s diversity and inclusion performance.

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, considering length of service of the Board as a whole and looking for membership to be regularly refreshed;
- maintain an effective succession plan for Board and senior management;
- identify and nominate, for the approval of the Board, candidates to fill Board vacancies, and ensure that appointments to the Board are subject to a formal, rigorous and transparent procedure;
- ensure that both appointments and succession plans are based on merit and objective criteria and promote diversity of gender, social and ethnic backgrounds and cognitive and personal strengths;
- review annually the time commitment required of Non-Executive Directors;

- make recommendations to the Board, in consultation with the respective Committee Chairmen, regarding membership of the three Board Committees; and
- conduct an annual evaluation of the Board, considering its composition, diversity and how effectively members work together to achieve objectives and whether each Director continues to contribute effectively.

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 support the process. 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. Following the resignation of Vanessa Simms, the Committee will oversee the process to recruit her replacement in 2021.

Board composition and independence

In accordance with the Code, all current Directors will stand for re-election at the 2021 Annual General Meeting (‘AGM’).

Main activities of the Committee during the year

The Committee met formally twice during the year to 30 September 2020, 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 referenced in this report.

Attendance table

Committee member	Member since	Meetings attended	Meetings eligible to attend
Mark Clare (Committee Chairman)	February 2017	2	2
Andrew Carr-Locke	March 2015	2	2
Rob Wilkinson	May 2017	2	2
Justin Read	March 2017	2	2
Janette Bell	February 2019	2	2

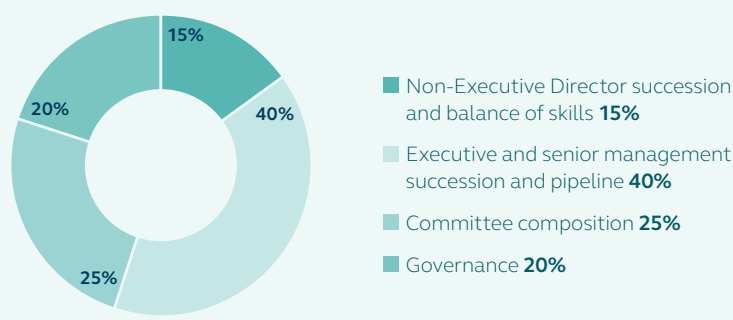
Invitations to attend Committee meetings extend to the CEO, HR Director and others as necessary and appropriate. Details of the Directors are set out on pages 54 and 55, together with a summary of their experience and skills.

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.

Board performance evaluation

This year, it being three years since the previous external review, the evaluation of Board effectiveness was carried out externally. Board Alchemy, an independent specialist consultancy undertook the annual valuation of the Board and its committees for 2020. This included the completion of a detailed questionnaire followed by individual meetings with Board and operational directors and the Company Secretary. They also reviewed recent Board and committee papers and attended a full Board meeting. Board Alchemy's report concluded that the Board and its committees were operating effectively. A selection of the key findings and recommendations are set out below.

How the Committee spent its time



Induction and professional development

There were no new appointments to the Board this year.

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.

Non-Executive Directors

In response to the changes in the 2018 Code and the Board's desire to have greater visibility of the employee perspective on key business and cultural matters, the Company has appointed Janette Bell as designated Non-Executive Director to lead employee engagement and represent the voice of the employee in the boardroom.

There is already significant engagement between the Board and employees, via the Executive Directors, including regular all-staff calls, new starter breakfasts, all-staff conferences and the ability to ask the CEO questions via the Company intranet. The Board also receives regular briefings from the HR Director on the results of staff surveys.

As part of her new role, Janette intends to attend the all staff calls, undertake site visits and meet with our people, review the employee engagement survey results with the HR Director and discuss the findings and resulting actions in detail.

External Board evaluation cycle



A selection of the key findings from the 2020 external Board evaluation:

Findings

- The Chairman demonstrates strong Board leadership and he and Grainger's Chief Executive have a constructive working relationship.
- The respective roles of the Board and Executive management are clearly understood.
- The non-executives bring a valuable range of skills and there is good gender diversity.
- Board meetings are well run and are supported by high-quality and comprehensive Board information.
- Management value the contribution that non-executives have to offer. The Board provides effective challenge to management but also offers effective support.
- The Committees provide good support to the Board.
- The Board responded well to the Covid-19 pandemic, focusing on the right areas (e.g. viability and stakeholders), building confidence and giving the Executive the space to respond to the impact of the pandemic on the business, whilst being kept informed of progress.

Principal recommendations

- Work to reduce the quantity of Board papers whilst providing short updates between Board meetings.
- Explore new ways to engage with the Board especially given the virtual nature of meetings at present.
- Invite external speakers to the Board to broaden discussion.
- Consider learnings from the pandemic and consider how they might impact strategy going forward.
- Conduct more supplier reviews including construction and valuation.
- Ensure regular updates and early engagement with the effectiveness of Remuneration Policy.

EXPERIENCE OF THE BOARD

72%

Property experience

86%

Financial experience
(leadership or audit
capacity)

42%

Operational consumer
experience

Diversity

The Directors are committed to having a diverse group of employees. This starts with having a balanced Board which includes diversity of perspectives, skills, knowledge and background. For gender diversity specifically, the Board continues to support the aspiration of the Hampton-Alexander Review to promote greater female representation on listed company boards. 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 remained at 42%. 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 and this will be a consideration in the process for the appointment of our replacement for Vanessa Simms.

Page 43 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, subject to appointing candidates on merit.

We are proud of the fact that in May 2020, Grainger launched its Employee diversity and inclusion network, whose objectives include increasing awareness of the rich, diverse cultural mix within Grainger and to connect with our local community and seek opportunities to collaborate with other diversity and inclusion networks within the industry. The network seeks to ensure that our workforce is truly representative of our customer base, including gender identity, ethnicity, sexual orientation, social mobility and disability.

Succession planning

The Committee received a detailed presentation from the HR Director in relation to our succession plans for key people 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 Paul Glibbery as CIO, reflecting our ongoing investment in and commitment to technology as an enabler of our strategy.

The Committee also received a presentation from the HR Director in relation to the Company's talent management initiative, which seeks to identify and prepare future leaders of the business.

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.

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 re-election at the 2020 AGM.

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

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.

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. The appointment of Janette Bell to the Board last year added her expertise in retail consumer-facing skills, which have been evident and beneficial in the current year.

Mark Clare

Chairman of the Nominations Committee

18 November 2020



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

ANDREW CARR-LOCKE
CHAIRMAN OF THE
AUDIT COMMITTEE

Dear Shareholders,

I am pleased to present the Audit Committee report for the year ended 30 September 2020.

The unprecedented challenges presented by Covid-19 during the year, has made the Committee’s role within the Company’s governance framework, including supporting the Board in risk management, internal control and financial reporting more important than ever.

I am pleased that the business and our people adapted well to these difficulties, and am also comforted that the robustness of the control environment has been sustained during this period.

The Company sought to use the lockdown period as a particular opportunity to consider improvements to the way it operates. An example of this from a risk and control perspective occurred in relation to our technology project, CONNECT. This involved integrating an assessment of the ramifications of Covid-19 into the existing framework of reviewing risks/controls of the core processes that would be subject to change as part of the new technology.

We also undertook a review of the effectiveness of our Internal Audit approach. While this confirmed that we have a strong control and audit environment we are taking the opportunity to enhance our approach.

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 requirements of the new Code, which applied to the Company for the first time this 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 were helped by the Internal Audit team at Deloitte, which reported directly to us, and which worked to an agreed plan to ensure controls were effective.

The disruption from the Covid-19 lockdown and the risk of a prolonged, severe economic downturn has made 2020 a year of heightened risk, but also opportunity. Consequently, our work on risk and controls has rightly involved monitoring broader market conditions and residential rental property trends in addition to the risks arising from Brexit.

Attendance table

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

How the Committee spent its time





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

The Committee has also supported the Board in considering the principal risks and appetite of the Company. We undertook a thorough review of the control environment during this period and it remained robust and strong. We provide details of the risk management framework, principal risks and key mitigants on pages 44 to 50.

Technology

Grainger is continuing to invest in technology to facilitate its strategy to be the market leader in the PRS. CONNECT, our leading operating platform, seeks to put automation and risk management at its heart, and it is this integration and increase of preventative controls which gives further assurance to us as an Audit Committee that the robust framework will continue to prevail as CONNECT is applied in the years to come.

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 rental market strategy and the overall strategic horizon. This included interrogating the financial models and related sensitivity analysis of various economic scenarios and amalgamations of these 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. A prime example of this during the year was the liquidity issues which could have arisen from the effects of Covid-19 and the response to it, and stress testing of this.

Auditors

The standard of auditing is of crucial importance to Grainger and the Committee has received briefings and carefully considered the further developments in this area in the last 12 months.

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, during what has been an exceptional year.

I would like to recognise the input of 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

18 November 2020

Significant matters relating to the Group's 2020 financial statements

The most significant matters considered by the Committee and discussed with the external auditor in relation to the Group's 2020 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.

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. Our valuers attend Committee meetings to explain their methodology, processes and conclusions directly.

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 54 and 55 for skills and experience of the Directors and page 66 for the Nominations Committee report.

Terms of reference

The Committee's terms of reference are approved by the Board. We updated them in readiness for the new Code coming into force and confirmed during the year that they continued to be appropriate. We propose to continue our annual review of the terms of reference going forward. 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.

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 73 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 2020 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 final draft of the Annual Report in advance of the November 2020 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 2020 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 and consideration of the financial impact of Covid-19 in future. The Group's viability statement is on page 51.

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. The current partner has been in position for one year.

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. The Committee considered the FRC's guidance and noted the steps taken by KPMG in this regard which include having a separate Audit Board. In addition, we received feedback from the finance team. We also considered the tone of KPMG's relationship with the Executive, which we assessed as constructive and professional yet independent and robust.

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

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

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

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.

The non-audit services provided by KPMG, set out in the table below, related primarily to the reporting accountant work required for the issue of the corporate bond and was approved by the Committee in 2020. 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.

The Committee considered the FRC Revised Ethical Standard 2019 and noted that this activity is permitted. 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.

FRC review of the Company's Annual Report and Accounts to 30 September 2019

The Committee notes the receipt of correspondence from the FRC in May 2020 in respect of the Group's Annual Report and Accounts for the year ended 30 September 2019. The FRC carried out a high-level review of the Annual Report and are pleased to note that no questions or queries requiring a response from the Board or the Committee were raised.

The FRC did make a small number of minor recommendations which could be included in future reports to aid the users of the accounts, and the Committee is pleased that these recommendations have been implemented in the 2020 Annual Report and Accounts, where it was felt helpful. The review carried out by the FRC was not a full review and was based solely on the Group's Annual Report and Accounts without the benefit of detailed knowledge of the Group's business or a detailed understanding of the underlying transactions entered into during the year. We remain committed to continuous improvement in the quality and transparency of information provided by the Group.

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 five 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. The new Code requires us to carry out a robust assessment of emerging risks as well as principal risks, explain in the Annual Report what procedures are in place to identify emerging risks and explain how these risks are being managed or mitigated. Please see pages 44 to 50 for details of how we addressed the requirements.

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.

The on-going implementation of our PRS focused strategy has involved the recruitment of on-site Resident Services Managers (RSMs). This year a significant piece of work was undertaken to review the granular tasks that RSMs would be expected to undertake routinely as part of their job role. Part of this analysis looked at the risks that might arise from these activities and the controls that could be used to mitigate these risks. Our assurance plan was reviewed and updated to align with this.

	Year ended 30 September 2020 £
Schedule of fees paid to KPMG	
Statutory audit of Grainger Group	400,000
Total audit fees	400,000
Half year review	36,000
Reporting accountant – corporate bond	50,000
Non-statutory certificate on Berewood Development site	8,000
Total non-audit fees	94,000

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 2020 included reviews of:

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

Following our effectiveness review we are enhancing our approach going forward. We intend to recruit in-house resource whose primary role will be to audit Resident Services provision at our PRS sites.

PwC are to take over the provision of our Internal Audit function next year. They will assist in the recruitment process for our in-house resource and that individual will report directly to PwC. I would like to thank Deloitte for their valuable assistance in this and previous years.

The Internal Audit plan for 2021 has a particular focus on cyber and IT matters as our CONNECT systems are embedded during the year.



KEY ACTIVITIES:

NOVEMBER 2019

- Received a presentation from the independent external valuers of Grainger's reversionary and market rented assets.
- Considered and received matters relating to the 2019 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.
- Received Internal Audit reports on:
 - health and safety
 - treasury and cash management
- Reviewed the effectiveness of the Committee's performance.
- Considered KPMG's independence and recommended to the Board KPMG's re-appointment.

FEBRUARY 2020

- Received an Internal Audit reports on:
 - payroll
 - tax
 - CONNECT Programme Governance Review Phase 2
- In respect of risk, considered the Group's:
 - risk management framework, principal risks and mitigants;
 - assurance map against principal risks;
 - emerging risks; and
 - considered KPMG's plan for its review of the 2020 half year results.
- 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.
- Reviewed the production of the 2019 Annual Report and Accounts.

MAY 2020

- Received an update on the impact of Covid-19 and the response to it.
- Considered issues regarding the 2020 half year results, including:
 - the draft half year financial statements and announcement;
 - management's judgements and assessment;
 - KPMG's half year review report; and
 - feedback from the valuer half year reports.
- Received Internal Audit reports on:
 - development and refurbishment; and
 - revenue to receipt.
- Received and considered a report and recommendations on the effectiveness of our Internal Auditor approach.

SEPTEMBER 2020

- Considered the 2020 draft viability statement and related analysis.
- Considered KPMG's audit strategy memorandum and engagement regarding the audit for the full year 2020.
- Considered and approved the forward Internal Audit plan.
- Received Internal Audit reports on:
 - data protection;
 - lettings;
 - penetration testing;
 - RACM 'spot checks'; and
 - progress of completing actions from previous internal audits.
- Reviewed reports on:
 - principal and emerging risks;
 - internal control framework; and
 - legal and regulatory compliance.

Contents

1. Single total figure of remuneration for each Director	82
2. Annual bonus awards – performance assessment for 2020	83
3. LTIP awards – performance assessment for 2020	85
4. Share scheme interests awarded during the year	86
5. Payments for loss of office and to past Directors	86
6. Directors' shareholdings and share interests	87
7. Performance graph and table	88
8. Chief Executive single figure	88
9. Percentage change in remuneration of Chief Executive and employees	89
10. Chief Executive pay ratio	89
11. Relative importance of spend on pay	90
12. Statement of implementation of Remuneration Policy for 2021	91
13. Directors' service agreements and letters of appointment	92
14. Details of the Remuneration Committee, advisers to the Committee and their fees	92
15. Statement of voting at general meeting	92



“This year the Committee’s work has been largely focused on implementing our new Remuneration Policy which was approved at the 2020 AGM.”

JUSTIN READ
CHAIRMAN OF THE
REMUNERATION COMMITTEE

Dear Shareholders,

I am pleased to present on behalf of the Board the Directors’ Remuneration report for the year ended 30 September 2020.

The Report has been divided into the following three sections:

- This Annual Statement, which summarises the remuneration outcomes in the year to 30 September 2020 and how the Policy will be operated in the current financial year;
- The Remuneration Policy Report, which sets out the Remuneration Policy for Executive and Non-Executive Directors, which was approved by Shareholders at the 2020 AGM. No changes are proposed at the 2021 AGM; and
- The Annual Report on Remuneration, which discloses how the Remuneration Policy was implemented in the year to 30 September 2020 and how the Policy will be operated in the year to 30 September 2021.

2020 performance and reward

Grainger continues to make progress on our three core principles underpinning the strategy of growing rents, simplifying and focusing and building on our experience. 2020 has seen Grainger perform well against this strategy which is proving its resilience in these challenging times. Rental growth has been strong in both PRS and the regulated tenancy portfolio, occupancy levels remain high and cash collections are strong, with an average of 97% collected on time over the year. In addition, Grainger’s sales performance has been consistent with last year and we have continued to progress with our development pipeline achieving a number of notable planning, completion and launch milestones.

In 2020, the annual bonus was subject to a combination of PRS net rental income (35%), adjusted earnings (35%), and operational-based (30%) targets. These measures were combined to ensure that the Chief Executive focused on improving profit and rental income growth and focusing on key operational deliverables which align to our strategy.

In respect of performance, we achieved PRS net rental Income (NRI) of £53.8m and adjusted earnings of £81.8m.

The performance against PRS NRI and adjusted earnings was above threshold but below the maximum target and when combined with the performance against the operational targets, annual bonus was calculated at 70.1% of the maximum available. Full disclosure of the actual targets set, and performance against those targets, is on pages 83 to 84. As referred to on page 4 Vanessa Simms resigned from her position and is currently serving her notice and therefore no bonus is payable in respect of 2020.

The 2017 LTIP award will vest on 11 December 2020 based on three-year performance to 30 September 2020,

with 50% based on absolute Total Property Return ('TPR') and 50% based on relative Total Shareholder Return ('TSR'). TPR has increased by 5.5% p.a. which is above the threshold of 5% p.a. but below the maximum of 9% p.a. This will result in 33.7% vesting of this part of the award. TSR growth over the period ranked the Company within the upper quartile against the real estate peer group which resulted in full vesting for this part of the award vesting. Therefore, 66.9% of the 2017 LTIP award will vest.

The Committee believes these outcomes are appropriate given the performance of the business over the relevant

performance periods and given that the Company continues to pay a dividend and has not taken any Government support during the Covid-19 pandemic.

Applying the Policy in 2020/21

Base salaries

For 2020/21, the base salaries of the Executive Directors will be increased by 1.5% with effect from 1 January 2021, in line with the typical increase given to the majority employee population. See page 90 for more details.

Annual bonus

Annual bonus will continue to be capped at 140% of salary for the CEO with performance metrics continuing to be based on PRS net rental income (35%), adjusted earnings (35%) and strategic objectives (30%). 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

The 2021 LTIP grant for the CEO will be over shares with a face value of up to 200% of salary. 50% of the awards will be based on TSR relative to other real estate companies, 25% of the awards will be based on TPR and 25% will be based on Secured PRS Investment.

In addition, 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.

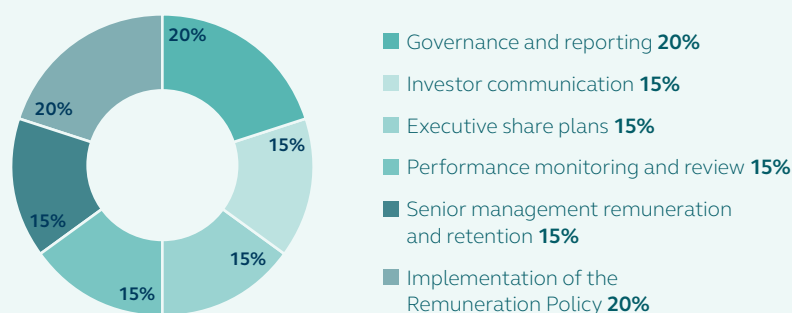
We look forward to your support on the resolution relating to remuneration at the AGM on 10 February 2021.

