Investing in homes since 1912

grainger plc

Annual Report and Accounts 2012

grainger = residential

Our business is to provide investors with a range of returns from the residential sector. Our wholly-owned portfolio and assets under management provide balanced income streams from Sales, Rents and Fees.

With over 100 years experience Grainger is uniquely placed to take a leading role in, and benefit from, shifts in the residential property market.

All of our activities are underpinned by our core skills in property and asset management and by long-term relationships with our partners.

grainger = residential

100 Years...
and counting

Centenary
Grainger was founded in Newcastle upon Tyne on 27 November 1912. This year we celebrated our centenary and laid the foundations for our second century.

Read more on page 06

More information

This report and other information can be found online including:

- Corporate responsibility site and reports
- Centenary information and reports
- Grainger research and reports
- Investor information and downloads

www.graingerplc.co.uk

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Our report in brief

Our business model

Our business model is dedicated to ensuring Grainger is the first port of call for residential investment. Our expertise and the scale of our assets and operations enable us to generate sustainable income streams from three sources:

Sales
+
Rents
+
Fees

Read more on pages 8 and 9

Who we are:

Grainger is the UK's largest specialist listed residential landlord and property manager. We own £2.23bn of residential property of which 84% is located in the UK and the balance in Germany. We manage 18,500 properties in the UK and 6,500 in Germany.

Grainger was founded in Newcastle-upon-Tyne in 1912 and we have sought to be at the forefront of the residential property market ever since. In our centenary year we have continued to drive standards and lay the foundations for the future.

Read more on page 10

Our strategy:

Our strategy remains focused on the residential space. We aim to deliver value to shareholders by focusing on four key objectives:

1. **Maintaining our leading position in residential property**
2. **Locating our assets in areas of higher economic activity**
3. **Increasing the proportion of non-trading income**
4. **Reducing our financial and operational gearing**

Read more on pages 18 and 19

Our strategy in action:

Delivering results across our markets.

1.

Repeated contributions to the development of the residential market

2.

62% of the UK portfolio is in London and the South East

3.

Rents: Innovative transactions to increase exposure to the rental market such as 'Build to Rent' and 'Registered Provider' provision

Fees: Continuing demand for our operational expertise from new high quality partners

4.

Reduction in financial gearing and a more efficient cost base in light of a reduction in owned assets and an increase in assets under management

Read more on pages 18 and 19

Strategic outcomes:

Delivering results for Grainger.

1.

New opportunities presented to us because of our leading position

2.

Outperformance of market indices in valuation and sales

3.

Rents: HI Tricomm, Royal Borough of Kensington & Chelsea and For Profit Registered Provider of social housing

Fees: Income up by 45% to £10m

4.

Debt reduced by £260m and we are targeting a fall to £1bn by the end of 2013. LTV reduced to 55% and we are targeting a fall to approximately 50% by the end of 2013. Cost reduction of 5% on a run rate basis anticipated by the end of 2013

Read more on pages 18 and 19

Our financial performance:

Operating profit has been maintained; Net Asset values have risen; Dividend has increased; Net debt has reduced; Result before tax (after a non-cash derivative charge) is reduced.

Measure	2012	Change	Prior year
Operating profit (OPBVM)*	£126.4m	+0.2%	2011: £126.2m
Gross NAV per share	223p	+3.2%	2011: 216p
NNNAV per share	157p	+2.5%	2011: 153p
Dividend per share	1.92p	+4.9%	2011: 1.83p
Net debt	£1,194m	-18.0%	2011: £1,454m
(Loss)/profit before tax	£(1.7)m	-106.5%	2011: £26.1m

* Operating profit before valuation movements and non-recurring items

Read more on pages 30 to 35

Chairman's statement

In our centenary year we have both looked back and prepared for our second century. However our focus remains firmly on delivering shareholder returns. This year we have grown our net assets and maintained operating profit, whilst reducing debt.

Robin Broadhurst
Chairman

Grainger remains uniquely placed to take a leading role in, and to benefit from, opportunities arising in all parts of the residential property market using our core skills in property and asset management. The recently published Montague Review, the Government commissioned 'Review of the barriers to institutional investment in private rented homes' reiterates the requirement for more homes and a diverse range of tenure types in the UK. This has been reinforced by recent Government announcements and, while the report's recommendations will take time to translate into reality, it demonstrates the major opportunities that are available to us.

Grainger is at the forefront of these changes and we are reshaping the business to reflect long-term changes in the market. We have rebalanced the portfolio to have greater weight in economically strong areas and this, together with our active management, has enabled us to build a track record of out-performance against the market. Over a period of time we will increase our exposure to rental property through our Build to Rent and affordable housing initiatives. We are also taking advantage of our strong operating platform to build strategic alliances with excellent partners, the latest being our joint venture with Heitman in Germany in which we will hold a 25% equity stake.

Results

Operating profit before valuation movements and non-recurring items to 30 September 2012 has marginally improved to £126.4m (2011: £126.2m). Recurring profit before tax was £34.6m (2011: £48.3m). We incurred a loss before tax of £1.7m (2011: £26.1m profit) which is after a charge of £31.2m (2011: £28.0m) relating to mark to market movements on our interest rate derivatives. Net debt fell by £260m to £1,194m from £1,454m. Gross net asset value (NAV) increased by over 3% to 223p per share (2011: 216p per share).

Dividends

The directors have recommended a final dividend of 1.37p per ordinary share (2011: 1.30p). The total dividend for the year will therefore be 1.92p per ordinary share (2011: 1.83p), an increase of 4.9%, following the interim dividend of 0.55p per ordinary share (2011: 0.53p equivalent by way of a tender offer). Before the effect of charges for the change in the mark to market of derivatives (which is a non-cash item) the dividend is covered 3.2 times.

Board changes

Robert Hiscox retired from the board at the Annual General Meeting (AGM) on 8 February 2012 and I would like to take this opportunity to thank him for his significant contribution over the years. Tony Wray, Chief Executive of Severn Trent plc was appointed to the board on 24 October 2011 and we have already benefitted from his considerable operational and corporate knowledge and experience during the course of the year. Henry Pitman will retire from the board at the next AGM on 6 February 2013. Henry has been a director since May 2007 and we thank him for his invaluable advice and contribution to the business over that period.

I am pleased to announce the appointment of Simon Davies as a non-executive director (subject to

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Sales

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Fees

normal FSA confirmations) Simon retired from the role of Executive Chairman at Threadneedle earlier this year after five years in the position, having previously been Chief Executive (1999-2007) and Chief Investment Officer (1995-1998). His long and wide experience in the financial sector and within wider industry will be a valuable supplement to our board.

Outlook

The major housing market indices show that UK national house prices have declined slightly over the last 12 months and liquidity and transaction volumes remain low. The UK economy is likely to remain fragile in the short to medium-term, exacerbated by the continuing lack of resolution of the issues around the Euro. We anticipate that these subdued market conditions will persist through 2013.

Against this background however, through strategic acquisitions and disposals, we have successfully repositioned Grainger to be more focused on geographic locations where economic activity is more robust and on activities less reliant on trading Grainger assets which has continued to show benefits. At 30 September 2012, 62% of the UK portfolio was located in London and the South East (September 2009: 54%). In Germany, 82% (September 2011: 81%) of our properties lie in four of the more affluent areas of the country: Baden-Württemberg, Hesse, North Rhine-Westphalia and Bavaria.

As a result of the specialist nature of our UK properties (predominantly second-hand, low average value and un-refurbished) along with our active value-added management, we continue to outperform general UK house price indices. We are maintaining both sales velocity and prices, achieving good rental growth and growing our fee income.

Strategy and Financial Position

As we have stated previously, our two key strategic objectives for 2012 have been firstly to increase the proportion of profit generated from rents and fees and secondly to reduce our overall net debt within the business. We have made good progress in both regards. In the 12 months ended 30 September 2012 the proportion of operating profit composed of rents and fees was 48.4% (2011: 46.1%). Our fee income has increased from £6.9m to £10.0m, up 45% in the year.

This focus on the composition of profit will be maintained in 2013 as we continue to build sustainable sources of income and further strengthen and diversify the company's platform.

Group net debt fell by £260m to £1.19bn from the September 2011 position of £1.45bn. This includes the effect of the transfer of a proportion of our German assets into the joint venture with Heitman announced recently. On this basis, since March 2011, we have reduced net debt by £376m whilst increasing gross net asset value by £54m. This degearing has therefore been performed without any overall loss of value as our gross net asset value has improved by 6.2% over that 18 month period.

We have now set ourselves the target of reducing group debt to below £1bn by the end of 2013. Assuming no changes to valuation this would result in a consolidated loan to value approaching 50% from its September 2012 level of 55% (September 2011: 61%).

In conjunction with this financial de-gearing we have also set ourselves the goal of reducing our cost run rate by at least 5% by the end of 2013.

The actions we have taken in 2012 and those we anticipate taking in 2013 has given us the confidence to increase our dividend by 5% until we reach a target net debt of £1bn, at which point we will reappraise the policy.

By changing the profiles of our asset base and income streams and by reducing gearing, we have been repositioning our business for the future. We will retain this focus which will enable the group to take advantage of opportunities as they arise.

As we close our centenary year we continue to evolve our brand and maintain our reputation as a professional and caring landlord. To have reached 100 years as a company is a tremendous achievement and this is thanks to the enthusiasm, skill and commitment of all our staff over the years. I would like to extend my continuing thanks to them all.

Robin Broadhurst
Chairman
6 December 2012

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grainger =
100 years in property

Centenary video launched

We explored Grainger's history, the range of activities we undertake and talked to our customers.

NOV 2011

Public attitudes survey

We interviewed 2,200 people in the UK's most authoritative survey on attitudes to renting.

People expect that in 15 years' time there will be more people renting than owning their own property.

DEC 2011

Rental Review

We asked the experts on the housing market, with very distinct perspectives, for their views on the future of the housing and rental market.

FEB 2012

Asset Manager of the year

Grainger awarded 'Asset Manager of the Year' for G:RAMP at Resi awards 2012.

RESI Awards
Winner
Asset Manager of the Year

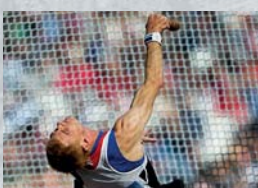
MAR 2012

Grainger was founded in Newcastle-upon-Tyne on 27 November 1912 and this year marked our centenary. We have celebrated our achievements, given back to the communities where we live and operate and prepared for our second century.

AUG 2012

Paralympians go for gold

Our athletes from the North East, represented Team GB at the 2012 Paralympic games.



SEPT 2012

Charity targets exceeded

The chairman, Robin Broadhurst set a challenge to raise £25,000 for charity. We reached this target three months early and raised £29,000 in total.

LandAid™

Total
£29,000

Target
£25,000

OCT 2012

Kilimanjaro conquered

Our team of trekkers reached the peak of Kilimanjaro and raised £8,000 for LandAid.

NOV 2012

100th Birthday

The end of our first century – we look forward to our second!

Grainger Trust

Our original name 'Grainger Trust' is reborn in our For Profit Registered Provider (RP) of social housing.

grainger trust
Investing in homes since 1912

Best home reversion provider

For the 7th consecutive year, Bridgewater awarded 'Best Home Reversion Provider' at the Equity Release awards.

EQUITY RELEASE AWARDS 2012 WINNER

How we do business

Our business model

Our business model is dedicated to ensuring Grainger is the first port of call for residential investment. Our expertise and the scale of our assets and operations enable us to generate sustainable income streams from three sources:

Sales + Rents + Fees

Large scale assets

Wholly-owned property

UK:	£1.87bn
Germany:	£0.36bn
Value:	£2.23bn

Our wholly-owned portfolios are at the heart of our business and through the benefits of long-term asset and property management produce regular and consistent income.

Assets under management

Units:	24,870
Value:	£2.94bn

Inclusive of 12,064 third party properties in Germany managed by our joint venture, Gebau Vermogen, total property under management is 36,934 units.

Stakeholder value

Our wholly-owned portfolios of regulated tenancies and home reversion properties provide us with stable and predictable long-term cash flows made up of rental and sales. Long-term rentals in Germany add further stability and together these underpin the income we derive from open market rents and fees.

Regular, resilient cash flows £m

Financial years ended 30 September

	2012	2011[1]	2010[2]	2009[3]	2008[4]
Gross rents					
UK residential	58	51	39	41	42
Retirement solutions	5	5	6	6	6
Development	–	1	1	1	1
Germany	27	30	30	30	22
Total	90	87	76	78	71
Property Sales net of sales fees					
UK residential	172	148	118	139	137
Retirement solutions	38	27	29	27	27
Development	18	22	19	46	10
Germany	24	21	4	3	2
Total	252	218	170	215	176
Fees/other income	11	8	7	7	9
Overall total	353	313	253	300	256
Group overheads	(31)	(32)	(29)	(30)	(30)
Net Interest Payable	(91)	(76)	(77)	(79)	(89)

1 Recession/Low growth; Euro crisis still destabilising financial markets.
2 Recession/Low growth; massive cuts in public spending announced.
3 October 2008, Government rescues RBS/Lloyds. April 2009, Government announce record budget deficit.
4 March 2008, Bear Stearns collapse. September 2008, Lehmans bankrupt.

Assets to be sold to the JV with Heitman earned gross rents of £13m in 2012.

Profit from **sales** £77.6m

Our reversionary portfolios have been purchased at a significant discount to the vacant possession value. When the property is vacated we are able to sell it and crystallise the value of the reversion together with any growth in value from house price inflation. We also realise value by selling tenanted properties and development sites at the most appropriate point to maximise returns.

A balanced risk profile:

The UK residential portfolios have a reversionary surplus of £500m. This represents a pipeline of future added value without any planning, development or construction risk.

Read more on pages 22 and 23

How we maintain success:

- Detailed knowledge of local markets
- Rigorous assessment of individual asset performance
- Selective refurbishment to add value
- An optimised and effective sales process

Net **rents** £63.5m

Most of our existing UK residential properties are subject to regulated tenancies or home reversion plans and provide below market or no rental income. Returns from our German portfolio are more heavily rental income based and as we deliver our strategy of leadership and involvement in the PRS our UK returns will follow this same trend.

A balanced risk profile:

Whilst we receive sub-market rental income from our UK residential properties that are subject to regulated tenancies and home reversion plans, these incomes are highly predictable, secure, and in many cases, are supported by housing benefit. In Germany, long-term rentals also deliver stable income flows.

How we maintain success:

- A dedicated in-house lettings team
- Detailed knowledge of local markets
- A focus on voids and arrears
- Focused maintenance to protect and add value.

Read more on pages 24 and 25

Gross **fees** and other income £11.0m

The scale of our residential operations has enabled us to invest in systems, processes and procedures which, together with the breadth of our residential expertise, can provide value to other parties. Consequently, we derive income from fund, property and asset management as well as direct returns from any stakes we hold in co-investment vehicles.

A balanced risk profile:

The development of our fee generating business is built upon our proven expertise in owning and managing our own assets. This together with alignment of interests through co-ownership and performance based rewards lays the foundation for long-term success.

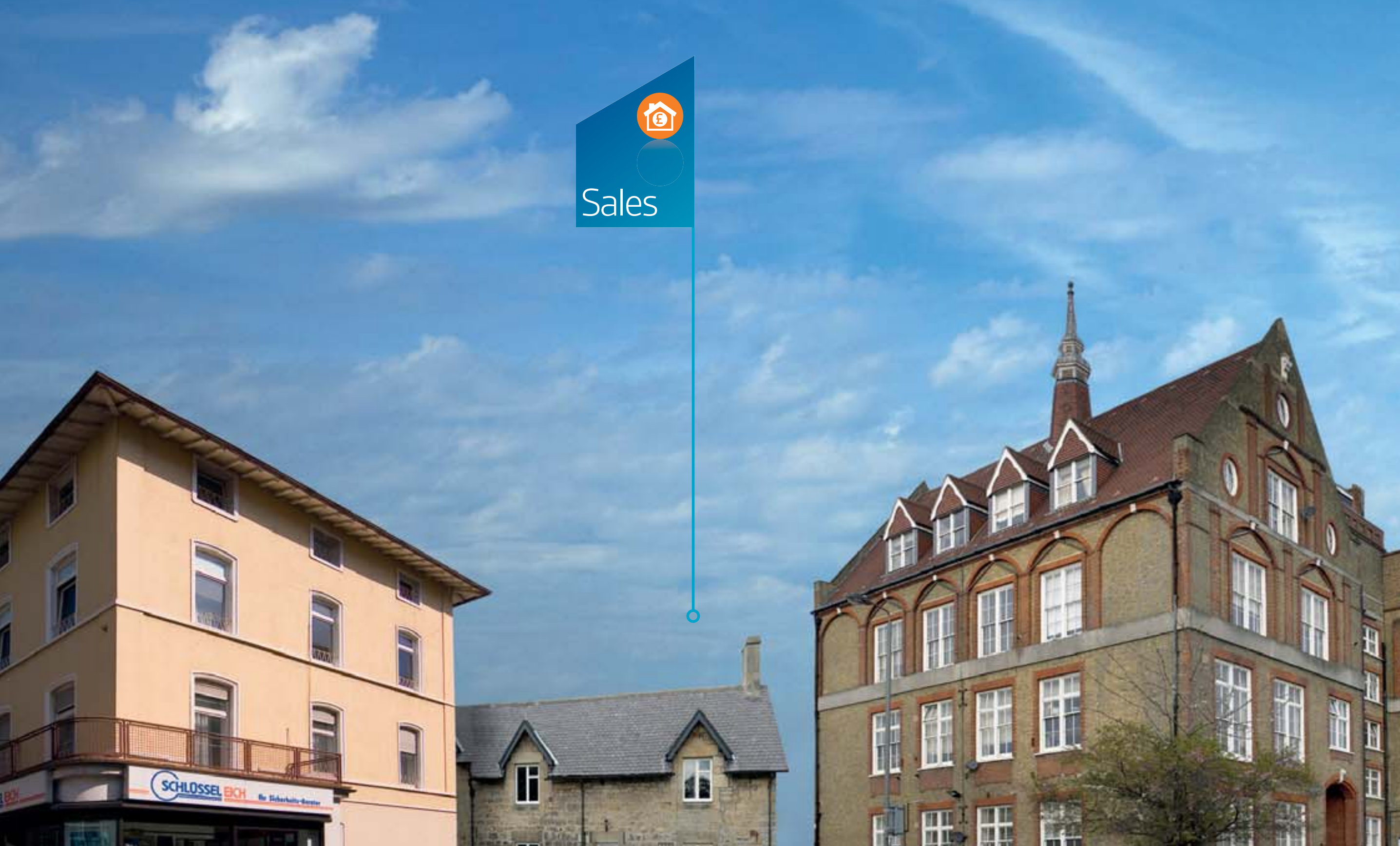
How we maintain success:

- Deep expertise across all market segments
- Owner manager mentality
- Co-investment to align interests
- Reward structures based on added value

Read more on pages 26 and 27

grainger = residential expertise

Over 100 years Grainger has built portfolios of wholly and co-owned properties across the UK and Germany. These portfolios reflect the diversity of the existing housing stock and demonstrate the expertise and detailed knowledge of location and potential required to identify, manage and deliver value from residential property.



Sales

Every year we sell c.600 properties when they become vacant (normal sales) and we sell further properties when we decide that a particular property although still occupied no longer offers the potential to deliver the value that we are seeking (investment sales). We can refurbish vacant properties before sale to increase their value or saleability, but in many cases we sell unimproved to buyers who wish to carry out improvements themselves.

We also realise value through sales of properties or land that we have developed.

Importantly the scale of our operations is such that we can focus on continuous improvement to our efficiency and speed of sale.

See pages 22 and 23 for further details.

Rents

Our gross rent for 2011/12 was £89.8m and we collected £31.7m rent on behalf of third parties, whose properties we manage.

The rent from the wholly owned and German portfolios is highly predictable and our opportunities to increase the rent come largely from rent reviews.

In our market let properties and those we manage on behalf of others, rents follow market trends and reflect the quality of the unit. As the average length of tenure is around 20 months we have regular opportunities to ensure that we maximise rents (and our related fees) through our market awareness, our proactive lettings team and our asset management activities.

See pages 24 and 25 for further details.

Fees

We earned £10m in fees in 2011/12, an increase of 45% and evidence of the delivery of our strategic intent. We earn fees through the demonstration of our track record and expertise in development, fund management, asset and property management and sales.

Our owner manager mentality enables us to base our performance related fees on the value that we add to the assets under our management. The size of our operations and the proven processes that we employ provide us with a scalable and flexible platform that can be deployed to meet a range of diverse requirements and opportunities.

See pages 26 and 27 for further details.

Focused on key locations

Location density

UK

We have continued to follow our strategic objective of locating our properties in the most economically attractive areas, where prospects for rental and capital growth are highest. In September 2012 62% of our owned assets were located in London and the South East which has increased from 54% over the past three years.

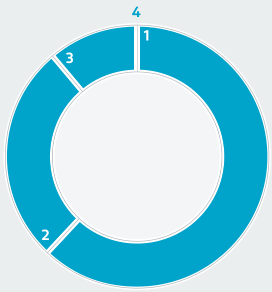
Germany

The economically successful areas in the West and South of the country continue to be the most attractive in terms of rental demand and prices. The majority of our portfolio is located in these more attractive regions such as Baden-Württemberg, Hesse, North Rhine – Westphalia and Bavaria and this has provided a good platform for rental and price growth.

We identify and invest in properties where we can maximise our returns through our three revenue streams – Sales, Rents and Fees.

Assets by region 2012

	Units	VPV	Market value	% of Grainger market value
1. London & South East	5,591	1,443	1,115	62
2. South West, Midlands & East	4,383	629	491	27
3. North & Scotland	2,446	254	181	11
4. Wales & Ireland	144	15	10	–
Total	**12,564**	**2,341**	**1,797**	**100**



Properties

12,564

Vacant Possession Value

£2,341m

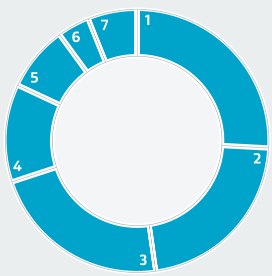
Market Value

£1,797m

Assets by region 2012

	Number of units	Market value €m	% of Grainger investment value
1. Baden–Württemberg	1,489	119	26%
2. Hesse	1,329	100	22%
3. North Rhine – Westphalia	1,655	100	22%
4. Bavaria	560	56	12%
5. Lower Saxony	749	36	8%
6. Rhineland – Palatinate	230	18	4%
7. Other	384	27	6%
Total	**6,396**	**456**	**100%**

Includes the assets classified as held-for-sale



Properties

6,396

Market Value

£363m

Annual gross rental yield

7.0%

Annual net rental yield

4.2%

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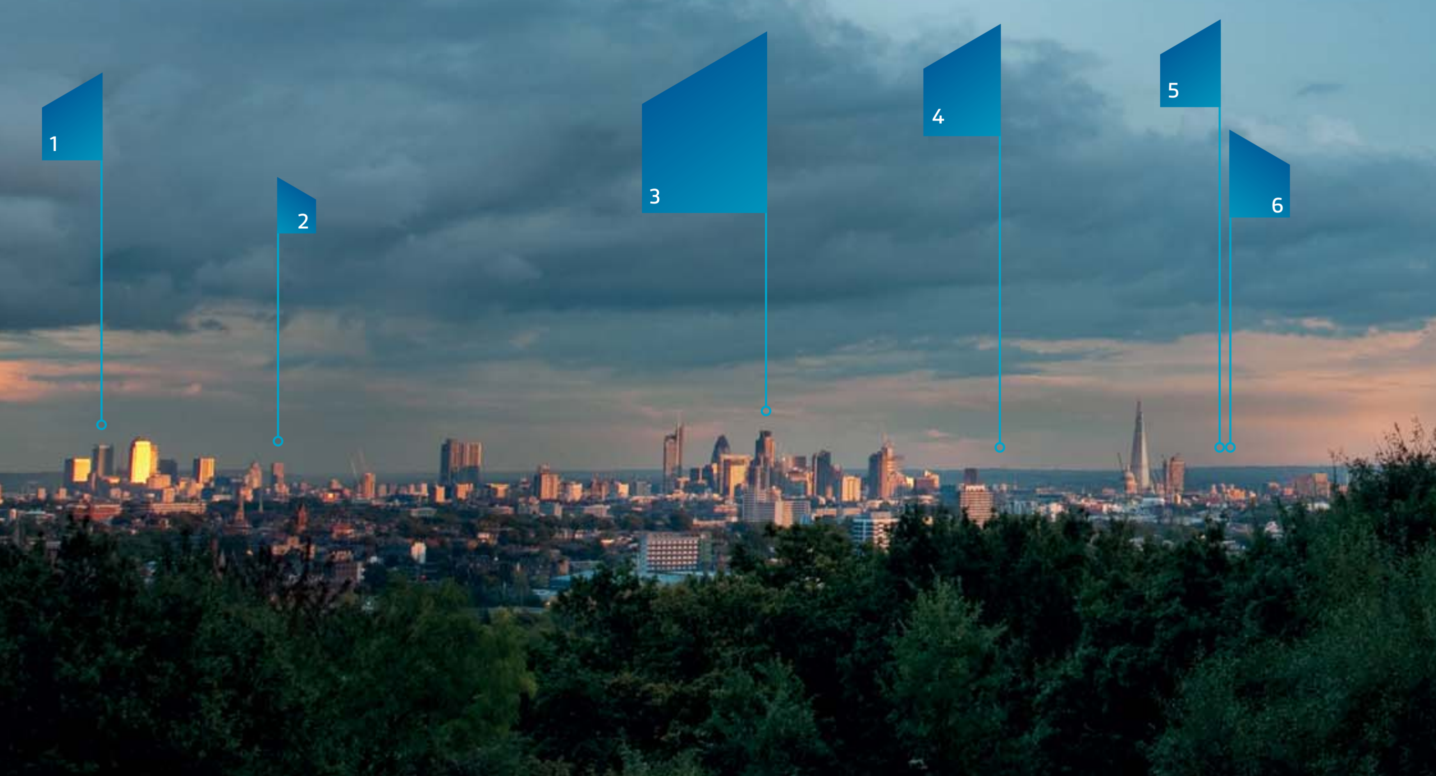
grainger = recognising long-term value

The strategic drive to locate our assets in the areas of greatest economic activity has resulted in a concentration in London. 50% by value of our UK wholly-owned portfolios are distributed across the metropolis. Attractive opportunities for development, to add value through refurbishment and to co-invest also arise and we continue to apply our expertise to identify and realise these.



1.
Bethnal Green
G:res
Mixed use estate of 96 units

2.
Dalston
G:res
Ability House, Ability View, Ability Plaza, Ability Towers, Springfield House and Kingsland Road

3.
East Dulwich
Core Portfolio
The Tilt Estate. See page 24

4.
Islington
Core Portfolio
Amwell Street. See page 22

5.
Waterloo
Core Portfolio (Grainger Invest) 276 mixed tenure units and redevelopment opportunities

6.
Walworth
Core Portfolio (Grainger Invest) The Walworth Estate – 617 mixed tenure units

7.
Vauxhall
Core Portfolio (Grainger Invest) 257 mixed tenure units

8.
Clapham
Development
Macaulay Road – 97 residential units and 30,000 sq. ft. of offices

9.
Bayswater
Core Portfolio
Caroline House – mixed tenure building and penthouse development

10.
Knightsbridge
Core Portfolio
Trevor Square, 3 houses subject to regulated tenancies

11.
Royal Borough of Kensington and Chelsea
Development
Hortensia Road and Young Street – PRS opportunity of 80 units

12.
Kensington
Core Portfolio
Emperor's Gate. See page 23

Chief executive's review

Our UK assets continue to outperform the market indices; the portion of profit derived from rents and fees has increased; our sales margins on normal trading sales have been maintained; our net asset values have increased and our gearing has reduced.

Andrew Cunningham
Chief Executive

Market Overview

The residential market in 2012 continued to show marked regional variations in valuation movements. In London, where 50% of our assets by market value are located, we saw year-on-year growth of 7.4% with Central London showing the highest growth at 12.0% and Inner and Outer London showing increases of 6.4% and 3.0% respectively. Our assets in some Northern regions of the country saw further falls in value (Scotland -1.7% and North East -1.7%) compared to the smaller falls/marginal increases in other regions (South West -0.3% and East Anglia 1.0%). More recently, however, there are some signs of stability in the regions as confidence improves at the lower end of the market where much of Grainger's stock is priced.

One significant area of growth in the housing market is the private rented sector (PRS). The sector comprises 3.65m households, a rise of over a million in the last 10 years and in London the PRS is estimated to now exceed 25% of households or 800,000 homes, with the sector expected to continue to grow.

The Montague Review, set up by the Housing Minister in December 2011, highlighted the need to build more homes for rent and to increase the level of institutional investment in the sector. The Review made a number of recommendations including better use of public land, the creation of an enabling fund to bridge the gap between conception and completion of purpose built rental stock and a reduction in the requirement for the provision of affordable housing on build to rent schemes. The Government embraced the report and shortly afterwards announced a £200m enabling fund for the PRS specifically and a £10bn loan guarantee for the acquisition of new homes built for rent (private or affordable). Local Planning Authorities already have the power to determine the amount of affordable housing each development proposal should build and there are already signs that some Local Authorities are considering the opportunities the recommendations provide on land in their ownership.

These changes in tenure mix, development focus and attitudes to renting provide a huge opportunity for multi-disciplined residential investors and developers such as Grainger. Indeed we are already creating opportunities as evidenced by our innovative agreement with the Royal Borough of Kensington and Chelsea, announced recently, and our ongoing development of activities in the build to rent sector.

The final area of the residential market that is growing with central and local government support is the affordable housing or Social Housing Sector which is owned by Local Authorities 47% and Registered Providers (RP's formerly called Housing Associations) 53%. The Government's Welfare Reform Act, in its desire to see the delivery of more new affordable housing, includes an ability for RP's to charge 'Affordable Rents' of up to 80% of open market rents (subject to caps that impact some London Boroughs) making affordable housing much more viable than previously. The Act also allows private sector companies to become 'For Profit Registered Providers' (FPRP) of social housing in the hope that the private sector can assist in the building of new stock. This blurring of the dividing lines between the private and public sector provides opportunities for organisations such as Grainger to build on its existing infrastructure and expertise to operate in this arena. Consequently, as announced on 9 November, we have formed our own FPRP by re-incarnating the name

Read more on pages
22 and 23
Sales

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Rents

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Fees

Grainger Trust as a subsidiary of Grainger plc which was formally registered by the Homes and Community Agency in November 2012. Its first properties will be the 77 affordable units in the first phase of Berewood, our 2,500 unit development site in Hampshire, currently being built by Bloor Homes.

Business Overview

Grainger operates as owner, manager and trader of residential properties and has three main sources of income:

– Receipts from the sale of assets (profit from sales: £78m; 2011: £81m)
– Rents (net rents: £63m; 2011: £62m)
– Fees from co-invested and/or managed vehicles (total fees: £10m; 2011: £6.9m)

We have repositioned the business over the last two years to reduce gearing and to increase the proportion of our income from rents and fees.

We have continued to outperform the general residential market. In the year ended 30 September 2012 the average of the two major housing indices (as provided by Halifax and the Nationwide) showed a fall of 1.3%. By contrast, Grainger's UK portfolio increased in value by 3.9%. The valuations are supported by sales results in the year. Sales of property with vacant possession were made 6.1% above last year's valuation. On a vacant possession basis, since 2004 our residential portfolio in the UK has shown cumulative valuation increases of 14.5% compared to the average index increase of 2.5%.

This outperformance has come from active management of the portfolio:

– Geographic weighting to areas of stronger economic activity
  • At 30 September 2012 62% of our UK portfolio was situated in London and the South East of England. In Germany, 82% of our properties were in four of the more affluent areas of the country before the Heitman transaction and 90% after it
– Strategic sales
  • During the year lower performing assets or assets in areas of lower expected economic activity were disposed of, generating £83m in sales and £11m in profit, which further assists the geographic re-weighting of the Company's portfolio
– Refurbishment, development and other added value projects
  • During the year we sold refurbished, high value and development assets totalling £54m, generating £19.6m profit
– Leveraging people and processes as well as our assets
  • We manage assets largely or entirely owned by third parties to the value of £706m which generated £10.0m of fees during the year

The three income streams in our business have the following characteristics:

– The trading element comprises sales of largely reversionary assets (including home reversion assets), a long-term strategic land bank and low risk development schemes. The UK residential portfolio has a reversionary surplus of £500m. This represents a 'pipeline' of future added value which does not carry any planning, development or construction risk. The total value of these assets, including the reversionary surplus, amounts to £1,917m. In addition to this, there is a development pipeline of gross development value with current planning permission of £243m. This increases to £496m to include schemes progressing to planning permission
– The rental element comprises a market rented portfolio of £743m of assets (UK and Germany), producing an overall gross yield of 6.6%. This part of the business incorporates market-focused but multiple tenure types. (This value is before a reversionary surplus of £44m)
– Fees primarily arise from co-investment vehicles or where our returns are based upon portfolio performance which enhance recurring profits and increase our overall return on capital. The joint venture with Heitman announced after the year end which will be managed by our German platform is our most recent example

On 9 November 2012, we announced that we had signed an agreement with global real estate investment firm Heitman to create a joint venture, to invest in c.3,000 German rented residential units which are currently wholly owned by Grainger. The JV will be 75:25 owned by Heitman, on behalf of a global institutional investor, and Grainger, respectively. The JV's long-term strategy is aimed at maximising returns through income growth and active asset management. The deal is subject to a set of Conditions Precedent and is expected to complete soon.

Our accounts for the year ended 30 September 2012 recognise this transaction with the assets of £182m and liabilities of £130m classified as held-for-sale and we have written down the investment property assets to be transferred by £6.9m (£5.2m net of tax).

Overview
Business review
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Financials

Chief executive's review
continued

Near term objectives

We will improve total returns to shareholders by:

Strategic objective
1

Maintaining our leading position in residential property

Achievements in 2012

- Contributed to Montague Review through executive director Nick Jopling, who was a member of the Review Group
- Launched For Profit Registered Provider
- Published the Rental Review and Public Attitudes survey
- Awarded Asset Manager of the year and Best Home Reversion provider for the 7th year running (Equity Release awards 2012)
- Celebrated 100 years in business.

How we are measuring success

- Recognition by our peers, our stakeholders and by government
- Regular contributions to the development of thinking about the future of UK housing and solutions to pressing issues
- The number and type of opportunities that are presented to us as a result of our position.

Priorities for 2013

- Continue to focus on sustainable long-term business
- Continue to develop our activities and influence as recognised in our maxim 'Grainger = Residential'
- Aim to exceed the expectations of our stakeholders
- Continue to evolve our brand and maintain our reputation as a professional and caring landlord.

Strategic objective
2

Locating our assets in areas of higher economic activity

Achievements in 2012

- Continued to shift the focus of our UK and German portfolios to areas of higher economic activity.
- Outperformed the Halifax and Nationwide UK House Price indices
- Sold £83m of assets that were lower performing or in areas of lower expected activity.

How we are measuring success

- The proportion of our UK and German assets located in areas of higher economic activity:
  - 62% of UK portfolio in London and the South East
  - 82% of German portfolio in four of the more attractive areas
- Outperformance of general UK house price indices:
  - UK portfolio increased in value by 3.9%
  - Average of Halifax and Nationwide indices fell by 1.3%

Priorities for 2013

- Continue to focus on delivering outperformance of our assets through relocation and portfolio optimisation.

Strategic objective 3

Increasing the proportion of non-trading income

Achievements in 2012

- Increased the proportion of operating profits composed of rents and fees
- Continued success of relationship with Lloyds Banking Group through G:Ramp
  - 1,595 units under management at year end
  - 1,110 units sold since start of agreement
- New opportunities through German joint venture with Heitman and agreement with Royal Borough of Kensington and Chelsea.

How we are measuring success

- The proportion of operating profits composed of net rents and fees:
  - 2012 – 48.4% (2011 – 46.1%)
- Growth in net rental income:
  - 2012 – £63.5m (2011 – £62.4m)
- Growth in fees and other income
  - 2012 – £11.0m (2011 – £8.0m)

Priorities for 2013

- Continue to grow the proportion of operating profits composed of rents and fees through developing relationships with existing and future partners and building operating and management platforms.
- Build on opportunities arising in all parts of the residential property market using our core skills in property and asset management.

Strategic objective 4

Reducing our financial and operational gearing

Achievements in 2012

- In 2012 net debt reduced to £1.19bn and consolidated group LTV to 55%.

How we are measuring success

- Debt reduction both in absolute terms and by consolidated loan to value:
  - By the end of 2013 we are targeting net debt of below £1bn and consolidated group LTV of approaching 50%
- Our average cost of debt at 30 September 2012 was 6.0%. We anticipate it remaining at around this level in 2013.
- We anticipate removing 5% of costs, on a run rate basis, by the end of 2013.

Priorities for 2013

As our debt and LTV ratios reduce we will:

- Match our operational gearing to our business model
- Efficiently and transparently manage interest rate derivatives

Outcome

By changing the profiles of our asset base and income streams and by reducing gearing, we have been repositioning our business for the future. We will retain this focus which will enable the Group to take advantage of opportunities as they arise.

grainger = residential

The Grainger of the future will have a greater proportion of its activities in the rented sector and will supplement these by leveraging its asset and property management platform in co-investment vehicles and fee income business.

Chief executive's review
continued

Strategy and Future Outlook

Historically Grainger's business was in the trading of reversionary residential assets, primarily those subject to regulated tenancies. The scale and quality of this portfolio will continue to provide healthy cash flows and opportunities to produce added value for many years to come. We are constantly seeking ways to maintain and maximise returns from this portfolio.

The expertise and infrastructure that Grainger has built up in accumulating and managing this portfolio also has ensured that we have the platform in place that positions the business strongly in terms of long-term sustainability and the potential for accretive growth. The Grainger of the future will have a greater proportion of its activities in the rented sector and will supplement these by leveraging its asset and property management capabilities to manage and expand its co-investment vehicles and fee income business.

This reflects the changing nature of the housing market. The continued imbalance between supply and demand has led to pressure points. For example, in value terms, areas of strong economic performance such as London, the South East and parts of Germany show resilience and growth, with demand for good quality, well priced rental property continuing to climb. In these areas we see particular opportunities in the build to rent sector including affordable housing.

These business activities together with the prevailing economic conditions dictate that we will operate at lower levels of gearing. In the last 18 months we have reduced debt by £376m in a controlled and managed way, whilst increasing the net asset value of the business by £54m. We intend to continue this policy of debt reduction so that by the end of 2013 our overall Group debt will fall below £1bn. At equivalent levels of value our group loan-to-value (LTV) at that point will approach 50%.

Once we reach these targeted levels we will consider further our dividend policy. In the meantime we intend to continue our recent policy of increasing dividends by 5% per annum.

