

Investing in homes since 1912
grainger plc

Annual Report and
Accounts 2017



Argo Apartments, Canning Town



We create great homes to rent across the UK.

The opportunity for growth in the UK's private rented sector is substantial, and we aim to be the UK's leading landlord – for the benefit of our customers and our shareholders.

We are changing the UK housing market for the better, creating attractive, high-quality professionalised rental homes, and we are focused on providing our customers with great, reliable service and a place they can call home.

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We're proud of our properties, people and customers and therefore we've used images of actual Grainger colleagues or customers and properties throughout this report.

Abbeville Apartments, Barking

Financial highlights

Net rental income

£40.4m

⬆️ +8% (FY16: £37.4m)

Dividend per share

4.86p

⬆️ +8% (FY16: 4.50p)

Adjusted earnings

£74.4m

⬆️ +40% (FY16: £53.1m)

Profit before tax

£86.3m

⬆️ +2% (FY16: £84.2m)

Cost of debt (at period end)

3.4%

⬆️ -50bps (FY16: 3.9%)

Loan to value

37.7%

⬆️ +180bps (FY16: 35.9%)

EPRA NNAV

303pps

⬆️ +5.6% (FY16: 287pps)

Total return (ROSE)

7.3%

⬆️ -330bps (FY16: 10.6%)

IFRS net assets

178pps

⬆️ +10.6% (FY16: 161pps)

Definitions and additional information relating to all KPIs are shown on pages 22 and 23.

Strategic and operational highlights

Growth in net rental income of

8%

Improved investment process, enabling secured PRS investments since FY15 of

£651m

Operational improvements through restructuring, processes and technology.

Gross to net improved by

-200bps to 26%

Increase customer retention from c.18 months to

27 months

Reduction in overheads since FY15

25%

(FY17: £27.2m, FY15 £36.1m)

Strengthened and diversified our capital structure and locked into longer-term, lower-rate funding

We are a market leader in the UK private rented sector. We own and manage over 8,900 homes for rent across the UK.

Business overview

We are investing successfully in new high-quality homes for rent, generating attractive and sustainable total returns for our shareholders. This is supported by the reliable revenue generated from our regulated tenancy portfolio.

We have a high-performing portfolio of residential rental properties, which provides both strong capital growth and rental growth prospects. Our operational platform ensures we have a direct relationship with our customers and enables us to deliver enhanced returns.

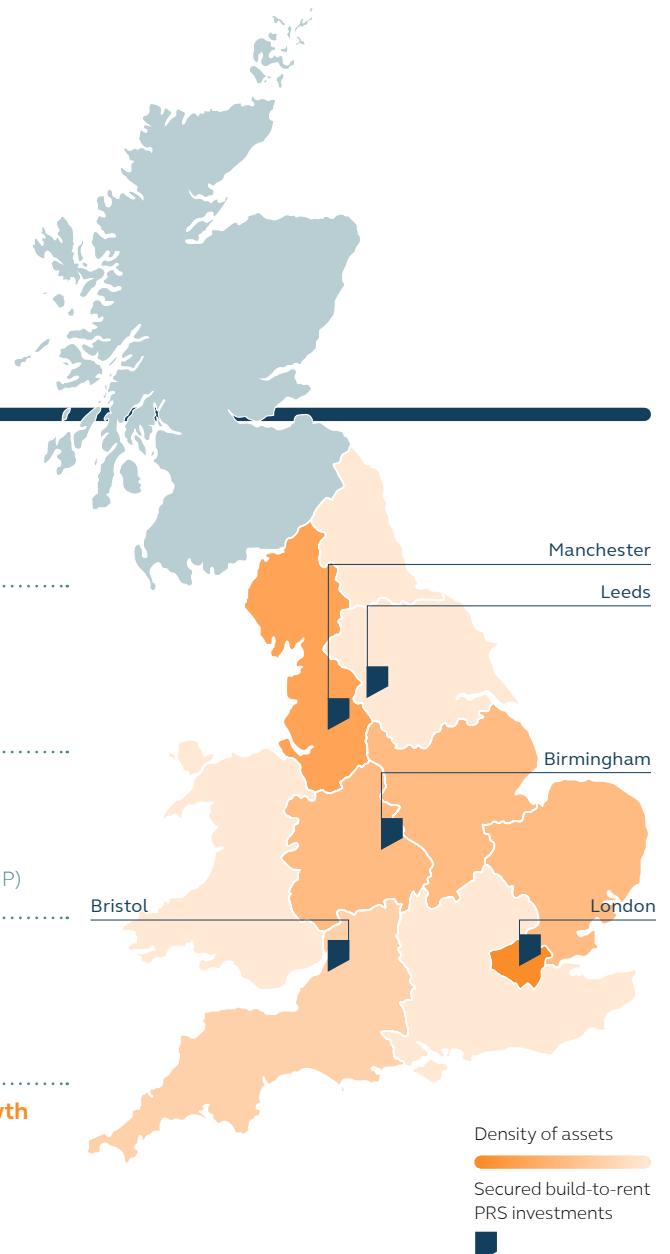
The assets within our portfolio are well located and achieve market-leading performance. Using our in-house knowledge and expertise, combined with rigorous research and analysis, we choose assets located in the areas of greatest demand with the greatest growth prospects.

Total homes
8,931

Total market value
£2.8bn
(including development WIP)

Net rental income
£40.4m

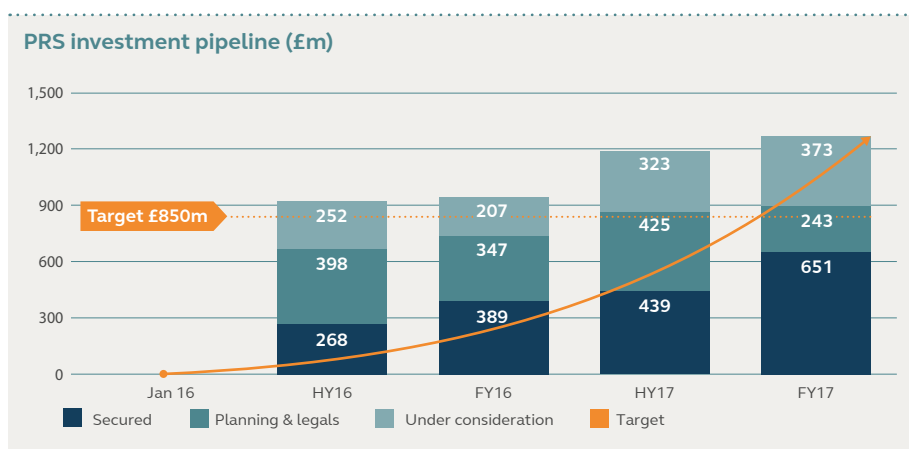
Like-for-like rental growth
3.8%



Private rented sector portfolio

We have 4,789 private rented sector ('PRS') homes in our portfolio. These well-located assets are attractive to customers and, with our expert operational team managing the properties directly, our portfolio continues to outperform the market.

Our aim is to offer attractive homes to our customers and provide a reliable service for them. This means we have more satisfied customers, who are staying with us for longer, making sure our assets stay in high demand. In turn, this generates attractive and sustainable long-term total returns for our shareholders.



Total PRS homes (incl. co-investments)

4,789

Market value

£1.4bn

Like-for-like rental growth

3.3%

Gross to net leakage

26%

Investment pipeline

£651m

secured, £243m planning/legals and £373m under consideration

Occupancy rate (PRS)

97%

Average length of stay

27 months

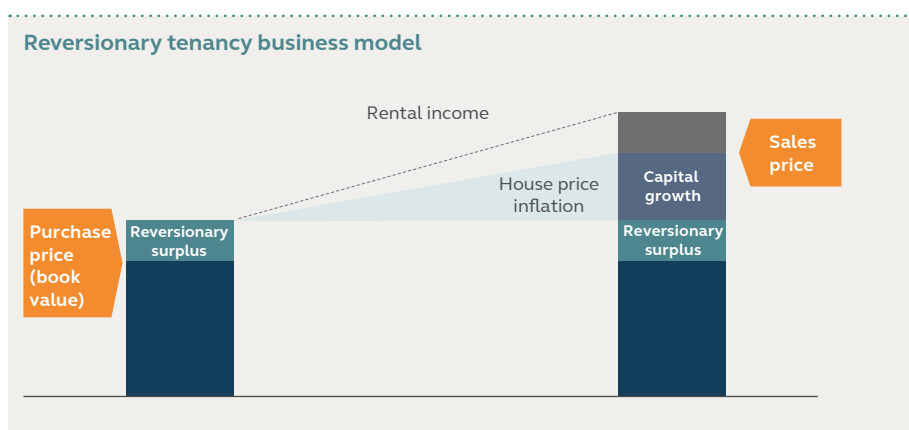
Regulated tenancy portfolio

Our portfolio of regulated tenancies generates stable and reliable cash flow of at least £100m per annum.

Around 6.5% of our regulated tenancies become vacant each year, enabling us to capture the uplift from their tenanted value to their vacant value as we sell them.

Returns from regulated tenancies are generated in three ways: rental income, capital growth and the reversionary surplus (crystallising the reversion when they become vacant). Our regulated tenancy portfolio provides a resilient rental income with growth linked to the Retail Price Index, albeit with lower yields than our PRS assets.

We are reinvesting these proceeds into higher-yielding new PRS homes.



Regulated tenancies and other reversionary assets

4,142

Sales prices achieved above previous valuation

2.7%

Market value

£1.3bn

Reversionary surplus

£230m

Annualised like-for-like rental growth

4.3%

Definitions and additional information relating to all KPIs are shown on pages 22 and 23.

Our inputs

Our people
The people in our team, with their depth of knowledge, ensure we outperform the market by investing in the right assets and providing a great service to our customers.

Our assets
Having great homes, in high demand, is critical to achieving strong shareholder returns. We focus on acquiring the assets that will do this. We also ensure we optimise the value of our existing assets, and reposition our portfolio where required.

Capital discipline
We allocate capital to the right assets, in the right locations and at the right price. We have a strong capital structure, which enables us to deploy capital efficiently.

Relationships
Building and maintaining strong relationships with our customers, partners, suppliers, shareholders, local communities, government and within our industry is an important ingredient to enabling our success.

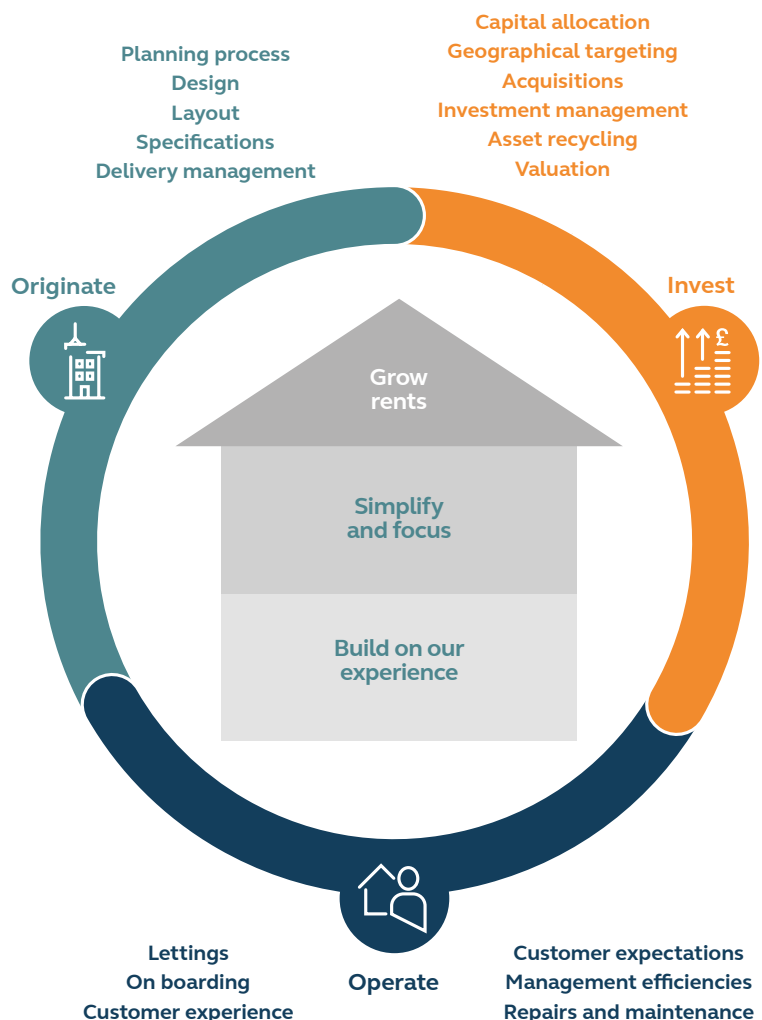
Intellectual property
In an emerging market such as the PRS, where we are market leader, we focus on protecting our intellectual property and internal market intelligence, to ensure we continue to maintain our lead and grow our market share.

Technology
We continue to enhance our use of technology to improve service, knowledge and operational efficiency. It is enabling scalable growth, while ensuring we continue to improve our service to our customers.

How we create value

We have a competitive advantage due to our ability to originate, invest and operate successfully in this growth market.

This three-part operating model helps us ensure we are investing in the best possible assets and providing great service. This enables us to deliver market-leading total returns for our shareholders.



On the following page we discuss our long-term value stream

Driving shareholder returns

Growing income returns

(KPI: Net rental income → dividend)

Through new investments and proactive and efficient management of our properties, we are growing our net rental income, which underpins dividend growth for our shareholders.



Enhancing capital returns

(KPI: EPRA NNAV)

Our targeted development and investment activity, along with our well-located assets, help deliver strong capital growth, underpinning growth in the net asset value of our business.



Strong total returns for shareholders

(KPI: ROSE)

Growth in rental income, linked to dividend, and growth in the capital value of our assets deliver attractive risk adjusted total returns for shareholders, which we believe is sustainable over the long term.

Our clear strategic priorities



Priority 1

Grow rents

Our strategy is expected to double our net rental income from 2015 levels after our investment programme has been fully deployed.

Through origination and investment, we are developing and acquiring new assets, which will deliver income growth. We operate our assets directly to ensure we maximise long-term rental income for shareholders.



Priority 2

Simplify and focus

Since 2015, we have simplified our business and focused on growing the UK PRS, positioning us for growth. This involved a significant cost reduction programme (overheads and capital structure) and sale of our non-core businesses. We have repositioned our business and our priority now is to control costs and improve efficiency, which will enable us to grow, and enhance our returns.



Priority 3

Build on our experience

In the emerging PRS market, our 105-year history as a leading, responsible and professional landlord sets us apart and underpins our growth plans. We are focused on further improving the service we provide to our customers, particularly through technology.

Sharing the value we create

Customers

We are offering an increasing number of high-quality homes for rent to a wide range of customers, while focusing on providing a great service and ensuring our customers get good value for money.

Shareholders

As the value of our assets grows, and we create more homes to rent, our EPRA NNAV and dividend grow too, delivering attractive returns to our shareholders.

Local communities

We are ensuring our investments in local communities have a positive impact on those living nearby. This might include improving local infrastructure, providing new jobs for local people, enhancing the public realm or supporting local communities, businesses, charities and schools.

Suppliers

The opportunity to grow in the UK PRS is substantial, and our growth will benefit our supply chain partners. This will multiply the positive impact we have on local communities and people.

Our employees

Through successfully creating value, we are able to be a great employer, providing a positive and rewarding work environment and a wide-ranging benefits package. This will ensure we attract and retain the best possible talent in the market. Employees are provided opportunities to be shareholders through various share schemes.

See our strategy in action

– page 16

Our people, assets and environmental impact

– page 29

Originate, invest and operate

We compete successfully in the market and generate enhanced returns through our ability to originate, invest and operate in the UK PRS. Collaboration in these three areas, and a culture of continuous improvement, allows us to grow in a disciplined yet efficient manner, while generating attractive returns for shareholders and value for our customers.



Originate

Planning, design and delivery

Creating, designing and developing new PRS homes provides us with control over the delivery of new buildings.

This is important because in this emerging sector there is an undersupply of high-quality investment assets available in the market and this enables us to enhance returns.



Creating 104 new homes for rent

In Hampshire, at our Berewood project, we are creating 104 new high-quality homes for rent. Our development team, working alongside our operations team, has created thoughtfully considered, well-designed homes, perfectly positioned for the local market. The first release of homes has been in high demand, with initial lettings exceeding expectations, and positive customer feedback.



Invest

Capital allocation, geographical targeting, acquisitions, asset and portfolio management

Our investment process is efficient and rigorous. It is designed to empower the entire organisation to introduce new investment opportunities, while ensuring our appraisal process is highly disciplined and controlled, yet also efficient.

We have a twice-weekly Investment Committee chaired by our Chief Executive, Helen Gordon. Our investment process is supported by our on-the-ground experience, and by our market research function, which undertakes detailed economic and market analysis for each investment opportunity.



Encouraging our staff to support our investment pipeline

In the past year, one of our apprentices brought a PRS investment opportunity to our sourcing meeting, and we successfully acquired it. It was a stabilised PRS asset worth £12.1m, comprising 159 PRS homes.





Finzels Reach, Bristol



Operate

Lettings, management and customer service

We believe in the importance of having a direct relationship with our customers. This gives us the ability to focus on providing a better service to our customers and greater control over the performance of our portfolio. We seek to continually improve our service based on customer feedback.



Using first-hand knowledge and customer research to inform the design of our buildings

At one of our new PRS developments, Argo Apartments in Canning Town, we have applied some new features, including a guest suite, and made a number of adjustments to our operational approach, using customer feedback and market research, including consumer focus groups.



Creating

5,000

new homes for rent

Operational units

8,931

homes

PRS new lets in the year (including co-investments)

1,089

PRS renewed tenancies in the year (including co-investments)

1,744

Driver	What has happened	The impact on Grainger
<p>1 Growing population underpins housing demand</p>	<ul style="list-style-type: none"> UK population projected to grow by over 12% by 2039. Greater urbanisation, with 42% of the UK population living in 11 major city regions. Renting in cities is more prevalent, with 86% of renters being in urban areas. 	<ul style="list-style-type: none"> Rising population growth will continue to underpin the need for more housing of all tenures. Demand for homes in major cities will continue to grow. Renting will continue to be more popular in urban areas and commuter zones.
<p>2 House price growth</p>	<ul style="list-style-type: none"> House price growth continued nationally throughout 2017, albeit at a weaker level. Nationally, average house price for first-time buyers is now 5.4 times income (Nationwide). Recently, Northern regions have seen faster house price growth than London and the South. 	<ul style="list-style-type: none"> The continued rise in house prices supports our valuations and sales performance. Affordability challenges underpin demand for renting.
<p>3 Lifestyle drivers increasing the demand for renting</p>	<ul style="list-style-type: none"> 37% of renters rent through choice, rather than issues of affordability, in accessing home ownership (Knight Frank). Renting is on the rise across all over-25 age groups (ONS). Renting among 35-44 year olds has increased from 19% to 26% in five years (ONS). 	<ul style="list-style-type: none"> Increasing demand for rental homes supports growth in our net rental income.
<p>4 Continued undersupply of homes</p>	<ul style="list-style-type: none"> 189,000 new homes were built last year, compared with an increase in new household demand of c.250,000 per annum (ONS). 	<ul style="list-style-type: none"> Undersupply supports high levels of demand, supporting our strategy to create new homes for rent.
<p>5 Professionalisation of the rental market</p>	<ul style="list-style-type: none"> New buy-to-let lending down 41% in the year; 71% of existing buy-to-let landlords were not planning to buy any new properties in the next year; 50% were not planning to buy in the next five years (Council of Mortgage Lenders). 43% increase in supply from large-scale institutional investors in the PRS, albeit with only c.96,000 homes in the total build-to-rent pipeline (BPF). 	<ul style="list-style-type: none"> A slowdown in the number of rental homes provided by buy-to-let investors. Growing need for large-scale, professional landlords to provide good-quality rental homes.
<p>6 A positive political landscape and policy environment</p>	<ul style="list-style-type: none"> Positive moves by the UK Government to support growth in the PRS and build-to-rent sector, including the Housing White Paper. Positive changes to London Planning Policy by the London Mayor. Increasing support at local government level. Some risk of populist policy proposals, including additional regulatory burden. 	<ul style="list-style-type: none"> Overall a favourable environment for investment in the PRS.

See our principal risk and uncertainties
– page 38

See our strategy in action
– page 16

How we are responding

- Targeting investment opportunities in locations with the greatest growth prospects using our in-house market knowledge and research expertise.
- Actively managing our portfolio to ensure our geographical exposure, at both regional and local level, mitigates cyclical capital value movements.
- Investing in the PRS to grow our net rental income and reduce our reliance on capital value movements.
- Designing products attractive to a wide and growing range of customers.
- Positioning our brand and offering to appeal to a broad range of customers.
- Undertaking research to ensure we know our customers and their preferences.
- Creating new homes for rent, to help support new supply and meet the growing demand for renting.
- Strengthened acquisitions process to improve execution.
- Differentiating our offer from buy-to-let rental housing, through providing a greater level of service, including longer-term tenancies.
- Enhancing customer service, including leveraging technology.
- Targeting regional cities with attractive investment characteristics and growth prospects.
- Promoting the benefits of investment in the PRS and professionalising the sector.
- A comprehensive programme of engagement with central government, the London Mayoral team and local government.
- Active dialogue with all political parties to continue to make the case for the benefits of investment in the PRS and build-to-rent.
- Regular monitoring of political developments.

Key statistics

The PRS market

4.5m

PRS households

Households currently in the PRS, a 25% increase since 2011 (ONS)

+1.8m

More PRS households

The number of additional PRS homes required by 2025 (PwC)

<100k

PRS homes in supply

The number of purpose built rental homes in the total UK pipeline, including under construction and seeking planning consent (BPF)

Our market share

4,789

PRS homes

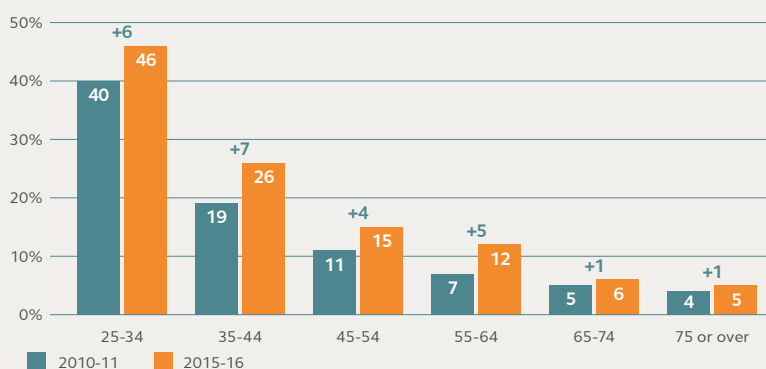
Grainger's existing operational PRS units

+5,000

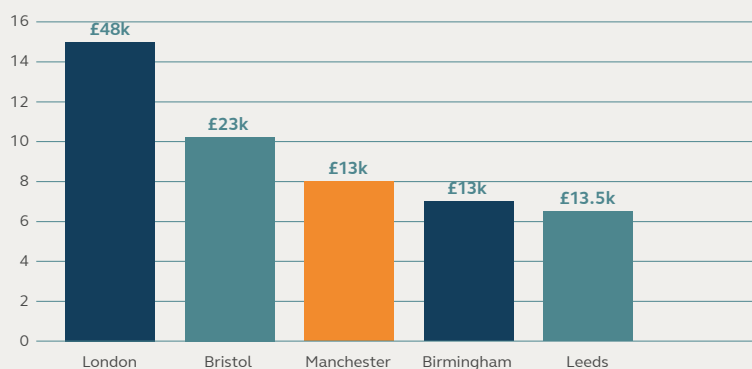
PRS homes

Additional PRS homes to be delivered through our £850m investment plan

Proportion of age group living in the PRS (%)



Years required to save for a 10% deposit and SDLT on the average first-time buyer home



Average first-time buyer price based on Hometrack UK city average price and a 15% discount (Source: Nationwide First Time Buyer Index). Number of years saving required for deposit and SDLT based on Grainger research, utilising ONS data for average first-time buyer salaries and expenditure, and 2017 wage growth.

Driving performance through culture

Profile: Mark Clare

Appointment:

February 2017

Experience and appointments:

Former CEO of Barratt Developments plc and executive director of Centrica plc; current senior independent director of United Utilities plc and Ladbrokes Coral plc

For more details, see page 46

Dear shareholders,

In my first report as Chairman, I am pleased to say that 2017 has been a year of considerable progress in delivering the strategy whilst improving financial performance. After ten months in the business working alongside the management team and Non-Executive colleagues, I remain convinced that we have the right strategy and the right team to deliver it.

Financially, we have seen good growth in net rental income, strong like-for-like rental growth, good sales profits from our regulated tenancy portfolio and a significant reduction in our operating costs, all of which have helped drive a significant increase in adjusted earnings.

While there is real focus in the business on pursuing our PRS strategy, I am pleased to say that there has been an equal focus on our existing business. By getting to know our customers better we have been able to continue to improve the service we provide. By looking at every area of our invested portfolio we have found potential opportunities to improve performance. We have strengthened our governance structures and processes to enhance our control environment and prepare the business for growth. Following the Grenfell Tower tragedy, we have redoubled our efforts to ensure our customers and employees are kept safe.

For our PRS business, significant efforts have been made to secure further assets and to generate new development opportunities for the longer term. While our existing PRS assets are performing well, it is securing the opportunities for growth, completing them on time and to budget and making them operational that will enable us to deliver our strategy.

As Grainger rapidly transforms into an increasingly customer-driven organisation, it is clear that its culture and people are key to its long-term success. During the course of the year my colleagues and I have been able to meet with a large number of the dedicated Grainger teams around the country, who have a real passion for what they do. Going forward, our focus on delivering a culture that has customers at its heart will continue to grow.

During the course of the year there have been some changes to the Board. Baroness Margaret Ford stepped down in February having served eight years as a Non-Executive Director with the last two as Chairman. Nick Jopling, Grainger's Property Director, stepped down in September having been with the Company for seven years. Belinda Richards has decided to step down at the AGM in 2018 having served over six years on the Board as a Non-Executive Director. I would like to thank all of them for their significant contribution to the success of the Company and wish them well for the future. I would also like to welcome Justin Read to the Board as a Non-Executive Director who joined at the same time as I did in February.

Finally, I am pleased to propose an increase in our final dividend to 3.26p per share, bringing the total for the year to 4.86p per share, up 8% on the prior year, reflecting the growth in net rental income. Looking forward, our goal is simple – to generate superior total returns for our shareholders in this exciting new growth market, the PRS.

Mark Clare
Chairman

30 November 2017

Our strategy is delivering strong results

Helen Gordon
Chief Executive

Dear shareholders,

It is my second year at Grainger, and I am pleased to report strong performance of your Company, and good progress on our strategy.

We continue to grow rents, simplify and focus the business to reposition it for the future, and build on our significant 105-year experience in the UK residential market.

Less than two years ago, we set out a plan to refocus the Company on investment in the UK private rented sector, and to grow significantly by investing £850m into the UK PRS by 2020.

Our vision for the business is simple – to be the UK's best PRS landlord and deliver attractive total returns for our shareholders.

Strategic priority 1: grow rents

We have secured more than 75% of our targeted investment, and we anticipate superior returns of typically between 6.5% and 8% gross yields from our investments.

When we have deployed the £850m and our investments are fully stabilised, we expect net rental income to be more than double what it was in 2015.

Strategic priority 2: simplify and focus

In parallel with this growth, we have also delivered on our promise to improve Grainger's efficiency and reduce operating costs. Our overheads are 25% lower than in 2015 and we have significantly reduced our cost of debt, which now stands at 3.4%. We have reduced the cost of running our properties, with gross to net leakage reduced to 26%. We have also substantially enhanced our capital structure, processes, governance and control environment, and we have repositioned Grainger to support our strategy for growth.

Strategic priority 3: build on our experience

We continue to build on our reputation as a leading residential landlord in the UK and remain focused on providing great rental homes and continually improving our customer service. We are enhancing the service we can provide our customers through operational improvements and through investing in technology. Our commitment to the health and safety of our customers and employees remains central to what we do.

Highlights

Adjusted earnings

£74.4m
 ▲ +40% (FY16: £53.1m)

Rental growth (like-for-like)

3.8%
 ▼ -30bps (FY16: 4.1%)

EPRA NNAV

303pps
 ▲ +5.6% (FY16: 287pps)

Overheads

£27.2m
 ▼ -14% (FY16: £31.8m)

Net rental income

£40.4m
 ▲ +8% (FY16: £37.4m)

Cost of debt (at period end)

3.4%
 ▼ -50bps (FY16: 3.9%)

Profit before tax

£86.3m
 ▲ +2% (FY16: £84.2m)

Total return (ROSE)

7.3%
 ▼ -330bps (FY16: 10.6%)

Definitions and additional information relating to all KPIs are shown on pages 22 and 23.

Delivering results

Strong financial performance

As a result of the significant changes we have implemented within the business over the last two years, I'm pleased to report that the financial performance of the Company is strong.

Adjusted earnings increased by 40% in the year to £74.4m. We have grown net rental income by 8% to £40.4m, delivered strong sales performance from our regulated tenancy portfolio and created enhanced profits from development activity. In addition, we have made great strides in improving our capital structure with a cost of debt of 3.4% at the period end. The total return for the year was 7.3%, a strong result, supported by an enhanced income return and a lower level of capital growth than last year. Last financial year also benefited from the profitable disposals of our non-core businesses (FY16: 10.6%).

I am pleased to report an 8% increase in our total dividend to 4.86p per share (FY16: 4.50p per share), in line with our policy to deliver sustainable, income backed growth and distribute 50% of net rental income. (See the Financial review on pages 24 to 28).

Superior operational performance

Underpinning our financial performance is the progress we have made on improving the management of our portfolio and our increased focus on customer service. To support this crucial aspect of the business, we recruited John Kenny as Chief Operating Officer. From his previous role operating approximately 25k student beds, John brings a wealth of experience and knowledge.

Over the year, the performance in our net rental income was supported by a reduction in our property operating costs (gross to net leakage) from 28% to 26%. Meanwhile, we successfully increased the length of stay of our customers from less than 18 months to over 2 years, reducing void costs whilst also capturing strong rental growth.

Recognition as a market leader

We were proud to be acknowledged for our position as the industry's leading PRS landlord, asset manager and developer. We are also grateful to our peers for awarding us Property Week's Property Company of the Year, a highly competitive and cross-sector award. Our GRIP REIT joint venture with APG was recognised as a Sector Leader by the Global Real Estate Sustainability Benchmark.

Our differentiated approach

We refined our operating model during the year. Our success is based on our ability to originate, invest and operate our investments fully in-house, and we have organised the business to provide a strong focus on each area.

This enables us to generate superior returns through our ability to collaborate internally across all these areas. In this regard, we strongly believe that the whole is greater than the sum of its parts. The operational team, for example, works with our development team in the design of our new PRS developments, and with the investment team to appraise every opportunity we consider. This collaborative and informed approach produces enhanced returns and reduces risks.



Kew Bridge Court, Kew

Preparing the business for the exciting growth in new PRS homes

As our pipeline of new PRS homes grows, we are investing to support future growth. We examined every process within the business to find more efficient ways of working, and through a great team effort and a disciplined focus on continuous improvement we have laid excellent foundations for the future.

Last year, we completed a full strategic review of the business, covering every portfolio and its potential for growth. We continue to regularly review all of the assets within our portfolio and measure their returns potential. This has led to a series of profitable disposals, enhancing our sales revenues. The Board and the whole Grainger team are committed to this disciplined and continual approach to evaluating assets.

Securing a high-quality pipeline

We strengthened our acquisition team during the year by investing in our in-house research capability and improved our investment process to ensure it is both robust and efficient. The result is a team focused on identifying opportunities with the right characteristics for growth, in the right locations, and we have successfully secured a number of high-quality investments.

Customer focus

We continue to look at ways we can improve our service to customers. Our annual customer survey and the regular feedback we collect provide us with a clear set of priorities against which to measure our service and focus our attention.

In our portfolio of regulated properties, we recognise that many of our residents are older. We are working with Age UK London to help us understand how we can better support our older residents. We have also supported the Grainger team with technology, enabling them to work remotely and get closer to our regulated tenancy customers.