Justin Read

Chairman of the Remuneration Committee

18 November 2020

How the Committee spent its time



Committee considerations

Consistent with the six factors set out in Provision 40 of the New UK Corporate Governance Code, when determining Executive Director Remuneration Policy and practices, the Committee has continued to address the following:

- 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 inappropriate risk-taking. Measures are a blend of Shareholder return, financial and non-financial objectives and the targets are appropriately stretching. 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 79. 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.

REMUNERATION

REMUNERATION POLICY

This part of the Directors' Remuneration report sets out a summary of the Directors' Remuneration Policy (the 'Policy') which was approved by Shareholders at the 2020 Annual General Meeting and shall be in place for three years unless a new Policy is presented to Shareholders before then. The Policy approved by Shareholders can be found in the 2019 Annual Report and Accounts.

The following table summarises the main elements of the Executive Directors' Remuneration Policy, 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 81.

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. 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	<p>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.</p> <p>Other ancillary benefits (including relocation expenses) may be offered, as required.</p>
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.
Opportunity	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.
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	<p>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.</p> <p>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.</p> <p>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.</p>
Opportunity	<p>Maximum bonus potential is capped at:</p> <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	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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).</p>

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: – 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 operates. From the 2020 AGM, Executive Directors are 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 grants of deferred bonus and LTIP awards since the approval of this Policy. 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 normally a sub-set of the Group's KPIs.

Discretion

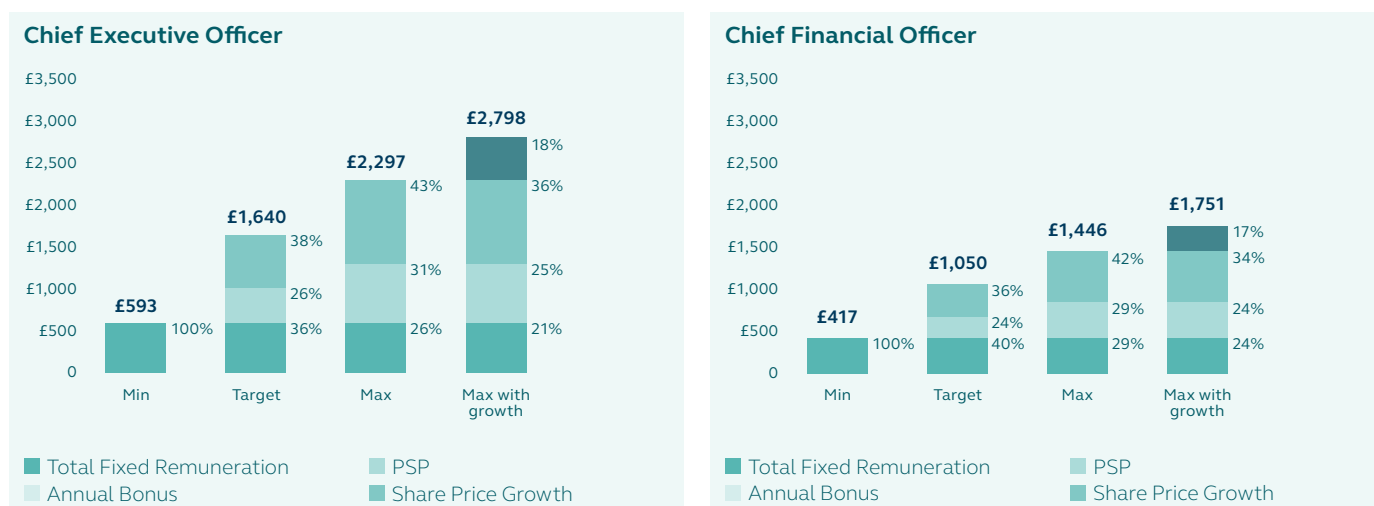
The Committee operates the annual bonus plan, LTIP and all-employee plans according to their respective rules and in accordance with the relevant Listing Rules and HMRC rules consistent with market practice. The Committee retains discretion, within the confines and opportunity detailed above, in a number 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.

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 2020/21 at minimum, on-target, maximum performance and maximum with share price growth scenarios are set out in the charts below.



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

- Minimum = base salary at 1 January 2021, estimated 2020/21 benefits and 15% of salary pension contribution (fixed pay).
- On-target = 60% payable of the 2021 annual bonus and 62.5% vesting of the 2021 LTIP awards.
- Maximum = 100% payable of the 2021 annual bonus and 100% vesting of the 2021 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.

REMUNERATION

REMUNERATION POLICY CONTINUED

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 our people an overview of Company strategy and provide our people with the opportunity to ask any questions. In addition, the CEO and Board members regularly visit offices and meet with our people to gauge overall opinions. The CEO has regular meetings with our people including breakfast meetings with new employees. Annual employee engagement surveys are carried out, the results of which are presented to the Board by the HR Director. In addition, as noted on page 67 Janette Bell has been designated as the Non-Executive Director for employee engagement and consultation.

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). In respect of the 2020 AGM, feedback received was positive and is reflected in the voting outcome.

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.

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.</p> <p>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.</p> <p>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

REMUNERATION

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 2020. 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 2021 AGM.

1. Single total figure of remuneration for each Director

The remuneration of Directors showing the breakdown between components with comparative figures for 2019 is shown below.

This table and the details set out in Notes 1 to 7 on pages 82 to 88 of this report have been audited by KPMG LLP.

2020	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	Total Fixed Remuneration ⁶ £'000	Total Variable Remuneration ⁷ £'000
Executive Directors									
Helen Gordon	491	16	2	484	679	74	1,746	583	1,163
Vanessa Simms	342	16	2	-	351	51	762	411	351
	833	32	4	484	1,030	125	2,508	994	1,514
Non-Executive Directors⁵									
Mark Clare	168	-	-	-	-	-	168	168	-
Andrew Carr-Locke	66	-	-	-	-	-	66	66	-
Justin Read	58	-	-	-	-	-	58	58	-
Janette Bell	53	-	-	-	-	-	53	53	-
Rob Wilkinson	48	-	-	-	-	-	48	48	-
	393	-	-	-	-	-	393	393	-
Totals	1,226	32	4	484	1,030	125	2,901	1,387	1,514

1 Executive Directors' salaries during the year under review increased by 2.5% in line with the wider employee population from 1 January 2020. At 1 January 2020, Helen Gordon's base salary was £493,920 and Vanessa Simms' base salary was £343,596.

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. No bonus is payable to Vanessa Simms due to her resignation in October 2020.

4 Please see Note 3 on page 85 for information in relation to the LTIP awards that are due to vest in December 2020. The vesting value of these awards has been estimated. The amount also includes the value of dividend accrued being £38,285 for Helen Gordon and £19,783 for Vanessa Simms. £144,668 of Helen Gordon's award and £74,760 of Vanessa Simms' award is attributable to share price appreciation. No discretion was applied as a result of share price appreciation.

5 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 Comprises of total salary and fees, taxable benefits, share incentive plan and pension benefits.

7 Comprises of total annual bonus and LTIP awards.

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	Total Fixed Remuneration ⁷ £'000	Total Variable Remuneration ⁸ £'000
Executive Directors									
Helen Gordon	479	16	4	185	429	72	1,185	571	614
Vanessa Simms	333	16	4	110	222	50	735	403	332
	812	32	8	295	651	122	1,920	974	946
Non-Executive Directors⁵									
Mark Clare	165	-	-	-	-	-	165	165	-
Andrew Carr-Locke	65	-	-	-	-	-	65	65	-
Justin Read	56	-	-	-	-	-	56	56	-
Janette Bell	30	-	-	-	-	-	30	30	-
Rob Wilkinson	47	-	-	-	-	-	47	47	-
	363	-	-	-	-	-	363	363	-
Non-Executive Directors									
Tony Wray ⁶	16	-	-	-	-	-	16	16	-
Totals	1,191	32	8	295	651	122	2,298	1,353	946

1 Executive Directors' salaries during the year increased by 2.5% in line with the wider employee population from 1 January 2019. At 1 January 2019, 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 The LTIP vesting values provided in last years' report were estimates as the awards did not vest until 9 February 2020. These have been updated to reflect the share price as at 7 February 2020, the Friday before vesting on 9 February 2020 of 310.4p. The amount also includes the value of dividend accrued being £23,966 for Helen Gordon and £12,385 for Vanessa Simms.

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.

7 Comprises of total salary and fees, taxable benefits, share incentive plan and pension benefits.

8 Comprises of total annual bonus and LTIP awards.

2. Annual bonus awards – performance assessment for 2020

In determining the bonus outcomes for 2020, the Committee took into account the Company's financial performance and achievements against key short-term objectives established at the beginning of the year. 70% of the bonus was based on adjusted earnings and PRS NRI performance (with equal weightings) with the remainder based on achievement against non-financial, operational objectives. The targets applying to each financial measure and performance against the targets for 2020 are set out in the table below.

Financial performance (70% of the 2020 annual bonus opportunity)

Measure	Weighting	Threshold (0% out-turn)	Target (60% out-turn)	Maximum (100% out-turn)	2020 performance	Out-turn (% of max element)
Adjusted earnings	35%	£72.5m	£80.5m	£88.6m	£81.8m	Bonus 66.5%

Measure	Weighting	Threshold (0% out-turn)	Target (60% out-turn)	Maximum (100% out-turn)	2020 performance	Out-turn (% of max element)
PRS NRI	35%	£52.3m	£55.0m	£57.8m	£55.1m	Bonus 60.8%

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

The performance for PRS NRI includes £53.8m NRI, along with £1.3m liquidated and ascertained damages (LADs) recorded to compensate the Group for lost rental income resulting from the delayed completion of construction contracts in accordance with the treatment agreed at the time the targets were set. For statutory reporting purposes, these are included within fees and other income.

As a result of performance against the financial objectives, a bonus of 44.6% out of 70% became payable.

REMUNERATION

ANNUAL REPORT ON REMUNERATION CONTINUED

2. Annual bonus awards – performance assessment for 2020 continued

Non-financial performance (30% of the 2020 annual bonus opportunity)

In respect of the personal performance targets set for the Chief Executive, these were set against a range of operational objectives at the start of the year. The targets set were aligned to Grainger's corporate objectives.

Chief Executive

Objective	Measure	Performance assessment
1. Portfolio positioning		
Deliver asset hierarchy and asset recycling review and implement	£55m to £65m, vesting on a straight line basis	Achieved in full (5%) with asset recycling of £67.1m
2. Technology/CONNECT		
Delivery of next phase of CONNECT technology project	Completion of certain key technological constituents of the programme in accordance with approved business case	Partially achieved (1.5% out of 5%) with the completion of certain aspects of the project
3. Operational excellence		
Customer satisfaction	Achieve a material increase in NPS and Google reviews	Partially achieved (1% out of 2%) with Google reviews reaching 4.0* average
Reduce the time to respond to complaints	Achieve an average time of: a) 4 days to respond with a pathway to resolution; b) 15 working days for full resolution	Fully achieved (4%): a) 2 days b) 7 days
Design of a new health and safety strategy	a) Board approval of new strategy b) Live.Safe 2.0 launched with action for all areas completed	Fully achieved (4%) with both elements completed during the year
Resident Service Manager ("RSM") operational excellence	a) RSM Matrix developed and GAP analysis b) RSM onboarding process defined and implemented	Fully achieved (2%) and presented to the Board in June 2020
4. ESG		
Sustainability pathway to 2030, energy neutrality for energy use	Clear plans and targets for each portfolio and implementation throughout the business	Fully achieved (4%) and presented/approved by the Board during the year
Community engagement programme	Document programme and signed off by the Board	
5. People		
Engagement and staff satisfaction	Consolidation of positive progress and survey result achieved in 2019	Fully achieved (2%) with material increase in 2020 survey scoring
Diversity information and female and young leadership development programme	Developed and approved by the Board	Fully achieved (2%) with Diversity and Inclusion Network launched and presented to the Board. Female and young leadership development programme designed and launched

Pursuant to the above assessment, the Committee determined that 25.5% of the maximum 30% of this part of the bonus would be payable and was appropriate in the circumstances.

It is the Committee's approach to view the performance in the round at the end of the year. The Committee believes a total bonus of 70.1% of the maximum bonus opportunity is representative of performance during the year.

	Bonus opportunity	2020 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	70.1%	£363,322	£121,108

¹ The deferred bonus share awards will be granted after the announcement of annual results. As Vanessa Simms resigned from the Board, she is not eligible for the 2020 bonus award.

3. LTIP awards – performance assessment for 2020

LTIP awards vesting in December 2020

The awards made to Executive Directors in December 2017, and which are due to vest on 11 December 2020, are based on 50% on relative TSR targets measured over a three-year period to 30 September 2020 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 36.6% placed Grainger within upper quartile	100%
TPR (annual growth)	50%	5% p.a.	9% p.a.	5.5% p.a.	33.7%

Grainger ranked within the upper quartile against the TSR peer group which resulted in 100% of this part of the award vesting. Annual growth in TPR of 5.5% p.a. over the three-year period resulted in 33.7% of this part of the award vesting. In aggregate, 66.9% of the December 2017 LTIP award will vest in December 2020. The value of these awards shown in the single figure table are based on the average three-month share price to 30 September 2020 of 302.7p. These values include dividend equivalent to the value of £38,285 for Helen Gordon and £19,783 for Vanessa Simms. These awards are subject to a two year holding period.

LTIP awards vested in February 2020

The awards made to Executive Directors in February 2017, and which vested in February 2020, were based on 50% on relative TSR and 50% on TPR.

As noted in the 2019 Annual Report and Accounts, Grainger ranked above median against the TSR peer group which resulted in 29.8% of this part of the award vesting. Annual growth in TPR 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 vested in February 2020. The value of these awards shown in the revised 2019 single figure table included in this Annual Report and Accounts is based on the share price at the date of vesting (as vesting occurred on a Sunday, the share price as at 7 February 2020, Friday before vesting was used) of £3.104 and also includes the dividend equivalent payment on the vested awards.

4. Share scheme interests awarded during the year

	LTIP share awards (6 February 2020)		DBSP share awards (10 December 2019)	
	Number	Face value £'000	Number	Face value £'000
Helen Gordon	330,116	988	16,429	46
Vanessa Simms	200,940	601	9,796	27

The face value of LTIP share awards for Helen Gordon (200% of salary) and Vanessa Simms (175% of salary) is based on a price of 299.24p, being the average share price for the five business days immediately preceding the award being made on 6 February 2020.

The awards will be eligible to vest three years after grant, dependent upon continued employment and satisfying performance criteria. Half of the award is subject to a relative TSR condition (measured against the FTSE 350 Real Estate Supersector constituents), 25 per cent subject to a TPR condition and the remaining 25 per cent subject to a Secured PRS investment condition. In relation to the Secured PRS Investment measure, performance after one year into the three year performance period has been positive and therefore this part of the award is on track for a vesting outcome, assuming further PRS investments are secured during the remainder of the period.

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. The TPR performance condition requires annual 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 8% 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 2019 annual bonus into Company shares, is based on a price of 281.00p, being the average share price for the three business days immediately preceding the award being made on 10 December 2019. The awards will be eligible to vest in three years subject to continued employment as set out in the Policy on page 76.

5. Payments for loss of office and to past Directors

No payments were made to past Directors or in respect of loss of office in the year ending 30 September 2020.

6. Directors' shareholdings and share interests

Performance share awards

		Awards ¹ granted	Maximum award Number	Awards vested Number	Awards lapsed Number	Maximum outstanding awards at 30 Sep 2020 Number	Market price at date of vesting (p)	Vesting date
Helen Gordon	LTIP shares ²	09-Feb-17	364,254	130,403	233,851	–	310.0	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
	LTIP shares	06-Feb-20	330,116	–	–	330,116	–	06-Feb-23
	DBSP	11-Dec-17	37,681	–	–	37,681	–	11-Dec-20
	DBSP	12-Dec-18	55,256	–	–	55,256	–	12-Dec-21
	DBSP	10-Dec-19	16,429	–	–	16,429	–	10-Dec-22
Vanessa Simms	LTIP shares ²	09-Feb-17	188,235	67,388	120,847	–	310.0	09-Feb-20
	LTIP shares ³	11-Dec-17	163,453	–	–	163,453	–	11-Dec-20
	LTIP shares	12-Dec-18	193,602	–	–	193,602	–	12-Dec-21
	LTIP shares	06-Feb-20	200,940	–	–	200,940	–	06-Feb-23
	DBSP ³	11-Dec-17	23,210	–	–	23,210	–	11-Dec-20
	DBSP	12-Dec-18	33,863	–	–	33,863	–	12-Dec-21
	DBSP	10-Dec-19	9,796	–	–	9,796	–	10-Dec-22

1 The performance conditions that apply to awards granted in the year under review are set out on pages 90 and 91 and for the previous financial year were set out in full in the previous Annual Report and Accounts.

2 LTIP shares vested in February 2020 as noted on page 85 but are unexercised at the date of this report. These will remain capable of exercise in accordance with the scheme rules and in the case of Vanessa Simms until and prior to her ceasing to be an employee of the Company.

3 The LTIP and DBSP awards that are due to vest in December 2020 will be capable of exercise by Vanessa Simms in accordance with the respective share scheme rules and subject to her being employed at the date of vesting and such exercise taking place prior to her ceasing to be an employee of the Company.

All employee share options under SAYE

		Share options at 1 Oct 2019	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 2020	Exercise price (p)	Earliest exercise date	Latest exercise date
			Number	Grant price (p)	Number	Number							
Helen Gordon	SAYE	-	9,326	193.00	-	-	-	-	-	9,326	193.00	01-Sep-22	01-Mar-23
Vanessa Simms	SAYE	9,475	-	-	9,475	-	189.94	313.80	11,736	-	189.94	01-Sep-20	01-Mar-21
	SAYE	-	7,346	245.00	-	-	-	-	-	7,346	245.00	01-Sep-23	01-Mar-24

The closing trade share price on 30 September 2020 was 297.2p. The highest trade share price during the year was 338.0p and the lowest was 207.4p.

All-employee share awards under the SIP

	Ordinary shares of 5p each	
	1 Oct 2019 shares	30 Sept 2020 ¹ shares
Executive Directors		
Helen Gordon	4,637	5,917
Vanessa Simms	4,291	5,571

¹ Since 30 September 2020, Helen Gordon and Vanessa Simms acquired shares in the Company through the Grainger Employee Share Incentive Scheme (210 ordinary 5p shares in the case of Helen Gordon and 210 ordinary 5p shares in the case of Vanessa Simms).