Alongside this debt reduction programme we plan to remove 5% of costs, on a run rate basis, from across the business by the end of 2013.

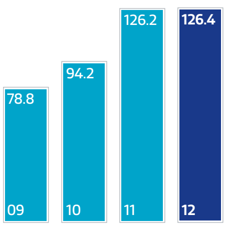
Andrew Cunningham
Chief Executive
6 December 2012

Our performance

Key performance indicators

We measure our performance through a clear set of KPIs

Operating profit before valuation movements and non-recurring items – OPBVM (£m)

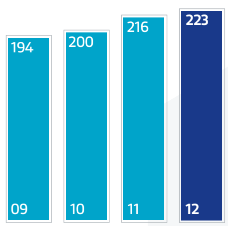


OPBVM

Is a measure of the profit generated by our key income streams of profits on sale of property, net rents, and fees and other income, net of overheads.

OPBVM reached £126.4m in 2012 up by 0.2% from 2011.

Gross net asset value per share – NAV (pence)

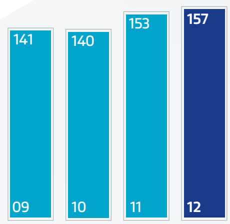


NAV

Is based on property assets stated at market value. It is stated after adding back deferred tax on property revaluations and the balance sheet value of derivatives.

NAV increased from 216p to 223p at the 2012 year end primarily as a result of an increase of 3.9% in the market value of our UK properties.

Triple net asset value per share – NNNAV (pence)



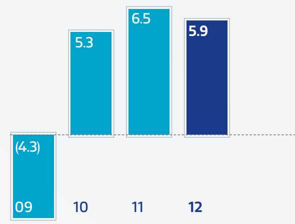
NNNAV

Is also based on property assets at market value but also includes the contingent tax on this uplift, deferred tax on asset revaluations and the full balance sheet value of derivatives net of deferred tax.

NNNAV increased from 153p to 157p at the 2012 year end primarily as a result of the increase of 3.9% in the market value of our property assets.

Growth in NNNAV is a key measure in the determination of the vesting of executive director LTIP awards. See further details on pages 63 to 65.

Return on capital employed – ROCE (%)

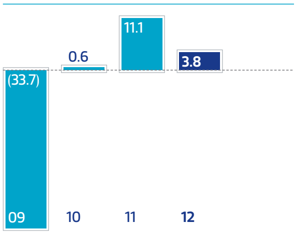


ROCE

Measures the overall profit of the business including the movement in the uplift of trading stock to market value but before interest and derivative expense, as a percentage of the opening market value of all property assets and investments in JV's/associates.

ROCE was 5.9% in 2012 assisted by the trading performance noted in OPBVM and a net £20m uplift of trading stock to market value.

Return on shareholder equity – ROSE (%)

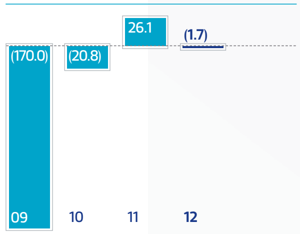


ROSE

Measures the movement in NNNAV in the year plus the dividend relating to the year as a percentage of opening NNNAV.

ROSE was 3.8% in 2012 reflecting the increase in NNNAV from 153p to 157p and also the dividend declared for the year of 1.92p.

Profit/(loss) before tax – PBT (£m)

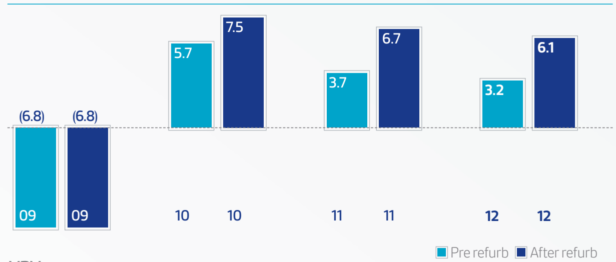


PBT

Whereas OPBVM above measures specific elements of the income statement, PBT includes all items taken through the income statement before tax, including net interest expense.

PBT was a loss of £1.7m in 2012 after a charge to income of £31.2m arising from the change in fair value of derivatives.

Sales price compared to previous year end vacant possession value – VPV (%)



VPV

We compare actual prices achieved on sales of vacant properties in our UK residential and retirement solutions businesses to their VPV at the previous year end. This measure shows how prices are moving and the effectiveness of our sales process.

Excluding the impact of pre-sale refurbishment, sales were, on average 3.2% above the 2011 year end VPV. Including the impact of pre-sale refurbishment this increased to 6.1%.

grainger = sales

We maintained both sales velocity and prices. Sales of property with vacant possession were made 6.1% above last year's valuation.

Sales case study

Amwell Street

28 Amwell Street, Islington was acquired in 2010 and comprised 14 units over 7 floors. After a sensitively managed programme we were able to obtain vacant possession of 10 of the units with the others being subject to regulated tenancies. We then undertook a comprehensive internal and external refurbishment programme and created 10 high quality apartments that are now being disposed of. Through the works that we have undertaken we anticipate achieving an uplift of c.50% on a £/sq. ft. basis after allowing for costs.

Sales

Profit from sales of property, was £77.6m, compared to £81.0m in 2011, generated from gross sales proceeds of £258.4m compared to £223.3m in 2011.

Margins on our normal sales of vacant trading properties in 2012 of 43.6% were in line with the 44.0% achieved in 2011.

During the year the first sales were generated within our development business from our Berewood scheme in Hampshire. This is a scheme where we own 460 acres of land near West Waterlooville representing a pipeline of 2,550 houses to be built out by housebuilders. The scheme is expected to generate sales over the next 15 years and will be a source of both profit and cash.

Sales of tenanted trading stock and other sales rose from £63.2m in 2011 to £68.8m in 2012. Sales included £38.7m of tenanted sales, £18.5m from the sale of high value elements from our central London stock and £7.1m of agricultural sales.

Sales of investment properties and CHARM were £56.8m (2011: £31.5m) generating profits of £3.6m (2011: £1.9m).

As at 30 November our total Group sales pipeline (completed sales, contracts exchanged and properties in solicitors' hands) amounted to £66.6m with UK normal sales values 3.6% above September 2012 valuations. (£60.3m as at 25 November 2011). In addition to this pipeline, and further sales of property as it becomes vacant, we have identified potential additional tenanted sales of c.£67m as at 30 September 2012.

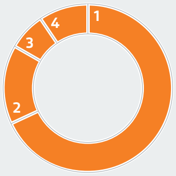
Sales feature

Refurbishment of Emperor's Gate, London

Grainger has continued to refurbish selected vacant properties within our core portfolio before bringing them to the market for sale. The stand out project of the year was the redevelopment of 46 Emperors Gate, SW7. Vacant possession of the whole building was achieved early in 2011 and c.£1m was spent remodelling and refurbishing 5 flats and the common parts. Flat 3, pictured above, was remodelled with a mezzanine floor to the double height reception room and sold for £1.75m, (£1,600 per square foot).

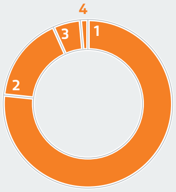
Sales income £m

1. UK residential	176
2. Retirement solutions	39
3. Development	19
4. German residential	24
Total	258



Profit from sales £m

1. UK residential	60
2. Retirement solutions	13
3. Development	4
4. German residential	1
Total	78



Sales performance

	Full Year 2012			Full Year 2011		
	Units sold	Sales £m	Profit £m	Units sold	Sales £m	Profit £m
Trading stock – Sales on vacancy	605	113.9	49.6	561	106.5	46.8
Trading stock – Development	–	18.9	3.4	–	22.1	15.1
Trading stock – Sales of tenanted and other	395	68.8	21.0	607	63.2	17.2
Investment property sales	436	48.9	3.0	461	25.2	1.1
Statutory sales and profit (see accounts notes 7 and 8)	1,436	250.5	77.0	1,629	217.0	80.2
Sales of CHARM properties	68	7.9	0.6	56	6.3	0.8
Overall Total	1,504	258.4	77.6	1,685	223.3	81.0

grainger = rents

This year has seen good rental growth and a continued strengthening of the rental market.

Rents case study

Café on the Tilt Estate

The Tilt Estate in East Dulwich is made up of three sides of a garden square in a conservation area. We invest in place making to enhance the attractiveness of this asset and maximise its rental potential. As part of this programme we refurbished the old electrical store on one corner of the estate that had been used as a site office for 10 years.

We let the unit to a local entrepreneur to create an independent café with a specific community focus and continue to work closely with the tenant to develop the business and to enhance the estate.

Rents

Total net rents in the year amounted to £63m (2011: £62m).

UK Residential net rental income in the year increased to £42.5m from last year's figure of £38.4m, assisted by the strategic portfolio acquisitions during the previous year of HI Tricomm and the Grainger Invest LLPs. This represents an annual gross yield of 4.1% (net yield of 3.0%).

The German business delivered net rents, before property management expenses, of €22.8m (2011: €25.3m) at an annual gross yield of 7.0% (net yield of 4.23%). The decrease is due to strategic sales made at the end of 2011 and during 2012 including the sale of our portfolio in Berlin in 2011 for €16m and sales of Frankfurt property in 2012 for €21m.

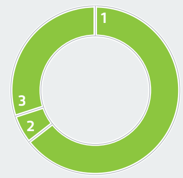
Certain assets in the Retirement Solutions portfolio also produce a net rental income and this amounted to £3.7m in the year (2011: £3.8m).

"The continued imbalance between supply and demand has led to pressure points – in value terms areas of strong economic performance such as London, the South East and parts of Germany show resilience and growth, and the demand for good quality, well priced rental property continues to climb. We see particular opportunities in the Build to Rent sector including that set aside for affordable housing."

Andrew Cunningham

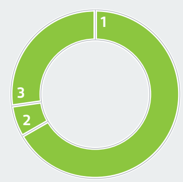
Gross rents £m

1. UK residential	58
2. Retirement solutions	5
3. German residential	27
Total	90



Net rents £m

1. UK residential	42
2. Retirement solutions	4
3. German residential	17
Total	63



Rents feature

Refurbishment of Mariners cottages, South Shields

Mariners Cottages comprise 39 grade II listed properties. We undertook a five year programme to improve the fabric and windows to modern standards and restore the external décor to how the cottages would have looked when constructed in 1843. We now have satisfied tenants and properties that are in high demand.

grainger = fees

Our fee income has increased by 45% in the year

Fees
case study

Aldershot, Hampshire
In 2011 we were appointed to create a community of c.4,500 homes on surplus military land in Aldershot, Hampshire. This 25 year place making project includes the provision of schools, leisure facilities and the restoration and conversion of the historic Cambridge Military Hospital. Our fees for this project include a yearly management retainer and a share of profits which is directly linked to the value we add for the MoD, the asset owners.

G:RAMP feature

Grainger's Residential Asset Management Platform (G:RAMP) provides clients with an integrated strategic and operational property and asset management solution for their residential property portfolios. G:RAMP secures maximum value from clients' residential property portfolios by handling them in the same way that Grainger handles its own, through a tried and tested process of inspection, migration onto our platform, stabilisation and then realisation.

Alignment of interests
G:RAMP processes ensure an alignment of interest between Grainger's property and asset management teams and the portfolio owner, our client.

We understand the importance of making informed decisions to ensure we achieve best value. An integrated team considers property and asset management at every level, from the most cost effective ways to manage a portfolio on a day-to-day basis to maximising sales value on realisation.

G:RAMP can provide the portfolio owner with anything from large scale accretive refurbishment projects to simply creating liquidity.

Fees and other Income

Gross fee income increased by 45% to £10.0m (2011: £6.9m) derived from asset and property management fees from our co-investment vehicles and management contracts. In addition, the group earned other income of £1.0m (2011: £1.1m).

The progress seen in the fee earning element of this business in the year to September 2011, with the agreement with Lloyds Banking Group to establish G:RAMP, has continued and the numbers of properties under management have risen, with no requirement for Grainger to invest in this particular arrangement. By 30 September 2012, G:RAMP had 1,595 units under management and, even more importantly, had sold 1,110 units on behalf of Lloyds since the start of the agreement.

The UK Residential division generated £0.2m in service charge management fees and £0.8m in sundry other income.

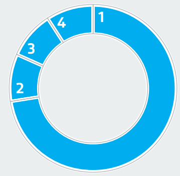
In Retirement Solutions, management fees of £1.1m were earned. These fees relate to the management both of the assets owned by our Sovereign joint venture and the third-party assets managed under external management contracts with Sovereign.

During 2011 the Development business was appointed as development partner for the Aldershot Urban Extension working with the Defence Infrastructure Organisation. Although this scheme is at an early stage it generated management fee income of £0.3m in 2012.

The recently announced joint venture in Germany will further increase fee generation for the group as Grainger will provide asset management services to the joint venture.

Gross fees and other income £m

1. Fund management and residential investments	8
2. UK residential	1
3. Retirement solutions	1
4. Development	1
Total	11



RESI Awards
Winner
Asset Manager of the Year

G:RAMP processes

Inspection
– High level analysis of the portfolio
– Business plan
– Identify gaps

AGREE STRATEGY

Migration
– Absorbing portfolios into Grainger's existing platform (IT, Asset management, Property management, Lettings etc)

Stabilisation
– Closing the gap
– Working through the portfolio
– Execution on pre-agreed business plan

Realisation
– Getting the benefit from closing the gap
– Combination of improved yields, sales & valuations

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Asset performance

Whilst we generate income from sales, rents and fees, we look to our assets to deliver capital growth. Once again this year, our wholly-owned UK assets outperformed the Halifax and Nationwide House Price indices.

Valuations in our UK Residential portfolio were up 4.8% at the year end from the previous September compared to decreases in the Nationwide and Halifax House Price indices of 1.4% and 1.2% respectively. This clearly illustrates the specific characteristics of our property assets and the value we add to them through expert asset and property management. One of the features of our business, given its trading nature, is that carrying values are tested throughout the year by sales. Vacant (normal) sales were at values, on average, 4.5% above September 2011 vacant possession valuations. Selective refurbishment works prior to sale can improve returns and when these are taken into account we have sold at 8.9% above September 2011 vacant possession. The liquidity of the properties was again demonstrated by the time taken for sale, measured from the date of vacancy to receipt of cash, being a slight improvement at 98 days (99 days in 2011).

We have been extremely selective as regards buying property in the UK residential business in 2012 acquiring 86 units for £13.0m (2011: 1,950 units for £402m including assets acquired in the Grainger Invest and HI Tricomm transactions).

The assets in the Retirement Solutions portfolio are more geographically widespread than the UK Residential portfolio and do not benefit from the bias they have towards London and the South East. This geographic

Performance of Grainger UK assets vs Halifax and Nationwide indices

Grainger UKR · Grainger UKR and RS · Halifax · Nationwide

difference is reflected in the valuation results for the year, which showed a small increase of 1.0% in market value, although this is still above the average decrease of 1.3% in the Nationwide and Halifax House Price indices. Retirement Solutions sales were at values, on average, 0.6% above September 2011 vacant possession values.

Overall, combining UK Residential and Retirement Solutions, valuations were up 3.9% from September 2011, and sales were at values, on average, 6.1% above September 2011 vacant possession values.

We bought £8.8m of home reversion assets in the year (2011: £14.0m).

In the year ended 30 September 2012 the market value of the UK Development portfolio increased by £7.8m after allowing for the disposal of the first tranche of land at Berewood. This increase primarily relates to Berewood given the greater certainty over values at this scheme after the signing this year of the Section 106 Agreement and the first sales of land with associated infrastructure.

Grainger's equity investment of £41.2m in its fund and Third Party Management division comprises our 21.96% stake in G:res, which is a market rented fund of 1,677 units. G:res is subject to a full external valuation in December and June of each year and for the twelve months ended 30 June 2012 showed an increase in market values of 5.8%, producing an increase in net asset value in the fund of 18.9% in the year ended 30 September 2012. Operational results at G:res provide a continuing insight into the current UK residential rental market. Rental increases on renewals amounted to 4.6% for the year ended 30 September 2012 and increases on new lets for the same period were 8.1%. Both results indicate a continued strengthening of the rental market. The investors in this fund voted to extend its duration by two years to 2013 and its controlled liquidation is under way as planned. In 2013 the German joint venture referred to above will form part of this element of the Group.

In summary, our UK assets continue to outperform the market indices; the proportion of profit derived from rents and fees has increased; our sales margins on normal trading sales have been maintained; our net asset values have increased and our gearing has reduced.

Financial review

We have maintained OPBVM in 2012 at £126m and group net debt has fallen by £260m in the year. Group net debt has fallen by £376m since March 2011 whilst over the same period gross NAV has increased by £54m (6.2%).

Our key performance indicators are:

	2012	2011
Operating profit before valuation movements and non-recurring items (OPBVM)	£126.4m	£126.2m
Recurring Profit	£34.6m	£48.3m
(Loss) / profit before tax	£(1.7m)	£26.1m
Gross net asset value per share (pence)	223p	216p
Triple net asset value per share (pence)	157p	153p
Excess on sale of normal sales to previous valuation	6.1%	6.7%
Return on capital employed*	5.9%	6.5%
Return on shareholder equity**	3.8%	11.1%

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

** Growth in net net net asset value ('NNNAV') in the year plus the dividend per share relating to each year as a percentage of opening NNNAV.

Income Performance

The table below summarises our Operating Profit before valuation movements (OPBVM), recurring profit and loss before tax.

	2012 £m	2011 £m
Profit on sale of assets	77.6	81.0
Net Rents	63.5	62.4
Fees/ other income	11.0	8.0
CHARM	7.1	7.1
Overheads /other expenses	(32.8)	(32.3)
OPBVM	126.4	126.2
Finance costs, net	(90.7)	(76.3)
JV's and associates	(1.1)	(1.6)
Recurring Profit before tax	34.6	48.3
Valuation movements including derivatives	(24.6)	(14.0)
Non-recurring items	(11.7)	(8.2)
(Loss)/profit before tax	(1.7)	26.1

We have three income streams within operating profit before valuation movements and non-recurring items (OPBVM). These are sales of residential properties, rental income and fees or other income, net of property expenses and overheads and before valuation and non-recurring items. The rebalancing of the three sources of income has continued and operating profit has been maintained.

In the year, net rents rose by 1.8% from £62.4m to £63.5m primarily due to contributions from our acquisitions in the previous year of Grainger Invest and HI Tricomm which are both performing in line with expectations.

Profit from sales of property was £77.6m, compared to £81.0m 2011. This was generated from gross sales proceeds of £258.4m compared to £223.3m in 2011. This movement in volume was driven mainly by an increase of £11.1m in Retirement Solutions sales and also in value added and agricultural sales which totalled £25.6m in 2012 (2011: £1.8m). Margins on normal vacant sales were maintained.

Fees have risen to £10.0m from £6.9m assisted by increased income from G:RAMP. Other income at £1.0m was similar to last year's figure of £1.1m.

Divisional Analysis of Operating Profit before valuation movements

	Profit on sale of assets £m	Net Rents £m	Management Fees/other income £m	Overheads/ Other £m	Total 2012 £m	Total 2011 £m
UK Residential Portfolio	59.8	42.5	1.0	(8.6)	94.7	86.0
Retirement Solutions Portfolio	13.3	3.7	1.1	4.2	22.3	18.7
Fund and third-party management	–	–	8.3	(6.4)	1.9	1.8
Development Assets	3.4	0.2	0.5	(1.3)	2.8	14.4
German Residential Portfolio	1.1	17.1	0.1	(2.6)	15.7	18.3
Group and other	–	–	–	(11.0)	(11.0)	(13.0)
OPBVM 2012	77.6	63.5	11.0	(25.7)	126.4	
OPBVM 2011	81.0	62.4	8.0	(25.2)		126.2

Main movements within OPBVM	£m
2011 OPBVM	126.2
Increase in gross rents	3.5
Increase in residential trading profit	6.5
Increase in gross management fees and other income	3.0
Decrease in interest income from CHARM	(0.2)
Decrease in development trading profit	(11.7)
Increase in property expenses/ overheads/ other	(0.9)
2012 OPBVM	126.4

The major movements within OPBVM are:

- An increase of £3.5m in gross rents. A full year's gross rent from our 2011 acquisition of HI Tricomm and Grainger Invest has added £9.1m. Rent increases in the year, including an average increase in regulated rents of 12.6%, added £2.0m. These increases were negated by net sales of assets which resulted in a reduction of £6.0m, and a reduction of £1.6m due to exchange movements on rent in Germany.
- An increase of £6.5m in residential trading profits. This arose from value added sales in UK Residential and additional margin from higher sales of £11m in Retirement Solutions.
- An increase in gross management fees and other income of £3.0m arising primarily from G:RAMP which commenced during the second half of 2011.
- A reduction of £11.7m in development profits.

Interest expense

Net recurring interest charge has increased by £14.4m from £76.3m in 2011 to £90.7m at 30 September 2012. The interest charge increased following debt either assumed or raised in connection with the acquisitions of HI Tricomm and Grainger Invest. These acquisitions were made at the end of the first half of 2011. There is also an increase in the average cost of debt following the refinancing activities of 2011 and our increasing proportion of hedged debt.

Financial review
continued

Joint ventures and associates

Joint ventures and associates contributed a loss of £1.1m to recurring profit in the year (2011: loss of £1.6m). Included within valuation movements is a profit of £4.6m derived from our share of the G:res revaluation surplus. In 2011 our share of revaluation surplus was £8.1m which derived from G:res and Grainger Invest (Grainger Invest was wholly owned by Grainger throughout 2012).

Valuation and non-recurring

The movement in valuation and non-recurring items is analysed as follows:

	30 September 2012 £m	30 September 2011 £m	Movement
Gain on acquisition of subsidiaries	–	16.1	(16.1)
Goodwill impairment	–	(2.2)	2.2
Write down of inventories to net realisable value	(0.1)	(1.8)	1.7
Impairment provisions against loans	–	(4.2)	4.2
Valuation gain/(deficit) on investment property	2.1	(2.0)	4.1
Write down of investment property in disposal group	(6.9)	–	(6.9)
Change in fair value of derivatives	(31.2)	(28.0)	(3.2)
Valuation gains on investment property in joint venture and associates	4.6	8.1	(3.5)
Other non-recurring costs	(4.8)	(8.2)	3.4
	(36.3)	(22.2)	(14.1)

In 2011 the gain on acquisition arose from our acquisition of HI Tricomm which provided a gain of £14.9m, and in the case of Grainger Invest, £1.2m.

Other than movements on derivatives the major items in 2012 are a £2.1m valuation gain on our investment property compared to a £2m deficit in 2011 and a £6.9m write down applied to the net assets in Germany being sold as part of the Heitman transaction to their agreed value (see note 40 to the accounts).

Fair value movements on derivatives is a charge of £31.2m. This comprises a £24.6m adverse movement on the yield curve in the year and £6.6m in relation to the settlement of swap contracts in both the current and prior years.

Including an amount of £21.7m relating to an agreed swap settlement value and £4.8m included in liabilities related to assets held-for-sale, the fair value of swaps at 30 September 2012 is a liability of £171.9m compared to £154.3m at 30 September 2011.

Loss before tax

Having taken account of interest and derivative movements and our share of profits from joint ventures and associates of £3.5m, loss before tax was £1.7m compared to a profit of £26.1m in 2011.

Tax

The group has an overall tax credit of £2.1m. In achieving this credit, the group has released certain overseas tax provisions following a reorganisation within the group. In addition, there is a £1.7m reduction in deferred tax liabilities relating to the assets in Germany being sold as part of the Heitman transaction.

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Earnings per share

Basic earnings per share is a profit of 0.1p (2011: a profit of 9.5p). A year-on-year comparison is shown below:

	£m	Pence per share
2011 Profit/earnings per share	39.1	9.5
Movements in:		
OPBVM	0.2	–
Contribution from joint ventures and associates	(2.8)	(0.7)
Fair value of derivatives	(3.2)	(0.8)
Revaluation of investment properties	4.1	1.0
Provisions against trading stock values and loans	5.9	1.5
Gain on acquisition of subsidiaries	(13.9)	(3.4)
Net interest payable	(13.3)	(3.2)
Write down of investment property in disposal group	(6.9)	(1.7)
Taxation and other	(8.8)	(2.1)
2012 Profit/ earnings per share	0.4	0.1

Dividend for the year

After considering the investment and working capital needs of the business, the directors have recommended a final dividend of 1.37p per ordinary share (2011: 1.30p). This is in addition to the dividend at the half year of 0.55p per ordinary share (2011: 0.53p) equivalent by way of a tender offer). The total dividend for the year will therefore be 1.92p per ordinary share (2011: 1.83p), an increase of 4.9%.

Asset Performance

Net asset value

We set out two measurements to enable shareholders to compare our performance year on year.

	30 September 2012	30 September 2011	Movement
Gross net assets per share (NAV)	223p	216p	3.2%
– Market value of net assets per share before deduction for deferred tax on property revaluations and before adjustments for the fair value of derivatives			
Triple net asset value per share (NNNAV)	157p	153p	2.5%
– Gross NAV per share adjusted for deferred and contingent tax on revaluation gains and for the fair value of derivatives			

The European Public Real Estate Association ('EPRA') Best Practices Committee has recommended the calculation and use of an EPRA NAV and an EPRA NNNAV. The definitions of these measures are consistent with Gross NAV and Triple NAV as described and shown in the table above.

A reconciliation between the statutory balance sheet and the market value balance sheets for both Gross NAV and NNNAV is set out below.

Reconciliation of Gross NAV to NNNAV

	£m	Pence per share
Gross NAV	929	223
Deferred and contingent tax	(120)	(29)
Fair value of derivatives adjustments net of tax	(155)	(37)
NNNAV	654	157

Financial review
continued

The major movements in Gross NAV in the year are:

	£m	Pence per share
Gross NAV at 30 September 2011	900	216
Profit after tax	–	–
Revaluation gains	67	16
Elimination of previously recognised surplus on sales	(47)	(11)
Dividends paid	(8)	(2)
Derivatives movement net of tax	25	6
Others	(8)	(2)
Gross NAV at 30 September 2012	929	223

The major movements in NNNAV in the year are:

	£m	Pence per share
NNNAV at 30 September 2011	638	153
Profit after tax	–	–
Revaluation gains	67	16
Elimination of previously recognised surplus on sales	(47)	(11)
Dividends paid	(8)	(2)
Cash flow hedge reserve net of tax	10	2
Contingent tax	2	1
Others	(8)	(2)
NNNAV at 30 September 2012	654	157

Market value analysis of property assets

	Shown as stock at cost £m	Market value adjustment £m	Market value £m	Investment property/financial interest in property assets £m	Total £m
Residential	953	364	1,317	843	2,160
Development	70	–	70	–	70
Total at 30 September 2012	1,023	364	1,387	843	2,230
Total at 30 September 2011	1,105	344	1,449	922	2,371

Financial resources

We have reduced net debt by a further £260m in the year from £1,454m to £1,194m and maintained headroom at appropriate levels. Included in the reduction is net debt to be transferred to the new joint venture with Heitman of £118m.

The Group significantly refreshed and diversified its sources of finance during 2011. A total of £1.2bn of new debt was secured for the purposes of refinancing existing debt and in connection with acquisitions.

Our core group syndicated facility – with RBS, Lloyds, Barclays, Nationwide, HSBC and Allied Irish – agreed in September 2011 and drawn during the year provides £840m of committed facilities. Of this, £606m matures in July 2016. The balance of the facilities mature in three stages, with £166.5m maturing in December 2014, £7.5m maturing in July 2018 and £60m maturing in July 2020. Given the cash generative capabilities of the business we will consider whether to repay, rather than refinance, the December 2014 maturity.

Subsequent to the year end we also refinanced the element of our German operations that were transferred to the new joint venture with Heitman. The financing of €164.9m was achieved at attractive interest rates with a new lender. In the UK we attracted development finance of £23m for our Macaulay Road development scheme in Clapham again at competitive rates. Both these examples evidence our continued ability to raise finance for our activities and lenders' confidence in our business model.

As at 30 September 2012, the average maturity of the group's committed facilities was 5.1 years (September 2011: 5.5 years) and the average maturity of the group's drawn debt was 5.5 years (September 2011: 5.9 years).

The group has free cash balances of £26m plus available overdraft of £5m along with undrawn committed facilities of £117m. Thus headroom totals £148m as at 30 September 2012 (2011: £214m).

The group's average interest rate, excluding costs, as at 30 September 2012 (based on current Libor/Euribor rates and on current debt hedging) was 6.0% (September 2011: 5.3%).

The group's average cost of debt, including costs, through the year to 30 September was 6.1% (September 2011: 5.4%).

The business has produced £267m of cash from its operating activities derived from net rents and other income, property sales and other working capital movements net of overheads. The largest outflow of cash is £77m of net interest.

At 30 September 2012 and taking into account the reduction in net debt of £118m arising from the Heitman transaction, net debt levels had fallen from £1,454m at September 2011 to £1,194m which is a decrease of £260m. Net debt is now £376m lower than 18 months ago at 31 March 2011 when net debt was £1,570m.

At 30 September 2012 gross debt was 85% hedged (September 2011: 73%) of which 4% was subject to caps. This reduces to 84% following the Heitman transaction.

At the year end LTV on the core facility was 48% (September 2011: 52%). This compares to a minimum required LTV covenant of 75%. Taking into account the reduction in net debt of £118m arising from the Heitman transaction group consolidated LTV was 55% (September 2011: 61%) and upon receipt of proceeds on completion the LTV will fall to 54%.

At 30 September 2012 the interest cover ratio on the core facility stood at 3.0 times (September 2011: 3.1 times). This compares to an interest cover covenant of 1.35 times.

Given the progress already made and our objective of materially reducing debt and gearing we have set ourselves the specific target of attaining a group net debt figure of less than £1bn by the end of 2013.

On the basis of the group's current trading, cash flow generation and debt reduction the directors have concluded that it is appropriate to prepare the group financial statements on a going concern basis.

Mark Greenwood
Finance Director
6 December 2012

Our **people, tenants and partners**

The successful delivery of our business model depends on strong relationships with a range of stakeholders. Our employees play a key role in building these relationships.

Introduction

Grainger does not operate in isolation, as a business we depend on our customers, those who purchase our properties, our tenants who rent our properties and our partners who provide the opportunities to manage their portfolios and to develop places and homes together. Our success comes only though understanding and creating products that meet their needs at a price and a quality that is competitive.

Underpinning all we that we achieve as an organisation are our people and Grainger is committed to providing opportunities for all our staff to contribute to the success of the company and to develop their own careers in a stimulating and rewarding environment.

Achieving our centenary is testimony to the efforts of all of our people and our partners over the last 100 years and stands us in good stead for the future.

Our people

Our aim is to continue to be an employer of choice for talented people, whatever their professional background.

Read more about our people on page 37

Our tenants

Our tenants are the heart of our business; as the Private Rented Sector grows in importance so too will our focus on providing homes and services that meet their changing aspirations.

Read more about our tenants on page 38

Our partners

Our partners are key to our success; we create mutually beneficial relationships that enable us to create value for ourselves and our partners in the residential property market.

Read more about our partners on page 39

Our people

Our aim is to continue to be an employer of choice for talented people, whatever their professional background.

Achievements in 2012

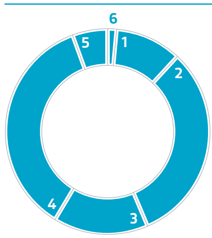
£625

Per employee invested in training

72%

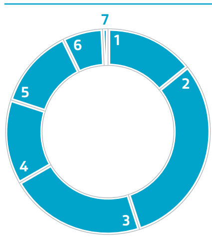
Of staff rate Grainger as an extremely or very good employer

Employee profile



Role	No. Employees
1. Executive directors	4
2. Senior managers	30
3. Managers	89
4. Associate	43
5. Support	101
6. Off-site	15
	282

Employee profile



Age	No. Employees
1. 18 – 25 Years	40
2. 26 – 33 Years	87
3. 34 – 41 Years	61
4. 42 – 49 Years	38
5. 50 – 57 Years	36
6. 58 – 65 Years	19
7. 66 Years	1
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Leadership & Development

We have made significant investment in our Senior Managers this year, all of whom have undertaken a corporate Leadership Development Programme linked to succession planning and personal development. This autumn we will launch our Emerging Leaders Programme aimed at our Senior Managers of the future.

Supporting Our People

Over the past year in addition to core training courses we have continued with our Women in Business and Property Management CPD programmes. 21 staff are currently being supported financially in undertaking a professional qualification and we are proud of our continuing 100% first time success rate in the APC examination.

Graduate Programme

2012 is the first year of our Graduate Programme. Aimed at those keen to develop careers in residential property, this is a two year programme including placements across the business. We received over 450 applications and the first graduates started with us on the 1st September. In addition we provided work experience for 18 young people.

Engagement

We regularly conduct Staff Surveys and this year participated in the Sunday Times Best Companies Employee Engagement Survey. We achieved one star accreditation which recognises Grainger as a First Class Employer.

Health & Wellbeing

Supporting our sponsorship of 2012 Paralympic athletes we continued the fitness theme with a Pedometer Challenge. 31 teams from all our offices in the UK and Germany took part with a target of 10,000 steps per day per individual.

Developing residential expertise

Residential property provides a broad range of challenges and opportunities to develop technical and management expertise.

Our tenants

Our tenants are the heart of our business; as the Private Rented Sector grows in importance so too will our focus on providing homes and services that meet their changing aspirations.

Achievements in 2011/2012

£89.8m
Gross rents

24,870
Units managed

A diversity of tenures

Just as our wholly owned and managed portfolios vary by tenure types, so too do our tenants, our services and relationships reflect this variety.

Our regulated portfolios largely comprise houses and flats that are homes to our tenants for many years. We provide a caring and responsible service that reflects their needs and recognises their desire for privacy and security. Tenants in our equity release properties also enjoy lifetime tenure providing them with long term security. Our impact on their day-to-day lives is deliberately limited, enabling the householder to continue living in his or her home as if it were their own.

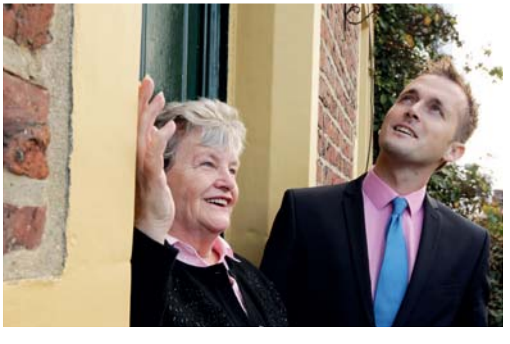
In our AST properties, whether wholly owned, co-owned or managed on behalf of others, we engage in a much more active customer – supplier relationship. With an average length of tenure of 20 months, our focus has to be on ensuring that we provide and manage properties that can attract tenants, whether these are students looking for value for money accommodation or city professionals looking for high quality urban environments.

Our agreements with our German tenants are open ended and many choose to stay in our properties for many years. Here too we are focused on offering a high level of service as well as an attractive product to new tenants.

As Grainger's focus on tenants with choice grows so too will the need to understand our current and future customers and how we can meet their needs and ambitions better than our competitors in order to deliver superior returns through rental and fee income.

Looking after the long term

Building mutually beneficial relationships with our tenants is central to Grainger's purpose.



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Our partners

Our partners are key to our success; we create mutually beneficial relationships that enable us to create value for ourselves and our partners in the residential property market.

Achievements in 2011/2012

£10m

Fee income

45%

Increase

Grainger = Residential

Grainger aims to be the first port of call for any organisation seeking to participate in the residential property market, or requiring a solution to issues facing it in this market. We are a long-term player and aligning our interests to those of our partners, through co-investment or shared reward arrangements is at the heart of our values.

Our Partnerships

In Aldershot we have entered a long-term relationship with the Defence Infrastructure Organisation of the Ministry of Defence, leading a highly complex project to deliver approximately 4,000 homes and community facilities on historically important, but surplus, military land to create a thriving community to the benefit of Aldershot and delivering the best value for the Ministry of Defence.

In London and the South East, we are working with Bouygues Group, one of the world's leading construction and services groups, to provide institutional investors with the opportunity to invest in scale into the PRS through a dedicated portfolio of purpose built development sites.

For Lloyds Banking Group's Commercial Real Estate Business Support Unit team we provide a Residential Asset Management Platform (RAMP) to manage residential buy-to-let portfolios that have entered into administration. In this deal, the first of its kind in the UK, we receive fees based on rent, disposals and shared success fees, fully aligning our interests with those of Lloyds Banking Group for any assets placed into the RAMP.

In Hampshire, we are working with Winchester City Council and Havant Borough Council to create Berewood, a new community of 2,550 homes. We have been working for more than 15 years on this project and have spent five years in extensive consultation with the local community to ensure that Berewood will be a place where people want to live.

At London Borough of Hammersmith and Fulham, we are working with Helical Bar to create a new civic community that will regenerate King Street. The scheme will deliver new council offices, new and improved public areas, new retail units and residential accommodation. Grainger and Helical Bar are working together to bring their specific and complimentary expertise to this scheme.

Working together for the future

Aligning our interests with those of our partners is a key part of the construction of our joint ventures.

Corporate responsibility

Why does CR matter?
The CEO perspective from Andrew Cunningham

Andrew Cunningham
Chief executive officer

How has Corporate Responsibility at Grainger evolved in the last year?

AC. There is greater investment in our Corporate Responsibility performance at the highest levels. Each executive director now takes responsibility for the achievement of a subset of targets. Demonstrating leadership by the executive team is key to embedding Corporate Responsibility into the fabric of the business. Our chairman, Robin Broadhurst, is also active in this area, both in demonstrating a personal interest in Granger's CR activities and in recognising our CR successes. I think that he puts our commitment very well when he says that, as well as being a successful business, Grainger is and should continue to be a 'good-hearted' organisation.

Why do you think it is important for Grainger to invest in Corporate Responsibility?

AC. Our customers are individuals and families rather than the corporate clients of most UK real estate companies. As the largest business in our sector and a publicly listed company, Grainger has a duty to act responsibly and to be seen to be doing so. Historically, that has meant taking special care to consider the needs of our elderly tenants who have little housing choice. In the next 10–15 years, Grainger's tenant base will become more market based. Our future tenants will be able to vote with their feet, and we need to focus on providing housing choices and services that meet their aspirations and needs across a range of economic levels.

How do you view the value of Corporate Responsibility to the business?

AC. Ove Arup made a speech to his staff in 1970 that articulates well my personal understanding of the main aims of a business, which include social usefulness, straight and honourable dealings, and humanity. These, plus delivering value for shareholders and quality services and products, lead to satisfied customers, satisfied staff and a strong brand or reputation. Grainger has frequently been successful at putting these principles into practice. For example, part of the reason that we were awarded the development programme at Aldershot was because we took a different approach to our competitors and focused on our history of place-making, our understanding of 'Grainger in the community.' These things are part of how we do business and are the practical demonstration of the business value of our Corporate Responsibility programme.