We have made a number of improvements in the way we support our PRS customers and we undertook a survey to understand what else we could improve upon and to better understand our customers' preferences in the PRS. The survey identified that there is scope to improve on our responsiveness and reduce the time to resolve maintenance requests. To this end, we are investing in technology solutions and our people. This is an important area for the Grainger team, and one our investment in technology will support.

Attracting and retaining the best talent

Despite the change that has taken place over the past two years, I am proud to say that the Grainger team remains as enthusiastic as ever. The talent within the organisation is unrivalled, we are committed to attracting and retaining the best talent and we have a rigorous framework for doing so. We are committed to encouraging a positive working culture with a focus on customer service and continuous improvement.

Our employee engagement survey highlighted the high levels of pride that employees have in Grainger. Levels of staff engagement are high, with 87.5% of staff responding to the survey. The survey also identified areas where we can do more to support and develop our staff including 'wellbeing' and 'giving something back', and we are planning a series of initiatives for 2018.

Making a positive impact

To help secure a long and successful future for Grainger, we believe it is important that we make a positive impact, both on those around us and the environment. We have therefore developed a new corporate social responsibility and sustainability strategy which has three focus areas: treating people positively; creating desirable, healthy homes; and securing our future (see pages 29 to 35).

A positive market backdrop

The fundamental market drivers for the UK PRS remain positive and demand for good-quality rental homes far outstrips supply. Growth in demand is projected to continue. While political uncertainty and Brexit are having an impact on real estate generally, the UK PRS is proving resilient. The legislative environment across the UK and in London supports growth in the UK PRS, particularly through build-to-rent and institutional investment.

Looking ahead

Through implementation of Grainger's strategy and a focus on creating great homes for rent, the business has been transformed. The work we have done to dramatically improve our cost base and invest in a pipeline of quality assets positions us for strong growth. Much work remains, however, and we intend to maintain our rigour and pace.

Our longer-term vision for the business goes beyond our £850m investment plan, and we have redesigned the business to support further growth, both financially and operationally.

We are looking to introduce technology solutions to further improve our operations, generate enhanced returns and continue to improve our customer service.

Our focus today remains on fully securing our pipeline of high-quality rental homes that will produce attractive and enduring returns.

I would like to thank the Grainger team for their continued hard work and dedication to achieving such a great performance this year. Our Property Director, Nick Jopling, leaves Grainger at the end of 2017. I would like to thank Nick for his contribution to the business over the last seven years, and particularly for the support he has given me over the last two years. I would like to thank our previous Chairman Baroness Margaret Ford for her unwavering support of the executive team and our new strategy. I would also like to thank the Board and our shareholders for their ongoing support.

The future for Grainger is exciting. We are growing a business with great long-term value, and we are delivering a portfolio of good-quality homes for rent which our employees and shareholders can be proud of.

Helen Gordon
Chief Executive

30 November 2017

A year of achievements

FY17 timeline of activity

Awards won



October 2016

Acquisition of Yorkshire Post, Leeds subject to planning (Forward funding, £40m, c.250 homes)



October 2016

Planning consent achieved for Apex House, London (Direct development, 163 homes)

October 2016

Technology Effectiveness Review

November 2016

Acquisition of Finzels Reach, Bristol (Forward funding, £46m, c.200 homes)



November 2016

Refinanced £100m debt facility, reducing our cost of debt by 23bps

February 2017

Baroness Margaret Ford retires from the Board as Chairman

Mark Clare joins the Board as Chairman

Justin Read joins the Board



February 2017

The UK Government publishes Housing White Paper, which supports institutional investment in the UK PRS

Yorkshire Post, Leeds receives planning consent

March 2017

Construction begins at Finzels Reach, Bristol

April 2017



Property Company of the Year



PRS Developer of the Year

May 2017

John Kenny joins as Chief Operating Officer



May 2017

Extended £450m funding by two years, with a further two-year extension option

Completion of a detailed operational process review

May 2017



Asset Manager of the Year



Landlord of the Year

July 2017

Completion of the acquisition of Pontoon Dock, London in joint venture with the Local Pensions Partnership (JV, forward funding, 236 homes)



August 2017

GRIP REIT joint venture acquires Milton Keynes scheme (Forward funding, £30.5m, 139 homes)

August 2017

Conditional acquisition of Gore Street, Manchester (Forward funding, £80m, 375 homes)



1. Grow rents 🏠

Creating sustainable income

Strategy in action

We are growing the number of homes we have to rent, with an aim of investing £850m into the UK PRS. We have secured £651m of investment since setting out our strategy in January 2016, and we have a further £243m of investment opportunities in the planning or legal process, for which we have good visibility and expect a high level of conversion.

Our 2020 targets

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



Property details

Situated close to the City of London in up-and-coming Haggerston, Ability Plaza offers 79 live-work apartments.



“We have the right people, processes and expertise in place to enable us to secure attractive investments in great locations. This will deliver our shareholders superior returns.”

Andrew Saunderson
Director of Investment





Customer profile

Name: Alfie

Profile: Alfie has been living in his building for ten years and enjoys the flexibility that renting has to offer. As a product strategist, he can sometimes work at home. With floor to ceiling windows, he has excellent natural light and a lovely space to work.

“I’ve established a great relationship with my property manager, she understands my needs. Working from home is ideal – there’s limited noise here, as well as a great little ramen place down the road to enjoy lunch.”

2. Simplify and focus @

Proactively managing our portfolio

Strategy in action

By restructuring our teams, we are spending more time out on the road, meeting our customers and ensuring they are happily enjoying their homes. At the same time, we are able to appraise every asset within our portfolio and determine the best course of action. In this way, we can ensure our assets are performing well across our portfolio.

Our 2020 targets

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



Customer services

Customers have a named, dedicated Grainger property manager on hand for all enquiries.



“We are working to professionalise the rental market and give renters a better deal. We are focused on each customer and each property. This enables us to provide great homes and service, as well as generating good returns.”

John Kenny
Chief Operating Officer





Customer profile

Name: Clare

Profile: Single mum Clare and her five-year-old daughter have been living in one of our Grainger properties for a year. As a holistic therapist, it is important for Clare to have a calm space where she can practise. She loves her allotment in the communal garden, where she grows potatoes and other vegetables to share with her neighbours.

“I feel blessed to live here – it’s my sanctuary. It’s wonderful being so close to my daughter’s school, only five minutes down the road – and we’re only a short bike ride from a lovely park. We have a special community vibe here and I love that my daughter can play safely in the garden with the other children.”

3. Build on our experience



Using our position for growth

Strategy in action

We are gaining market share in the UK PRS growth market, both through improving our well-established operational platform and by reinvesting cash flows from our regulated tenancy portfolio.

Our 2020 targets

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



Property details

Rosa and her husband, Zoltan, live and work as caretakers at Churston Close, providing 24-hour customer service.



“Taking care of other people’s homes is a serious business. We’ve been doing it for 105 years.”

Anish Thobhani
Customer Operations Director





Customer profile

Name: Nicola

Profile: Nicola has been living in her Grainger flat for two months, with her dog, Ronnie. She is currently doing a Masters in Linguistics and English Language, and loves how quiet the flat is for studying at home. Everything she needs is within walking distance and she loves visiting family who live nearby.

“My flat is in a great spot – really near the local shopping and nightlife, but far enough away for it to be a peaceful at-home environment. I love the safety of our on-site car park, and it’s always good to know I can call on our caretakers if ever I need any help.”

Strategic report

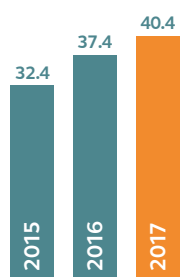
Key performance indicators

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

1 Driving our income returns

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

Net rental income (£m)



KPI definition

Rental income after property operating expenses.

Comment

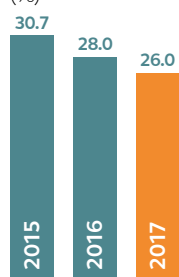
Increase of 8% driven by acquisitions and rental growth.

Link to strategy



See Note 7 to the financial statements

Property operating cost (gross to net) (%)



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

Improvement of 200bps from operational efficiency improvements.



See Note 7 to the financial statements

PRS rental growth (%)

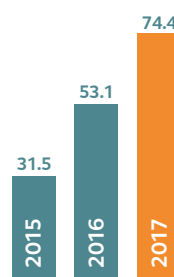


Like-for-like average growth of rents across our PRS portfolio.

Resilient like-for-like growth in our PRS rental income outperformed the market (1.6% market average) due to our strong customer proposition.



Adjusted earnings (£m)



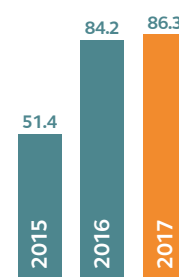
Profit before tax, valuation movements on investment assets, derivatives and non-recurring items.

40% increase driven by lower finance and operating costs, increased sales profit and rental growth.



See Note 2 to the financial statements for explanation and Note 4 for reconciliation from statutory measures

Profit before tax (£m)



Profit before tax including valuation movements and non-recurring items.

Increase of 2%, supported by adjusted earnings growth and derivative movements, offset by lower valuation gains and non-recurring items.



See Note 2 to the financial statements for explanation and Note 4 for reconciliation from statutory measures

3 Non-financial KPIs

The following metrics capture the non-financial performance of our business. See Our people, assets and environmental impact on pages 29 to 35.

Our customers

Comment

Attracting and retaining customers supports both the valuations of our assets and our net rental income. Further opportunity to improve through enhancing responsiveness and reducing the time to resolve maintenance requests, as identified in our customer survey.

Link to strategy






27 months

customer retention increased from 18 months

45%

reduction in logged complaints

Key to strategy links

 Grow rents
  Simplify and focus
  Build on our experience

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

2 Building our capital returns

The following KPIs capture Grainger's strategy to maximise total returns and capital growth from its residential investments, with an increasing focus on growing the PRS business and investing £850m by 2020.

EPRA NAV (pence)



KPI definition

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

Comment

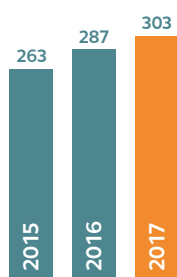
3.9% growth in FY17 reflecting a strong trading and robust valuation performance, despite challenges in property market.

Link to strategy



See Note 5 to the financial statements and EPRA performance measures from page 145

EPRA NNNAV (pence)



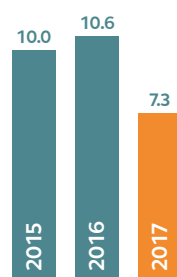
EPRA NAV after deducting deferred and contingent tax on property revaluations and derivative adjustments.

5.6% growth in FY17 supported by a strong trading performance and robust valuation growth.



See Note 5 to the financial statements and EPRA performance measures from page 145

Total return (ROSE) (%)



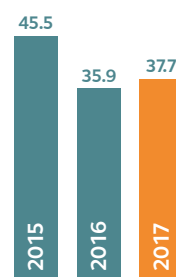
Growth in EPRA NNNAV combined with total dividend per share in the year. Also known as return on shareholder equity ('ROSE').

Driven by growth in EPRA NNNAV of 5.6% and net rental income of 8% (linked to dividend).



EPRA NNNAV growth of 16p, plus dividend at 4.86p divided by opening EPRA NNNAV of 287p

Loan to value (%)



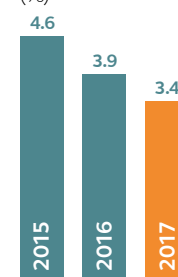
Ratio of net debt to the market value of properties on a consolidated Group basis.

Increase of 180bps in LTV reflecting increasing investment in property assets.



Loans as a proportion of the market value of properties and property related assets. See Note 28 to the financial statements

Cost of debt (at period end) (%)



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

Reduction of 50bps, helped by refinancing activity including the re-coupling of two legacy swaps during the prior period.



See Note 28 to the financial statements

Our people

Comment

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

Link to strategy



87.5%

response rate to our employee engagement survey

88%

of eligible employees are shareholders

94.5%

retention rate

Our impact on the environment

Comment

Monitoring and managing our impact on the environment ensures we are securing the long-term future for the business.

Link to strategy



1,287

tonnes of CO₂e our carbon footprint (market-based methodology)

-2%

market-based carbon emissions

93%

EPC ratings 'E' and above

Vanessa Simms
Chief Financial Officer



Financial review

The financial performance for 2017 has been another strong result, building on the transition we achieved in 2016 and the business is now repositioned for growth. The improvements in our operating platform and reduction in finance and operating costs have delivered a step-change in the Group's income credentials. As a result, we have enhanced the quality and resilience of the total returns from our residential business model.

Adjusted earnings increased by 40% to £74.4m (FY16: £53.1m), driven by lower finance and operating costs, increased sales profit and rental growth. Profit before tax for the year was £86.3m (FY16: £84.2m). EPRA NNNNAV increased by 5.6% to 303p per share (FY16: 287p per share). We have delivered a total return of 7.3% (FY16: 10.6%), as a result of our strong trading performance and valuation growth of our assets. This year our total return was supported by an enhanced income return and capital growth which was at a lower rate than last year. The previous financial year also benefited from the profitable disposals of our non-core businesses.

We have achieved our overhead reduction target, generating a 25% saving since we embarked on our new strategy. This has been delivered whilst maintaining excellent momentum in securing our PRS pipeline of £651m, alongside our strong operating performance and good financial results.

We are focused on delivering sustainable, income backed dividend growth. In line with our policy to distribute 50%

of net rental income (equating to £20.2m), the total proposed dividend for the year is 4.86p per share, up 8% year-on-year (FY16: 4.50p per share). This is expected to rise significantly over coming years as our new investments complete.

Highlights

Growing our income return	FY16	FY17	Change
Rental growth ¹	4.1%	3.8%	(30)bps
- PRS	3.6%	3.3%	(30)bps
- Regulated tenancies (annualised)	4.7%	4.3%	(40)bps
Net rental income	£37.4m	£40.4m	8%
Adjusted earnings (Note 4)	£53.1m	£74.4m	40%
Adjusted EPS (after tax) (Note 4)	10.2p	14.3p	40%
Profit before tax (Note 4)	£84.2m	£86.3m	2%
Dividend per share (Note 15)	4.50p	4.86p	8%
Earnings per share (diluted) (Note 16)	17.9p	17.6p	(2)%
Driving our capital return	FY16	FY17	Change
EPRA NAV per share	330p	343p	3.9%
EPRA NNNNAV per share	287p	303p	5.6%
Net debt (Note 28)	£764m	£848m	11%
Group LTV (Note 28)	35.9%	37.7%	180bps
Cost of debt (average)	4.4%	3.5%	(90)bps
Cost of debt (period end)	3.9%	3.4%	(50)bps
Reversionary surplus	£327m	£310m	(5)%
Total return on shareholder equity	10.6%	7.3%	(330)bps

¹ Rental growth is the average increase in rent charged across our portfolio on a like-for-like basis. See pages 22 and 23 for additional commentary on KPIs.

Income statement

We have continued to improve our income credentials. New acquisitions, active asset management and improved operational efficiency have supported growth in net rental income. This has been further enhanced by the reductions we have made to our overheads and finance costs. We have achieved this alongside a strong sales performance, and supported by our development activity which has generated profits and additional cash for reinvestment into the PRS.

Income statement (£m)	FY16	FY17	Change
Net rental income	37.4	40.4	8%
Profit on sale of assets – residential	59.7	60.4	1%
Profit on sale of assets – development	11.8	14.7	25%
Mortgage income (CHARM) (Note 21)	6.5	6.2	(5)%
Management fees	6.2	5.1	(18)%
Overheads	(31.8)	(27.2)	(14)%
Other expenses	(1.1)	(1.1)	0%
Joint ventures and associates	1.5	2.9	93%
Net finance costs	(37.1)	(27.0)	(27)%
Adjusted earnings	53.1	74.4	40%
Valuation movements	33.6	14.4	–
Derivative movements	(9.9)	0.3	–
Non-recurring items	7.4	(2.8)	–
Profit before tax	84.2	86.3	2%
Discontinued operations before tax	62.0	1.5	–

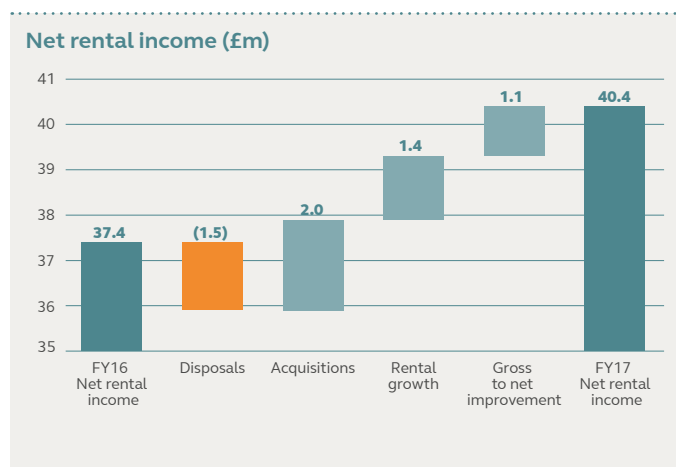
Rental income

Gross rental income increased to £54.6m (FY16: £51.9m), supported by like-for-like rental growth across our entire portfolio of 3.8%. We saw 3.3% like-for-like rental growth across our portfolio of PRS assets and 4.3% annualised growth on regulated tenancy reviews. In addition, the acquisitions of tenanted rental homes that deliver immediate income more than offset the impact of disposals.

Our PRS portfolio has outperformed the market due to the strength of our customer proposition. For the year to September 2017, Grainger PRS rental growth of 3.3% was ahead of market rental growth of 1.6% (average based on ONS, Countrywide and HomeLet).

Net rental income growth of 8% to £40.4m (FY16: £37.4m) has been supported by acquisitions, active asset management and increased operational efficiencies. We achieved a further 200bps improvement in our gross to net property operating expenditure ratio to 26.0% (FY16: 28.0%). We view this as a sustainable level for the future and our medium-term target is 25–26%.

Grainger's net rental income is broadly equally split between regulated tenancies and PRS.



Sales

We have delivered a good performance from sales activities, with overall sales profit up 5% to £75.1m (FY16: £71.5m).

Our residential sales performance continues to be resilient, with regulated tenancies providing regular cash flows on vacancy. We have achieved 1% growth in residential sales profit to £60.4m (FY16: £59.7m). Growth in tenanted and other sales has driven the improvement, helped by active management of our portfolio and the attractive nature of our properties (location, pricing and type).

On average, the vacancy rate of our regulated tenancy portfolio was 6.2% over the year and we have been selling vacant properties at 2.7% above the September 2016 vacant possession value. Healthy levels of trading, combined with strong demand and pricing, demonstrate the resilient nature of our assets.

Our development activity has been key to the overall sales performance. Profit from development activity for the year of £14.7m is 25% ahead of the prior year (FY16: £11.8m). This performance has been driven by strategic land sales which account for one-third of the profit from development activity. Other development activity includes sales from our Berewood site in Hampshire and our partnership with the Royal Borough of Kensington and Chelsea ('RBKC'), from which funds will be received on completion of the homes.

We expect good levels of development activity to continue in FY18 as we work through our strategic land sites and our partnership with RBKC.

Sales continued

	FY17		
	Units sold	Revenue £m	Profit £m
Residential sales on vacancy	274	110.1	51.1
Tenanted and other sales	242	20.7	9.3
Residential sales total	516	130.8	60.4
Development activity	-	83.7	14.7
Overall sales	516	214.5	75.1

	FY16		
	Units sold	Revenue £m	Profit £m
Residential sales on vacancy	307	103.1	52.0
Tenanted and other sales	59	12.5	7.7
Residential sales total	366	115.6	59.7
Development activity	-	49.2	11.8
Overall sales	366	164.8	71.5

Overheads

Over the year we have made further improvements to our cost base, reduced overheads beyond our target and positioned the business for significant growth. These actions will continue to enhance our income return, a key objective of our strategy. Alongside our ambitious growth plans and continued focus on performance, we set a challenging target of reducing our overhead costs by 24% over two years to £27.5m by this financial year, which we have exceeded.

Overheads for the year were £27.2m. This is a 14% year-on-year reduction (FY16: £31.8m) and a 25% reduction since embarking on our new strategy (FY15: £36.1m). Net overheads for the year, as set out in the following table, totalled £22.1m, down from £25.6m for 2016.

We achieved these savings by restructuring our business, improving processes, creating a robust control environment and investing in technology. We believe our overheads are at a sustainable level to support our medium-term growth plans.

£m	FY17
Overheads	27.2
Management fees (overheads recovery)	(5.1)
Net overheads	22.1
FY16 net overheads	25.6

Financing and capital structure

Net debt increased to £848m (FY16: £764m) as we deployed investment into new PRS homes, and Group LTV increased to 37.7% (FY16: 35.9%).

Sales from Grainger's regulated tenancy portfolio, active asset management and gross rental income underpin the Group's highly cash generative business model. We generated £228m of cash from sales, gross rental income and management fees in the year. We invested £203m in the year, comprising £131m into our secured PRS investment pipeline, £50m into development and refurbishment activities, £14m into affordable homes and £8m into regulated tenancies. Of our £651m secured pipeline our cumulative spend by the end of this financial year was c.£220m.

We expect strong cash generation to continue, which, coupled with £344m of headroom on our facilities following completion of the recent £75m PRS funding noted below, helps support our ambitious growth plans. Our planned optimal LTV target range is 40–45% once we deploy investment.

In addition to the progress in reducing our operating costs, the actions taken to reduce our cost of debt has also brought significant benefits and helped enhance our income returns.

Our average cost of debt for the year was 3.5%, 90bps down on the prior year (FY16: 4.4%). At the period end, our cost of debt was 3.4% (FY16: 3.9%). Our net finance cost for the year was £27.0m, 27% lower than the prior year (FY16: £37.1m).

The reduction in cost of debt has been achieved by recent refinancing activities, including the £100m refinancing in November 2016. We secured a new £40m facility with Handelsbanken in June 2017, and extended £450m of our syndicated bank facility by two years to 2022 with options to extend for a further two years to 2024.

Our PRS investment assets are aligned to longer-term funding and this is likely to be an increasing feature as our PRS schemes are developed out. Our income returns will continue to be enhanced by the low cost of debt we can source. Our headroom is accessible at a marginal rate of below 2% and in October, we secured a new ten-year, £75m PRS facility with Rothesay Life, at a fixed rate. Including this financing activity, our hedging stands at 87%. This activity has enabled the Group to secure a low cost of debt for the longer term.

Non-recurring items

Non-recurring items saw a charge of £2.8m in the year comprising two main components. £1.2m relates to the implementation of the strategic change in our operations and £1.6m relates to a provision for historical, non-core businesses. Last financial year we had income of £7.4m, relating mainly to these historical, non-core businesses.

Balance sheet

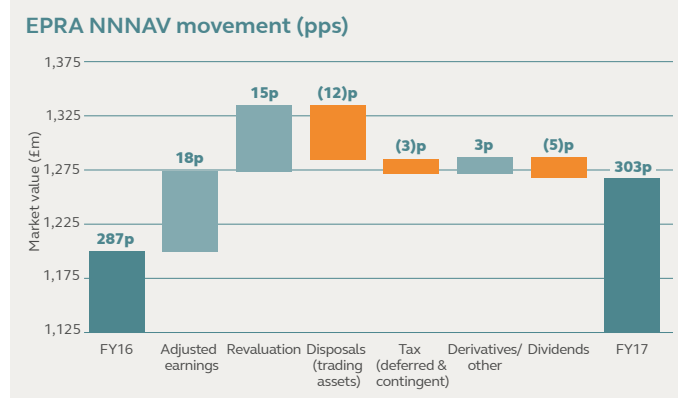
We continued to secure attractive PRS investment opportunities in the period and have seen healthy growth in the overall net asset value of the Group.

Market value balance sheet (£m)	FY16	FY17
Residential – PRS	461	526
Residential – regulated tenancies	1,249	1,214
Residential – mortgages (CHARM)	93	86
Development work in progress	105	138
Investment in joint ventures/associates	193	206
Total investments	2,101	2,170
Net debt	(764)	(848)
Other assets/liabilities	32	112
Discontinued (excluding loans)	11	-
EPRA NAV	1,380	1,434
Deferred and contingent tax – regulated tenancies	(96)	(95)
Deferred and contingent tax – PRS and other	(50)	(49)
Fair value of fixed rate debt and derivatives	(34)	(22)
EPRA NNNAV	1,200	1,268
EPRA NAV (pence per share)	330	343
EPRA NNNAV (pence per share)	287	303
LTV	35.9%	37.7%

EPRA NNNAV increased by 5.6% over the 12-month period to 303p per share (FY16: 287p per share), driven by a strong trading performance and valuation growth.

Our EPRA NAV/NNNAV excludes a reversionary surplus of £310m. This is the difference between the market value of our assets whilst they are tenanted and the value we could realise if they became vacant today and were sold. £230m (55p per share) of this relates to our regulated tenancy portfolio and the remaining £80m relates to joint ventures and PRS assets.

EPRA NNNAV includes deferred and contingent tax liabilities associated with revaluations of our portfolio. Around 66% relates to our regulated tenancy portfolio, which will crystallise over time as we dispose of assets. We therefore view EPRA NNNAV as an important measure for valuing our balance sheet.



The net asset value of our IFRS balance sheet has increased by 10.6% to £745.3m (178pps) from £675.2m (161pps) at 30 September 2016.

Property portfolio

Our portfolio has continued to perform well, with the market value increasing by 3.4% over the 12-month period (FY16: 5.3%). This compares to 3.2% for the combined average of the Halifax and Nationwide House Price indices, 5.4% according to the ONS and 1.7% for the LSL Acadata House Price Index.

As illustrated in the table below, we have seen good growth in our wholly-owned portfolio (regulated tenancies and PRS assets) in the South East, Outer London and the regions, with more modest growth seen in Central and Inner London. The 11.4% performance in the South East benefited from gains on affordable homes as recently acquired stock was occupied; the growth rate excluding this was 7.8%.

Regional performance	Units	Market value FY17 £m	Change since FY16
Central and Inner London	1,535	898	1.0%
Outer London	475	172	6.2%
South East	590	148	11.4%
South West	610	167	3.8%
East and Midlands	794	132	5.1%
North West	1,485	161	4.1%
Other regions	532	62	6.7%
Total	6,021	1,740	3.4%

The table above includes wholly-owned PRS and regulated tenancy assets only; it excludes 634 units and £86m of market value relating to mortgages (CHARM) and co-investments.

Portfolio summary – property assets

	No. units	Market value £m	Vacant possession value £m	Reversionary surplus £m
Residential – PRS	2,513	526	573	47
Residential – regulated tenancies	3,508	1,214	1,444	230
Residential – mortgages (CHARM)	634	86	86	–
Development work in progress	–	138	138	–
Wholly-owned assets	6,655	1,964	2,241	277
Co-investments (Grainger share)	709	270	303	33
FY17 total investments	7,364	2,234	2,544	310
Assets under management (third-party share)	1,567	607	683	76
Total assets under management	8,931	2,841	3,227	386

Summary and outlook

Through the implementation of our clear strategy, we have transformed Grainger over the last two years. Our financial performance has been strong, we have grown rents, secured future rental growth, simplified and focused the business, improved operational efficiency and repositioned the business for significant growth.

We have delivered a sustainable improvement in our cost base, through improving processes and reducing our operating expenditure, overheads and finance costs. This will enhance Grainger’s total returns, with an increasing contribution from income as we accelerate our transition from regulated tenancy assets into the PRS.

Our cost of debt was 3.4% at the period end and as shown by our recently secured ten-year, £75m facility, high-quality PRS assets enable us to secure attractive long-term financing, further underpinning our returns.

Next year will be an active period for investment and construction as our secured PRS assets are developed. New acquisition activity will also continue, both to further build our secured pipeline and to deliver further rental growth, which will come primarily from new tenanted PRS investments in the coming financial year.

We expect the next financial year to be another active period for disposals. We anticipate robust sales to continue from natural vacancies associated with our regulated tenancy portfolio. We will supplement this with sales from active asset management initiatives and further development activity (including strategic land sales and our partnership with RBKC). These activities will provide cash for recycling into PRS assets and support profits before income starts to come through from the new PRS assets we are developing.

The quality and resilience of Grainger’s portfolio, our reduced cost base and secured pipeline places us in a very strong position for the future. The market opportunity and scope for growth are compelling and we are confident in our ability to create long-term value for shareholders.

Vanessa Simms
Chief Financial Officer

30 November 2017

Our people, assets and environmental impact

Creating long-term, sustainable value

Developing the highest-quality talent and designing and creating the best possible homes.

Overview

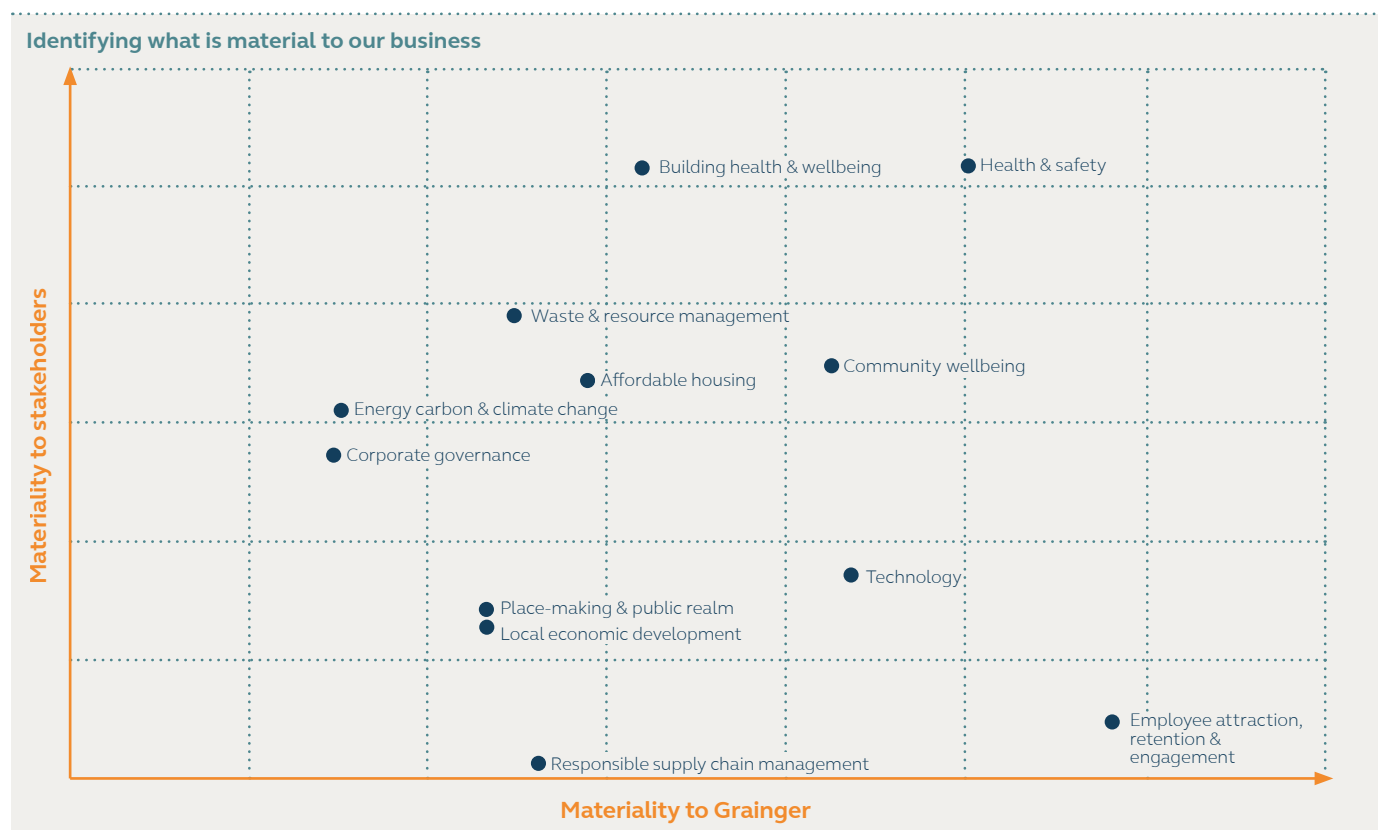
We are ensuring that we are creating long-term, sustainable income by designing and creating homes of the highest quality for rent, engaging and empowering the people who create, manage and live in these homes, and doing our part to protect the environment around us to ensure the conditions are conducive to a thriving rental market.