Shareholding at 30 September 2020

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 Sep 2020 ¹	Vested but unexercised share awards	Unvested share awards	Total interests held at 30 Sep 2020 ²	Total interests held at 30 Sep 2019	Shareholding as % of basic salary ³
Executive Directors						
Helen Gordon	237	139	1,140	1,521	1,399	191
Vanessa Simms	48	72	632	757	654	79
Non-Executive Directors						
Andrew Carr-Locke	15	-	-	15	15	N/A
Rob Wilkinson	21	-	-	21	21	N/A
Mark Clare	161	-	-	161	147	N/A
Justin Read	21	-	-	21	21	N/A
Janette Bell	2	-	-	2	-	N/A

¹ Vanessa Simms acquired 9,475 ordinary 5p shares as a result of her SAYE options maturing during the year.

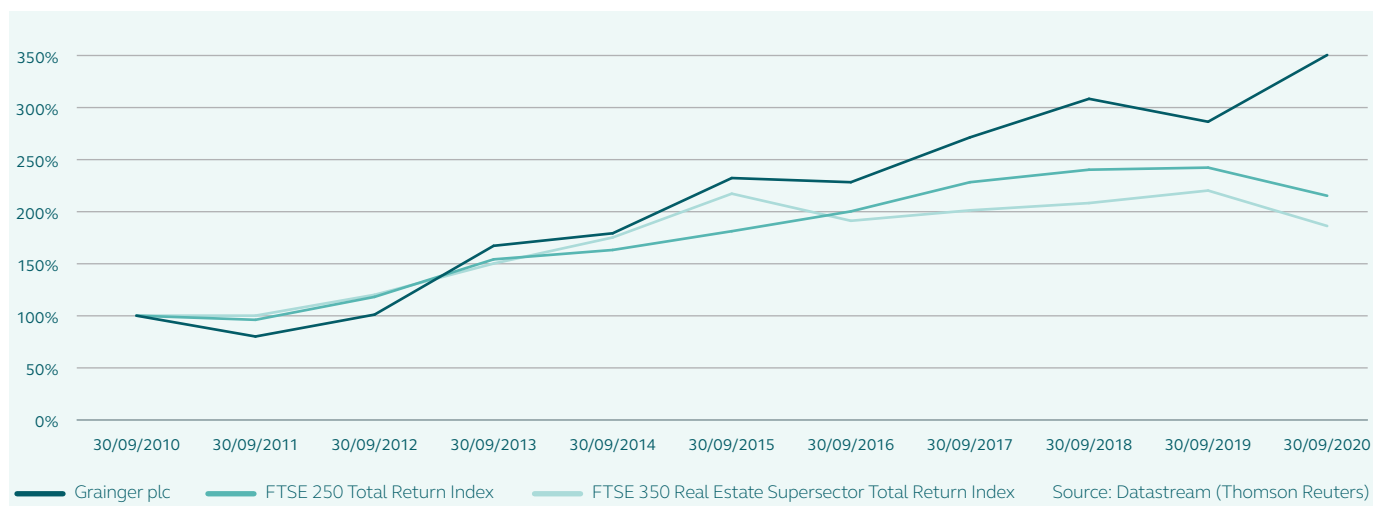
² The total interests include beneficially owned shares, shares held in the SIP trust, vested but unexercised shares and unvested share awards.

³ The value of shares held (calculated as at 30 September 2020 when the share price was 297.2p) includes shares owned beneficially, vested but unexercised share awards (on a post-tax basis) and those purchased under the SIP. If unvested DBSP awards (which vest subject to continued employment only) and the December 2017 LTIP awards (due to vest in December 2020 for which performance has already been tested) were to be included (together with the value of dividend equivalent shares), the value of shares held (on a post-tax basis) would rise to 298% of basic salary in the case of Helen Gordon and to 163% of basic salary in the case of Vanessa Simms.

7. Performance graph

Total Shareholder return

This graph shows the percentage change by 30 September 2020 of £100 invested in Grainger plc on 30 September 2010 compared with the value of £100 invested separately in both the FTSE 250 Index and the FTSE 350 Real Estate Supersector Index.



8. Chief Executive single figure

		Chief Executive single figure of total remuneration £'000	Annual variable element award rates against maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
2020	Helen Gordon	1,746	70	67
2019	Helen Gordon	1,185	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

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 2019 and 2020, excluding LTIP and pension contributions, for the Chief Executive, Chief Financial Officer, Non-Executive Directors and for the average of all other employees in the Group was as follows:

	Percentage change 2019–20		
	Base salary	Taxable Benefits	Annual bonus
Executive Directors			
Helen Gordon	2.5%	0.1%	162.3%
Vanessa Simms ¹	2.5%	0.1%	(100.0)%
<small>1 No bonus is payable to Vanessa Simms due to her resignation in October 2020.</small>			
Non-Executive Directors			
Mark Clare	2.5%	N/A	N/A
Andrew Carr-Locke	2.5%	N/A	N/A
Justin Read	2.5%	N/A	N/A
Janette Bell	2.5%	N/A	N/A
Rob Wilkinson	2.5%	N/A	N/A
Employee population	2.8%	0.8%	13.7%

10. Chief Executive Pay Ratio

The table below compares the 2020 single total figure of remuneration for the CEO as shown in Note 1 on page 82 with the Group's employees paid at the 25th, 50th and 75th percentiles:

Financial Year	Method	25th percentile	50th percentile (median)	75th percentile
2020	A	58:1	39:1	23:1
		Total pay and benefits £29,968	Total pay and benefits £44,748	Total pay and benefits £76,196
		Salary £27,708	Salary £37,898	Salary £63,338

Our calculations were made on 11 November 2020 using Option A as the most statistically accurate method. This is the first year we have published our pay ratios.

In undertaking our calculations, no adjustments were made to the figures other than determining the FTE remuneration for all employees within the Group over the financial year. No non-salary employee remuneration components have been omitted. Joiners, leavers, employees on a period of statutory leave (such as maternity, paternity and shared parental leave) and long-term absences during the financial year were excluded.

Total FTE remuneration was calculated on the same basis as the CEO single figure table and includes annual base salary, taxable benefits (private medical insurance, car allowance), matching shares under our Share Incentive Plan, annual bonus for performance delivered in the financial year and paid in December 2020, employer pension contributions, and taxable share plans.

The Committee considers that the median CEO pay ratio is consistent with the pay, reward and progression policies available to our employees. We operate an in-house service model, directly employing colleagues for on-site roles in our growing portfolio of developments and our employee population at this level will continue to increase as we resource appropriately. It is therefore difficult to compare our ratios with those in the property industry who do not operate under a similar model.

11. Relative importance of spend on pay

The difference in actual expenditure between 2019 and 2020 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.



12. Statement of implementation of Remuneration Policy for 2021

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 1.5% with effect from 1 January 2021. The base salaries at 1 January 2021 for Helen Gordon will be £501,329 and Vanessa Simms will be £348,750.

Annual bonus

The structure and metrics to operate for the 2021 annual bonus are as follows:

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

The table below sets out the performance measures and their respective weightings for 2021:

Metric	Weighting	Rationale and description
PRS NRI	35%	Rental income from PRS after property operating expenses incentivises management to focus on growing income and reducing cost.
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.
Strategic 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 2021 Annual Report.

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.

12. Statement of implementation of Remuneration Policy for 2021 continued

LTIP

It is expected that the LTIP awards to be made to the Executive Directors in the year ending 30 September 2021 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

The performance measures to apply for the 2021 LTIP will be the same as last year:

Metric	Weighting	Targets		
Relative TSR (versus a bespoke group of real estate peers)	50%	Performance level	Ranking	Vesting
		Below threshold	Below median	0%
		Threshold	Median	25%
		Maximum	Upper quintile	100%
TPR	25%	Performance level	TPR	Vesting
		Below threshold	<5% p.a.	0%
		Threshold	5% p.a.	25%
		Maximum	8% p.a.	100%
Secured PRS Investment ¹	25%	The actual targets are considered to be commercially sensitive at this time, but a qualitative assessment of progress will be provided in the 2021 and 2022 remuneration reports and full retrospective disclosure of the targets and achievement will be set out in the 2023 report.		

¹ 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 the LTIP targets are appropriately stretching. The 50% TSR requires upper quintile performance for full vesting. The TPR range is challenging in light of current market conditions and the PRS Secured Investment measure will require exceptional performance in a more competitive market.

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 will increase in line with the typical increase given to the wider employee population, i.e. 1.5% with effect from 1 January 2021. Current fee levels are as follows:

	1 January 2021	1 January 2020
Basic Non-Executive Director fee	£48,898	£48,175
Additional fee for chairing Board committee and for the role of employee designated NED	£9,884	£9,738
Additional fee for Senior Independent Director duties	£8,323	£8,200
Chairman's fee	£171,662	£169,125

13. Directors' service agreements and letters of appointment

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

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

14. 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
Mark Clare	May 2017	4	4
Janette Bell	May 2019	3 ¹	4
Andrew Carr-Locke	April 2015	4	4
Rob Wilkinson	May 2017	4	4

¹ November 2019 meeting not attended due to prior engagement.

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.

Total fees paid or payable (as applicable) to FIT for services to the Committee during the 2020 financial year were £62,000 (2019: £42,500). 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.

15. Statement of voting at general meeting

At the AGM held on 5 February 2020, the Directors' Remuneration report and Policy received the following votes from Shareholders:

	Directors' Remuneration report		Remuneration Policy	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For	474,080,067	97.54	442,988,159	91.14
Against	11,978,306	2.46	43,071,700	8.86
Total votes cast (for and against)	486,058,373	100	486,059,859	100
Votes withheld	2,394,110		2,394,110	

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 125 in relation to the dividend waiver arrangements.

Information incorporated by reference

The Corporate Governance Statement on pages 52 to 96 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.

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

Streamlined Energy and Carbon Reporting Disclosure

Global energy Scope 1 and 2 GHG emissions data for period 1 October 2019 to 30 September 2020

Emissions from	Tonnes of CO ₂ e					
	2019 location-based	2020 location-based	Trend location-based	2019 market-based	2020 market-based	Trend market-based
Scope 1 (Fuel combustion in vehicles and buildings)	1,072	959	-11%	1,072	959	-11%
Scope 2 (Electricity)	1,045	844	-19%	469	262	-44%
Total footprint	2,117	1,803	-15%	1,541	1,221	-21%

Company's chosen intensity measurement:

Emissions reported above per £m value of assets under management ¹	0.83	0.68	-18%	0.61	0.46	-25%
Emissions reported above per owned unit ²	0.25	0.21	-16%	0.18	0.14	-22%
Emissions reported above per employee ³	7.96	5.93	-26%	5.79	4.02	-31%

Scope 3 Global GHG emissions data for period 1 October 2019 to 30 September 2020

Emissions from	2019	2020	Trend
Fuel and energy-related activities ⁴	324	323	0%
Business travel (air, rail and vehicles)	58	32	-45%
Estimated tenant energy use (tCO ₂) ⁵	26,170	23,767	-9%
Grainger office occupation (landlord-obtained) ⁶	29	26	-10%

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, including units owned in Joint Ventures that are within Grainger's operational control.

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.

Underlying global energy use data for period 1 October 2019 to 30 September 2020

Energy use (kWh)	2019	2020	Trend
Electricity	4,087,927	3,621,455	-11%
Natural gas	5,132,161	4,627,415	-10%
Transport fuel	415,891	358,219	-14%
Total energy use	9,635,979	8,607,089	-11%

Summary

Grainger complies with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Grainger reports all material GHG emissions using 'tonnes of CO₂ equivalent' ('tCO₂e') as the unit of measurement and reports energy use in kWh. Our reporting period is 1 October 2019 to 30 September 2020 and we report energy use and emissions for the previous year to demonstrate trends.

We report on all energy use and GHG emissions for the operations within the boundaries of our financial statements. Energy use and emissions for Residential – mortgages (CHARM) are not within Grainger's operational control and are excluded.

This year we are reporting on energy use for the first time to comply with Streamlined Energy and Carbon Reporting. 100% of energy use and emissions relate to emissions in the UK and offshore area.

In FY20 we increased the scope of our energy use and GHG reporting to include consumption and emissions from newly completed developments. A small number of recently developed properties are excluded from our reporting because data is not yet available, we will collate the data in FY21 and include in future reporting.

Between FY19 and FY20, energy consumption from our property portfolio has decreased by 11%. Grainger's total location-based GHG emissions have decreased by 15%, whilst market-based emissions have decreased by 21%.

Trends

The reduction in energy consumption can be partly attributed to the impacts of Covid-19. The closure and reduced occupancy of office space and the temporary closure of amenity space within our Build to Rent properties has resulted in reductions in energy consumption and associated GHG emissions.

Our Scope 1 emissions have decreased owing to the sale of some properties which had gas supplies and reduced mileage travelled in our fleet vehicles. The decrease in market-based emissions can be credited to the greater coverage of REGO backed supplies. In addition, Scope 3 emissions relating to Grainger's business travel have decreased significantly due to a reduction in air miles 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 and 2020 for location-based reporting, and the Association of Issuing Bodies European Residual Mixes 2019 for market-based reporting for FY20. We used emission factors from the same sources in FY19. We have reported on all energy use and emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

For market-based emissions Grainger has used contractual instruments where there is data readily available. We purchase 100% renewable electricity tariffs for 83% of our portfolio 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. Well-to-tank emissions from fuels and 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).

Energy use data

This includes purchased electricity, natural gas and transport fuels (petrol and diesel, which have been converted to kWh from mileage records using the UK Government conversion factors). Grainger has solar photovoltaic panels generating electricity on a number of properties, but the energy generated is exported to the grid and not used by Grainger.

Restatements and estimation

We have recalculated emissions for FY19 as we have been able to obtain more accurate and complete data for Scope 1 and Scope 2 emissions from energy consumption in our property portfolios.

Emissions for FY19 are higher than previously reported, as we have been able to include some newly completed developments for which data was not available at the time of reporting last year.

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. This year the Covid-19 lockdown created some challenges for collecting actual consumption data and the proportion of data which is estimated has increased. For FY20 23% of energy from fuels and Scope 1 emissions and 17% of electricity and Scope 2 emissions data has been estimated.

Intensity metrics

We have used three intensity metrics: emissions by market value of assets under management (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.

The value of AUM has increased between FY19 and FY20. This, coupled with the reduction in Scope 1 and Scope 2 emissions, has caused a decrease in the emissions by market value of AUM of 25%.

This year we have included emissions from units owned in a Joint Venture (JV) which were completed during the year, and future reporting will include units owned in JVs within our emissions data and intensity calculations, where they are within our operational control. There has been a small increase in the number of units owned by Grainger, and our asset recycling programme is focused on divesting older, less efficient properties. As a result, we have continued to decrease emissions per owned unit.

Thirdly, there has been an increase in the number of employees, which coupled with the reduction in emissions has resulted in a significant 31% decrease in the emissions per employee.

Energy efficiency measures

As part of our long-term asset management activities, we undertake comprehensive refurbishments to the common parts of our buildings and have a programme of rolling refurbishments for units. These refurbishments include a number of energy efficiency measures; for common parts a typical refurbishment would include a lighting upgrade and installation of lighting controls. We have undertaken major refurbishments to the common parts of four assets this year, and have identified significant reductions in energy consumption at two of these buildings in the year-on-year figures (26% and 51% reductions). We have also experienced a significant reduction in consumption at one asset that was comprehensively refurbished in FY19.

Refurbishments undertaken to individual units include many energy efficiency improvements including window replacements, installation of more efficient heating systems and insulation. The resulting reductions in energy consumption are experienced by our customers in their directly-purchased energy usage, and are reflected in our estimated tenant energy use.

Third-party review

Carbon Intelligence 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 energy consumption and carbon footprint for our property portfolios and the methodology used is available in our EPRA Sustainability Performance Measures Report, available on the 'Our performance' section of 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 and Safety Director. This includes using online risk management systems for identifying, mitigating and reporting real-time health and safety management information. The Health and Safety Committee is responsible for overseeing health and safety management. It consists of members of staff from across the organisation. The Committee continues to monitor legal compliance in health and safety through audit and implementation of improvements, to enable the Group to become 'best in class'. Further oversight is also carried out by the Operations Board. In addition, a health and safety report is provided to each meeting of the Board of Directors, and the Health and Safety Director gives a presentation to the Board at least once a year. We launched our refreshed Live.Safe 2.0 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. Janette Bell has been appointed as the designated Non-Executive Director to represent the employee voice in the boardroom. For more information on our people, see page 34.