What achievements are you proudest of over the last 12 months?

AC. I am particularly proud of our giving, organised by Grainger's new charity committee, which I chair though the work is done by others. As part of our centenary activities, Robin Broadhurst set everyone a challenge of raising £25,000 for charity, about £100 per member of staff. We met this target within nine months as well as meeting our regular volunteering target of 30% of our staff giving a working day to charitable activities. The 2012 centenary celebration was a positive driver for this but every year our people give very generously of their time and money to help others.

Our new complaints handling processes is another important step forward in ensuring that we handle tenant issues effectively. Our analysis of recent complaints has identified improving communication as an issue that we will focus on going forward. We have also invested tremendously in the personal development of our staff at all levels which is a key value for me as CEO as well as a practical investment in the future of the business.

What is your vision for 2012/13?

AC. We have recently spent a significant amount of time focusing on risk management, which is at the heart of future proofing the business and of our CR objectives. I intend to see risk management integrated even more closely into the way we do business.

In thinking about CR targets for 2012/13, these should set the direction for Grainger to assist us to implement the principles underpinning our CR strategy (ETHOS), without being an end in themselves. I would rather set stretch targets and see 50% of them achieved, than 80% tick-box completion. As CR becomes ever more embedded in the way we do business, then the more staff we can involve in setting and delivering our CR objectives and targets and the more we will be able to demonstrate the business value.

Taken from an interview with Andrew Cunningham conducted by Jones Lang LaSalle, Upstream Sustainability Services on 21 August 2012.

How we are creating a leading residential business

Our ETHOS strategy is focused on five CR principles which we apply in our day-to-day operations:

Embedding the ETHOS strategy in our business practices:

Supports our ambition to be a leader in the residential sector

Helps to build relationships with stakeholders who are critical to our ongoing success

Protects and enhances our income streams and the long-term value of our portfolio

Corporate responsibility
continued

What have we achieved this year?
Significant progress against our 2011/12 targets

Influencing the future

Establishing Grainger as a CR leader through active government engagement and industry debate

Targets

- Commission two research reports on relevant CR related policy issues for Grainger (e.g. the rented housing sector or equity release sector).
- Organise and host one practical workshop/roundtable with another organisation to investigate a relevant CR policy issue.

Protecting assets and income

Proactive management of CR risks and opportunities to protect income streams

Targets

- Publish an executive director approved policy outlining how Grainger values sustainability risks and opportunities in its investment process.
- Establish a formal tenant complaints procedure with performance standards for response times and response quality. Ensure that all staff are trained on this new procedure.
- Update Grainger's existing auditing process for managing agents and contractors to include environmental criteria. Managing agents to be asked to supply details of their environmental management/sustainability procedures. Contractors to be measured against standards set by Grainger (based on Considerate Constructors Scheme criteria).

Investing in communities and places

Maximising portfolio value by investing in places and engaging with communities

Targets

- Place ten individuals in new apprenticeship or trainee management positions within Grainger's own UK operations or with contractors through agreements.
- Put in place a committee to oversee volunteering and charity activities to help achieve Grainger's benchmark KPI of 30% of staff volunteering one working day and to coordinate and promote charitable fundraising, giving and other relevant activities.

Driving efficiency

Efficiency in working practices to make Grainger a lean business and to minimise environmental impact

Targets	
Organise a Corporate Responsibility innovation day for 30 Grainger staff and selected external stakeholders to identify opportunities for Grainger to improve its environmental and community performance.	Achieved
Create and document standards for purchasing IT equipment to ensure acquiring environmentally friendly kit.	Achieved
Update the existing EMS to integrate the system more closely with Grainger's refurbishment and property service operations.	Achieved
Collect annual electricity, gas and water meter readings at all blocks for which Grainger purchases energy.	In progress
Analyse the environmental and socio-economic costs and benefits of our procurement strategy in terms of using local vs national suppliers. This target will be reformulated next year.	Not achieved

Responsibility to stakeholders

Managing stakeholder relationships to achieve transparency understanding and trust

Targets	
Include updates on all CR benchmark KPIs and target progress in the monthly senior management information pack.	Achieved
Plan and implement a 1-month employee health and wellbeing initiative in Summer 2012 connected to the Olympics.	Achieved
Create a CR library on Grainger policies, achievements and FAQs for use in internal and external communications on Grainger's Corporate Responsibility approach. Explore how the CR website could help achieve this target.	In progress

Key: Progress against targets

Achieved | Not achieved | In progress

For more details about our 2011/12 CR initiatives, achievements and performance, please go to **www.graingercr.com**

Corporate responsibility
continued

Influencing the future

Contributing to industry discussions around the future of UK housing

Throughout the year, Grainger has actively engaged with government representatives, politicians, policy makers, partners and peers on a number of key issues, such as residential real estate investment trusts, stamp duty land tax, planning and the future of housing, particularly the private rented sector and Build-To-Rent. Grainger has met with key influencers, spoken at conferences, held private roundtables, supported a number of research reports, undertaken a national survey of people's attitudes to renting, published its own review of the rental market and submitted evidence to a number of Government consultations. In addition, Grainger's Executive Property Director, Nick Jopling, was an adviser to the Government-commissioned 'Review of the barriers to institutional investment in the private rented sector' led by Sir Adrian Montague (the Montague Review).

> Grainger's ambition is to be the company to talk to on any issue relating to the future of UK residential property.
>
> Kurt Mueller, Director of Corporate Affairs

Protecting assets and income

Responding more effectively to tenants' concerns

Over the last year, Grainger has implemented an improved procedure for capturing and responding to tenant complaints, including minimum response times. Our CEO, Andrew Cunningham, now reviews the complaints register on a monthly basis and Grainger uses the results to identify key areas for improvement in terms of customer service. Repairs and communication are themes that Grainger has identified as priorities for 2012/13.

Tenant complaints received since October 2011	Complaints fully resolved as of 30 September 2012
60	73%

Responsibility to stakeholders

Incorporating the views of local communities into new development designs

At the recently acquired Woodcroft Farm, Grainger's consultation strategy drew from our previous local experience to proactively address public concerns. Public exhibitions and meetings were held to hear from those that live closest to the site. The sessions ran before the masterplan was fixed, so that community members could meet Grainger's professional team and influence the final design. Contact details were provided so that residents could make contact with the team directly – with many specific queries personally followed up afterwards. The planning application is currently being finalised, with submission anticipated late in 2012.

2012 London Paralympics

Grainger was proud to sponsor three athletes from the North-East, Stephen Miller, Eleni Papadopoulos and John Robertson. Stephen and John represented Team GB at the 2012 London Paralympics.

Key performance indicators

We monitor a number of Key Performance Indicators (KPIs) to ensure that we are on track to achieve our long-term vision. These include benchmark KPIs, which we aim to meet or exceed every year.

KPI	2009/10	2010/11	2011/12	1-year trend
Our properties				
EPC energy efficiency ratings (% of properties)[1]	A–C: 43% D–E: 41% F–G: 16%	A–C: 47% D–E: 42% F–G: 11%	A–C: 36% D–E: 44% F–G: 20%	Worsened
Average Considerate Constructors Scheme (CCS) score[2]	Not measured	28	31	Improved
Supply chain				
Customers rating contractors' service at good or above (%)[3]	94%	98%	87%	Worsened
Suppliers with audit scores of satisfactory or above (%)[4]	Not measured	Not measured	Managing agents: 75% Contractors: 75%	
Customers				
Tenants rating Grainger's management service as good or above (%)[5]	68%	61%	77%	Improved
Percentage of tenant complaints fully resolved (% as of year end)[6]	Not measured	Not measured	73%	
GHG reporting[7]				
Scope 1 total	**228**	**249**	**398**	Worsened
Business car travel (tCO_2e)[8]	228	249	263	
Fuels on development sites (tCO_2e)[9]	No developments	No developments	135	
Scope 2 total	**342**	**345**	**379**	Worsened
Office electricity (tCO_2e)[10]	342	345	340	
Electricity on development sites (tCO_2e)	No developments	No developments	39	
Scope 3 total	**60**	**76**	**80**	Worsened
Air travel (tCO_2e)[11]	23	35	33	
Rail travel (tCO_2e)[11]	37	41	47	
Tenant-related emissions (tCO_2)[12]	Not measured	37,000	2011/12 total being calculated[13]	

Key: Key performance indicators

Improved	Worsened

More detailed data notes are available in our online CR report, available at **www.graingercr.com**

Notes

1 All properties in EPC database (2,287 as of 30 September 2012 up from 1,254 in 2010/11) – UK only.

2 Major refurbishment and development sites – UK only.

3 Existing market rented and regulated tenants – UK only. New contractor survey process introduced in 2011/12.

4 All managing agents and major contractors. Based on health, safety and environment audits – UK only.

5 Existing market rented and regulated tenants – UK only. New survey process of existing market rented and regulated tenants introduced in 2011/12. Results based on exit surveys of market rented tenants only in 2009/10 and 2010/11.

6 All complaints via the Executive and through Grainger website – UK only.

7 Reported on an operational control basis as in previous years. Grainger will align its reporting to a financial control approach in 2012/13 in line with the requirements of UK mandatory GHG reporting regulation. All office electricity CO_2e figures prior to 2011/12 have been recalculated using the same emissions factor from DEFRA 2012 guidance to highlight energy efficiency changes in Grainger's operations.

8 Company leased cars (tCO_2) and staff cars used for business purposes (tCO_2e)– UK and Germany from 2011/12.

9 Diesel.

10 Small power and lighting – UK and Germany.

11 UK and Germany.

12 Estimate based on EPCs – UK Residential.

13 This figure, and more detailed data notes, will be published in our online CR report at www.graingercr.com.

Corporate responsibility
continued

Summary of EPRA Sustainability Performance Measures

The following information provides an overview of the EPRA sustainability performance measures that Grainger is able to report on, an explanation for those that we cannot report on and outlines our plans to expand our data collection in 2012/13 to be able to report more fully against the recommendations next year. Please refer to www.graingercr.com for commentary on trends.

Energy Consumption

	2010/11		2011/12		% Change	
	UK	Germany	UK	Germany	UK	Germany
Total energy consumption from electricity (kWh)	623,426	47,590	621,153	39,807	–0.4%	–16.4%
Energy intensity (kWh/FTE/year)	2,389	4,759	2,275	4,423	–5%	–7%

GHG emissions

	2010/11		2011/12		% Change	
	UK	Germany	UK	Germany	UK	Germany
Total indirect GHG emissions (tCO_2e)	324	20	323	17	–0.4%	–16.4%
Greenhouse gas intensity (tCO_2e/FTE/year)	1.24	2.05	1.18	1.90	–5%	–7%

Notes:

Grainger currently only reports on its own offices. 2010/11 and 2011/12 own office coverage – 7 out of 7 offices.

Grainger does not currently report on heating or cooling consumption for its own offices or residential portfolio (Grainger is responsible for common parts of flat blocks and commercial units only).

Grainger has put in place processes to collect electricity and gas meter readings for the common parts of its flat blocks and commercial units from 2012/13.

Grainger does not currently measure energy on an intensity basis for its residential properties.

Total water withdrawal by source

Grainger does not currently measure water use for its own offices. For our residential portfolio, Grainger has put in place processes to collect water meter readings for the common parts of its flat blocks and commercial units from 2012/13.

Waste by disposal route

	2010/11		2011/12		% Change	
	UK	Germany	UK	Germany	UK	Germany
% of waste is recycled (estimated)	Not measured	Not measured	77%	80%	N/A	N/A

Notes:

Grainger only reports on its own offices. 2010/11 and 2011/12 own office coverage – 3 out of 7 offices.

Quantities by disposal route not currently measured for own offices.

Waste data is not collected for residential portfolio as Grainger has no control over tenants' waste.

Advisor's statement

Upstream Sustainability Services, part of Jones Lang LaSalle, has advised Grainger plc on its Corporate Responsibility (CR) strategy for several years. This programme of work includes helping Grainger set its CR targets, and assessing target achievement at year end.

Due to Upstream's long-standing relationship with Grainger, the review of performance against targets and this statement itself cannot be considered as fully independent. Upstream's observations and recommendations are based on independent analysis of documents, interviews and/or other secondary evidence provided by Grainger and relevant third-parties. Reasonable efforts were made to check the quality, accuracy and credibility of all available information but site visits or audits on primary data (e.g. meter readings and invoices) were not performed. Consequently, this Statement does not represent formal assurance or verification of the Corporate Responsibility content of Grainger plc's 2011/12 annual report and accounts.

Observations and recommendations

Grainger continues to mature in its approach to Corporate Responsibility. A two-year push to embed CR throughout the business is starting to bear fruit with a notable increase in executive commitment and management coordination. Additionally, a wider cross-section of employees at all levels have been involved in the CR programme through charity activities and the CR Innovation Day. This is reflected in a near doubling of target achievement since 2010/11.

- We commend Grainger for improving customer service with its new tenant complaints procedure. Improving customer service is as at the heart of Grainger's future business strategy.

- Collecting utility readings for the common parts of all flat blocks for which Grainger procures energy was a challenge for the third year in 2011/12 and is still in progress.

- We commend Grainger for partnering with suppliers to deliver better social and environmental outcomes through its apprenticeship scheme and environmental audits of managing agents and contractors.

- Grainger has made progress in its ambition to be recognised as a CR sector leader through participation in government consultations on housing, investor surveys such as the Global Real Estate Sustainability Benchmark (GRESB) and industry research using the company's unique access to residential information.

- Grainger has taken an important step in its maturity by setting culturally appropriate CR targets for its German business for the first time in 2012/13.

- Overall in 2011/12, we found that 11 targets were fully achieved (73%), 3 partially achieved (20%) and 1 not achieved (7%).

Looking ahead, Grainger is taking an ambitious step to fully integrate CR targets with its business strategy. Five key focus areas have been identified by the executive directors, who will each take responsibility for managing initiatives and business value in a specific area for 2012/13. The level of ownership is dramatically increasing at the highest levels with this step. We fully support Grainger's focus on its properties as these represent the company's most material environmental impact.

Upstream recommends that Grainger pay particular attention in 2012/13 to:

- Maintaining and directing the momentum built during 2011/12, particularly through updating its governance structure;

- Incorporating the German business into the CR strategy;

- Ensuring that robust data collection processes are in place to prepare for UK mandatory carbon reporting.

Lora Brill
Senior Sustainability Consultant

Jones Lang LaSalle,
Upstream Sustainability Services

6 December 2012

For the full Advisor's Statement, please go to
www.graingercr.com

Risk management

The Grainger plc board is ultimately responsible for the group's risk management framework. The new Board Risk and Compliance Committee (BRCC), set up during the period, regularly reviews the group's key risks and is supported in the discharge of this responsibility by the internal executive risk committee.

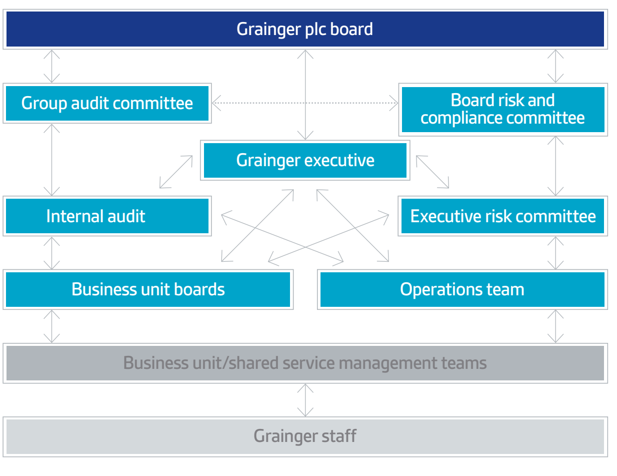
Grainger has a structured risk management process that recognises the following risk categories: Strategic, Operational, Financial, Project, Legal & Regulatory, Information Technology (IT) and People Risks. This categorisation is aligned to the group's business objectives and enables a comprehensive approach to risk assessment.

In the last year the BRCC and Executive have agreed a risk appetite and tolerance policy aligned to the above risk categories. This policy is now being implemented and will provide a clear and agreed view of the level of risk the group is prepared to accept in each of its risk categories, acting as high level governance guides for the business in its risk assessment and controls.

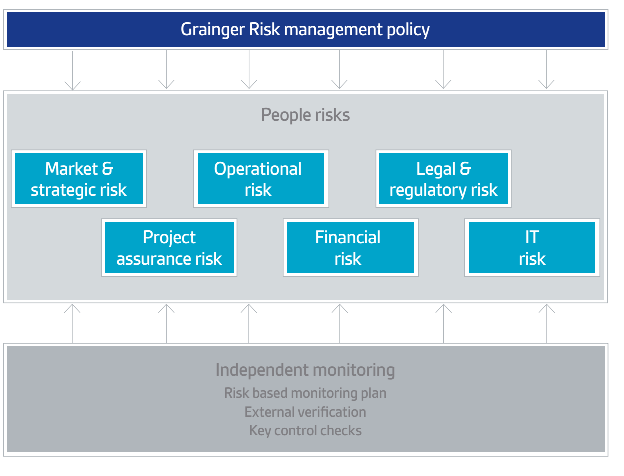
The risk management process is designed to capture key risks from across the whole group. Each Division or Corporate Department assesses its key risks using our internal risk scoring matrix based on the level of potential impact and the probability of the risk event occurring. These risks are reviewed and monitored by the executive risk committee on a regular basis. Macro economic risks such as the Euro crisis, and their potential impact on Grainger have also been considered by the Executive. The subsequent agreed group top risks and their management are then reviewed by the BRCC on a quarterly basis.

The risk reporting framework below enables a two way approach to monitoring and reporting risk across the group.

Risk reporting framework



Grainger management framework



The principal risks faced by the group are:

Description and relevance to strategy	Mitigation	Change during the period
Negative impact on Germany and UK of deterioration of Eurozone	– De-gearing and hedging – Euro exposure counter balanced by euro denominated debt – Euro debt held in UK flexible facility that could be repaid and redrawn in sterling if necessary	No change
Legal and Regulatory Obligations	– Internal General Counsel team supervise and advise – Clear corporate project management protocols – Three lines of defence approach to FSA regulatory obligations	No change
Failure to comply with financial covenants	– Regular executive monitoring of loan to value and interest cover ratios	No change
Long-term flat or negative growth in value of group assets	– Portfolio weighting towards areas of higher economic growth – Growth of non-HPI dependent income streams – Maintenance of liquidity of assets to enable sale where necessary	No change
Inadequate or inappropriately implemented Health and Safety procedures and controls by external contractor base	– Full utilities management plan in place – Health and Safety training provided to relevant staff – Appropriately qualified and certified contractors used – Executive and board oversight	No change
Availability of sufficient funds at the right price	– De-gearing – Establishing other potential sources of debt – Recruitment of specialist in strategic capital markets	No change
Lack of clarity of values and culture	– Internal values project – Review of recruitment, induction and appraisal – Staff engagement surveys	No change
Key person risk	– Succession planning project – Emerging leaders programme – Retention policies in place for key staff	No change
Rapid cataclysmic decline in house prices	– Deleveraging – Maintenance of low loan to value	No change

The principal risks faced by the group are:

No change → Increased risk ↑ Decreased risk ↓

The Grainger board

The board is responsible to the company's shareholders for the long-term success of the group, its strategy, values and its governance.

Robin Broadhurst CVO, CBE, FRICS
Non-executive chairman Aged 66

Appointment
Appointed to the board in February 2004 and became Chairman in February 2007

Experience
Robin was previously European Chairman at Jones Lang LaSalle and served as trustee and non-executive director at Grosvenor for eleven years. He is a property consultant to Sir Robert McAlpine Limited and is a Non-executive director of Chelsfield Partners

Committee membership
Chairman of nominations committee

Andrew Cunningham FCA, FRICS
Chief executive Aged 56

Appointment
Appointed to the board as Finance Director in 1996 and became Deputy Chief Executive in 2002 and Chief Executive in 2009

Experience
Andrew is a chartered accountant and before joining Grainger was a partner in a predecessor firm of PricewaterhouseCoopers. He is a member of the British Property Federation Policy Committee and in 2012 was appointed a Fellow of the Royal Institution of Chartered Surveyors and was also appointed a member of the Cambridge University Land Economy Advisory Board.

Committee membership
None

John Barnsley
Non-executive director Aged 64

Appointment
Appointed to the board in 2003 and became Senior Independent Director in February 2011.

Experience
John is a Non-executive director of Northern Investors Company plc, American Appraisal Associates LLP and Hippodrome Casino Limited. Until December 2001 he was a senior Partner at PricewaterhouseCoopers.

Committee membership
Senior independent director
Chairman of audit committee
Member of board risk and compliance committee
Member of nominations committee

Henry Pitman
Non-executive director Aged 50

Appointment
Appointed to the board in 2007.

Experience
Henry is currently Chairman of African Century, an African investment business. Previously he was Chief Executive of Tribal Group plc. Prior to this he was managing director of JHP Group Limited and from 1990 to 1995 he worked for the Property Corporation of South Africa.

Committee membership
Member of remuneration committee

Baroness Margaret Ford
Non-executive director Aged 54

Appointment
Appointed to the board in 2008.

Experience
Margaret is Chairman of Barchester Healthcare Ltd and May Gurney Group Ltd. She was Chairman of the Olympic Park Legacy Company from 2009 to 2012, was a Managing Director in the Royal Bank of Canada's Global Infrastructure Group from 2007 to 2009, and between 2002 and 2007 was Chairman of English Partnerships.

Committee membership
Chairman of remuneration committee
Member of audit committee
Member of nominations committee

Mark Greenwood FCMA
Finance director Aged 53

Appointment
Appointed to the board as Finance Director in September 2010.

Experience
Mark has worked in finance since 1982 and held a number of senior positions within Alfred McAlpine plc from 1989 to 2008. He was Group Finance Director from 2007 until its takeover in 2008 by Carillion. From 2008 to 2010 Mark was Finance Director of the Middle East and North Africa business of Carillion plc.

Committee membership
Member of board risk and compliance committee

Nick Jopling FRICS
Executive director Aged 51

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

Experience
Nick was previously with CB Richard Ellis where he was executive director of residential. He is the Chairman of the UK Urban Land Institute Executive Committee and was a member of Sir Adrian Montague's Committee which reviewed the Barriers to Institutional Investment in Private Rented Homes.

Committee membership
None

Peter Couch Executive director,
Chief operating officer Aged 54

Appointment
Appointed to the board as executive director responsible for Grainger's retirement solutions business in 2010.

Experience
Prior to joining Grainger in 2005 Peter spent most of his career in the financial services sector and held several senior roles within the AMP Group.

Committee membership
Member of board risk and compliance committee

Belinda Richards
Non-executive director Aged 54

Appointment
Appointed to the board in 2011.

Experience
Belinda was previously Global Head of Deloitte's Merger Integration and Separation Advisory Services and is also a Non-executive director of Friends Life Group plc.

Committee membership
Chairman of board risk
and compliance committee
Member of audit committee
Member of remuneration committee

Tony Wray
Non-executive director Aged 51

Appointment
Appointed to the board in 2011.

Experience
Tony has been the Chief Executive of FTSE 100 water company Severn Trent plc since 2007, having joined their board in 2005. He is also a member of the Water UK Board and has held director roles within Transco and National Grid Transco.

Committee membership
Member of audit committee
Member of board Risk
and compliance committee

Simon Davies
Non-executive director Aged 53

Appointment
Appointed to the board in 2012.

Experience
Simon retired from the role of Executive Chairman at Threadneedle Asset Management in 2012 after five years in the position, having previously been Chief Executive (1999 – 2007) and Chief Investment Officer (1995 – 1998). He is currently Chairman of JP Morgan Overseas Investment Trust plc and is also a director of Intrinsic Financial Services Ltd.

Committee membership
None

Corporate governance

The board of Grainger is committed to maintaining high standards of corporate governance. The directors and I see this as fundamental to effective management of the business and delivery of long-term shareholder value.

Robin Broadhurst
Chairman

Chairman's Introduction

Compliance with the UK Corporate Governance Code

The governance rules applicable to all UK companies admitted to the Official List of the UK Listing Authority are set out in the UK Corporate Governance Code (the 'Code'), published by the Financial Reporting Council. The board fully supports the principles set out in the Code and confirms that it has complied with all of the provisions of the Code throughout the financial year ended 30 September 2012.

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

Composition and independence

The board reviews non-executive director independence on an annual basis and takes into account the individual's professional characteristics, their behaviour at board meetings and their contribution to unbiased and independent debate. All of the non-executive directors are considered by the board to be independent.

We are aware that, for some investors, length of non-executive director's service beyond nine years will prejudice their independence. John Barnsley, the senior independent director, has served on the board since February 2003.

The board and myself believe that John Barnsley continues to exercise a degree of rigorous enquiry and intellectual challenge in respect of his role as non-executive director and as such continues to regard him as independent. His continuity of service has been, and continues to be of considerable benefit to the company through a period of significant change in both the executive and non-executive directors and provides an important knowledge link with the past and an in-depth understanding of the company which is considered to be highly beneficial to the board. Further, this enhanced duration of service is complementary to the longer term business cycle applicable to the Grainger business model.

The board consisted of a majority of independent non-executive directors (excluding the chairman) throughout the year.

Biographical details of all the current directors are set out on pages 50 and 51.

In accordance with the UK Corporate Governance Code, all the directors, with the exception of Henry Pitman who is retiring from the board, will stand for re-election at the AGM.

Diversity

Grainger believes that a diverse culture is a key factor in driving its success, and supports the Davies Reports' aspiration to promote greater female representation on listed company boards.

As at 30 September 2012, the Grainger board had two female non-executive directors, Baroness Margaret Ford and Belinda Richards, representing 20% of board membership. Margaret and Belinda bring invaluable skills to the composition of the board, and as and when board appointments arise, we will look to follow the procedures recommended by the Davies Report and by the Governance Code to maintain a balanced board.

Board evaluation

As reported last year, an independent evaluation of the Grainger board was carried out in 2011. This year I have personally carried out an evaluation of the board, considering the recommendations from 2011. Further details are available on page 57.

Shareholder engagement

The board regards it as important to maintain an active dialogue with our shareholders. Further details regarding this engagement with our shareholders are set out on page 58.

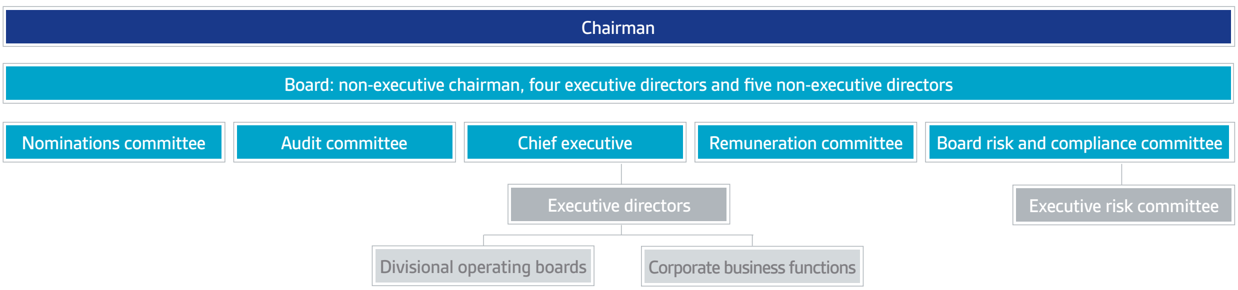
Robin Broadhurst
Chairman

6 December 2012

Corporate governance
continued

Leadership
The board
The board is responsible to the company's shareholders for the long-term success of the group, its strategy, values and its governance.

Governance framework
30 September 2012



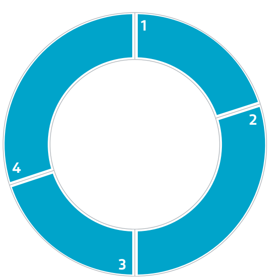
The role of the board
The board provides leadership of the group and, either directly or through the operation of committees of directors and delegated authority, applies independent judgement on matters of strategy, performance, resources (including key appointments) and standards of behaviour. The board sets the group's strategic objectives and approves and monitors business plans and budgets submitted by the executive directors and senior management. The written statement of matters reserved to the board is reviewed and approved annually by the board and a copy is available on the group's website www.graingerplc.co.uk or from the company secretary on request.

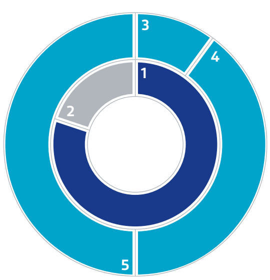
Length of service
30 September 2012

1. One – Two years	2
2. Two – Three years	3
3. Four – Six years	2
4. >Six years	3

Balance of directors
30 September 2012

1. Male	8
2. Female	2
3. Chairman	1
4. Exec directors	4
5. Non-executives	5





The directors
As at the date of this report the directors of the company are:

Chairman
– Robin Broadhurst

Executive directors
– Andrew Cunningham
– Peter Couch
– Mark Greenwood
– Nick Jopling

Non-executive directors
– John Barnsley (Senior independent director)
– Henry Pitman
– Baroness Margaret Ford
– Belinda Richards
– Tony Wray
– Simon Davies

Tony Wray was appointed to the board as a non-executive director with effect from 24 October 2011. Robert Hiscox retired from the board following the conclusion of the company's AGM on 8 February 2012 and Simon Davies was appointed to the board on 20 November 2012. Henry Pitman will be retiring from the board at the AGM in February 2013.

Chairman and chief executive

The posts of chairman and chief executive are separate and their roles and responsibilities are clearly established, set out in writing and agreed by the board. A copy of the written statement of roles is available on the group's website www.graingerplc.co.uk or from the company secretary on request. The chairman is responsible for running the board and ensuring its effectiveness. The chief executive reports to the chairman, as does the company secretary on matters of corporate governance. The chairman is the guardian of the board's decision making and is responsible for ensuring a constructive relationship between executive and non-executive directors and for fostering a culture of challenge and debate in the boardroom.

The chief executive is responsible for running the business and implementing the board's decisions. He chairs a weekly meeting with the other executive directors, all of whom report directly to him, and, together with the executive directors, holds monthly meetings with each of the divisional boards to review all operational issues.

Non-executive directors

The non-executive directors are responsible for bringing independent and objective judgement and scrutiny to all matters before the board and its committees, using their substantial and wide ranging experience. The key responsibilities of non-executive directors are set out in their letters of appointment and include requirements to:

- Challenge and contribute to the development of the company's strategy;
- Scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance; and to
- Satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible.

A copy of the standard letter of appointment for a non-executive director is available on the group's website www.graingerplc.co.uk or from the company secretary on request. The non-executive directors meet periodically without the executive directors present. There were two such meetings in the year and an additional meeting of the non-executive directors without the chairman or the executive directors present.

Senior independent director

The senior independent director is available to shareholders if they request a meeting or have concerns, which contact through the normal channels has failed to resolve or where such contact is inappropriate. No such requests were received from shareholders during the year. The senior independent director leads the annual performance review of the chairman.

Effectiveness

Meetings

There were six meetings of the board in the year. The board has a list of matters reserved to it and a rolling annual plan of items for discussion, agreed between the chairman and the chief executive. The list of reserved matters and annual plan are reviewed regularly to ensure all matters reserved to the board, as well as other key issues, are discussed at the appropriate time. At each board meeting the chief executive provided a review of the business, how it was performing and strategic issues arising. In the year the range of subjects discussed included:

- The strategy of the group in response to changing economic conditions;
- Key business areas, including Germany, retirement solutions, residential and funds;
- The group's debt and capital structure;
- The group's financial results;
- Dividend policy;
- Regulatory and governance issues; and
- The development of the group's people.

Three of the meetings were preceded, the evening before, by an informal meeting allowing more time to debate issues in depth. Two of the board meetings were held at the company's head office in Newcastle upon Tyne and three of the board meetings were held in the company's London office. The meeting in June 2012 was held in a central London hotel to coincide with a full day's strategy conference with senior management – giving the board the opportunity to engage with key staff on a range of issues. During the course of these meetings the directors have heard presentations from divisional directors on the following matters;

- Property and asset management.
- Development of the group's core IT systems.
- Health & Safety Management within the group.
- The group's German business.
- Grainger's Asset Management platform.
- The business improvement programme.
- Accessing capital markets.

Corporate governance
continued

Attendance table

Executive directors	Meetings attended	Meetings eligible to attend
Andrew Cunningham	6	6
Peter Couch	6	6
Nick Jopling	6	6
Mark Greenwood	6	6

Non-executive directors	Meetings attended	Meetings eligible to attend
Robin Broadhurst	6	6
John Barnsley	6	6
Henry Pitman	6	6
Baroness Margaret Ford	6	6
Belinda Richards	5	6
Tony Wray	6	6
Robert Hiscox	2	2

Board committees

The board has established four principal board committees to which it has delegated certain of its responsibilities. They are the audit committee, remuneration committee, nominations committee and the board risk and compliance committee. The roles, membership and activities of these committees are described in more detail later in the Corporate Governance statement.

Information flow

The chairman, together with the company secretary, ensures that the directors receive clear information on all relevant matters in a timely manner. Board papers are circulated sufficiently in advance of meetings for them to be thoroughly digested in advance of the meeting to ensure clarity of informed debate. The board papers contain the chief executive's written report, high level papers on each business area, key metrics and specific papers relating to agenda items. The board papers are accompanied by a management information pack containing detailed financial and other supporting information. The board receives a bi-weekly update throughout the year and occasional ad hoc papers on matters of particular relevance or importance. As highlighted above the board also received presentations from various business units.

Time commitment

The board is satisfied that the chairman and each of the non-executive directors committed sufficient time during the year to enable them to fulfil their duties as directors of the company. None of the non-executive directors has any conflict of interest which has not been disclosed to the board in accordance with the company's articles of association.

Induction and professional development

The chairman is responsible for ensuring that induction and training are provided to each director and the company secretary organises the induction process and regular updating and training of board members.

Tony Wray was appointed in the year and received a comprehensive, tailored induction to the company. This consisted of the provision of a corporate handbook covering such items as matters reserved for the board, division of responsibility between the chairman and chief executive and the terms of reference of the various board committees as well as individual sessions with members of the senior management team in both the Newcastle and London offices. He was also taken on a property tour to enable him to see some of the company's properties – ranging from the core regulated portfolio through to some of the development activities.

Training and updating as to the business of the group and the legal and regulatory responsibilities of directors was provided throughout the year by a variety of means to board members including presentations by executives, visits to business operations and circulation of briefing materials. Individual directors are also expected to take responsibility for identifying their 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.

Access to independent advice

All directors have access to the advice and services of the company secretary who ensures that board processes are followed and good corporate governance standards are maintained. Any director who considers it necessary or appropriate may take independent, professional advice at the company's expense. None of the directors sought such advice in the year.

Performance evaluation

As reported last year, the board evaluation in 2011 was undertaken by Independent Audit Limited, an independent firm of consultants, who concluded that there was considerable evidence to show that the board and its committees were effective. Areas which have been developed further subsequent to that report have been:

- the strategic messaging;
- risk related work;
- succession planning; and
- board information

The 2012 evaluation was led by the chairman who had private one to one meetings with each of the directors. The company secretary collated the evaluation results and these were considered by the chairman and the company secretary and reported back to the board. These were positive and indicated that the board, its committees and individual directors were all operating effectively. The review of the chairman's performance, which review was led by the senior independent director, concluded that the chairman's leadership and performance were considered to have been of a high standard.

No major areas were highlighted within this review process but the board intend to continue to develop themes arising from the review, specifically on:

- strategic messaging;
- board information; and
- succession

The board and its committees will monitor progress and continue their critical review of its effectiveness during the year ahead. In accordance with the prevailing provisions of the Code, it is the current intention of the board that external facilitation of the board evaluation will be carried out every three years.

Re-election of directors

Notwithstanding that the company's articles of association require the directors to offer themselves for re-election at least once every three years, in accordance with the recommendations of the Code all of the directors (except for Henry Pitman who will be retiring from the board), will be offering themselves for re-election at the AGM in February 2013. In light of the performance evaluations summarised above and the provisions of the company's articles of association, the board recommends that all of the directors be re-elected.

Accountability

Internal control

The board is responsible for reviewing and approving the group's system of internal control and its adequacy and effectiveness. The group has a cyclical process for identifying, assessing and managing its significant risks, which has been in place for the full year under review. The process is designed to enable the board to be confident that such risks are mitigated, or controlled as far as possible. It should be noted however, that no system can eliminate the risk of failure to achieve business objectives entirely and can only provide reasonable and not absolute assurance against material misstatement or loss. The risk and compliance committee is delegated the task of reviewing all identified risks, with the ultimate key risks retained for full board review. The audit committee reports to the board at every board meeting. Risks and controls are reviewed to ensure effective management of appropriate strategic, financial, operational and compliance issues. The audit committee also reviews the half year and full year financial statements, which includes the results of our associate and joint ventures, which are subject to the same internal controls as within the group. In addition, the group has an internal audit function which performs relevant reviews as part of a programme approved by the audit committee. The committee considers any issues or risks arising from internal audit in order that appropriate actions can be undertaken for their satisfactory resolution. The internal audit manager has a direct reporting line to the chairman of the audit committee. A detailed annual budget is produced each year, together with longer-term projections in accordance with the agreed strategy, which are presented to the board for consideration and approval. A fundamental part of the control process is the diligent monitoring of

Corporate governance
continued

actual performance against this budget by the board. Where applicable, revisions are made to expected out-turn against which further progress can be monitored. A detailed monthly management information pack is prepared which covers each major area of the business and which includes detailed consolidated results and financial information for the business as a whole. The performance of each business area is reviewed monthly by both divisional management and the executive directors and is subsequently reported to the board.

The board also discusses in detail the projected financial impact of major proposed acquisitions and disposals, including their financing. All such proposed substantial investments are considered by all directors. Where meetings are required between board meetings and a full complement of directors cannot be achieved, a committee of directors considers the necessary formalities. The board is also responsible for reviewing and approving the group's treasury strategy, including mitigation against changes in interest rates. The group's processes for internal control have been in place throughout the year and accord with the Turnbull guidelines (2005). The board regularly reviews the group's processes for internal control and conducts a formal annual review of these processes and the risks relating to the business. No significant failings or weaknesses were identified from this review in the year.

Going concern
The Group closely monitors its future anticipated cash flows and compliance with its banking covenants. Based on these forecasts and the sensitivities which have been run on different scenarios the directors have a reasonable expectation that the group and company have adequate resources to continue in existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Relations with shareholders
The company has held over 100 meetings with shareholders, analysts and potential investors in the year in addition to the usual half-yearly results announcements and briefings. Andrew Cunningham and Mark Greenwood, chief executive and finance director respectively, have had the vast majority of these meetings and manage the group's investor relations programme with the head of corporate affairs. Some of the key issues raised were the levels of debt within the business and the strategy for the company's investment in Germany. Feedback is always sought following such meetings and this feedback is presented to the board.