Developing our new strategy

This year we have developed a new sustainability and corporate social responsibility ('CSR') strategy, following internal and external consultation, to ensure it supports our business strategy.

We redesigned our governance of sustainability to strengthen it and give it a new lease of life. A new Sustainability and CSR Committee, chaired by an Executive Director, has senior representation from each aspect of the business, with explicit divisional ownership within operational teams.

We undertook a peer review and benchmarking exercise, political and legislative analysis, and a materiality review, where we consulted employees as well as key external stakeholders, including top shareholders, potential customers and key suppliers. From this insight, we developed our new strategy.



Our sustainability strategy

We are successfully delivering our business strategy of creating great homes to rent and long-term sustainable income by (1) engaging and empowering the people who create, manage and live in these homes, (2) designing and creating high-quality homes, and (3) protecting the environment around us, to ensure the conditions are conducive to a thriving PRS.

Our materiality review identified the following risks and opportunities that we are responding to through our sustainability strategy:

Assets

- Renewed scrutiny on asset health and safety following the Grenfell Tower fire.

- Continued growth in public attention on provision of affordable housing.

People

- Continuing emphasis on health and wellbeing.
- Greater scrutiny of companies' diversity and inclusion.

Environment

- A growing focus on setting science-based carbon reduction targets backed by investment in renewable energy following the Paris climate change agreement.
- Minimum Energy Efficiency Standards in 2018 and 2020.

See the Risk section on pages 36 to 41.

Grainger vision
To be the UK's best private landlord and offer high-quality homes for rent

Sustainability vision
Create long-term and sustainable value for our shareholders, customers and employees

<div style="text-align: center; margin-bottom: 10px;">  <p>People Treating people positively</p> </div> <p>Desired outcomes</p> <ol style="list-style-type: none"> 1. Build strong, loyal relationships with our customers 2. Promote healthy lifestyles and wellbeing among customers and employees 3. Make a positive impact on local communities and help them thrive 	<div style="text-align: center; margin-bottom: 10px;">  <p>Assets Creating desirable, healthy homes</p> </div> <p>Desired outcomes</p> <ol style="list-style-type: none"> 1. Provide homes for rent which are affordable to a broad range of people and incomes 2. Ensure our homes are designed well, to be safe and secure 3. Create and maintain homes that will last and be attractive to customers for many years to come, protecting the value of our assets for our shareholders 	<div style="text-align: center; margin-bottom: 10px;">  <p>Environment Securing our future</p> </div> <p>Desired outcomes</p> <ol style="list-style-type: none"> 1. Protect the value and income of our assets 2. Reduce our environmental footprint in our new developments and existing operations 3. Help create a positive rental housing market
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Reviewing and monitoring our KPIs

Following our recently launched sustainability strategy, over the coming year we will be reviewing our existing KPIs (which can be found on our website) and aligning these to measure our performance against our top priorities, as set out above. Below are some KPI metrics we will consider using going forward.

<ol style="list-style-type: none"> 1. Customer satisfaction and retention 2. Local employment and skills 3. Employee engagement survey results 4. Community investment 	<ol style="list-style-type: none"> 1. Affordability measure 2. Health and safety record 3. Customer retention 4. ULI Best Practice Design Guide compliant 5. Connectivity (technology and location) 	<ol style="list-style-type: none"> 1. Waste, recycling, material use 2. Flood risk 3. Energy efficiency measures
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1. People – Treating people positively

We are committed to being the best we can to our people and our customers.

We focus on finding and supporting the best possible talent from the widest pool of individuals, to join us to achieve our vision.

We are determined to build strong, positive and long-lasting relationships with our customers.

In these ambitions, we are therefore committed to promoting diversity and inclusion, a stellar health and safety record, protecting human rights, and supporting health and wellbeing.

Actions undertaken	FY17 outcomes and performance highlights	Our commitment for next year
<ul style="list-style-type: none"> Introduced a new customer survey for our PRS customers Improved our complaints process Held meet and greet sessions with our customers in our newly acquired properties Introduced a talent forum, to identify talent and support our people Undertook an employee engagement survey Revised our employee benefits and support package to reflect best practice and external benchmarks Introduced a health and wellbeing cash-back plan for all employees Ran a series of employee workshops on Company benefits Established a new charity partnership with Age UK London, to complement our LandAid charity partnership, which focuses on tackling youth homelessness Developed an Anti-Slavery and Human Trafficking Policy, delivered awareness training to all staff and published our Modern Slavery statement 	<ul style="list-style-type: none"> Customer survey identified top issue is speed of responsiveness and resolving maintenance requests Customer retention increased from 18 to 27 months 1,010 hours of Company sponsored training and education for employees High levels of employee engagement, with a 87.5% survey response rate; high scores in ‘my team’, ‘my manager’ and ‘my company’ and areas of focus include ‘wellbeing’ and ‘giving something back’ Created 42 apprenticeships directly and indirectly through our supply chain 88% of eligible employees are Company shareholders Highest performing European residential organisation on the Health & Wellbeing module of the Global Real Estate Sustainability Benchmark Board discussion on talent, succession planning, employee engagement and culture Established a new charity partnership with AgeUK London 	<ul style="list-style-type: none"> We will build on the significant work done in FY17 to further improve the service we provide to our customers. This will include taking action from our customer survey, including investing in technology and our people to improve responsiveness and the time to resolve maintenance requests We will focus on improving in the areas identified in our employee engagement survey, including the health and wellbeing and giving something back categories We are committed to surveying both our employees and customers at least yearly, and taking action from the results of those surveys We will continue our strong commitment to protect the health, safety and welfare of our customers and employees We will continue our work on promoting diversity and inclusion within the business



Developing the highest-quality talent

Over the past year, we have strengthened the way we manage and support our people and the great talent we have within the organisation. We introduced a talent forum, where senior management review each individual in the business, identifying potential for growth and planning for succession. We reinvigorated our internal training and educational programme, with 79.5% of employees taking part in sessions covering a range of topics from London housing policy to pensions. We undertook a third-party, independent and anonymous employee engagement survey, and have committed to do so annually and follow up with interactive employee workshops and action plans. We have introduced a new health and wellbeing cash-back plan for all employees. We have put in place a process to support the development of members of our team by providing them opportunities to engage with and interact with senior management and external stakeholders.

2. Assets – Creating desirable, healthy homes

We are committed to creating great homes for rent.

We want our properties to be attractive to as many customers as possible, for many years to come.

This will support the long-term success of our business and the value we can provide to our stakeholders.



Actions undertaken	FY17 outcomes and performance highlights	Our commitment for next year
<ul style="list-style-type: none"> Strengthened our investment appraisal process to include affordability analysis Compliant with 'Secure by Design' and Urban Land Institute's Build-to-Rent Best Practice Design Guide standards Invested in assets with attractive Walk Scores, a connectivity measure Immediate and comprehensive portfolio review after the Grenfell Tower fire, confirming no similar risk 	<ul style="list-style-type: none"> Improved design and amenities through customer focus groups and research No reportable health and safety incidents for employees, two RIDDOR reportable accidents or incidents within our supply chain Customer retention: increased by over six months to more than two years since FY16 Enabled the delivery of 105 affordable homes 38.4 Average Considerate Constructors Scheme score (out of 50) 	<ul style="list-style-type: none"> We will develop KPIs to more formally measure our success at achieving these desired outcomes We will make further improvements to the designs of our buildings to enhance their attractiveness and sustainability, and to promote health and wellbeing among residents We will continue to create a broad range of homes for rent, at a wide range of prices for a wide range of individuals and families



Customer focus groups informing the design of our buildings

From our customer focus groups, we have developed the design of our buildings and our customer service offer even further. At Argo Apartments in Canning Town, London, for instance, we have introduced a new Guest Suite, which residents can hire for family and friends when they visit. And we have ensured that we have designed ample storage space for residents in their apartments, directly addressing one of renters' top concerns.

Benchmarking our success and our leading position

Global Real Estate Sustainability Benchmark ('GRESB')

A globally recognised benchmark to measure real estate companies' approaches to environmental, social and governance issues.



- Ranked 3rd among peer group
- GRIP REIT joint venture ranked 1st and Sector Leader among peer group
- Achieved Green Star status

FTSE4Good

A select recognition for public companies listed on the London Stock Exchange that demonstrate high standards of corporate governance and matters relating to sustainability and corporate responsibility.



- 7th consecutive year

EPRA Sustainability Best Practice Recommendations ('EPRA sBPRs')

The European Public Real Estate Association's ('EPRA') industry standard for best practice in reporting on sustainability matters.



- Gold award for 4th consecutive year

CDP climate change (previously Carbon Disclosure Project)

The CDP is an organisation based in the UK which works with shareholders and corporations to disclose the greenhouse gas emissions of major corporations.



- Achieved 'B' rating (industry average: 'C')



3. Environment – Securing our future

We are mindful of our impact on the world around us.

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

Actions undertaken	FY17 outcomes and performance highlights	Our commitment for next year
<ul style="list-style-type: none"> Strengthened our acquisitions process to include rigorous analysis of environmental risk factors, including for example flood risk Put into action a portfolio-wide plan to bring all properties into minimum energy efficiency levels ahead of legislation Engaged comprehensively with UK policy makers on public policy affecting the UK rental market, including giving evidence to a range of pertinent consultations such as the London Supplementary Planning Guidance 	<ul style="list-style-type: none"> Undertook analysis of environmental and market factors for over £1.3bn of investment opportunities 93% of our portfolio's energy performance ratings are rated 'E' and above Engaged with policy makers on the London's Supplementary Planning Guidance and Housing White Paper, which both support the PRS investment sector We report on all greenhouse gas emissions within our operational control (Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013). This year our location-based emissions increased by 1%, while our market-based emissions decreased 2%. See pages 80 and 81 	<ul style="list-style-type: none"> Find new ways to optimise the longevity and sustainability of our investments, through design, materials and management Continue to identify opportunities to reduce our environmental footprint Continue to engage with all British political parties and policy makers, and the wider public about the benefits of a professionalised PRS

Energy Performance Certificates ('EPC')

Strategy on PRS portfolio

60% of our PRS portfolio have EPC ratings of 'C' or above, and over 90% are 'D' or above.

In advance of Minimum Energy Efficiency Standards coming into effect in April 2018, we have taken steps to ensure full coverage of EPCs across our portfolio and have scheduled improvement works where required. We continue to regularly review our refurbishment specification to ensure energy efficiency opportunities are integrated where possible.

Strategy on regulated portfolio

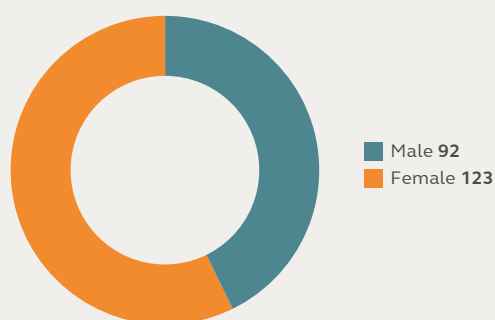
60% of our regulated tenancy portfolio have EPC ratings of 'D' or above, and 80% 'E' or above.

This year, we commenced a two-year programme to ensure full EPC coverage for all regulated tenancies and will undertake improvement works where required to ensure full compliance with Minimum Energy Efficiency Standards regulations that will apply from April 2020.

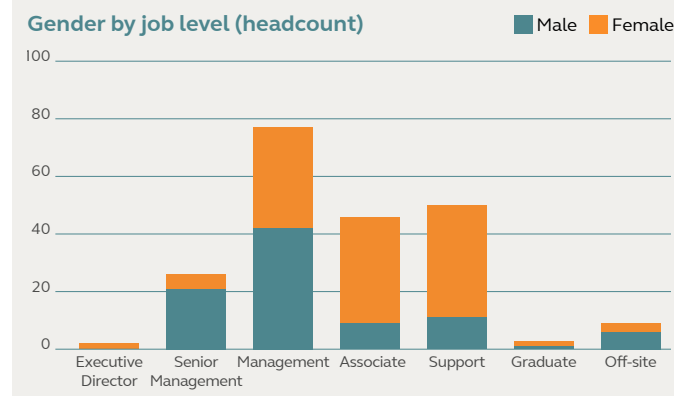
Diversity and inclusion

Grainger is committed to promoting diversity and inclusion. Despite not falling within the boundaries of regulations regarding gender pay gap reporting, we are nonetheless reviewing all aspects of diversity within the business and are considering various ways to promote and encourage greater diversity and inclusion. This includes through recruitment, pay and reward, talent development, flexible working practices and Company culture.

Headcount by gender c.60:40 female to male employee ratio



Gender by job level (headcount)



Providing first-class learning opportunities

Nurturing talent within our organisation will be a key ingredient to success. We therefore focus on supporting our employees through training, development and learning opportunities. Over the year, we reinvigorated our internal educational programme and held numerous workshops and sessions for employees, covering a range of topics, both real estate specific and more widely.

Hours of learning and development

1,010

Working with our customers

The future of our business is based on our customers and their willingness to put their faith in us when they choose to rent one of our properties.

We are therefore committed to understanding their wants, needs and aspirations fully. Through a structured programme of gathering feedback, we ensure we are not just listening to our customers, but responding and acting accordingly. This year we introduced a new customer survey for our PRS customers to provide us with an independent assessment of how we are doing. We have also strengthened our complaints process so customers know their concerns will be dealt with fairly and promptly.

Our survey highlighted the potential to improve customer satisfaction levels by enhancing our responsiveness. We are looking at all our service level agreements to ensure suitability and we are investing in people and technology solutions to reduce the time to address requests and maintenance issues, as we strive toward providing excellent customer service.

We act on customer feedback

Hierarchy of customer needs



Making a positive impact in local communities

We are creating 3,850 new homes at Wellesley in Aldershot, Hampshire.

Here we are an active member of the Community Matters Partnership Project. During the past year we have supported a number of local charity and community events, including Twilight Runway Charity Challenge, NUTS Charity Challenge, Christmas food drive, Race Night charity event, and mock interviews at local secondary schools.

We provide rent-free or subsidised commercial space to local community organisations, including The Source – Bike Start; Farnborough Foodbank; Community Bees; and North Lane Lodge, a charity facility for the homeless in Aldershot.

Through Rushmoor Borough Council's employment skills initiative, this year we have:

- created 17 work experience placements;
- delivered 13 career talks; and
- created 11 new jobs.

A robust customer feedback loop

Feedback gathered regularly

- Surveys
- Questionnaires
- Focus groups
- Mystery shopping
- Direct calls
- Audit check



Adviser's statement

Summary of 2017 performance

This year, Grainger reformed its Sustainability and CSR Committee which decided to take stock and review the business's sustainability priorities and approach up to 2020. A robust materiality review was undertaken which included:

- internal engagement with Committee members and employees;
- external stakeholder engagement with investors, suppliers and potential tenants;
- competitor review; and
- political and legislation risk assessment.

The findings provided a clear direction for the business's sustainability approach. The subsequent development of a new sustainability strategy (reported on page 29) provides Grainger with clear focus areas to set new long-term objectives for 2018 and beyond.

In the meantime, over the past 12 months Grainger completed two long-term sustainability projects:

- 1) To design, define and agree a consistent process to measure customer satisfaction across portfolios and geographies and create a baseline for customer satisfaction.
- 2) From a property inspection, to identify Grainger properties that are not on track to meet required Minimum Energy Efficiency Standards and develop a strategy to ensure compliance by 2018.

The conclusion of these projects places Grainger in a strong position to respond to customer expectations and continue its impressive record of customer retention, and to enhance the energy efficiency of its existing stock, whilst eliminating risk associated with Minimum Energy Efficiency Standards legislation that will come into force in 2018 and 2020.

A further two sustainability objectives relating to the production of a sustainable procurement policy and a community engagement best practice guide were not pursued. Examples of best practice in both of these areas were collated from across the business and it was felt that formal documentation would not enhance the good practice already taking place.

Observations and recommendations

The refresh of Grainger's Sustainability and CSR Committee places Grainger in a strong position to continue embedding sustainability throughout its business. The Committee membership includes representation from all key business units and has already proved effective in identifying opportunities to measure and enhance sustainability outcomes.

Grainger's performance in sustainability benchmarks continues to demonstrate leadership, with GRIP REIT being awarded European listed residential Sector Leader award in the Global Real Estate Sustainability Benchmark ('GRESB') and Grainger retaining its listing on the FTSE4Good Index and its gold award in the EPRA sBPRs. Its long-standing commitment to disclosure places Grainger in a strong position to report to the new social and governance indicators set out in the updated version 3 of the sBPRs and we encourage Grainger to report in alignment with these guidelines in its 2017 disclosure.

Over the next year, we recommend Grainger sets new long-term sustainability targets aligned to its business model and the sustainability priorities identified in the recently-completed materiality review. Grainger should also continue its efforts to respond to feedback gathered in new employee and tenant satisfaction surveys, such as formalising its approach to supporting employee and customer health and wellbeing.

Grainger has engaged Upstream Sustainability Services, JLL, as advisers on its sustainability strategy and implementation since 2005. Due to JLL's long-standing relationship with Grainger plc, our assessment of Grainger's performance and this statement itself cannot be considered entirely independent.

JLL's observations and recommendations are based on analysis of documents, interviews and/or other secondary evidence provided by Grainger plc and relevant third parties. All reasonable efforts were made to check the quality, accuracy and credibility of the available information but this did not include site visits or audits on primary data (e.g. meter readings and invoices). Consequently, this statement does not represent formal assurance or verification of the sustainability content of Grainger plc's 2017 Annual Report and Accounts.

Darren Berman

Lead Director, Upstream Sustainability Services, JLL

30 November 2017

A strong risk management framework

To maintain our position as the UK’s leading PRS landlord, we recognise we need a clear understanding of the risks we face. Our systematic and rigorous approach aims to monitor those risks continuously, review our systems of risk management and internal control, and evolve our approach accordingly.

Risk management approach

Good risk management is fundamental to our ability to meet our operational and strategic objectives. The competitive market we operate in requires effective decision making, ensuring we assess the risks we take and achieve appropriate returns. We also need to be resilient to risks we have limited control over, by maintaining adequate disaster recovery and business continuity procedures.

During the year, we have tried to further establish our risk management culture and ‘three lines of defence’ model throughout our simplified business. In particular, in implementing our PRS strategy we reviewed our operating processes in detail, developing risk and control matrices for each process that we considered.

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

Rigorous risk assessment

We designed our systematic risk management approach to identify risks to the business using both a ‘bottom-up’ and a ‘top-down’ approach.

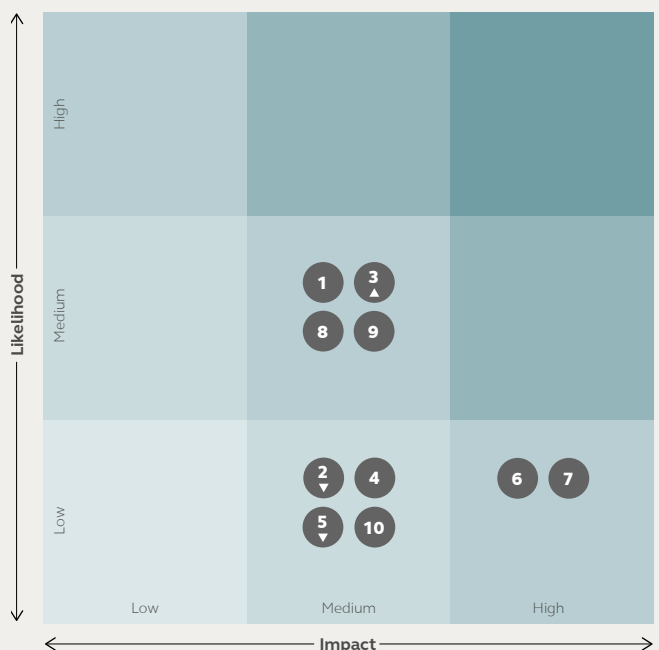
Once we identify risks, we determine their impact and probability, and give them a Gross (before mitigation) and Net (after mitigation) score. This allows us to identify which risks depend heavily on internal mitigating controls. We consider a range of risk categories, including strategic, market, financial, legal or regulatory, operational, IT, project and people.

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

Mapping our key risks (post mitigation)

Current principal risk areas

1. Market (see page 38)
2. Financial (see page 38)
3. Regulatory (see page 38)
4. People (see page 39)
5. Supplier (see page 39)
6. Health and safety (see page 39)
7. PRS strategy (see page 39)
8. Development (see page 40)
9. Cyber and information security (see page 40)
10. Customers (see page 40)



Movement from 2016

- ▼ Decreased
- ▲ Increased

Risk control framework and appetite

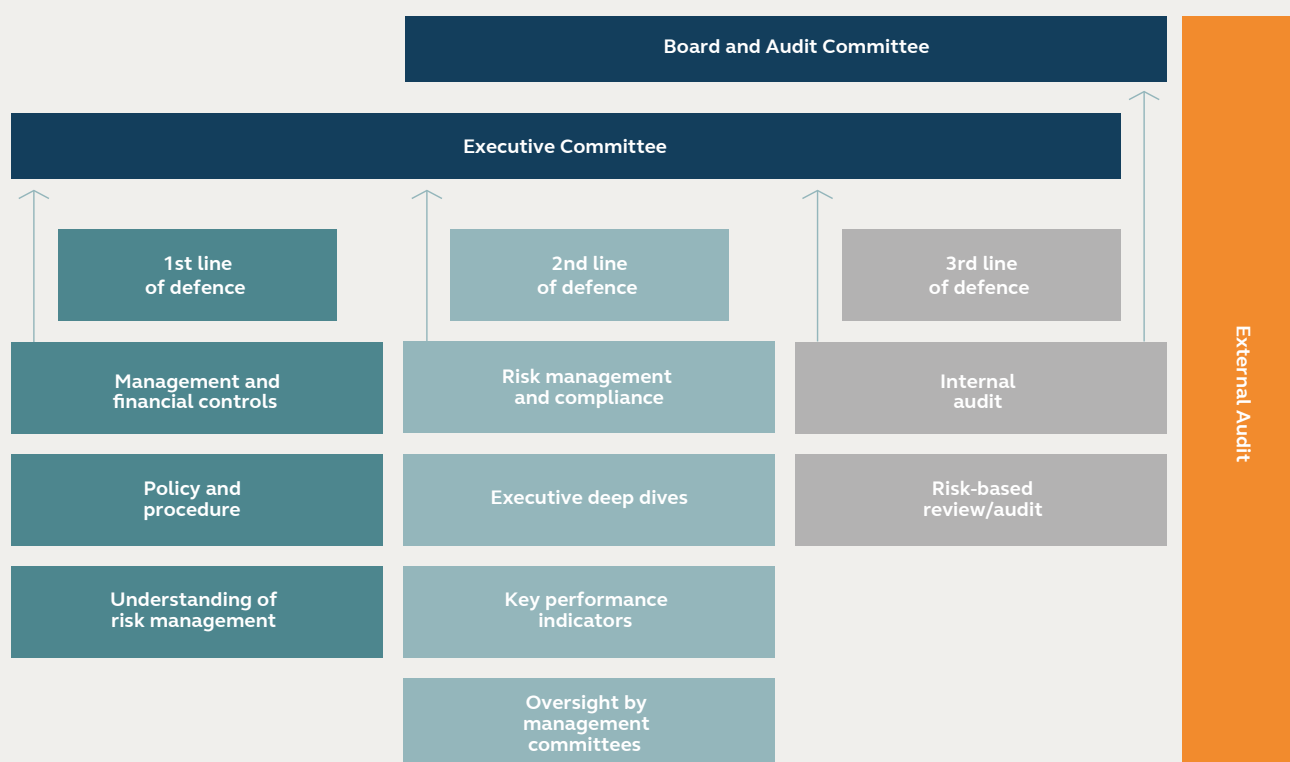
The Board has ultimate responsibility for Grainger's risk management and internal control systems, and for determining its risk appetite. During 2017 a detailed assessment of risk appetite for our principal risks took place. The Executive Committee made recommendations to the Board and Audit Committee, which discussed them, then set the risk appetite. This process considered the level of risk appropriate for achieving our strategic goals and the risk opportunity we may pursue. The Board's tolerance for risk is generally low, particularly for regulatory and reputational risks. The Board is willing to take an increased level of risk in other matters where there is appropriate reward, such as development project risk.

The Board approves the risk management framework developed by the Executive Committee. We have adopted this framework following the implementation of our PRS-focused strategy, bringing it into line with the reshaped business. The structure also complements our further evolution to a 'three lines of defence' model, with clear divisions between each line. This framework includes various management committees overseeing key investment, operational and corporate functions.

These management committees and the Executive Committee question and discuss the identified risks, reported controls, mitigation and the principal risk report. The Audit Committee supports the Board by monitoring and reviewing the control processes and mitigation for the identified risks. It also ensures we continue to carry out the process for reconsidering the principal risks. We monitor the internal control framework for these risks through the Internal Audit monitoring plan and the resulting audit outcomes. For more information on internal controls, please refer to page 58.

Assurance on risk controls is currently provided by internal management information, internal audits, external audits and Board oversight. We also have an externally supported whistleblowing hotline that staff can use anonymously if other methods are not suitable.

Risk control framework



















Principal risks and uncertainties



Managing our principal risks and uncertainties

The Directors have made a systematic assessment of the Group’s principal risks. They have considered these across four years, which aligns with our viability statement on page 41. During the year, the Board also considered closely the potential risks arising from the UK leaving the European Union (‘EU’), which we stated in our 2016 Annual Report and Accounts as a principal risk. It was the Board’s view that the level of risk to the Company has decreased over the period. Brexit is still a risk to the business in the context of wider geo-political uncertainty. However, we are of the view that Grainger’s exposure to this risk is no higher than similar UK-focused businesses. We have therefore amalgamated the risk into the Regulatory risk, pending the changes in law that will arise in connection with it.




Principal risks and uncertainties

Category of risk	Risk description	Impact on strategy	Key mitigants	Risk change
1. Market  	Weak macro-economic conditions leading to long-term flat or negative valuation movements.	Economic uncertainty leading to a reduction in home ownership and less demand for disposal of assets; pressure on rental levels; falling asset values; subsequent investment constraints on further investment into the PRS; covenant compliance risk; less attractive business to investors.   	<ul style="list-style-type: none"> We are actively transitioning the business to reduce reliance on trading income and house price inflation. We have a high proportion of liquid and diverse assets to enable sales where necessary, as was shown clearly in the last economic downturn. We have a geographically diverse portfolio and exercise active asset management to enhance returns, and have target towns and cities for future investment. 	
2. Financial 	The inability to obtain sufficient finance to fund the delivery of the strategy and maintain a strong capital structure.	Lack of availability from credit markets and cash resources; breach of loan and bond covenants; adverse movement in interest rates could have an unacceptable impact on the cost of new debt; inability to fund acquisitions at the relevant time.   	<ul style="list-style-type: none"> We monitor our banking covenants closely to maintain sufficient capacity. We conduct our business within Board-approved capital operating guidelines and interest rate hedging policy. We have a diversity of financing sources. Due to our close monitoring of the transactional pipeline, we can control the timing and number of new acquisitions, to reduce cash outflows if needed. Our strategic focus is to increase income credentials to provide greater interest cover. 	
3. Regulatory 	Failure to meet current or increased regulatory obligations, or anticipate and respond to changes in regulation that create increased and costly obligations. These include the introduction of rental controls or similar limitations, and the operating framework facing UK businesses following the decision to leave the EU.	Fines, penalties and sanctions; damage to reputation; loss of operational efficiency and competitiveness; increased costs; reduction in market opportunities; impact on ability to finance opportunities; reduced ability to generate rents; inability to build competitive PRS portfolio.   	<ul style="list-style-type: none"> We have an ongoing programme of management and staff training. We have invested in employing specialist legal, compliance and corporate affairs teams which monitor and advise internally, review the regulatory horizon and have close involvement with leading industry bodies. We have strict asset management controls and compliance processes which can also adapt to change. See page 33 for details of our proactive management of the forthcoming Minimum Energy Efficiency Standards, as an example. Our position as the UK’s leading PRS provider brings a cultural ethos of seeking to adopt best practice. 	





Impact on our business model


-  Originate
-  Invest
-  Operate













Impact on our strategy

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

Risk change

-  Unchanged
-  Increased
-  New
-  Decreased

Category of risk	Risk description	Impact on strategy	Key mitigants	Risk change
4. People 	Failure to attract, retain and develop our people to ensure we have the right skills in the right place at the right time for our strategy.	Reduced ability to achieve business plan and strategy; reduced control; inability to grow market share of the PRS; failure to innovate and evolve to maintain competitiveness in a customer-driven market.   	<ul style="list-style-type: none"> • We have introduced a talent identification process and have succession plans and retention strategies for key staff. • We have a programme of learning and development for staff, which includes management and leadership training. • We carry out regular performance reviews and appraisals of staff. • We identify opportunities for staff to develop, and we provide internal career progression. 	
5. Supplier 	A significant failure within, or by, a key third-party supplier or contractor.	Increased costs; inability to achieve performance objectives; legal action and regulatory sanctions; reputational damage; customer dissatisfaction; a restriction on ability to grow platform; negative impact on organisational or portfolio growth plans.  	<ul style="list-style-type: none"> • We have well-established internal controls and management systems regarding our contractors and suppliers which include counterparty reviews and covenant strength assessments. • Experienced senior managers oversee relationships closely. • We aim for a diversity of key suppliers and relationships with potential suppliers, so we are not over-reliant on any one. 	
6. Health and safety 	A significant health and safety incident as a result of inadequate or inappropriately implemented procedures.	Harm to customers, tenants, employees, contractors or visitors; possible legal action or fine; subsequent reputational damage. 	<ul style="list-style-type: none"> • We have specific internal control and management systems to mitigate health and safety risk, including technological solutions and a programme of audit and assurance. • We have taken steps to embed the 'three lines of defence' model to facilitate stronger monitoring and controls, and foster a culture of health and safety awareness. • We employ a specialist Health and Safety Director and team who are responsible for overseeing compliance. • The risk management framework we have adopted applies a system of close oversight and reporting of health and safety matters. 	
7. PRS strategy   	Failure to implement strategy, including failure to transact and acquire assets on acceptable terms; integrate PRS assets efficiently in the management platform at the required scale; reduce overheads; convert to rental and income model; maintain our position as the UK's leading landlord while managing change.	Acquisition of unprofitable schemes will depress Group returns; lack of competitiveness in acquiring schemes leading to failure to achieve strategy; reduction in scale and profitability of business; inability to provide shareholders with sustainable returns in the long term. 	<ul style="list-style-type: none"> • Our business is based on taking considered risks for appropriate returns in acquiring and managing PRS assets. We have introduced new technology to improve the efficiency and have close controls of transactions and scrutiny of investment models and business KPIs. • We have restructured the business to reduce overheads. We closely monitor them and have sought to establish a culture of cost management. • The new operating model has put the business in a position to support a more scalable platform and a well-defined technology strategy. 	

Category of risk	Risk description	Impact on strategy	Key mitigants	Risk change
8. Development  	We allocate a portion of our capital to activities which carry development risk.	Exposure to risk of cost overrun or income shortfall, affecting achievement of the strategy and returns in developing rent schemes.  	<ul style="list-style-type: none"> We monitor the capital we deploy to development matters carefully, following capital allocation guidelines. We employ an experienced team with specialist development skills and have established relationships with expert advisers and development partners. We have an established governance structure to review and monitor our development schemes. As part of our PRS strategy, the portfolio of development schemes now focuses on build-to-rent assets and does not seek speculative returns from investing in development that is solely for sale. 	
9. Cyber and information security 	The breach of confidential data or technology disruption, caused by an internal or external attack on our information systems and data or by internal security control failure.	Financial loss; fines; reputational damage; operational and business disruption; loss of customers; share price devaluation; inability to serve our customers, manage our properties and conduct our business.  	<ul style="list-style-type: none"> We employ an experienced IT team with qualifications in cyber security matters and engaged external advisers to undertake a technology effectiveness review. Technology is a key part of our PRS strategy. We are investing in new technology platforms and related processes that have 'data security by design'. We engage external advisers to carry out regular penetration testing to ensure the systems are robust. We are in the process of implementing our risk-based roadmap in respect of the requirements of the forthcoming General Data Protection Regulation. 	
10. Customers 	The failure to fulfil our customer proposition consistently, and meet our high service standards for our diversified customer base.	Negative publicity; increased complaints; poor customer experience; reputational damage; loss of customers; lower rental return. 	<ul style="list-style-type: none"> We have a leading operational platform with substantial experience in managing a portfolio of over £2bn of assets and of meeting the requirements of our residential customers. Our new operating model is designed to provide a platform for optimising a customer-focused strategy. We carry out proactive asset management and have restructured to increase staff time in the field, to gain greater asset and customer knowledge. We carry out customer service-focused reviews of our processes to improve efficiency and response times. 	