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 2020 (2019: £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

18 November 2020

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GRAINGER PLC

1. Our opinion is unmodified

We have audited the financial statements of Grainger plc ("the Company") for the year ended 30 September 2020 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 2020 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 six financial years ended 30 September 2020. 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	£28.0m (2019:£23.0m) 0.9% (2019: 0.9%) of total assets
Coverage	100% (2019: 100%) of Group total assets

Key audit matters

	vs 2019
Recurring risks	
Valuation of investment properties	▲
Recoverability of inventories	▲
Recoverability of parent company's investment in subsidiaries	◀▶
Event driven	
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 decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
<p>Valuation of investment properties (£1,778.9m; 2019: £1,574.6m) Refer to page 70 (Audit Committee Report), and pages 111-114 and 126 (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, and affordable housing properties which are not shared ownership, valuation is derived by applying a gross initial yield to the estimated rental value 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 a consistent valuation methodology to that described above 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, valuation is determined by estimating vacant possession (“VP”) value and applying a discount to reflect the fact that the property is tenanted. The VP value and the discount applied are estimated with reference to comparable evidence, which in some cases may be limited. This means that the valuation is inherently subjective and susceptible to misstatement. • For the Tricomm portfolio and shared ownership affordable housing, 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 the 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. Note 2 of the financial statements 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 analysis over the key assumptions that have a material effect on the valuation. • Assessing valuers’ 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 rental sector properties and affordable housing properties which are not shared ownership 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, 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, included:</p> <ul style="list-style-type: none"> • Comparing Valuations: challenging the inputs used in valuations and comparing valuations to recent comparable transactions. <p>Our additional procedures in respect of the Tricomm portfolio and the shared ownership affordable housing properties 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 (2019: acceptable).</p>

	The risk	Our response
<p>Recoverability of inventories (trading properties)</p> <p>(£657.4m; 2019: £700.0m)</p> <p>Refer to page 70 (Audit Committee Report), and pages 111-114 and 130 (accounting policy and financial disclosures).</p>	<p>Subjective valuation</p> <p>Inventory is carried at the lower of cost and net realisable value (“NRV”).</p> <p>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.</p> <p>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.</p> <p>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. Note 2 of the financial statements disclose the sensitivity estimated by the Group.</p>	<p>In addition to the procedures set out in respect of all investment property portfolios and those for individual properties 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 market comparable evidence for a sample of properties. • Attendance at Group valuation meetings: attending, with our property valuation specialists, the Group’s regional valuation meetings with the 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</p> <p>We found the carrying value of trading properties to be acceptable (2019: acceptable).</p>
<p>Going concern</p> <p>Group and parent company</p> <p>Refer to page 71 (Audit Committee Report), and page 109 (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 the period were:</p> <ul style="list-style-type: none"> • The impact of the Covid-19 pandemic on demand in the private rental sector. • The impact of the Covid-19 pandemic on the valuation of property assets. <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 we considered 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 and compliance with the covenants attached to those borrowings. • Historical comparisons: assessing historical forecasting accuracy by comparing previous 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 account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively. • 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 (2019: acceptable).</p>

	The risk	Our response
<p>Recoverability of parent company's investment in subsidiaries (£1,178.1m; 2019: £661.8m) Refer to page 153 (accounting policy) and page 154 (financial disclosures).</p>	<p>Low risk, high value</p> <p>The carrying amount of the parent company's investment in subsidiaries represents 60% (2019: 56%) 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 Company's assessment of the recoverability of investment in subsidiaries to be acceptable (2019: acceptable).</p>

We continue to perform procedures over the impact of uncertainties due to the UK exiting the European Union on our audit. However, 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

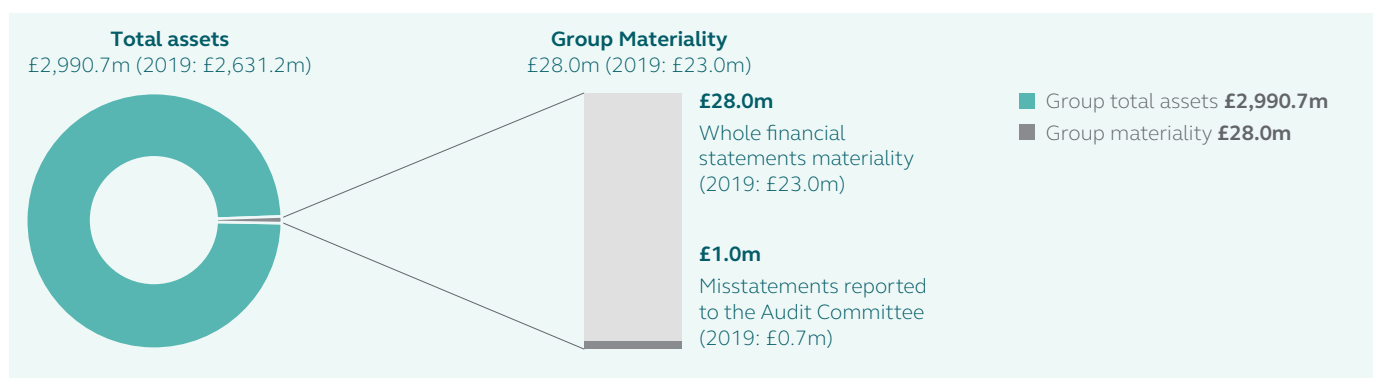
Materiality for the Group financial statements as a whole was set at £28.0m (2019: £23.0m), determined with a reference to a benchmark of total assets (of which it represents 0.9% (2019: 0.9%)).

In addition, we applied a lower materiality of £3.5m (2019: £3.7m) 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 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 £17.0m (2019: £20.0m) determined with a reference to a benchmark of Company net assets of which it represented 1.5% (2019: 2.8%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.0m (2019: £0.7m) 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 (2019: 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 the work described in response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 51 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 51 that they have carried out a robust assessment of the emerging and 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 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 93, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud 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, 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. These limited procedures did not identify actual or suspected non-compliance.

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

18 November 2020

FINANCIAL STATEMENTS
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER

	Notes	2020 £m	2019 £m
Group revenue	5	214.0	222.8
Net rental income	6	73.6	63.5
Profit on disposal of trading property	7	61.6	66.6
Profit on disposal of investment property	8	2.3	1.9
Income from financial interest in property assets	20	5.2	4.2
Fees and other income	9	7.5	4.4
Administrative expenses		(28.7)	(28.0)
Other expenses		(2.4)	(4.4)
Impairment of goodwill	38	-	(12.7)
Impairment of inventories to net realisable value	22	(0.7)	(0.4)
Reversal of impairment of joint venture	19	-	9.8
Operating profit		118.4	104.9
Net valuation gains on investment property	16	29.8	57.5
Change in fair value of derivatives		(1.4)	(0.4)
Finance costs	12	(34.9)	(32.8)
Finance income	12	0.4	0.3
Share of profit of associates after tax	18	0.1	0.4
Share of (loss)/profit of joint ventures after tax	19	(1.6)	1.4
Profit before tax	11	110.8	131.3
Tax charge	13	(18.0)	(16.4)
Profit for the year attributable to the owners of the Company		92.8	114.9
Basic earnings per share	15	14.3p	19.9p
Diluted earnings per share	15	14.2p	19.8p

FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 30 SEPTEMBER

	Notes	2020 £m	2019 £m
Profit for the year	3	92.8	114.9
<i>Items that will not be transferred to the consolidated income statement:</i>			
Actuarial loss on BPT Limited defined benefit pension scheme	28	(1.2)	(3.2)
<i>Items that may be or are reclassified to the consolidated income statement:</i>			
Changes in fair value of cash flow hedges		(3.3)	(17.8)
Other comprehensive income and expense for the year before tax		(4.5)	(21.0)
<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	0.3	0.6
Tax relating to items that may be or are reclassified to the consolidated income statement	13	1.0	3.0
Total tax relating to components of other comprehensive income		1.3	3.6
Other comprehensive income and expense for the year after tax		(3.2)	(17.4)
Total comprehensive income and expense for the year attributable to the owners of the Company		89.6	97.5

FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER

	Notes	2020 £m	2019 £m
ASSETS			
Non-current assets			
Investment property	16	1,778.9	1,574.6
Property, plant and equipment	17	2.0	0.3
Investment in associates	18	14.7	11.7
Investment in joint ventures	19	27.3	21.6
Financial interest in property assets	20	73.3	76.4
Deferred tax assets	13	7.8	5.6
Intangible assets	21	22.5	11.2
		1,926.5	1,701.4
Current assets			
Inventories – trading property	22	657.4	700.0
Trade and other receivables	23	31.3	40.5
Current tax assets		6.4	–
Cash and cash equivalents	27	369.1	189.3
		1,064.2	929.8
Total assets		2,990.7	2,631.2
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	26	1,391.9	1,176.8
Trade and other payables	25	1.3	–
Retirement benefits	28	2.4	1.7
Provisions for other liabilities and charges	24	1.2	1.2
Deferred tax liabilities	13	36.7	32.7
		1,433.5	1,212.4
Current liabilities			
Interest-bearing loans and borrowings	26	–	100.0
Trade and other payables	25	73.3	73.6
Provisions for other liabilities and charges	24	0.3	0.4
Current tax liabilities		–	4.0
Derivative financial instruments	27	20.6	17.3
		94.2	195.3
Total liabilities		1,527.7	1,407.7
NET ASSETS		1,463.0	1,223.5
EQUITY			
Issued share capital	29	33.8	30.7
Share premium account		616.3	436.5
Merger reserve	31	20.1	20.1
Capital redemption reserve		0.3	0.3
Cash flow hedge reserve	31	(16.6)	(14.3)
Retained earnings	32	809.1	750.2
TOTAL EQUITY		1,463.0	1,223.5

The financial statements on pages 104 to 150 were approved by the Board of Directors on 18 November 2020 and were signed on their behalf by:

Helen Gordon
Director

Vanessa Simms
Director

Company registration number: 125575

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Issued share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Cash flow hedge reserve £m	Available-for-sale reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
Balance as at 1 October 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
Profit for the year	3	-	-	-	-	-	-	92.8	-	92.8
Other comprehensive loss for the year		-	-	-	-	(2.3)	-	(0.9)	-	(3.2)
Total comprehensive income		-	-	-	-	(2.3)	-	91.9	-	89.6
Issue of share capital	29	3.1	179.4	-	-	-	-	-	-	182.5
Award of SAYE shares	29	-	0.4	-	-	-	-	-	-	0.4
Purchase of own shares	29	-	-	-	-	-	-	(0.1)	-	(0.1)
Share-based payments charge	30	-	-	-	-	-	-	1.1	-	1.1
Dividends paid	14	-	-	-	-	-	-	(33.5)	-	(33.5)
IFRS 16 transition adjustment		-	-	-	-	-	-	(0.5)	-	(0.5)
Total transactions with owners recorded directly in equity		3.1	179.8	-	-	-	-	(33.0)	-	149.9
Balance as at 30 September 2020		33.8	616.3	20.1	0.3	(16.6)	-	809.1	-	1,463.0

FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER

	Notes	2020 £m	2019 £m
Cash flow from operating activities			
Profit for the year		92.8	114.9
Depreciation and amortisation	11	1.5	1.5
Impairment of goodwill	38	–	12.7
Net valuation gains on investment property	16	(29.8)	(57.5)
Net finance costs	12	34.5	32.5
Share of loss/(profit) of associates and joint ventures	18, 19	1.5	(1.8)
Profit on disposal of investment property	8	(2.3)	(1.9)
Share-based payments charge	30	1.1	1.7
Change in fair value of derivatives		1.4	0.4
Reversal of impairment of joint venture	19	–	(9.8)
Income from financial interest in property assets	20	(5.2)	(4.2)
Tax	13	18.0	16.4
Cash generated from operating activities before changes in working capital		113.5	104.9
Decrease in trade and other receivables		9.7	110.5
Increase/(decrease) in trade and other payables		3.8	(2.7)
Decrease in provisions for liabilities and charges		(0.1)	(0.7)
Decrease in inventories		29.5	27.8
Cash generated from operating activities		156.4	239.8
Interest paid		(37.4)	(37.1)
Tax paid		(25.4)	(18.0)
Payments to defined benefit pension scheme	28	(0.5)	(0.6)
Net cash inflow from operating activities		93.1	184.1
Cash flow from investing activities			
Acquisition of subsidiary net of cash acquired	38	–	(350.9)
Acquisition of non-controlling interest	38	–	(3.1)
Proceeds from sale of investment property	8	36.2	59.4
Proceeds from financial interest in property assets	20	8.3	10.0
Investment in joint ventures	19	(5.5)	(2.9)
Loans advanced to associates and joint ventures	18, 19	(4.7)	(6.7)
Loans repaid by associates and joint ventures	18, 19	–	5.7
Acquisition of investment property	16	(195.3)	(212.6)
Acquisition of property, plant and equipment and intangible assets		(12.3)	(7.9)
Net cash outflow from investing activities		(173.3)	(509.0)
Cash flow from financing activities			
Net proceeds from issue of share capital	29	182.5	334.6
Award of SAYE shares	29	0.4	0.3
Purchase of own shares	29	(0.1)	(1.0)
Proceeds from new borrowings		697.0	430.2
Payment of loan costs		(4.9)	(4.3)
Settlement of derivative contracts		(1.4)	–
Repayment of borrowings		(580.0)	(329.7)
Dividends paid	14	(33.5)	(25.2)
Net cash inflow from financing activities		260.0	404.9
Net increase in cash and cash equivalents			
		179.8	80.0
Cash and cash equivalents at the beginning of the year	27	189.3	109.3
Cash and cash equivalents at the end of the year	27	369.1	189.3

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

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

(a) Basis of preparation

Grainger plc is a company incorporated and domiciled in the UK. It is a public limited liability company listed on the London Stock Exchange. The Group financial statements consolidate those of the Company and its subsidiaries, together referred to as the 'Group', and equity account the Group's interest in joint ventures and associates. The parent company financial statements present information about the Company and not the Group.

The Group financial statements 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 2020 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 151 to 159.

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. Given the significant impact of Covid-19 on the macro-economic conditions in which the Group is operating, the Directors have placed a particular focus on the appropriateness of adopting the going concern basis in preparing the financial statements for the year ended 30 September 2020.

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 24. In making the going concern assessment, the Directors have considered the Group's principal risks (see pages 44 to 50) and their impact on financial performance. 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, severe sensitivities have been applied to the key factors affecting financial performance for the Group.

The going concern assessment is based on the first 24 months of the Group's viability model, which is based on a severe downside scenario including the anticipated impact of Covid-19, reflecting the following key assumptions:

- Sustained reduction in rental levels of 3% per annum
- Reduction in property valuations of 3% per annum, driven by either yield expansion or house price deflation
- 10% development cost inflation
- Operating cost inflation of 10% per annum
- Increase in finance costs of between 1.25% and 2%

No new financing is assumed in the assessment period, but existing facilities are assumed to remain available. Throughout this severe downside scenario, the Group has sufficient cash reserves, with the loan-to-value covenant remaining less than 51% and interest cover above 2.4x, for a period of at least 12 months from the date of authorisation of these financial statements.

The Directors have also considered an extreme downside scenario, including the following key assumptions:

- Sustained reduction in rental levels of 5% per annum
- Significant reduction in property valuations of 10% per annum
- 15% development and operating cost inflation
- Increase in finance costs of between 1.25% and 2%

Even in this extreme downside scenario and without the need for further financing, the Group has sufficient cash reserves with the loan-to-value covenant remaining less than 58% and interest cover above 2.2x, for a period of at least 12 months from the date of authorisation of these financial statements.

Based on these considerations, together with available market information and the Directors' experience of the Group's property portfolio and markets, the Directors have continued to adopt the going concern basis in preparing the accounts for the year ended 30 September 2020.

(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 2020 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 prior year.

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

The following new standards, amendments to standards and interpretations issued in the year were effective for the Group from 1 October 2019. The most significant of these, and the impact on the Group's accounting, are set out below:

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 are now presented in the statement of financial position and in the notes to the financial statements.

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

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the Group and have not been early adopted. The application of these new standards, amendments and interpretations are not expected to have a material impact on the Group's financial statements.

2. Critical accounting estimates and judgements

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

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an on-going basis and include the potential impact of Covid-19 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 NRV, EPRA NTA and EPRA NDV, 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 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 regard to the selection of unobservable inputs.

The methodology for the year end valuation process for capitalised yield-based valuations is consistent with the prior year. This is considered to be the most appropriate method for valuing assets that are likely to be held as long-term investments and represents 54% of our property assets relating primarily to PRS blocks, including new build PRS assets.

For valuations that are based on current house prices covering the remaining 46% of assets, the methodology has been reviewed and revised to ensure that valuations accurately reflect the housing market movements experienced in the final quarter of the year. This valuation methodology is applied to properties that are most likely to be sold as individual assets.

Due to the granular and individual nature of many of our properties, the valuation process commences as early as June each year for certain assets. This is needed to allow sufficient time to complete the significant volume of property valuations and utilises comparable sales data available at that point in time. The stimulus to the market driven in part by the stamp duty holiday has led to rapid house price growth in the final quarter. As a result a blend of regional house price indices provided by Nationwide, Halifax and ACAD for the period from July to September has been applied to property valuations. This ensures that movements in house prices during the period have been reflected in the year end valuations.

2. Critical accounting estimates and judgements continued

	Notes	PRS £m	Reversionary £m	Other £m	Total £m	Valuer	% of properties for which external valuer provides valuation
Trading property		112.2	500.6	44.6	657.4		
Investment property		1,755.9	23.0	–	1,778.9		
Financial asset (CHARM)		–	73.3	–	73.3		
Total statutory book value		1,868.1	596.9	44.6	2,509.6		
Trading property							
Residential	(i)	201.9	944.3	–	1,146.2	Allsop LLP	79%
Developments	(ii)	–	–	44.6	44.6	CBRE Limited	87%
Total trading property		201.9	944.3	44.6	1,190.8		
Investment property							
Residential	(i)	752.8	23.0	–	775.8	Allsop LLP / CBRE Limited	100%
Developments	(ii)	102.9	–	–	102.9	CBRE Limited	100%
New build PRS	(iii)	636.4	–	–	636.4	CBRE Limited	100%
Affordable housing	(iv)	136.6	–	–	136.6	Allsop LLP	100%
Tricomm Housing	(v)	127.2	–	–	127.2	Allsop LLP	100%
Total investment property		1,755.9	23.0	–	1,778.9		
Financial asset (CHARM) ¹	(vi)	–	73.3	–	73.3	Allsop LLP	
Total assets at market value		1,957.8	1,040.6	44.6	3,043.0		
Statutory book value		1,868.1	596.9	44.6	2,509.6		
Market value adjustment ²		89.7	443.7	–	533.4		
Total assets at market value		1,957.8	1,040.6	44.6	3,043.0		
Net revaluation gain recognised in the income statement for wholly-owned properties		29.8	–	–	29.8		
Net revaluation gain relating to joint ventures and associates ³	(vii)	0.2	–	–	0.2		
Net revaluation gain recognised in the year³		30.0	–	–	30.0		

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

Trading property: The Group's own in-house qualified team provided a vacant possession value for the majority of the Group's residential properties as at 30 September 2020. A structured sample of these in-house valuations was reviewed by Allsop LLP, an external independent valuer. Valuing the large number of properties in this portfolio is a significant task. For this reason it is undertaken on an external inspection basis only. Invariably, when the in-house valuations are compared with those of the external valuer, around 62% 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 2020 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 79% 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, with the discounts ranging from 15% to 20%. The discounts are established by tenancy type and region and are based on evidence gathered by Allsop LLP from recent transactional market evidence. The Directors have adopted the discounts recommended by Allsop LLP.

Investment property: PRS blocks are valued on an income capitalisation basis, having regard to prevailing market conditions and evidence, and with close regard to the relativity between the market value and the aggregate vacant possession value. The valuation has been prepared in accordance with RICS Professional Valuation Standards where fair value is the same as market value. CBRE Limited valued 69% of residential investment property, with Allsop LLP valuing 22% on this basis. Gross yields adopted in the valuations broadly range from 4.2% to 7.0%.

The remaining 9% of residential property is valued in line with the trading property approach, with older properties and groups of individual units valued by Allsop LLP on a discount to vacant possession value basis on the assumption these assets would be sold individually. Residential reversionary assets discounts adopted ranged from 15% to 20%, whilst the residential PRS discount to vacant possession value was 5%.

ii) Developments

Trading property: Development trading property of £44.6m relates to the Group's legacy strategic land assets. The current market value has been assessed by CBRE Limited. Their valuation, representing 87% of total value, 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 13% of the portfolio is a Directors' Valuation.

Investment property: CBRE Limited assessed the fair value of the direct development schemes in the course of construction. These schemes are valued on an income capitalisation basis, with gross yields adopted in the valuations ranging from 4.7% to 5.9%. As the assets are under construction, the valuation takes into account estimated costs required to reach completion.

iii) 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.

The primary unobservable input within the valuation relate to assumptions for gross yields adopted with respect to comparable market evidence, with gross yields ranging from 4.9% to 6.5% across the portfolio. For assets under construction, a discount to market value to reflect stabilisation and construction risk in the remaining build process is applied on an asset by asset basis depending on stage of completion.