The chairman and Baroness Ford, the chairman of the remuneration committee, also met with the Corporate Governance officers of the company's major shareholders in advance of the AGM where the keys issues discussed were the company's policy for director's remuneration and succession. The group's website includes a specific and comprehensive Investor Relations section, containing all RNS announcements, share price information, annual documents available for download and similar materials. All the directors intend to be in attendance at the AGM in February 2013 and to be available to answer questions. All shareholders have the opportunity to attend the AGM, which continues as a route for communication with smaller and private shareholders.

The notice of meeting and annual report and accounts are sent out at least 20 working days before the meeting. Separate votes are held for each proposed resolution, including the approval of the remuneration committee report, and a proxy count is given in each case after the voting on a show of hands. Grainger includes, as standard, a 'vote withheld' category, in line with best practice. Shareholders are also able to lodge their votes through the CREST system.

Substantial shareholdings
As at 30 November 2012, the company is aware of the following interests amounting to 3% or more in the company's shares:

	Holding million	Holding %
Schroder Investment Management Ltd	79.4	19.06
Standard Life Investments Ltd	24.1	5.79
BlackRock Inc	19.3	4.63
Henderson Global Investors	15.6	3.75
Franklin Templeton Fund Management Ltd	13.4	3.22

Audit committee report

John Barnsley
Committee Chairman

The audit committee currently comprises four independent non-executive directors.

Committee member	Member since	Meetings attended	Meetings eligible to attend
John Barnsley (committee chairman)	February 2003	4	4
Baroness Margaret Ford	July 2008	3	4
Belinda Richards	April 2011	4	4
Tony Wray	November 2011	4	4

Biographical details relating to each of the committee members is shown on pages 50 and 51.

John Barnsley, the chairman of the committee is a chartered accountant and Belinda Richards, who prior to joining the board was Global Head of Deloitte's Merger, Integration and Separation Advisory Services both have recent and relevant financial experience as required by the UK Corporate Governance Code.

The Group's external auditors are PricewaterhouseCoopers LLP. The audit committee is responsible for reviewing the independence and objectivity of the external auditor, and ensuring this is safeguarded notwithstanding any provision of any other services to the group.

The board recognises the importance of safeguarding auditor objectivity and has taken the following steps to ensure that auditor independence is not compromised:

- The audit committee carries out each year a full evaluation of the external auditor as to its complete independence from the group and relevant officers of the group in all material respects and that it is adequately resourced and technically capable to deliver an objective audit to shareholders. Based on this review the audit committee recommends to the board each year the continuation, or removal and replacement, of the external auditor;
- The external auditors provide audit-related services such as regulatory and statutory reporting as well as formalities relating to shareholders and other circulars;
- The external auditors may undertake due diligence reviews and provide assistance on tax and pension matters given its knowledge of the group's businesses. Such provision will however be assessed on a case-by-case basis so that the best placed adviser is retained. The audit committee monitors the application of policy in this regard and keeps the policy under review;

Audit committee report
continued

- The audit committee reviews on a regular basis all fees paid for audit, and all consultancy fees, with a view to assessing reasonableness of fees, value of delivery, and any independence issues that may have arisen or may potentially arise in the future;
- The auditors report to the directors and the audit committee confirming their independence in accordance with Auditing Standards. In addition to the steps taken by the board to safeguard auditor objectivity, PricewaterhouseCoopers LLP operates a five-year rotation policy for audit partners. During the year a rotation occurred and a new audit partner took over responsibility for the audit; and
- Different teams are utilised on all other assignments undertaken by the auditors. Before any such assignments can commence teams must obtain approval from the senior statutory audit partner and the approval of the audit committee. This approval confirms that sufficient and appropriate safeguards are put in place to ensure that auditor independence is retained.

The audit committee give careful consideration before appointing the auditors to provide other services. The group regularly use other providers to ensure that independence and full value for money are achieved. Other services are generally limited to work that is closely related to the annual audit or where the work is of such a nature that a detailed understanding of the business is necessary.

During the year, £64,000 was paid by the group to PricewaterhouseCoopers LLP for taxation services. A further £368,000 was paid for other services, the main element of which was £325,000 relating to the preparation of a financial due diligence report in relation to the group's German business.

Key activities

They key work undertaken by the committee during the year was as follows:

- Consideration and review of full year and half year results.
- Meeting with the external auditors and discussing with them the significant financial reporting issues and accounting policies.
- Agreeing the scope of the work to be undertaken by the external auditors for their review of the half year results and year end statutory audit.
- Discussing with the external auditors the anticipated impact of changes in forthcoming accounting standards.
- Consideration and approval of the annual internal audit plan, internal audit resources and periodic reports from internal audit.
- Reviewing the audit committee's terms of reference.
- Reviewing the Group's Whistleblowing Policy and satisfying themselves that this meets FSA rules and good standards of corporate governance.

The Group's Internal Audit Manager has direct access to the chairman of the audit committee, and meets with him, without the presence of management, to discuss the planning of audit committee meetings.

Nominations committee report

Robin Broadhurst
Committee Chairman

The nominations committee currently comprises the chairman and two independent non-executive directors.

Baroness Margaret Ford was appointed to the committee in February 2012 to replace Robert Hiscox when he retired from the board after the 2012 AGM.

Committee member	Member since	Meetings attended	Meetings eligible to attend
Robin Broadhurst (company chairman)	February 2005	2	2
John Barnsley (senior independent director)	February 2011	2	2
Baroness Margaret Ford (independent non-executive director)	February 2012	1	1
Robert Hiscox (independent non-executive director)	(retired February 2012)	1	1

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.
– Identify and make recommendations to the board regarding candidates to fill board vacancies as and when they arise.
– Review annually the time commitment required of non-executive directors.
– Make recommendations for the board, in consultation with the respective committee chairman regarding membership of the audit, risk and compliance and remuneration committees.
– Review the tenure of each of the non-executive directors.

Main activities of the committee during the year and subsequent to the year end

The committee met twice during the year to 30 September 2012 and has met once subsequently.

The key matters considered at these meetings were:

– Succession plans for both the executive and non-executive directors.
– Membership of board committees.
– The time commitment required of non-executive directors.
– The qualities and skills that would be desirable in the new non-executive director who was to be recruited in advance of Henry Pitman's retirement from the board at the 2013 AGM.
– Undertaking a selection process in conjunction with a specialist recruitment consultancy to identify suitable candidates to fill the board vacancy and subsequently recommending to the board that Simon Davies be appointed as a non-executive director in November 2012.
– The identification, after consulting with the CEO, of any existing employees who could be developed to take on more senior roles and any who may have the potential to become, in due course, executive directors.

Remuneration committee report

Baroness Margaret Ford
Committee Chairman

The remuneration committee currently comprises three independent non-executive directors.

Committee member	Member since	Meetings attended	Meetings eligible to attend
Baroness Margaret Ford (Committee chairman)	January 2010	4	4
Henry Pitman	January 2010	3	4
Belinda Richards	May 2011	4	4
Robert Hiscox	(Retired February 2012)	2	2

Remuneration policy

Grainger's remuneration policy is designed to attract, motivate and retain high calibre individuals to enable the group to operate strategically for the continued benefit of shareholders, over the long term. In order to operate this policy, the remuneration committee receives information on remuneration packages awarded to directors in comparable organisations and aims to ensure that the rewards paid by Grainger are competitive. However the board does not follow benchmark data slavishly. We decide on what is correct for our business.

The policy is also designed to align the directors' interests with those of shareholders. This is principally achieved through the use of share-based incentives and by encouraging executive directors to maintain a reasonable shareholding in the group. As a guideline, executive directors are expected to hold the equivalent value of at least one year's salary in Grainger shares and they are encouraged to build their shareholding over a five year period following their appointment to the board. Details of executive directors' share options and share awards are shown on pages 68 and 69 respectively and their shareholdings are shown within the table on page 70. Share awards are generally satisfied by the acquisition of shares in the market, so are not dilutive to shareholders. Share options are usually satisfied by the issue of new share capital although the majority of share options exercised during the year have been satisfied by shares which have been acquired in the market and which have been held within the company's Employee Benefit Trust.

Remuneration packages balance both short and long-term rewards. They include salary, bonus and pension elements as well as long-term share incentives and option schemes. Usual benefits are also provided.

No executive director is involved in the determination of his own remuneration. Fees of the non-executive directors, which include increments where a committee chairmanship or senior independent position is held, are determined by the executive committee of the board.

The remuneration committee also review the total level of salaries and bonuses paid to the group as a whole.

Other directorships

The board has an approved policy on other directorships. This permits a full-time executive director to hold non-executive directorships, and to retain fees from any such appointment, provided that the board considers that this will not adversely affect their executive responsibilities. None of the executive directors held any other directorships outside of the group during the year.

Elements of remuneration

Basic salaries and benefits

Basic salaries are reviewed by the remuneration committee annually with uplifts being by reference to cost of living, responsibilities and market rates, as for all employees.

The salaries for the executive directors have remained unchanged for the last two years and it has been determined by the committee that these will be unchanged for 2013. The salary of the chief executive has remained the same since October 2009 and for the other three executives directors since they were appointed to the board in 2010.

The non-salary benefits for executive directors comprise:

- a car allowance
- private medical insurance
- life insurance

The fees for the chairman and non-executive directors are reviewed on a biennial basis by the executive committee to the board.

Following the biennial review undertaken by the executive committee during the year it was agreed that the basic fees for the chairman and non-executive directors would remain unaltered for the forthcoming year.

Non-executive directors do not receive performance-related remuneration, or any form of benefits.

Annual cash bonus

Under the new annual bonus scheme that was introduced in 2011 75% of the performance measure is based on the following two financial measures – operating profit before valuation movements and non-recurring items (OPBVM) and return on shareholders' equity. The remaining 25% of the performance measure is based on an assessment of personal performance.

The assessment of the personal performance for the chief executive is undertaken by the chairman and for the other executive directors by the chief executive.

The maximum potential bonus for the chief executive is capped at a multiple of 150% of salary with the other executive directors maximum bonus being capped at 125% of salary. These maximum potential figures are meant to represent stretch targets and to reflect really exceptional performance.

Following an assessment of all of the above measures the total bonuses payable relative to their salary for the executive directors were 28% for the chief executive and 23% for the other directors.

Legacy bonus scheme

Up to the financial year ended 30 September 2010 Andrew Cunningham had participated in an arrangement introduced in 2003 whereby each year a notional provisional bonus amount was calculated by reference to the enhancement of the triple net asset value of Grainger, relative to a theoretical market comparator. The comparator movement was calculated with regard to the Nationwide and Halifax house price indices and also interest rates – using five-year swap rates.

The calculated amount was aggregated with the unpaid notional amounts from previous years and each year the remuneration committee considered the appropriate proportion, if any, of this aggregate notional sum to be approved for payment. The notional balance, after any approved payment, remained to be taken into account over future years. The maximum amount that could be transferred into the pool in any one year was 150% of salary and this could only be achieved under exceptional performance conditions.

As at 30 September 2010 the balance in the notional bonus pool stood at £545,621. Following the review of bonus arrangements in 2011 the remuneration committee agreed to close this bonus scheme as we did not feel that it was sufficiently transparent and the deferred nature of the payments was not in line with good practice. However a bonus pool remained in respect of the chief executive. This reflected performance between 2003 and 2010, had been fully earned and had been approved by shareholders. This legacy scheme is being paid out in five equal tranches, beginning in 2011. The second instalment of £109,124 was paid in March 2012. The balance in the pool at 30 September 2012 was £327,373.

Long-term Incentives

Grainger's policy in relation to long-term incentive schemes has evolved over time to more closely align the long-term interests of executives and senior management with those of shareholders, to reward sustained performance over a number of financial years and to encourage these employees to grow their shareholdings.

The current LTIS was approved by shareholders in February 2007 and makes conditional awards of shares to reward performance and retain key staff over rolling three-year periods.

The awards are based upon the absolute levels of increase in both NNNAV and TSR. Fundamentally it was considered that absolute measures of performance were suitable because Grainger is unusual in nature and has no natural comparator group. Grainger is the only listed company of its size to invest primarily

Remuneration committee report
continued

in residential property assets. All other comparably sized property companies are principally commercial and/or development focused. For awards granted before September 2010 two-thirds of the award was based on the absolute level of increase in NNNAV and one-third on the increase in absolute TSR. However, following a review of remuneration arrangements in 2010 it was determined that, with effect from 1 October 2010 awards would be split equally between NNNAV and TSR, with the TSR target range having been adjusted from 8% – 16% to 5% – 15%, as follows:

LTIS awards granted before September 2010

TSR Performance conditions (33.33%)	Percentage of the TSR element of an award which will vest
Growth in TSR over 3 years	
TSR The base threshold for vesting is 8% with the maximum of 16%	
Less than 8%	Nil
Between 8% and 16%	Pro rata vesting
More than 16%	100%

NNNAV Performance Conditions (66.67%)	Percentage of the NNNAV element of an award which will vest
NNNAV Base threshold for vesting where NNNAV growth exceeded the average WACC. The maximum level occurs when growth in NNNAV exceeds average WACC plus 3%.	
Less than or equal to average WACC	Nil
Between average WACC and average WACC + 3%	Pro rata vesting
Equal to or greater than average WACC + 3%	100%

LTIS awards granted after October 2010

TSR Performance Conditions (50%)	Percentage of the TSR element of an award which will vest
Growth in TSR over 3 years	
TSR The base threshold for vesting is 5% with the maximum at 15%	
Less than 5%	Nil
Between 5% and 15%	Pro rata vesting
More than 15%	100%

NNNAV Performance Conditions (50%)	Percentage of the NNNAV element of an award which will vest
Growth in NNNAV over a three-year period relative to the average of the Halifax and Nationwide indices by a factor of:	
NNNAV Base threshold for vesting where NNNAV growth exceeded the average of Halifax and Nationwide indices by a factor of 1.5. The maximum level occurs at a factor of 3.	
Less than 1.5	Nil
Between 1.5 & 3	Pro rata vesting
Greater than 3	100%

There is also a matching awards element to the scheme, to encourage executives to develop and maintain a shareholding in the company. Participants are able to pledge or buy shares of equivalent value to 30% of their relevant salary and to the extent that performance criteria are met, these shares will be matched one-for-one at the end of the three-year period.

These performance criteria are believed to be stretching, but realistic, and to reward executives if Grainger's return to shareholders is significant in absolute terms.

Performance-related remuneration

As should be expected and in accordance with the Code, a significant element of executive directors' and senior management's potential remuneration is performance related. The combination of short and long-term incentives attempts to align the interests of executives and senior management with the interests of shareholders, and to reward significant outperformance of expectations.

Policy objective

Clear incentive for delivery of strategic objectives

- Clear incentive for delivery of strategic objectives
- Alignment with shareholder' longer term interests

Short-term incentives

Supported by competitive base salaries and annual bonus measures

Annual bonus weightings	
37.5%	Linked to OPBVM
25.0%	Linked to an assessment of personal performance
37.5%	Linked to return on shareholders' equity

Long-term incentives

Supported by LTIS operational measures and long-term personal shareholdings

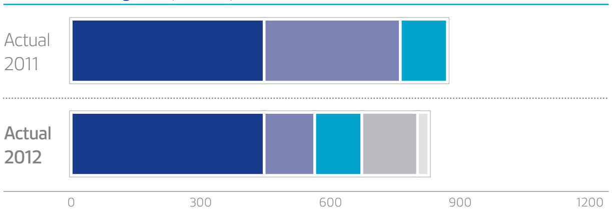
LTIS weightings	
50.0%	Linked to absolute total shareholder return performance measured over a three-year period
50.0%	Linked to growth in NNNAV compared to growth in Halifax & Nationwide indices measured over a three-year period

Shareholding (expectation)

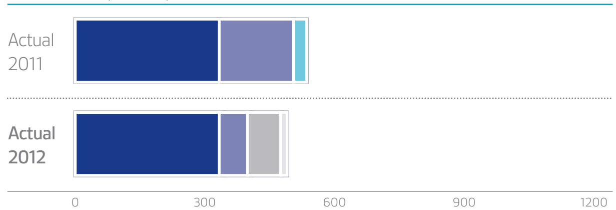
Effect of policy for executive directors

The charts below illustrate the total pay of the executive directors in 2011 and 2012, and the sources of that remuneration.

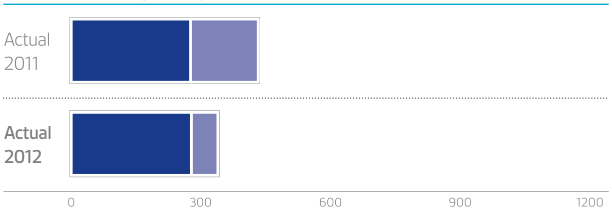
Andrew Cunningham (£'000s)



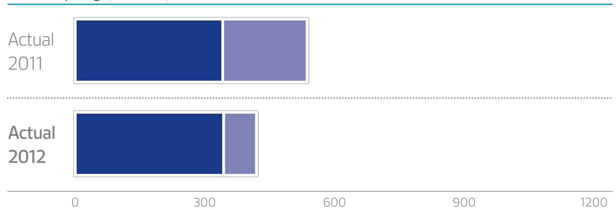
Peter Couch (£'000s)



Mark Greenwood (£'000s)



Nick Jopling (£'000s)



Actual 2011: This chart reflects the total pay of the executive directors in 2011. None of the LTIS share awards which were granted in 2008 vested during the year as the performance criteria were not met.

Actual 2012: This chart reflects the total pay of the executive directors in 2012 including the value of the LTIS share awards which were granted in 2009, and which vested during the year.

■ Salary, pension and benefits ■ Bonus ■ Legacy bonus ■ LTIS – Performance ■ LTIS – Matching ■ Misc share award

Remuneration committee report
continued

Shareholding Guidelines for Executive Directors

The committee believes that it is important for a significant investment to be made by each executive director in the shares of the company and has established share ownership guidelines for the Grainger executive directors.

These guidelines state that executive directors are expected and encouraged to build over a five year period a shareholding, equivalent in value to at least one year's salary.

Pensions

The group contributes 15% of basic salary as a pension allowance or into a personal pension arrangement for all of the executive directors. No other elements of remuneration are pensionable.

Share schemes open to all employees

The four executive directors are eligible to participate in a save as you earn scheme ('SAYE'), and in a share incentive plan ('SIP'). Both the SAYE and SIP are Inland Revenue approved and therefore subject to the limits prescribed, and both schemes are open to all employees, subject to the rules of the schemes.

Amounts relating to directors' participation in the SIP and share options under the SAYE scheme are shown on pages 67 and 68.

The auditors have audited the following parts of the remuneration report.

Directors' remuneration

Chairman and executive directors	Robin Broadhurst £'000	Andrew Cunningham £'000	Peter Couch £'000	Nick Jopling £'000	Mark Greenwood £'000	Total £'000
Non-performance-related remuneration						
Salary and fees	140	420	265	325	260	1,410
Taxable benefits	–	18	34	16	16	84
Share incentive plan	–	6	6	2	2	16
Total non-performance-related remuneration	140	444	305	343	278	1,510
Performance-related remuneration						
Annual discretionary bonus	–	117	62	76	61	316
Unwinding of previous bonus scheme	–	109	–	–	–	109
Total performance-related remuneration	–	226	62	76	61	425
Total remuneration for the year ended 30 September 2012	140	670	367	419	339	1,935
Total remuneration for the year ended 30 September 2011	140	870	464	536	432	2,442
Pension contributions						
Year ended 30 September 2012	–	63	40	49	44	196
Year ended 30 September 2011	–	58	41	49	34	182

Non-executive directors	John Barnsley £'000	Baroness Margaret Ford £'000	Robert Hiscox £'000	Henry Pitman £'000	Bill Tudor John £'000	Belinda Richards £'000	Tony Wray £'000	Total £'000	Total all directors 2012 £'000
Non-performance-related remuneration									
Salary and fees	52	47	14	40	–	46	38	237	1,647
Taxable benefits	–	–	–	–	–	–	–	–	84
Share incentive plan	–	–	–	–	–	–	–	–	16
Total non-performance-related remuneration	52	47	14	40	–	46	38	237	1,747
Performance-related remuneration									
Annual discretionary bonus	–	–	–	–	–	–	–	–	316
Unwinding of previous bonus scheme									109
Total performance-related remuneration	–	–	–	–	–	–	–	–	425
Total remuneration for the year ended 30 September 2012	52	47	14	40	–	46	38	237	2,172
Total remuneration for the year ended 30 September 2011	51	47	40	40	17	20	–	215	2,657

Bill Tudor John retired from the board on 9 February 2011
Belinda Richards was appointed to the board on 5 April 2011
Tony Wray was appointed to the board on 24 October 2011
Robert Hiscox retired from the board on 8 February 2012

Remuneration committee report
continued

Directors' share options

			Granted in year		Exercised during year						
		Share options at 1 Oct 2011	Number	Grant price (p)	Number	Exercise price (p)	Market price on exercise (p)	Share options at 30 Sept 2012	Exercise price (p)	Earliest exercise date	Latest exercise date
Andrew Cunningham	SAYE	44,415						44,415	37.70	1 Feb 2014	31 Jul 2014
	CSOP	31,772						31,772	94.42	26 Nov 2013	26 Nov 2020
Peter Couch	SAYE	25,454			25,454	37.70	104.00	–			
	SAYE		13,062	68.90				13,062	68.90	1 Sep 2015	1 Mar 2016
	CSOP	31,772						31,772	94.42	26 Nov 2013	26 Nov 2020
Mark Greenwood	SAYE		13,062	68.90				13,062	68.90	1 Sep 2015	1 Mar 2016
	CSOP	31,772						31,772	94.42	26 Nov 2013	26 Nov 2020
Nick Jopling	SAYE		21,770	68.90				21,770	68.90	1 Sep 2017	1 Mar 2018
	CSOP	31,772						31,772	94.42	26 Nov 2013	26 Nov 2020

Performance share awards

	Awards granted	Maximum award	Awards vested	Awards lapsed	Maximum outstanding awards at 30 Sept 2012	Market price at date of vesting (p)	Vesting date
Andrew Cunningham							
LTIS shares							
	23 Dec 2008	778,850	124,948	653,902	–	103.2	23 Dec 2011
	9 Dec 2009	480,695			480,695		9 Dec 2012
	26 Nov 2010	667,231			667,231		26 Nov 2013
	2 Dec 2011	625,496			625,496		2 Dec 2014
Matching shares							
	23 Dec 2008	155,769	24,988	130,781	–	103.2	23 Dec 2011
	9 Dec 2009	96,139			96,139		9 Dec 2012
	26 Nov 2010	133,446			133,446		26 Nov 2013
	2 Dec 2011	125,099			125,099		2 Dec 2014
Peter Couch							
LTIS shares							
	23 Dec 2008	429,418	68,890	360,528	–	103.2	23 Dec 2011
	26 Nov 2010	280,660			280,660		26 Nov 2013
	2 Dec 2011	263,105			263,105		2 Dec 2014
Matching shares							
	23 Dec 2008	85,884	13,778	72,106	–	103.2	23 Dec 2011
	26 Nov 2010	13,168			13,168		26 Nov 2013
	2 Dec 2011	78,931			78,931		2 Dec 2014
Mark Greenwood							
LTIS shares							
	21 Sep 2010	230,129			230,129		9 Dec 2012
	26 Nov 2010	275,365			275,365		26 Nov 2013
	2 Dec 2011	258,141			258,141		2 Dec 2014
Matching shares							
	21 Sep 2010	10,000			10,000		9 Dec 2012
	26 Nov 2010	10,498			10,498		26 Nov 2013
	2 Dec 2011	10,000			10,000		2 Dec 2014
Nick Jopling							
LTIS shares							
	21 Sep 2010	283,235			283,235		9 Dec 2012
	26 Nov 2010	344,206			344,206		26 Nov 2013
	2 Dec 2011	322,676			322,676		2 Dec 2014
Matching shares							
	21 Sep 2010	22,615			22,615		9 Dec 2012
	26 Nov 2010	38,888			38,888		26 Nov 2013
	2 Dec 2011	40,000			40,000		2 Dec 2014

Non-performance share awards

	Awards granted	Maximum award	Awards vested	Awards lapsed	Maximum outstanding awards at 30 Sept 2012	Market price at date of vesting (p)	Vesting date
Peter Couch							
Deferred Bonus (DBP) shares	3 Feb 2010	90,615			90,615		3 Feb 2013

Remuneration committee report
continued

Directors' shareholdings

	Ordinary shares of 5p each (thousands)		
		Beneficial	
	1 Oct 2011	30 Sept 2012	30 Nov 2012
Andrew Cunningham	1,115	1,194	1,195
Peter Couch	121	193	194
Nick Jopling	82	166	166
Mark Greenwood	30	83	103
Robin Broadhurst	110	121	121
John Barnsley	103	103	103
Henry Pitman	101	101	101
Baroness Margaret Ford	18	18	18
Belinda Richards	–	–	–
Tony Wray	–	10	10
Simon Davies	–	–	100
	1,680	1,989	2,111

Directors' service agreements and letters of appointment

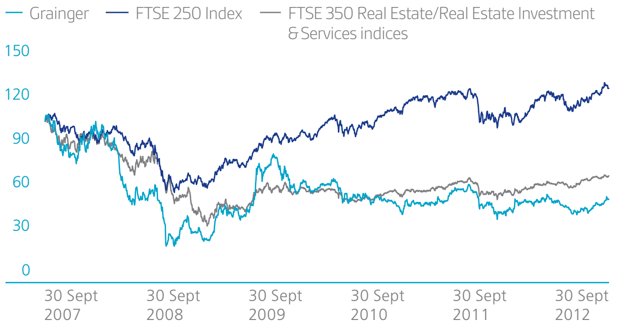
Executive directors	Contract Commencement Date	Notice period
Andrew Cunningham	October 2009	12 months
Peter Couch	June 2010	12 months
Nick Jopling	September 2010	6 months
Mark Greenwood	September 2010	6 months

Non-executive directors	Date of initial appointment
Robin Broadhurst	February 2004
John Barnsley	February 2003
Henry Pitman	May 2007
Baroness Margaret Ford	July 2008
Belinda Richards	April 2011
Tony Wray	October 2011
Simon Davies	November 2012

Total shareholder return

As required by legislation covering the directors' remuneration report, the graph below shows TSR (based upon share price growth with dividends reinvested) for Grainger, compared to the FTSE 250 and the FTSE Real Estate Index. These comparators have been chosen on the basis that they are the markets within which Grainger operates, albeit that the real estate index comprises mainly commercial property companies.

Total shareholder return



This graph shows the value by 30 September 2012 of £100 invested in Grainger on 30 September 2007 compared with the value of £100 invested in the FTSE 250 Index and in the FTSE 350 Real Estate/Real Estate Investment & Services indices.

This report meets the disclosure requirements of the Companies Act 2006 and the Listing Rules and in accordance with usual practice will be put to shareholders for approval at the AGM.

On behalf of the board

Margaret Ford

Baroness Margaret Ford
Chairman of the remuneration committee
6 December 2012

Board risk and compliance committee report

Belinda Richards
Committee chairman

The Board Risk and Compliance Committee currently comprise three independent non-executive directors and two executive directors.

Committee member	Meetings attended	Meetings eligible to attend
Belinda Richards (Committee chairman)	2	2
John Barnsley	2	2
Tony Wray	2	2
Mark Greenwood	2	2
Peter Couch	2	2

The committee was established during the year and held its first formal meeting in May 2012. Since its inception the committee has overseen the development of a group wide risk appetite statement which clearly lays out the level of risk that the business is prepared to tolerate in order to achieve its goals in each of the key risk areas – strategic, operational, financial, people, project, legal & regulatory and IT. The statement has been adopted and now forms a framework within which management decisions and reporting occur.

On a standing agenda basis, the committee reviews the group's top risks, key projects, complaints register, internal audit risk reports and the quarterly report from the group risk and compliance manager. On a rolling basis there is a thorough review of each division and each core business activity/process. This year there have been specific reviews of the German business, Retirement Solutions, Block Management and Health & Safety Management. The purpose of these detailed reviews is to highlight the principal risks and processes of each division at a more detailed level and to ensure that the risk mitigation plans are robust.

The Retirement Solutions business is regulated by the FSA. The committee oversees compliance with regulatory obligations and receives regular updates on proposed future regulatory developments, such as the formation of the Financial Conduct Authority. Treating Customers Fairly, one of our key regulatory obligations, is at the heart of Grainger's operating philosophy.

The culture of risk awareness, and effective risk management, is becoming embedded in the way that Grainger thinks and operates at all levels within the business. This focus will be critical in protecting our outstanding reputation in the market as we move forward.

Other disclosures

Principal activities
Grainger plc is a holding company and during the year the group (through subsidiaries of Grainger plc) has continued its activities of property trading, investment, development and management.

Review of business development and prospects
The information that fulfils the requirements of the Business review can be found on pages 2 to 49, which are incorporated into this report by reference. A review of the performance and development of the business during the year, the position of the group at the year end and its future prospects, is set out in the sections of the Annual report from pages 2 to 35.

Details of the group's KPIs are provided on page 21. A description of the principal risks and uncertainties facing the group and how these are mitigated can be found on pages 48 and 49. Additional information on environmental matters, on employees, tenants and partners and on social and community matters is set out on pages 36 to 47.

Results for the year
The results of the group are set out in the consolidated income statement on page 76 which shows a profit for the financial year attributable to the owners of the company of £0.4m (2011: £39.1m).

Dividends
An interim dividend of 0.55p per share was paid on 6 July 2012. Although no interim dividend was declared for 2011, in June 2011 the directors distributed £2.2m by means of a tender buy-back of shares. This represented an effective dividend of 0.53p per share. The directors recommend the payment of a final dividend of 1.37p per share (2011: 1.30p), to be paid on 8 February 2013 making a total dividend for the year of 1.92p (2011: 1.83p) per share. Any shareholder wishing to participate in the Dividend Reinvestment Plan for the 2012 final dividend will need to ensure that their application form is returned to our registrars by 14 January 2013.

Share Capital
In October 2011 9,103 shares were issued pursuant to the exercise of share options under the group's SAYE scheme. The company has one class of ordinary shares and all shares rank equally and are fully paid. No person holds shares carrying special rights with regard to control of the company. There are neither restrictions on the transfer of shares nor the size of a holding which are both governed by the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of shares in the company that may result in restrictions on the transfer of shares or on voting rights.

At 30 September 2012, the directors had unexpired power to repurchase up to 41,600,000 shares.

Directors' interests in significant contracts
No directors were materially interested in any contract of significance.

Statement of directors' responsibilities
The directors are responsible for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the group and parent company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. Each of the directors, whose names and functions are listed on pages 50 and 51 confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group;
- the business review on pages 2 to 49 includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that it faces;
- so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

Insurance of directors

The company has put in place insurance to cover its directors and officers against the costs of defending themselves in civil legal proceedings taken against them in that capacity and in respect of damages awarded in such proceedings. Following shareholder approval, the group maintains insurance for Grainger plc's directors in respect of their duties as director, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006. This cover was in place during the financial year and at the date of approval of these financial statements.

Creditor payment policy

It is the group's policy to pay suppliers in accordance with their normal terms and conditions of trading. Payment in respect of the purchase of property is subject to and will comply with contractual terms. Trade creditors existing at 30 September 2012 relating to purchases of property generally complete 28 days after exchange of contracts. The company has no trade creditors. Trade creditor days of the group were calculated as 22 days (2011: 22 days).

Financial Risk Management

Details are included in note 28 to the financial statements.

Sustainability

Our approach to sustainability is based on our assessment of the potential risk and opportunity to our business. In the year ended 30 September 2012 93% of the applicable sustainability targets that we committed to meeting by that date were either fully achieved or in progress. Further information is provided in the corporate responsibility report on pages 40 to 47.

Charitable donations

During the year the group made charitable donations amounting to £30,000 (2011: £17,500). Grainger makes charitable donations in three ways. Firstly, we are a Foundation Partner member of LandAid, the property industry charity, and have committed to donating £10,000 per annum to LandAid for a period of three years of which this is the third year of contribution. Secondly, we match fund our staff's individual fundraising efforts up to a maximum of £100 per person per annum and we make occasional donations to specific events or good causes. We have not made any contributions for political purposes.

International operations

Our German portfolio continues to be centrally managed and controlled from our overseas offices.

Other disclosures
continued

Health and safety
Grainger has a well-developed Health and Safety Management System for the internal and external control of health and safety risks which is managed by the Director of Health and Safety. This includes the use of online risk management systems for the identification, mitigation and reporting of real time health and safety management information. The group health and safety committee consists of members from across the organisation and is chaired by the chief operating officer. The committee continues to monitor the delivery of legal compliance in health and safety through audit and implementation of improvements to enable us to become 'best in class'.

Employment of disabled persons
The company gives full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities. In the event of an employee becoming disabled every effort is made to ensure that their employment within the company continues and that appropriate training is arranged where necessary. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee involvement
The group places considerable value on the involvement of its employees and has continued its practice of keeping them informed on matters affecting them as employees, for example, eligibility to join company share schemes, and on the various factors affecting the performance of the group. Communication is made using the intranet, 'The Source', and through regular meetings with, and presentations by, senior management.

Independent auditors and disclosure of information to auditors
As far as each director is aware, there is no relevant audit information of which the company's auditors are unaware. Each director has taken steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors to the company and group. A resolution to reappoint them as auditors to the company and group will be proposed at the next AGM.

Takeover directive
On a change of control, the core banking facilities (described in note 29 to the accounts) will become repayable should alternative terms for continuing the facilities not be agreed with the lenders within 45 days. There are no other material matters relating to a change of control of the company following a takeover bid.

Post balance sheet events
On 9 November 2012, the group announced that it had signed an agreement with Heitman, to create a new company which will acquire, through a share purchase, a portfolio of German residential assets currently wholly owned by the group. As a result of the transaction, the new company will acquire €232m of investment property from the group and €152m of debt will be transferred to it from the group. Grainger will hold a 25% equity stake in the new company which the group will account for as an associate. The group will provide management services for which it will receive standard management and incentive fees. It is anticipated that completion will take place before the end of the 2012 calendar year.

On 5 October 2012, the group signed a facility agreement with Coreal Credit Bank for a loan of €164.9m to refinance the existing facility from Eurohypo which expires in October 2013. The facility was drawn on 25 October 2012 and was used to settle the Eurohypo loan in full. €152m of the Coreal loan will be transferred to the new company referred to above.

By order of the board

Michael Windle
Company Secretary
6 December 2012

Independent auditors' report
to the members of Grainger plc on the group financial statements

We have audited the group financial statements of Grainger plc for the year ended 30 September 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors
As explained more fully in the statement of directors' responsibilities set out on pages 72 and 73, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the group financial statements:
– Give a true and fair view of the state of the group's affairs as at 30 September 2012 and of its profit and cash flows for the year then ended;
– Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
– Have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:
– The information given in the directors' report for the financial year for which the group financial statements are prepared is consistent with the group financial statements; and
– The information given in the Corporate Governance Statement set out on pages 52 to 58 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:
Under the Companies Act 2006 we are required to report to you if, in our opinion:
– 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; or
– A corporate governance statement has not been prepared by the parent company.

Under the Listing Rules we are required to review:
– The directors' statement, set out on page 58, in relation to going concern;
– The part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
– Certain elements of the report to shareholders by the board on directors' remuneration.

Other matter
We have reported separately on the parent company financial statements of Grainger plc for the year ended 30 September 2012 and on the information in the directors' remuneration report that is described as having been audited.

David A Snell
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 December 2012

Consolidated income statement

For the year ended 30 September 2012	Notes	2012 £m	2011 (restated) £m
Group revenue	4, 5	311.4	296.2
Net rental income	6	62.8	62.4
Profit on disposal of trading property	7	74.0	79.1
Administrative expenses	9	(31.0)	(33.1)
Other income	10	11.0	8.0
Other expenses	11	(3.4)	(3.8)
Net gain on acquisition of subsidiary	39	–	16.1
Goodwill impairment	23	–	(2.2)
Profit on disposal of investment property	8	3.0	1.1
Income from financial interest in property assets	22	7.7	7.9
Write down of inventories to net realisable value	24	(0.1)	(1.8)
Provision for impairment of loans receivable net of write backs	21, 25	–	(4.2)
Operating profit before net valuation gains/(deficits) on investment property		124.0	129.5
Net valuation gains/(deficits) on investment property	18	2.1	(2.0)
Write down of investment property in disposal group	40	(6.9)	–
Operating profit after net valuation gains/(deficits) on investment property		119.2	127.5
Change in fair value of derivatives	28	(31.2)	(28.0)
Finance costs	14	(95.3)	(82.6)
Finance income	14	2.1	2.7
Share of profit of associates after tax	20	4.5	4.4
Share of (loss)/profit of joint ventures after tax	21	(1.0)	2.1
(Loss)/profit before tax	13	(1.7)	26.1
Tax credit before exceptional item	15	2.1	2.8
Exceptional tax credit	15	–	10.2
Tax credit for the year	15	2.1	13.0
Profit for the year attributable to the owners of the company	34	0.4	39.1
Basic earnings per share	17	0.1p	9.5p
Diluted earnings per share	17	0.1p	9.4p

Consolidated statement of comprehensive income

For the year ended 30 September 2012	Notes	2012 £m	2011 (restated) £m
Profit for the year	34	0.4	39.1
Actuarial (loss)/gain on BPT Limited defined benefit pension scheme	30	(2.0)	1.2
Fair value movement on financial interest in property assets	22	(0.4)	(0.3)
Exchange adjustments offset in reserves		(0.6)	(0.9)
Changes in fair value of cash flow hedges		14.1	13.2
Other comprehensive income and expense for the year before tax		11.1	13.2
Tax relating to components of other comprehensive income	15	(2.4)	(4.5)
Other comprehensive income and expense for the year after tax		8.7	8.7
Total comprehensive income and expense for the year attributable to the owners of the company		9.1	47.8

Included within comprehensive income is £5.0m (2011: £8.8m) relating to associates and joint ventures accounted for under the equity method.