Viability statement

The Group has completed one year of its five-year business plan since the launch of its new PRS-focused strategy.

The Directors have assessed the viability of the Group considering its current position, potential impact of our principal risks and future prospects. Based on the assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the four-year period to September 2021.

They made this assessment recognising the principal risks that could have an impact on the future performance of the Group (see pages 38 to 40). The business plan process incorporates severe-scenario planning, with the amalgamation of multiple risks to assess impact and the longer-term viability of the Group. The key scenarios assessed included:

- sensitivity to valuation movements, including a sudden and severe deterioration in market conditions in the housing market;
- sensitivity to increasing interest rates;
- cost inflation ahead of rental growth;
- reducing rental levels; and
- combinations of the above circumstances.

In addition, the Group has a business planning process, conducted annually, which comprises a five-year strategic plan, a financial forecast for the current year and a financial projection for the next four years. The Board reviews the plan each year as part of its budget and strategy review process. Once approved by the Board, the plan is cascaded across the business. It provides a basis for settling all detailed financial budgets and strategic action subsequently used by the Board to monitor performance, and for the Remuneration Committee to set targets for the annual incentive.

The Group's business model has proved to be resilient throughout the different economic cycles, even with higher levels of gearing and over the long term, with consistent demonstration, through its ability to sell assets and let vacant properties, of providing stable income returns and cash generation, even during challenging market conditions. Currently the Group directly owns £1.7bn of residential property assets, which are relatively liquid, as proved throughout previous property cycles.

The Group would remain viable even in the event of severe and sustained house price deflation, as it would be able to accelerate the natural conversion of assets to cash, including the sale of tenanted assets, and reduce or suspend development and acquisition activity. An unprecedented and continued long-term lack of liquidity in UK residential property markets would cause a threat to the Group.

The Board has reviewed its strategic and financial plans in detail, and believes a viability assessment period to September 2021 is appropriate, as it could manage any of the principal risks during this period. The financial plan has been stress-tested against severe and prolonged reductions in house prices.

The financing risks of the Group are also considered to have an impact on the Group's financial viability. The two principal financing risks for the Group are the Group's ability to replace expiring debt facilities and adverse movements in interest rates. The Group has secured funding to deliver the secured PRS pipeline, and has prepared the strategic plan on this basis. In addition, the Group manages its hedge exposure with interest rate swaps, caps and fixed rate facilities.

Our 2017 Strategic Report, from pages 1 to 41, has been reviewed and approved by the Board of Directors on 30 November 2017.

Vanessa Simms
Chief Financial Officer



Strong governance supports the implementation of our strategy

Mark Clare
Chairman

Highlights

- Full compliance with the Code during the year.
- As part of the Board's continued corporate culture programme details of our employees' views on the Company and culture were sought.
- Successful Capital Markets Day held with over 60 investors and analysts.
- Planned 2018 review of our strategy with a focus on opportunities to grow PRS base, technology and culture.
- External effectiveness review of the Board.

Dear shareholders,

I was delighted to have the privilege of joining Grainger as its Chairman in February 2017 following the retirement of Margaret Ford. The Directors and I are committed to applying effective corporate governance and promoting the highest standards. I am therefore very pleased to introduce this year's corporate governance report.

Grainger has a long and established heritage in residential property and is wholeheartedly leading the way in the PRS. I have joined the Company at a very exciting and interesting time. The strategy was already established when I was appointed, and we are now firmly in the implementation phase. As a Board, we need to lead the business through this period of change, providing the appropriate balance between supporting and challenging the management. This good governance also means ensuring we have rigorous risk management and controls.

The application of the skills and experience of the Directors, coupled with the substantial work of the Audit Committee, provides this for the benefit of all our stakeholders.

Culture

The culture of a business is crucially important to its successful performance over the long term. The Financial Reporting Council ('FRC') 2016 report 'Corporate Culture and the Role of Boards' articulates how directors can influence and contribute to fostering a strong and positive corporate culture. Whilst the culture of the organisation comes up in many aspects of the Board's work, at the September 2017 Board meeting, we spent time specifically discussing Grainger's culture. As part of this we received a presentation from the HR Director on our employee engagement programme and survey, which included details of our employees' views on the Company. We provide further details on our culture and employee engagement on page 31. As a new member of the Grainger team, my impression of the culture of the Company is that its knowledgeable and expert staff care about our tenants and customers and about leading the professionalisation of the sector. It is an open culture, with a willingness across the business to share ideas and engage in continuous improvement to achieve all parts of the strategy. As a Board, we need to continue to encourage this openness, and ensure we have a culture that puts customers at the heart of our business.

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

The governance rules applying to all UK companies on the Official List of the UK Listing Authority are set out in the Code, published by the FRC. You can obtain copies of the Code from www.frc.org.uk. The Board fully supports the principles set out in the Code, and confirms we have complied with all its provisions throughout the financial year ended 30 September 2017.

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

Board composition and independence

In accordance with the Code, all current Directors, with the exception of Belinda Richards, will stand for election or re-election (as applicable) at the 2018 Annual General Meeting ('AGM'). Belinda has served on the Board for over six years and during her time has chaired the Audit, Risk and Remuneration Committees as well as being the Company's Senior Independent Director. She has made a significant contribution to Grainger during a period of substantial change. Nick Jopling stepped down from the Board in September 2017 after seven years as our Property Director. Nick played a fundamental part in making Grainger the market leader in the PRS and helping create the strategy that the Company is now pursuing. My predecessor, Margaret Ford, retired from the Board in February 2017 following nine years of excellent service, with the last two as Chairman. On behalf of the Board, I would like to thank Belinda, Nick and Margaret for their significant contributions to the success of the Company and wish them well for the future.

Details of the Directors are set out on pages 46 and 47, together with a summary of their experience and skills.

The Board reviews Non-Executive Director independence annually, and takes into account the individual's professional characteristics, their behaviour at Board meetings, and their contribution to unbiased and independent debate. The Board agreed that I was independent on my appointment as Chairman. The Board considers all the Non-Executive Directors to be independent.

Diversity

Grainger believes that a diverse perspective is key to success, and supports the aspiration of the Hampton Alexander Review to promote greater female representation on listed-company boards and achieve 33% female representation. Grainger has achieved in excess of this and will look to continue to follow the recommendations of the Review and the Code to maintain a balanced and diverse Board.

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

Board evaluation

This year the evaluation of Board effectiveness was externally facilitated, as it was three years since the previous external assessment. As a recently appointed Chairman, and with Justin Read joining as a new Non-Executive Director during the year, the evaluation process had a forward-looking focus. We provide further details on page 50.

Shareholder engagement

The Board regards strong engagement with stakeholders and investors as fundamental to understanding their views.

Helen Gordon and Vanessa Simms had regular meetings with the Company's shareholders and analysts throughout the year and, in particular, held a successful Capital Markets Day in September 2017. I also met with our major shareholders as part of my induction process and have been clear that I am happy to engage with them should they wish to. We anticipate that we will engage with fund managers and corporate governance officers of our major shareholders before the AGM in February 2018. We provide further details of our shareholder engagement programme on pages 59 to 61.

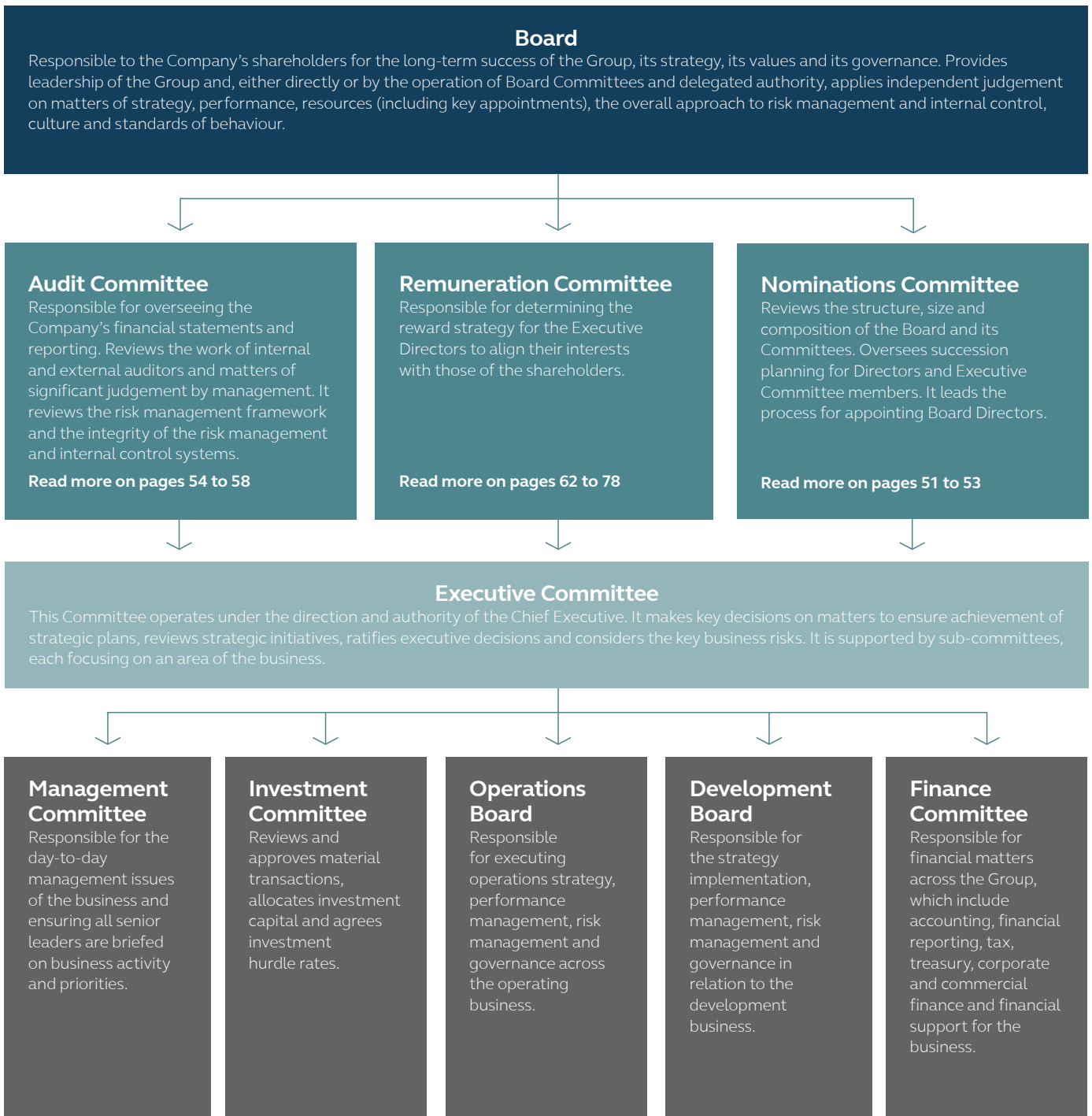
How the Board supports strategy

Building on the progress made previously, the Board spent a significant portion of its time this year reviewing the key elements of the implementation of the PRS strategy, such as the operating model, development pipeline, technology strategy, asset hierarchy and customer proposition. The Board feels it is important to engage with this process, and as the strategy is delivered there is appropriate time given to how it is adapted and extended as progress is made. We are planning to complete a full review in mid-2018 to ensure the discussion around strategy is kept current. In particular, we plan to spend time reviewing further opportunities to grow our PRS base over the coming years and consider the implementation of the technological and cultural changes required to implement our customer-focused PRS strategy. To learn more about our Board activity in 2017, please see page 48.

Mark Clare Chairman

30 November 2017

Governance framework

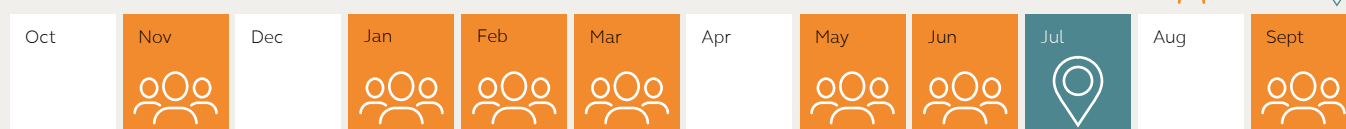


Roles and responsibilities of the Directors

Role	Responsibilities
Chairman	Responsible for running the Board and ensuring its effectiveness. The Chief Executive reports to the Chairman, as does the Company Secretary, on matters of corporate governance. The Chairman is the guardian of the Board's decision making process and is responsible for ensuring a constructive relationship between Executive and Non-Executive Directors and for fostering open debate with an appropriate balance of challenge and support. In accordance with the Code, the posts of Chairman and Chief Executive are separate, with their roles and responsibilities clearly established, set out in writing and agreed by the Board.
Chief Executive	Responsible for running the business and implementing the Board's decisions. She recommends the strategy to the Board and is responsible for implementing it. She chairs a regular meeting with the Chief Financial Officer and the additional members of the Executive Committee.
Chief Financial Officer	Responsible for the financial stewardship of the Group's resources through compliance and good judgement. She provides financial leadership in the implementation of the strategic business plan and alignment with financial objectives.
Non-Executive Directors	<p>Responsible for bringing independent and objective judgement and scrutiny to all matters before the Board and its Committees, using their substantial and wide-ranging skills, competence and experience. The key responsibilities of Non-Executive Directors are set out in their letters of appointment and include requirements to:</p> <ul style="list-style-type: none"> challenge and contribute to the development of the Company's strategy; scrutinise the performance of management in meeting agreed goals and objectives, and monitor the reporting of performance; and satisfy themselves that financial information is accurate, and that financial controls and systems of risk management are rigorous and secure. <p>A copy of the standard letter of appointment for a Non-Executive Director is available from the Company Secretary. During the year, the Non-Executive Directors meet periodically without the Executive Directors present and also without the Chairman.</p>
Senior Independent Director	Acts as a sounding board for the Chairman and serves as an intermediary for the other Directors where necessary. The Senior Independent Director will meet shareholders if they have concerns, and where contact through the normal channels has not resolved the issue or is inappropriate. The Senior Independent Director leads the annual performance review of the Chairman.

Board meetings 2016/17

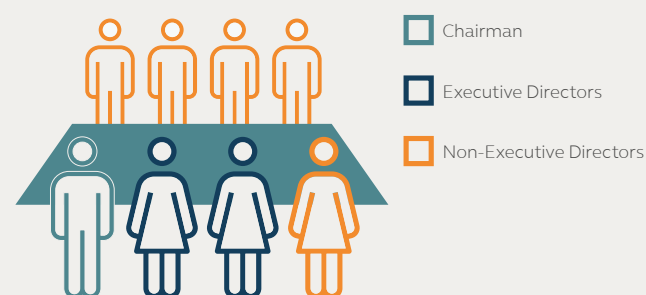
Board meeting  Site visit 



Attendance table to 30 September 2017

	Meetings attended	Meetings eligible to attend
Executive Directors		
Helen Gordon	7	7
Vanessa Simms	7	7
Nick Jopling	7	7
Non-Executive Directors		
Mark Clare	3	3
Belinda Richards	6	7
Tony Wray	6	7
Andrew Carr-Locke	7	7
Rob Wilkinson	7	7
Justin Read	3	3
Margaret Ford	2	3

Balance of Directors



The skills and experience to implement our strategy

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

Mark Clare
Non-Executive Chairman



Appointment: Appointed Chairman in February 2017

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

Tenure: 7 months

Vanessa Simms
Chief Financial Officer



Appointment: Appointed to the Board as Chief Financial Officer in February 2016

Skills, competence and experience: Vanessa brings extensive financial experience to Grainger from the property sector in the UK. She has particular expertise in leading and implementing strategic change in businesses. She has substantial experience in senior finance leadership roles in a listed environment. Vanessa has worked in finance since 1998 and immediately prior to joining Grainger held a number of senior positions within Unite Group plc, including deputy chief financial officer. Prior to that Vanessa was UK finance director at SEGRO plc.

Tenure: 1 year and 7 months

Helen Gordon
Chief Executive



Appointment: Appointed to the Board in November 2015

Skills, competence and experience: Helen is a highly experienced, proven and well-regarded real estate investor. She has significant experience working across a wide range of real estate asset classes, including residential property. This is combined with an extensive knowledge of the City. Helen is a chartered surveyor and before joining Grainger was global head of Real Estate Asset Management of Royal Bank of Scotland plc. She previously held senior property positions at Legal & General Investment Management, Railtrack and John Laing Developments. Helen has held a number of non-executive board roles over her career, including British Waterways and the Covent Garden Market Authority. She is also a junior vice president of the British Property Federation and an advisory board member of Cambridge University's Land Economy Department.

Tenure: 1 year and 10 months

Belinda Richards
Non-Executive Director



Appointment: Appointed to the Board in April 2011 and appointed Senior Independent Director in March 2015

Skills, competence and experience: Belinda has wide-ranging experience and understanding of commerce, finance and business operations. She has strong experience as a board member of other substantial listed companies. Until 2010, Belinda was a senior partner and vice-chairman at Deloitte where she was head of Merger Integration and Separation Advisory Services. Prior to this, she held senior roles at KPMG and EY. Belinda is a non-executive director of Wm Morrison Supermarkets plc, The Monks Investment Trust plc and Phoenix Group Holdings plc. She serves on the Advisory Group of Audit Committee Chairmen at the FRC and is a member of the Governing Council of the Centre for the Study of Financial Innovation.

Tenure: 6 years and 5 months

Committee membership

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

- O Committee Chairman

Tenure is as at 30 September 2017

Tony Wray Non-Executive Director



Appointment: Appointed to the Board in October 2011

Skills, competence and experience: Tony brings extensive experience in a broad range of senior operational and strategic leadership roles, in particular in public companies. He was the chief executive of FTSE 100 water company Severn Trent plc from 2007 to 2014, having joined its board in 2005. He has also held director roles within Transco and National Grid Transco, and was a member of the Water UK board.

Tenure: 5 years and 11 months

Rob Wilkinson Non-Executive Director



Appointment: Appointed to the Board in October 2015

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

Tenure: 1 year and 11 months

Andrew Carr-Locke Non-Executive Director



Appointment: Appointed to the Board in March 2015

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

Tenure: 2 years and 6 months

Justin Read Non-Executive Director



Appointment: Appointed to the Board in February 2017

Skills, competence and experience: Justin has substantial experience in real estate and corporate finance. He was group finance director of SEGRO plc from August 2011 to December 2016. Between 2008 and 2011, Justin was group finance director at Speedy Hire plc. Prior to this, he spent 13 years in a variety of roles at Hanson plc, including deputy finance director, managing director of Hanson Continental Europe, head of corporate development, head of risk management and group treasurer. Justin has also held positions at Euro Disney SCA and Bankers Trust Company. Justin is also a non-executive director of lbstock plc.

Tenure: 7 months

Governance Effectiveness

The standard Board schedule sets seven formal meetings throughout the year, one of which was specifically focused on a review of the Company's longer-term strategy.

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

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

The Board also spent a day visiting sites in Manchester including our development schemes at Clippers Quay and Gore Street. The Board also received a number of presentations from the Grainger team throughout the day.

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

Board activity

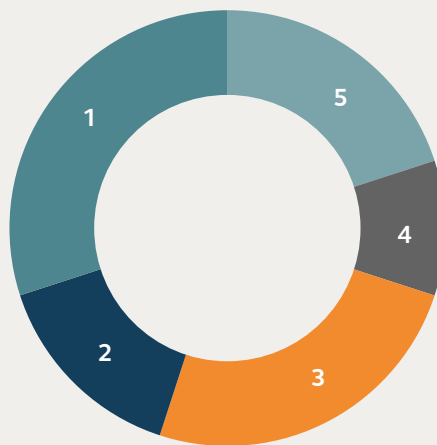
1. Strategic 30%

- Reviewed progress one year into the strategic plan.
- Reviewed the proposed customer proposition and technology strategy for the business.
- Received a presentation from Goldman Sachs regarding domestic and international real estate and equities markets, together with an update on merger and acquisition activity in the sector.
- Considered competitor activity in the PRS sector.
- Monitored the economic, legislative and geo-political landscape, including the impact of Brexit and the General Election.
- Reviewed the risk management framework, principal risks and appetite, in particular with regard to the implementation of strategy.

2. People and culture 15%

- Considered Executive and Non-Executive Director succession and development.
- Considered the external evaluation of the Board's effectiveness.
- Reviewed the culture of the business, the Board and employee engagement. The Board now considers culture at least annually.
- Received a presentation from the HR Director on senior management succession, people development and talent management.

How the Board spent its time



3. Financial 25%

- Reviewed the Group's debt and capital structure.
- Considered the Group's financial performance throughout the year.
- Agreed the continued application of the dividend policy approved in 2016.
- Compared corporate and operating overheads to the business plan.
- Monitored performance of the agreed KPIs for the business.
- Considered the requirements of a REIT conversion, and the feasibility of this for our business.

5. Property transactions and operations 20%

- Considered health and safety matters, including a presentation to the Board from the Health and Safety Director, and matters arising in the sector following the Grenfell Tower tragedy.
- Considered material transactions and business opportunities including, among others, acquiring Gore Street, The Rock and Finzels Reach.
- Received a presentation on the towns and cities in the English regions best suited for investment in the PRS.
- Considered supply chain management, with particular focus on key repair and maintenance contracts.
- Received a presentation on Grainger's customer proposition and operational plan.

4. Governance 10%

- Received briefings on regulatory and governance issues, including the Modern Slavery Act 2015 and the Government's review of corporate governance in the UK.
- Considered shareholder relations, in particular the feedback from investors and analysts in connection with the 2016 full year results and the 2017 interim results.
- Received reports from the Nominations, Audit and Remuneration Committees.

Information flow

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

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

Time commitment

The Board, supported by the Nominations Committee, carefully considered the external commitments of the Chairman and each of the Non-Executive Directors. The Board is satisfied that each Director committed enough time to be able to fulfil their duties, and has capacity to continue doing so. None of them has any conflict of interest not disclosed to the Board, in accordance with the Company's Articles of Association.

Access to independent advice

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

Engagement with stakeholders

The Board acknowledges and understands that Grainger's stakeholders may have different views and interests regarding the Company. It is therefore important we engage with each key stakeholder group to understand their views and priorities. The table below shows where you can find further detail in this report:

Stakeholder	Page
Employees	31
Customers and communities	32-34
Shareholders	59-61

Induction and professional development

In accordance with the Code, Grainger's policy is that the Chairman, supported by the Company Secretary, is responsible for ensuring that each Director receives a comprehensive and tailored induction.

Case study: Mark Clare and Justin Read



As both Mark Clare and Justin Read were appointed at the same time, as Chairman and Non-Executive Director respectively, the Chief Executive and outgoing Chairman were involved in the induction and orientation process, to ensure a smooth and effective handover.

Each new Director met the Company Secretary in the year to discuss their particular induction and training requirements. This covered matters such as Directors' duties, corporate governance, share dealing and use of the Company's electronic Board portal. Mark and Justin's induction involved them visiting our London and Newcastle offices, and meeting Executive Directors and senior managers from across the investment, development, operational and central functions of the business. They both also met key third-party advisers such as the external auditor and brokers. In addition, they both visited a number of operational or 'in development' sites; so as well as the site visit to Manchester referred to on page 48, they also visited our properties at Berewood, Aldershot and Abbeville. Justin also visited PRS homes in Newcastle, Whitley Bay and Pimlico.

As Chairman, Mark had an induction which emphasised shareholder engagement. He met a number of key shareholders to hear their views on Grainger, and to understand their expectations from the Company and from him as Chairman. Mark reported to the Board on this engagement process.

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

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

Performance evaluation

Board Alchemy, an independent specialist consultancy, undertook the annual evaluation of the Board and its Committees for 2017. They performed a thorough independent review of the Board and its Committees. This included the completion of a detailed questionnaire, followed by individual meetings with each of the Directors and the Company Secretary. This process ensured that there was a complete follow-up to those matters highlighted in the questionnaire exercise. They also reviewed recent Board and Committee papers. Board Alchemy's report concluded that the Board and its Committees were all operating effectively.

Key findings and recommendations are set out below.

The review of individual Director performance was outside of the scope of Board Alchemy's work. The Chairman undertook this in one-to-one meetings with each Non-Executive Director. He also conducted a formal review of the Chief Executive's performance. Notwithstanding that the Chairman has been in the role for a relatively short period, Belinda Richards, the Senior Independent Director, led a review of his performance, taking into account feedback from the Directors. This concluded that the Chairman's leadership and performance were effective and of a high standard.

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

Election and re-election of Directors

We continue to adopt the recommendations of the Code that all Directors offer themselves for re-election annually, even though the Company's Articles of Association only require this every three years. Therefore all current Directors, with the exception of Mark Clare, Justin Read and Belinda Richards, will stand for re-election at the 2018 AGM. Belinda will be retiring from the Board having served for more than six years. As it will be Mark and Justin's first AGM as Directors of the Company, they will be subject to election by the shareholders at the AGM.

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

External Board evaluation cycle



Key findings from the 2017 external Board evaluation

Findings

- The new Chairman has settled in well and established good working relationships with the Chief Executive and other Board members.
- There are good Board dynamics and appropriate challenge.
- The Board focuses on key matters and its work is supported by good-quality Board papers and management briefings. This was supported by the work of the Company Secretariat as well as the various Committees.
- Certain improvements were in progress at the time of the evaluation. These included:
 - » greater customer focus being brought to Grainger's strategy, recognising the business's move to PRS;
 - » the Board giving greater focus to succession planning; and
 - » plans to give Non-Executive Directors greater exposure to a wider range of staff, and to bring greater external perspective to the Board.

Principal recommendations

- Give greater consideration to the values and culture needed to support the PRS strategy.
- Take a more structured approach to Board development.
- Provide Board members with information updates between Board meetings.
- Carry out formal annual reviews of the effectiveness of Grainger's Internal Audit function.
- When the opportunity arises, recruit a retail consumer experienced Non-Executive Director to complete the skill sets required.

Effectiveness: Nominations Committee report

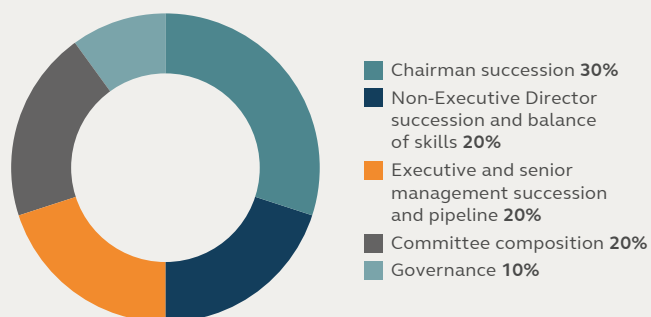


Mark Clare
Committee Chairman

Attendance table

Committee member	Member since	Meetings attended	Meetings eligible to attend
Mark Clare (Committee Chairman)	February 2017	2	2
Belinda Richards	February 2014	2	3
Tony Wray	February 2014	3	3
Andrew Carr-Locke	March 2015	3	3
Rob Wilkinson	May 2017	2	2
Justin Read	March 2017	2	2
Margaret Ford	February 2012 to February 2017	1	1

How the Committee spent its time



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

Dear shareholders,

I took over as Chairman of the Nominations Committee in February 2017, after my appointment to the Board, and I am pleased to present my first report. The Nominations Committee plays a fundamental role in ensuring we select and recommend strong candidates for appointment to the Board. The Committee monitors the balance of skills, experience, independence and knowledge of the Board and its Committees, with any changes recommended to the Board for its review and decision. The Committee is also responsible for succession planning, and monitors talent development at senior management level. 2017 was a particularly busy year for the Nominations Committee with significant change to the Board and its Committees. This report details the main activities we undertook during the year.

Key responsibilities

The key responsibilities of the Committee are to:

- review the size, balance and constitution of the Board, including the diversity and balance of skills, knowledge and experience of the Non-Executive Directors;
- consider succession planning for Directors and other senior executives;
- identify and nominate, for the approval of the Board, candidates to fill Board vacancies;
- review annually the time commitment required of Non-Executive Directors; and
- make recommendations to the Board, in consultation with the respective Committee Chairmen, regarding membership of the three Board Committees.

Process for Board appointments

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

Main activities of the Committee during the year

The Committee met formally three times during the year to 30 September 2017, supplemented by other less formal meetings and discussions to support the work of the Committee. At the formal meetings the Committee considered a number of standing agenda items relating to its key responsibilities detailed above. In applying those responsibilities, the Committee made decisions on a range of matters during the year, the most significant of which are detailed below. We announced changes to the Board during the year in accordance with the Disclosure Guidance and Transparency Rules. These changes have now taken place or will take place by the time of the 2018 AGM, and for completeness are also included below.

Board changes Chairman

Margaret Ford retired from the Board at the February 2017 AGM. As a result the Nominations Committee oversaw the selection of Mark Clare as Non-Executive Chairman with effect from the February 2017 AGM. In accordance with best practice, this was led by Belinda Richards as Senior Independent Director and supported by Non-Executive colleagues.

We appointed the Zygos Partnership, an independent executive search consultancy, as advisers and asked them to compile a long list of candidates. Zygos have worked previously with the Board on other appointments of Directors, and the Board confirms they are not connected with the Company in any other way.

The Committee determined that the candidate brief was for a business leader in the property sector, with main Board experience and strong credentials in strategic leadership and driving business growth. We agreed a short list of four candidates. Each was interviewed by the Senior Independent Director and at least one other Non-Executive Director. The Chief Executive was also involved in the process. The Committee then discussed the candidates. The unanimous recommendation of the Committee to the Board following this meeting was that Mark Clare be appointed as Non-Executive Chairman effective from February 2017.

Property Director

As previously announced and referred to on page 10, Grainger's Property Director, Nick Jopling, left the Board in September 2017. The Committee met to consider the Chief Executive's proposal for restructuring her senior team to align it more closely with the agreed PRS strategy to 'Originate, Invest and Operate'. The senior management team will include the Director of Investment, the Director of Development and the Chief Operating Officer. As a result the role of Property Director became redundant. The Committee supported this proposal and recommended to the Board that it be adopted. Nick will remain with the business until the end of 2017 to help ensure an orderly handover.

Non-Executive Directors

The Committee reviewed the composition of the Board, including the range of skills, knowledge, level of experience and balance between the Executive and Non-Executive Directors. We then agreed to search for an additional independent Non-Executive Director with public company, financial and real estate experience. We appointed Zygos as advisers and unanimously recommended to the Board that Justin Read join as an independent Non-Executive Director, and Justin subsequently joined the Board in February 2017.

Belinda Richards has served on the Board for over six years at the date of this report, and therefore will be stepping down from the Board at the February 2018 AGM. Consequently, Andrew Carr-Locke will be taking on the role of Senior Independent Director in addition to his role as Audit Committee Chairman and Justin Read will become Chairman of the Remuneration Committee.

Committee changes

During the year under review there have been a number of changes to the Committees of the Board. They are set out below:

- As a result of Margaret Ford's retirement as a Director, she also stepped down as Chairman of the Nominations Committee and as a member of the Remuneration Committee. The Directors considered it in the interests of the Company, and in accordance with market practice, to appoint Mark Clare as Chairman of the Nominations Committee and as a member of the Remuneration Committee in addition to his position as Chairman of the Board.
- Membership of the various Board Committees was reviewed, looking at the balance of skills, knowledge and experience, and the relative size of the Board. We subsequently decided it was in the best interests of the Company and the effectiveness of the Board and its Committees to adopt a policy whereby all Non-Executive Directors are members of each of the Committees. Thus, we made the following appointments:
 - » Rob Wilkinson joined the Remuneration and Nominations Committees as a member.
 - » Justin Read was appointed as a member of the Audit, Remuneration and Nominations Committees.