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

The primary unobservable input within the valuation relates to assumptions for the income capitalisation rate of net rent, which is determined on a tenure basis. The gross yields adopted for 30 September 2020 valuations range from 4.1% to 5.1%.

v) Tricomm Housing – Allsop LLP provided an investment valuation as at 30 September 2020 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: -3.00% in 2021, 1.00% in 2022, and 2.75% thereafter. The discount rates applied to the cash flows range between 2.25% (core income) and 8.00% (on reversion).

vi) 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 0.20% and 6.46% 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.

vii) Joint ventures and associates – For Vesta LP, Avison Young (UK) Limited valued the asset on the same basis described for completed new build PRS assets. Property assets in other joint ventures including the Connected Living London Group and Lewisham Grainger Holdings LLP are held at cost reflecting the current early stages of each development.

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. Critical accounting estimates and judgements continued

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 £7.2m as at 30 September 2020 (2019: £7.4m). The provision includes specific properties which are vacant and properties expected to become vacant in the future on the assumption of an average annual vacancy rate of c.7% over the next 10 years. Consideration has been given in respect of house price inflation, being the primary assumption relevant to this calculation, with the provision for properties expected to become vacant in future assuming nil inflation over the next 10 years.

Sensitivity analysis

Changes to key assumptions could impact both the income and financial position of the Group. 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 (trading property)	5.0% change in house prices (NRV provision impact)	1.9	1.9	(2.4)	(2.4)
Residential (investment property)	0.10% change in gross yield	(13.5)	(13.5)	14.0	14.0
Developments (investment property)	0.10% change in gross yield	(3.0)	(3.0)	3.1	3.1
New build PRS	0.10% change in gross yield	(10.8)	(10.8)	11.2	11.2
Affordable housing	0.10% change in gross yield	(3.2)	(3.2)	3.4	3.4
Tricomm Housing	5.0% change in house prices	4.1	4.1	(4.1)	(4.1)
Tricomm Housing	0.25% change in discount rate	(2.0)	(2.0)	1.9	1.9
Financial asset (CHARM)	5.0% change in house prices	2.9	2.9	(2.9)	(2.9)
Financial asset (CHARM)	0.25% change in discount rate	(1.2)	(1.2)	1.3	1.3

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.

3. Analysis of profit before tax

The table below details 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	2020				2019			
	Statutory	Valuation	Other adjustments	Adjusted earnings	Statutory	Valuation	Other adjustments	Adjusted earnings
Group revenue	214.0	-	(4.0)	210.0	222.8	-	-	222.8
Net rental income	73.6	-	-	73.6	63.5	-	-	63.5
Profit on disposal of trading property	61.6	(0.3)	-	61.3	66.6	(0.7)	-	65.9
Profit on disposal of investment property	2.3	-	-	2.3	1.9	-	-	1.9
Income from financial interest in property assets	5.2	(0.1)	-	5.1	4.2	1.3	-	5.5
Fees and other income	7.5	-	(4.0)	3.5	4.4	-	-	4.4
Administrative expenses	(28.7)	-	-	(28.7)	(28.0)	-	-	(28.0)
Other expenses	(2.4)	-	1.8	(0.6)	(4.4)	-	3.8	(0.6)
Impairment of goodwill	-	-	-	-	(12.7)	-	12.7	-
Impairment of inventories to net realisable value	(0.7)	0.7	-	-	(0.4)	0.4	-	-
Reversal of impairment of joint venture	-	-	-	-	9.8	(9.8)	-	-
Operating profit	118.4	0.3	(2.2)	116.5	104.9	(8.8)	16.5	112.6
Net valuation gains on investment property	29.8	(29.8)	-	-	57.5	(57.5)	-	-
Change in fair value of derivatives	(1.4)	-	1.4	-	(0.4)	0.2	0.2	-
Finance costs	(34.9)	-	0.5	(34.4)	(32.8)	-	0.4	(32.4)
Finance income	0.4	-	-	0.4	0.3	-	-	0.3
Share of profit of associates after tax	0.1	(0.2)	-	(0.1)	0.4	0.2	-	0.6
Share of (loss)/profit of joint ventures after tax	(1.6)	-	1.0	(0.6)	1.4	-	-	1.4
Profit before tax	110.8	(29.7)	0.7	81.8	131.3	(65.9)	17.1	82.5
Tax charge	(18.0)	-	-	-	(16.4)	-	-	-
Profit for the year attributable to the owners of the Company	92.8	-	-	-	114.9	-	-	-
Diluted adjusted earnings per share	-	-	-	10.2p	-	-	-	11.5p

Profit before tax in the adjusted columns above of £81.8m (2019: £82.5m) is the adjusted earnings of the Group. Adjusted earnings per share assumes tax of £15.5m (2019: £15.7m) in line with the standard rate of UK Corporation Tax of 19.0% (2019: 19.0%), divided by the weighted average number of shares as shown in Note 15. The Group's IFRS statutory earnings per share is also detailed in Note 15.

The classification of amounts as other adjustments is a judgement made by management and is a matter referred to the Audit Committee for approval. The net £0.7m cost within other adjustments in 2020 comprises £2.7m income relating to historic non-core business, offset by £2.4m costs related to refinancing activity and £1.0m restructuring costs. In 2019, other adjustments primarily related to the acquisition of GRIP, comprising £12.7m goodwill written off and £3.6m transaction costs relating to acquisition, restructuring and refinancing costs, as well as £0.8m costs in relation to the successful Transport for London ('TfL') joint venture bid.

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. 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 Other segment includes legacy strategic land and development arrangements, along with administrative expenses.

The key operating performance measure of profit or loss used by the CODM is adjusted earnings before tax, valuation and other adjustments.

The principal net asset value ("NAV") measure reviewed by the CODM is EPRA NTA which is considered to become the most relevant, and therefore the primary NAV measure for the Group. 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. Other NAV measures include EPRA NRV and EPRA NDV which we report alongside EPRA NTA. A full description and reconciliation of these measures is included in the EPRA performance measure section on pages 160 to 163 of this report.

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.

2020 Income statement

£m	PRS	Reversionary	Other	Total
Group revenue	77.9	128.4	3.7	210.0
Segment revenue – external				
Net rental income	53.8	19.6	0.2	73.6
Profit on disposal of trading property	(0.1)	57.2	4.2	61.3
Profit on disposal of investment property	2.0	0.3	–	2.3
Income from financial interest in property assets	–	5.1	–	5.1
Fees and other income	2.9	–	0.6	3.5
Administrative expenses	–	–	(28.7)	(28.7)
Other expenses	(0.6)	–	–	(0.6)
Net finance costs	(21.9)	(11.4)	(0.7)	(34.0)
Share of trading loss of joint ventures and associates after tax	(0.5)	–	(0.2)	(0.7)
Adjusted earnings	35.6	70.8	(24.6)	81.8
Valuation movements				29.7
Other adjustments				(0.7)
Profit before tax				110.8

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 161:

£m	PRS	Reversionary	Other	Total
Adjusted earnings	35.6	70.8	(24.6)	81.8
Profit on disposal of investment property	(2.0)	(0.3)	–	(2.3)
Previously recognised profit through EPRA market value measures	–	(53.4)	–	(53.4)
Adjusted EPRA earnings	33.6	17.1	(24.6)	26.1

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

A reconciliation from adjusted earnings to adjusted EPRA earnings is detailed in the table below:

£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

Segmental assets

The principal net asset value measures reviewed by the CODM are EPRA NRV, EPRA NTA and EPRA NDV. 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 NRV 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.

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 NDV reverses some of the adjustments made between statutory net assets, EPRA NRV 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 NRV 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.

Total Accounting Return (NTA basis) of 3.6% is calculated from the closing EPRA NTA of 285p per share plus the dividend of 5.47p per share for the year, divided by the opening EPRA NTA of 280p per share, which has been adjusted for the February 2020 equity raise.

These measures are set out below by segment along with a reconciliation to the summarised statutory statement of financial position. Additional EPRA disclosures are included on pages 160 to 163.

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. Segmental information continued

2020 Segment net assets

£m	PRS	Reversionary	Other	Total	Pence per share
Total segment net assets (statutory)	1,169.6	252.0	41.4	1,463.0	217
Total segment net assets (EPRA NRV)	1,291.2	696.1	65.5	2,052.8	304
Total segment net assets (EPRA NTA)	1,266.8	611.4	42.9	1,921.1	285
Total segment net assets (EPRA NDV)	1,242.3	611.4	8.8	1,862.5	276

2020 Reconciliation of EPRA NAV measures

£m	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	EPRA NRV balance sheet	Adjustments to deferred and contingent tax and intangibles	EPRA NTA balance sheet	Adjustments to derivatives, fixed rate debt and intangibles	EPRA NDV balance sheet
Investment property	1,778.9	-	1,778.9	-	1,778.9	-	1,778.9
Investment in joint ventures and associates	42.0	-	42.0	-	42.0	-	42.0
Financial interest in property assets	73.3	-	73.3	-	73.3	-	73.3
Inventories – trading property	657.4	533.4	1,190.8	-	1,190.8	-	1,190.8
Cash and cash equivalents	369.1	-	369.1	-	369.1	-	369.1
Other assets	70.0	3.5	73.5	(22.5)	51.0	35.2	86.2
Total assets	2,990.7	536.9	3,527.6	(22.5)	3,505.1	35.2	3,540.3
Interest-bearing loans and borrowings	(1,391.9)	-	(1,391.9)	-	(1,391.9)	(48.7)	(1,440.6)
Deferred and contingent tax liabilities	(36.7)	32.3	(4.4)	(109.2)	(113.6)	(24.5)	(138.1)
Other liabilities	(99.1)	20.6	(78.5)	-	(78.5)	(20.6)	(99.1)
Total liabilities	(1,527.7)	52.9	(1,474.8)	(109.2)	(1,584.0)	(93.8)	(1,677.8)
Net assets	1,463.0	589.8	2,052.8	(131.7)	1,921.1	(58.6)	1,862.5

In order to provide further analysis, the following table sets out EPRA NTA by segment:

£m	PRS	Reversionary	Other	Total
EPRA NTA				
Investment property	1,755.9	23.0	-	1,778.9
Investment in joint ventures and associates	25.0	-	17.0	42.0
Financial interest in property assets	-	73.3	-	73.3
Inventories – trading property	201.9	944.3	44.6	1,190.8
Cash and cash equivalents	237.3	124.2	7.6	369.1
Other assets	1.6	7.0	42.4	51.0
Total segment EPRA NTA assets	2,221.7	1,171.8	111.6	3,505.1
Interest-bearing loans and borrowings	(895.1)	(468.3)	(28.5)	(1,391.9)
Deferred and contingent tax liabilities	(24.5)	(84.7)	(4.4)	(113.6)
Other liabilities	(35.3)	(7.4)	(35.8)	(78.5)
Total segment EPRA NTA liabilities	(954.9)	(560.4)	(68.7)	(1,584.0)
Net EPRA NTA assets	1,266.8	611.4	42.9	1,921.1

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 NRV)	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 NDV)	1,048.8	610.5	6.4	1,665.7	272

2019 Reconciliation of EPRA NAV measures

£m	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	EPRA NRV balance sheet	Adjustments to deferred and contingent tax and intangibles	EPRA NTA balance sheet	Adjustments to derivatives, fixed rate debt and intangibles	EPRA NDV 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	17.7	67.7
Total assets	2,631.2	552.4	3,183.6	(11.2)	3,172.4	17.7	3,190.1
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	(42.4)	1,665.7

In order to provide further analysis, the following table sets out EPRA NTA 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

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. Gross proceeds from disposal of trading property and fees and other income are recognised in accordance with IFRS 15. Gross rental income is recognised in accordance with IFRS 16.

	2020 £m	2019 £m
Gross rental income (Note 6)	99.3	85.9
Gross proceeds from disposal of trading property (Note 7)	107.2	132.5
Fees and other income (Note 9)	7.5	4.4
	214.0	222.8

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.

	2020 £m	2019 £m
Gross rental income	99.3	85.9
Property operating expenses	(25.7)	(22.4)
	73.6	63.5

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 are recovered on completion of the development.

	2020 £m	2019 £m
Proceeds from disposal of trading property	107.2	127.2
Contract revenue	-	5.3
Gross proceeds from disposal of trading property	107.2	132.5
Selling costs	(2.3)	(2.2)
Net proceeds from disposal of trading property	104.9	130.3
Carrying value of trading property sold (Note 22)	(43.3)	(59.2)
Carrying value of contract expenses (Note 22)	-	(4.5)
	61.6	66.6

In the prior period, amounts relating to the contract revenue and expenses relate to the Group's development of properties in the arrangement with the Royal Borough of Kensington and Chelsea, with construction concluding in 2019. 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.

8. Profit on disposal of investment property

Accounting policy

Investment property is regarded as sold when the recipient obtains control of the property, which is generally deemed to be on legal completion. Profits or losses are calculated by reference to the carrying value of the property sold.

	2020 £m	2019 £m
Gross proceeds from disposal of investment property	36.9	60.6
Selling costs	(0.7)	(1.2)
Net proceeds from disposal of investment property	36.2	59.4
Carrying value of investment property sold (Note 16)	(33.9)	(57.5)
	2.3	1.9

9. Fees and other income

	2020 £m	2019 £m
Property and asset management fee income	2.2	3.8
Other sundry income	5.3	0.6
	7.5	4.4

Included within other sundry income in the current year is £1.6m recorded in relation to the settlement of historic legal matters with respect to the Group's interest in the Czech Republic and £2.4m following the resolution of a legal claim related to a previous corporate transaction. Also included within other sundry income is £1.3m (2019: £0.2m) liquidated and ascertained damages (LADs) recorded to compensate the Group for lost rental income resulting from the delayed completion of construction contracts.

10. Employees

	2020 £m	2019 £m
Wages and salaries	16.5	14.9
Social security costs	1.8	1.5
Other pension costs – defined contribution scheme (Note 28)	1.1	1.1
Share-based payments (Note 30)	1.1	1.7
	20.5	19.2

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

	2020 Number	2019 Number
Operations	177	170
Shared services	86	74
Group	12	11
	275	255

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 82 to 92.

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.

	2020 £'000	2019 £'000
Aggregate Directors' remuneration	1,871	1,640
Aggregate amount of gains on exercise of share options	12	11
Aggregate amount of money or assets received or receivable under scheme interests	651	80
	2,534	1,731

None of the Directors (2019: none) were members of the Group defined benefit scheme or the defined contribution scheme.

Key management compensation

	2020 £m	2019 £m
Short-term employee benefits	5.7	6.3
Post-employment benefits	0.4	0.4
Share-based payments	1.0	1.2
	7.1	7.9

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

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11. Profit before tax

	2020 £m	2019 £m
Profit before tax is stated after charging:		
Depreciation of property, plant and equipment	0.8	0.3
Amortisation of intangible assets	0.7	1.2
Bad debt expense	1.4	–
Operating lease payments	0.2	1.0
Auditor's remuneration (see below)	0.5	0.6

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

Auditor's remuneration

	2020 £'000	2019 £'000
Services as auditor to the Company	160	129
Services as auditor to Group subsidiaries	240	206
Group audit fees	400	335
Audit related assurance services	36	35
Services related to corporate finance transactions	50	267
Other assurance services	8	8
Non-audit fees	94	310
Total fees	494	645

The relevant proportion of amounts paid to the auditor for the audit of the financial statements of joint ventures is £15,300 (2019: £nil).

12. Finance costs and income

	2020 £m	2019 £m
Finance costs		
Bank loans and mortgages	23.3	23.2
Non-bank financial institution	2.1	2.1
Corporate bond	14.6	11.9
Interest capitalised under IAS 23	(8.4)	(7.6)
Other finance costs	3.3	3.2
	34.9	32.8
Finance income		
Interest receivable from associates and joint ventures (Note 34)	–	(0.1)
Other interest receivable	(0.4)	(0.2)
	(0.4)	(0.3)
Net finance costs	34.5	32.5

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 £18.0m (2019: £16.4m) recognised in the consolidated income statement comprises:

	2020 £m	2019 £m
Current tax		
Corporation tax on profit	20.3	16.4
Adjustments relating to prior years	(5.3)	(1.9)
	15.0	14.5
Deferred tax		
Origination and reversal of temporary differences	1.4	0.6
Adjustments relating to prior years	1.6	1.3
	3.0	1.9
Total tax charge for the year	18.0	16.4

The 2020 current tax adjustments relating to prior years reflect adjustments which have been included in submitted tax returns, while deferred tax adjustments relate primarily to adjustments to tax losses and capital allowances.

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

The Group’s results for this year are taxed at an effective rate of 19.0% (2019: 19.0%).

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. Tax continued

The tax charge for the year is lower (2019: lower) than the charge for the year derived by applying the standard rate of corporation tax in the UK of 19.0% (2019: 19.0%) to the profit before tax. The differences are explained below:

	2020 £m	2019 £m
Profit before tax	110.8	131.3
Income tax at a rate of 19.0% (2019: 19.0%)	21.0	24.9
Expenses not deductible for tax purposes	0.3	3.9
Share of joint ventures/associates after tax	0.1	(0.3)
Revaluation of investment properties and indexation allowance	-	(8.7)
Difference between tax and accounting profit on disposal of fixed assets and investments	(3.2)	(2.6)
Impact of changes in tax rates	3.5	-
Other temporary differences	-	(0.2)
Adjustment in respect of prior periods	(3.7)	(0.6)
Amounts recognised in the income statement	18.0	16.4

In addition to the above, a deferred tax credit of £1.3m (2019: £3.6m) was recognised within other comprehensive income comprising:

	2020 £m	2019 £m
Actuarial loss on BPT Limited pension scheme	(0.3)	(0.6)
Fair value movement in cash flow hedges and exchange adjustments	(1.0)	(3.0)
Amounts recognised in other comprehensive income	(1.3)	(3.6)

Deferred tax balances comprise temporary differences attributable to:

	2020 £m	2019 £m
Deferred tax assets		
Short-term temporary differences	1.1	1.4
Losses carried forward	1.5	0.3
Actuarial deficit on BPT Limited pension scheme	1.2	0.9
Fair value movement in derivative financial instruments and cumulative exchange adjustments	4.0	3.0
	7.8	5.6
Deferred tax liabilities		
Trading property uplift to fair value on business combinations	(7.9)	(8.3)
Investment property revaluation	(25.0)	(19.7)
Short-term temporary differences	(2.6)	(3.6)
Fair value movement in financial interest in property assets	(1.2)	(1.1)
	(36.7)	(32.7)
Total deferred tax	(28.9)	(27.1)

Deferred tax has been calculated at a rate of 19.0% (2019: 17.0%) in line with the enacted main rate of corporation tax.

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 £101.3m, calculated at 19.0% (2019: £93.3m, calculated at 17.0%), 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.