Consolidated statement of financial position

As at 30 September 2012	Notes	2012 £m	2011 £m
ASSETS			
Non-current assets			
Investment property	18	525.9	819.9
Property, plant and equipment	19	0.8	1.2
Investment in associates	20	41.2	34.6
Investment in joint ventures	21	19.2	23.9
Financial interest in property assets	22	99.0	102.3
Deferred tax assets	15	44.5	42.7
Goodwill	23	5.3	5.3
		735.9	1,029.9
Current assets			
Inventories – trading property	24	1,023.4	1,105.1
Trade and other receivables	25	35.6	18.3
Derivative financial instruments	28	–	0.2
Cash and cash equivalents	29	73.3	90.9
Assets classified as held-for-sale	40	222.1	–
		1,354.4	1,214.5
Total assets		2,090.3	2,244.4
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	29	1,240.1	1,428.0
Trade and other payables	26	–	4.0
Retirement benefits	30	5.8	4.5
Provisions for other liabilities and charges	26	0.5	0.6
Deferred tax liabilities	15	37.8	47.7
		1,284.2	1,484.8
Current liabilities			
Interest-bearing loans and borrowings	29	27.3	116.7
Trade and other payables	27	88.4	76.4
Current tax liabilities	15	24.4	24.6
Derivative financial instruments	28	145.4	154.5
Liabilities associated with assets held-for-sale	40	129.7	–
		415.2	372.2
Total liabilities		1,699.4	1,857.0
Net assets		390.9	387.4

As at 30 September 2012	Notes	2012 £m	2011 £m
EQUITY			
Capital and reserves attributable to the owners of the company			
Issued share capital	31	20.8	20.8
Share premium		109.8	109.8
Merger reserve		20.1	20.1
Capital redemption reserve		0.3	0.3
Cash flow hedge reserve		(24.5)	(34.4)
Equity component of convertible bond		5.0	5.0
Available-for-sale reserve		3.9	4.1
Retained earnings	34	255.4	261.6
Equity attributable to the owners of the company		390.8	387.3
Non-controlling interests		0.1	0.1
Total equity		390.9	387.4

The financial statements on pages 76 to 152 were approved by the board of directors on 6 December 2012 and were signed on their behalf by:

Andrew R Cunningham
Director

Mark Greenwood
Director

Company registration number: 125575

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Consolidated statement of changes in equity

	Notes	Issued share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Cash flow hedge reserve £m	Equity component of convertible bond £m	Available-for-sale reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
Balance as at 1 October 2010		20.8	109.8	20.1	0.3	(43.0)	5.0	4.2	228.0	0.1	345.3
Profit for the year	34	–	–	–	–	–	–	–	39.1	–	39.1
Actuarial gain on BPT Limited defined benefit pension scheme	30	–	–	–	–	–	–	–	1.2	–	1.2
Fair value movement on financial interest in property assets	22	–	–	–	–	–	–	(0.3)	–	–	(0.3)
Exchange adjustments offset in reserves		–	–	–	–	–	–	–	(0.9)	–	(0.9)
Changes in fair value of cash flow hedges		–	–	–	–	13.2	–	–	–	–	13.2
Tax relating to components of other comprehensive income	15	–	–	–	–	(4.6)	–	0.2	(0.1)	–	(4.5)
Total comprehensive income and expense for the year	–	–	–	–	–	8.6	–	(0.1)	39.3	–	47.8
Purchase of own shares	31, 34	–	–	–	–	–	–	–	(2.8)	–	(2.8)
Share-based payments charge	32	–	–	–	–	–	–	–	2.0	–	2.0
Dividends paid	16	–	–	–	–	–	–	–	(4.9)	–	(4.9)
Balance as at 30 September 2011		20.8	109.8	20.1	0.3	(34.4)	5.0	4.1	261.6	0.1	387.4

	Notes	Issued share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Cash flow hedge reserve £m	Equity component of convertible bond £m	Available-for-sale reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
Balance as at 1 October 2011		20.8	109.8	20.1	0.3	(34.4)	5.0	4.1	261.6	0.1	387.4
Profit for the year	34	–	–	–	–	–	–	–	0.4	–	0.4
Actuarial loss on BPT Limited defined benefit pension scheme	30	–	–	–	–	–	–	–	(2.0)	–	(2.0)
Fair value movement on financial interest in property assets	22	–	–	–	–	–	–	(0.4)	–	–	(0.4)
Exchange adjustments offset in reserves		–	–	–	–	–	–	–	(0.6)	–	(0.6)
Changes in fair value of cash flow hedges		–	–	–	–	14.1	–	–	–	–	14.1
Tax relating to components of other comprehensive income	15	–	–	–	–	(4.2)	–	0.2	1.6	–	(2.4)
Total comprehensive income and expense for the year	–	–	–	–	–	9.9	–	(0.2)	(0.6)	–	9.1
Purchase of own shares	31, 34	–	–	–	–	–	–	–	(0.5)	–	(0.5)
Proceeds from SAYE shares	34	–	–	–	–	–	–	–	0.4	–	0.4
Share-based payments charge	32	–	–	–	–	–	–	–	2.1	–	2.1
Dividends paid	16	–	–	–	–	–	–	–	(7.6)	–	(7.6)
Balance as at 30 September 2012		20.8	109.8	20.1	0.3	(24.5)	5.0	3.9	255.4	0.1	390.9

Consolidated statement of cash flows

For the year ended 30 September 2012	Notes	2012 £m	2011 £m
Cash flow from operating activities			
Profit for the year		0.4	39.1
Depreciation	19	0.4	0.6
Net gain on acquisition of subsidiary	39	–	(16.1)
Goodwill impairment	23	–	2.2
Write down of investment property in disposal group	40	6.9	–
Net valuation (gains)/deficits on investment property	18	(2.1)	2.0
Net finance costs	14	93.2	79.9
Share of profit of associates and joint ventures	20, 21	(3.5)	(6.5)
Profit on disposal of investment property	8	(3.0)	(1.1)
Provision for impairment of loans receivable net of write-backs	21, 25	–	4.2
Share-based payment charge	32, 34	2.1	2.0
Change in fair value of derivatives	28	31.2	28.0
Interest income from financial interest in property assets	22	(7.7)	(7.9)
Taxation	15	(2.1)	(13.0)
Operating profit before changes in working capital		115.8	113.4
Increase in trade and other receivables		(13.5)	(0.8)
Decrease in trade and other payables		(3.8)	(4.8)
Decrease in provisions for liabilities and charges		(0.1)	(0.2)
Decrease in trading property		78.3	71.7
Cash generated from operations		176.7	179.3
Interest paid		(78.1)	(73.1)
Taxation paid	15	(12.0)	(4.4)
Net cash inflow from operating activities		86.6	101.8
Cash flow from investing activities			
Proceeds from sale of investment property	8	48.3	24.6
Proceeds from financial interest in property assets	22	10.6	9.2
Proceeds from redemption of equity units in associate	20	–	0.1
Dividend and loan repayment from joint venture	21	3.5	–
Interest received		0.7	1.9
Proceeds from disposal of interest in subsidiary		–	17.5
Acquisition of subsidiaries, net of cash acquired	39	–	(23.1)
Investment in associates and joint ventures	20, 21	(0.5)	(2.4)
Acquisition of investment property and property, plant and equipment	18, 19	(5.5)	(5.9)
Net cash inflow from investing activities		57.1	21.9

For the year ended 30 September 2012	Notes	2012 £m	2011 £m
Cash flows from financing activities			
Proceeds from SAYE options	34	0.4	–
Purchase of own shares	31, 34	(0.5)	(2.8)
Proceeds from new borrowings		79.0	220.0
Payment of loan costs		(10.5)	–
Settlement of derivative contracts		(1.2)	–
Repayment of borrowings		(215.5)	(335.1)
Dividends paid	16	(7.6)	(4.9)
Payments to defined benefit pension scheme	30	(1.0)	(0.6)
Net cash outflow from financing activities		(156.9)	(123.4)
Net (decrease)/increase in cash and cash equivalents		(13.2)	0.3
Cash and cash equivalents at the beginning of the year	29	90.9	91.5
Net exchange movements on cash and cash equivalents		(1.8)	(0.9)
Total cash and cash equivalents at the end of the year		75.9	90.9
Cash held in assets classified as held-for-sale at the end of the year	40	(2.6)	–
Cash and cash equivalents at the end of the year	29	73.3	90.9

Notes to the financial statements

1 Accounting policies

(a) Basis of preparation

Grainger plc is a company incorporated and domiciled in the UK. It is a public limited liability company listed on the London Stock Exchange and the address of the registered office is given on page 164. The group financial statements consolidate those of the company and its subsidiaries, together referred to as the 'group', and equity account the group's interest in joint ventures and associates. The parent company financial statements present information about the company and not about its group.

These financial statements for the year ended 30 September 2012 have been prepared in accordance with EU endorsed International Financial Reporting Standards ('IFRSs'), IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The company has elected to prepare its company financial statements in accordance with UK GAAP. These are presented on pages 154 to 161.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in the group financial statements.

The group financial statements have been prepared under the historical cost convention except for the following assets and liabilities, and corresponding income statement accounts, which are stated at their fair value; investment property, derivative financial instruments and financial interest in property assets.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of the events and amounts involved, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.

(b) Basis of consolidation

i) Subsidiaries Subsidiaries are all entities (including special purposes entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another 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) Goodwill and impairment The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of the acquisition is measured as the fair value of the assets given and equity instruments issued. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition. Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of net identifiable assets including intangible assets of the acquired entity at the date of acquisition. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Costs attributable to an acquisition are expensed in the consolidated income statement under the heading 'Other expenses'.

Goodwill on acquisition of subsidiaries is included within this caption on the statement of financial position. Goodwill on acquisition of joint ventures and associates is included in investments in joint ventures and associates.

Goodwill is allocated to cash generating units for the purpose of impairment testing and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

iii) Joint ventures and associates Joint ventures are those entities over whose activities the group has joint control, established by contractual agreement. Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating decisions of the investee but is not control or joint control over those policies.

Investments in joint ventures and associates are accounted for by the equity method of accounting and are initially recognised at cost. The group's investment in joint ventures and associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The group's share of its joint ventures' and associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. Where the group's interest has been reduced to £nil, additional losses are provided for, and a liability is recognised, only to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the joint venture or associate. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Unrealised gains on transactions between the group and its joint ventures and associates are eliminated to the extent of the group's interest in joint ventures and associates. The accounting policies of joint ventures and associates have been changed where necessary to ensure consistency with the policies adopted by the group.

(c) Segmental reporting

The group's risks and rates of return are affected predominantly by differences between the property asset types it owns and manages. A business segment is a distinguishable group of assets and operations, reflected in the way that the group manages its business, that is subject to risks and returns that are different from those of other business segments.

IFRS 8, 'Operating Segments' ('IFRS 8') requires operating segments to be identified based upon the Group's internal reporting to the chief operating decision maker ('CODM') to make decisions about resources to be allocated to segments and to assess their performance. The group's CODM is the chief executive officer.

The group has identified five such segments as follows:

- UK residential;
- Retirement solutions;
- Fund and third party management;
- UK and European development; and
- German residential.

All of the above segments are UK based except German residential which has its assets and tenants based in Germany and UK and European Development which includes assets based in the Czech Republic. More detail is given relating to each of the above segments in note 4.

The group has a segment director responsible for the performance of each of these five segments and the group reports key financial information to the CODM on the basis of these five segments. Each of these five segments operates within a different part of the overall residential market.

The title 'All other segments' has been included in the segmental tables in note 4 to reconcile the segments to the figures reviewed by the CODM.

The measure of profit or loss used by the CODM is the trading profit or loss before valuation gains or deficits on investment properties and excluding all revaluation and non recurring items as set out in note 3. The CODM reviews by segment two key statements of financial position measures of net asset value. These are Gross net asset value ('NAV') and Triple net asset value ('NNNAV') measures. Further detail is provided in note 4.

(d) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(e) Foreign currency translation

i) Functional and presentation currency Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in pounds Sterling, which is the company's functional and presentation currency.

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

Notes to the financial statements continued

1 Accounting policies continued

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

iv) Net investment hedges Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income within the translation reserve as part of retained earnings. Any gain or loss relating to the ineffective portion is recognised in the income statement within interest expense and similar charges. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

(f) Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated group, is classified as investment property.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specified asset. If this information is not available, the group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections.

Subsequent expenditure is included in the carrying amount of the property when it is probable that the future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Gains or losses arising from changes in the fair value of the group's investment properties are included in the income statement of the period in which they arise.

Where specific investment properties have been identified as being for sale within the next 12 months their fair value is shown under assets classified as held-for-sale within current assets.

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

(g) Financial interest in property assets

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

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

(h) Inventories – trading property

Tenanted residential properties held for sale in the normal course of business are shown in the financial statements as a current asset at the lower of cost and net realisable value. Cost includes legal and surveying charges and introducer fees incurred during acquisition together with improvement costs. Net realisable value is the net sale proceeds which the group expects on sale of a property with vacant possession.

Land and property held within the development segment of the business are shown in the financial statements at the lower of cost and net realisable value. Cost represents the acquisition price including legal and other professional costs associated with the acquisition together with subsequent development costs net of amounts transferred to costs of sale. Net realisable value is the expected net sales proceeds of the developed property.

Where residential properties are sold tenanted or where land is sold without development, net realisable value is the current market value net of associated selling costs.

(i) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(j) Income tax

Income tax on the profits or losses for the periods presented comprises both current and deferred tax. Current tax is the expected tax payable on the taxable income for the year using rates applicable during the year. Tax payable upon the realisation of revaluation gains recognised in prior periods is recorded as a current tax charge with a release of the associated deferred taxation.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(k) Employee benefits

i) Defined contribution pension scheme Obligations for contributions to defined contribution pension schemes are recognised as an expense in the income statement in the period to which they relate.

ii) Defined benefit pension scheme The group currently contributes to a defined benefit pension scheme that was closed to new members and employee contributions in 2003. The full deficit in the scheme was recognised in the statement of financial position as at 1 October 2004.

An actuarial valuation of the scheme is carried out every three years. The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date by a qualified actuary, also under the Projected Unit Credit Method, for the purpose of determining the amounts to be reflected in the group's financial statements under IAS 19.

The liability recognised in the statement of financial position is the present value of the defined benefit obligation at the statement of financial position date less the fair value of scheme assets.

There are no current or past service costs as the scheme is closed to new members and employee contributions. Interest on pension scheme liabilities and the expected return on pension scheme assets are reflected in the income statement each year. Actuarial gains and losses net of deferred income tax are reflected in the consolidated statement of comprehensive income each year.

iii) Share-based compensation The group operates a number of equity-settled, share-based compensation plans comprising awards under a Long-term Incentive Scheme ('LTIS'), a deferred bonus plan ('DBP'), a Share Incentive Plan ('SIP') and a save as you earn ('SAYE') scheme. The fair value of the employee services received in exchange for the grant of shares and options is recognised as an employee expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares and options granted. For market based conditions, the probability of vesting is taken into account in the fair value calculation and no revision is made to the number of shares or options expected to vest. For non-market conditions, each year the group revises its estimate of the number of options or shares that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement with a corresponding adjustment to equity.

Awards that are subject to a market-based performance condition are valued at fair value using the Monte Carlo simulation model. Awards not subject to a market-based performance condition are valued at fair value using the Black Scholes valuation model.

Notes to the financial statements continued

1 Accounting policies continued

When options are exercised the proceeds received net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

(l) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is stated net of sales taxes and value added taxes. Revenue is recognised on our three primary income streams as follows:

i) Income from property trading Revenue and profits or losses arising from the sale of trading and investment property are included in the income statement where contract completion has taken place. Profits or losses are calculated by reference to the carrying value of property and are included in operating profit.

ii) Rental income Rental income is recognised on a straight-line basis over the lease term on an accruals basis.

iii) Management fee income Management fee income is recognised in the accounting period in which the services are rendered.

In addition, income is recognised as follows on service charges and investments:

Service charges

The group is responsible for providing service charge services in both the UK and in Germany. Where Grainger is exposed to the significant risks and rewards associated with the rendering of services it is acting as principal. Otherwise it is acting as agent.

In the UK, Grainger acts primarily as agent. Accordingly service charge receivables and payables are shown net in the statement of financial position.

In Germany, Grainger acts primarily as principal. Accordingly service charge income and costs are shown gross in the income statement with service charge recoveries from tenants recorded as a component of group revenue. Where recovery of service charges is doubtful a provision for impairment is made.

Income from investments

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Group revenue

Group revenue set out in note 5, comprises gross rental income, service charge income on a principal basis, gross proceeds, before sales costs, from the sale of trading properties and management fee and other income.

(m) Leases

i) Group as lessor The net present value of ground rents receivable is, in the opinion of the directors, immaterial. Accordingly, ground rents receivable are taken to the income statement on a straight-line basis over the period of the lease. Properties leased out to tenants are included in the statement of financial position as either investment property or as trading property under inventories.

Where the group grants a lifetime lease on an investment property and receives from the lessee an upfront payment in respect of the grant of the lease, the upfront payment is treated as deferred rent in the statement of financial position. This deferred rent is released to the income statement on a straight-line basis over the projected term of the lease. At each year end the projected term of the lease is revised on an actuarial basis and the remaining deferred rent is released to the income statement on a straight-line basis over this revised lease term.

ii) Group as lessee The group occupies a number of its offices as a lessee. After a review of all of its occupational leases, the directors have concluded that all such leases are operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The net present value of ground rents payable is, in the opinion of the directors, immaterial. Accordingly, ground rent expenses are taken to the income statement on a straight-line basis over the lease term.

(n) Derivative financial instruments

Derivatives

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

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

In order to qualify for hedge accounting, the group is required to document in advance the relationship between the item being hedged and the hedging instrument. The group is also required to demonstrate that the hedge will be highly effective on an ongoing basis. This effectiveness testing is re-performed at each period end to ensure that the hedge remains highly effective.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecasted transaction is ultimately recognised in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the income statement.

Fair value estimation

The fair value of interest rate swaps is based on a discounted cash flow model using quoted market information.

(o) Derecognition of financial assets and liabilities

Derecognition is the point at which the group removes an asset or a liability from its statement of financial position. The group's policy is to derecognise financial assets only when the contractual right to the cash flows from the financial asset expires. The group also derecognises financial assets that it transfers to another party provided that the transfer of the assets also transfers the right to receive cash flows from the financial asset. When the transfer does not result in the group transferring the right to receive cash flows from the financial asset but it does result in the group assuming a corresponding obligation to pay cash flows to another recipient, the financial asset is derecognised.

The group derecognises financial liabilities only when its obligation is discharged, is cancelled or expires.

Financial assets classified as available-for-sale is the financial interest in property assets. Derivative financial instruments not in hedge accounting relationships are classified as fair value through profit and loss.

(p) Borrowings

Borrowings are initially recognised at cost, being 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.

(q) Convertible bond

The convertible bond is a compound financial instrument and the carrying amount has been allocated to its equity and liability components in the group statement of financial position. The liability component has been determined by measuring the fair value of a similar liability that does not have an associated equity component. The discount rate used for this was based on a rate of 7.5% compounded semi-annually. The liability component has been deducted from the fair value of the compound financial instrument as a whole and the residual element has been assigned to the equity component. The liability element is subsequently measured at amortised cost using the effective interest rate method.

(r) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment in trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The movement in the provision is recognised in the income statement.

(s) Trade payables

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

(t) Provisions

Provisions are recognised when (a) the group has a present obligation as a result of a past event and (b) it is probable that an outflow of resources will be required to settle the obligation and (c) a reliable estimate can be made of the amount of the obligation.

(u) Dividends

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

Notes to the financial statements continued

1 Accounting policies continued

(v) Assets and associated liabilities classified as held-for-sale

Where a group of assets are to be disposed of by sale as a single group, they are classified as a disposal group. The disposal group is classified as held-for-sale as defined by IFRS 5 when the assets are available-for-sale in their present condition, the sale is highly probable and it is expected to be completed within one year from the date of classification.

(w) Acquisition of and investment in own shares

The group acquires its own shares to enable it to meet its obligations under the various share schemes in operation. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the company's own shares. The acquisition cost of the shares is debited to an investment in own shares reserve within retained earnings.

Where the group buys back its own shares as treasury shares it adopts the accounting as described above. Where it subsequently cancels them, issued share capital is reduced by the nominal value of the shares cancelled and this same amount is transferred to the capital redemption reserve.

(x) Impact of standards and interpretations issued

i) New standards and interpretations issued in the year At the date of approval of these financial statements, the following interpretations and amendments were issued, endorsed by the EU and are mandatory for the group for the first time for the financial year beginning 1 October 2011.

Amendments to existing standards

- Amendment to IFRS 1 'First time adoption' was updated to clarify that a first-time adopter that changes its accounting policies or its use of IFRS 1 exemptions after publishing a set of IAS 34 interim financial information should explain those changes and include the effects of such changes in its opening reconciliations within the first annual IFRS reporting. Amendments to IFRS 1 'First time adoption' was updated to extend the exemption to use a 'deemed cost' arising from a revaluation triggered by an event such as a privatisation that occurred at or before the date of transition to IFRS, to revaluations that occur during the period covered by the first IFRS financial statements.
- Amendments to IFRS 1 'First time Adoption' amends fixed dates and includes guidance on implementations affected by hyperinflation.
- Amendments to IFRS 1 'First time adoption' was updated to clarify that entities subject to rate regulation are allowed to use previous GAAP carrying amounts of property, plant and equipment or intangible assets as deemed cost on an item-by-item basis.
- Amendments to IFRS 3 'Business combinations' was updated to extend the application guidance to all share-based payment transactions that are part of a business combination, including un-replaced and voluntarily replaced share-based payment awards.
- Amendments to IFRS 3 'Business combinations' was updated to clarify that the choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS.
- Amendments to IFRS 7 'Financial Instruments: Disclosures' includes changes to promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures of transfers of financial assets.
- Amendments to IFRS 7 'Financial Instruments: Disclosures' was updated to include multiple clarifications related to the disclosure of financial instruments.
- Amendments to IAS 24 (revised) 'Related party disclosures' was updated to remove the requirement for government related entities to disclose details of all transactions with the government-related entities and it clarifies and simplifies the definition of a related party.
- Amendment to IAS 27 'Consolidated and Separate Financial Statements' was updated to clarify that the consequential amendments to IAS 21, IAS 28 and IAS 31 following the 2008 revisions to IAS 27 are to be applied prospectively.
- Amendment to IAS 34 'Interim Financial Reporting' was updated to place greater emphasis on the disclosure principles involving significant events and transactions, including changes to fair value measurements, and the need to update relevant information from the most recent annual report.

International Financial Reporting Interpretations Committee ('IFRIC') interpretations

– IFRIC 15 'Arrangement for construction of real estates' clarifies when IAS 18 'Revenue Recognition' and IAS 11 'Construction contracts' should be applied to particular transactions.
– IFRIC 18 'Transfer of assets from customers' clarifies the accounting for arrangements where an item of property, plant and equipment that is provided by the customer is used to provide an ongoing service.
– IFRIC 19 'Extinguishing financial liabilities with equity instruments' clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the creditor issuing its own equity instruments to the debtor.

Amendments to existing interpretations

– Amendment to IFRIC 13 'Customer loyalty programmes' to clarify the term 'fair value' in the context of measuring award credits under customer loyalty programmes.
– Amendment to IFRIC 14 'Prepayments of a minimum funding requirement' applies only to entities that are required to make minimum funding contributions to a defined benefit pension plan.

These standards and amendments to these standards and interpretations have had no material financial impact on these financial statements.

ii) Standards and interpretations in issue but not yet effective

At the date of authorisation of these financial statements there are a number of standards, amendments and interpretations to existing standards that have been published but which are not yet effective and which have not been early adopted by the group. These are as follows:

International Financial Reporting Standards ('IFRS')

– Amendment to IAS 1 'Financial statement presentation' introduces a requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently.
– Amendment to IAS 12 (revised) 'Income taxes' introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value.
– Amendment to IAS 19 'Employee benefits' eliminates the corridor approach and calculates finance costs on a net funding basis and also introduces a requirement to group items presented in Other Comprehensive Income on the basis of whether they are potentially recycled to income statement.
– IAS 27 (revised) 'Separate Financial Statements' and IAS 28 (revised 2011) 'Associates and joint ventures' include the provisions on separate financial statements which are not included in IFRS 10.
– Amendment to IAS 32 'Financial instruments: Presentation' clarifies the offsetting requirements for amounts presented in the statement of financial position.
– Amendment to IFRS 1 'First time adoption' addresses how a first time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS.
– IFRS 9 'Financial instruments: classification and measurement' which has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.
– IFRS 10 'Consolidated financial statements' which identifies the concept of control as the determining factor of whether an entity should be included within the consolidated financial statements.
– IFRS 11 'Joint arrangements' includes revised definitions of joint arrangements which focus on the rights and obligations over the legal form. The standard removes the option of proportional consolidation.
– IFRS 12 'Disclosure of interests in other entities' requires disclosure of all interests in other entities.
– IFRS 13 'Fair value measurement' provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements.

Notes to the financial statements continued

1 Accounting policies continued

International Financial Reporting Interpretations Committee ('IFRIC') interpretations

– IFRIC 20 'Stripping costs in the production phase of a surface mine' sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine.

All the above IFRSs, IFRIC interpretations and amendments to existing standards are yet to be endorsed by the European Union ('EU') at the date of approval of these financial statements with the exception of IFRS 7.

The directors are currently considering the potential impact arising from the future adoption of these standards and interpretations listed above.

2 Critical accounting estimates and assumptions

The group's significant accounting policies are stated in note 1 above. Not all of these accounting policies require management to make subjective or complex judgements or estimates. The following is intended to provide further detail relating to those accounting policies that management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on the consolidated financial statements. The group performs sensitivity analysis as part of the risk management process.

The directors consider that a +/- 1% (2011: 1%) movement in interest rates, a +/- 10 percentage point (2011: 10 percentage point) movement in sterling and a +/- 1 percentage point (2011: 1 percentage point) movement in house prices represents a reasonable possible change.

Valuation of residential property

The group's residential trading property is carried in the statement of financial position at the lower of cost and net realisable value. The group's investment property is carried in the statement of financial position at fair value. The group does, however, in its principal net asset value measures, NAV and NNNAV, include trading stock at market value. The market value of the group's property which, in the case of investment property, is the same as fair value, is established as set out below.

i) The group's own in-house qualified surveying team provided a vacant possession value for the majority of the group's UK based property as at 30 September 2012. A structured sample of these in-house valuations was reviewed by Allsop LLP, an external independent valuer. Valuing the large number of properties in the portfolio is a significant task. For this reason it is undertaken on an external inspection basis only. Invariably, when the in-house valuations are compared to those of the external valuer, around 85% of the valuations are within a small acceptable tolerance. Where the difference is more significant this is discussed with the valuer to determine the reasons for the difference. Typically the reasons vary but it could be, for example, that further or better information about internal condition is available or that respective valuers have placed a different interpretation on comparable sales. Once such reasons have been identified the group and the valuer agree the appropriate valuation that should be adopted as the directors' valuation. Overall, across all of the properties valued by Allsop LLP, the directors' valuations were approximately 0.4% lower than the Allsop LLP values.

Allsop LLP has provided the directors with the following opinion on the directors' valuation. Property held in the core residential and retirement solutions portfolios was valued as at 30 September 2012 by Grainger's in-house surveyors. These valuations were reviewed and approved by the directors. Allsop LLP has undertaken a comprehensive review of the directors' valuation and they are satisfied with the process by which the in-house valuations were conducted. As part of the review, Allsop LLP valued approximately 50% of the core residential portfolio and approximately 37% of the retirement solutions portfolio, independently of the in-house surveyors. Based on the results of that review Allsop LLP has concluded that they have a high degree of confidence in those directors' valuations.

Allsop LLP also recommend the discount to apply to the vacant possession valuations to establish the market value of each property. For property in UK residential the discounts are established by tenancy type and are based on evidence gathered by Allsop LLP from recent transactional market evidence. For property in retirement solutions the discounts recommended by Allsop LLP are on a property-by-property basis taking into account a number of factors, primarily the estimated period until vacant possession may arise and the appropriate discount rate. The directors have adopted all of the recommendations made by Allsop LLP in relation to the discounts.

For the property held in the group statement of financial position as investment property, the valuation process as set out above gave a market value of £141.6m. A net valuation gain of £1.3m has been taken through the income statement in relation to this property. The remaining property is held in the group's statement of financial position as trading property at the lower of cost and net realisable value of £772.8m.

ii) All of the property owned by the group in the Grainger Invest portfolio was valued as at 30 September 2012 by Allsop LLP who are external independent valuers.

The aggregate of the market values of the properties at 30 September 2012 was £309.3m, subject to the assumption that the dwellings would be sold individually, in their existing condition, and subject to any existing leases or tenancies. The valuers opinion of market value was primarily derived using comparable recent market transactions on arm's-length terms. Part of the property is held in the group's statement of financial position as investment property with a market value of £108.4m at 30 September 2012. The remaining property is held in the group's statement of financial position as trading property at the lower of cost and net realisable value of £180.8m. The net gain on valuation of the investment property in this portfolio was £4.1m which has been taken through the income statement.

iii) The whole of the property portfolio in Germany is investment property and was valued at 30 September 2012 by Cushman and Wakefield LLP who are external independent valuers. The Germany portfolio held in the group statement of financial position as investment property has a market value at 30 September 2012 of €213.1m (£169.7m). The net deficit on valuation of the Germany portfolio was £2.8m which has been taken through the income statement.

Whilst in the UK, valuers rely predominantly on recent transactional evidence for similar properties to value investment property, in Germany investment property is valued using an income capitalisation approach under which net rental income is discounted to a net present value. Both methodologies are permitted under IAS 40.

iv) Allsop LLP has also valued as at 30 September 2012 the property assets owned by the group and let under a long-term lease arrangement with the Secretary of State for Defence under a PFI Project Agreement. Allsop LLP has provided an Investment Valuation, formerly described as Calculation of Worth, which is defined as 'the value of an asset to the owner or a prospective owner for individual investment or operational objectives'. The Investment Valuation has been made in accordance with RICS Valuation Professional Standards, is based on a discounted cash flow model, and results in an Investment Value of £106.2m as at 30 September 2012. The property is held in the group statement of financial position as investment property at this figure.

v) At the year end the group had a 21.96% interest in G:res which has invested in investment property. Valuations of 100% of the G:res portfolio were carried out at both 31 December 2011 and 30 June 2012 by external valuers, Allsop LLP and DTZ Debenham Tie Leung Limited. In aggregate, the valuation of the individual dwellings at 30 June 2012 was £377.9m. After full consideration of house price movements in those areas where G:res property assets are situated the group's directors made no adjustment to the 30 June 2012 valuations, other than for sales and purchases, in assessing the group's share of G:res net assets for the purposes of the group's accounts to 30 September 2012. For every 1% movement in the market value of the G:res investment property the group's share of the movement would amount to £0.8m.

All of the external valuers in the UK mentioned above have made full disclosure, as required by RICS Valuation Professional Standards, 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.

Notes to the financial statements continued

2 Critical accounting estimates and assumptions continued

Net realisable value of trading property

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

As the group's business model is to sell trading stock on vacancy, net realisable value is the net sales proceeds which the group expects on sale of a property with vacant possession.

A net realisable value provision has been made at 30 September 2012 to write down properties expected to be sold ultimately at vacant possession value. The provision has been assessed on what the group considers to be reasonable assumptions. These allow for a 2% growth in property prices in 2013 followed by growth in house prices of 3% in 2014 with price increases thereafter in line with conservative historical house price growth rates. The assumptions also allow for an annual vacancy rate of 7.6%. The group does sell some property as investment sales, a sale with the tenant still in situ. A net realisable value provision has been made at 30 September 2012 against projected investment sales.

In aggregate a charge of £0.1m has been made in the 2012 income statement (2011: charge of £0.8m) to adjust the book value of trading properties to the lower of cost and net realisable value and at the year end the group is holding a provision of £4.4m (2011: £4.4m) in its statement of financial position.

Land and property held within the development segment of the business, are shown in the financial statements at the lower of cost and net realisable value. Net realisable value is the expected net sales proceeds of the developed property and a provision is made when, and to the extent that, total projected project costs exceed total projected project revenues.

Where land and property is sold without development, net realisable value is the current market value net of associated selling costs. The current market value of the group's land and property held within the development segment has been assessed by CBRE Limited who are external independent valuers. Their valuation is on the basis of fair value as defined in the RICS Professional Valuation Standards (2012) where fair value is the same as market value.

Decisions regarding whether to develop a site or to sell a site undeveloped are made by the directors based on market conditions prevailing at the time. The assumptions adopted as at 30 September 2012 are based upon the current intentions of the directors. In addition, estimates at 30 September 2012 of project profitability are based on assumptions regarding projected build costs and sales proceeds for those sites where development is expected to occur. In some cases these projections are made without the benefit of planning permission having been agreed. The assumptions made may or may not be borne out in practice. It is possible therefore that any net realisable value provision required should be more than or less than that made.

No charge has been made in the 2012 income statement (2011: £1.0m) in adjusting the book value of development stock to net realisable value.

Valuation of financial interest in property assets

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

The fair value of our interest has decreased as cash flows are realised and this decrease of £0.4m (2011: £0.3m) has been recognised in the statement of other comprehensive income and the available-for-sale reserve.

The assumptions adopted with regard to house prices are the same as those set out under 'net realisable value of trading property' above. A change of 1% to average house price inflation over the 10-year period from 1 October 2012 would either increase the valuation by £4.0m or reduce the valuation by £4.8m. At 30 September 2012 it is estimated that, with respect to the group's financial interest in property assets a general increase/(decrease) of one percentage point in house prices at the statement of financial position date would increase/(decrease) the group's profit before tax by approximately £1.5m (2011: £0.8m).

There is no effect on equity as a result of a change in house prices as in accordance with IAS 39 AG8 changes to future cash flow assumptions are recognised though the income statement.

Consideration has been given to the current market value of the financial asset based on our assessment of a market discount rate. We have concluded that the discount rate as at 30 September 2012 should be the same as the rate adopted at 30 September 2011 which is 0.85% lower than the effective interest rate when the financial interest was acquired. A 1% change to this discount rate would either increase the carrying value by £6.7m or reduce the carrying value by £6.0m.

We have considered the impact of changes to the vacation rate used in the cash flow model. However, we do not consider this to be a material risk and actual experience to date has been very close to the vacation assumption adopted in the model.

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

Distinction between investment and trading property

The group considers the intention at the outset when each property is acquired in order to classify the property as either an investment or a trading property. Where the intention is to either trade the property or where the property is held for immediate sale upon receiving vacant possession within the ordinary course of business, the property is classified as trading property.

Where the intention is to hold the property for its long-term rental yield and/or capital appreciation, the property is classified as an investment property.

Going concern

The directors are required to make an assessment of the group's ability to continue to trade as a going concern for the foreseeable future. The directors have given this matter due consideration and have concluded that it is appropriate to prepare the group financial statements on a going concern basis. The main considerations were as follows:

i) Covenant compliance – The group's core banking facility has two covenants, being loan to value ('LTV') and interest cover. At 30 September 2012 the LTV was 48.0% compared to a default level of 75% and the interest cover ratio was 3.0 times compared to a minimum requirement of 1.35 times. The group has other bank debt on which there are also covenant requirements. As at 30 September 2012, the group is operating comfortably within these requirements. The directors have reviewed the group's financial projections covering a minimum period of at least 12 months beyond the date of signing of these financial statements, and which include covenant compliance forecasts. These projections show that the group will comfortably meet its covenant requirements.

ii) Banking facilities – The group's existing core facilities were £840m on 30 September 2012, of which £745m were drawn. The group had free cash balances plus available overdraft of £31m and undrawn committed facilities of £117m at 30 September 2012.

As has been demonstrated over the past few years, the group is able to generate strong cash flows even in very difficult general market conditions. The group's cash flow projections confirm that the group will remain well within its facilities for a minimum period of at least 12 months beyond the date of signing of these financial statements.

Notes to the financial statements continued

3 Analysis of profit after tax

The results for the years ended 30 September 2011 and 2012 respectively have been affected by valuation movements and non-recurring items. The table below provides further analysis of the consolidated income statement showing the results of trading activities separately from these other items.

	2012				2011			
	Trading £m	Valuation £m	Non-recurring £m	Total £m	Trading £m	Valuation £m	Non-recurring £m	Total £m
Group revenue	311.4	–	–	311.4	296.2	–	–	296.2
Net rental income	63.5	–	(0.7)	62.8	62.4	–	–	62.4
Profit on disposal of trading property	74.0	–	–	74.0	79.1	–	–	79.1
Administrative expenses	(31.0)	–	–	(31.0)	(32.3)	–	(0.8)	(33.1)
Other income	11.0	–	–	11.0	8.0	–	–	8.0
Other expenses	(1.8)	–	(1.6)	(3.4)	–	–	(3.8)	(3.8)
Net gain on acquisition of subsidiary	–	–	–	–	–	16.1	–	16.1
Goodwill impairment	–	–	–	–	–	(2.2)	–	(2.2)
Profit on disposal of investment property	3.0	–	–	3.0	1.1	–	–	1.1
Finance income from financial interest in property assets	7.7	–	–	7.7	7.9	–	–	7.9
Write down of inventories to net realisable value	–	(0.1)	–	(0.1)	–	(1.8)	–	(1.8)
Provision for impairment of loans receivable net of write-backs	–	–	–	–	–	(4.2)	–	(4.2)
Operating profit before net valuation gains/(deficits) on investment property	126.4	(0.1)	(2.3)	124.0	126.2	7.9	(4.6)	129.5
Net valuation gains/(deficits) on investment property	–	2.1	–	2.1	–	(2.0)	–	(2.0)
Write down of investment property in disposal group	–	–	(6.9)	(6.9)	–	–	–	–
Operating profit after net valuation gains/(deficits) on investment property	126.4	2.0	(9.2)	119.2	126.2	5.9	(4.6)	127.5
Change in fair value of derivatives	–	(31.2)	–	(31.2)	–	(28.0)	–	(28.0)
Finance costs	(92.8)	–	(2.5)	(95.3)	(79.0)	–	(3.6)	(82.6)
Finance income	2.1	–	–	2.1	2.7	–	–	2.7
Share of profit of associates after tax	(0.1)	4.6	–	4.5	0.2	4.2	–	4.4
Share of (loss)/profit of joint ventures after tax	(1.0)	–	–	(1.0)	(1.8)	3.9	–	2.1
(Loss)/profit before tax	34.6	(24.6)	(11.7)	(1.7)	48.3	(14.0)	(8.2)	26.1
Tax	(6.3)	6.7	1.7	2.1	(7.9)	10.7	10.2	13.0
Profit after tax	28.3	(17.9)	(10.0)	0.4	40.4	(3.3)	2.0	39.1

The non-recurring charge of £0.7m under 'net rental income' relates to a specific provision made against a one-off structural issue at one of our properties and a charge of £1.6m under 'other expenses' relates primarily to transaction costs. The non-recurring charge of £6.9m relates to the disposal group of assets transferred into a joint venture vehicle post year end as explained further in note 40. The non-recurring charge of £2.5m under 'Finance costs' includes interest payable on overdue tax of £1.5m.