Diversity

The Directors are committed to having a balanced Board which includes diversity of perspectives, skills, knowledge and background. For gender diversity specifically, the Board supports the aspiration of the Hampton Alexander Review to promote greater female representation on listed company boards, and notes the significant progress made in this area in FTSE 350 companies since the original Lord Davies report of 2010. We make all appointments to the Grainger Board on merit, and within this context the Directors will continue to follow best practice and the issue of diversity as it develops further. At the date of this report, female representation at Board level was 38%. This is above the 33% level recommended by the Hampton Alexander Review and the objective for the Board is to maintain at least one-third of the Board being female Directors.

Page 33 contains details of the gender ratio of all Grainger staff.

The Board is also mindful of the Parker Review regarding ethnic diversity on UK boards that was published during the year. The Review recommends that each FTSE 250 board should have at least one director of colour by 2024. The Committee will work with the Board with a view to adopting this recommendation.

Balance of knowledge, skills and experience

The Directors have wide-ranging experience as senior business people. The Board has particular expertise in finance, property and the listed company environment. Following the external Board evaluation process conducted during the year, we have agreed that we will look to add retail consumer-facing skills to the Board when the opportunity arises, recognising the changing nature of Grainger's business as it delivers its PRS-focused strategy.

Mark Clare

Chairman of the Nominations Committee

30 November 2017

Experience of the Board



Property experience

75%



Financial experience
(leadership or audit
capacity)

88%



Retail consumer
business experience

25%

Accountability: Audit Committee report

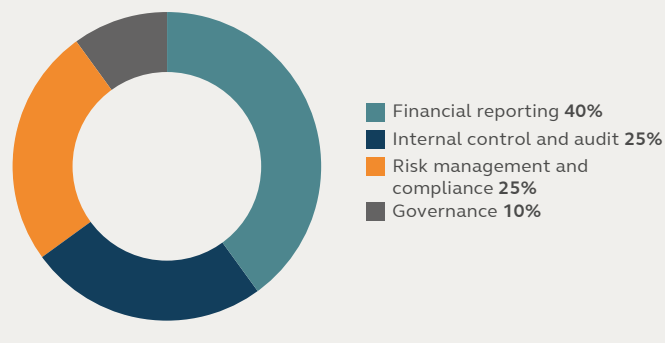


Andrew Carr-Locke
Committee Chairman

Attendance table

Committee member	Member since	Meetings attended	Meetings eligible to attend
Andrew Carr-Locke (Committee Chairman)	March 2015	4	4
Belinda Richards	April 2011	3	4
Tony Wray	November 2011	4	4
Rob Wilkinson	February 2016	3	3
Justin Read	March 2017	2	2

How the Committee spent its time



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

Dear shareholders,

This is my second year of chairing Grainger’s Audit Committee, and I am pleased to present the Audit Committee report for the year ended 30 September 2017. During the year, the Committee has continued to carry out a key role within the Company’s governance framework, supporting the Board in risk management, internal control and financial reporting. This report provides an overview of the significant issues the Committee considered, and its assessment of the Annual Report and Accounts as a whole, including how we have reviewed the narrative reporting to ensure it accurately reflects the financial statements.

There is substantial change occurring in Grainger. Implementing the PRS strategy has meant introducing new processes and refining existing systems. Therefore, the Committee has focused on assessing the risks and controls regarding these changes. We have also carefully considered the risk management framework to assess its continued relevance for a PRS-focused business undergoing the implementation of its strategy. We have also supported the Board in considering the principal risks and appetite of the Company. We provide details of the risk management framework, principal risks and key mitigants on pages 36 to 40.

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

One of the Committee’s other key responsibilities is ensuring the Group’s published accounts are true and consistent with accounting and governance requirements. In achieving this we have considered the viability statement closely, having regard to the progress of the implementation of the PRS strategy and the overall strategic horizon. This included interrogating the financial models and related sensitivity analyses of various economic scenarios. In addition, we have concentrated on the fair, balanced and understandable requirements for the Annual Report. In this regard, we are helped by receiving a number of appropriate papers from the Chief Financial Officer and her team, and by the independent work of our internal and external auditors.

In addition to our planned work programme, we respond to key matters arising during the year as required. An example of this during the year was to consider closely the appropriate accounting treatment of our development partnerships with the Royal Borough of Kensington and Chelsea ('RBKC'), and the changes to the contractual arrangements that occurred in summer 2017. We also supported the Board in its 2016 review of the Group's key performance indicators. Being aware of the developing practice for assessing and reporting alternative performance measures, we plan to carry out a further review in 2018.

As part of the FRC's work programme, we received a report on the quality of the Big 4 audit firms, including Grainger's external auditor, KPMG. We discussed the findings of the report with KPMG and what it has done to implement the recommendations. We found this independent review constructive, and it will help in our annual evaluation of external auditor effectiveness.

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

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

Andrew Carr-Locke
Chairman of the Audit Committee

30 November 2017

Significant matters relating to the Group's 2017 financial statements

The most significant matters considered by the Committee and discussed with the external auditor in relation to the Group's 2017 financial statements were as follows:

1 Property valuations

We received reports from management on the assumptions to be used in valuing the Group's property assets, the suggested discount rates for reversionary assets and the valuations. We considered the proposed process changes to the valuation of the reversionary portfolio, which involved increasing the level of external review and a reduction in tolerance differential between external and internal valuations. We also considered that the external valuers were sufficiently independent and report directly to the Committee. We were content, after close scrutiny and debate, with the change in valuation approach, and the assumptions and judgements applied to the valuations.

The results of the valuations form the basis of management's assessment to support the carrying value of investments in subsidiary companies by the parent company.

2 Fraud risk from revenue recognition and management override of controls

In respect of the presumed risk of fraud in revenue recognition by overstatement and management override of controls, the Committee considered the presumed risk of fraud as defined by auditing standards, and was content that there were no issues arising. During the year, the Committee considered the accounting implications in respect of the Group's contractual arrangements with the RBKC, along with the treatment of significant land sales.

Fair, balanced and understandable

The Committee has undertaken a detailed review in assessing whether the 2017 Annual Report and Accounts is fair, balanced and understandable, and whether it provides the necessary information to shareholders to assess the Group's performance, business model and strategy. The Committee reviewed and made suggestions about the processes put in place by management to provide the necessary assurance that they have made the appropriate disclosures. The Committee considered management's assessment of items included in the financial statements and the prominence given to those items. This review also included receiving a near final draft of the Annual Report in advance of the November 2017 Committee meeting. This was accompanied by a reminder of the areas the Committee should focus on having regard to the Audit Committee Institute guidance, and how it can be applied to the draft Annual Report. The Committee, and subsequently the Board, were satisfied that, taken as a whole, the 2017 Annual Report and Accounts is fair, balanced and understandable.

Going concern

The Committee reviewed the appropriateness of adopting the going concern basis of accounting in preparing the full year financial statements and assessed whether the business was viable in accordance with the requirements of the Code. The assessment included a review of the principal risks facing the Group, their financial impact and how they were managed, together with a discussion as to the appropriate period for assessment. The Group's viability statement is on page 41.

Invitations to attend meetings

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

Role, responsibilities and experience

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

Andrew Carr-Locke, Belinda Richards, Rob Wilkinson and Justin Read have recent and relevant financial experience as required by the Code. The Committee as a whole has the competence relevant to the sector in which it operates. Please refer to pages 46 and 47 for skills and experience of the Directors and pages 51 to 53 for the Nominations Committee report.

Terms of reference

The Committee's terms of reference are approved by the Board. We review them at least annually and last reviewed them at the Committee's meeting in February 2017. The Committee's terms of reference comply with the Code. They can be found on the Group's website.

Objectives

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

Meetings

The Committee's main work follows a structured programme of activity agreed at the start of the year between the Committee Chairman, management and the external auditor. As well as its main work, the Committee undertakes additional work in response to the evolving audit landscape. The following non-exhaustive list provides highlights of the Committee's work during the year under review.

Key activities



November 2016	<ul style="list-style-type: none"> Received a presentation from the independent external valuer of Grainger's reversionary assets. Considered and received matters relating to 2016 full year, including: <ul style="list-style-type: none"> » management's summary of the accounting position; » KPMG's Audit Highlights Memorandum; and » the draft Annual Report and Accounts. Noted the tax impact and treatment of full year results and also that the Company maintained its HMRC 'low risk' status. Reviewed the effectiveness of the Committee's performance. 	<ul style="list-style-type: none"> Considered KPMG's performance and independence and recommended to the Board KPMG's re-appointment. Received an Internal Audit report on mortality screening regarding the regulated portfolio, and reviewed the Internal Audit plan.
February 2017	<ul style="list-style-type: none"> Considered the Group's risk management framework, principal risks and mitigants. Considered KPMG's plan for its review of the 2017 half year results. Evaluated KPMG's performance and considered it to be effective and of high quality. Considered the five-year core assurance Internal Audit plan. Reviewed and approved revisions to the delegated authority policy. 	<ul style="list-style-type: none"> Received a paper on the new structure and composition of Grainger's Finance team, and details of its roles and responsibilities. Reviewed the Audit Committee terms of reference.
May 2017	<ul style="list-style-type: none"> Considered issues regarding the 2017 interim results, including: <ul style="list-style-type: none"> » the draft interim financial statements and announcement; » management's judgements and assessment; and » KPMG's half year report. 	<ul style="list-style-type: none"> Received an internal audit report on payroll and the business's operational risk and control matrices ('RACMs'). Considered a report on the financial control environment regarding development activities.
September 2017	<ul style="list-style-type: none"> Considered proposed process changes to the Group's annual valuation of its regulated portfolio. Considered the accounting impact of changes to the contractual arrangements with RBKC. Noted a paper regarding forthcoming changes to International Financial Reporting Standards ('IFRS'). Considered the 2017 draft viability statement and related analysis. Considered KPMG's Audit Strategy Memorandum and engagement regarding the audit for the full year 2017. Reviewed Grainger's whistleblowing arrangements. 	<ul style="list-style-type: none"> Considered the FRC Audit Quality Review report into the Big 4 audit firms. Reviewed reports on: <ul style="list-style-type: none"> » internal controls; » the risk management framework and the application of the 'three lines of defence' model; » the process and RACMs project; and » principal risks and risk appetites. Received an update on compliance with anti-bribery and financial crime legislation.

External auditor objectivity and independence

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

The Committee's assessment of KPMG's independence is underpinned by the Group's policy on not using the external auditor for non-audit services, which we applied during the year. We may disapply the policy and engage KPMG for non-audit services only if those services are permitted and where we can demonstrate they are best suited to undertake those services. The Audit Committee Chairman must also approve this.

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

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

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

Schedule of fees	Year ended 30 September 2017 £
Statutory audit of Grainger Group	210,000
Total audit fees	210,000
Half year review	31,000
Subsidiary liquidations and Group simplification ¹	41,000
Non-statutory certificate on Berewood development site ²	8,500
Total non-audit fees	80,500

1 Commissioned in July 2014, prior to KPMG's appointment as external auditor.

2 Commissioned in May 2016.

In addition, a further £8,200 for audit services was billed by KPMG to Walworth Investment Properties Limited, the joint venture in which Grainger has a 50% shareholding.

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

External auditor tenure

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

The Committee monitors the performance of the external auditor, providing an in-depth evaluation of its performance following the external audit, and then makes a recommendation to the Board. When considering the appropriateness of the re-appointment of KPMG, we considered our review, the ratio of audit to non-audit fees and the effectiveness of the audit process, together with other relevant review processes. We also considered the findings of the FRC Audit Quality Review of the Big 4 audit firms. We were satisfied that we should recommend the re-appointment of KPMG.

Internal controls

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

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

A key project in the year was the review of the business's core operational processes and the development of RACMs for each process. This involved Deloitte providing training to staff on the preparation of effective RACMs, carrying out a review of the matrices and reporting to the Committee.

Internal Audit

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

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

The Internal Audit programme for 2017 gave attention to the Group's core operational processes and the risk and controls in that regard. The plan for 2018 and thereafter has been designed to align with the implementation programme for the new strategy. This approach will focus on providing assurance, process improvement and insights for Grainger's core processes, complemented by an appropriate number of targeted risk reviews on principal risks or areas of management concern.

Relations with shareholders

Key shareholder events 2016/17

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



Substantial shareholdings

At 30 September 2017 and 31 October 2017 (being the latest practicable date prior to the date of this report), the Company is aware of the following interests amounting to 3% or more in the Company's shares:

	30 September 2017		31 October 2017	
	Holding million	Holding %	Holding million	Holding %
Schroder Investment Management Ltd	46.7	11.2	45.5	10.9
BlackRock Inc.	41.7	10.0	39.1	9.4
Standard Life Aberdeen	19.2	4.6	21.2	5.1
Aberforth Partners LLP	15.3	3.7	15.3	3.7
Columbia Threadneedle Investments	15.3	3.7	15.3	3.7
The Vanguard Group Inc.	13.6	3.3	13.8	3.3
M&G Investment Management Ltd	13.4	3.2	13.5	3.2

Case study of investor engagement: Capital Markets Day

Objective

To provide shareholders and prospective target investors with a comprehensive deep dive into the operational business model of Grainger, focused on how we are delivering on our strategy.

Topics covered:

- Strategy recap and update
- Market drivers
- Business model: Originate, Invest and Operate
- Investment approach
- Operations and customer proposition
- Financial returns

Case study and property tour of Argo Apartments in Canning Town, a soon-to-complete new PRS development, which is market leading in its design. An opportunity to hear from and meet the wider Grainger team, including:

- Andrew Saunderson, Director of Investment
- John Kenny, Chief Operating Officer
- Anish Thobhani, Customer Operations Director
- Michael Adefuye, Market Research Manager

Over 60 top investors and sell side analysts attended the event, with positive feedback received.

Frequently asked questions



The market

What is the competitive landscape in the UK PRS like at the moment?



Demand for renting continues to outstrip supply.

There has been an increase in interest in the UK PRS among institutional investors. However, it is estimated that the PRS will grow from 4.5m by a further 1.8m households by 2025, and the current supply of new purpose built PRS stock is less than 100,000 units.

We currently have 4,789 operational PRS units, with a pipeline of a further 5,000 units, positioning us as one of the largest players in the market. We have demonstrated our ability to deliver on our strategy through the success in our secured pipeline of £651m.



Looking ahead

Do you have ambitions to grow beyond the initial £850m investment target?



Our ambition is to grow beyond the £850m target and the market opportunity is substantial. The natural wind down of our regulated tenancy portfolio is expected to generate at least £100m per annum of proceeds over the next few years, which can support further growth, as will other funding options, including active asset recycling.



Operational potential and costs

Can your operational platform support growth beyond the initial investment plan, and can you maintain relative overheads?



We have designed our business model and operating platform to enable scalability and support significant future growth without the need to significantly increase our central overhead cost base.



Transformation of the income statement

How will the investment of £850m into PRS assets transform your returns profile?



Our strategy is to transform Grainger into a business that generates superior total returns from UK rental homes, with an increasing contribution from income through investing in higher-yielding assets. Our £850m investment plan is projected to more than double our net rental income since we embarked on our new strategy to £75m once our investment pipeline is completed and stabilised.



Capital structure

Is there scope for further reductions in your cost of debt, and lengthening your average maturity even more?



We have reduced our cost of debt by 190bps to 3.4% since setting out our new strategy (FY15: 5.3% average).

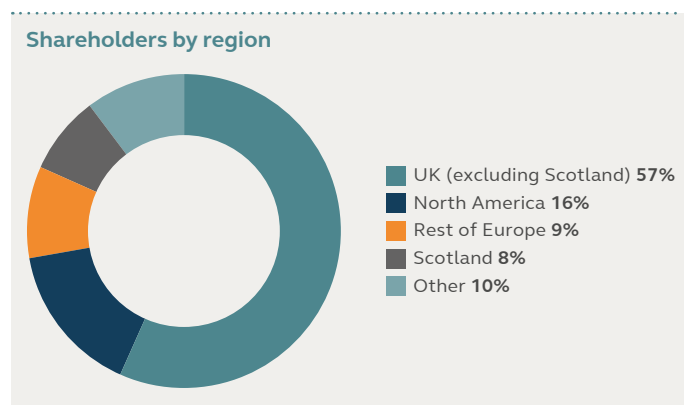
PRS assets are well aligned to longer-term funding and this is likely to be an increasing feature for Grainger as our PRS schemes are developed out. Our new, £75m facility for some of our PRS assets with Rothery Life at a fixed rate for a ten-year term demonstrates this future potential. In addition, our current headroom is accessible at a marginal rate of below 2%.

Our £275m corporate bond with a 5% coupon matures in 2020, and could provide an opportunity for further improvement.

The Group's website includes a comprehensive investor relations section, containing all RNS announcements, share price information, annual documents available for download and similar materials. All the Directors standing for election or re-election (as applicable) intend to attend the 2018 AGM and be available to answer questions. All shareholders can attend the AGM, which is a means of communication with smaller and private shareholders.

We send out the notice of meeting and Annual Report and Accounts at least 20 working days before the meeting. We hold separate votes for each proposed resolution. A proxy count is given in each case after the voting on a show of hands. Grainger includes, as standard, a 'vote withheld' category, in line with best practice. Shareholders can also lodge their votes through the CREST system.

Having regard to environmental considerations, the 2018 AGM will be the final year in which we issue hard copy proxy voting cards by post. Thereafter, we will move towards using online proxy forms.



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

Investor relations are based on the financial reporting calendar, with additional engagement when considered beneficial to the Company. We have held more than 125 meetings with shareholders, analysts and potential investors in the year, in addition to the usual half yearly results announcements and briefings. Helen Gordon and Vanessa Simms held the vast majority of these meetings, and manage the Group's investor relations programme with the Director of Corporate Affairs. We always seek feedback at these meetings and present it to the Board. In addition, the Company Secretary engaged with a combination of fund managers and corporate governance officers of the Company's major shareholders before the 2017 AGM. We anticipate a similar pre-AGM engagement process will take place in 2018.

Attendance at key investor meetings

Chief Executive	97%
Chief Financial Officer	97%
Senior executive	96%

Remuneration Committee report



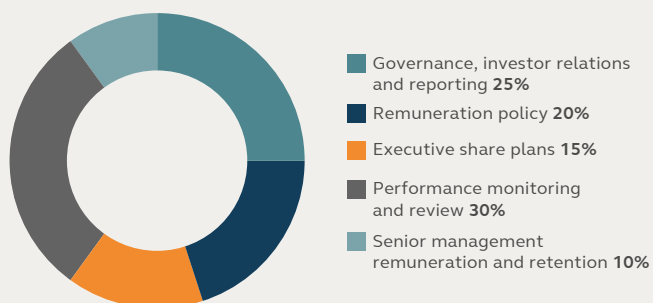
Belinda Richards
Committee Chairman

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How the Committee spent its time



Dear shareholders,

This is my third and final year as Chairman of the Remuneration Committee, prior to my retirement as a Director in February 2018. I am pleased to present, on behalf of the Board, the 2017 Directors’ Remuneration report.

What is in this report?

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

This statement and report will be subject to an advisory vote at the AGM on 7 February 2018.

This report also discloses the amounts paid to our Executive and Non-Executive Directors for the year ended 30 September 2017.

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

Aligning remuneration with strategy

A number of refinements were made to our previous Remuneration Policy to improve alignment with our long-term PRS-focused strategy and overriding objective of creating returns for our shareholders. Over 98% of our shareholders approved the revised Remuneration Policy at the 2017 AGM.

The policy refinements included simplifying the number of incentive schemes we operated, and placing a greater weighting on our long-term performance, which is more aligned to the long-term nature of our business. We achieve this longer-term weighting through the part deferral of annual bonus into shares, operating a share-based Long-Term Incentive Plan (‘LTIP’) with a two-year holding period on vested shares, and a 200% of salary share ownership guideline. Furthermore, the refined performance measures we targeted for improvement in the 2017 financial year (including adjusted earnings, return on shareholder equity (‘ROSE’), total property return (‘TPR’) and relative total shareholder return (‘TSR’)), are also fully aligned with supporting our PRS-focused strategy, targeting a clear balance between income growth and long-term shareholder returns. As a result, we will retain these measures in our incentives in 2018.

2017 performance and reward

Under our refined policy, the majority of the annual bonus in 2017 was subject to a combination of ROSE and adjusted earnings targets. These measures combined to ensure Executive Directors focused on improving profit from their day-to-day activities, at the same time as maximising the value of Grainger’s underlying assets. In addition, we based a minority of the bonus opportunity on how well each of our Executive Directors performed on an individual scorecard of key performance measures.

With regard to the performance during the year, we achieved adjusted earnings of £74.4m and ROSE of 7.3%. The performance against adjusted earnings was £7.8m ahead of the target set for the year of £66.6m, and ROSE was in the lower half of the 5%–15% performance range. When we combined these figures with the individual strategic targets, annual bonuses ranged from 55% to 63% of the maximum available. Full disclosure of the actual targets set, and performance towards those targets, is on pages 69 to 71.

With our LTIP, the 2014 awards will vest in December 2017. The performance targets for this award related to EPRA NNNAV (50% of award) and absolute TSR. For the performance period ended 30 September 2017, EPRA NNNAV has increased by 25.2% against the 15.9% increase in the Halifax and Nationwide House Price indices. This will result in 6% vesting of this part of the award. TSR is forecast to show an annual compound increase of approximately 14% over the three-year performance period (ending 16 December 2017). If this level of TSR is maintained for the period, it will result in 90% of this part of the award vesting.

In light of the strong performance achieved over the relevant performance periods, the Committee is comfortable, overall, with the level of variable pay earned and the forecast for the 2014 LTIP.

Board changes

It was announced on 30 August 2017 that Nick Jopling would be leaving Grainger by reason of redundancy. His redundancy forms part of a Group-wide restructuring undertaken over the past 18 months to better align our structure with achieving our strategy. Nick stepped down from the Board on 29 September 2017 and, following an orderly handover, his employment will terminate on 31 December 2017 (the date his role is made redundant). His role will not be replaced.

In line with the terms of his service agreement, Nick will receive a payment in lieu of his six-month notice period following the termination of his employment. He will also be treated as a good leaver for the purposes of annual bonus and LTIPs, with the relevant performance conditions continuing to apply over the full performance periods. Incentives will be reduced, pro-rata, where his employment ceases part way through the relevant performance or vesting period as appropriate. Further details relating to his redundancy and termination arrangements are set out in detail on page 72.

Implementing the policy for 2018

Pursuant to the strategic focus on management of overheads, there was no increase to the base salaries in respect of the Executive Directors during the 2016/17 pay review process. For the 2017/18 period, the base salaries of the Executive Directors will be increased with effect from 1 January 2018, in line with the typical increase given to the wider employee population. See page 76 for more details.

Since the revised Remuneration Policy implemented in 2017 is working well, we are to retain the same structure and performance measures for 2018.

Directors will continue to earn the annual bonus based on performing to a combination of challenging ROSE and adjusted earnings targets, with a small but significant proportion of the total bonus opportunity reserved for achieving tailored strategic personal objectives. One-quarter of any bonus earned will continue to be subject to deferral into the Company's shares, to provide a link between attaining short-term objectives and longer-term performance. In addition, strict recovery and withholding provisions will continue to apply to any bonus earned in relation to 2018.

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

For 2018, our general approach to target setting in respect of adjusted earnings and strategic targets will remain consistent with the approach taken in 2017. In relation to ROSE, we have taken the opportunity to recalibrate the performance range to take appropriate account of the current strategic focus on developing PRS accommodation and also having due regard to the wider macro-economic outlook which includes lower forecast house price inflation ('HPI'). Full details of the 2018 bonus structure are included on page 76 and the Committee is comfortable that the degree of stretch in the overall bonus is no less challenging than the structure in place for 2017, giving appropriate allowance for current circumstances.

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

In addition, I would highlight that we have implemented the new Save As You Earn ('SAYE') share scheme rules approved by shareholders at the last AGM, and continue to operate them in line with the principle of broad employee share ownership. Grainger regularly encourages employees to become owners in the Company, by providing frequent awareness sessions and assistance in joining available share schemes.

Shareholder engagement

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

We look forward to your support on the resolution relating to remuneration at the AGM on 7 February 2018.

Belinda Richards
Chairman of the Remuneration Committee
 30 November 2017

Remuneration Policy Summary

Overview of the Executive Directors' Remuneration Policy

Our Executive Directors' Remuneration Policy was approved by shareholders at the AGM on 8 February 2017 and it is intended to apply for the full three-year period permitted by the applicable regulatory regime. You can find the full policy on our website. Below is a summary of the policy. Details of the remuneration arrangements for the Non-Executive Directors are on page 77.

Base salary

Purpose and link to strategy	To enable the recruitment and retention of individuals of the calibre necessary to execute the Company's business strategy.
Operation	<p>Reviewed annually and effective from 1 January. Decision influenced by:</p> <ul style="list-style-type: none"> • role, experience and personal performance; • average change in total workforce salary; • total organisational salary budgets; and • Company performance and other economic conditions. <p>Salaries are benchmarked periodically to companies of a similar size and complexity.</p>
Opportunity	<p>Salaries will be eligible for increases during the three-year operational period, in line with percentage increases granted to the wider workforce.</p> <p>Increases beyond these may be awarded in certain circumstances, such as a change in responsibility or experience, or a significant increase in the scale of the role, or size, value or complexity of the Group.</p> <p>Where new joiners or recent promotions have been placed initially on pay below market rate, a series of percentage increases above those granted to the wider workforce may be considered, subject to individual performance and development in the role.</p>
Framework to assess performance	The Committee considers individual salaries at the appropriate meeting each year, after considering the factors noted in operating the salary policy.

Benefits

Purpose and link to strategy	To aid recruitment and retention of high-quality executives.
Operation	Car allowance, private medical insurance, life assurance, ill health income protection, travel insurance, health check-ups. Other ancillary benefits, including relocation expenses, as required.
Opportunity	The value of benefits may vary from year to year depending on the cost from providers.

Pension

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

Annual bonus

Purpose and link to strategy	To incentivise achievement of annual targets.
Operation	<p>Compulsory deferral of 25% of any bonus paid into shares for three years, with the balance of the bonus paid in cash. Deferred shares typically vest after three years and are normally subject to continued employment.</p> <p>Dividend-equivalent payments may be made in cash or shares, on deferred shares at the time of vesting, and may assume the reinvestment of dividends. Bonus will be predominantly based on demanding financial targets (for example, ROSE and adjusted earnings) and a minority of other performance targets (for example, strategic targets).</p>
Opportunity	<p>Maximum bonus potential is capped at:</p> <ul style="list-style-type: none"> • 140% of salary for the Chief Executive; and • 120% of salary for the other Executive Directors.
Framework to assess performance	<p>Details of the performance measures used for the current year, and targets set for the year under review and performance against them, are provided in the Annual Report on Remuneration.</p> <p>Malus and clawback provisions apply, and withholding provisions may apply for three years from the date of payment of any bonus.</p>

Long-term incentive plans

Purpose and link to strategy	<p>To incentivise sustained performance over the longer term.</p> <p>To encourage greater shareholder alignment through personal investment in the Company's shares.</p>
Operation	<p>Long-term incentive plans are provided under the 2007 LTIP and the 2017 LTIP (collectively referred to as 'LTIP'). LTIP provides for awarding share options (i.e. either conditional shares or nil-cost options), normally made annually, which are eligible to vest after three years, subject to continued service and the achievement of demanding performance conditions.</p> <p>Shares are subject to a two-year post-vesting holding period for awards granted under the 2017 LTIP. Dividend-equivalent payments may be made (in cash or shares) on LTIP shares at the time of vesting on vested shares, and may assume the reinvestment of dividends.</p>
Opportunity	<p>Annual awards are capped at:</p> <ul style="list-style-type: none"> • 175% of salary for the Chief Executive; and • 130% of basic salary for the other Executive Directors. <p>The Committee may grant awards at up to 200% of salary in exceptional circumstances (e.g. recruitment to compensate for value forfeited from a previous employer).</p>
Framework to assess performance	<p>Granted subject to a blend of demanding financial (for example, TPR) and TSR performance targets, tested over three years.</p> <p>25% of awards will vest for threshold performance, with full vesting taking place for equalling, or exceeding, the maximum performance targets. No awards vest for performance below threshold. A graduated vesting scale operates between threshold and maximum performance levels. Malus and clawback provisions apply.</p>

Savings related share schemes

Purpose and link to strategy	To encourage employees to make a long-term investment in the Company's shares.
Operation	All employees, including the Executive Directors, are eligible to participate on the same terms in the Company's SAYE scheme and Share Incentive Plan ("SIP"), both of which are approved by HMRC and subject to the limits prescribed.
Opportunity	<p>SAYE: Participants may invest up to £500 a month (or other amount permitted by HMRC from time to time) for three or five-year periods, in order to purchase shares at the end of the contractual period at a discount of up to 20% to the market price of the shares at the commencement of the saving period.</p> <p>SIP: Participants can invest up to £150 a month (or other amount permitted by HMRC from time to time) in shares in the Company, and the Company matches that investment. The Company may also allocate free shares annually on a percentage of basic pay, subject to a maximum of £3,600 (or other amount permitted by HMRC from time to time). Dividend payments on SIP shares are reinvested into shares.</p>

Shareholding guidelines

The Executive Directors are expected to build up a shareholding of equivalent value to 200% of their base salary. As a minimum, half the after-tax number of vested LTIP shares granted from 2017 must be retained towards satisfaction of this guideline, which is expected to be met within five years of its introduction (subject to personal circumstances).

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

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

How the views of employees and shareholders are taken into account

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

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

Approach to recruitment remuneration

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

For appointments from outside the Company, the Remuneration Committee may offer compensation that it considers appropriate and reasonable for awards and benefits forfeited from a previous

position. This would reflect the performance requirements, timing and other specific matters the Committee considers relevant, and could be in cash or share awards. The policy is that the maximum payment under any such arrangements (which may be in addition to the normal variable remuneration) should be no more than the Committee considers is required to provide reasonable compensation to the incoming Executive Director.

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

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

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

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

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

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

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

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

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

If treated as a good leaver, awards will be eligible to vest subject to performance conditions, which will be measured over the

original performance period (unless the Committee elects to test performance to the date of cessation of employment), and be subject to a pro-rata reduction (unless the Committee considered it inappropriate) to reflect the proportion of the vesting period actually served.

With regard to the deferral of annual bonus, deferred share bonus awards will normally lapse on cessation of employment other than where an Executive Director is a good leaver, with awards then vesting on the normal vesting date. It is the Company's policy to honour pre-existing award commitments.

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

External appointments

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

Non-Executive Directors' fees

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

Non-Executive Directors

Purpose and link to strategy	To provide a competitive fee which will attract high-calibre individuals who, through their experience, can further the interests of the Group.
Operation	<p>The fees for Non-Executive Directors (including the Chairman) are typically reviewed every second year, or more frequently if required.</p> <p>Fee levels are set by expected time commitment and responsibility, and are benchmarked with relevant market roles as appropriate and reflecting the size and nature of the role.</p> <p>The Chairman and Non-Executive Directors receive an annual fee paid in cash. They do not participate in any of the Company's incentive arrangements or receive any pension provision.</p> <p>The Non-Executive Directors receive a basic Board fee, with additional fees for chairing the Company's key committees or for performing the Senior Independent Director role.</p> <p>Non-Executive Directors are reimbursed for travel and related business expenses reasonably incurred in performing their duties.</p> <p>The Committee (without the Chairman) determines the Chairman's fee and recommends it to the Board. The Chairman and Executive Directors determine the Non-Executive Directors' fees.</p>
Opportunity	Fee levels can be increased to ensure they continue to recognise the time commitment of the role, fee levels for Non-Executive Directors in general, and fee levels in companies of a similar size and complexity.

Non-Executive Directors' letters of appointment

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

this term can be extended by mutual agreement. Non-Executive Directors have no entitlement to contractual termination payments. The dates of the initial appointments of the Non-Executive Directors are set out in the Annual Report on Remuneration.