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:

	2020 £m	2019 £m
Ordinary dividends on equity shares:		
Final dividend for the year ended 30 September 2018 – 3.18p per share	–	14.7
Interim dividend for the year ended 30 September 2019 – 1.73p per share	–	10.5
Final dividend for the year ended 30 September 2019 – 3.46p per share	21.2	–
Interim dividend for the year ended 30 September 2020 – 1.83p per share	12.3	–
	33.5	25.2

Subject to approval at the AGM, the final dividend of 3.64p per share (gross) amounting to £24.5m will be paid on 15 February 2021 to Shareholders on the register at the close of business on 29 December 2020. Shareholders will again be offered the option to participate in a dividend reinvestment plan and the last day for election is 25 January 2021. An interim dividend of 1.83p per share amounting to a total of £12.3m was paid to Shareholders on 3 July 2020.

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 2020 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 2020			30 September 2019		
	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	92.8	649.1	14.3	114.9	578.5	19.9
Effect of potentially dilutive securities						
Share options and contingent shares	–	2.6	(0.1)	–	2.7	(0.1)
Diluted earnings per share						
Profit attributable to equity holders	92.8	651.7	14.2	114.9	581.2	19.8

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.

When the Group begins to redevelop an existing trading property for continued future use as an investment property, the property is transferred to investment property and held as a non-current asset. The property is remeasured to fair value as at the date of the transfer with any gain or loss being taken to the income statement.

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.

	2020 £m	2019 £m
Opening balance	1,574.6	589.7
Acquisitions	37.7	32.4
Capital expenditure – completed assets	11.4	8.7
Capital expenditure – assets under construction	146.2	171.5
Total additions	195.3	212.6
Acquired through business combination (Note 38)	–	700.8
Transfer from inventories	13.1	71.5
Disposals (Note 8)	(33.9)	(57.5)
Net valuation gains	29.8	57.5
Closing balance	1,778.9	1,574.6

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 2020 is £1,618.3m (2019: £1,432.9m).

Direct property repair and maintenance costs arising from investment property that generated rental income during the year were £14.7m (2019: £11.3m).

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.

18. Investment in associates

	2020 £m	2019 £m
Opening balance	11.7	134.0
Share of profit for the year	0.1	0.4
Investment eliminated on consolidation following acquisition	-	(109.7)
Loan eliminated on consolidation following acquisition	-	(18.2)
Loans advanced to associates	2.9	5.1
Share of change in fair value of derivatives taken through other comprehensive income	-	0.1
Closing balance	14.7	11.7

The closing balance comprises share of net assets of £0.1m (2019: £nil) and net loans due from associates of £14.6m (2019: £11.7m). At the balance sheet date, there is no expectation of credit losses on loans due.

In the prior year, 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 (see Note 38).

As at 30 September 2020, the Group's interest in active 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 aggregated assets, liabilities, revenues and profit or loss of associates is shown below:

2020 Summarised income statement

£m	Vesta LP
Net rental income and other income	(0.4)
Administration and other expenses	(0.1)
Operating profit	(0.5)
Revaluation gains on investment property	1.2
Profit before tax	0.7
Tax	(0.2)
Profit after tax	0.5

2020 Summarised statement of financial position

Investment property	72.1
Current assets	2.7
Total assets	74.8
Current liabilities	(74.1)
Net assets	0.7

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18. Investment in associates continued

2019 Summarised income statement

£m	GRIP REIT PLC ¹	Vesta LP	Total
Net rental income and other income	5.5	–	5.5
Administration and other expenses	(0.8)	–	(0.8)
Operating profit	4.7	–	4.7
Revaluation gains on investment property	(0.1)	0.6	0.5
Change in fair value of derivatives	(1.0)	–	(1.0)
Interest payable	(2.3)	–	(2.3)
Profit before tax	1.3	0.6	1.9
Tax	–	–	–
Profit after tax	1.3	0.6	1.9

2019 Summarised statement of financial position

Investment property	–	58.5	58.5
Current assets	–	5.1	5.1
Total assets	–	63.6	63.6
Non-current liabilities	–	(63.3)	(63.3)
Current liabilities	–	–	–
Net assets	–	0.3	0.3

1 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 prior to the date of acquisition.

19. Investment in joint ventures

	2020 £m	2019 £m
Opening balance	21.6	11.6
Share of (loss)/profit for the year	(1.6)	1.4
Reversal of impairment	–	9.8
Further investment ¹	5.5	2.9
Loans advanced to joint ventures	1.8	1.6
Loans repaid by joint ventures	–	(5.7)
Closing balance	27.3	21.6

1 Grainger invested £5.5m into Connected Living London (BTR) Limited in the year (2019: £2.9m).

The closing balance comprises share of net assets of £8.0m (2019: £4.1m) and net loans due from joint ventures of £19.3m (2019: £17.5m). At the balance sheet date, there is no expectation of credit losses on loans due.

In the prior year, the impairment against loans made to the Curzon Park Limited joint venture totalling £9.8m was reversed in full. There are no impairments held against loans to joint ventures at the reporting date.

At 30 September 2020, the Group's interest in active 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

Following resolution of outstanding matters, CCZ a.s., the Group's remaining joint venture interest in the Czech Republic, is in liquidation as at 30 September 2020.

In relation to the Group's investment in joint ventures, the aggregated assets, liabilities, revenues and profit or loss are shown below:

2020 Summarised income statement

£m	Connected Living London (BTR) Limited	Curzon Park Limited	Helical Grainger (Holdings) Limited	Lewisham Grainger Holdings LLP	CCZ a.s.	Total
Administration and other expenses	(0.8)	(0.7)	-	-	-	(1.5)
Loss before tax	(0.8)	(0.7)	-	-	-	(1.5)
Tax	-	(1.8)	-	-	-	(1.8)
Loss after tax	(0.8)	(2.5)	-	-	-	(3.3)

2020 Summarised statement of financial position

Investment property	14.5	-	-	2.9	-	17.4
Current assets	3.7	36.5	-	-	-	40.2
Total assets	18.2	36.5	-	2.9	-	57.6
Current liabilities	(2.6)	(36.5)	-	(2.9)	-	(42.0)
Net assets	15.6	-	-	-	-	15.6

2019 Summarised income statement

£m	Connected Living London (BTR) Limited	Curzon Park Limited	Helical Grainger (Holdings) Limited	Lewisham Grainger Holdings LLP	CCZ a.s.	Total
Profit on disposal of properties	-	2.7	-	-	-	2.7
Profit before tax	-	2.7	-	-	-	2.7
Tax	-	-	-	-	-	-
Profit after tax	-	2.7	-	-	-	2.7

2019 Summarised statement of financial position

Investment property	1.3	-	-	2.2	-	3.5
Current assets	5.0	37.2	0.2	-	-	42.4
Total assets	6.3	37.2	0.2	2.2	-	45.9
Current liabilities	(0.7)	(34.4)	(0.2)	(2.2)	(0.4)	(37.9)
Net liabilities	5.6	2.8	-	-	(0.4)	8.0

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) cash received from the instrument in the year is deducted from the carrying value of the assets; and ii) the carrying value of the assets is revised to the net present value of the updated projected cash flows arising from the instrument using the effective interest rate applicable at acquisition. The change in value arising from ii) above is recorded through the consolidated income statement and is shown on the line 'Income from financial interest in property assets'.

	2020 £m	2019 £m
Opening balance	76.4	82.2
Cash received from the instrument	(8.3)	(10.0)
Amounts taken to income statement	5.2	4.2
Closing balance	73.3	76.4

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.

21. Intangible assets

Accounting policy

Intangible assets comprise computer software and goodwill.

Computer software is amortised on a straight-line basis over 5-12 years being the estimated useful lives of the assets, from the date they are available for use. The effective life for computer software is assessed in accordance with the period that the Group expects benefits from its investment in technology to be consumed. Amortisation is charged to the consolidated income statement.

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

	2020 £m	2019 £m
Opening balance	11.2	4.7
Additions	12.0	7.7
Amortisation	(0.7)	(1.2)
Closing balance	22.5	11.2

22. Inventories – trading property

Accounting policy

Tenanted residential properties held-for-sale in the normal course of business within the PRS and Reversionary segments 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.

Legacy land and development property held within the Other 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.

	2020 £m	2019 £m
Opening balance	700.0	799.3
Additions	14.5	36.3
Transfer to investment property	(13.1)	(71.5)
Disposals (Note 7)	(43.3)	(63.7)
Impairment of inventories to net realisable value	(0.7)	(0.4)
Closing balance	657.4	700.0

The closing balance above reflects the lower of historical cost and net realisable value of inventory owned by the Group rather than the current market value. Market value is considered to be a more relevant reflection of the value of inventory owned by the Group. The segmental allocation of PRS, Reversionary and Development inventory, as well as additional information including their market value is detailed in Note 4.

Information relating to the judgements and assumptions adopted by management in relation to inventories is set out in Note 2 'Critical accounting estimates and judgements'. 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:

	2020 £m	2019 £m
Carrying value of trading property sold (Note 7)	43.3	59.2
Carrying value of contract expenses (Note 7)	-	4.5
Impairment of inventories to net realisable value	0.7	0.4

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.

	2020 £m	2019 £m
Rent and other tenant receivables	4.8	2.5
Deduct: Provision for impairment	(2.4)	(0.7)
Rent and other tenant receivables - net	2.4	1.8
Contract assets	3.3	18.5
Other receivables	23.0	18.0
Prepayments	2.6	2.2
Closing balance	31.3	40.5

The Group's assessment of expected credit losses involves estimation given its forward-looking nature. This is not considered to be an area of significant judgement or estimation due to the balance of gross rent and other tenant receivables of £4.8m (2019: £2.5m). Assumptions used in the forward-looking assessment have been adjusted in respect of Covid-19 to take into account likely rent deferrals.

Contract assets in the prior year primarily relate to revenue receivable on the arrangement with the Royal Borough of Kensington and Chelsea (Note 7).

Other receivables include £9.3m (2019: £4.0m) due from land sales, which is receivable no later than March 2022.

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 and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Refer to Note 35 for accounting policy in relation to lease liabilities.

	2020 £m	2019 £m
Current liabilities		
Deposits received	7.2	7.5
Trade payables	16.4	17.5
Lease liabilities (Note 35)	0.9	-
Tax and social security costs	0.5	1.0
Accruals	44.2	42.8
Deferred income	4.1	4.8
	73.3	73.6
Non-current liabilities		
Lease liabilities (Note 35)	1.3	-
	1.3	-
Total trade and other payables	74.6	73.6

Within accruals, £28.4m comprises accrued expenditure in respect of ongoing construction activities (2019: £28.2m).

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.

	2020 £m	2019 £m
Current liabilities		
Bank loans – Pounds Sterling	-	100.0
	-	100.0
Non-current liabilities		
Bank loans – Pounds Sterling	352.2	483.8
Bank loans – Euros	0.9	0.9
Non-bank financial institution	346.2	345.7
Corporate bonds	692.6	346.4
	1,391.9	1,176.8
Total interest-bearing loans and borrowings	1,391.9	1,276.8

(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 2020 was 1.7% (2019: 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 £4.8m (2019: £6.2m) will be amortised over the life of the loans to which they relate.

(b) Non-bank financial institution

£350.0m is funded by fixed rates loans from Rothesay Life PLC across three tranches: £75.0m maturing July 2026, £75.0m maturing October 2027 and £200.0m maturing July 2029.

The weighted average interest rate on non-bank loans as at 30 September 2020 was 2.4% (2019: 2.4%). Unamortised costs in relation to these fixed rate loans of £3.8m (2019: £4.3m) will be amortised over the life of the loans to which they relate.

(c) Corporate bonds

During the year the Group issued a new ten-year £350.0m corporate bond at 3.0% due July 2030. In 2018, the Group issued a ten-year £350.0m corporate bond at 3.375% due April 2028.

As at 30 September 2020 unamortised costs in relation to the corporate bonds stood at £4.5m (2019: £2.4m), and the outstanding discount was £2.9m (2019: £1.2m).

(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 bonds. As at 30 September 2020, unamortised costs totalled £13.1m (2019: £12.9m) and the outstanding discount was £2.9m (2019: £1.2m).

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	2020				2019			
	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	1,276.8	6.4	-	17.3	961.2	6.3	(4.4)	3.4
<i>Changes from financing cash flows</i>								
Proceeds from loans and borrowings	697.0	-	-	-	430.2	-	-	-
Repayment of borrowings	(580.0)	-	-	-	(329.7)	-	-	-
Transaction costs related to loans and borrowings	(3.1)	-	-	-	(4.3)	-	-	-
Total changes from financing cash flows	113.9	-	-	-	96.2	-	-	-
<i>Other changes</i>								
Liabilities acquired through business combination	-	-	-	-	216.2	1.2	-	-
Gross interest accrued	-	39.7	-	-	-	36.6	-	-
Gross interest paid	-	(37.4)	-	-	-	(37.7)	-	-
Amortisation of borrowing costs net of premiums	1.2	-	-	-	3.2	-	-	-
Changes to fair value of derivatives through profit and loss	-	-	-	-	-	-	0.4	-
Changes in fair value of derivatives through hedging reserve	-	-	-	3.3	-	-	4.0	13.9
Total other changes	1.2	2.3	-	3.3	219.4	0.1	4.4	13.9
Closing balance	1,391.9	8.7	-	20.6	1,276.8	6.4	-	17.3

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.

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:

	2020						
	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
£m							
Non-current assets							
Financial interest in property assets	-	73.3	-	-	73.3	-	73.3
Current assets							
Trade and other receivables excluding prepayments	28.7	-	-	-	28.7	-	28.7
Cash and cash equivalents	369.1	-	-	-	369.1	-	369.1
Total financial assets	397.8	73.3	-	-	471.1	-	471.1
	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
£m							
Non-current liabilities							
Trade and other payables	-	-	-	1.3	1.3	-	1.3
Interest-bearing loans and borrowings	-	-	-	1,391.9	1,391.9	48.7	1,440.6
Current liabilities							
Trade and other payables	-	-	-	73.3	73.3	-	73.3
Derivative financial instruments	-	-	20.6	-	20.6	-	20.6
Total financial liabilities	-	-	20.6	1,466.5	1,487.1	48.7	1,535.8
Net financial assets/(liabilities)	397.8	73.3	(20.6)	(1,466.5)	(1,016.0)	(48.7)	(1,064.7)
	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
£m							
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
	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
£m							
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)

27. Financial risk management and derivative financial instruments continued

The fair value difference relates to the Group's corporate bonds and the non-bank loans, which are stated at amortised cost in the consolidated statement of financial position. The fair value of the bonds is calculated as £737.7m (2019: £371.8m) based on quoted prices in traded markets. The fair value of the non-bank loans is calculated as £361.0m (2019: £351.6m) 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 £9.1m (2019: £10.0m) 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, £41.5m (2019: £47.9m) 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 or quarterly cash waterfalls.

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 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 2020, £9.3m (2019: £4.0m) was outstanding.

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 £5.7m (2019: £6.0m) 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 £2.4m, we consider £nil to be not due and not impaired. All of the £23.0m other receivables balance and all of the £3.3m contract assets are considered not due and not impaired.

As at 30 September 2020, tenant arrears of £2.4m within trade receivables were impaired and fully provided for (2019: £0.7m). The impaired receivables are based on a review of expected credit losses, which is detailed in Note 23. 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 2020, the fair value of all interest rate derivatives that had a positive value was £nil (2019: £nil).

At 30 September 2020, the combined credit exposure arising from cash held at banks, money market deposits and interest rate swaps was £369.1m (2019: £189.3m), which represents 12.3% (2019: 7.2%) of total assets. Deposits were placed with financial institutions with A- or better credit ratings.

The Group has the following cash and cash equivalents:

	2020 £m	2019 £m
Pounds Sterling	367.6	187.3
Euros	1.5	2.0
	369.1	189.3

At the year end, £173.3m was placed on deposit (2019: £96.3m) at effective interest rates between 0.0% and 0.2% (2019: 0.2% and 0.7%). 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 2020 (2019: £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 LTV and 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 (LTV) levels and improve liquidity quickly.

The Group's credit rating is currently provided by S&P. S&P's most recent assessment of the Group was issued on 27th April 2020 during the peak of the Covid-19 pandemic and affirmed the Group's long-term issuer corporate credit rating of 'BB+' and the Group's Corporate Bonds' senior secured issue ratings of 'BBB-'. S&P also affirmed the Group's outlook as 'Stable'. The Group monitors credit rating agency metrics to ensure we maintain or improve upon the Group's current credit rating. The Group's stable credit outlook suggests there is currently very little risk of a credit rating downgrade to the Group.

In the event of a credit rating downgrade, there may be an increase in the coupon payable on the Group's Corporate Bonds should the senior secured issue rating fall below BBB-. However, the coupon would revert to the original coupon payable should the credit rating recover to BBB- or higher. This could result in an increase in the Group's annual interest charge of £8.7m. This increase in interest costs would also affect the Group's interest cover financial covenant. However there is significant headroom on our facility financial covenants and the Group has determined that we would remain compliant and retain significant covenant headroom despite this increase in interest costs. No other debt facilities or financial covenants of the Group would be affected by a credit rating downgrade.

The Group's fixed rate borrowings are stated at amortised cost in the financial statements and there is currently no requirement under IFRS9 to revalue these borrowings in the financial statements of the Group. Therefore, there would be no impact to the Group's measurement of borrowings in the event of a credit rating downgrade.

In accordance with the IFRS 13, the Group measures derivatives at fair value including the effect of counterparty credit risk. Where derivatives have been designated in a cash flow hedge relationship, the Group carries out hedge effectiveness testing in accordance with IFRS9. In the event of a credit rating downgrade, there may be an impact on the fair value of the Group's derivative contracts as the credit quality of the Group decreases which may give rise to a requirement to recognise some hedge ineffectiveness in the financial statements. However, in accordance with hedge effectiveness requirements under IFRS9, credit valuation adjustments included in the measurement of derivative fair values would need to dominate movements in fair value before creating hedge ineffectiveness. The Group does not consider that a credit rating downgrade will impact derivative fair values and give rise to a material level of hedge ineffectiveness.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. Financial risk management and derivative financial instruments continued

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 2020.

£m	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
At 30 September 2020					
Interest-bearing loans and borrowings (Note 26)	–	–	346.4	1,045.5	1,391.9
Interest on borrowings	37.8	38.1	105.0	111.6	292.5
Interest on derivatives	3.9	5.3	11.2	1.0	21.5
Trade and other payables	73.3	0.7	0.6	–	74.6
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

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

Maturity of committed undrawn borrowing facilities

	2020 £m	2019 £m
Expiring:		
Between one and two years	–	–
Between two and five years	332.1	299.1
Over five years	–	–
	332.1	299.1

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	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Level 3				
CHARM	73.3	–	76.4	–
Investment property	1,778.9	–	1,574.6	–
	1,852.2	–	1,651.0	–
Level 2				
Interest rate swaps – in cash flow hedge accounting relationships	–	20.6	–	17.3
	–	20.6	–	17.3

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 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 and are detailed in Note 2.