4 Segmental information

Information relating to the group's operating segments is set out in the tables below:

2012 Income statement

(£m)	UK residential	Retirement solutions	Fund and third party management	UK and European development	German residential	All other segments	Total
Group revenue							
Segment revenue-external	211.4	35.5	8.3	19.6	36.6	–	311.4
Net rental income	42.5	3.7	–	0.2	17.1	–	63.5
Profit on disposal of trading property	57.6	12.7	–	3.4	0.3	–	74.0
Administrative expenses	(8.6)	(2.9)	(4.6)	(1.3)	(2.6)	(11.0)	(31.0)
Other income and expenses	1.0	1.1	6.5	0.5	0.1	–	9.2
Profit on disposal of investment property	2.2	–	–	–	0.8	–	3.0
Finance income from financial interest in property assets	–	7.7	–	–	–	–	7.7
Operating profit before net valuation deficits on investment property	94.7	22.3	1.9	2.8	15.7	(11.0)	126.4
Net trading interest payable	(10.0)	(8.3)	–	1.4	(12.7)	(61.1)	(90.7)
Share of trading loss of joint ventures and associates after tax	–	(0.7)	(0.1)	(0.3)	–	–	(1.1)
Trading profit before tax, valuation and non-recurring items							34.6
Write down of inventories to net realisable value	(0.1)	–	–	–	–	–	(0.1)
Net valuation gains/(deficits) on investment property	8.2	(3.3)	–	–	(2.8)	–	2.1
Fair value movements on derivatives	–	–	–	–	–	(31.2)	(31.2)
Share of valuation gains in joint ventures and associates after tax	–	–	4.6	–	–	–	4.6
Other net non-recurring items	(0.9)	–	–	(0.1)	(8.5)	(2.2)	(11.7)
Loss before tax							(1.7)

Notes to the financial statements continued

4 Segmental information continued

2011 Income Statement (Restated)

(£m)	UK residential	Retirement solutions	Fund and third party management	UK and European development	German residential	All other segments	Total
Group revenue							
Segment revenue-external	200.6	25.9	6.3	22.8	40.6	–	296.2
Segment revenue-internal	–	–	7.4	–	–	–	7.4
Net rental income	38.4	3.8	–	–	20.2	–	62.4
Profit on disposal of trading property	54.7	9.3	–	15.1	–	–	79.1
Administrative expenses	(7.9)	(2.7)	(4.5)	(1.1)	(3.1)	(13.0)	(32.3)
Other income and expenses	0.5	0.5	6.3	0.4	0.3	–	8.0
Profit/(loss) on disposal of investment property	0.3	(0.1)	–	–	0.9	–	1.1
Finance income from financial interest in property assets	–	7.9	–	–	–	–	7.9
Operating profit before net valuation deficits on investment property	86.0	18.7	1.8	14.4	18.3	(13.0)	126.2
Net trading interest payable	(2.9)	(3.2)	1.2	0.1	(13.9)	(57.6)	(76.3)
Share of trading loss of joint ventures and associates after tax	–	(0.1)	(1.0)	(0.5)	–	–	(1.6)
Trading profit before tax, valuation and non-recurring items							48.3
Write down of inventories to net realisable value	(0.8)	–	–	(1.0)	–	–	(1.8)
Net valuation gains/(deficits) on investment property	4.7	(5.1)	–	–	(1.6)	–	(2.0)
Fair value movements on derivatives	–	–	(0.8)	–	(1.6)	(25.6)	(28.0)
Provision for impairment of loans receivable net of write-backs	–	–	3.3	(5.2)	–	(2.3)	(4.2)
Net gain on acquisition of subsidiary	16.1	–	–	–	–	–	16.1
Goodwill impairment	(0.9)	–	–	–	(1.3)	–	(2.2)
Share of valuation gains in joint ventures and associates after tax	–	–	8.1	–	–	–	8.1
Other net non-recurring items	(2.3)	(0.1)	(0.2)	(0.2)	(0.8)	(4.6)	(8.2)
Profit before tax							26.1

Segmental revenue from external customers is derived as follows:
£274.8m from UK customers (2011: £255.6m)
£36.6m from Germany (2011: £40.6m).
There are no other material revenue streams from external customers in foreign countries.

Non-current assets other than financial instruments and deferred tax assets are located as follows:
£422.2m within the UK (2011: £462.9m)
£170.2m in Germany (2011: £422.0m)

The majority of the group's properties are held as trading stock and are therefore shown in the statutory statement of financial position at the lower of cost and net realisable value. This does not reflect the market value of the assets and, accordingly, our key statement of financial position measures of net asset value include trading stock at market value. The two principal net asset value measures reviewed by the CODM are gross net asset value ('NAV') and triple net asset value ('NNNAV').

NAV is the statutory net assets plus the adjustment required to increase the value of trading stock from its statutory accounts value of the lower of cost and net realisable value, to its market value. In addition, the statutory statement of financial position amounts for both deferred tax on property revaluations and derivative financial instruments net of deferred tax, including those in joint ventures and associates, are added back to statutory net assets. Finally, the market value of Grainger plc shares owned by the group are added back to statutory net assets.

NNNAV reverses some of the adjustments made between statutory net assets and NAV. All of the adjustments for the value of derivative financial instruments net of deferred tax, including those in joint ventures and associates, are reversed. The adjustment for the deferred tax on property revaluations is also reversed. In addition, adjustments are made to net assets to reflect the fair value, net of deferred tax, of the group's fixed rate debt and to deduct from net assets the contingent tax calculated by applying the expected rate of tax to the adjustment to increase the value of trading stock from its statutory accounts value of the lower of cost and net realisable value, to its market value.

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

2012 Segment net assets

(£m)	UK residential	Retirement solutions	Fund and third party management	UK and European development	German residential	All other segments	Total
Total segment net assets (statutory)	838.8	287.3	44.1	90.6	118.4	(988.3)	390.9
Total segment net assets (NAV)	1,181.3	341.1	45.9	86.8	132.4	(858.7)	928.8
Total segment net assets (NNNAV)	1,080.6	307.0	44.1	87.6	118.2	(983.1)	654.4

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Notes to the financial statements continued

4 Segmental information continued

2012 Reconciliation of NAV measures

(£m)	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	Gross NAV balance sheet	Deferred and contingent tax	Derivatives	Triple NAV balance sheet
Investment property	525.9	–	525.9	–	–	525.9
CHARM	99.0	–	99.0	–	–	99.0
Trading stock	1,023.4	364.0	1,387.4	–	–	1,387.4
JV/Associates	60.4	(1.3)	59.1	–	(2.8)	56.3
Cash	73.3	–	73.3	–	–	73.3
Deferred tax	44.5	(40.2)	4.3	–	46.1	50.4
Assets held for sale	222.1	–	222.1	–	–	222.1
Other assets	41.7	6.3	48.0	–	–	48.0
Total assets	2,090.3	328.8	2,419.1	–	43.3	2,462.4
External debt	(1,267.4)	–	(1,267.4)	–	–	(1,267.4)
Derivatives	(145.4)	145.4	–	–	(171.2)	(171.2)
Deferred tax	(37.8)	37.2	(0.6)	(120.0)	–	(120.6)
Liabilities held for sale	(129.7)	4.8	(124.9)	–	(4.8)	(129.7)
Other liabilities	(119.1)	21.7	(97.4)	–	(21.7)	(119.1)
Total liabilities	(1,699.4)	209.1	(1,490.3)	(120.0)	(197.7)	(1,808.0)
Net assets	390.9	537.9	928.8	(120.0)	(154.4)	654.4

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

Segment assets and liabilities for NNNAV

30 September 2012 (£m)	UK residential portfolio	Retirement solutions	Fund and third party management	UK and European development	German residential	All other segments	Total
NNNAV assets							
Investment property	308.5	47.7	–	–	169.7	–	525.9
Investment in associates	–	–	41.2	–	–	–	41.2
Investment in joint ventures	–	15.3	–	(0.6)	0.4	–	15.1
Financial interest in property assets	–	99.0	–	–	–	–	99.0
Goodwill	5.3	–	–	–	–	–	5.3
Inventories – trading property	1,029.6	287.6	–	70.2	–	–	1,387.4
Trade and other receivables	3.3	2.6	2.7	22.3	1.7	3.0	35.6
Cash and cash equivalents	26.4	7.9	0.7	2.9	10.3	25.1	73.3
Property, plant and equipment	–	–	–	–	0.1	0.7	0.8
Deferred tax asset	2.0	5.6	–	1.1	0.1	41.6	50.4
Assets classified as held-for-sale	–	24.9	–	–	197.2	–	222.1
Value of own shares held	–	–	–	–	–	6.3	6.3
Total segment NNNAV assets	1,375.1	490.6	44.6	95.9	379.5	76.7	2,462.4
NNNAV liabilities							
Interest-bearing loans and borrowings	181.2	116.6	–	0.1	115.0	854.5	1,267.4
Trade and other payables	11.5	28.0	0.5	9.1	4.4	34.9	88.4
Retirement benefits	–	–	–	–	–	5.8	5.8
Current tax liabilities	–	–	–	–	–	24.4	24.4
Provisions for other liabilities and charges	–	–	–	–	–	0.5	0.5
Deferred and contingent tax liabilities	101.8	14.8	–	(0.9)	4.9	–	120.6
Liabilities associated with assets held-for-sale	–	–	–	–	129.7	–	129.7
Derivative financial instruments	–	24.2	–	–	7.3	139.7	171.2
Total segment NNNAV liabilities	294.5	183.6	0.5	8.3	261.3	1,059.8	1,808.0
Net NNNAV assets	1,080.6	307.0	44.1	87.6	118.2	(983.1)	654.4

Notes to the financial statements continued

4 Segmental information continued

2011 Segment net assets

(£m)	UK residential	Retirement solutions	Fund and third party management	UK and European development	German residential	All other segments	Total
Total segment net assets (statutory)	886.9	385.0	37.6	84.1	132.8	(1,139.0)	387.4
Total segment net assets (NAV)	1,227.3	437.7	41.0	72.3	151.4	(1,029.7)	900.0
Total segment net assets (NNNAV)	1,112.2	414.3	37.6	75.3	132.7	(1,133.9)	638.2

2011 Reconciliation of NAV measures

(£m)	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	Gross NAV balance sheet	Deferred and contingent tax	Derivatives	Triple NAV balance sheet
Investment property	819.9	–	819.9	–	–	819.9
CHARM	102.3	–	102.3	–	–	102.3
Trading stock	1,105.1	344.0	1,449.1	–	–	1,449.1
JV/Associates	58.5	0.4	58.9	–	(4.6)	54.3
Cash	90.9	–	90.9	–	–	90.9
Deferred tax	42.7	(39.7)	3.0	–	43.2	46.2
Derivatives	0.2	(0.2)	–	–	0.2	0.2
Other assets	24.8	6.4	31.2	–	–	31.2
Total assets	2,244.4	310.9	2,555.3	–	38.8	2,594.1
External debt	(1,544.7)	–	(1,544.7)	–	–	(1,544.7)
Derivatives	(154.5)	154.5	–	–	(168.4)	(168.4)
Deferred tax	(47.7)	47.2	(0.5)	(132.2)	–	(132.7)
Other liabilities	(110.1)	–	(110.1)	–	–	(110.1)
Total liabilities	(1,857.0)	201.7	(1,655.3)	(132.2)	(168.4)	(1,955.9)
Net assets	387.4	512.6	900.0	(132.2)	(129.6)	638.2

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

Segment assets and liabilities for NNNAV

30 September 2011 (£m)	UK residential portfolio	Retirement solutions	Fund and third party management	UK and European development	German residential	All other segments	Total
NNNAV assets							
Investment property	320.9	77.6	–	–	421.4	–	819.9
Investment in associates	–	–	34.6	–	–	–	34.6
Investment in joint ventures	–	19.3	–	–	0.4	–	19.7
Financial interest in property assets	–	102.3	–	–	–	–	102.3
Goodwill	5.3	–	–	–	–	–	5.3
Inventories – trading property	1,081.1	294.6	–	72.5	0.9	–	1,449.1
Trade and other receivables	1.4	1.9	2.8	5.9	2.6	3.7	18.3
Cash and cash equivalents	19.3	1.1	0.4	0.2	25.8	44.1	90.9
Property, plant and equipment	–	–	–	–	0.2	1.0	1.2
Deferred tax asset	2.1	2.9	–	1.5	0.1	39.6	46.2
Derivative financial instruments	–	–	–	–	0.1	0.1	0.2
Value of own shares held	–	–	–	–	–	6.4	6.4
Total segment NNNAV assets	1,430.1	499.7	37.8	80.1	451.5	94.9	2,594.1
NNNAV liabilities							
Interest-bearing loans and borrowings	193.0	32.4	–	–	287.4	1,031.9	1,544.7
Trade and other payables	8.8	27.8	0.2	7.8	8.3	27.5	80.4
Retirement benefits	–	–	–	–	–	4.5	4.5
Current tax liabilities	–	–	–	–	–	24.6	24.6
Provisions for other liabilities and charges	–	–	–	–	–	0.6	0.6
Deferred and contingent tax liabilities	116.1	13.4	–	(3.0)	5.9	0.3	132.7
Derivative financial instruments	–	11.8	–	–	17.2	139.4	168.4
Total segment NNNAV liabilities	317.9	85.4	0.2	4.8	318.8	1,228.8	1,955.9
Net NNNAV assets	1,112.2	414.3	37.6	75.3	132.7	(1,133.9)	638.2

Notes to the financial statements continued

5 Group revenue

	2012 £m	2011 £m
Gross rental income (see note 6)	89.8	86.3
Service charge income on a principal basis (see note 6)	9.0	10.1
Proceeds from sale of trading property (see note 7)	201.6	191.8
Management fee and other income (see note 10)	11.0	8.0
	311.4	296.2

6 Net rental income

	2012 £m	2011 (restated) £m
Gross rental income	89.8	86.3
Service charge income on a principal basis	9.0	10.1
Property repair and maintenance costs	(25.6)	(22.4)
Service charge expense on a principal basis	(10.4)	(11.6)
	62.8	62.4

There are no contingent rents recognised within net rental income in 2012 and 2011 relating to properties where the group acts as a lessor of assets under operating leases.

7 Profit on disposal of trading property

	2012 £m	2011 (restated) £m
Gross proceeds from sale of trading property	201.6	191.8
Selling costs	(5.6)	(4.5)
Net proceeds from sale of trading property	196.0	187.3
Carrying value of trading property sold	(122.0)	(108.2)
	74.0	79.1

8 Profit on disposal of investment property

	2012 £m	2011 (restated) £m
Gross proceeds from sale of investment property	48.9	25.2
Selling costs	(0.6)	(0.6)
Net proceeds from sale of investment property	48.3	24.6
Carrying value of investment property sold	(45.3)	(23.5)
	3.0	1.1

9 Administrative expenses

In prior years some of the group's expenses have been allocated against net rental income and profit on disposal of trading property with the balance shown as administrative expenses. The directors have reviewed this presentation and have concluded that it provides a clearer picture of the group's results by showing all of the group's expenses as administrative expenses. The comparatives in the consolidated income statement and in notes 6, 7 and this note have been restated to reflect the change which is presentational only with no impact on profit.

	2012 £m	2011 (restated) £m
Total group expenses	31.0	33.1

10 Other income

	2012 £m	2011 (restated) £m
Property and asset management fee income	10.0	6.9
Other sundry income	1.0	1.1
	11.0	8.0

11 Other expenses

	2012 £m	2011 (restated) £m
Cost on acquisition of subsidiary undertakings	–	2.4
External costs relating to fee income	1.8	–
Other transaction expenses	1.6	1.4
	3.4	3.8

Other income and expenses were presented as a single line item in the 2011 consolidated income statement and notes to the accounts. In 2012 other income and other expenses have been presented separately and the comparatives restated.

Notes to the financial statements continued

12 Employees

	2012 £m	2011 £m
Wages and salaries	12.9	13.9
Termination benefits	0.1	0.2
Social security costs	1.5	1.3
Other pension costs – defined contribution scheme (see note 30)	0.9	0.8
Share-based payments (see note 32)	2.1	2.0
	17.5	18.2

Interest on net pension scheme liabilities amounted to £0.3m in 2012 (2011: £0.3m) and is included within finance costs (see note 14).

The average monthly number of group employees during the year (including executive directors) was:

	2012 Number	2011 Number
UK tenanted residential	267	258
UK development	8	6
Germany tenanted residential	9	10
	284	274

Details of directors' remuneration, including pension costs, share options and interests in the LTIS are provided in the audited section of the remuneration committee report on pages 67 to 70.

Key management compensation

	2012 £m	2011 (restated) £m
Salaries and short-term employee benefits	5.6	6.2
Termination benefits	–	0.2
Post-employment benefits	0.4	0.4
Share-based payments	1.4	1.1
	7.4	7.9

Key management figures shown include executive and non-executive directors. In the previous year key management also included members of the Operations board. However this board has been restructured during the year and key management now includes all internal directors of specific functions. The 2011 comparatives have been restated to reflect this change.

13 (Loss)/profit before tax

	2012 £m	2011 £m
(Loss)/profit before tax is stated after charging/(crediting):		
Depreciation on fixtures, fittings and equipment (see note 19)	0.4	0.6
Impairment of goodwill (see note 23)	–	2.2
Net gain on acquisition of subsidiary (see note 39)	–	(16.1)
Bad debt expense (see note 25)	0.2	0.7
Foreign exchange gains	–	(0.8)
Operating lease payments (see note 37)	1.7	1.6
Auditors' remuneration (see below)	0.7	0.6

The remuneration paid to PricewaterhouseCoopers LLP, the group's principal auditors, is disclosed below:

Auditors' remuneration

	2012 £'000	2011 £'000
Audit fees		
Fees payable to the company's auditors for the audit of the company's annual accounts	120	146
Fees payable to the company's auditors and their associates for other services to the group:		
The audit of the company's subsidiaries pursuant to legislation	139	122
Total audit fees	259	268
Other fees		
Tax services	64	90
Other services	368	227
Total other fees	432	317
Total fees	691	585

During the year, £64,000 was paid by the group to PricewaterhouseCoopers LLP for taxation services. A further £368,000 was paid for other services, the main element of which was £325,000 relating to the preparation of a financial due diligence report in relation to the group's German business.

Details of the group's policy on the use of the group's auditors for other services, the reasons why the firm was used rather than another supplier and how the auditor's independence and objectivity was safeguarded are set out in the Audit Committee Report on pages 59 and 60. No services were provided pursuant to contingent fee arrangements.

Notes to the financial statements continued

14 Finance costs and income

	2012 £m	2011 £m
Finance costs		
Bank loans and mortgages	76.5	71.9
Non-bank Financial Institution	10.1	2.8
Convertible bond	1.8	1.7
Other finance costs	2.5	2.9
Foreign exchange gains on financing activities	–	(0.8)
Loan issue costs – amortisation and write-off	4.1	3.8
Interest on net pension scheme liabilities (see note 30)	0.3	0.3
	95.3	82.6
Finance income		
Interest receivable from associates and joint ventures (see note 36)	–	1.2
Other interest receivable	1.3	–
Bank deposits	0.8	1.5
	2.1	2.7
Net finance costs	93.2	79.9

15 Taxation

	2012 £m	2011 £m
Current tax		
Corporation tax on (loss)/profit	13.2	11.9
Adjustments relating to prior years	(1.2)	(11.3)
	12.0	0.6
Deferred tax		
Origination and reversal of temporary differences	(12.6)	(7.6)
Adjustments relating to prior years	(1.7)	(5.2)
Impact of tax rate change	0.2	(0.8)
	(14.1)	(13.6)
Income tax credit for the year	(2.1)	(13.0)

In 2011, prior year tax credits of £16.5m included a non-recurring exceptional credit of £10.2m arising from the conclusion of the group's discussion with HM Revenue and Customs on various outstanding tax matters.

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

Movements in taxation during the year are set out below:

2012 Movement in taxation	Opening balance £m	Payments made in the year £m	Movements recognised in income £m	Exchange adjustments £m	Movements recognised in other comprehensive income £m	Closing balance £m
Current tax	24.6	(12.0)	12.0	(0.2)	–	24.4
Deferred tax						
Trading property uplift to fair value on acquisition	37.8	–	(8.3)	–	–	29.5
Investment property revaluation	7.2	–	(0.8)	(0.3)	–	6.1
Accelerated capital allowances	1.3	–	(0.6)	–	–	0.7
Short-term temporary differences	(28.2)	–	(4.4)	–	–	(32.6)
Actuarial deficit on BPT Limited pension scheme	(0.2)	–	–	–	(0.5)	(0.7)
Equity component of available-for-sale financial asset	1.4	–	–	–	(0.2)	1.2
Fair value movement in cash flow hedges and exchange adjustments	(14.3)	–	–	0.3	3.1	(10.9)
	5.0	–	(14.1)	–	2.4	(6.7)
Total tax – 2012 movement	29.6	(12.0)	(2.1)	(0.2)	2.4	17.7

	2012 £m	2011 £m
Deferred tax balances are disclosed as follows:		
Deferred tax assets: non-current assets	44.5	42.7
Deferred tax liabilities: non-current liabilities	(37.8)	(47.7)
Deferred tax	6.7	(5.0)

Deferred tax has been calculated at a rate of 23% (2011:25%).

In addition to the above the group has a contingent tax liability representing the difference between the carrying value of trading properties in the statement of financial position and their market value. This contingent tax, which is not provided in the accounts, amounts to £82.9m (2011: £84.9m).

No benefit has been recognised in respect of unused tax credits with a tax value of £nil (2011: £nil); unexpired trading losses carried forward with a tax value of £2.1m (2011: £2.3m); or deductible temporary differences with a tax value of £1.3m (2011: £nil).

It is not possible for the group to identify the timing of movements in deferred tax between those expected within one year and those expected in greater than one year. This is because movements in the main balances, both assets and liabilities, will be determined by factors outside the control of the group, namely the vacation date of properties and interest yield curve movements. However, given the long-term nature of our property ownership, we anticipate that the balance will predominantly be crystallised in a period greater than one year.

Notes to the financial statements continued

15 Taxation continued

2011 Movement in taxation	Opening balance £m	Payments made in the year £m	Acquired in the year £m	Movements recognised in income £m	Exchange adjustments £m	Movements recognised in other comprehensive income £m	Closing balance £m
Current tax	27.8	(4.4)	0.7	0.6	(0.1)	–	24.6
Deferred tax							
Trading property uplift to fair value on acquisition	41.5	–	–	(3.7)	–	–	37.8
Investment property revaluation	9.2	–	1.2	(3.2)	–	–	7.2
Accelerated capital allowances	0.4	–	1.0	(0.1)	–	–	1.3
Short-term temporary differences	(21.6)	–	–	(6.6)	–	–	(28.2)
Actuarial deficit on BPT Limited pension scheme	(0.5)	–	–	–	–	0.3	(0.2)
Equity component of available-for-sale financial asset	1.5	–	–	–	–	(0.1)	1.4
Fair value movement in cash flow hedges and exchange adjustments	(16.3)	–	(2.3)	–	–	4.3	(14.3)
	14.2	–	(0.1)	(13.6)	–	4.5	5.0
Total tax – 2011 movement	42.0	(4.4)	0.6	(13.0)	(0.1)	4.5	29.6

The tax credit for the year of £2.1m (2011: credit of £13.0m) comprises:

	2012 £m	2011 £m
UK taxation	1.0	(11.5)
Overseas taxation	(3.1)	(1.5)
	(2.1)	(13.0)

The main rate of Corporation Tax in the UK changed from 26% to 24% with effect from 1 April 2012 and will change to 23% from 1 April 2013. Accordingly the group's results for this accounting period are taxed at an effective rate of 25% and should be taxed at 23.5% in the 2013 period. The change in tax rate has resulted in a £0.2m charge to the income statement in the current year.

The tax credit for the year is different to the credit for the year derived by applying the standard rate of corporation tax in the UK of 25% (2011: 27%) to the (loss)/profit before tax. The differences are explained below:

	2012 £m	2011 £m
(Loss)/profit before tax	(1.7)	26.1
(Loss)/profit before tax at a rate of 25% (2011: 27%)	(0.4)	7.0
Expenses not deductible for tax purposes	1.1	1.8
Goodwill credit not taxable	–	(3.8)
Impact of tax rate change	0.2	(0.8)
Other losses and non-taxable items	(0.1)	(0.7)
Adjustment in respect of prior periods	(2.9)	(16.5)
	(2.1)	(13.0)

As shown above, deferred tax has been taken directly to other comprehensive income in relation to the actuarial gain or loss on the BPT Limited pension scheme, the equity component of available-for-sale financial assets and the fair value movement in cash flow hedges and exchange adjustments. The tax effect is shown separately within the statement of other comprehensive income on page 77.

Factors that may affect future tax charges

In addition to the changes in rates of Corporation Tax disclosed above, a number of changes to the UK Corporation Tax system are proposed. A further reduction in the main rate was proposed in the Autumn Statement on 5 December 2012 to reduce the rate to 21% from 1 April 2014. This change has not been substantively enacted at the statement of financial position date and, therefore, is not included in these financial statements.

The effect of the changes expected to be enacted would be to reduce the deferred tax asset provided at the statement of financial position date by £0.5m. This £0.5m reduction in the deferred tax asset would reduce profit by £0.2m and decrease other comprehensive income by £0.3m.

16 Dividends

Under IAS 10, final dividends are excluded from the statement of financial position either until they are approved by the company in general meeting or until they have been appropriately authorised and are no longer at the company's discretion. Dividends paid in the year are shown below:

	2012 £m	2011 £m
Ordinary dividends on equity shares:		
Final dividend for the year ended 30 September 2010 – 1.20p per share	–	4.9
Final dividend for the year ended 30 September 2011 – 1.30p per share	5.3	–
Interim dividend for the year ended 30 September 2012 – 0.55p per share	2.3	–
	7.6	4.9

A final dividend in respect of the year ended 30 September 2012 of 1.37p per share amounting to £5.6m will be proposed at the 2013 AGM. If approved, this dividend will be paid on 8 February 2013 to shareholders on the register at close of business on 7 December 2012. The 2012 interim dividend of 0.55p per share was paid in July 2012. This gives a total dividend for 2012 of 1.92p per share (2011: 1.83p per share).

Notes to the financial statements continued

17 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit or loss attributable to the owners of the company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the group and held both in trust and as treasury shares to meet its obligations under the long-term incentive scheme ('LTIS'), Deferred Bonus Plan ('DBP') and SAYE schemes.

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 convertible bond and its share option schemes and contingent share awards under the LTIS and DBP, based upon the number of shares that would be issued if 30 September 2012 was the end of the contingency period. The profit for the year is adjusted to add back the after tax interest cost on the debt component of the convertible bond. Where the effect of the above adjustments is antidilutive, as it is in relation to the convertible bond, they are excluded from the calculation of diluted earnings per share. Further details in relation to the redemption of the convertible bond are set out in note 29.

	30 September 2012			30 September 2011		
	Profit for the year £m	Weighted average number of shares (thousands)	Earnings per share pence	Profit for the year £m	Weighted average number of shares (thousands)	Earnings per share pence
Basic earnings per share						
Profit attributable to equity holders	0.4	409,937	0.1	39.1	410,003	9.5
Effect of potentially dilutive securities						
Share options and contingent shares	–	4,971	–	–	5,472	(0.1)
Diluted earnings per share						
Profit attributable to equity holders	0.4	414,908	0.1	39.1	415,475	9.4

18 Investment property

	2012 £m	2011 £m
Opening balance	819.9	634.7
Additions:		
Acquisitions arising from business combinations (see note 39)	–	207.8
Subsequent expenditure	5.5	5.4
Disposals	(45.3)	(23.5)
Write down of investment property in disposal group (see note 40)	(6.9)	–
Transfer to assets classified as held-for-sale (see note 40)	(218.1)	–
Net valuation gains/(deficits)	2.1	(2.0)
Exchange adjustments	(31.3)	(2.5)
Closing balance	525.9	819.9

The group has valued all of its investment property as at 30 September 2012 at fair value.

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

A revaluation gain of £2.1m has arisen on valuation of investment property to fair value as at 30 September 2012 (2011: deficit of £2.0m) and this has been taken to the income statement.

The historical cost of the group's investment property as at 30 September 2012 is £534.2m (2011: £824.8m).

Rental income from investment property during the year was £46.7m (2011: £49.7m).

Direct property repair and maintenance costs arising from investment property that generated rental income during the year was £12.4m (2011: £12.4m).

The reduction in value of £31.3m (2011: £2.5m) relates to an exchange movement on the group's German residential property. This reflects the movement in the sterling/euro exchange rate between the respective year end dates.

Notes to the financial statements continued

19 Property, plant and equipment

	Total 2012 £m	Total 2011 £m
Cost		
Opening cost	5.5	5.0
Additions	–	0.5
Closing cost	5.5	5.5
Accumulated depreciation		
Opening accumulated depreciation	4.3	3.7
Charge for the year	0.4	0.6
Closing accumulated depreciation	4.7	4.3
Net book value:		
Closing net book value	0.8	1.2
Opening net book value	1.2	1.3

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

20 Investment in associates

	2012 £m	2011 £m
Opening balance	34.6	28.7
Share of profit	4.5	4.4
Proceeds on redemption of equity units	–	(0.1)
Acquisition of additional equity in G:res	–	0.3
Share of change in fair value of cash flow hedges taken through other comprehensive income	2.1	1.3
Closing balance	41.2	34.6

As at 30 September 2012, the group's interest in associates was as follows:

	% of ordinary share capital/ units held	Country of incorporation
G:res1 Limited	21.96	Jersey

The accounting period end of G:res 1 Limited is 31 December 2012. Their results for the 12 months to 30 September 2012 and their financial position as at that date have been equity accounted in these accounts.

In relation to the group's investment in G:res 1 Limited, the group's share of the aggregated assets, liabilities, revenues and profit or loss are shown below:

	2012 £m	2011 £m
Non-current assets	81.6	83.9
Current assets	4.8	5.5
Non-current liabilities	(43.4)	(53.2)
Current liabilities	(1.8)	(1.6)
Net assets	41.2	34.6
Revenues	4.7	4.7
Profit (including share of gain on revaluation of investment property)	4.5	4.4

Notes to the financial statements continued

21 Investment in joint ventures

	Net assets £m	Loans £m	Goodwill £m	Total £m
At 1 October 2010	4.1	85.6	1.3	91.0
Loans advanced	–	3.3	–	3.3
Provision for impairment of loans receivable	–	(1.9)	–	(1.9)
Share of profit	2.1	–	–	2.1
Consolidation adjustment	(1.3)	–	–	(1.3)
Net assets acquired through sale of subsidiary into a joint venture	19.2	–	–	19.2
Net assets disposed of through transfer to subsidiary	(7.5)	(80.9)	–	(88.4)
Goodwill impairment arising on investment in Gebau Vermogen GmbH (see note 23)	–	–	(1.3)	(1.3)
Exchange adjustment	(0.1)	–	–	(0.1)
Share of change in fair value of cash flow hedges taken through other comprehensive income	1.3	–	–	1.3
At 30 September 2011	17.8	6.1	–	23.9
Loans advanced	–	0.5	–	0.5
Loans repaid	–	(1.6)	–	(1.6)
Share of loss	(1.0)	–	–	(1.0)
Exchange adjustment	(0.4)	(0.3)	–	(0.7)
Distributions received	(1.9)	–	–	(1.9)
At 30 September 2012	14.5	4.7	–	19.2

Loans repaid of £1.6m in 2012 relates to repayment of loans to the group by its Sovereign joint venture. Distributions received of £1.9m in 2012 relate to dividends received from the Sovereign joint venture.

The provision for impairment/(write-back) of loans receivable in 2011 of £1.9m comprises the release of £3.3m of the provision made against the group's mezzanine loan to Grainger GenInvest No.2 (2006) LLP prior to the group's acquisition of the remaining 50% equity in that company and a further provision of £5.2m against the group's investments in its Czech Republic joint ventures.

These amounts were included within the provision for impairment on loans receivable net of write backs on the face of the consolidated income statement.

The net assets disposed of through transfer to a subsidiary of £88.4m in 2011 represented the group's share of net assets and its loans to the two Grainger GenInvest LLP's which became subsidiaries of Grainger on 22 March 2011.

Of the loans advanced in 2011 of £3.3m only £2.1m was advanced in cash. The remaining £1.2m relates to interest income earned from the Grainger Invest LLP's that was not received in cash.

A White Paper on the proposed High Speed Rail Network from London to Birmingham (HS2), was presented to Parliament on 11 March 2010 by the Secretary of State for Transport. This indicated that the potential route would cover at least part of our development site (held in joint venture with Development Securities plc) at Curzon Park in Birmingham. In January 2012, the Government confirmed their intention to proceed with HS2. The group, in conjunction with our joint venture partner, are liaising with HS2 and the Department of Transport to discuss the impact on, and a revised plan for, the site. A provision of £4.9m was made in our 2010 year end accounts against the carrying value of our joint venture investment to write down its value to £nil and this provision is still being held. In view of the continuing uncertainty relating to the future of the Curzon Park site, it is difficult to estimate the net realisable value of the site. However the directors believe no further impairment provision is required at the statement of financial position date. Should the value of the site, together with any compensation received, be insufficient to repay the bank loan in the joint venture entity, the group may incur further charges in respect of its obligations to the joint venture and the bank.

At 30 September 2012, the group's interest in joint ventures was as follows:

	% of ordinary share capital held	Country of incorporation
Curzon Park Limited	50	United Kingdom
King Street Developments (Hammersmith) Limited	50	United Kingdom
New Sovereign Reversions Limited	50	United Kingdom
CCZ a.s.	50	Czech Republic
CCY a.s.	50	Czech Republic
Prazsky Project a.s.	50	Czech Republic
Gebau Vermogen GmbH	50	Germany

The accounting period end of Curzon Park Limited is 28 February 2013. The results for the 12 months to 30 September 2012 and the financial position as at that date have been equity accounted in these accounts.

The accounting period end of King Street Developments (Hammersmith) Limited is 31 March 2013. The results for the 12 months to 30 September 2012 and the financial position as at that date have been equity accounted in these accounts.

In relation to the group's investment in joint ventures, the group's share of the aggregated assets, liabilities, revenues and profit or loss are shown below.

Notes to the financial statements continued

21 Investment in joint ventures continued

2012 Summarised income statement

	2012					
	Czech Republic combined £m	Curzon Park Limited £m	King Street Developments (Hammersmith) Limited £m	New Sovereign Reversions Limited £m	Gebau Vermogen GmbH £m	Total £m
Net rental income and other income	–	–	–	–	4.9	4.9
Administration and other expenses	–	–	–	(0.5)	(4.9)	(5.4)
Profit on disposal of trading property	–	–	–	0.7	–	0.7
Operating profit	–	–	–	0.2	–	0.2
Interest payable	–	(0.3)	–	(0.7)	–	(1.1)
Change in fair value derivatives	–	–	–	(0.2)	–	(0.2)
Loss before tax	–	(0.3)	–	(0.7)	–	(1.0)
Taxation	–	–	–	–	–	–
Loss after tax	–	(0.3)	–	(0.7)	–	(1.0)

2012 Summarised statement of financial position

	2012					
	Czech Republic combined £m	Curzon Park Limited £m	King Street Developments (Hammersmith) Limited £m	New Sovereign Reversions Limited £m	Gebau Vermogen GmbH £m	Total £m
Trading property	12.9	18.6	–	29.8	–	61.3
Current assets	0.6	–	2.2	1.5	0.5	4.8
Total assets	13.5	18.6	2.2	31.3	0.5	66.1
Non-current liabilities	(5.4)	(19.1)	–	(14.3)	(0.1)	(38.9)
Current liabilities	(6.4)	(2.3)	(2.2)	(1.8)	–	(12.7)
Net assets/(liabilities)	1.7	(2.8)	–	15.2	0.4	14.5

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

2011 Summarised income statement

	2011							
	Grainger GenInvest LLP £m	Grainger GenInvest No.2 (2006) LLP £m	Czech Republic combined £m	Curzon Park Limited £m	King Street Developments (Hammersmith) Limited £m	New Sovereign Reversions Limited £m	Gebau Vermogen GmbH £m	Total £m
Net rental income and other income	0.3	1.7	–	–	–	–	–	2.0
Administration and other expenses	–	–	–	–	–	(0.4)	–	(0.4)
Profit on disposal of trading property	–	–	–	–	–	0.6	–	0.6
Profit on disposal of investment property	0.1	–	–	–	–	–	–	0.1
Operating profit before valuation gains	0.4	1.7	–	–	–	0.2	–	2.3
Net valuation gains on investment property	1.7	2.2	–	–	–	–	–	3.9
Operating profit after valuation gains	2.1	3.9	–	–	–	0.2	–	6.2
Interest payable	(0.6)	(2.7)	(0.2)	(0.3)	–	(0.4)	–	(4.2)
Change in fair value derivatives	–	–	–	–	–	(0.2)	–	(0.2)
Profit/(loss) before tax	1.5	1.2	(0.2)	(0.3)	–	(0.4)	–	1.8
Taxation	–	–	–	–	–	0.3	–	0.3
Profit/(loss) after tax	1.5	1.2	(0.2)	(0.3)	–	(0.1)	–	2.1

2011 Summarised statement of financial position

	2011					
	Czech Republic combined £m	Curzon Park Limited £m	King Street Developments (Hammersmith) Limited £m	New Sovereign Reversions Limited £m	Gebau Vermogen GmbH £m	Total £m
Trading property	14.0	18.5	–	32.2	–	64.7
Current assets	0.8	0.1	2.0	4.4	0.7	8.0
Total assets	14.8	18.6	2.0	36.6	0.7	72.7
Non-current liabilities	–	(21.1)	–	(16.7)	(0.4)	(38.2)
Current liabilities	(12.6)	–	(2.0)	(2.1)	–	(16.7)
Net assets/(liabilities)	2.2	(2.5)	–	17.8	0.3	17.8

Notes to the financial statements continued

22 Financial interest in property assets

	2012 £m	2011 £m
Opening balance	102.3	103.9
Cash received from the instrument	(10.6)	(9.2)
Amounts taken to income statement	7.7	7.9
Amounts taken to other comprehensive income before tax	(0.4)	(0.3)
Closing balance	99.0	102.3

Financial interest in property assets relates to the CHARM portfolio, which is a financial interest in equity mortgages held by the Church of England Pensions Board as mortgagee. It is accounted for under IAS 39 in accordance with the designation available-for-sale financial assets and is valued at fair value.

The CHARM portfolio is considered to be a level 3 financial asset as defined by IFRS 7. The key assumptions used to value the asset are set out within note 2 'Critical accounting estimates and assumptions', and the financial asset is included within the fair value hierarchy within note 28.

23 Goodwill

	2012 £m	2011 £m
Opening balance	5.3	6.2
Impairment charge taken to income statement	–	(0.9)
Closing balance	5.3	5.3

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

The total goodwill impairment charge in the income statement comprises:

	2012 £m	2011 £m
Impairment charge as shown above	–	(0.9)
Impairment charge relating to Gebau Vermogen GmbH (see note 21)	–	(1.3)
	–	(2.2)

24 Inventories – trading property

	2012 £m	2011 £m
Residential trading property	953.6	1,024.9
Development trading property	69.8	80.2
	1,023.4	1,105.1

The market value of inventories as at 30 September 2012 was £1,387.4m (2011: £1,449.1m).

Provisions of £0.1m against the net realisable value of residential trade property have been charged to the consolidated income statement in the year (2011: £1.8m). Further details are given in note 2 'Critical accounting estimates and assumptions'.