1. Single total figure of remuneration for each Director

The details set out in Notes 1 to 7 on pages 68 to 74 of this report have been audited by KPMG LLP.

	a	b	c	d	e	f		
	Salary and fees ¹ £'000	Taxable benefits ² £'000	Share incentive Plan £'000	Annual bonus ³ £'000	LTIP awards vesting ⁴ £'000	Pension benefits ⁵ £'000	Other ⁶ £'000	Total ⁷ £'000
2017								
Executive Directors								
Helen Gordon	460	16	1	390	-	69	49	985
Vanessa Simms	320	17	1	240	-	48	-	626
	780	33	2	630	-	117	49	1,611
Former Executive Director⁴								
Nick Jopling	357	16	5	236	281	54	-	949
Non-Executive Directors⁸								
Mark Clare ⁹	104	-	-	-	-	-	-	104
Belinda Richards	62	-	-	-	-	-	-	62
Tony Wray	45	-	-	-	-	-	-	45
Andrew Carr-Locke	54	-	-	-	-	-	-	54
Rob Wilkinson	45	-	-	-	-	-	-	45
Justin Read ⁹	28	-	-	-	-	-	-	28
	338	-	-	-	-	-	-	338
Former Non-Executive Director								
Margaret Ford ⁹	53	-	-	-	-	-	-	53
Totals	1,528	49	7	866	281	171	49	2,951

1 There was no salary increase awarded during the year under review with Helen Gordon's base salary remaining at £460,000 with effect from 3 November 2015 and Vanessa Simms' base salary remaining at £320,000 with effect from 4 February 2016. The values included in the 2016 single figure table reflect Helen Gordon's and Vanessa Simms' salaries paid for part of the financial year that they were employed. Nick Jopling's base salary during the year under review was £356,842 with effect from 1 January 2016.

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

3 In light of Nick Jopling's role being made redundant, the Remuneration Committee determined he would be a good leaver for incentive plan purposes. Since he was in active employment for the full 2017 financial year, his bonus was not subject to any time pro-rating for 2017 and, in line with the 2017 Remuneration Policy, 25% of the bonus is deferred into shares for three years.

4 In line with the requirements of the Remuneration Reporting Regulations, the 2017 LTIP vesting values are based on the forecast value of the awards due to vest on 16 December 2017 (50% of the award is based on EPRA NNNNAV performance measured over the three years to 30 September 2017, and 50% of the award is based on absolute TSR measured over the three-year period to 16 December 2017). The growth in Grainger's EPRA NAV over the three-year period to 30 September 2017 was 1.6 times the increase in the Halifax and Nationwide House Price indices over the same period (i.e. 25.2% growth versus 15.9% growth). Absolute TSR performance (based on an assessment of performance measured to 30 September 2017) is forecast to be 14% per annum based on absolute TSR growth over the three-year performance period to date of 44.3% with the performance period due to end on 16 December 2017. The share price for valuing the award is the share price at 29 September 2017 (268.2p) for the EPRA NNNNAV element, and the three-month average share price to 29 September 2017 (259.0p) for the TSR element. This value will be trued up in next year's report to reflect the actual level of vesting and share price at the vesting date. In addition, the total LTIP value of awards vesting in December 2017 in respect of Andrew Cunningham and Mark Greenwood are £189,000 and £78,000 respectively, both being former Directors of Grainger. The 2016 LTIP value has been restated and reflects the actual value of the awards that vested in December 2016. Nick Jopling stepped down from the Board on 29 September 2017 and will cease employment on 31 December 2017 due to his role being made redundant. As previously reported, Andrew Cunningham and Mark Greenwood retired and stepped down from the Board on 4 January 2016 and 22 December 2015 respectively. Retirement is a standard good leaver circumstance under the 2007 LTIP, and so they retained their outstanding LTIP awards, which remain eligible to vest on their original vesting dates subject to performance targets being applied and a pro-rata reduction for the reduced period of employment relative to the three-year vesting period.

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

6 Please see Note 6 on page 73 in relation to the vesting of the Tranche 2 buy-out award made to Helen Gordon.

7 With regard to the single total figure of remuneration for each Director in relation to the year under review, the Committee was comfortable with the amounts payable given the performance achieved. In forming this view the Committee noted the achievement of a ROSE of 7.3% and adjusted earnings of £74.4m in a challenging market context. In addition, substantial strategic progress was also made, with a refined strategy being developed and embedded in the organisation. From a longer-term perspective, three-year forecast annualised TSR of 44.3% was achieved at the same time as an increasing EPRA NNNNAV relative to the increase in the Halifax and Nationwide House Price indices of 9.4%.

8 The salaries for Non-Executive Directors reflect payments in relation to any chairmanship roles (as applicable during the year under review or the preceding year) and in some cases pro-rata adjustments are made to reflect the changes in respect of such roles being taken part way through the relevant year.

9 On 8 February 2017 Margaret Ford retired from the Board. Mark Clare was appointed to the Board as Non-Executive Chairman and Justin Read was appointed as a Non-Executive Director on 13 February 2017.

	a	b	c	d	e	f		
	Salary and fees ¹ £'000	Taxable benefits ² £'000	Share Incentive Plan £'000	Annual bonus ³ £'000	LTIP awards vesting ⁴ £'000	Pension benefits ⁵ £'000	Other ⁶ £'000	Total ⁷ £'000
2016								
Executive Directors								
Helen Gordon	422	14	–	370	–	63	13	882
Vanessa Simms	209	10	–	158	–	31	–	408
Nick Jopling	354	15	7	236	148	53	–	813
	985	39	7	764	148	147	13	2,103
Former Executive Directors								
Andrew Cunningham	155	5	5	–	189	22	–	376
Mark Greenwood	69	4	1	–	81	10	–	165
	224	9	6	–	270	32	–	541
Non-Executive Directors								
Margaret Ford	150	–	–	–	–	–	–	150
Belinda Richards	63	–	–	–	–	–	–	63
Tony Wray	46	–	–	–	–	–	–	46
Andrew Carr-Locke	53	–	–	–	–	–	–	53
Rob Wilkinson	46	–	–	–	–	–	–	46
	358	–	–	–	–	–	–	358
Former Non-Executive Director								
Simon Davies	8	–	–	–	–	–	–	8
Totals	1,575	48	13	764	418	179	13	3,010

2. Annual bonus awards – performance assessment for 2017

Actual performance against the targets set for 2017 are listed below (straight-line payouts occur between the relevant performance points).

All Executive Directors during the year of review were eligible to participate in the 2017 annual bonus plan.

Below are the financial targets set at the start of the year (which were considered as challenging as those set in prior years) and performance achieved against them, together with the personal targets and the extent of achievement against these.

Measure	Weighting	Threshold (0% out-turn)	Target (60% out-turn)	Maximum (100% out-turn)	2017 performance	Out-turn (% of max element)
						Bonus
Adjusted earnings	40%	90% of budget (£59.9m)	100% of budget (£66.6m)	120% of budget (£79.9m)	111.7% of budget (£74.4m)	83.5%
						Bonus
Measure	Weighting	Threshold (0% out-turn)	N/A	Maximum (100% out-turn)	2017 performance	Out-turn (% of max element)
ROSE	40%	5%	N/A	15%	7.3%	23%

The ROSE as detailed above at 7.3% was calculated from the closing EPRA NNNAV of 303p per share plus the dividend of 4.86p per share for the year, divided by the opening EPRA NNNAV per share of 287p.

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

Chief Executive

Measure	Objective	Performance
Achieve strategy and business plan	<p>Targets included:</p> <ul style="list-style-type: none"> delivering above market growth from executing strategy; gaining Board approval for asset hierarchy; and effectively managing relevant stakeholders. 	Achieved in full following the delivery of rental growth ahead of the UK average, gaining Board approval for asset hierarchy and gaining positive feedback from stakeholders (e.g. through direct feedback to the Board and evidenced via attracting new institutional investors into the Company).
Improve operational performance	<p>Targets included:</p> <ul style="list-style-type: none"> designing and embedding improved operating processes; improving talent management processes; and improving customer focus. 	<p>Predominantly achieved. Evidenced by:</p> <ul style="list-style-type: none"> the design and implementation of improved operating processes. This achievement was evidenced by external assessment (Deloitte LLP); Board oversight of revised talent management processes; and the design of a new customer proposition and implementation of customer satisfaction surveys.
Grow rental income to enhance dividend	The target was to deliver net rents ahead of £40.2m.	Achieved in full with net rental income of £40.4m.

On the basis of the above performance, the Committee determined that payment of 18% of the maximum 20% of this part of the bonus was proportionate and reasonable in the circumstances.

Chief Financial Officer

Measure	Objective	Performance
Improve debt maturity and cost of debt	Targets included improving the debt maturity profile and reducing the overall Group financing costs.	Achieved in full with the debt maturity profile restructured to 4.4 years (from 3.1 years) and 5.2 years if extension options are exercised. Cost of debt reduced to 3.4% (from 3.9%).
Secure technology transformation	<p>Targets included:</p> <ul style="list-style-type: none"> defining a clear IT strategy and roadmap to demonstrate early stage implementation successes; and refining the effectiveness and leadership of the IT function. 	Achieved in full. Evidenced through the establishment of a clear IT roadmap which included the identification of success milestones and achievement against applicable milestones. New leadership of the IT function has been established with a view to leading the continued transition in technology.
Secure overhead reduction	Target included delivering cost savings in Group overheads.	Cost reductions achieved resulted in actual overheads of £27.2m being lower than the target of £27.5m.

Pursuant to the above performance, with targets met or exceeded across all measures, the Committee determined that the maximum 20% of this part of the bonus would be payable.

Property Director

Measure	Objective	Performance
Deliver agreed PRS pipeline	Target included achieving a quality pipeline of up to £500m in 2017.	Partial achievement with approximately £220m of quality pipeline secured by 30 September 2017.
Secure sales in line with target	Targets included sales across seven targeted business segments.	The targets were met in five out of seven segments including regulated sales, freehold, commercial, CHARM and strategic land.
Improve gross to net leakage and property operational performance	Targets included: <ul style="list-style-type: none"> • exceeding gross rental budgets; • delivering gross to net costs below 26.5%; and • keeping PRS voids below 3%. 	Partial achievement with gross to net costs of 26% and PRS voids of 2.9%, both being ahead of targets.

Following consideration of the performance against the objectives set, the Committee determined that payment of 12.5% of the maximum 20% of this part of the bonus was appropriate in the circumstances.

The total bonuses earned, therefore, were 61%, 63% and 55% of the maximum bonus opportunity for the Chief Executive, Chief Financial Officer and Property Director respectively.

3. LTIP awards – performance assessment for 2017

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

LTIP awards vesting in December 2017

Measure	Weighting	Threshold	Maximum	Actual performance	Out-turn (% of max element)
					LTIP
Three-year growth in TSR (annual compound) ¹	50%	5%	15%	14%	90%
EPRA NNNNAV (increase over three years relative to HPI, as measured by Halifax and Nationwide) ²	50%	1.5%	3.0%	1.6%	6%

1 Performance measurement period three years to 16 December 2017 – actual performance is a forecast based on performance measured to 30 September 2017.

2 Performance measurement period three years to 30 September 2017. EPRA NNNNAV increased by 25.2% between September 2014 and September 2017 while the average increase in the Halifax and Nationwide House Price indices over the same period was 15.9%.

The forecast vesting value of the awards made in December 2014, subject to the above performance targets, is included in the 2017 single figure table above.

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

LTIP awards vested in December 2016

Measure	Weighting	Threshold	Maximum	Actual performance	Out-turn (% of max element)
					LTIP
Three-year growth in TSR (annual compound) ¹	50%	5%	15%	7.1 %	21%
EPRA NNNNAV (increase over three years relative to HPI, as measured by Halifax and Nationwide) ²	50%	1.5%	3.0%	2.11%	40%

1 Performance measurement period three years to 9 December 2016. Actual performance over the performance period, at 7.1%, was lower than the forecast included in last year's Directors' Remuneration report which had been estimated at 10.7%. This in turn resulted in a reduction in the vesting result from 57% to 21%.

2 Performance measurement period three years to 30 September 2016. EPRA NNNNAV stayed the same between September 2013 and September 2016 and, as such, had no impact on the vesting result.

4. Share scheme interests awarded during the year

	LTIP share awards	
	Number	Face value £'000
Helen Gordon	329,162	805
Vanessa Simms	170,101	416
Nick Jopling	189,685	464

The face value for Helen Gordon, Vanessa Simms and Nick Jopling is based on a price of 244.56p, being the average share price from the five business days immediately preceding the award made on 9 February 2017. The face value of performance shares awarded was 175% of salary for Helen Gordon, 130% of salary for Vanessa Simms and 130% of salary for Nick Jopling.

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

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

5. Payments for loss of office and to past Directors

As detailed earlier, Nick Jopling stepped down from the Board on 29 September 2017 and his employment will terminate on 31 December 2017 ('leaving date') when his role will be made redundant.

In connection with his termination of employment, he will receive the following payments (each subject to applicable PAYE deductions):

- A total payment of £213,868 in lieu of six months' notice and ancillary benefits for the six months' notice period (including £178,421 in lieu of six months' notice, £7,500 in lieu of car allowance, £26,763 in lieu of pension allowance and £1,184 in lieu of additional benefits and accrued holiday pay up to cessation of employment of seven days).
- A payment of £72,055 which is inclusive of statutory redundancy payments, the Company's enhanced redundancy payments (with the policy applicable to all employees on redundancy) and a payment in settlement of any statutory claims he may have against the Company.
- Outplacement support of up to £20,000 and a contribution to legal fees of £1,500 (both plus VAT and paid or to be paid (if applicable) directly to the service provider).
- In light of his being made redundant, consistent with the Company's Remuneration Policy and the relevant terms in each plan, the Remuneration Committee resolved to treat him as a good leaver for the purposes of annual and long-term incentive plans. As a result:
 - » he remained eligible to receive a full bonus award subject to satisfying the performance targets in relation to the 2017 financial year, and 25% of any bonus paid will be deferred into the Company's shares for a period of three years;
 - » the LTIP awards granted in January 2016 and February 2017 will remain eligible to vest on their normal vesting dates, subject to satisfying the relevant performance criteria. The number of shares comprising each award will be scaled back, prior to testing the performance conditions, to reflect the period of his employment relative to the relevant three-year vesting period; and
 - » he will continue to be eligible to participate in the Company's employee-wide SAYE and SIP schemes until his leaving date. For SAYE, he can participate for an additional six months following the leaving date in accordance with the HMRC-approved rules, when his options will mature, and be capable of exercise in accordance with the rules.

6. Directors' shareholdings and share interests

Performance share awards

		Awards granted	Maximum award Number	Awards vested Number	Awards lapsed Number	Maximum outstanding awards at 30 Sept 2017 Number	Market price at date of vesting (p)	Vesting date ¹
Nick Jopling	LTIP shares	09-Dec-13	160,557	49,451	111,106	-	231.0	09-Dec-16
		16-Dec-14	173,592	-	-	173,592	-	16-Dec-17
		11-Jan-16	144,161	-	-	144,161	-	11-Jan-19
	Matching shares	09-Feb-17	189,685	-	-	189,685	-	09-Feb-20
		09-Dec-13	48,167	14,835	33,332	-	231.0	09-Dec-16
		16-Dec-14	52,077	-	-	52,077	-	16-Dec-17
Helen Gordon	Buy-out awards (three tranches) ²	11-Jan-16	287,117	-	-	287,117	-	11-Jan-19
		11-Jan-16	57,423	-	-	57,423	-	11-Jan-19
		09-Feb-17	329,162	-	-	329,162	-	09-Feb-20
	Matching shares	12-Jan-16	119,373	21,353	47,975	50,045	232.5	19-May-16
							254.8	07-Mar-17
								09-Mar-18
Vanessa Simms	Matching shares	11-Feb-16	130,995	-	-	130,995	-	11-Feb-19
		11-Feb-16	11,750	-	-	11,750	-	11-Feb-19
		09-Feb-17	170,101	-	-	170,101	-	09-Feb-20

1 The performance conditions that apply to awards granted in the year under review are set out on page 69, and for the previous financial year were set out in full in the previous Annual Report and Accounts.

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

Tranche 3, comprising 50,045 shares, is subject to the EPRA NNNNAV and absolute TSR performance targets attached to the Grainger 2014 LTIP award disclosed in prior years. This award is eligible to vest on 9 March 2018, subject to continued employment and satisfaction of the performance targets.

The total number of shares included in the table above is the opening number of shares at the start of the year under review, that remained eligible to vest (i.e. relating to Tranches 2 and 3), and the movement during the year related to the vesting and lapsing of Tranche 2 shares. The balance of 50,045 shares relates solely to Tranche 3.

Share options

		Share options at 1 Oct 2016	Granted in year		Lapsed in year		Exercised during year		Market price on exercise (p)	Gains on exercise of share options (£)	Share options at 30 Sep 2017	Exercise price (p)	Earliest exercise date	Latest exercise date
			Number	Grant price (p)	Number	Number	Exercise price (p)							
Nick Jopling	SAYE	21,770	-	-	-	21,770	68.9	256.0	40,732	-	68.9	-	-	
	SAYE	10,013	-	-	-	-	-	-	-	10,013	151.3	01-Mar-20	01-Sep-20	
	SAYE	-	7,136	210.2	-	-	-	-	-	7,136	210.2	01-Sep-22	01-Mar-23	
Helen Gordon	SAYE	10,791	-	-	-	-	-	-	-	10,791	166.80	01-Sep-19	01-Sep-20	
Vanessa Simms	SAYE	-	8,563	210.2	-	-	-	-	-	8,563	210.2	01-Sep-20	01-Mar-21	

The closing trade share price on 30 September 2017 was 268.2p. The highest trade share price during the year was 270.3p and the lowest was 215.1p.

6. Directors' shareholdings and share interests continued

Directors' shareholdings

	Ordinary shares of 5p each (thousands)			
	Beneficial		Share ownership guideline	
	1 Oct 2016	30 Sep 2017 ¹	Value at 30 Sept 2017	% Current salary ²
Executive Directors				
Helen Gordon	81	103	276	60%
Vanessa Simms	12	12	32	10%

1 Since 30 September 2017, Helen Gordon and Vanessa Simms acquired shares in the Company through the Grainger Employee Share Incentive Scheme (218 ordinary 5p shares each).

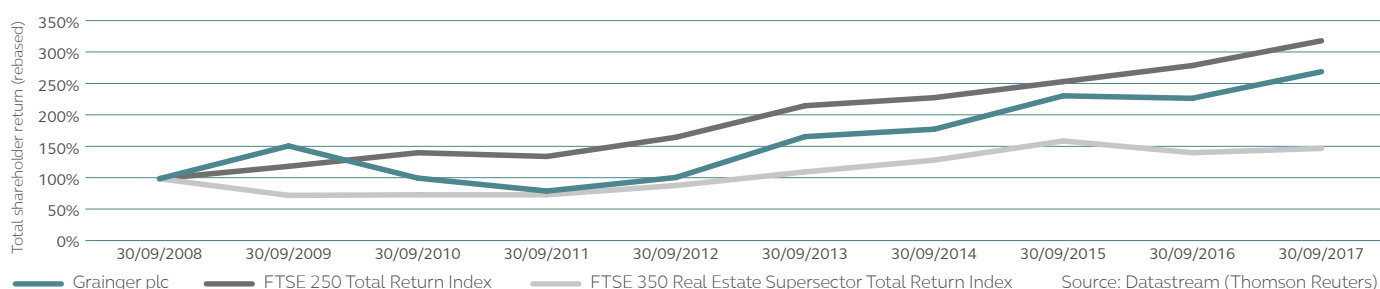
2 The Company's share ownership guidelines require Executive Directors (subject to personal circumstance) to build a share ownership of equal value to 200% of salary over five years. The value of shares held (calculated as at 30 September 2017 when the share price was 268.2p) are detailed in the table above. The current levels of share ownership reflect the recent appointment dates of each Executive Director, with the Chief Executive having been appointed in November 2015 and the Chief Financial Officer in February 2016. Nick Jopling's shareholding (calculated on an equivalent basis) was 643% of salary (853,525 shares). These values do not include any shares that are scheduled to vest on 16 December 2017.

	Ordinary shares of 5p each (thousands)	
	Beneficial	
Non-Executive Directors		
Belinda Richards	12	12
Tony Wray	10	10
Andrew Carr-Locke	10	10
Rob Wilkinson	10	14
Mark Clare	-	100
Justin Read	-	8

7. Performance graph and table

Total shareholder return

This graph shows the percentage change by 30 September 2017 of £100 invested in Grainger plc on 30 September 2008 compared with the value of £100 invested separately in both the FTSE 250 Index and the FTSE 350 Real Estate Supersector Index.



8. Chief Executive single figure

		Chief Executive single figure of total remuneration £'000	Annual variable element award rates against maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
2017	Helen Gordon	985	61	N/A
2016 ¹	Helen Gordon (from 4 January 2016)	882	73	N/A
2016	Andrew Cunningham (to 4 January 2016)	376	–	–
2015	Andrew Cunningham	2,185	–	98
2014	Andrew Cunningham	2,477	64	100
2013	Andrew Cunningham	2,519	63	100
2012	Andrew Cunningham	733	19	–
2011	Andrew Cunningham	1,083	50	16
2010	Andrew Cunningham	777	43	–
2009 ²	Andrew Cunningham	583	22	–

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

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

9. Percentage change in remuneration of Chief Executive and employees

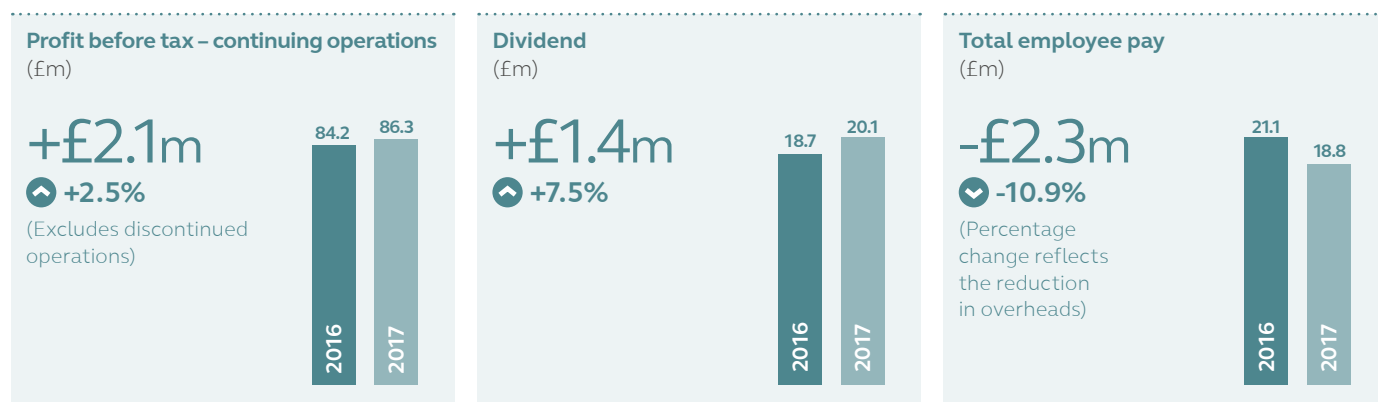
The percentage change in remuneration between 2016 and 2017, excluding LTIP and pension contributions, for the Chief Executive and for all other employees in the Group was as follows:

	Percentage change 2016–17		
	Base salary	Benefits	Annual bonus
Chief Executive ¹	0%	0%	5%
Employee population	2%	4%	22%

1 The base salary and benefits for the Chief Executive have not increased since 3 November 2015. The bonus opportunity for the Chief Executive has also remained unchanged in 2017. The Chief Executive was only employed for part of the prior year. The variation calculated above has therefore been pro-rated to avoid distortions in the metric.

10. Relative importance of spend on pay

The difference in actual expenditure between 2016 and 2017 on remuneration for all employees, in comparison to profit before tax – continuing operations and distributions to shareholders by way of dividend, is set out in the charts below. Profit before tax is considered to be an appropriate financial metric as it is not impacted by changes in tax rates which are outside of the direct control of the Company. Total employee pay has reduced following the restructuring activity undertaken in 2016.



11. Statement of implementation of Remuneration Policy for 2018

Base salary

In line with the typical increase given to the wider employee population, the Remuneration Committee determined that the base salaries for the two Executive Directors should be increased by 2.2%.

Annual bonus

As detailed in the Annual Statement and Summary Remuneration Policy, the structure and metrics to operate for the 2018 annual bonus are as follows:

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

With regard to the level of bonus earned, 25% will be deferred into Grainger shares for three years.

The range of targets to apply to the 2018 annual bonus have been set after taking into account the current stage of our transition to a PRS-focused business model. This has resulted in the same approach being applied to target setting for the adjusted earnings element (i.e. the same performance range around budget is being retained) but with a revised range of targets being introduced for ROSE.

The table below sets out the performance targets and their respective weightings for 2018:

Metric	Weighting	Rationale and description		
Adjusted earnings	40%	Incentivises operational success in achieving rental growth, income from sales and reduction in operational and finance costs relative to a challenging budget.		
		Performance level	Budget	Payout
		Threshold	90%	0%
		Target	100%	60%
		Maximum	120%	100%
Straight line between performance points.				
ROSE	40%	Incentivises the delivery of targeted levels of return from our property portfolio which is aligned with a strong balance sheet in respect of the EPRA NNAV performance and dividend level.		
		Performance level	Payout	
		4.5%	0%	
		4.75%	10%	
		7%	60%	
12%	100%			
A graduated vesting scale operates between performance points.				
Strategic personal objectives	20%	Each of the headline metrics are underpinned by defined measurable milestones or a range of targets set with reference to budgeted objectives. These are consistent with the strategy and targeted objectives for the year agreed by the Board. Due to matters of commercial sensitivity it would not be in the interests of the Company to disclose the precise personal targets for the annual bonus at the date of production of this report. Details of the objectives and the performance achieved will be disclosed retrospectively in the 2018 Annual Report.		

In respect of the revised range of ROSE targets, these have been recalibrated to take account of our current investment in new PRS accommodation. The investment programme will result in lower but more stable returns over time as income increasingly replaces capital growth from property sales as a proportion of total income. The current strategic focus on developing PRS accommodation also increases the time period associated with recognising the full return from investments. The revised range of ROSE targets take due account of the above, along with wider changes in the wider macro-economic environment, which also includes lower forecast HPI.

Overall, the Committee considers the 2018 annual bonus targets to be equally challenging as the targets set in 2017 for annual bonus purposes and considers the range to provide a keen balance between being achievable at the lower end but very demanding at the top end of the range, particularly in the context of a challenging budget agreed by the Board.

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

LTIP

It is expected that the LTIP awards to be made to the Executive Directors in the year ending 30 September 2018 will be at the levels detailed below and subject to a two-year holding period:

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

The performance measures to apply for 2018 will be as follows:

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

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

Furthermore, the Committee will retain the right to reduce overall pay outcomes if it considers the variable pay result does not reflect broader Company performance over the relevant performance periods.

Non-Executive Directors' fees

The Non-Executive Directors' fee levels have been increased with effect from 1 October 2017 following a benchmarking exercise, and to take account of the anticipated time commitment of each role. Current fee levels for the year under review are as follows:

- Basic Non-Executive Director fee: £45,000
- Additional fee for chairing Board Committee: £9,000
- Additional fee for Senior Independent Director duties: £7,500
- Chairman's fee: £165,000

Revised fee levels from 1 October 2017 are as follows:

- Basic Non-Executive Director fee: £47,000
- Additional fee for chairing Board Committee: £9,500
- Additional fee for Senior Independent Director duties: £8,000
- Chairman's fee: £165,000 (no change since Mark Clare's appointment)

12. Directors' service agreements and letters of appointment

	Contract commencement date	Notice period
Executive Directors		
Helen Gordon	November 2015	12 months
Vanessa Simms	February 2016	6 months
Former Executive Director		
Nick Jopling	September 2010	6 months
Date of initial appointment		
Non-Executive Directors		
Mark Clare	February 2017	
Belinda Richards	April 2011	
Tony Wray	October 2011	
Andrew Carr-Locke	March 2015	
Rob Wilkinson	October 2015	
Justin Read	February 2017	
Former Non-Executive Director		
Margaret Ford	July 2008	

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

The Remuneration Committee currently comprises six independent Non-Executive Directors including the Company Chairman. Details of the Directors who were members of the Committee during the year are as follows:

Committee member	Member since	Meetings attended	Meetings eligible to attend
Belinda Richards (Committee Chairman)	March 2015	5	5
Mark Clare	May 2017	3	3
Tony Wray	February 2016	4	5
Andrew Carr-Locke	April 2015	5	5
Rob Wilkinson	May 2017	2	2
Justin Read	May 2017	3	3

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

The Committee appointed Korn Ferry Hay Group ('KFH') as advisers. Their role is to keep the Committee informed of developments in the market and best practice, and to support the Committee in implementing the Remuneration Policy. Total fees paid or payable (as applicable) to KFH for services to the Committee during the 2017 financial year were £33,840 (2016: £10,800). KFH are signatories to the Remuneration Consultants' Group Code of Conduct and any advice provided is governed by that Code. The Committee reviews the adviser relationship periodically and remains satisfied that the advice it receives from its advisers is independent and objective.

14. Statement of voting at general meeting

At the AGM held on 8 February 2017, the Directors' Remuneration report received the following votes from shareholders:

	Directors' Remuneration report	
	Total number of votes	% of votes cast
For	288,285,863	98.6
Against	4,033,378	1.4
Total votes cast (for and against)	292,319,241	100
Votes withheld	18,017,487	–

Directors' report

In accordance with the UK Financial Conduct Authority's Listing Rules ('LR'), the information to be included in the Annual Report and Accounts, where applicable under LR 9.8.4, is set out in Note 16 to the financial statements on page 111 in relation to the dividend waiver arrangements.

Information incorporated by reference

The Corporate Governance Statement on pages 42 to 81 forms part of this Directors' Report and is incorporated into this Directors' report by reference.

Directors' interests in significant contracts

No Directors were materially interested in any contract of significance.

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ('EU IFRS') and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- for the Group financial statements, state whether they have been prepared in accordance with EU IFRS;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy

at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

Financial risk management

Details are included in Note 28 to the financial statements.

Directors' indemnities and insurance

The Company has in place contractual entitlements for the Directors of the Company and its subsidiaries to claim indemnification by the Company for certain liabilities they might incur in the course of their duties. We have established these arrangements, which constitute qualifying third-party indemnity provision and qualifying pension scheme indemnity provision, in compliance with the relevant provisions of the Companies Act 2006. They include provision for the Company to fund the costs incurred by Directors in defending certain claims against them in relation to their duties. The Company also maintains an appropriate level of Directors' and officers' liability insurance.

Sustainability

Further information is provided on our website at www.graingerplc.co.uk/responsibility. Our approach to sustainability is based on our assessment of the potential risk and opportunity to our business. In the year ended 30 September 2017, the Group achieved 50% and partially achieved 33% of the applicable sustainability targets that it committed to meeting by that date. Further information is provided on our website at www.graingerplc.co.uk/responsibility.

Scope 1 and 2 Global GHG emissions data for period 1 October 2016 to 30 September 2017

Emissions from	Tonnes of CO ₂ e					
	2016 location- based	2017 location- based	Trend location- based	2016 market- based	2017 market- based	Trend market- based
Combustion of fuels and operation of facilities	585	598	2%	585	598	2%
Electricity, heat, steam and cooling for own use	849	852	0%	724	689	-5%
Total footprint	1,434	1,450	1%	1,309	1,287	-2%

Company's chosen intensity measurement:

Emissions reported above per £m value of assets under management ¹	0.55	0.54	-2%	0.50	0.48	-5%
Emissions reported above per owned unit ²	0.25	0.24	-4%	0.23	0.21	-6%
Emissions reported above per employee ³	6.29	6.74	7%	5.74	5.99	4%

Scope 3 Global GHG emissions data for period 1 October 2016 to 30 September 2017

Emissions from	2016	2017	Trend
Electricity transmission and distribution losses	71	70	-1%
Business travel (air and rail)	72	95	32%
Estimated tenant energy use (tCO ₂ e) ⁴	18,669	17,311	-7%

1 Value of assets under management ('AUM') on the last day of the financial year, expressed in £m.

2 Number of owned units on the last day of the financial year within the scope of data collection.

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

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

Summary

Grainger complies with the greenhouse gas ('GHG') emissions reporting requirements of the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013. Grainger reports all material GHG emissions, wherever possible using 'tonnes of CO₂-equivalent' ('tCO₂e') as the unit of measurement. Our reporting period for GHG emissions is 1 October 2016 to 30 September 2017 and we report emissions for the previous year to demonstrate the trend. Our German business was sold in April 2016 and we have chosen to exclude emissions associated with this portfolio from the data reported above for the previous reporting year, to enable a meaningful comparison of our emissions with the most recent reporting year. We have also not included our Grainger Trust portfolio and are working to collect data for future reporting.