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 2020 was £357.1m (2019: £563.5m).

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:

	2020 £m	2019 £m
Assets – Level 3		
Opening balance	1,651.0	671.9
Amounts taken to income statement	34.6	61.7
Other movements	166.6	917.4
Closing balance	1,852.2	1,651.0

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 NRV, EPRA NTA and EPRA NDV measures:

£m	Accounting basis	Classification if fair valued	2020		2019	
			Book value	Fair value	Book value	Fair value
Inventories – trading property	Lower of cost and net realisable value	Level 3	657.4	1,190.8	700.0	1,248.8
Corporate bonds	Amortised cost	Level 1	700.0	737.7	350.0	371.8
Non-bank loans	Amortised cost	Level 3	350.0	361.0	350.0	351.6

(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 2020, 100% (2019: 98%) 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 £0.4m (2019: £1.8m). Similarly, a 1% decrease would increase annual profits by £0.4m (2019: £1.8m).

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 £12.5m (2019: £14.3m). Similarly, a 1% decrease would decrease the Group's equity by £12.5m (2019: £14.3m).

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 2020, the market value of derivatives designated as cash flow hedges under IFRS 9 is a net liability of £20.6m (2019: net liability of £17.3m). No amount is recognised within the income statement for ineffectiveness of cash flow hedges (2019: £nil). The fair value movement on derivatives not in hedge accounting relationships resulted in a charge of £nil (2019: £0.4m) in the consolidated income statement.

27. Financial risk management and derivative financial instruments continued

At 30 September 2020, the market value of derivatives not designated as cash flow hedges under IFRS 9 is £nil (2019: £nil). 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

	2020 £m	2019 £m
Hedged debt maturing:		
Within one year	-	-
Between one and two years	-	100.0
Between two and five years	357.1	408.3
Over five years	-	-
	357.1	508.3

Interest rate profile – including the effect of derivatives and amortisation of issue costs

	2020					2019				
	Weighted average interest rate %	Average maturity years ¹	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	3.1	8.4	1,050.0	-	1,050.0	3.0	8.7	700.0	-	700.0
Hedged rate	3.1	3.7	357.1	-	357.1	3.1	3.6	508.3	-	508.3
Variable rate	1.4	3.7	-	0.8	0.8	2.7	3.6	81.7	0.9	82.6
	3.1	6.5	1,407.1	0.8	1,407.9	3.0	5.8	1,290.0	0.9	1,290.9

¹ Average maturity years excluding extension options. Including extension options, average maturity years is 6.6 years (2019: 5.8 years).

At 30 September 2020, the fixed interest rates on the interest rate swap contracts vary from 0.69% to 1.82% (2019: 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 2020, the Group had available headroom of £650.4m, with the next debt maturity not until November 2022.

(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 (LTV). The current capital structure of the Group comprises a mix of debt and equity. Debt is typically 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 LTV and ICR. The covenants operate on a facility by facility basis, with maximum LTV ranges between 70% – 75% and minimum ICR cover of 1.35x – 1.75x. As at 30 September 2020, Group LTV was 33.4% (see page 165 for calculation) and Group ICR was 3.4x, with minimum headroom being a 17.0% increase in LTV and 1.2x reduction in ICR based on individual facilities. The Board regularly reviews all current and projected future levels to monitor anticipated compliance and available headroom against key thresholds. LTV 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 LTV 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 2020, the weighted average cost of debt was 3.1% (2019: 3.0%). Investment and development opportunities are evaluated using a risk adjusted WACC in order to ensure long-term Shareholder value is created.

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 and cash, managed by Rathbones Investment Management Limited and insurance policies managed by Friends Life. 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 74 to 92. The pension cost charge in these financial statements represents contributions payable by the Group.

The charge of £1.1m (2019: £1.0m) 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 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 2020 was 18 years.

28. Pension costs continued

The IAS 19 calculations for disclosure purposes have been based upon the results of the actuarial valuation carried out as at 1 July 2019, updated to 30 September 2020, by a qualified independent actuary.

i) Principal actuarial assumptions under IAS 19 (p.a.)

	2020 %	2019 %
Discount rate	1.50	1.70
Retail Price Index ('RPI') inflation	3.05	3.30
Consumer Prices Index ('CPI') inflation	2.25	2.30
Salary increases	3.55	3.80
Rate of increase of pensions in payment	5.00	5.00
Rate of increase for deferred pensioners	2.25	2.30

ii) Demographic assumptions

	2020	2019
Mortality tables for pensioners	S2PA base tables CMI 2019 mortality projections 1.25% p.a. long-term rate	S2PA base tables CMI 2018 mortality projections 1.25% p.a. long-term rate
Mortality tables for non-pensioners	As for pensioners	As for pensioners

iii) Life expectancies

	30 September 2020		30 September 2019	
	Male	Female	Male	Female
Life expectancy for a current 60-year-old (years)	86	88	86	88
Life expectancy at age 60 for an individual aged 45 (years)	87	89	88	89

Risks

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

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

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

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

Market value of scheme assets

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

	30 September 2020		30 September 2019	
	Market value £m	% of total scheme assets	Market value £m	% of total scheme assets
Equities	14.8	47	16.0	49
Bonds	12.7	40	12.6	38
Cash	0.7	2	0.5	2
Insurance policies	3.3	11	3.7	11
Total value of assets	31.5	100	32.8	100
The actual return on assets over the year was:	0.4		2.3	

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:

	2020 £m	2019 £m
Market value of scheme assets at the start of the year	32.8	31.2
Interest income	0.5	0.9
Employer contributions	0.5	0.6
Actuarial return on assets less interest	(0.1)	1.4
Benefits paid	(2.2)	(1.3)
Market value of scheme assets at the end of the year	31.5	32.8

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

	2020 £m	2019 £m
Value of defined benefit obligation at the start of the year	34.5	30.3
Interest on pension scheme liabilities	0.5	0.9
Actuarial loss on changes in financial assumptions	1.1	4.6
Benefits paid	(2.2)	(1.3)
Value of defined benefit obligation at the end of the year	33.9	34.5

Amounts recognised in the consolidated statement of comprehensive income

	2020 £m	2019 £m
Actuarial return on assets less interest	(0.1)	1.4
Actuarial loss on defined benefit obligation	(1.1)	(4.6)
	(1.2)	(3.2)

The loss shown in the above table of £1.2m (2019: £3.2m) has been included in the consolidated statement of comprehensive income on page 105.

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 2019. This valuation revealed a funding shortfall of £1.7m. As a result of this valuation, the Group agreed to extend the existing recovery plan with the Trustees to pay additional contributions to eliminate the deficit by 30 June 2022. Based on this plan, the Group expects to pay £0.6m p.a. to the scheme until 30 June 2022.

28. Pension costs continued

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 February 2020, the Group issued 61,200,000 new shares at an issue price of 305.0p raising a total amount of £182.5m net of costs. The shares were issued with a nominal value of £0.05p per share. This increased share capital by £3.1m and the share premium account by £179.4m.

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.

	2020 £m	2019 £m
Allotted, called-up and fully paid:		
675,284,566 (2019: 613,788,451) ordinary shares of 5p each	33.8	30.7

During the year, The Grainger Employee Benefit Trust has not acquired any shares (2019: 384,561 shares, £0.7m). The Group paid £0.1m (2019: £0.3m) to the Share Incentive Plan during the year for the purchase of matching shares and free shares in the scheme. The total cost of acquiring own shares of £0.1m (2019: £1.0m) has been deducted from retained earnings within Shareholders' equity.

As at 30 September 2020, share capital included 976,381 (2019: 1,086,259) shares held by The Grainger Employee Benefit Trust and 1,506,300 (2019: 1,506,300) shares held by Grainger plc as treasury shares. The total of these shares is 2,482,681 (2019: 2,592,559) with a nominal value of £124,134 (2019: £129,628) and a market value as at 30 September 2020 of £7.4m (2019: £6.4m).

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

	Number	Nominal value £'000
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
Issue of shares under the equity raise	61,200,000	3,060
Options exercised under the SAYE scheme (Note 30)	296,115	15
At 30 September 2020	675,284,566	33,764

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

Award date	LTIP		DBSP	DBP	EDBP	SAYE	
	1 February 2020 Market-based	5 February 2020 Non-market-based	1 December 2019 Market-based	1 December 2019 Non-market-based	17 December 2019	1 July 2020 3-year scheme	1 July 2019 5-year scheme
Number of shares on grant	372,784	372,783	53,359	26,058	89,330	180,790	104,559
Exercise price (£)	-	-	-	-	-	2.45	2.45
Vesting period from date of grant (years)	3	3	3	1-3	1-5	3	5
Exercise period after vesting (years)	7	7	3	3	3	-	-
Share price at grant (£)	3.09	3.09	2.81	2.80	2.80	2.86	2.86
Expected risk free rate (%)	0.4	0.4	N/A	N/A	N/A	(0.1)	(0.1)
Expected dividend yield (%)	N/A	N/A	1.9	1.9	1.9	1.9	1.9
Expected volatility (%)	22.2	22.2	N/A	N/A	N/A	21.4	23.1
Fair value (£)	1.61	3.09	2.81	2.80	2.80	0.51	0.59

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

The share-based payments charge recognised in the consolidated income statement is £1.1m (2019: £1.7m).

(a) LTIP scheme

For the awards granted in February 2020, 50% 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, 25% are subject to annual growth in Total Property Return measured over three years from the date of grant, and the final 25% are subject to achieving Secured PRS Investment targets measured over three years from the date of grant.

For previous grants, 50% of the awards are subject to an absolute total shareholder return performance condition and 50% are subject to annual growth in Total Property Return, both measured over three years from the date of grant.

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

Awards	Opening balance	Awards granted	Awards vested	Awards lapsed	Closing balance
LTIP					
8 February 2017	614,733	-	(220,074)	(394,659)	-
11 December 2017	560,789	-	-	-	560,789
12 December 2018	779,989	-	-	-	779,989
26 September 2018	66,598	-	-	-	66,598
6 February 2020	-	745,567	-	-	745,567
Total	2,022,109	745,567	(220,074)	(394,659)	2,152,943

30. Share-based payments continued**(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	Awards granted	Awards vested	Awards lapsed	Closing balance
DBSP					
1 December 2017	93,327	-	-	-	93,327
12 December 2018	112,439	-	-	-	112,439
1 December 2019	-	53,359	-	-	53,359
DBP					
11 January 2017	28,771	-	(28,293)	(478)	-
21 December 2017	39,309	-	(3,826)	(2,343)	33,140
17 December 2018	38,834	-	(3,514)	-	35,320
17 December 2019	-	26,058	-	-	26,058
EDBP					
16 December 2014	59,100	-	(50,639)	(8,461)	-
12 January 2016	40,736	-	-	-	40,736
11 January 2017	60,020	-	-	-	60,020
21 December 2017	36,826	-	-	-	36,826
17 December 2018	86,582	-	-	-	86,582
17 December 2019	-	89,330	-	(7,146)	82,184
Total	595,944	168,747	(86,272)	(18,428)	659,991

(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 2020, 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	Awards granted	Awards exercised	Awards lapsed/ cancelled	Closing balance
SAYE							
2014A	156.4	2017-20	2,876	-	(2,876)	-	-
2014B	136.7	2018-20	154,230	-	(154,230)	-	-
2015	156.6	2018-21	26,621	-	(20,875)	-	5,746
2016	150.7	2019-22	80,191	-	(20,294)	-	59,897
2017	189.9	2020-23	169,338	-	(97,840)	(18,000)	53,498
2018	228.6	2021-24	72,512	-	-	(10,150)	62,362
2019	193.0	2022-25	351,813	-	-	(15,851)	335,962
2020	245.0	2023-26	-	285,349	-	(10,284)	275,065
			857,581	285,349	(296,115)	(54,285)	792,530
Weighted average exercise price (pence per share)			180.1	245.0	156.8	208.5	210.2

¹ Exercise prices have been adjusted to reflect the impact of the rights issue (Note 29).

For those share options exercised during the year, the weighted average share price at the date of exercise was 302.4p (2019: 247.8p). For share options outstanding at the end of the year, the weighted average remaining contractual life was 2.3 years (2019: 1.9 years). There were 21,186 (2019: 21,380) share options exercisable at the year end with a weighted average exercise price of 180.9p (2019: 151.5p).

(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 107. 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 in the prior year, 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 2020 is a balance of £7.8m (2019: £7.8m) relating to treasury shares bought back and cancelled.

Investment in own shares

Included within retained earnings at 30 September 2020 is a balance of £3.3m (2019: £6.2m) 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 2020 is set out in the notes to the parent company financial statements on pages 156 to 159.

34. Related party transactions

During the year ended 30 September 2020, 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	2020		2019	
	Fees recognised	Year end balance	Fees recognised	Year end balance
GRIP REIT PLC ¹	-	-	840	-
Connected Living London (BTR) Limited	736	557	-	-
Lewisham Grainger Holdings LLP	270	611	341	341
Vesta LP	184	139	803	126
	1,190	1,307	1,984	467

	2020			2019		
	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	-	-
CCZ a.s.	-	-	-	(6)	(0.4)	4.00
Curzon Park Limited ²	-	17.0	Nil	-	16.2	Nil
Lewisham Grainger Holdings LLP	-	2.3	Nil	-	1.7	Nil
Vesta LP	-	14.6	Nil	-	11.7	Nil
	-	33.9		118	29.2	

1 Following the acquisition in the prior year, 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 prior year.

Details of the Group's other related parties are provided in Note 10 in relation to key management compensation and Note 28 in relation to the Group's retirement benefit pension scheme.

35. 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. The net present value of the lease liabilities is recorded in the consolidated statement of financial position within trade and other payables. The leased office space is included in the consolidated statement of financial position as a right-of-use asset in property, plant and equipment and depreciated over the life 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:

	2020 £m	2019 £m
Operating lease payments due:		
Not later than one year	14.5	13.3
Later than one year and not later than five years	28.1	27.9
Later than five years	78.0	73.1
	120.6	114.3

There are no contingent rents recognised within net rental income in 2020 or 2019 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:

	2020 £m	2019 £m
Operating lease payments due:		
Not later than one year	0.9	1.0
Later than one year and not later than five years	1.3	2.4
Later than five years	-	-
	2.2	3.4

Leases relating to office space used by the Group have initial terms of varying lengths, between one and ten years. On 1 October 2019, the Group recognised office lease liabilities of £3.2m upon adoption of IFRS 16 Leases. The Group also recognised property, plant and equipment of £2.2m, with an adjustment to retained earnings on transition.

Rent reviews generally take place every five years.

36. Contingent liabilities

Properties in certain subsidiary companies form a 'guarantee group' with a market value of £1,439.7m 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 2020, total guarantees amounted to £5.2m (2019: £3.6m).

37. Capital commitments

The Group has current commitments under a number of its PRS projects. The Group's commitments, including its relevant share of commitments to joint ventures and associates, are as follows:

	2020 £m	2019 £m
Wholly-owned Group subsidiaries	797.1	731.8
Associates:		
Vesta LP	0.2	3.5
	797.3	735.3

38. Business combinations in the prior year

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.

FINANCIAL STATEMENTS
PARENT COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER

	Notes	2020 £m	2019 £m
Fixed assets			
Investments	2	1,178.1	661.8
Current assets			
Trade and other receivables	3	587.8	445.0
Cash at bank and in hand		181.4	96.6
		769.2	541.6
Creditors: amounts falling due within one year	4	(8.8)	(16.0)
Net current assets		760.4	525.6
Total assets less current liabilities		1,938.5	1,187.4
Creditors: amounts falling due after more than one year			
Interest-bearing loans and borrowings	5	(831.6)	(485.5)
NET ASSETS		1,106.9	701.9
Capital and reserves			
Issued share capital	6	33.8	30.7
Share premium account		616.3	436.5
Capital redemption reserve		0.3	0.3
Retained earnings		456.5	234.4
TOTAL EQUITY		1,106.9	701.9

The financial statements on pages 151 to 159 were approved by the Board of Directors on 18 November 2020 and were signed on their behalf by:

Helen Gordon
Director

Vanessa Simms
Director

FINANCIAL STATEMENTS
PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

	Issued share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance as at 1 October 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
Profit for the year	-	-	-	254.6	254.6
Issue of share capital	3.1	179.4	-	-	182.5
Award of SAYE shares	-	0.4	-	-	0.4
Purchase of own shares	-	-	-	(0.1)	(0.1)
Share-based payments charge	-	-	-	1.1	1.1
Dividends paid	-	-	-	(33.5)	(33.5)
Balance as at 30 September 2020	33.8	616.3	0.3	456.5	1,106.9

FINANCIAL STATEMENTS

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1. Company accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). The financial statements have been prepared on a going concern basis under the historical cost convention, in accordance with the Companies Act 2006.

The application of FRS 101 has enabled the Company to take advantage of certain disclosure exemptions that would have been required had the Company adopted International Financial Reporting Standards in full. The exemptions that have been applied in the preparation of these financial statements are as follows:

- A cash flow statement and related notes have not been presented.
- Disclosures in respect of new standards and interpretations that have been issued but which are not yet effective have not been provided.
- Disclosures in respect of transactions with wholly-owned subsidiaries have not been made.
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instruments: Disclosures have not been made.

The Company has taken the exemption allowed under Section 408 of the Companies Act 2006 from the requirement to present its own profit and loss account. The profit for the year was £254.6m (2019: loss of £76.1m). 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. The net recoverable amount is determined by the statutory net assets of the subsidiary, adjusted for fair value movements relating to trading property which is held at cost, as well as an associated deferred tax charge on the fair value adjustments. This approach provides the most relevant indication of the net recoverable amount of a subsidiary as it provides a fair value net asset position as at the date of assessment. To the extent that the assessment of the recoverable amount improves due to changes in economic conditions or estimates, 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.

FINANCIAL STATEMENTS
NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

2. Investments

	2020 £m	2019 £m
Cost of investment		
At 1 October	919.6	917.9
Additions	330.4	1.7
At 30 September	1,250.0	919.6
Impairment		
At 1 October	257.8	71.8
Additional provisions	0.4	186.2
Reversal of impairment provisions	(186.3)	(0.2)
At 30 September	71.9	257.8
Net carrying value	1,178.1	661.8

The Directors believe that the carrying value of the investments is supported by their underlying net assets. After an assessment of net recoverable value a net impairment reversal of £185.9m (2019: impairment of £186.0m) has been made. The impairment reversal in the current year reflects a change to the estimate used in the prior year in relation to internal property restructuring activities. 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 156 to 159.

3. Trade and other receivables

	2020 £m	2019 £m
Amounts owed by Group undertakings	587.8	445.0
	587.8	445.0

Amounts due in both 2020 and 2019 are all due within one year.