It is not possible for the group to identify which properties will be sold within the next 12 months. The size of the group's property portfolio does result in a relatively predictable vacancy rate. However, it is not possible to predict in advance the specific properties that will become vacant. Trading property is shown as a current asset in the consolidated statement of financial position.

25 Trade and other receivables

	2012 £m	2011 £m
Trade receivables	27.4	11.5
Deduct: Provision for impairment of trade receivables	(1.4)	(2.1)
Trade receivables – net	26.0	9.4
Other receivables	4.9	17.7
Deduct: Provision for impairment of other receivables	–	(12.9)
Other receivables – net	4.9	4.8
Prepayments	4.7	4.1
	35.6	18.3

The fair values of trade and other receivables are considered to be equal to their carrying amounts.

Other receivables in 2011 included a loan of £12.9m and an impairment provision of £12.9m relating to a loan made to the Mornington Capital Special Situations Co-investment Fund 1 Limited Partnership ('Mornington'). This loan and the associated provision have been written off during the year.

Trade receivables in 2012 includes deferred consideration receivable of £11.8m from the sale of Gateshead College and our first land sale at the Berewood site.

Other receivables include a loan of £3.8m (2011: £3.2m) made to Clarins Limited to enable that company to develop a property in the City of Westminster. The loan is interest free and subordinated to the senior debt provider funding the development. Grainger is entitled to a priority profit share on sale of the developed property. The loan is secured by a charge on the property being developed.

Notes to the financial statements continued

25 Trade and other receivables continued

As at 30 September 2012, tenant arrears of £1.4m within trade receivables were impaired and fully provided for (2011: £2.1m). The individually impaired receivables are based on a review of outstanding arrears and an assessment of collectability. The ageing of these receivables is:

	2012 £m	2011 £m
Up to two months	0.1	0.1
Three months or more	1.3	2.0
	1.4	2.1

Rental receivables are due on demand and hence all balances outstanding at the year end are past due. The balances within trade receivables which are past due but are not considered to be impaired, because we have either collected the debt since the statement of financial position date or there is a history of regular payment, are as follows:

	2012 £m	2011 £m
Up to two months	1.7	2.7

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

	2012 £m	2011 £m
Pounds Sterling	33.9	15.7
Euros	1.7	2.6
	35.6	18.3

Movements on the group provision for impairment of trade receivables are as follows:

	2012 £m	2011 £m
Opening balance	2.1	2.0
Provision for receivables impairment during the year	0.8	0.7
Receivables written off during the period as not recoverable	(0.9)	(0.6)
Unused amounts reversed	(0.6)	–
Closing balance	1.4	2.1

The charge/credit relating to the creation and release of provisions for impaired receivables have been included in property repair and maintenance costs in the consolidated income statement (see note 6). Amounts provided for are generally written off when there is no expectation of recovering additional cash.

The credit quality of financial assets that are neither past due nor impaired is discussed in note 28, 'financial risk management and derivative instruments'. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. Tenant deposits of £2.6m (2011: £4.0m) are held which provide some security against rental arrears and property dilapidations caused by the tenant. In addition the loan to Clarins is secured as described above. The group does not hold any other collateral as security.

26 Non-current liabilities

	2012 £m	2011 £m
i) Trade and other payables		
Deferred consideration payable	–	4.0

Trade and other payables is deferred consideration for the purchase of land at Berewood, West Waterlooville payable in April 2013 and is included within current payables in the current year.

	2012 £m	2011 £m
ii) Provisions for other liabilities and charges		
Other	0.5	0.6

27 Trade and other payables

	2012 £m	2011 £m
Deposits received	2.6	4.0
Trade payables	13.8	12.7
Taxation and social security	5.5	1.5
Accruals and deferred income	40.8	58.2
Other payables	21.7	–
Deferred consideration payable	4.0	–
	88.4	76.4

Accruals and deferred income includes £17.3m (2011: £20.1m) of rent received in advance relating to lifetime leases. It is not possible for the group to identify which properties will become vacant within the next 12 months and therefore to identify the proportion of rent received in advance which is expected to be released to the income statement within the next 12 months.

Other payables of £21.7m (2011: £nil) relates to the settlement value of the interest rate swap contracts which were agreed in September 2012 and settled in October 2012.

Notes to the financial statements continued

28 Financial risk management and derivative financial instruments

Categories of financial instruments

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

	2012						
	Loans and receivables/ cash and cash equivalents £m	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Available-for-sale £m	Total book value £m	Fair value £m	Fair value adjustment £m
Financial interest in property assets	–	–	–	99.0	99.0	99.0	–
Trade and other receivables	30.9	–	–	–	30.9	30.9	–
Cash and cash equivalents	73.3	–	–	–	73.3	73.3	–
Total financial assets	104.2	–	–	99.0	203.2	203.2	–

		Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other financial liabilities at amortised cost £m	Total book value £m	Fair value £m	Fair value adjustment £m
Non-current liabilities							
Interest-bearing loans and borrowings	–	–	–	1,240.1	1,240.1	1,266.0	25.9
Provisions for other liabilities and charges	–	–	–	0.5	0.5	0.5	–
Current liabilities							
Interest-bearing loans and borrowings	–	–	–	27.3	27.3	27.3	–
Trade and other payables	–	–	–	47.6	47.6	47.6	–
Derivative financial instruments	–	94.7	50.7	–	145.4	145.4	–
Total financial liabilities	–	94.7	50.7	1,315.5	1,460.9	1,486.8	25.9
Total net financial assets/(liabilities)	104.2	(94.7)	(50.7)	(1,216.5)	(1,257.7)	(1,283.6)	(25.9)

The fair value adjustment relates to the group's fixed rate loan with Lloyds TSB Bank plc, the liability component of the convertible bond, and the group's fixed rate loans with UniCredit Bank AG all of which are stated at amortised cost in the consolidated statement of financial position. There is no requirement under IAS 39 to revalue these loans to fair value in the consolidated statement of financial position.

	2011						
	Loans and receivables/ cash and cash equivalents £m	Assets at fair value through profit and loss £m	Derivatives used for hedging £m	Available-for-sale £m	Total book value £m	Fair value £m	Fair value adjustment £m
Financial interest in property assets	–	–	–	102.3	102.3	102.3	–
Trade and other receivables	14.2	–	–	–	14.2	14.2	–
Derivative financial instruments	–	0.2	–	–	0.2	0.2	–
Cash and cash equivalents	90.9	–	–	–	90.9	90.9	–
Total financial assets	105.1	0.2	–	102.3	207.6	207.6	–

		Liabilities at fair value through profit and loss £m	Derivatives used for hedging £m	Other financial liabilities at amortised cost £m	Total book value £m	Fair value £m	Fair value adjustment £m
Non-current liabilities							
Interest-bearing loans and borrowings	–	–	–	1,428.0	1,428.0	1,441.9	13.9
Trade and other payables	–	–	–	4.0	4.0	4.0	–
Provisions for other liabilities and charges	–	–	–	0.6	0.6	0.6	–
Current liabilities							
Interest-bearing loans and borrowings	–	–	–	116.7	116.7	116.7	–
Trade and other payables	–	–	–	18.2	18.2	18.2	–
Derivative financial instruments	–	91.8	62.7	–	154.5	154.5	–
Total financial liabilities	–	91.8	62.7	1,567.5	1,722.0	1,735.9	13.9
Total net financial assets/(liabilities)	105.1	(91.6)	(62.7)	(1,465.2)	(1,514.4)	(1,528.3)	(13.9)

Notes to the financial statements continued

28 Financial risk management and derivative financial instruments continued

Financial risk management

The group's objectives for managing financial risk are to minimise the risk of adverse effects on performance and to ensure the ability of the group to continue as a going concern while securing access to cost effective finance and maintaining flexibility to respond quickly to opportunities which arise.

The group's policies on financial risk management are approved by the board of directors and implemented by group treasury. Written policies and procedures cover interest rate risk, credit risk, the use of derivative and non-derivative financial instruments and investment of excess liquidity. Compliance is monitored by Internal Audit. Group treasury reports to the Board Risk and Compliance committee.

The group uses derivative financial instruments to hedge its exposure to financial risk but does not take positions for speculative purposes.

The sources of financial risk and the policies and activities used to mitigate each are discussed below and include credit risk, liquidity risk and market risk which includes interest rate risk, foreign exchange risk, house price risk in relation to the CHARM portfolio, our financial interest in property assets, and capital risk.

Credit risk

Credit risk is the risk of financial loss due to a counterparty's failure to honour its obligations. The group's principal financial assets include its financial interest in property assets, bank balances and cash, trade and other receivables and financial derivatives. The carrying amount of financial assets recorded in the financial statements represents the group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

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

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

The credit risk on liquid funds and derivative financial instruments is managed through the group's policies of monitoring counterparty exposure, concentration of credit risk through the use of multiple counterparties and the use of counterparties of good financial standing. Cash and short-term deposits at 30 September 2012 amounted to £73.3m (2011: £90.9m). Deposits were placed with financial institutions with A- or better credit ratings.

At 30 September 2012, the fair value of all interest rate derivatives which had a positive value was £nil (2011: £0.2m).

At 30 September 2012, the largest combined credit exposure to a single counterparty arising from money market deposits and interest rate swaps was £255.1m (2011: £246.8m) which represents 12.2% (2011: 11.0%) of total assets.

Liquidity risk

The group ensures that it maintains continuity and flexibility through a spread of maturities.

Although the group's core funding is supported by covenants requiring certain levels of loan to value with respect to the entities in the group of obligors and to maintaining a certain level of interest cover at the group level the loan is not secured directly against any property allowing operational flexibility. The group has operated well within its covenants during 2012 and as at 30 September 2012 (see note 2 'Critical accounting estimates and assumptions').

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

The UK residential business in particular is very cash generative from its gross rents and sales of trading properties. In adverse trading conditions, investment sales can be increased and new acquisitions can be stopped. Consequently, the group is able to reduce gearing levels and improve liquidity quickly.

The following table analyses the group's financial liabilities and net-settled derivative financial liabilities at the statement of financial position date into relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. As the amounts included in the table are the contractual undiscounted cash flows, these amounts will not equal the amounts disclosed on the statement of financial position for borrowings, derivative financial instruments, trade and other payables and provisions for liabilities and charges. A reconciliation to the statement of financial position amounts is given below and on page 128. Trade and other payables due within 12 months equal their carrying balances as the impact of discounting is not significant. The cash flows are calculated using yield curves for floating rate interest-bearing liabilities. Foreign currency related cash flows are calculated by means of the forward rates relevant to each maturity date.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 30 September 2012					
Interest-bearing loans and borrowings	68.5	79.8	988.7	421.4	1,558.4
Cash flow hedges	18.3	10.3	13.3	12.5	54.4
Derivatives at fair value through profit and loss	14.6	14.8	34.5	34.5	98.4
Trade and other payables	71.1	–	–	–	71.1
Provision for liabilities and charges	0.1	0.1	0.4	0.3	0.9

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 30 September 2011					
Interest-bearing loans and borrowings	173.3	62.9	1,240.7	447.2	1,924.1
Cash flow hedges	23.2	18.5	17.8	11.2	70.7
Derivatives at fair value through profit and loss	12.0	12.9	35.7	35.8	96.4
Trade and other payables	56.3	4.0	–	–	60.3
Provision for liabilities and charges	0.1	0.1	0.4	0.4	1.0

Reconciliation of maturity analysis

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 30 September 2012					
Interest-bearing loans and borrowings (see note 29)	27.3	39.5	903.7	296.9	1,267.4
Foreign exchange impact of forward rates	(0.8)	(0.9)	(1.8)	–	(3.5)
Interest	37.5	36.6	80.7	120.7	275.5
Unamortised borrowing costs	4.5	4.6	6.1	3.8	19.0
Financial liability cash flows shown above	68.5	79.8	988.7	421.4	1,558.4

Notes to the financial statements continued

28 Financial risk management and derivative financial instruments continued

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 30 September 2011					
Interest-bearing loans and borrowings (see note 29)	116.7	8.9	1,082.0	337.1	1,544.7
Foreign exchange impact of forward rates	–	–	(0.4)	(0.4)	(0.8)
Interest	52.0	49.4	148.1	107.0	356.5
Unamortised borrowing costs	4.6	4.6	11.0	3.5	23.7
Financial liability cash flows shown above	173.3	62.9	1,240.7	447.2	1,924.1

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

Maturity of committed undrawn borrowing facilities

	2012 £m	2011 £m
Expiring:		
Within one year	5.0	171.2
Between one and two years	–	–
Between two and five years	79.9	–
Over five years	37.5	–
	122.4	171.2

The above facilities are those freely available to be drawn for group purposes.

Market risk

The group is exposed to market risk through interest rates, foreign exchange fluctuations, the availability of credit and house price movements relating to the CHARM portfolio. The group internally measures its market risk exposure by running various sensitivity analyses. The directors consider that a +/- 1% (2011: 1%) movement in interest rates, a +/- 10 percentage point (2011: 10 percentage point) movement in sterling and a +/- 1 percentage point (2011: 1 percentage point) movement in house prices represents a reasonable possible change. The approach the group takes to each of these risks is set out below. The group is not significantly exposed to equity price risk or to commodity price risk.

Fair values

IFRS 7 sets out a three-tier hierarchy for financial assets and liabilities valued at fair value. These are as follows:
Level 1 – quoted prices in active markets for identified assets and liabilities
Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices; and
Level 3 – inputs for assets and liabilities that are not based on observable market data.

The fair value of swaps and other financial instruments is derived from the present value of future cash flows discounted at rates obtained by means of the current yield curve appropriate for those instruments. As all significant inputs required to value the swaps are observable, they all fall within level 2.

The CHARM portfolio falls within level 3, inputs not based on observable market data. Note 22 provides a reconciliation of movements and amounts recognised in the income statement and other comprehensive income. The basis of valuation and the sensitivity to changes in the key valuation assumptions are documented in note 2, 'Critical accounting estimates and assumptions'.

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

	2012 Assets £m	2012 Liabilities £m	2011 Assets £m	2011 Liabilities £m
Level 3				
Financial interest in property assets	99.0	–	102.3	–
Level 2				
Interest rate swaps – in cash flow hedge accounting relationships	–	50.7	–	62.7
Interest rate swaps – not in cash flow hedge accounting relationships	–	94.7	0.2	91.8
	99.0	145.4	102.5	154.5

Interest rate swaps are all classified as either current assets or current liabilities.

The notional principal amount of the outstanding interest rate swap contracts as at 30 September 2012 was £973.1m (2011: £986.5m).

All of the financial derivatives included in the above table were valued by external consultants, J.C. Rathbone Associates Ltd, using a discounted cash flow model and quoted market information and were checked internally using a bespoke software package.

In accordance with IAS 39, the group has reviewed its interest rate hedges. In the absence of hedge accounting, movements in fair value are taken directly to the income statement. However, where cash flow hedges have been viewed as being effective, and have been designated as such, any gains or losses have been taken to other comprehensive income through the cash flow hedge reserve.

A valuation was carried out at 30 September 2012 by external consultants, J.C. Rathbone Associates Ltd, to calculate the market value of the group's fixed rate debt on a replacement basis, taking into account the difference between the fixed interest rates for the group's borrowings and the market value and prevailing interest rate of appropriate debt instruments, as a fair value adjustment. The fair values compared to the carrying amounts of the group's fixed rate financial liabilities are analysed below.

	Book value at 30 September 2012 £m	Fair value at 30 September 2012 £m
Fixed rate loan facilities	162.9	188.8

	Book value at 30 September 2011 £m	Fair value at 30 September 2011 £m
Fixed rate loan facilities	80.8	94.7

Notes to the financial statements continued

28 Financial risk management and derivative financial instruments continued

Interest rate risk

The group's interest rate risk arises from the risk of fluctuations in interest charges on floating rate borrowings. The group mitigates this risk through the use of variable to fixed interest rate swaps, caps and collars. This subjects the group to fair value risk as the value of the financial derivatives fluctuates in line with variations in interest rates. However, the group seeks to cash flow hedge account where applicable. The group is, however, driven by commercial considerations when hedging its interest rate risk and is not driven by the strict requirements of the hedge accounting rules under IAS 39 if this is to the detriment of achieving the best commercial arrangement.

Hedging activities are carried out under the terms of the group's hedging policies and are regularly reviewed by the board to ensure compliance with this policy. The board reviews its policy on interest rate exposure regularly with a view to establishing that it is still relevant in the prevailing and forecast economic environment. The current group treasury policy is to maintain floating rate exposure of no greater than 35% of expected borrowing. As at 30 September 2012, 84% (2011: 73%) of the group's net borrowings were economically hedged to fixed or capped rates.

At 30 September 2012, the weighted average interest rate of the group's fixed rate debt is 6.3% (2011: 4.2%). The weighted average period for which the rate is fixed is 11.7 years (2011: 17.9 years).

At 30 September 2012 the fixed interest rates on the interest rate swap contracts vary from 0.67% to 5.38% (2011: 2.81% to 5.26%) with a weighted average rate of 4.6% (2011: 4.5%) and a weighted average maturity of 5.7 years (2011: 7.0 years).

At 30 September 2012 the weighted average interest rate of the group's variable rate debt is 4.8% (2011: 2.9%). The weighted average debt maturity is 4.6 years (2011: 5.0 years).

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 £2.6m (2011: £4.6m). Similarly a 1% decrease would increase annual profits by £2.6m (2011: £4.4m).

Based on the group's interest rate profile at the statement of financial position date a 1% increase in interest rates would decrease the group's equity by £1.9m (2011: £3.4m). Similarly a 1% decrease would increase the group's equity by £1.9m (2011: £3.2m).

Upward movements in medium and long-term interest rates, associated with higher interest rate expectation, increase the value of the group's interest rate swaps that provide protection against such moves. The converse is true for downward movements in the interest yield curve. Where the group's swaps qualify as effective hedges under IAS 39, these movements in fair value are recognised directly in other comprehensive income rather than the income statement.

As at 30 September 2012, the market value of derivatives designated as cash flow hedges under IAS 39, is a net liability of £50.7m (2011: net liability of £62.7m). The fair value movement on derivatives not in hedge accounting relationships and amounts reclassified from equity to the income statement amounted, in aggregate, to a charge of £31.2m (2011: charge of £28.0m) in the income statement analysed as follows:

	2012 £m	2011 £m
Fair value movement on derivatives not designated as cash flow hedges	24.6	18.8
Amounts reclassified from equity to the income statement	6.6	9.2
	31.2	28.0

At 30 September 2012, the market value of derivatives not designated as cash flow hedges under IAS 39, is a net liability of £94.7m (2011: net liability of £91.6m). The cash flows occur and enter in the determination of profit and loss until the maturity of the hedged debt.

The table below summarises debt hedged at 30 September 2012.

Cash flow hedged debt

	2012 £m	2011 £m
Cash flow hedges maturing:		
Within one year	291.4	24.1
Between one and two years	384.4	298.8
Between two and five years	229.7	553.2
Over five years	67.6	110.4
	973.1	986.5

Interest rate profile – including the effect of derivatives

	2012			2011		
	Sterling £m	Euro £m	Total £m	Sterling £m	Euro £m	Total £m
Fixed rate	141.7	21.2	162.9	56.8	24.0	80.8
Hedged rate	756.4	150.9	907.3	712.9	349.7	1,062.6
Variable rate	137.9	78.3	216.2	364.2	60.8	425.0
	1,036.0	250.4	1,286.4	1,133.9	434.5	1,568.4

Foreign exchange risk

The group's foreign exchange risk arises from the exposure due to translating overseas trading performance and overseas net assets into sterling. The group does not have foreign currency trading with cross border currency flows. The group hedges foreign currency assets naturally by funding them through borrowings in the applicable foreign currency and aims to ensure that it has no material unhedged net assets or liabilities denominated in a foreign currency. Profit translation is not hedged.

The group's statement of financial position translation exposure is summarised below:

	2012 Euro £m	2011 Euro £m	2012 Czech Koruna £m	2011 Czech Koruna £m
Gross foreign currency assets	379.4	451.2	1.4	2.2
Gross foreign currency liabilities	(393.5)	(461.1)	–	–
Net exposure	(14.1)	(9.9)	1.4	2.2

As at 30 September 2012 it is estimated that a general increase/decrease of 10 percentage points in the value of Sterling against the Euro would increase/decrease the group's profit before tax by approximately £0.7m (2011: £0.3m) and equity by £1.4m (2011: £1.0m).

As at 30 September 2012 it is estimated that a general increase/decrease of 10 percentage points in the value of Sterling against the Czech Koruna would decrease/increase the group's profit before tax by approximately £nil (2011: £0.5m) and equity by £0.1m (2011: £0.2m).

Notes to the financial statements continued

28 Financial risk management and derivative financial instruments continued

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 7 September 2012 the group drew down its new Forward Start Facility providing £840m of committed facilities and this was used to refinance the group's existing core facilities. More information is provided in note 2 'Critical accounting estimates and assumptions'.

House price risk

The cash flows arising from the group's financial interest in property assets (CHARM) are related to the movement in value of the underlying property assets and, therefore, are subject to movements in house prices. However, consistent with the group's approach to house price risk across its portfolio of trading and investment properties the group does not seek to eliminate this risk as it is a fundamental part of the group's business model.

Capital risk management

The board manages the group's capital through the regular review of: cash flow projections, the ability of the group to meet contractual commitments, covenant tests, dividend cover and gearing. The current capital structure of the group comprises a mix of debt and equity. Debt is both current and non-current interest bearing loans and borrowings as set out in the consolidated statement of financial position. Equity comprises issued share capital, reserves and retained earnings as set out in the consolidated statement of changes in equity.

Group loans and borrowings have associated covenant requirements with respect to loan to value and interest cover ratios. The board regularly reviews all current and projected future levels to monitor anticipated compliance and available headroom against key thresholds. For the group as a whole the board does not have a specific loan to value target but it 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 monitors its cost of debt and weighted average cost of capital (WACC) on a regular basis. At 30 September 2012, the weighted average cost of debt was 6.0% (2011: 5.3%) and the WACC was 5.08% (2011: 4.91%). Investment and development opportunities are evaluated using a risk adjusted WACC in order to ensure long-term shareholder value is created.

Certain group subsidiaries are regulated by the Financial Services Authority and therefore have externally applied capital adequacy requirements; however, these do not have any material impact on the group as a whole.

29 Financial assets and liabilities

i) Interest-bearing loans and borrowings

	2012 £m	2011 £m
Current liabilities		
Bank loans	21.0	116.3
Non-bank financial institution	6.0	–
Mortgages	0.3	0.4
	27.3	116.7
Non-current liabilities		
Bank loans	1,023.0	1,285.7
Non-bank financial institution	174.9	98.9
Mortgages	18.9	20.9
Convertible bond	23.3	22.5
	1,240.1	1,428.0
Total interest-bearing loans and borrowings	1,267.4	1,544.7

The group's core banking facility as at 30 September 2012 was £840m of which £745m was drawn. Committed but undrawn amounts under the group's core banking facility were therefore £95m. In addition, the group has £22m of committed but undrawn facilities outside the core banking facility and free cash balances plus available overdraft facilities of £31m. Total undrawn committed facilities and cash therefore are £148m.

The group has sufficient flexibility through cash generation and these new facilities to ensure that it can operate its business as planned and meet its strategic objectives.

The analysis of the loans and borrowings in the below tables (a) to (d) is before deducting unamortised issue costs of £19.0m (2011: £23.7m) relating to the raising of the loan finance.

(a) Analysis of bank loans

	2012 £m	2011 £m
Bank loans – Pounds Sterling	830.6	1,011.2
Bank loans – Euro	231.2	413.2
	1,061.8	1,424.4

Sterling bank loans include variable rate loans bearing interest at rates between 1.0% and 3.8% above LIBOR and Euro bank loans include variable rate loans bearing interest at rates between 0.8% and 2.2% above EURIBOR. Fixed rate loans bear interest at rates between 5.2% and 6.3%.

The weighted average variable interest rate on bank loans as at 30 September 2012 was 2.9% (2011: 3.2%). Bank loans are secured by fixed and floating charges over specific property and other assets of the group.

Notes to the financial statements continued

29 Financial assets and liabilities continued

(b) Analysis of non-bank financial institutions

	2012 £m	2011 £m
Fixed rate – Pounds Sterling	81.9	–
Variable rate – Pounds Sterling	100.0	100.0
	181.9	100.0

The fixed rate loan is secured by specific assets within the retirement solutions division and bears interest at 7.2%. The variable rate loan is secured by floating charges over the assets of the group and bears interest at 4% over LIBOR.

(c) Mortgages

	2012 £m	2011 £m
Mortgages – Euro	19.2	21.3

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

(d) Convertible bond

	2012 £m	2011 £m
Opening balance	22.7	21.9
Amortised during the year	0.8	0.8
Closing balance (Pounds Sterling)	23.5	22.7

Other loans and borrowings information

The core banking facility, variable rate UK bank loans and the European bank loans are generally rolled over every three months. At roll over, LIBOR, EURIBOR and PRIBOR are reset for the following interest period.

The fixed rate UK bank loan, mortgages and non-bank financial institution debt are at fixed rates of interest which do not reprice. The £112m, 3.625% convertible bond due 2014 was issued in May 2007. Interest is payable semi-annually. Unless previously redeemed, converted, purchased or cancelled the bond is convertible at any time up to 12 May 2014 into fully paid up ordinary shares at a conversion price of £4.70. As part of the early conversion in November 2008, holders representing £87.1m of the £112m 2014 convertible bond accepted a cash payment of £35,000 per £100,000 nominal bond value to convert early. The nominal value remaining on the bond is £24.9m.

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

	2012 £m	2011 £m
Within one year	27.3	116.7
Between one and two years	39.5	8.9
Between two and five years	903.7	1,082.0
Over five years	296.9	337.1
Total non-current interest bearing loans and borrowings	1,240.1	1,428.0
	1,267.4	1,544.7

ii) Financial assets

The group has the following cash and cash equivalents at 30 September 2012:

	2012 £m	2011 £m
Pounds Sterling	62.7	64.8
Euros	10.4	25.9
Czech Koruna	0.2	0.2
	73.3	90.9

Cash and cash equivalents can be analysed as follows:

	2012 £m	2011 £m
Cash at bank	31.7	23.4
Short-term deposits	41.6	67.5
	73.3	90.9

Included within 2012 year end cash balances is £11.5m (2011: £11.7m) held in third-party client accounts where Grainger acts as Trustee or agent. The corresponding liability is included within trade payables.

At the year end £41.6m was placed on deposit (2011: £67.5m) at effective interest rates between 0.05% and 1.59% (2011: 0.75% and 1.23%). Remaining cash and cash equivalents are held as cash at bank or in hand.

The group has an overdraft facility of £5m as at 30 September 2012 (2011: £5m).

30 Pension costs

Defined contribution scheme

The group operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the group in independently administered funds. Pension arrangements for directors are disclosed in the report of the remuneration committee and the directors' remuneration report on pages 66 and 67. The pension cost charge in these financial statements represents contributions payable by the group. The charge of £0.9m (2011: £0.8m) is included within employee remuneration in note 12.

Defined benefit scheme

In addition to the above, the group also operates a final salary defined benefit pension scheme, the BPT Limited Retirement Benefits Scheme. The assets of the scheme are held separately in funds administered by trustees and are invested with Friends Life, an independent investment manager. Costs and funding are assessed with the advice of an independent qualified actuary using the projected unit credit method. Actuarial valuations are carried out every three years. The last actuarial valuation issued was as at 1 July 2010.

No benefits have accrued since 30 June 2003 although active members retain a final salary link.

Pension benefits for deferred members are based on the members' final pensionable salaries and service at the date accrual ceased (or date of leaving if earlier).

The actuarial valuation as at 1 July 2010 was based on the main actuarial assumptions of an investment return of 5.0% per annum, salary increases of 4.0% per annum and inflation-linked increases to pensions in deferment of 3.0% per annum. The scheme assets were valued at £17.6m and scheme liabilities at £23.6m, a funding level of 75%. The funding level for the scheme at the previous valuation as at 1 July 2007 was 85%. The actuary also undertook a Section 179 valuation as at 1 July 2010 as required by the Pension Protection Fund. The funding level on a Section 179 valuation basis was 120%.

The scheme was closed to new members and to employee contributions in 2003. Accordingly, there is no current service cost for the scheme.

Notes to the financial statements continued

30 Pension costs continued

The IAS 19 calculations for disclosure purposes have been based upon the actuarial valuation carried out as at 1 July 2010 which was updated to 30 September 2012 by a qualified independent actuary.

Principal actuarial assumptions under IAS 19

	2012	2011
Discount rate	4.20% p.a.	5.30% p.a.
Retail Price Index (RPI) inflation	2.80% p.a.	3.40% p.a.
Consumer Price Index (CPI) inflation	1.80% p.a.	–
Salary increases	3.80% p.a.	4.40% p.a.
Rate of increase of pensions in payment	5.00% p.a.	5.00% p.a.
Rate of increase for deferred pensioners	1.80% p.a.	3.40% p.a.

	Year commencing 1 October 2012	Year commencing 1 October 2011
Expected return on assets	4.40% p.a.	4.80% p.a.

The overall expected return on assets assumption of 4.4% p.a. as at 30 September 2012 has been derived by calculating the weighted average of the expected rate of return for each asset class. The following approach has been used to determine the expected rate of return for each asset class:

– fixed interest securities, current market yields
– equities and property, net dividend yield plus RPI inflation plus an allowance for future real dividend growth
– cash, current Bank of England base rate
– insured pensioner policies, in line with the discount rate
– a deduction of 0.5% to allow for investment expenses

Demographic assumptions

	2012	2011
Mortality tables for pensioners	100% of S1PAlc year of birth tables allowing for a minimum improvement factor of 1.25% for males and 0.75% for females each year	100% of S1PAlc year of birth tables allowing for a minimum improvement factor of 1.25% for males and 0.75% for females each year
Mortality tables for non-pensioners	As for pensioners	As for pensioners

Life expectancies

	30 September 2012		30 September 2011	
	Males	Females	Males	Females
Life expectancy for a current 65 year old	87.9 years	90.1 years	87.7 years	90.1 years
Life expectancy at age 65 for a current 55 year old	90.3 years	91.7 years	89.0 years	90.9 years

Overview →
Business review →
Governance →
Financials →

Market value of scheme assets and expected rates of return

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

	30 September 2012			30 September 2011		
	Market value £m	% of total scheme assets	Long-term expected rate of return %	Market value £m	% of total Scheme assets	Long-term expected rate of return %
Equities	6.8	31%	7.9%	5.9	32%	5.5%
Bonds	9.1	42%	4.0%	7.9	42%	5.1%
Properties	0.4	2%	7.9%	0.4	2%	5.5%
Other	1.0	5%	0.5%	0.5	3%	0.5%
Insurance policies	4.4	20%	4.2%	3.9	21%	5.3%
Total value of assets	21.7	100%		18.6	100%	
The actual return on assets over the period was	2.9			0.4		

The assets of the scheme are held with Friends Life in a managed fund. As the above table shows, the assets of the scheme are primarily held within equities and bonds. The equity return in 2012 is based upon the net dividend yield on the FTSE All Share Index plus RPI inflation, plus a real dividend growth assumption of 1.5% p.a. The return on bonds in 2012 is based on the iBoxx AA rated Sterling Corporate Bond Index for bonds with a term greater than 15 years.

Defined benefit obligations, scheme assets and scheme deficit

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Market value of scheme assets	21.7	18.6	18.6	16.7	15.2
Present value of scheme liabilities	(27.5)	(23.1)	(24.6)	(22.5)	(17.3)
Scheme deficit at 30 September	(5.8)	(4.5)	(6.0)	(5.8)	(2.1)

History of assets, liabilities, experience gains and losses

	2012	2011	2010	2009	2008
Gains/(losses) arising on scheme liabilities:					
Due to experience	–	£0.1m	–	–	£1.3m
Percentage of defined benefit obligation	–	0.4%	–	–	7.5%
Due to change of basis	£(4.0)m	£1.7m	£(1.6)m	£(5.0)m	£1.7m
Percentage of defined benefit obligation	(14.5)%	7.4%	(6.5)%	(22.2)%	9.8%
Experience adjustments:					
Gains/(losses) arising on scheme assets	£2.0m	£(0.6)m	£1.1m	£1.0m	£(2.6)m
Percentage of scheme assets	9.2%	(3.2)%	5.9%	6.0%	(17.1)%

Notes to the financial statements continued

30 Pension costs continued

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

	2012 £m	2011 £m
Present value of projected defined benefit obligation at the start of the year	23.1	24.6
Interest on pension scheme liabilities	1.2	1.2
Actuarial loss/(gain)	4.0	(1.8)
Benefits paid	(0.8)	(0.9)
Present value of projected defined benefit obligation at the end of the year	27.5	23.1

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

	2012 £m	2011 £m
Market value of scheme assets at the start of the year	18.6	18.6
Expected return on scheme assets	0.9	0.9
Employer contributions	1.0	0.6
Actuarial gain/(loss)	2.0	(0.6)
Benefits paid	(0.8)	(0.9)
Market value of scheme assets at the end of the year	21.7	18.6

Pension cost recognised in the income statement

	2012 £m	2011 £m
Interest on pension scheme liabilities	1.2	1.2
Expected return on pension scheme assets	(0.9)	(0.9)
	0.3	0.3

The total pension cost shown above has been included within Finance costs (see note 14).

Actuarial (loss)/gain recognised in the consolidated statement of comprehensive income

	2012 £m	2011 £m
Actual return less expected return on assets	2.0	(0.6)
(Loss)/gain on change of assumptions	(4.0)	1.8
	(2.0)	1.2

The actuarial loss shown in the above table of £2.0m (2011: gain of £1.2m) has been included in the consolidated statement of comprehensive income on page 77.

Future funding obligation

The last actuarial valuation of the scheme was performed by the Actuary for the Trustees as at 1 July 2010. As a result of this valuation the group agreed a recovery plan with the Trustees to pay additional contributions to clear the deficit by 31 January 2020. Based on this plan the company expects to pay £1.1m, including the standard expense charges payable under the Managed Fund policy, to the scheme during the year beginning 1 October 2012.

Sensitivity analysis

Set out below is an analysis of how the scheme deficit would vary with changes to the key actuarial assumptions:

Discount rate increased by 0.1% p.a.	decrease in deficit of £0.4m
Inflation increased by 0.1% p.a.	increase in deficit of £0.1m
Life expectancies increased by one year	increase in deficit of £1.0m

The cumulative amount of actuarial losses recognised in the consolidated statement of comprehensive income before deferred taxation is £3.0m (2011: £1.0m).

31 Share capital

	2012 £m	2011 £m
Allotted, called-up and fully paid:		
416,381,206 (2011: 416,372,103) ordinary shares of 5p each	20.8	20.8

The group paid £0.5m to the share incentive plan during the year for the purchase of matching shares and free shares in the scheme. The total cost of acquiring own shares of £0.5m (2011: £2.8m) has been deducted from retained earnings within shareholders' equity.

As at 30 September 2012, share capital included 4,375,984 (2011: 5,833,401) shares held by The Grainger Employee Benefit Trust and 1,506,300 (2011: 1,506,300) shares held by Grainger plc as treasury shares. The total of these shares is 5,882,284 (2011: 7,339,701) with a nominal value of £294,114 (2011: £366,985) and a market value as at 30 September 2012 of £6.3m (2011: £6.4m).

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

	Number	Nominal value £'000
At 1 October 2010	416,362,420	20,818
Options exercised under the SAYE scheme	9,683	–
At 30 September 2011	416,372,103	20,818
Options exercised under the SAYE scheme	9,103	1
At 30 September 2012	416,381,206	20,819

Notes to the financial statements continued

31 Share capital continued

Share options

Certain senior executives hold options to subscribe for shares in the company under the long-term incentive scheme ('LTIS'). In addition, the company operates a SAYE share option scheme available to employees. The number of shares subject to options as at 30 September 2012, the periods in which they were granted and the periods in which they may be exercised are given below.

Year of grant	Exercise price (pence)	Exercise period	2012 number	2011 number
Long-term Incentive Scheme (LTIS)				
2003	111.0	2006 – 13	20,814	20,814
			20,814	20,814
HMR & C Approved Executive Share Option Scheme (CSOP)				
2011	94.4	2013 – 20	127,088	127,088
			127,088	127,088
SAYE share options				
2008 (A)	97.1	2011 – 14	38,220	100,872
2008 (B)	37.7	2012 – 14	1,180,549	2,086,814
2009	68.3	2012 – 15	53,837	127,788
2010	90.8	2013 – 16	78,415	102,998
2011	98.7	2014 – 17	49,022	99,722
2012	68.9	2015 – 18	660,916	–
			2,060,959	2,518,194
Total share options			2,208,861	2,666,096

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

	Opening position	Exercised	Granted	Lapsed	Closing position
LTIS schemes					
2003	20,814	–	–	–	20,814
Weighted average exercise price (pence per share)	111.0	–	–	–	111.0
HMR & C Approved Executive Share Option Scheme (CSOP)					
2011	127,088	–	–	–	127,088
Weighted average exercise price (pence per share)	94.4	–	–	–	94.4
SAYE scheme					
2008 (A)	100,872	(7,744)	–	(54,908)	38,220
2008 (B)	2,086,814	(880,994)	–	(25,271)	1,180,549
2009	127,788	(56,101)	–	(17,850)	53,837
2010	102,998	–	–	(24,583)	78,415
2011	99,722	–	–	(50,700)	49,022
2012	–	–	682,686	(21,770)	660,916
	2,518,194	(944,839)	682,686	(195,082)	2,060,959
Weighted average exercise price (pence per share)	46.2	40.0	68.9	83.2	53.1

For those share options exercised during the year, the weighted average share price at the date of exercise was 103.7p (2011: 86.6p). For share options outstanding at the end of the year, the weighted average remaining contractual life is 2.8 years (2011: 2.4 years). There were 30,914 (2011: 56,638) share options exercisable at the year end with a weighted average exercise price of 97.0p (2011: 102.2p).

Notes to the financial statements continued

32 Share-based payments

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

For LTIS awards granted before 30 September 2010, one-third are subject to an absolute total shareholder return performance condition measured over three years from the date of grant and two-thirds are subject to annual growth in Net Net Net Asset Value ('NNNAV') measured over three years from the date of grant. For the LTIS awards granted after 30 September 2010 one-half are subject to an absolute total shareholder return performance condition measured over three years from the date of grant and one-half are subject to annual growth in Net Net Net Asset Value ('NNNAV') compared to the average growth in the Halifax and Nationwide House Price indices all measured over three years from the date of grant. Awards subject to an absolute total shareholder return performance, which is a market based performance condition, have been valued at fair value using a Monte Carlo simulation valuation model. Awards subject to growth in NNNAV, which is a non-market based performance condition, have been valued at fair value using a Black-Scholes valuation model.