Grainger's Scope 1 and 2 location-based GHG emissions increased by 1% between 2016 and 2017, and market-based GHG emissions decreased by 2%.

On an intensity basis, emissions per £m value of assets under management and per owned unit reduced between 2016 and 2017; however, due to a reduction in employee numbers, emissions per employee increased.

Methodology

Grainger follows the GHG Protocol Corporate Standard (revised edition) and ISO14064: Part 1 standard for its reporting. We have used the UK Government conversion factors 2017 for location-based reporting and the Association of Issuing Bodies European Residual Mixes 2016 for market-based reporting. We have reported on all emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. We have used the operational control consolidation method. These sources fall within our consolidated financial statements.

In 2015 the GHG Protocol guidance was updated advising organisations to provide separate figures to reflect the market and location-based emissions resulting from purchased electricity. The location-based method uses average emissions intensity of the grid network for that area; the market-based method uses emissions based on purchasing decisions made by Grainger. For market-based emissions there is a reporting hierarchy and Grainger has used contractual instruments where there is data readily available. We purchase 100% renewable electricity tariffs for GRIP REIT which has resulted in reduced

Scope 2 emissions using the market-based approach. Where no contractual data is available we use residual mix factors.

Scope 1 data

This includes landlord-obtained gas consumed in common areas and by tenants on an unmetered basis as well as fuel consumption in vehicles owned or leased by Grainger. Fugitive emissions are not included as they have been assessed to be immaterial.

Scope 2 data

This includes landlord-obtained electricity consumed in common areas and by tenants on an unmetered basis as well as electricity consumed by Grainger in its own offices. There is no purchased heat or steam.

Scope 3 data

This includes estimated emissions from electricity used by Grainger's tenants in its buildings based on EPC analysis and extrapolation. Emissions from the transmission and distribution of Grainger's Scope 2 electricity are included. We also report emissions from business travel, including emissions from employee grey fleet data which was not available in 2016. No other Scope 3 emissions are included.

A more detailed breakdown of our carbon footprint for our property portfolios is available in our EPRA Sustainability Performance Measures Report, available on our website.

Restatements

We have recalculated emissions for 2016 as we are able to report more accurate data for Scope 1 and Scope 2 emissions from energy consumption in owned properties. We have also restated our associated Scope 3 emissions from electricity transmission and distribution losses.

Intensity metrics

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

Health and safety

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

Directors, and the Health and Safety Director gives a presentation to the Board at least once a year.

Employment of disabled persons

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

Employee engagement

The Group places considerable value on the engagement of its employees and has continued its practice of keeping them informed on and involved in business and strategic matters, for example through team meetings, presentations by senior management and regular all-staff conference calls hosted by the Executives. For more information on our people, see page 31.

Independent auditor and disclosure of information to auditor

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

Political donations

In accordance with the Company's policy, we made no political donations in 2017 (2016: £nil).

Takeover directive

On a change of control, the main bank facility (included in Note 27 to the financial statements) will become repayable should alternative terms for continuing the facilities not be agreed with the lenders within 45 days. In addition, the corporate bond (also referred to in Note 27) may become repayable following a change of control. There are no other material matters relating to a change of control of the Company following a takeover bid.

The Directors have confirmed approval of the Directors' report.

By order of the Board.

Adam McGhin
Company Secretary

30 November 2017

Independent auditor's report to the members of Grainger plc

1. Our opinion is unmodified

We have audited the financial statements of Grainger plc (“the Company”) for the year ended 30 September 2017 which comprise the Consolidated Income Statement, the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Parent Company Statement of Financial Position and the Parent Company Statement of Changes in Equity, and the related notes, including the accounting policies in Note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 September 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

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

We were appointed as auditor by the shareholders on 6 February 2015. The period of total uninterrupted engagement is for the three financial years ended 30 September 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	£16.0m (2016:£15.0m) 1% (2016: 1%) of total assets
Coverage	100% (2016:100%) of Group total assets
Risks of material misstatement	vs 2016
Recurring risks	
Valuation of investment properties	▲
Recoverability of inventories	◀▶
New	
Parent company	
Recoverability of parent company's investment in subsidiaries	◀▶

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures.

These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
<p>Valuation of investment properties (£391.0m; 2016: £261.3m)</p> <p>Refer to page 55 (Audit Committee Report), pages 95-98 (critical accounting estimates and judgements) and pages 111-112 (accounting policy and financial disclosures).</p>	<p>Subjective valuation The valuation approach adopted by the Directors varies between portfolios:</p> <ul style="list-style-type: none"> • For the Tricomm portfolio, valuation is based on a discounted cash flow model produced by an external valuer. There is a risk that the assumptions of house price inflation (“HPI”) and discount rates could be inappropriate which could lead to a material misstatement in valuation. • For properties let into the private rental market, valuation is derived by applying a gross initial yield to the estimated rental value of the property. Yield is based on market evidence and an inherently unobservable judgement in respect of rental growth. There is a risk that applying an inappropriate yield could lead to a material difference in valuation. • Property held in the core residential portfolio is valued by determining vacant possession (“VP”) value and applying a discount to reflect the fact that the property is tenanted. Both VP value and the discount applied are estimated with reference to comparable market evidence and the Group’s own experience, which in some cases may be limited. This means that the valuation is inherently subjective and susceptible to misstatement. 	<p>Our procedures in respect of all property types identified included:</p> <ul style="list-style-type: none"> • Our property expertise: Using our own property valuation specialist to assist us in assessing the methodologies and key assumptions used in the valuations adopted by the Directors for use in the financial statements; • Sensitivity analysis: Performing sensitivity analyses over the assumptions and considering the outcomes with reference to benchmarks to identify the key assumptions affecting the valuation. <p>Our procedures in respect of the Tricomm portfolio included:</p> <ul style="list-style-type: none"> • Benchmarking assumptions: Comparing the HPI assumption included in the discounted cash flow model to market indices and the discount rates to market information including gilts and benchmarked risk premiums. <p>Our procedures in respect of the private rented sector blocks included:</p> <ul style="list-style-type: none"> • Our property valuation expertise: Critically assessing the yield rates applied using our understanding of the nature of the assets and comparing to available market data. <p>Our procedures in respect of property held in UK residential portfolios included:</p> <ul style="list-style-type: none"> • Control design and observation: Assessing the design of the Directors’ valuation process and observing that supporting evidence was obtained for a sample of properties; • Our property valuation expertise: Using our property valuation specialist, assessing the degree of challenge, quality of evidence presented and conclusions reached in the Group’s regional valuation meetings with their external valuer; • Our sector experience: Challenging the inputs used in the valuations including challenging comparing to comparable transactions.

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

	The risk	Our response
	<p>Incorrect data</p> <p>Valuations are based on data held by the in-house surveying team, in some cases corroborated by inspection by external valuers. This data is regularly updated to include new properties and reflect changes in condition of existing properties. There is therefore a risk that it may not be updated correctly. Errors or omissions in the data could result in inappropriate valuations.</p>	<p>Assessing transparency: We assessed whether the Group's disclosures about the sensitivity of fair values to changes in key assumptions reflected the uncertainties inherent in the property valuations.</p> <p>Data integrity: We assessed the completeness and accuracy of the property information provided by the Group to the external valuers by agreeing key inputs, such as address, rental income, occupancy and current tenancy details to property contracts on a sample basis.</p> <p>Our results</p> <p>We found the estimated valuation of investment properties to be acceptable.</p>
<p>Recoverability of inventories (trading properties) (Net realisable value provision: £8.1m; 2016: £3.2m)</p> <p>Refer to page 55 (Audit Committee Report), pages 95-98 (critical accounting estimates and judgements) and page 116 (accounting policy and financial disclosures).</p>	<p>Subjective valuation</p> <p>Inventory is carried at the lower of cost and net realisable value ("NRV"). The Directors' assessment of NRV of inventory differs between residential properties and developments:</p> <ul style="list-style-type: none"> • For residential trading property NRV is based on vacant possession ("VP") value which is estimated with reference to comparable market evidence and the Group's own experience, which in some cases may be limited. This means that the valuation is inherently subjective and susceptible to misstatement. • For development trading property where the intention is to develop further prior to sale NRV is the forecast selling price less the remaining costs to complete and sell. There is a risk that the total forecast profits on a development may be overestimated and an impairment may not be recorded. This risk is highest for developments where the current carrying value exceeds the current market value. 	<p>In addition to the procedures set out in respect of core portfolio investment properties, our procedures for residential properties included:</p> <ul style="list-style-type: none"> • Historical comparisons: Comparing the year end valuation with the sales prices achieved for property sales after the balance sheet date. <p>For development trading properties our procedures included:</p> <ul style="list-style-type: none"> • Benchmarking assumptions: Challenging the key assumptions in the Group's plans and forecasts using third party data and the Group's historic experience of costs and revenues; • Sensitivity analysis: Challenging the key assumptions in the Group's plans and forecasts using third party data and the Group's historic experience of costs and revenues; • Comparing valuations: Where the intention is to sell without further development, comparing the carrying value of inventory to the market value of the site in its current condition. <p>Assessing transparency: We assessed whether the Group's disclosures about the sensitivity of the net realisable value provision to changes in key assumptions reflected the uncertainties inherent in property valuations and the Group's forecasts for developments.</p> <p>Our results</p> <p>We found the resulting estimate of the net realisable value of inventories to be acceptable.</p>
<p>Recoverability of parent company's investment in subsidiaries (£899.6m; 2016: £893.3m)</p> <p>Refer to page 55 (Audit Committee Report), page 138 (accounting policy) and page 139 (financial disclosures).</p>	<p>Subjective valuation</p> <p>The carrying amount of the parent company's investments in subsidiaries represents 92.3% (2016: 93.5%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Tests of detail: Comparing the carrying amount of 100% of investments with the relevant subsidiaries' prior year financial statements and current year draft balance sheets to identify whether their net assets, being an approximation of their recoverable amount, were in excess of their carrying amount. <p>Our results</p> <p>We found the Group's assessment of the recoverability of the investments in subsidiaries to be acceptable.</p>

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

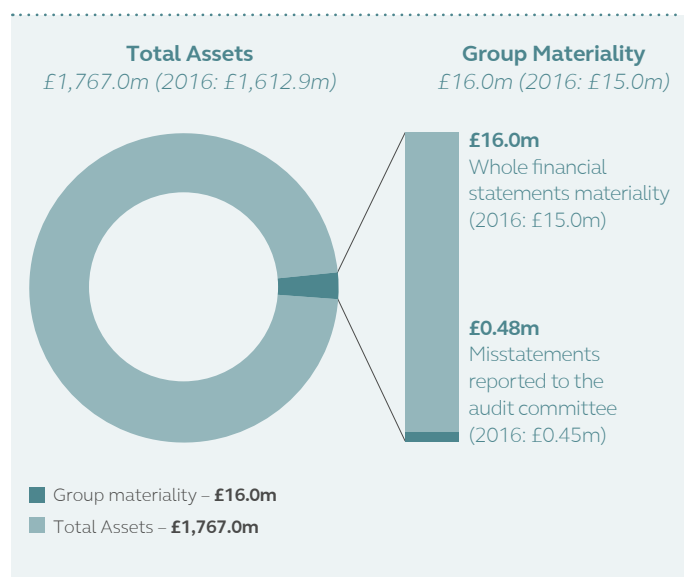
Materiality for the Group financial statements as a whole was set at £16.0m (2016: £15.0m), determined with reference to a benchmark of Group total assets of which it represents approximately 1% (2016: 1%).

In addition, we applied lower materiality of £3.0m (2016: £3.1m) to the specific income statement items which depict the trading performance of the Group, which exclude valuation movements and taxation. We believe misstatement of these specific income statement items of a lesser amount than materiality for the financial statements as a whole could reasonably be expected to influence the Company's members' assessment of the financial performance of the Group.

Materiality for the parent company financial statements as a whole was set at £16.0m (2016: £15.0m) determined with reference to a benchmark of Company net assets of which it represented 5% (2016: 4%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.48m (2016: £0.45m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality levels set out above and covered 100% of total Group revenue, Group profit before tax and total Group assets (2016: 100% of total Group revenue, Group profit before tax and total Group assets).



4. We have nothing to report on going concern

We are required to report to you if:

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

We have nothing to report in these respects.

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

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

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

Strategic report and Directors' report

Based solely on our work on the other information:

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

Directors' Remuneration Report

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

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

Disclosures of principal risks and longer-term viability

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

- the Directors' confirmation within the Viability Statement on page 41 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability Statements of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

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

We have nothing to report in these respects.

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

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 79, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

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

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

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

Bill Holland (Senior Statutory Auditor)

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

30 November 2017

Financial statements
Consolidated income statement
 For the year ended 30 September

	Notes	2017 £m	2016 £m
Group revenue	6	264.7	219.9
Net rental income	7	40.4	37.4
Profit on disposal of trading property	8	73.7	69.9
Profit on disposal of investment property	9	2.2	1.6
Income from financial interest in property assets	21	5.3	5.8
Fees and other income	10	5.1	7.3
Administrative expenses		(27.2)	(31.8)
Other expenses		(3.9)	(6.0)
Impairment of inventories to net realisable value	23	(5.4)	(2.7)
(Impairment)/reversal of impairment of joint venture	20	(3.6)	14.1
Operating profit before net valuation gains on investment property		86.6	95.6
Net valuation gains on investment property	17	18.0	20.3
Operating profit after net valuation gains on investment property		104.6	115.9
Change in fair value of derivatives	28	0.2	(9.9)
Finance costs	13	(29.1)	(39.2)
Finance income	13	2.1	2.5
Share of profit of associates after tax	19	4.3	9.8
Share of profit of joint ventures after tax	20	4.2	5.1
Profit before tax – continuing operations	12	86.3	84.2
Tax charge for the year – continuing operations	14	(12.8)	(9.7)
Profit after tax – continuing operations		73.5	74.5
Discontinued operations			
Profit after tax for the year for discontinued operations	3	1.2	60.8
Profit for the year attributable to the owners of the Company	33	74.7	135.3
Basic earnings per share	16	18.0p	32.6p
Diluted earnings per share	16	17.9p	32.5p
Basic earnings per share – continuing operations only	16	17.7p	18.0p
Diluted earnings per share – continuing operations only	16	17.6p	17.9p

Consolidated statement of comprehensive income

For the year ended 30 September

	Notes	2017 £m	2016 £m
Profit for the year – continuing operations	4	73.5	74.5
<i>Items that will not be transferred to the consolidated income statement:</i>			
Actuarial gain/(loss) on BPT Limited defined benefit pension scheme	29	4.6	(4.1)
<i>Items that may be or are reclassified to the consolidated income statement:</i>			
Fair value movement on financial interest in property assets	21	(1.0)	2.9
Exchange differences on translating foreign operations		(0.2)	1.1
Exchange adjustments recycled on disposal of foreign operations		–	(4.3)
Changes in fair value of cash flow hedges		11.9	(9.5)
Other comprehensive income and expense for the year before tax		15.3	(13.9)
<i>Tax relating to components of other comprehensive income:</i>			
Tax relating to items that will not be transferred to the consolidated income statement	14	(0.8)	0.5
Tax relating to items that may be or are reclassified to the consolidated income statement	14	(1.8)	1.7
Total tax relating to components of other comprehensive income		(2.6)	2.2
Other comprehensive income and expense for the year after tax – continuing operations		12.7	(11.7)
Total comprehensive income and expense for the year after tax – continuing operations		86.2	62.8
Profit after tax – discontinued operations	3	1.2	60.8
Total comprehensive income and expense for the year attributable to the owners of the Company		87.4	123.6

Financial statements
Consolidated statement of financial position
As at 30 September

	Notes	2017 £m	2016 £m
ASSETS			
Non-current assets			
Investment property	17	391.0	261.3
Property, plant and equipment	18	0.7	1.1
Investment in associates	19	123.2	105.1
Investment in joint ventures	20	74.4	78.9
Financial interest in property assets	21	86.1	93.1
Deferred tax assets	14	9.7	8.6
Intangible assets	22	2.4	2.1
		687.5	550.2
Current assets			
Inventories – trading property	23	841.3	904.3
Trade and other receivables	24	145.9	64.0
Derivative financial instruments	28	3.4	0.3
Cash and cash equivalents	28	88.9	90.7
Assets classified as held-for-sale		–	3.4
		1,079.5	1,062.7
Total assets		1,767.0	1,612.9
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	27	924.6	744.7
Retirement benefits	29	0.2	5.2
Provisions for other liabilities and charges	25	1.3	1.4
Deferred tax liabilities	14	32.6	30.2
		958.7	781.5
Current liabilities			
Interest-bearing loans and borrowings	27	1.1	99.0
Trade and other payables	26	48.8	38.4
Provisions for other liabilities and charges	25	0.8	0.9
Current tax liabilities		7.4	4.8
Derivative financial instruments	28	4.9	13.1
		63.0	156.2
Total liabilities		1,021.7	937.7
NET ASSETS		745.3	675.2
EQUITY			
Capital and reserves attributable to the owners of the Company			
Issued share capital	30	20.9	20.9
Share premium account		111.1	110.8
Merger reserve	32	20.1	20.1
Capital redemption reserve		0.3	0.3
Cash flow hedge reserve	32	(2.1)	(12.0)
Available-for-sale reserve	32	6.5	7.3
Retained earnings	33	588.5	527.7
Equity attributable to the owners of the Company		745.3	675.1
Non-controlling interests		–	0.1
TOTAL EQUITY		745.3	675.2

The financial statements on pages 88 to 135 were approved by the Board of Directors on 30 November 2017 and were signed on their behalf by:

Helen Gordon
Director

Vanessa Simms
Director

Company registration number: 125575

Consolidated statement of changes in equity

	Notes	Issued share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Cash flow hedge reserve £m	Available-for-sale reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
Balance as at 1 October 2015		20.9	110.7	20.1	0.3	(3.5)	4.6	411.7	0.1	564.9
Profit for the year	33	-	-	-	-	-	-	135.3	-	135.3
Other comprehensive income/(loss) for the year		-	-	-	-	(8.5)	2.7	(5.9)	-	(11.7)
Total comprehensive income		-	-	-	-	(8.5)	2.7	129.4	-	123.6
Award of SAYE shares	30	-	0.1	-	-	-	-	-	-	0.1
Purchase of own shares	30, 33	-	-	-	-	-	-	(0.6)	-	(0.6)
Share-based payments charge	31	-	-	-	-	-	-	1.9	-	1.9
Dividends paid	15	-	-	-	-	-	-	(14.7)	-	(14.7)
Total transactions with owners recorded directly in equity		-	0.1	-	-	-	-	(13.4)	-	(13.3)
Balance as at 30 September 2016		20.9	110.8	20.1	0.3	(12.0)	7.3	527.7	0.1	675.2
Profit for the year	33	-	-	-	-	-	-	74.7	-	74.7
Other comprehensive income/(loss) for the year		-	-	-	-	9.9	(0.8)	3.6	-	12.7
Total comprehensive income		-	-	-	-	9.9	(0.8)	78.3	-	87.4
Award of SAYE shares	30	-	0.3	-	-	-	-	-	-	0.3
Purchase of own shares	30, 33	-	-	-	-	-	-	(0.3)	-	(0.3)
Share-based payments charge	31	-	-	-	-	-	-	2.1	-	2.1
Elimination of non-controlling interests	-	-	-	-	-	-	-	-	(0.1)	(0.1)
Dividends paid	15	-	-	-	-	-	-	(19.3)	-	(19.3)
Total transactions with owners recorded directly in equity		-	0.3	-	-	-	-	(17.5)	(0.1)	(17.3)
Balance as at 30 September 2017		20.9	111.1	20.1	0.3	(2.1)	6.5	588.5	-	745.3

Financial statements
Consolidated statement of cash flows
For the year ended 30 September

	Notes	2017 £m	2016 £m
Cash flow from operating activities			
Profit for the year		74.7	135.3
Depreciation and amortisation	12	0.9	0.9
Net valuation gains on investment property	17	(18.0)	(19.4)
Net finance costs		27.0	45.4
Share of profit of associates and joint ventures	19, 20	(8.5)	(15.1)
Profit on disposal of investment property	9	(2.2)	(1.6)
Share-based payments charge	31, 33	2.1	1.9
Change in fair value of derivatives	28	(0.2)	9.9
Impairment/(reversal of impairment) of joint venture	20	3.6	(14.1)
Income from financial interest in property assets	21	(5.3)	(5.8)
Tax	14	13.1	10.9
Profit on disposal of discontinued operations		-	(56.6)
Costs of loan settlement – discontinued operations		-	12.3
Cash generated from operations before changes in working capital		87.2	104.0
Increase in trade and other receivables		(78.8)	(12.2)
Increase/(decrease) in trade and other payables		15.5	(6.0)
Decrease in provisions for liabilities and charges		(0.2)	(0.1)
Decrease in inventories		61.2	13.2
Cash generated from operations		84.9	98.9
Interest paid		(27.1)	(42.4)
Tax paid	14	(11.8)	(1.9)
Payments to defined benefit pension scheme	29	(0.5)	(0.6)
Net cash inflow from operating activities		45.5	54.0
Cash flow from investing activities			
Proceeds from sale of investment property		9.4	13.2
Proceeds from financial interest in property assets	21	11.3	9.3
Proceeds from disposal of discontinued operations net of costs and cash disposed	3	-	222.3
Dividends received	19, 20	4.8	7.5
(Investment in)/cash repaid from associates and joint ventures	19, 20	(13.3)	0.7
Acquisition of investment property	17	(118.9)	(79.5)
Acquisition of property, plant and equipment and intangible assets		(0.8)	(0.6)
Net cash (outflow)/inflow from investing activities		(107.5)	172.9
Cash flow from financing activities			
Awards of SAYE shares		0.3	0.1
Purchase of own shares	30, 33	(0.3)	(0.6)
Proceeds from new borrowings		320.0	188.2
Payment of loan costs		(3.1)	(1.7)
Purchase of interest rate caps		-	(1.0)
Payment of loan settlement costs		-	(11.7)
Settlement of derivative contracts		-	(37.9)
Repayment of borrowings		(237.6)	(347.5)
Dividends paid	15	(19.3)	(14.7)
Net cash inflow/(outflow) from financing activities		60.0	(226.8)
Net (decrease)/increase in cash and cash equivalents		(2.0)	0.1
Cash and cash equivalents at the beginning of the year	28	90.7	88.8
Net exchange movements on cash and cash equivalents		0.2	1.8
Cash and cash equivalents at the end of the year	28	88.9	90.7

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

Notes to the financial statements

1. Accounting policies

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

(a) Basis of preparation

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

The Group financial statements for the year ended 30 September 2017 have been prepared in accordance with EU endorsed International Financial Reporting Standards ('EU IFRS'), IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Company has prepared its company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'), which are presented on pages 136 to 144.

The accounting policies set out below and in notes to the financial statements have, unless otherwise stated, been applied consistently to all periods presented in the Group financial statements. No new accounting policies have been adopted in the year and there has been no change to the basis of accounting estimates in the year.

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

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

Going concern

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

i) Covenant compliance – The Directors have reviewed the Group's financial projections covering a minimum period of at least 12 months beyond the date of signing of these financial statements, which include covenant compliance forecasts. These projections show that the Group will meet its covenant requirements.

ii) Banking facilities – The Directors have reviewed the available headroom on the Group. Cash flow projections confirm that the Group will remain within its facilities for a minimum period of at least 12 months beyond the date of signing of these financial statements.

(b) Basis of consolidation

i) Subsidiaries – Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

1. Accounting policies continued

ii) Joint ventures and associates – Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Where the Group owns less than 50% of the voting rights but acts as property and/or asset manager an assessment is made as to whether or not the Group has de facto control over an investee. This includes a review of the Group's rights relative to those of another investor or investors and the ability the Group has to direct the investees' relevant activities (further detail is provided in Note 19).

Investments in joint ventures and associates are accounted for by the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss after the date of acquisition.

The joint venture and associate results for the 12 months to 30 September 2017 and the financial position as at that date have been equity accounted in these financial statements. The Group's share of its joint ventures' and associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. Where the Group's interest has been reduced to £nil, additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture or associate. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

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

iii) Business combinations – At the time of acquisition, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. The Group accounts for an acquisition as a business combination where an integrated set of activities are acquired in addition to the property. When the acquisition of a subsidiary does not represent a business, it is accounted for as an acquisition of assets and liabilities. The cost of acquisition is allocated to the assets and liabilities acquired based on their fair values, and no goodwill or deferred tax is recognised.

iv) Goodwill and impairment – Business combinations are accounted for using the acquisition method. The cost of the acquisition is measured as the fair value of the assets given and equity instruments issued. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, including intangible assets, of the acquired entity at the date of acquisition. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Costs attributable to an acquisition are expensed in the consolidated income statement under the heading 'Other expenses'.

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

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

There are no new standards, amendments or interpretations that are effective for the first time for the current financial year that have a material impact on the Group.

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

- IFRS 9 Financial Instruments (effective from 1 April 2018) – The standard applies to classification and measurement of financial assets and financial liabilities, impairment provisioning and hedge accounting. The Group is in the process of assessing the impact of IFRS 9. Adoption of the new standard is expected to have limited impact on the measurement of the Group's financial liabilities. The adoption will require presentational changes.
- IFRS 15 Revenue from Contracts with Customers (effective from 1 April 2018) – The standard will be applicable to property and asset management fee income and proceeds from the disposal of trading and investment property, but not gross rental income. Based on the transactions impacting the current financial year and future known transactions, the Group does not expect the adoption of IFRS 15 to have a material impact on the Group's reported results. However, we will continue to assess new transactions as they arise to the date of adoption.
- IFRS 16 Leases (effective from 1 April 2019) – The adoption of this standard is not expected to significantly impact the recognition of rental income earned under the Group's leases with tenants. The Group holds operating leases as a lessee in relation to its office premises which are affected by this standard and as such adoption of the new standard may impact the measurement and presentation of the Group's assets and liabilities.
- IAS 40 Investment Property, proposed amendment. In November 2015 the IASB issued an Exposure Draft on a proposed amendment to clarify situations in which properties can be transferred from investment property to trading property and vice versa. The IASB further announced in July 2016 that it has now recommended finalising this amendment. The Group will consider reclassification of individual assets if it is appropriate and circumstances meet the definitions and requirements of the amendment.

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

2. Critical accounting estimates and judgements

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

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

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

Estimates

1) Valuation of property assets

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

2. Critical accounting estimates and judgements continued

The results and the basis of each valuation and their impact on both the statutory financial statements and market value for the Group's non-GAAP net asset value measures are set out below:

	Residential £m	Development £m	Others £m	Financial assets £m	Total £m	Valuer	% of properties for which external valuer provides valuation
Trading property	797.6	43.7	–	–	841.3		
Investment property	391.0	–	–	–	391.0		
Financial asset (CHARM)	–	–	–	86.1	86.1		
Total statutory book value	1,188.6	43.7	–	86.1	1,318.4		
Trading property							
Residential	1,052.6	–	–	–	1,052.6	Allsop LLP	69%
GInvest	373.6	–	–	–	373.6	Allsop LLP	100%
Developments	19.5	41.4	–	–	60.9	CBRE Limited	85%
Total trading property	1,445.7	41.4	–	–	1,487.1		
Investment property							
Residential	122.8	–	–	–	122.8	Allsop LLP	69%
Tricomm Housing	120.1	–	–	–	120.1	Allsop LLP	100%
Affordable housing	27.5	–	–	–	27.5	Allsop LLP	100%
PRS build to rent	120.6	–	–	–	120.6	CBRE Limited	93%
Total investment property	391.0	–	–	–	391.0		
Financial asset (CHARM) ³	–	–	–	86.1	86.1	Allsop LLP	
Total assets at market value	1,836.7	41.4	–	86.1	1,964.2		
Statutory book value	1,188.6	43.7	–	86.1	1,318.4		
Market value adjustment ¹	648.1	(2.3)	–	–	645.8		
Total assets at market value	1,836.7	41.4	–	86.1	1,964.2		
Net revaluation gain recognised in the income statement for wholly-owned properties	16.2	1.8	–	–	18.0		
Net revaluation gain relating to joint ventures and associates ²	–	–	5.4	–	5.4		
Net revaluation gain recognised in the year²	16.2	1.8	5.4	–	23.4		

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

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

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

i) Residential – The Group's own in-house qualified team provided a vacant possession value for the majority of the Group's UK residential properties as at 30 September 2017. A structured sample of these in-house valuations was reviewed by Allsop LLP, an external independent valuer. Valuing the large number of properties in this portfolio is a significant task. For this reason it is undertaken on an external inspection basis only. Invariably, when the in-house valuations are compared with those of the external valuer, around 75% of the valuations are within a small acceptable tolerance. Where the difference is more significant, this is discussed with the valuer to determine the reasons for the difference. Typically, the reasons vary, but it could be, for example, that further or better information about internal condition is available or that respective valuers have placed a different interpretation on comparable sales. Once such reasons have been identified, the Group and the valuer agree the appropriate valuation that should be adopted as the Directors' Valuation.

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

Property held in the Residential Portfolio was valued as at 30 September 2017 by Grainger's in-house surveyors. These valuations were reviewed and approved by the Directors. Allsop LLP has undertaken a comprehensive review of the Directors' Valuation and they are satisfied with the process by which the in-house valuations were conducted. Allsop LLP valued approximately 78% of the

Residential Portfolio, independently of the Group. Based on the results of that review, Allsop LLP has concluded that they have a high degree of confidence in those Directors' Valuations.

Allsop LLP also recommends a discount to apply to the vacant possession valuations to establish the market value of each property. For property in the Residential Portfolio, the discounts are established by tenancy type and are based on evidence gathered by Allsop LLP from recent transactional market evidence.

ii) GInvest – All of the property owned by the Group in the GInvest portfolio was valued as at 30 September 2017 by Allsop LLP.

The market value of the properties subject to the assumption that the dwellings would be sold individually, which is deemed to be the highest and best use, in their existing condition, and subject to any existing leases or tenancies was provided by Allsop LLP. The valuer's opinion of market value was primarily derived using comparable recent market transactions on arm's-length terms.

iii) Tricomm Housing – Allsop LLP provided an investment valuation as at 30 September 2017 for the property assets owned by the Group and let under a long-term lease arrangement with the Secretary of State for Defence under a PFI project agreement. The investment valuation has been made in accordance with RICS Professional Valuation Standards, and is based on a discounted cash flow model.

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

Significant unobservable inputs within the valuation relate to assumptions for house price inflation and the discount rates to apply to the cash flows. The assumptions adopted for house price inflation are 3.25% in 2018, 3.50% in 2019, 3.25% in 2020, 2021 and 2022 and 2.75% thereafter. The discount rates applied to the cash flows range between 3.3% and 9.0%.

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

The key assumptions affecting the carrying value are house price inflation and the discount rate. The assumptions used to value the asset adopt an increase in house prices of between 2.5% and 4.0% per annum. A discount rate of 3.5% has been applied to the interest income and a rate of 6.5% has been applied to the projected proceeds from sales of the underlying properties, reflecting the risk profile of each individual income stream.

The fair value of the interest changes as cash flows are realised and a decrease of £1.0m (2016: increase of £2.9m) in the fair value has been recognised in the statement of other comprehensive income and the available-for-sale reserve.

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

vi) Developments – The current market value of the Group's land and property held within the development segment has been assessed by CBRE Limited which are external independent valuers. Their valuation, representing 85% of the total value of development trading stock, is on the basis of fair value as defined in the RICS Professional Valuation Standards where fair value is the same as market value. The remaining 15% of the portfolio is a Directors' Valuation.

vii) PRS build-to-rent assets – CBRE assessed the current fair value of the completed assets and assets in the course of construction. The principal approach was to value the apartments on an income capitalisation basis, having regard to prevailing market conditions and evidence, and with close regard to the relativity between the market value and the aggregate vacant possession value. Where applicable, estimated costs required to complete construction have been taken into account. The valuation has been prepared in accordance with RICS Professional Valuation Standards where fair value is the same as market value.

2. Critical accounting estimates and judgements continued

viii) Joint ventures and associates – Property assets in the joint venture Walworth Investment Properties Limited ('WIP') are valued on the same basis as the GInvest portfolio.