4. Creditors: amounts falling due within one year

	2020 £m	2019 £m
Amounts owed to Group undertakings	-	9.8
Tax and social security costs	0.9	0.8
Accruals and deferred income	7.9	5.4
	8.8	16.0

Amounts owed to Group undertakings are unsecured, bear no interest, and are repayable on demand.

5. Interest-bearing loans and borrowings

	2020 £m	2019 £m
Variable rate – loans	140.0	140.0
Unamortised issue costs	(1.0)	(0.9)
	139.0	139.1
Corporate bonds	700.0	350.0
Unamortised issue costs	(4.5)	(2.4)
	695.5	347.6
Unamortised bond discount	(2.9)	(1.2)
Total interest-bearing loans and borrowings	831.6	485.5

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% (2019: Between 1.6% and 1.8%) over LIBOR.

During the year the Group issued a new ten-year £350.0m corporate bond at 3.0% due July 2030. In 2018, the Group issued a ten-year £350.0m corporate bond at 3.375% due April 2028.

As at 30 September 2020 unamortised costs in relation to the corporate bonds stood at £4.5m (2019: £2.4m), and the outstanding discount was £2.9m (2019: £1.2m).

6. Issued share capital

	2020 £m	2019 £m
Allotted, called-up and fully paid:		
675,284,566 (2019: 613,788,451) ordinary shares of 5p each	33.8	30.7

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 144.

Details of share options and awards granted by the Company are provided in Note 30 to the Group financial statements on pages 145 to 147 and discussed within the Remuneration Committee's report on pages 74 to 92.

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 distributable reserves of £381.8m to support this policy. Information on dividends paid and declared is given in Note 14 to the Group financial statements on page 125.

Subject to approval at the AGM, the final dividend of 3.64p per share (gross) amounting to £24.5m will be paid on 15 February 2021 to Shareholders on the register at the close of business on 29 December 2020. Shareholders will again be offered the option to participate in a dividend reinvestment plan and the last day for election is 25 January 2021. An interim dividend of 1.83p per share amounting to a total of £12.3m was paid to Shareholders on 3 July 2020.

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.

FINANCIAL STATEMENTS
NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

8. List of subsidiaries, associates and joint ventures

A full list of the Group's subsidiaries as at 30 September 2020 is set out below:

Company	% effective holding	Direct/ Indirect	Registered office
19 Ifield Road Management Limited ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
36 Finborough Road Management Limited ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
45 Ifield Road Management Limited ³	67%	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 ^{1,3}	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Brierley Green Management Company Limited ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Bromley No.1 Holdings Limited ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Bromley No 1 Limited ³	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 ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Chrisdell Limited ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
City North 5 Limited ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
City North Group Limited ³	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
City North Properties Limited ³	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
Crofton Estate Management Company Limited ³	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
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 ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Faside Estates Limited ³	100%	Indirect	Broxden House, Lamberkine Drive, Perth, PH1 1RA
Frincon Holdings 1986 Limited ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Frincon Holdings Limited ³	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 ³	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 ³	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 ³	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 ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Enfranchisement No. 2 (2012) Limited ³	100%	Indirect	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 ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger FRM GmbH	100%	Indirect	Eschersheimer Landstraße 14, 60322 Frankfurt am Main

Company	% effective holding	Direct/Indirect	Registered office
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 ³	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 OCC 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	Eschersheimer Landstraße 14, 60322 Frankfurt am Main
Grainger Properties Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Property Services Limited ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger PRS Limited ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger RAMP Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Real Estate Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger REIT 1 Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger REIT 2 Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger REIT 3 Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Residential Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Residential Management Limited	100%	Direct	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 ³	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
G:Res-Co 4 Limited ²	100%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Jersey Property Holdings (2016) Limited ²	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 ²	100%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Unit Trust 1 ²	100%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Unit Trust 2 ²	100%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Unit Trust 6 ²	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 ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Infrastructure Investors Defence Housing (Bristol) Limited ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Ingleby Court Management Limited ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE

FINANCIAL STATEMENTS

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

CONTINUED

Company	% effective holding	Direct/Indirect	Registered office
Jesmond Place Management Limited ³	70%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Kew Bridge Court Guernsey Limited ²	100%	Indirect	1st and 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey, GY1 1EW
Kings Dock Mill (Liverpool) Management Company Limited ^{1,3}	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Langwood Properties Limited ³	100%	Indirect	Broxden House, Lamberkine Drive, Perth, PH1 1RA
Macaulay & Porteus Management Company Limited ^{1,3}	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Manor Court (Solihull) Management Limited ³	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 ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
N & D London Investments ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
N & D London Limited ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
N & D Properties (Midlands) Limited ³	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 ³	69%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Park Developments (Liverpool) Limited ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Park Estates (Liverpool) Limited ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Park Estates Investments (Liverpool) Limited ³	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
Residential Leases Limited ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Residential Tenancies Limited ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Rotation Finance Limited ³	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Suburban Homes Limited ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
The Bradford Property Trust Limited ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
The Grainger Residential Property Unit Trust ²	100%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
The Owners of the Middlesbrough Estate Limited ³	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
Victoria Court (Southport) Limited ³	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Wansbeck Lodge Management Limited ³	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 ³	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

A full list of the Group's associates as at 30 September 2020 is set out below:

Company	% effective holding	Direct/Indirect	Registered office
86 Holland Park Freehold Limited	33%	Indirect	17 Kensington Place, London, W8 7PT
Dorchester Court (Staines) Residents Association Limited	6%	Indirect	1a Dorchester Court, Greenlands Road, Staines, TW18 4LS
Mariners Park Estate South Management Company Limited ³	8%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Redoubt Close Management Limited	3%	Indirect	Portmill House, Portmill Lane, Hitchin, SG5 1DJ
Sixty-Two Stanhope Gardens Limited ³	20%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Stagestar Limited	25%	Indirect	31 Radipole Road, Parsons Green, Fulham, London, SW6 5DN
Vesta (General Partner) Limited ³	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 Management Company (Whitefield) Limited	2%	Indirect	Alpha House, 4 Greek Street, Stockport, Cheshire, SK3 8AB

A full list of the Group's joint ventures as at 30 September 2020 is set out below:

Company	% effective holding	Direct/Indirect	Registered office
1 Ifield Road Management Limited ³	50%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
16 Castlebar Road Management Company Limited ³	50%	Indirect	16a Castlebar Road, London, W5 2DP
31-37 Disbrowe Road Freehold Company Limited ³	50%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
174 Bishops Road Limited ^{1,3}	50%	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 ³	50%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
CCZ a.s. ²	50%	Indirect	Věžeňská 116/5, PSČ 110 00, Prague, Czech Republic
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 ³	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
Curzon Park Limited	50%	Indirect	7a Howick Place, London, SW1P 1DZ
Helical Grainger (Holdings) Limited	50%	Indirect	5 Hanover Square, London, W1S 1HQ
King Street Developments (Hammersmith) Limited ²	50%	Indirect	Devonshire House, 60 Goswell Road, London, EC1M 7AD
Lewisham Grainger Holdings Limited Liability Partnership ³	50%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Sandown (Whitley Bay) Management Limited ³	51%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Wellesley Residents Trust Limited ^{1,3}	50%	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 In liquidation.

3 Company is non-active.

FINANCIAL STATEMENTS

EPRA PERFORMANCE MEASURES (UNAUDITED)

1. Introduction

The European Public Real Estate Association (EPRA) is the body that represents Europe's listed property companies. The association sets out guidelines and recommendations to facilitate consistency in listed real estate reporting, in turn allowing stakeholders to compare companies on a like-for-like basis. As a member of EPRA, the Group is supportive of EPRA's initiatives and discloses measures in relation to the EPRA Best Practices Recommendations ('EPRA BPR') guidelines. The most recent guidelines, updated in October 2019, have been adopted by the Group.

The EPRA performance measures and definitions 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 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.
3) EPRA NTA	EPRA NRV adjusted to include deferred tax on assets that may be sold by the business and exclude intangible assets.
4) EPRA NDV	EPRA NRV adjusted to include the fair values of i) financial instruments, ii) debt and iii) deferred taxes. EPRA NDV excludes 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 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.

Summary

	2020	2019
Adjusted EPRA Earnings	£26.1m	£28.8m
Adjusted EPRA Earnings per share	3.2p	4.1p
EPRA NRV	£2,052.8m	£1,820.9m
EPRA NRV per share	304p	297p
EPRA NTA	£1,921.1m	£1,708.1m
EPRA NTA per share	285p	278p
EPRA NDV	£1,862.5m	£1,665.7m
EPRA NDV per share	276p	272p
EPRA Net Initial Yield (NIY)	2.9%	2.8%
Adjusted EPRA NIY	4.0%	4.0%
EPRA Vacancy Rate	4.0%	2.6%
Adjusted EPRA Cost Ratio (including direct vacancy costs)	29.1%	29.9%
Adjusted EPRA Cost Ratio (excluding direct vacancy costs)	27.8%	28.5%

2. EPRA Earnings

	2020			2019		
	Earnings £m	Shares millions	Pence per share	Earnings £m	Shares millions	Pence per share
Earnings per IFRS income statement	110.8	651.7	17.0	131.3	581.2	22.6
Adjustments to calculate EPRA Earnings, exclude:						
i) Changes in value of investment properties, development properties held for investment and other interests	(29.9)	-	(4.6)	(56.2)	-	(9.7)
ii) Profits or losses on disposal of investment properties, development properties held for investment and other interests	(2.3)	-	(0.4)	(1.9)	-	(0.3)
iii) Profits or losses on sales of trading properties including impairment charges in respect of trading properties	(53.0)	-	(8.1)	(52.1)	-	(9.0)
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	1.9	-	0.3	0.8	-	0.1
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	(0.2)	-	-	(9.6)	-	(1.6)
x) Non-controlling interests in respect of the above	-	-	-	-	-	-
xi) Other adjustments in respect of adjusted earnings	(1.2)	-	(0.2)	-	-	-
Adjusted EPRA Earnings/Earnings per share	26.1	651.7	4.0	28.8	581.2	5.0
Adjusted EPRA Earnings per share after tax			3.2			4.1

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. Adjusted EPRA Earnings per share after tax is calculated using the standard rate of UK Corporation Tax of 19.0% (2019: 19.0%).

FINANCIAL STATEMENTS
EPRA PERFORMANCE MEASURES (UNAUDITED)
CONTINUED

3. EPRA NRV, EPRA NTA and EPRA NDV

	2020			2019		
	EPRA NRV £m	EPRA NTA £m	EPRA NDV £m	EPRA NRV £m	EPRA NTA £m	EPRA NDV £m
IFRS Equity attributable to shareholders	1,463.0	1,463.0	1,463.0	1,223.5	1,223.5	1,223.5
Include/Exclude:						
i) Hybrid Instruments	-	-	-	-	-	-
Diluted NAV	1,463.0	1,463.0	1,463.0	1,223.5	1,223.5	1,223.5
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	7.4	7.4	7.4	6.5	6.5	6.5
iii) Revaluation of tenant leases held as finance leases	-	-	-	-	-	-
iv) Revaluation of trading properties	541.3	432.1	432.1	557.1	455.5	455.5
Diluted NAV at Fair Value	2,011.7	1,902.5	1,902.5	1,787.1	1,685.5	1,685.5
Exclude:						
v) Deferred tax in relation to fair value gains of IP	24.4	24.4	-	19.4	19.4	-
vi) Fair value of financial instruments	16.7	16.7	-	14.4	14.4	-
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	-	(22.0)	-	-	(10.7)	-
Include:						
ix) Fair value of fixed interest rate debt	-	-	(39.5)	-	-	(19.3)
x) Revalue of intangibles to fair value	-	-	-	-	-	-
xi) Real estate transfer tax	-	-	-	-	-	-
NAV	2,052.8	1,921.1	1,862.5	1,820.9	1,708.1	1,665.7
Fully diluted number of shares	675.3	675.3	675.3	613.8	613.8	613.8
NAV pence per share	304	285	276	297	278	272

4. EPRA NIY

		2020 £m	2019 £m
Investment property – wholly-owned		1,778.9	1,574.6
Investment property – share of JVs/Funds		23.3	13.5
Trading property (including share of JVs)		1,190.8	1,248.8
Less: developments		(490.4)	(293.7)
Completed property portfolio		2,502.6	2,543.2
Allowance for estimated purchasers' costs		-	-
Gross up completed property portfolio valuation	B	2,502.6	2,543.2
Annualised cash passing rental income		97.0	96.0
Property outgoings		(25.2)	(24.0)
Annualised net rents	A	71.8	72.0
EPRA NIY	A/B	2.9%	2.8%
Gross up completed property portfolio valuation		2,502.6	2,543.2
Adjustments to completed property portfolio in respect of regulated tenancies		(967.3)	(1,017.3)
Adjusted gross up completed property portfolio valuation	b	1,535.3	1,525.9
Annualised net rents		71.8	72.0
Adjustments to annualised cash passing rental income in respect of newly completed developments and refurbishment activity		11.7	11.8
Adjustments to property outgoings in respect of newly completed developments and refurbishment activity		(3.2)	(3.2)
Adjustments to annualised cash passing rental income in respect of regulated tenancies		(24.5)	(26.6)
Adjustments to property outgoings in respect of regulated tenancies		6.0	6.4
Adjusted annualised net rents	a	61.8	60.4
Adjusted EPRA NIY	a/b	4.0%	4.0%

5. EPRA Cost Ratio

		2020 £m	2019 £m
Administrative expenses		28.7	28.0
Property operating expenses		25.7	22.4
Share of joint ventures expenses		0.7	0.8
Management fees		(7.5)	(4.4)
Other operating income/recharges intended to cover overhead expenses		-	-
Exclude:			
Investment property depreciation		-	-
Ground rent costs		(0.3)	(0.2)
EPRA Costs (including direct vacancy costs)	A	47.3	46.6
Direct vacancy costs		(2.1)	(2.1)
EPRA Costs (excluding direct vacancy costs)	B	45.2	44.5
Gross rental income		99.3	85.9
Less: ground rent income		(0.6)	(0.4)
Add: share of joint ventures (gross rental income less ground rents)		-	1.9
Add: adjustment in respect of profits or losses on sales of properties		63.9	68.5
Gross Rental Income and Trading Profits	C	162.6	155.9
Adjusted EPRA Cost Ratio (including direct vacancy costs)	A/C	29.1%	29.9%
Adjusted EPRA Cost Ratio (excluding direct vacancy costs)	B/C	27.8%	28.5%

FINANCIAL STATEMENTS
FIVE YEAR RECORD

FOR THE YEAR ENDED 30 SEPTEMBER 2020

	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m
Group revenue	219.9	264.7	270.7	222.8	214.0
Gross proceeds from property sales	164.8	214.5	209.5	193.1	144.1
Gross rental income	51.9	54.6	59.2	85.9	99.3
Net rental income	37.4	40.4	43.8	63.5	73.6
Gross fee income	5.9	5.1	6.5	3.8	2.2
Adjusted earnings	53.1	74.4	94.0	82.5	81.8
Operating profit	88.7	98.5	116.5	112.6	116.5
Profit before tax	84.2	86.3	100.7	131.3	110.8
Profit after tax	74.5	73.5	87.4	114.9	92.8
Dividends paid	14.7	19.3	20.8	25.2	33.5
	Pence	Pence	Pence	Pence	Pence
Basic earnings per share	16.2	16.0	19.0	19.9	14.3
Dividends per share	4.1	4.4	4.8	5.2	5.5
	Pence	Pence	Pence	Pence	Pence
EPRA NRV per share	298.0	309.7	314.4	296.7	304.0
EPRA NTA per share	257.2	271.2	283.2	278.3	284.5
EPRA NDV per share	259.0	273.7	285.5	271.4	275.8
Share price at 30 September	207.8	242.4	271.1	246.0	297.2
	%	%	%	%	%
Return on Capital Employed ('ROCE')	8.4	5.2	5.3	3.8	4.5
Total Accounting Return – NDV basis ('ROSE')	10.6	7.3	6.1	4.4	3.9
Total Accounting Return – NTA basis	6.4	6.0	3.9	3.7	3.6
Total Property Return ('TPR')	9.5	6.7	6.0	5.0	5.4

FINANCIAL STATEMENTS
ALTERNATIVE PERFORMANCE MEASURES
 FOR THE YEAR ENDED 30 SEPTEMBER 2020

Performance measure	Definition		
Loan to Value ('LTV')	Ratio of net debt to the market value of properties and property related assets.		
		2020	2019
		£m	£m
Gross debt		1,391.9	1,276.8
Cash (excluding client cash) (Note 27)		(359.8)	(179.3)
Net debt		1,032.1	1,097.5
Market value of properties		2,969.7	2,823.4
Other property related assets		121.4	138.0
Total market value of properties and property related assets		3,091.1	2,961.4
LTV		33.4%	37.1%

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 opening gross asset value.

	2020	2019
	£m	£m
Net rental income	73.6	63.5
Profit on disposal of trading property	61.6	66.6
Previously recognised profit through EPRA market value measures	(53.4)	(51.8)
Profit on disposal of investment property	2.3	1.9
Income from financial interest in property assets	5.2	4.2
Net valuation gains on investment property	29.8	57.5
Net valuation gains on trading property	37.3	(9.9)
Property return	156.4	132.0
Investment property – opening balance	1,574.6	1,131.1
Financial interest in property assets – opening balance	76.4	82.2
Inventories – trading property – opening balance	1,248.8	1,406.4
Total opening gross assets	2,899.8	2,619.7
TPR	5.4%	5.0%

OTHER INFORMATION

SHAREHOLDERS' INFORMATION

Financial calendar

AGM	10 February 2021
Payment of 2020 final dividend	15 February 2021
Announcement of 2021 interim results	13 May 2021
Announcement of 2021 final results	18 November 2021

Share price

During the year ended 30 September 2020, the range of the closing mid-market prices of the Company's ordinary shares were:

Price at 30 September 2020	297.2p
Lowest price during the year	207.4p
Highest price during the year	338.0p

Daily information on the Company's share price can be obtained on our website www.graingerplc.co.uk or by telephone from FT Cityline on 09058 171 690. Please note that FT Cityline is a chargeable service.

Capital gains tax

The market value of the Company's shares for capital gains tax purposes at 31 March 1982 was 2.03p.

Website

Website address www.graingerplc.co.uk

Shareholders' enquiries

All administrative enquiries relating to shareholdings (for example, notification of change of address, loss of share certificates, dividend payments) should be addressed to the Company's registrar at:

Link Group
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

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**

OTHER INFORMATION

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 160 to 163.

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.

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 ratio ('ICR')

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. This is the primary gearing metric for the Group.

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 / 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 opening 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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Clearing Bank and Facility Agent
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HSBC UK Bank PLC

Other bankers

Aareal Bank AG
AIB Group (UK) PLC
Handelsbanken PLC
HSBC Bank PLC
Lloyds Bank Corporate Markets PLC
National Westminster Bank PLC
Natwest Markets PLC
Santander UK PLC
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E14 5JP

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