Awards granted under the DBP have no specific performance conditions other than the company meeting its target for operating profit before valuation movements and non-recurring items (OPBVM) and continued employment by the group. 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. There are currently three schemes in operation commencing on 3 February 2010, 6 December 2010 and 16 December 2011 respectively.

Awards under the DBP have been valued based on the share price at the date of the award less the dividend yield at the award date as there is no entitlement to dividends during the vesting period.

Awards under the SAYE scheme have been valued at fair value using a Black-Scholes valuation model.

Awards under the SIP scheme have been based on the share price at the date of the award.

Shares were awarded, subject to any vesting conditions set out above, to executive directors and selected employees during the year under the LTIS and the DBP. Share options were granted to employees of the group during the year under the SAYE scheme. The main assumptions used to value the share awards and SAYE options granted during the year are set out in the tables below.

LTIS

Share awards:

Award date	2 December 2011 Market based	2 December 2011 Non-market based
Number of shares on grant	861,724	861,724
Exercise price (£)	–	–
Vesting period from date of grant (years)	3	3
Exercise period after vesting (years)	7	7
Share price at grant (£)	1.01	1.01
Expected risk free rate (%)	0.59	0.59
Expected dividend yield (%)	1.18	1.18
Expected volatility (%)	66.04	66.04
Fair value (£)	0.61	0.97

DBP

Share awards:

Award date	16 December 2011
Number of shares on grant	191,320
Potential 50% matching element	95,660
Exercise price (£)	–
Vesting period from date of grant (years)	1 to 3
Exercise period after vesting (years)	7
Share price at grant (£)	1.01
Dividend yield (£)	0.02
Fair value (£)	0.99

Notes to the financial statements continued

32 Share-based payments continued

SAYE

Share options:

Award date	11 July 2012 3-year scheme	11 July 2012 5-year scheme
Number of shares on grant	556,420	126,266
Exercise price (£)	0.689	0.689
Vesting period from date of grant (years)	3	5
Expected exercise date	11/7/2015	11/07/2017
Share price at grant (£)	1.08	1.08
Expected risk free rate (%)	0.82	1.48
Expected dividend yield (%)	1.90	1.90
Expected volatility (%)	62.44	47.91
Fair value (£)	0.54	0.52

The expected volatility figures used in the valuation were calculated based on the historic volatility over a period equal to the expected term from the date of grant.

The share-based payments charge recognised in the income statement is £2.1m (2011: £2.0m).

Movements in options and options exercisable as at 30 September 2012 are shown in note 31.

33 Changes in equity

The consolidated statement of changes in equity is shown on pages 80 and 81. Further information relating to the merger reserve and cash flow hedge reserve is provided below. Movements on the retained earnings reserve are set out in note 34.

Merger reserve

The merger reserve arose when the company issued shares in partial consideration for the acquisition of City North Group plc. The issue satisfied the provisions of section 612 of the Companies Act 2006 and the premium relating to the shares issued was credited to a merger reserve.

Cash flow hedge reserve

The fair value movements on those derivative financial instruments qualifying for hedge accounting under IAS 39 are taken to this reserve net of tax.

34 Movement in retained earnings

The retained earnings reserve comprises various elements. Those elements, and the movements in each, are set out below:

	Share-based payment reserve £m	Treasury shares bought back and cancelled £m	Investment in own shares £m	Translation reserve £m	Retained earnings £m	Total retained earnings reserve £m
Balance as at 1 October 2010	2.9	(7.8)	(13.1)	2.7	243.3	228.0
Profit for the year	–	–	–	–	39.1	39.1
Actuarial gain on BPT Limited pension scheme net of tax	–	–	–	–	0.8	0.8
Net exchange adjustment offset in reserves	–	–	–	(0.6)	–	(0.6)
Purchase of own shares	–	–	(2.8)	–	–	(2.8)
Award of shares from own shares	(0.7)	–	0.7	–	–	–
Share-based payments charge	2.0	–	–	–	–	2.0
Dividends	–	–	–	–	(4.9)	(4.9)
Balance as at 30 September 2011	4.2	(7.8)	(15.2)	2.1	278.3	261.6
Profit for the year	–	–	–	–	0.4	0.4
Actuarial loss on BPT Limited pension scheme net of tax	–	–	–	–	(1.5)	(1.5)
Exchange adjustments offset in reserves net of tax	–	–	–	0.5	–	0.5
Purchase of own shares	–	–	(0.5)	–	–	(0.5)
Award of shares from own shares	(0.9)	–	0.9	–	–	–
Proceeds from SAYE shares	–	–	0.4	–	–	0.4
Share-based payments charge	2.1	–	–	–	–	2.1
Dividends	–	–	–	–	(7.6)	(7.6)
Balance as at 30 September 2012	5.4	(7.8)	(14.4)	2.6	269.6	255.4

Share-based payments reserve

This reserve comprises the cumulative credit entries relating to the share-based payments charge made in the income statement less the average cost of shares issued to employees.

Investment in own shares reserve

As at 30 September 2012, the group owned its own shares as follows: 4,375,984 (2011: 5,833,401) shares held by The Grainger Employee Benefit Trust and 1,506,300 (2011: 1,506,300) shares held by Grainger plc as treasury shares. The total of these shares is 5,882,284 (2011: 7,339,701) with a nominal value of £294,114 (2011: £366,985) and a market value as at 30 September 2012 of £6.3m (2011: £6.4m).

Notes to the financial statements continued

35 List of principal subsidiaries

The directors consider that providing details of all subsidiaries, joint ventures and associates as at 30 September 2012 would result in disclosure of excessive length. The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the directors, are material to the group. A full list will be appended to the next annual return.

	Proportion of nominal value of ordinary issued shares held by:			
Name of undertaking	Group %	Company %	Incorporated	Activity
Northumberland & Durham Property Trust Limited	100		England & Wales	Property Trading
Grainger Residential Management Limited	100	100	England & Wales	Property Management
Grainger Asset Management Limited	100	100	England & Wales	Asset Management
Grainger Unitholder No. 1 Limited	100	100	England & Wales	Investment Company
West Waterlooville Developments Limited	100		England & Wales	Development
BPT (Bradford Property Trust) Limited	100		England & Wales	Property Trading
BPT (Residential Investments) Limited	100		England & Wales	Property Investment
Grainger Finance Company Limited	100	100	England & Wales	Finance Company
Bromley Property Investments Limited	100		England & Wales	Investment Company
Home Properties Limited	100		England & Wales	Property Trading
Bridgewater Tenancies Limited	100		England & Wales	Property Trading
Bridgewater Equity Release Limited	100		England & Wales	Property Trading
Homesafe Equity Release LP	100		England & Wales	Property Trading
Hamsard 2517 Limited	100		England & Wales	Property Trading
Grainger Recklinghausen Portfolio one Sarl & Co KG	100		Germany	Property Investment
Grainger Recklinghausen Portfolio two Sarl & Co KG	100		Germany	Property Investment
Grainger Stuttgart Portfolio one GmbH	100		Germany	Property Investment
Grainger Stuttgart Portfolio two Gmbh	100		Germany	Property Investment
Francono Rhein-Main GmbH	100		Germany	Property Investment
Grainger Invest No. 1 LLP	100		England & Wales	Property Trading and Investment
Grainger Invest No. 2 LLP	100		England & Wales	Property Trading and Investment
Tricomm Housing Limited	100		England & Wales	Property Investment
Grainger Treasury Property (2006) LLP	100		England & Wales	Investment Partnership
The Tilt Estate Company Limited	100		England & Wales	Property Investment
Grainger Retirement Housing No.1 (2007) Limited	100		England & Wales	Property Investment
BPT Limited	100		England & Wales	Investment Company

All subsidiaries are consolidated in the group accounts.

36 Related party transactions

The remaining 50% equity in Grainger GenInvest LLP and Grainger GenInvest No. 2 (2006) LLP were acquired by the group on 22 March 2011. Prior to the acquisition, the group provided a number of services to both partnerships and received an asset adviser fee, a sales fee, a commercial management fee and a treasury services fee. Amounts recognised in the 2011 income statement for the portion of the year where the Grainger share was 50% are as follows:

	2012 Fees recognised £'000	2012 Year end balance £'000	2011 Fees recognised £'000	2011 Year end balance £'000
Asset adviser fee	–	–	298	–
Sales fee	–	–	26	–
Commercial management fee	–	–	7	–
Treasury fee	–	–	15	–
	–	–	346	–

In addition, the group had provided loans to both partnerships. Interest receivable in 2011 prior to the acquisition on 22 March 2011 was as follows:

	2012 Interest receivable £m	2011 Interest receivable £m
Grainger GenInvest LLP – 8.5% fixed interest loan note	–	0.3
Grainger GenInvest No. 2 (2006) LLP – 11.0% fixed interest loan note	–	0.2
Grainger GenInvest No. 2 (2006) LLP – mezzanine loan at LIBOR plus 4%	–	1.9
	–	2.4

The group held a 50% interest in Curzon Park Limited as at 30 September 2012. The group has provided a loan to Curzon Park Limited as at 30 September 2012 of £13.5m (2011: £13.2m). The loan is repayable on demand.

The group held a 21.96% interest in G:res1 Limited as at 30 September 2012. The group provides a number of services to the fund and receives a property management fee, a lettings and renewal fee, and an asset management fee. Amounts recognised in the income statement and the outstanding balance at the year end are as follows:

	2012 Fees recognised £'000	2012 Year end balance £'000	2011 Fees recognised £'000	2011 Year end balance £'000
Property management fees	1,350	981	1,657	528
Lettings and renewal fees	151	116	202	80
Asset management fees	2,221	1,416	2,658	835
	3,722	2,513	4,517	1,443

Notes to the financial statements continued

36 Related party transactions continued

The group held a 50% interest in New Sovereign Reversions Limited as at 30 September 2012. The group had provided a loan of £1.5m, with interest payable at LIBOR plus 7% per annum, to Sovereign Reversions Limited, a wholly-owned subsidiary of New Sovereign Reversions Limited. The loan was repaid in full in January 2012.

The group provides management services to the New Sovereign Reversions Limited group for which it receives a management fee. Amounts recognised in the income statement and outstanding balances at the year end are as follows:

	2012 Fees recognised £'000	2012 Year end balance £'000	2011 Fees recognised £'000	2011 Year end balance £'000
Asset management fees	1,052	166	1,190	235

The group's key management are the only other related party. Details of key management compensation are provided in note 12.

37 Operating lease commitments

The future aggregate minimum lease payments payable by the group under non-cancellable operating leases are as follows:

	2012 £m	2011 £m
Operating lease payments due:		
Not later than one year	1.3	1.4
Later than one year and not later than five years	2.5	3.5
Later than five years	0.4	0.7
	4.2	5.6

The group expects to receive £nil under non-cancellable sub-leases (2011: £0.1m). Operating lease payments represent the lease payments made in the year relating to renting of office space used by the group, car leases under contract hire arrangements and operating lease payments relating to office equipment such as photocopiers. Leases relating to office space used by the group have initial terms of varying lengths, between one to ten years.

Rent reviews generally take place every five years. Contract hire car leases generally have a three-year term. There are no other significant operating lease arrangements requiring disclosure under IAS 17.

38 Contingent liabilities

The properties in certain subsidiary companies forming a 'guarantee group' provide the security for the group's core debt facility.

Barclays Bank plc and Lloyds TSB Bank plc have provided guarantees under performance bonds relating to the group's UK development division. As at 30 September 2012 total guarantees amounted to £1.8m (2011: £2.1m).

In addition, the group has an obligation, under the sale and purchase agreement for the land at West Waterlooville, to pay further consideration should the site value exceed certain pre-agreed amounts. 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, it is unlikely that any future payments will fall due until at least 2015 and any payments made will be spread over a number of years.

As explained in more detail in note 21, there is uncertainty relating to the future of the site of Curzon Park in which the group has a 50% joint venture interest. Should the value of the site, together with any compensation received, be insufficient to repay the bank loan in the joint venture entity, the group may incur charges in excess of those provided in these financial statements, in respect of obligations to the joint venture and the bank.

39 Acquisitions in the prior year

i) Acquisition of HI Tricomm Holdings Limited

On 4 February 2011 Grainger acquired the HI Tricomm Holdings Limited ('HITHL') group including its trading subsidiary Tricomm Housing Limited ('THL') from Invista Castle Limited.

The main reason for the acquisition was reflective of Grainger's strategy to diversify its assets into selective areas of value or growth. THL owns a high quality portfolio of 317 freehold houses in five separate locations around the Bristol and Portsmouth areas and the assets are high yielding. The houses are let under a long-term lease arrangement with the Secretary of State for Defence until 2028 providing a consistent revenue stream.

The fair value at acquisition of the total consideration transferred amounted to £6.8m.

The acquisition has been treated as a business combination and resulted in a gain on acquisition of £14.9m. This gain on acquisition arose due to it being a bargain purchase reflecting the particular situation of the vendors and their requirement to dispose of HITHL quickly.

The identifiable assets and liabilities acquired were as follows:

	£m
Assets	
Investment property	105.4
Cash and cash equivalents	5.4
Trade and other receivables	0.8
Deferred tax assets	2.3
	113.9
Liabilities	
Interest bearing loans and borrowings	67.6
Trade and other payables	2.1
Deferred tax liabilities	2.2
Loan notes payable	9.5
Amounts payable to Invista Castle Limited	2.2
Derivative financial instruments	8.6
	92.2
Net assets acquired	21.7
Fair value of consideration paid	6.8
Gain on acquisition	14.9

Investment property acquired of £105.4m represents its fair value. For the acquired trade and other receivables the above values represent the fair values. They are the expected amounts receivable and, at the acquisition date, there are no amounts not expected to be collected. Trade and other payables primarily represent amounts payable for bank interest, corporation tax and VAT. There was no contingent consideration and there are no contingent liabilities that have not been recognised.

In addition to the consideration of £6.8m for the share capital of HITHL, Grainger settled on acquisition the amount of £2.2m payable to Invista Castle Limited by the HITHL group and Grainger also acquired a loan note receivable plus accrued interest thereon totalling £9.5m from Invista Castle Limited. The loan note payable was part of the liabilities acquired as shown in the above table. All three amounts together made up the total consideration of £18.5m which was paid in cash.

Notes to the financial statements continued

39 Acquisitions in the prior year continued

The post acquisition revenue and profit before tax included in the group's consolidated income statement for year to 30 September 2011 were £5.9m and £2.0m respectively. Had the acquisition taken place on 1 October 2010, we estimate on a pro forma basis, that the revenue and profit of HITHL for the 12 month period from that date to be consolidated in the 2011 group accounts would have been £8.9m and £3.1m respectively.

ii) Acquisition of 50% equity in Grainger GenInvest LLP's

On 22 March 2011, Grainger acquired the 50% interest of Genesis Housing Group in the two Grainger GenInvest LLP's thereby becoming the sole owner of both entities.

The main reason for the acquisition is as part of Grainger's strategy to diversify its assets into selective areas of value or growth. The partnerships own c.1,650 properties in Central London where we believe there are good prospects for long-term capital appreciation.

The fair value at acquisition of the total consideration transferred amounted to £15.0m and was paid in cash. This consideration was paid to acquire the remaining 50% equity in Grainger GenInvest LLP. No consideration was paid for the remaining 50% equity in Grainger GenInvest No. 2 (2006) LLP. The acquisition has been treated as a business combination and resulted in a gain on acquisition of Grainger GenInvest LLP of £1.2m. This gain on acquisition arose due to it being a bargain purchase and reflected the particular situation of the vendor and the requirement to re-finance the debt in the two LLP's.

The identifiable assets and liabilities acquired were as follows:

	£m
Assets	
Investment property	102.4
Trading property	186.9
Cash and cash equivalents	5.0
	294.3
Liabilities	
Interest bearing loans and borrowings	187.0
Trade and other payables	2.7
Interest bearing loans due to Grainger	72.2
	261.9
Net assets acquired	32.4
50% of net assets acquired	16.2
Fair value of consideration paid	15.0
Gain on acquisition	1.2

Investment and trading property acquired of £289.3m in aggregate, represents its fair value.

Trade and other payables primarily represent amounts payable to external suppliers and for bank interest.

There was no contingent consideration and there are no contingent liabilities that have not been recognised.

The post acquisition revenue and profit before tax included in the group's consolidated income statement for year to 30 September 2011 were £6.6m and £4.6m respectively. Had the acquisition taken place on 1 October 2010, we estimate on a pro forma basis, that the revenue and profit of Grainger GenInvest LLP for the 12 month period from that date to be consolidated in the 2011 group accounts would have been £12.0m and £5.7m respectively.

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40 Assets classified as held-for-sale

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

The group announced on 9 November 2012, that it had signed an agreement with Heitman, to create a new company in which Grainger will have a 25% equity holding. The new company will acquire two wholly-owned subsidiaries of the group for cash of €54.5m. This has been classified as a disposal group with the assets and liabilities shown as held-for-sale as at 30 September 2012.

A write down of £6.9m (€8.4m), before tax, has been recognised representing the director's assessment of the loss on revaluation to fair value, under IAS 40, of the investment property in the disposal group based on the transaction. A reduction in deferred tax liabilities of £1.7m (€2.1m) arises in relation to the loss on revaluation. The net income statement impact after tax is therefore £5.2m (€6.3m).

In addition, investment property in the Retirement Solutions portfolio with a value of £24.9m is being actively marketed. Investment property within the Germany portfolio, with a value of €19.1m (£15.3m) is also being actively marketed. Both are expected to be sold within the next financial year.

Included on the face of the consolidated statement of financial position are total assets of £222.1m and total liabilities associated with those assets of £129.7m classified as held-for-sale. These balances comprise the following:

	£m
Total assets	
Disposal Group	
Investment property	177.9
Cash and cash equivalents	2.6
Trade and other receivables	1.4
	181.9
Investment property – Germany portfolio	15.3
Investment property – Retirement Solutions portfolio	24.9
	222.1
Total liabilities	
Disposal Group	
Interest bearing loans and borrowings	120.9
Trade and other payables	4.0
Derivative financial instruments	4.8
	129.7

Notes to the financial statements continued

41 Capital Commitments

The group has current commitments under a number of its development projects totalling £34.0m as at 30 September 2012 (2011: £nil).

42 Post balance sheet events

On 9 November 2012, the group announced that it had signed an agreement with Heitman, to create a new company which will acquire, through a share purchase, a portfolio of German residential assets currently wholly owned by the group. As a result of the transaction, the new company will acquire €232m of investment property from the group and €152m of debt will be transferred to it from the group. Grainger will hold a 25% equity stake in the new company which the group will account for as an associate. The group will provide management services for which it will receive standard management and incentive fees. It is anticipated that completion will take place before the end of the 2012 calendar year.

On 5 October 2012, the group signed a facility agreement with Coreal Credit Bank for a loan of €164.9m to refinance the existing facility from Eurohypo which expires in October 2013. The facility was drawn on 25 October 2012 and was used to settle the Eurohypo loan in full. €152m of the Coreal loan will be transferred to the new company referred to above.

Independent auditors' report on the parent company financial statements

We have audited the parent company financial statements of Grainger plc for the year ended 30 September 2012 which comprise the parent company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on pages 72 and 73, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for, and only for, the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- Give a true and fair view of the state of the company's affairs as at 30 September 2012
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the directors' report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

Other matter

We have reported separately on the group financial statements of Grainger plc for the year ended 30 September 2012.

David A Snell
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 December 2012

Parent company balance sheet

As at 30 September 2012	Notes	2012 £m	2011 £m
Fixed assets			
Investments	2	841.4	806.4
		841.4	806.4
Current assets			
Trade and other receivables	3	20.9	11.4
Cash at bank and in hand		13.8	33.1
		34.7	44.5
Creditors: amounts falling due within one year	4	283.0	218.5
Net current liabilities		(248.3)	(174.0)
Total assets less current liabilities		593.1	632.4
Creditors: amounts falling due after more than one year			
Convertible bond	5	23.3	22.5
Interest-bearing loans and borrowings	6	99.0	98.9
Net assets		470.8	511.0
EQUITY			
Capital and reserves			
Called-up equity share capital	7	20.8	20.8
Share premium	8	109.8	109.8
Capital redemption reserve	8	0.3	0.3
Equity component of convertible bond	8	5.0	5.0
Profit and loss account	8	334.9	375.1
Total shareholders' funds		470.8	511.0

The financial statements on pages 154 to 161 were approved by the board of directors on 6 December 2012 and were signed on their behalf by:

Andrew R Cunningham
Director

Mark Greenwood
Director

Notes to the parent company financial statements

1 Accounting policies

(a) Basis of preparation
The financial statements have been prepared on a going concern basis under the historical cost convention, in accordance with the Companies Act 2006 and applicable UK accounting standards.

The company has taken the exemption allowed under section 408 of the Companies Act 2006 from the requirement to present its own profit and loss account. The loss for the year was £34.6m (2011 profit: £25.4m). These financial statements present information about the company as an individual undertaking and not about its group.

The company has taken advantage of the exemption in FRS 8 'Related Party Transactions', from the requirement to disclose such transactions on the grounds that it has presented its own consolidated financial statements.

(b) Accounting policies
The company financial statements have been prepared under UK GAAP rather than under IFRS which has been adopted for group reporting. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

(c) Investment in subsidiaries
Investments in subsidiaries are carried at historical cost less provision for impairment based upon an assessment of the net recoverable amount of each investment. To the extent that the assessment of recoverable amount improves, impairment provisions are reversed.

(d) Taxation
Corporation tax is provided on taxable profits or losses at the current rate.

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the accounts and their recognition in a tax computation.

In accordance with FRS 19 'Deferred Tax', deferred tax is provided in respect of all timing differences that have originated, but not reversed, at the balance sheet date that may give rise to an obligation to pay more or less tax in future. Deferred tax is measured on a non-discounted basis.

(e) Own shares including treasury shares
Transactions of The Grainger Trust Employee Trustee Company Limited and The Grainger Employee Benefit Trusts are included in the company's financial statements. The purchase of shares in the company by each trust and any treasury shares bought back by the company are debited direct to equity.

(f) Convertible bond
The £112m, 3.625% convertible bond due 2014 was issued in May 2007. Interest is payable semi-annually. Unless previously redeemed, converted, purchased or cancelled the bond is convertible at any time up to 12 May 2014 into fully paid up ordinary shares at a conversion price of £4.70. The convertible bond is a compound financial instrument and the carrying amount has been allocated to its equity and liability components in the company's balance sheet. The liability component has been determined by measuring the fair value of a similar liability that does not have an associated equity component. The discount rate used for this was based on a rate of 7.5% compounded semi-annually. The liability component has been deducted from the fair value of the compound financial instrument as a whole and the residual element has been assigned to the equity component. The liability element is subsequently measured at amortised cost using the effective interest rate method.

(g) Share-based payments
Under the share-based compensation arrangements set out in note 1(k)(iii) on page 87 and note 32 on pages 142 to 144, 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 accounts the share-based payment charge has been added to the cost of investment in subsidiaries with a corresponding adjustment to equity.

Notes to the parent company financial statements continued

2 Investments

Valuation	2012 £m	2011 £m
At 1 October	806.4	348.3
Additions	42.4	438.6
Disposals	–	(0.1)
(Provision for)/write-back of impairment	(7.4)	19.6
At 30 September	841.4	806.4

The additions in the year relate to a further investment of £21.5m in Atlantic Metropolitan (UK) Limited and an £18.7m investment in Reversions Financing Limited. The balance of £0.1m comprises other smaller investments in group subsidiaries.

The investments made by the parent company have, in most instances, been passed down the group in order to facilitate group restructuring.

The additions also include a capital contribution during the year of £2.1m in respect of share-based payment awards granted to subsidiary employees.

After an assessment of net recoverable value an impairment provision of £7.4m has been made.

A list of the principal subsidiaries of the company is given in note 35 on page 146.

3 Trade and other receivables

	2012 £m	2011 £m
Amounts owed by group undertakings	20.8	11.2
Other receivables	0.1	0.2
	20.9	11.4

Receivables in both 2012 and 2011 are all due within one year.

4 Creditors: amounts falling due within one year

	2012 £m	2011 £m
Amounts owed to group undertakings	278.2	216.2
Other taxation and social security	3.8	1.1
Accruals and deferred income	1.0	1.2
	283.0	218.5

Amounts owed to group undertakings bear interest at a rate of 3.9% per annum and are repayable on demand.

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5 Convertible bond

	2012 £m	2011 £m
Opening balance	22.7	21.9
Amortised during the year	0.8	0.8
	23.5	22.7
Unamortised issue costs	(0.2)	(0.2)
Closing balance	23.3	22.5

As part of the early conversion in November 2008, holders representing £87.1m of the £112m 2014 convertible bond accepted a cash payment of £35,000 per £100,000 nominal bond value to convert early. The nominal value remaining on the bond is £24.9m.

6 Interest-bearing loans and borrowings

	2012 £m	2011 £m
Variable rate – Pounds Sterling	99.0	98.9

The variable rate loan is secured by floating charges over the assets of the group. The loan bears interest at 4% over LIBOR.

7 Share capital

	2012 £m	2011 £m
Allotted, called-up and fully paid		
416,381,206 (2011: 416,372,103) ordinary shares of 5p each	20.8	20.8

The group paid £0.5m to the share incentive plan during the year for the purchase of matching shares and free shares in the scheme. The total cost of acquiring own shares of £0.5m (2011: £2.8m) has been deducted from retained earnings within shareholders' equity (see note 8).

As at 30 September 2012, share capital included 4,375,984 (2011: 5,833,401) shares held by The Grainger Employee Benefit Trust and 1,506,300 (2011: 1,506,300) shares held by Grainger plc as treasury shares. The total of these shares is 5,882,284 (2011: 7,339,701) with a nominal value of £294,114 (2011: £366,985) and a market value as at 30 September 2012 of £6.3m (2011: £6.4m).

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

	Number	Nominal value £'000
At 1 October 2010	416,362,420	20,818
Options exercised under the SAYE scheme	9,683	–
At 30 September 2011	416,372,103	20,818
Options exercised under the SAYE scheme	9,103	1
At 30 September 2012	416,381,206	20,819

Details of share options granted by the company are provided in note 31 on pages 140 and 141.

Notes to the parent company financial statements continued

8 Reserves

	Share premium £m	Capital redemption reserve £m	Equity component of convertible bond £m	Profit and loss account £m
At 1 October 2010	109.8	0.3	5.0	355.4
Retained profit for the year	–	–	–	25.4
Share-based payment charge	–	–	–	2.0
Purchase of own shares	–	–	–	(2.8)
Dividends paid	–	–	–	(4.9)
At 1 October 2011	109.8	0.3	5.0	375.1
Retained loss for the year	–	–	–	(34.6)
Share-based payment charge	–	–	–	2.1
Purchase of own shares	–	–	–	(0.5)
Proceeds from SAYE shares	–	–	–	0.4
Dividends paid	–	–	–	(7.6)
At 30 September 2012	109.8	0.3	5.0	334.9

9 Other information

Dividends

Information on dividends paid and declared is given in note 16 of the group accounts on page 111.

Directors' share options and share awards

Details of the directors' share options and of their share awards are set out below.

Directors' share options

			Granted in year		Exercised during year						
		Share options at 1 Oct 2011	Number	Grant price (p)	Number	Exercise price (p)	Market price on exercise (p)	Share options at 30 Sept 2012	Exercise price (p)	Earliest exercise date	Latest exercise date
Andrew Cunningham	SAYE	44,415	–	–	–	–	–	44,415	37.70	1 Feb 2014	31 Jul 2014
	CSOP	31,772	–	–	–	–	–	31,772	94.42	26 Nov 2013	26 Nov 2020
Peter Couch	SAYE	25,454	–	–	25,454	37.70	104.00	–	–	–	–
	SAYE	–	13,062	68.90	–	–	–	13,062	68.90	1 Sep 2015	1 Mar 2016
	CSOP	31,772	–	–	–	–	–	31,772	94.42	26 Nov 2013	26 Nov 2020
Mark Greenwood	SAYE	–	13,062	68.90	–	–	–	13,062	68.90	1 Sep 2015	1 Mar 2016
	CSOP	31,772	–	–	–	–	–	31,772	94.42	26 Nov 2013	26 Nov 2020
Nick Jopling	SAYE	–	21,770	68.90				21,770	68.90	1 Sep 2017	1 Mar 2018
	CSOP	31,772	–	–	–	–	–	31,772	94.42	26 Nov 2013	26 Nov 2020

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Directors' share awards

Performance share awards

	Awards granted	Maximum award	Awards vested	Awards lapsed	Maximum outstanding awards at 30 Sept 2012	Market price at date of vesting (p)	Vesting date
Andrew Cunningham							
LTIS shares							
	23 Dec 2008	778,850	124,948	653,902	–	103.2	23 Dec 2011
	9 Dec 2009	480,695			480,695		9 Dec 2012
	26 Nov 2010	667,231			667,231		26 Nov 2013
	2 Dec 2011	625,496			625,496		2 Dec 2014
Matching shares							
	23 Dec 2008	155,769	24,988	130,781	–	103.2	23 Dec 2011
	9 Dec 2009	96,139			96,139		9 Dec 2012
	26 Nov 2010	133,446			133,446		26 Nov 2013
	2 Dec 2011	125,099			125,099		2 Dec 2014
Peter Couch							
LTIS shares							
	23 Dec 2008	429,418	68,890	360,528	–	103.2	23 Dec 2011
	26 Nov 2010	280,660			280,660		26 Nov 2013
	2 Dec 2011	263,105			263,105		2 Dec 2014
Matching shares							
	23 Dec 2008	85,884	13,778	72,106	–	103.2	23 Dec 2011
	26 Nov 2010	13,168			13,168		26 Nov 2013
	2 Dec 2011	78,931			78,931		2 Dec 2014
Mark Greenwood							
LTIS shares							
	21 Sep 2010	230,129			230,129		9 Dec 2012
	26 Nov 2010	275,365			275,365		26 Nov 2013
	2 Dec 2011	258,141			258,141		2 Dec 2014
Matching shares							
	21 Sep 2010	10,000			10,000		9 Dec 2012
	26 Nov 2010	10,498			10,498		26 Nov 2013
	2 Dec 2011	10,000			10,000		2 Dec 2014

Performance share awards

	Awards granted	Maximum award	Awards vested	Awards lapsed	Maximum outstanding awards at 30 Sept 2012	Market price at date of vesting (p)	Vesting date
Nick Jopling							
LTIS shares							
	21 Sep 2010	283,235			283,235		9 Dec 2012
	26 Nov 2010	344,206			344,206		26 Nov 2013
	2 Dec 2011	322,676			322,676		2 Dec 2014
Matching shares							
	21 Sep 2010	22,615			22,615		9 Dec 2012
	26 Nov 2010	38,888			38,888		26 Nov 2013
	2 Dec 2011	40,000			40,000		2 Dec 2014
Non-performance share award							
Peter Couch							
Deferred Bonus (DBP) shares	3 Feb 2010	90,615			90,615		3 Feb 2013

Audit fees

The audit fee for the year was £8,000 (2011: £8,000).

EPRA performance measures

The EPRA Best Practise Recommendations issued in 2010 identified 5 key performance measures. The measures are deemed to be of importance for investors in property companies and aim to encourage more consistent and widespread disclosure.

The EPRA measures are defined below:

	Definition
1) EPRA Earnings	Recurring earnings from core operational activities. Property trading is not considered to be a core activity of property investment companies therefore this measure excludes results from property sales.
2) EPRA NAV	Net Asset Value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model. This measure is in line with the NAV as defined and disclosed in note 4 of the group accounts.
3) EPRA Triple Net Asset Value (NNNAV)	EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes. This measure is in line with the Triple NAV as defined and disclosed in note 4 of the group accounts.
4i) EPRA Net initial yield (NIY)	Annualised rental income based on cash rents at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.
4ii) EPRA 'topped-up' yield	This measure incorporates an adjustment to EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).
5) EPRA Vacancy Rate	Estimated Market Rent Value (ERV) of vacant space divided by ERV of the whole portfolio.

The group is supportive of the EPRA initiative however, we believe that three of the EPRA measures are not appropriate to the group and its current operations.

EPRA Earnings exclude profits from sales of property which is a core element of the group's earnings, contributing £77m (2011: £80m) to earnings in the year. Accordingly, we believe that this measure does not provide a useful indication of the performance of the group.

The EPRA NIY and 'topped-up' yields do not take into account the reversionary aspect of our portfolio. The UK reversionary portfolio has a reversionary surplus of £500m not included within earnings or adjusted for within this measure. This represents a 'pipeline' of future added value but without any material planning, development or construction risk. A significant portion of our reversionary portfolio relates to home reversion assets which do not generate a rental income. Therefore we do not believe that this measure is appropriate for our business.

The EPRA Vacancy Rate focuses on rental values of vacant space at a point in time which would not accurately reflect the experience of our portfolio. The group's business model in relation to its reversionary portfolio is to sell assets on vacancy, therefore the EPRA Vacancy Rate is not an appropriate measure of performance.

Five year record
for the year ended 30 September 2012

	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m
Revenue	246.2	302.2	244.5	296.2	311.4
Gross proceeds from property sales	174.4	212.7	165.3	217.0	250.5
Gross rental income	70.7	77.9	75.6	86.3	89.8
Gross fee income	7.0	5.7	5.5	6.9	10.0
Operating profit before valuation and non-recurring items (OPBVM)	106.0	78.8	94.2	126.2	126.4
Profit/(loss) before taxation	(112.1)	(170.0)	(20.8)	26.1	(1.7)
Profit/(loss) after taxation	(77.4)	(122.0)	(10.8)	39.1	0.4
Dividends taken to equity	8.3	5.2	7.4	4.9	7.6
	Pence	Pence	Pence	Pence	Pence
Earnings/(loss) per share	(19.1)	(29.5)	(2.9)	9.5	0.1
Dividends per share	2.0	1.3	1.7	1.8	1.9
	Pence	Pence	Pence	Pence	Pence
Gross net asset value per share	227.9	194.0	199.8	216.2	223.0
Triple net asset value per share	180.7	141.0	139.7	153.3	157.1
Share price at 30 September	114.1	170.0	109.8	86.6	107.7
	%	%	%	%	%
Return on capital employed	(11.4)	(4.3)	5.3	6.5	5.9
Return on shareholder equity	(36.1)	(33.7)	0.6	11.1	3.8

Where relevant adjustment has been made to historical figures to reflect the impact of the rights issue in December 2009.

Shareholders' information

Financial calendar

AGM	6 February 2013
Payment of 2012 final dividend	8 February 2013
Announcement of 2013 interim results	May 2013
Announcement of 2013 final results	November 2013

Share price

During the year ended 30 September 2012, the range of the closing mid-market prices of the company's ordinary shares were:

Price at 30 September 2012	107.7p
Lowest price during the year	77.3p
Highest price during the year	116.0p

Daily information on the company's share price can be obtained on our website or by telephoning: The Financial Times Cityline Service on 09068 432 750.

Capital gains tax

The market value of the company's shares for capital gains tax purposes at 31 March 1982 was 2.03p.

Website

Website address www.graingerplc.co.uk

Shareholders' enquiries

All administrative enquiries relating to shareholdings (for example, notification of change of address, loss of share certificates, dividend payments) should be addressed to the company's registrar at:
Capita IRG Plc
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire
HD8 0LA

Share dealing service

A share dealing service is available to existing shareholders to buy or sell the company's shares via Capita Share Dealing Services. Online and telephone dealing facilities provide an easy to access and simple to use service.

For further information on this service, or to buy or sell shares, please contact:

www.capitadeal.com – online dealing

0870 458 4577 – telephone dealing

Please note that the directors of the company are not seeking to encourage shareholders to either buy or sell their shares. Shareholders in any doubt as to what action to take are recommended to seek financial advice from an independent financial adviser authorised by the Financial Services and Markets Act 2000.

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Company registration number 125575

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Clearing Bank and Facility Agent
Barclays Bank PLC

Other bankers
Allied Irish Banks plc
Bank of America N.A.
Deutsche Pfandbriefbank AG
HSBC Bank plc
HSH Nordbank AG
Hypothekenbank Frankfurt AG
Lloyds TSB Bank plc
M&G UK Companies Financing Fund LP
Nationwide Building Society
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Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire
HD8 0LA

Glossary of terms

Property

Assured periodic tenancy ('APT')
Market-rented tenancy arising from succession from a regulated tenancy. Tenant has security of tenure.

Assured shorthold tenancy ('AST')
Market-rented tenancy where landlord may obtain possession if appropriate notice is served.

Assured tenancy ('AT')
Market-rented tenancy where tenant has the right to renew.

Investment value ('IV') or market value
Open market value of a property subject to relevant tenancy in place.

Home reversion
Rent free tenancy where tenant has the right of occupation until possession is forfeited (usually on death). If the tenant retains an equity interest in the property this is a partial life tenancy.

PRS
Private rented sector.

Regulated tenancy
Tenancy regulated under the 1977 Rent Act. Rent (usually sub-market) is set by the rent officer and the tenant has security of tenure.

Tenanted residential ('TR')
Activity covering the acquisition, renting out and subsequent sale (usually on vacancy) of residential units subject to a tenancy agreement.

Vacant possession value ('VP' or 'VPV')
Open market value of a property free from any tenancy.

Corporate

IFRS
International Financial Reporting Standards, mandatory for UK-listed companies for accounting periods ending on or after 31 December 2005.

Financial

Cap
Financial instrument which, in return for a fee, guarantees an upper limit for the interest rate on a loan.

Contingent tax
The amount of tax that would be payable should assets be sold at the market value shown in the market value balance sheet.

Dividend cover
Earnings per share divided by dividends per share.

Earnings per share ('EPS')
Profit after tax attributable to shareholders divided by the weighted average number of shares in issue in the year.

Gearing
The ratio of borrowings, net of cash, to market net asset value.

Goodwill
On acquisition of a company, the difference between the fair value of net assets acquired and the fair value of the purchase price paid.

Gross net asset value ('NAV')
Shareholders' funds adjusted for the market value of property assets held as stock but before deduction for deferred tax on property revaluations and before adjustments for the fair value of derivatives.

Hedging
The use of financial instruments to protect against interest rate movements.

Interest cover
Profit on ordinary activities before interest and tax divided by net interest payable.

Loan to value ('LTV')
Ratio of net debt to the market value of properties.

Net net net asset value (triple net or 'NNNAV')
Gross NAV adjusted for deferred tax and those contingent tax liabilities which would accrue if assets were sold at market value and for the fair value of long-term debt and derivatives.

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

Return on shareholders' equity
Growth in NNNAV in the year plus the dividend per share relating to each year as a percentage of opening NNNAV.

Swap
Financial instrument to protect against interest rate movements.

Total shareholder return ('TSR')
Return attributable to shareholders on the basis of share price growth with dividends reinvested.

Weighted average cost of capital ('WACC')
The weighted average cost of funding the group's activities through a combination of shareholders' funds and debt.

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Designed and produced by Radley Yeldar
www.ry.com

View our website

www.graingerplc.co.uk