Property assets in the associate GRIP REIT PLC were valued at 30 June 2017 by external valuers, CBRE Limited. In aggregate, the valuation of the individual dwellings as at 30 June 2017 was £660.5m for all assets still held at 30 September 2017. In assessing the Group's share of GRIP REIT net assets for the purposes of the Group's financial statements to 30 September 2017, after full consideration of movement in house price indices, the Group's Directors made a 0.25% (£1.5m) adjustment to increase the 30 June 2017 valuations.

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

As required by RICS Professional Valuation Standards, all of the external valuers in the UK mentioned above have made full disclosure of the extent and duration of their work for, and fees earned by them from, the Group, which in all cases are less than 5% of their total fees.

2) 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.

Net realisable value is the net sales proceeds which the Group expects on sale of a property with vacant possession. The Group has a net realisable value provision of £8.1m as at 30 September 2017 (2016: £3.2m). The provision includes specific properties which are vacant and properties we expect to become vacant in the future.

3) Derivative financial instruments

Fair value measurements for derivative financial instruments are obtained from quoted market prices and/or valuation models as appropriate. When not directly observable in active markets, the fair value of derivative contracts must be computed internally based on internal assumptions as well as directly observable market information, including forward and yield curves for commodities, currencies and interest. Changes in internal assumptions and forward curves could materially impact the internally computed fair value of derivative contracts, particularly long-term contracts, resulting in a corresponding impact on income or loss in the consolidated income statement.

Changes to key assumptions could impact both income and financial position. The impact of changes to key assumptions is considered for assets using a range of reasonable changes. The Group measures its market risk exposure internally by running various sensitivity analyses. The Directors consider that a +/- 2 percentage point (2016: 2 percentage point) movement in house prices represents a reasonable possible change. The table below sets out potential impacts that may result from changes to certain assumptions:

		2017		2016	
		Income statement impact £m	Statement of financial position impact £m	Income statement impact £m	Statement of financial position impact £m
Increase of 2% in house prices	GRIP	3.4	3.4	3.0	3.0
Decrease of 2% in house prices	GRIP	(3.4)	(3.4)	(3.0)	(3.0)
Increase of 2% in house prices	NRV provision	1.0	1.0	0.4	0.4
Decrease of 2% in house prices	NRV provision	(1.1)	(1.1)	(1.0)	(1.0)
Increase of 25bps in HPI rate	CHARM	0.2	1.3	0.2	1.2
Decrease of 25bps in HPI rate	CHARM	(0.2)	(1.3)	(0.2)	(1.1)
Increase of 1% in discount rate	CHARM	-	(5.9)	-	(6.6)
Decrease of 1% in discount rate	CHARM	-	6.6	-	7.5
Increase of 25bps in discount rate	Tricomm Housing	(2.3)	(2.3)	(2.3)	(2.3)
Decrease of 25bps in discount rate	Tricomm Housing	2.3	2.3	2.4	2.4
Increase of 25bps in HPI rate	Tricomm Housing	1.7	1.7	1.6	1.6
Decrease of 25bps in HPI rate	Tricomm Housing	(1.7)	(1.7)	(1.6)	(1.6)
Increase of 25bps in gross yield	PRS build-to-rent	(1.3)	(1.3)	(1.3)	(1.3)
Decrease of 25bps in gross yield	PRS build-to-rent	1.4	1.4	1.4	1.4

Judgements

1) Distinction between investment and trading property

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

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

2) Adjusted earnings

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

Non-recurring items in 2017 saw a charge of £2.8m (2016: £7.4m income). The charge in the year comprised two main components. £1.2m relates to the implementation of strategic change in operations and £1.6m relates to a provision for historic non-core businesses. In 2016, £7.4m income was recorded relating to these non-core businesses.

3. Discontinued operations

Accounting policy

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

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

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

3. Discontinued operations continued

During the previous financial year, the Group disposed of the Retirement Solutions division, other than the CHARM portfolio which was retained, and the majority of the German operations. These operations were classified as discontinued.

Discontinued operations		2017	2016
For the year ended 30 September	Notes	£m	£m
Group revenue		0.4	33.4
Net rental income		0.2	3.5
Profit on disposal of trading property, investment property and assets held for sale		0.7	11.9
Fees and other income		0.8	1.4
Administrative expenses		(0.2)	(2.4)
Operating profit before net valuation deficits on investment property		1.5	14.4
Net valuation deficits on investment property		–	(0.9)
Operating profit after net valuation deficits on investment property		1.5	13.5
Net finance cost		–	(8.3)
Share of profit of joint ventures and associates after tax		–	0.2
Profit before disposals		1.5	5.4
Profit on sale of Retirement Solutions		–	48.3
Profit on sale of Germany operations		–	8.3
Discontinued disposal profit before tax		–	56.6
Profit before tax		1.5	62.0
Current tax			
Current tax on discontinued operations	14	(0.3)	(1.0)
Current tax on sale of discontinued operations	14	–	(0.2)
Profit after tax		1.2	60.8
Basic earnings per share – discontinued operations		0.3p	14.6p
Diluted earnings per share – discontinued operations		0.3p	14.6p

Cash flow from discontinued operations:

	2017	2016
	£m	£m
Net cash (outflow)/inflow from operating activities	(0.4)	16.5
Net cash (outflow)/inflow from investing activities	(0.8)	226.3
Net cash outflow from financing activities	(5.1)	(24.0)
Net cash (outflow)/inflow	(6.3)	218.8

Investment property in Grainger Portfolio 3 GmbH of £3.1m was transferred to assets classified as held-for-sale in the prior year. The cash flow presented above represents activities relating to the disposal of the remaining assets and in winding down the remaining business in Germany.

4. Analysis of profit before tax – continuing operations

The table below provides adjusted earnings, which is one of Grainger's key performance indicators. The metric is utilised as a key measure to aid understanding of the performance of the continuing business and excludes valuation movements and non-recurring items that are one-off in nature, which do not form part of the normal ongoing revenue or costs of the business and, either individually or in aggregate, are material to the reported Group results.

£m	2017				2016			
	Statutory	Valuation	Non-recurring	Adjusted earnings	Statutory	Valuation	Non-recurring	Adjusted earnings
Group revenue	264.7	–	–	264.7	219.9	–	–	219.9
Net rental income	40.4	–	–	40.4	37.4	–	–	37.4
Profit on disposal of trading property	73.7	(0.8)	–	72.9	69.9	–	–	69.9
Profit on disposal of investment property	2.2	–	–	2.2	1.6	–	–	1.6
Income from financial interest in property assets	5.3	0.9	–	6.2	5.8	0.7	–	6.5
Fees and other income	5.1	–	–	5.1	7.3	–	(1.1)	6.2
Administrative expenses	(27.2)	–	–	(27.2)	(31.8)	–	–	(31.8)
Other expenses	(3.9)	–	2.8	(1.1)	(6.0)	–	4.9	(1.1)
Impairment of inventories to net realisable value	(5.4)	5.4	–	–	(2.7)	2.7	–	–
(Impairment)/reversal of impairment of joint venture	(3.6)	3.6	–	–	14.1	(4.7)	(9.4)	–
Operating profit before net valuation gains on investment property	86.6	9.1	2.8	98.5	95.6	(1.3)	(5.6)	88.7
Net valuation gains on investment property	18.0	(18.0)	–	–	20.3	(20.3)	–	–
Operating profit after net valuation gains on investment property	104.6	(8.9)	2.8	98.5	115.9	(21.6)	(5.6)	88.7
Change in fair value of derivatives	0.2	(0.2)	–	–	(9.9)	9.9	–	–
Finance costs	(29.1)	–	–	(29.1)	(39.2)	–	–	(39.2)
Finance income	2.1	–	–	2.1	2.5	–	(0.4)	2.1
Share of profit of associates after tax	4.3	(1.8)	–	2.5	9.8	(8.8)	–	1.0
Share of profit of joint ventures after tax	4.2	(3.8)	–	0.4	5.1	(3.2)	(1.4)	0.5
Profit before tax – continuing operations	86.3	(14.7)	2.8	74.4	84.2	(23.7)	(7.4)	53.1
Tax charge for the year – continuing operations	(12.8)	–	–	–	(9.7)	–	–	–
Profit after tax – continuing operations	73.5	–	–	–	74.5	–	–	–
Discontinued operations – profit before tax	1.5	–	–	–	62.0	–	–	–
Tax charge for the year – discontinued operations	(0.3)	–	–	–	(1.2)	–	–	–
Profit for the year attributable to the owners of the Company	74.7	–	–	–	135.3	–	–	–
Diluted earnings per share – adjusted	–	–	–	14.3p	–	–	–	10.2p

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

Profit before tax in the adjusted columns above of £74.4m (2016: £53.1m) is the adjusted earnings of the Group. Adjusted earnings per share assumes tax of £14.5m (2016: £10.6m) in line with the current effective rate of 19.5% (2016: 20.0%), divided by the weighted average number of shares as shown in Note 16.

Non-recurring in 2017 primarily comprises a provision for historic non-core businesses of £1.6m and costs relating to the implementation of strategic change in operations of £1.2m. In 2016, £7.4m income was recorded relating to these non-core businesses.

5. Segmental information

Accounting policy

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

The title 'Other' has been included in the tables below to reconcile the segments to the figures reviewed by the CODM and includes certain central costs that cannot be allocated to the operating segments. The key operating performance measure of profit or loss used by the CODM is adjusted earnings before tax, valuation and non-recurring items. The CODM reviews by segment two key statement of financial position measures of net asset value. These are EPRA Net Asset Value ('EPRA NAV') and EPRA Triple Net Asset Value ('EPRA NNAV').

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

2017 Income statement – continuing operations

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

2016 Income statement – continuing operations

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

Segmental assets

The two principal net asset value measures reviewed by the CODM are EPRA NAV and EPRA NNNAV. These measures reflect the current market value of trading property owned by the Group rather than the lower of historical cost and net realisable value. These measures are considered to be a more relevant reflection of the value of the assets owned by the Group (see EPRA performance measures on page 145 for definitions).

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

2017 Segment net assets

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

'Other' includes CHARM assets.

2017 Reconciliation of EPRA NAV measures

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

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

30 September 2017 £m	Residential	Development	Funds	Other	Total
EPRA NNNAV assets					
Investment property	391.0	-	-	-	391.0
Investment in joint ventures and associates	15.8	(0.5)	182.3	-	197.6
Financial interest in property assets	-	-	-	86.1	86.1
Inventories – trading property	1,445.7	41.4	-	-	1,487.1
Cash and cash equivalents	34.1	8.0	0.4	46.4	88.9
Other assets	17.4	124.8	2.0	29.5	173.7
Total segment EPRA NNNAV assets	1,904.0	173.7	184.7	162.0	2,424.4
EPRA NNNAV liabilities					
Interest-bearing loans and borrowings	(819.9)	(34.4)	(71.2)	(25.0)	(950.5)
Deferred and contingent tax liabilities	(141.2)	1.1	(0.8)	(1.4)	(142.3)
Other liabilities	(10.6)	(5.7)	-	(47.1)	(63.4)
Total segment EPRA NNNAV liabilities	(971.7)	(39.0)	(72.0)	(73.5)	(1,156.2)
Net EPRA NNNAV assets	932.3	134.7	112.7	88.5	1,268.2

5. Segmental information continued

2016 Segment net assets

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

2016 Reconciliation of EPRA NAV measures

£m	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	EPRA NAV balance sheet	Deferred and contingent tax	Derivatives/ fixed rate debt	EPRA NNNAV balance sheet
Investment property	261.3	–	261.3	–	–	261.3
Investment in joint ventures and associates	184.0	8.6	192.6	(6.9)	(1.7)	184.0
Financial interest in property assets	93.1	–	93.1	–	–	93.1
Inventories – trading property	904.3	649.4	1,553.7	–	–	1,553.7
Cash and cash equivalents	90.7	–	90.7	–	–	90.7
Other assets	79.5	4.7	84.2	–	7.3	91.5
Total assets	1,612.9	662.7	2,275.6	(6.9)	5.6	2,274.3
Interest-bearing loans and borrowings	(843.7)	–	(843.7)	–	(26.8)	(870.5)
Deferred and contingent tax liabilities	(30.2)	28.5	(1.7)	(138.8)	–	(140.5)
Other liabilities	(63.8)	13.1	(50.7)	–	(13.1)	(63.8)
Total liabilities	(937.7)	41.6	(896.1)	(138.8)	(39.9)	(1,074.8)
Net assets	675.2	704.3	1,379.5	(145.7)	(34.3)	1,199.5

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

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

6. Group revenue – continuing operations

Accounting policy

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

	2017 £m	2016 £m
Gross rental income (Note 7)	54.6	51.9
Gross proceeds from disposal of trading property (Note 8)	205.0	160.7
Fees and other income (Note 10)	5.1	7.3
	264.7	219.9

7. Net rental income – continuing operations

Accounting policy

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

	2017 £m	2016 £m
Gross rental income	54.6	51.9
Property repair and maintenance costs	(14.2)	(14.5)
	40.4	37.4

8. Profit on disposal of trading property – continuing operations

Accounting policy

Property is regarded as sold when the significant risks and returns have been transferred to the buyer. This is deemed to be on legal completion. Profits or losses are calculated by reference to the carrying value of the property sold. For a development property this is assessed through the use of a gross margin for the site as a whole or such other basis that provides an appropriate allocation of costs.

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

	2017 £m	2016 £m
Proceeds from disposal of trading property	169.1	136.6
Revenue from construction contract	35.9	24.1
Gross proceeds from disposal of trading property	205.0	160.7
Selling costs	(3.8)	(3.3)
Net proceeds from disposal of trading property	201.2	157.4
Carrying value of trading property sold	(100.6)	(63.4)
Carrying value of construction contract expenses	(26.9)	(24.1)
	73.7	69.9

Amounts relating to the construction contract included in the table above relate to the Group's development of properties in the arrangement with the Royal Borough of Kensington and Chelsea.

The Group is managing and funding the construction of a number of sites and is receiving a developer's priority return at a fixed rate margin from the sale of units to third parties as they are completed. The construction contract is being accounted for as a cost plus contract in line with IAS 11 Construction Contracts.

9. Profit on disposal of investment property – continuing operations

Accounting policy

Investment property is regarded as sold when the significant risks and returns have been transferred to the buyer. This is deemed to be on legal completion. Profits or losses are calculated by reference to the carrying value of the property sold.

	2017 £m	2016 £m
Gross proceeds from disposal of investment property	9.5	4.1
Selling costs	(0.1)	(0.1)
Net proceeds from disposal of investment property	9.4	4.0
Carrying value of investment property sold (Note 17)	(7.2)	(2.4)
	2.2	1.6

10. Fees and other income – continuing operations

Accounting policy

Management fee income includes performance fees which are recognised in line with contract provisions when the revenue can be reliably measured, and there is reasonable certainty that the performance criteria will be met. Management fee income is recognised in the accounting period in which the services are rendered.

	2017 £m	2016 £m
Property and asset management fee income	5.1	5.9
Other sundry income	–	1.4
	5.1	7.3

11. Employees – continuing operations

	2017 £m	2016 £m
Wages and salaries	13.3	14.7
Termination benefits	0.8	1.8
Social security costs	1.7	1.7
Other pension costs – defined contribution scheme (Note 29)	0.9	1.0
Share-based payments (Note 31)	2.1	1.9
	18.8	21.1

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

	2017 Number	2016 Number
Residential	121	106
Development	8	12
Shared services	75	111
Group	11	17
	215	246

Details of Directors' remuneration, including pension costs, share options and interests in the LTIP, are provided in the audited section of the Remuneration Committee report on pages 68 to 74.

Information about benefits of Directors

The following amounts are disclosed in accordance with Schedule 5 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008.

	2017 £'000	2016 £'000
Aggregate Directors' remuneration	2,602	2,579
Aggregate amount of gains on exercise of share options	41	3
Aggregate amount of money or assets received or receivable under scheme interests	537	3,092
	3,180	5,674

None of the Directors (2016: none) were members of the Group defined benefit scheme or the defined contribution scheme.

Key management compensation

	2017 £m	2016 £m
Short-term employee benefits	5.9	6.4
Post-employment benefits	0.4	0.5
Share-based payments	1.6	1.2
Payments for loss of office	0.1	0.7
	8.0	8.8

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

12. Profit before tax – continuing operations

	2017 £m	2016 £m
Profit before tax is stated after charging:		
Depreciation of fixtures, fittings and equipment	0.5	0.6
Amortisation of IT software	0.4	0.3
Bad debt expense	0.1	0.2
Operating lease payments	0.9	1.0
Auditor's remuneration (see below)	0.3	0.4

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

Auditor's remuneration

	2017 £'000	2016 £'000
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	84	84
Fees payable to the Company's auditor and their associates for other services to the Group:		
The audit of the Company's subsidiaries pursuant to legislation	126	158
	210	242
Audit related assurance services	31	30
Tax advisory services	–	48
Tax compliance services	–	4
Other services	41	–
Other assurance services	9	39
Total fees	291	363

The relevant proportion of amounts paid to the auditor for the audit of the financial statements of joint ventures is £4,100 (2016: £4,000).

During the year the largest non-audit fees paid to KPMG LLP were £41,000 in connection with Members' Voluntary Liquidation services and £31,000 in relation to a review of the interim financial information included in the half yearly financial report.

13. Finance costs and income – continuing operations

	2017 £m	2016 £m
Finance costs		
Bank loans and mortgages	16.2	18.7
Non-bank financial institution	0.3	5.1
Corporate bond	13.6	13.6
Interest capitalised under IAS 23	(3.4)	(1.3)
Other finance costs	2.4	3.1
	29.1	39.2
Finance income		
Interest receivable from associates and joint ventures (Note 35)	(0.8)	(1.6)
Other interest receivable	(1.3)	(0.9)
	(2.1)	(2.5)
Net finance costs	27.0	36.7

14. Tax**Accounting policy**

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

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

Tax payable upon the realisation of revaluation gains recognised in prior periods is recorded as a current tax charge with a release of the associated deferred tax.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will give rise to a future tax liability against which the deferred tax assets can be recovered.

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

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

The tax charge for the year of £13.1m (2016: £10.9m) recognised in the consolidated income statement comprises:

	2017 £m	2016 £m
Current tax		
Corporation tax on profit	14.1	8.0
Adjustments relating to prior years	0.3	(2.2)
	14.4	5.8
Deferred tax		
Origination and reversal of temporary differences	3.5	9.0
Adjustments relating to prior years	(4.8)	–
Impact of tax rate change	–	(3.9)
	(1.3)	5.1
Total tax charge for the year	13.1	10.9
Tax charge for the year comprises:		
Tax charge in the income statement – continuing operations	12.8	9.7
Tax from discontinued operations (excluding gain on sale)	0.3	1.0
Tax on sale of discontinued operations	–	0.2
Total tax charge for the year	13.1	10.9

The 2017 current tax adjustments relating to prior years include adjustments to recognise tax losses and other reliefs available to the Group, whilst deferred tax adjustments relate primarily to losses carried forward, which have been included in submitted tax returns.

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

The Group’s results for this accounting period are taxed at an effective rate of 19.5% (2016: 20%).

The tax charge for the year is different to the charge for the year derived by applying the standard rate of corporation tax in the UK of 19.5% (2016: 20%) to the profit before tax. The differences are explained below:

	2017 £m	2016 £m
Profit before tax including discontinued operations	87.8	146.2
Profit before tax at a rate of 19.5% (2016: 20%)	17.1	29.2
Expenses not deductible for tax purposes	1.7	1.5
Share of joint ventures/associates after tax	(0.8)	(0.5)
Non-taxable disposal and revaluation of investments	(0.4)	(13.2)
Impact of tax rate changes	–	(3.9)
Adjustment in respect of prior periods	(4.5)	(2.2)
Amounts recognised in the income statement	13.1	10.9

In addition to the above, a deferred tax charge of £2.6m (2016: deferred tax credit of £2.2m) was recognised within other comprehensive income comprising:

	2017 £m	2016 £m
Deferred tax		
Actuarial deficit on BPT Limited pension scheme	0.8	(0.5)
Equity component of available-for-sale financial asset	(0.2)	0.2
Fair value movement in cash flow hedges and exchange adjustments	2.0	(1.9)
Amounts recognised in other comprehensive income	2.6	(2.2)

14. Tax continued

Deferred tax balances comprise temporary differences attributable to:

	2017 £m	2016 £m
Deferred tax assets		
Accelerated capital allowances	0.3	0.2
Short-term temporary differences	4.2	4.9
Losses carried forward	4.5	–
Actuarial deficit on BPT Limited pension scheme	0.2	1.0
Fair value movement in cash flow hedges and exchange adjustments	0.5	2.5
	9.7	8.6
Deferred tax liabilities		
Trading property uplift to fair value on business combinations	(10.3)	(11.4)
Investment property revaluation	(20.7)	(17.0)
Short-term temporary differences	(0.4)	(0.4)
Equity component of available-for-sale financial asset	(1.2)	(1.4)
	(32.6)	(30.2)
Total deferred tax	(22.9)	(21.6)

Deferred tax has been predominantly calculated at a rate of 17% (2016: 17%) in line with changes to the main rate of corporation tax from 1 April 2020 which have been substantively enacted.

In addition to the tax amounts shown above, contingent tax based on EPRA market value measures being tax on the difference between the carrying value of trading properties in the statement of financial position and their market value has not been recognised by the Group. This contingent tax amounts to £109.8m (2016: £110.4m).

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

15. Dividends**Accounting policy**

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

Dividends paid in the year are shown below:

	2017 £m	2016 £m
Ordinary dividends on equity shares:		
Final dividend for the year ended 30 September 2015 – 2.11p per share	–	8.7
Interim dividend for the year ended 30 September 2016 – 1.45p per share	–	6.0
Final dividend for the year ended 30 September 2016 – 3.05p per share	12.7	–
Interim dividend for the year ended 30 September 2017 – 1.60p per share	6.6	–
	19.3	14.7

Subject to approval at the AGM, the final dividend of 3.26p per share (gross) amounting to £13.6m will be paid on 9 February 2018 to shareholders on the register at the close of business on 29 December 2017. Shareholders will again be offered the option to participate in a dividend reinvestment plan and the last day for election is 15 January 2018. An interim dividend of 1.60p per share amounting to a total of £6.6m was paid to shareholders on 30 June 2017.

16. Earnings per share

Accounting policy

Basic earnings per share is calculated by dividing the profit or loss attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held both in Trust and as treasury shares to meet its obligations under the Long-Term Incentive Plan ('LTIP'), Deferred Bonus Plan ('DBP') and Save As You Earn ('SAYE') scheme, on which the dividends are being waived.

Diluted earnings per share is calculated by adjusting the weighted average number of shares in issue by the dilutive effect of ordinary shares that the Company may potentially issue relating to its share option schemes and contingent share awards under the LTIP and DBP, based upon the number of shares that would be issued if 30 September 2017 was the end of the contingency period. Where the effect of the above adjustments is antidilutive, they are excluded from the calculation of diluted earnings per share.

	30 September 2017			30 September 2016		
	Profit for the year £m	Weighted average number of shares (millions)	Earnings per share (pence)	Profit for the year £m	Weighted average number of shares (millions)	Earnings per share (pence)
Basic earnings per share – continuing and discontinued operations						
Profit attributable to equity holders	74.7	415.6	18.0	135.3	414.4	32.6
Effect of potentially dilutive securities						
Share options and contingent shares	-	2.3	(0.1)	-	1.5	(0.1)
Diluted earnings per share – continuing and discontinued operations						
Profit attributable to equity holders	74.7	417.9	17.9	135.3	415.9	32.5
Basic earnings per share – continuing operations only						
Profit attributable to equity holders	73.5	415.6	17.7	74.5	414.4	18.0
Effect of potentially dilutive securities						
Share options and contingent shares	-	2.3	(0.1)	-	1.5	(0.1)
Diluted earnings per share – continuing operations only						
Profit attributable to equity holders	73.5	417.9	17.6	74.5	415.9	17.9

17. Investment property

Accounting policy

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

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

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specified asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Investment property falls within Level 3 of the fair value hierarchy as defined by IFRS 13. Further details are given in Note 28.

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

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

Where specific investment properties are expected to sell within the next 12 months their fair value is shown under assets classified as held-for-sale within current assets. Any loss on the reclassification of these assets from investment properties to assets held-for-sale is charged to the income statement of the period in which this occurs.

17. Investment property continued

	2017 £m	2016 £m
Opening balance	261.3	357.8
Additions	118.9	79.5
Disposals – continuing operations (Note 9)	(7.2)	(2.4)
Disposals – discontinued operations	–	(9.2)
Business disposals	–	(188.3)
Net transfer to assets classified as held-for-sale*	–	(3.1)
Net valuation gains – continuing operations	18.0	20.3
Net valuation deficits – discontinued operations	–	(0.9)
Exchange adjustments	–	7.6
Closing balance	391.0	261.3

* Investment property in Grainger Portfolio 3 GmbH was transferred to assets classified as held-for-sale following disposal of German operations in the prior year.

Information relating to the basis of valuation of investment property, the use of external independent valuers, and the judgements and assumptions adopted by management is set out in Note 2 ‘Critical accounting estimates and judgements’.

The historical cost of the Group’s investment property as at 30 September 2017 is £307.2m (2016: £219.8m).

Direct property repair and maintenance costs arising from investment property that generated rental income during the year were £3.4m (2016: £5.1m).

18. Property, plant and equipment

Accounting policy

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

19. Investment in associates

	2017 £m	2016 £m
Opening balance	105.1	108.4
Share of profit for the year – continuing	4.3	9.8
Share of profit for the year – discontinued	–	0.2
Dividends received	–	(7.5)
Further investment ¹	8.8	14.7
Loans advanced to associates	4.5	–
Loans repaid by associates	–	(4.2)
Exchange movements	–	0.6
Share of change in fair value of cash flow hedges taken through other comprehensive income	0.5	(0.8)
Disposal ²	–	(16.1)
Closing balance	123.2	105.1

¹ Grainger invested a total additional £8.8m (2016: £14.7m) into GRIP REIT in the year to enable further investment in PRS assets.

² The prior year disposal relates to the sale of Grainger’s 25% interest in its German associate MH Grainger JV Sarl which completed on 1 January 2016.

The closing balance comprises share of net assets of £98.7m (2016: £85.1m) and net loans due from associates of £24.5m (2016: £20.0m).

As at 30 September 2017, the Group’s interest in associates was as follows:

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

* The Group increased its shareholding in Vesta LP from 15% to 20% in June 2017.

Although the Group acts as property and/or asset manager for GRIP REIT PLC, the remaining equity is held by a single investor. This investor is actively involved in the business and in controlling the key financial and operational activities of the business. Accordingly, the Group does not have de facto control of the entity. The accounting period end for GRIP REIT PLC is 31 December. The results for the 12 months to 30 September 2017 and financial position as at that date have been equity accounted in these financial statements.

In relation to the Group's investment in associates, the Group's share of the aggregated assets, liabilities, revenues and profit or loss of associates is shown below:

2017 Summarised income statement

£m	MH Grainger JV Sarl	GRIP REIT PLC	Vesta LP	Total
Net rental income and other income	-	4.9	-	4.9
Administration and other expenses	-	(0.7)	-	(0.7)
Profit on disposal of properties	-	0.2	-	0.2
Operating profit	-	4.4	-	4.4
Revaluation gains on investment property	-	1.6	-	1.6
Change in fair value of derivatives	-	0.2	-	0.2
Interest payable	-	(1.9)	-	(1.9)
Profit before tax	-	4.3	-	4.3
Tax	-	-	-	-
Profit after tax	-	4.3	-	4.3

2017 Summarised statement of financial position

Trading and investment property	-	166.7	1.3	168.0
Current assets	-	11.5	-	11.5
Total assets	-	178.2	1.3	179.5
Non-current liabilities	-	(53.3)	-	(53.3)
Current liabilities	-	(26.1)	(1.4)	(27.5)
Net assets	-	98.8	(0.1)	98.7

2016 Summarised income statement

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

2016 Summarised statement of financial position

Trading and investment property	-	154.6	-	154.6
Current assets	-	6.5	-	6.5
Total assets	-	161.1	-	161.1
Non-current liabilities	-	(53.6)	-	(53.6)
Current liabilities	-	(22.4)	-	(22.4)
Net assets	-	85.1	-	85.1

20. Investment in joint ventures

	2017 £m	2016 £m
Opening balance	78.9	70.8
Share of profit for the year – continuing	4.2	5.1
Dividends received	(4.8)	–
(Impairment)/reversal of impairment	(3.6)	14.1
Loan interest (received)/paid	(0.4)	0.1
Loans advanced to joint ventures	5.0	5.5
Loans repaid by joint ventures	(5.0)	(16.7)
Exchange movements	(0.1)	–
Share of change in fair value of cash flow hedges taken through other comprehensive income	0.2	–
Closing balance	74.4	78.9

The closing balance comprises share of net assets of £54.6m (2016: £55.0m) and net loans due from joint ventures of £19.8m (2016: £23.9m).

At 30 September 2017, the Group's interest in joint ventures was as follows:

	% of ordinary share capital held	Country of incorporation	Accounting period end
Curzon Park Limited	50	United Kingdom	28 February
Helical Grainger (Holdings) Limited	50	United Kingdom	31 March
Walworth Investment Properties Limited	50	United Kingdom	30 September
CCZ a.s.	50	Czech Republic	30 September
CCY a.s.	50	Czech Republic	30 September
Prazsky Projekt a.s.	50	Czech Republic	30 September

During the year, Helical Grainger (Holdings) Limited was incorporated as a holding company in relation to the joint venture development in Hammersmith. The Group's share of its investment in King Street Developments (Hammersmith) Limited is now held via this new holding company.

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:

2017 Summarised income statement

£m	Czech Republic combined*	Curzon Park Limited	Helical Grainger (Holdings) Limited	Walworth Investment Properties Limited	Total
Net rental income and other income	0.1	–	–	2.0	2.1
Administration and other expenses	–	–	–	(0.1)	(0.1)
Profit on disposal of properties	–	–	–	0.1	0.1
Operating profit	0.1	–	–	2.0	2.1
Revaluation gains on investment property	–	–	–	3.8	3.8
Interest payable	–	–	–	(1.5)	(1.5)
Profit before tax	0.1	–	–	4.3	4.4
Tax	–	–	–	(0.2)	(0.2)
Profit after tax	0.1	–	–	4.1	4.2

2017 Summarised statement of financial position

Trading and investment property	–	17.4	4.3	101.9	123.6
Current assets	0.6	0.1	1.1	5.6	7.4
Total assets	0.6	17.5	5.4	107.5	131.0
Non-current liabilities	–	–	–	(40.0)	(40.0)
Current liabilities	(0.6)	(22.0)	(5.4)	(8.4)	(36.4)
Net assets	–	(4.5)	–	59.1	54.6

2016 Summarised income statement

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

2016 Summarised statement of financial position

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

* The results and financial position of the three Czech Republic companies have been aggregated in the above tables as individually they are not material and the Group manages its investment on an aggregate basis.

21. Financial interest in property assets ('CHARM' portfolio)

Accounting policy

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

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

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

	2017 £m	2016 £m
Opening balance	93.1	93.7
Cash received from the instrument	(11.3)	(9.3)
Amounts taken to income statement	5.3	5.8
Amounts taken to other comprehensive income before tax	(1.0)	2.9
Closing balance	86.1	93.1

The CHARM portfolio is considered to be a Level 3 financial asset as defined by IFRS 13. The key assumptions used to value the asset are set out within Note 2 'Critical accounting estimates and judgements', and the financial asset is included within the fair value hierarchy within Note 28.

22. Intangible assets

Accounting policy

Intangible assets comprise computer software and goodwill.

IT software is amortised on a straight-line basis over 5–7 years being the estimated useful lives of the assets, from the date they are available for use. Amortisation is charged to the income statement.

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

23. Inventories

Accounting policy

Tenanted residential properties held-for-sale in the normal course of business are shown in the financial statements as a current asset at the lower of cost and net realisable value. Cost includes legal and surveying charges and introducer fees incurred during acquisition together with improvement costs.

Land and property held within the development segment of the business are shown in the financial statements at the lower of cost and net realisable value.

Cost represents the acquisition price including legal and other professional costs associated with the acquisition together with subsequent development costs net of amounts transferred to costs of sale.

Net realisable value is the expected sales proceeds that the Group expects on sale of a property or current market value net of associated selling costs.

	2017	2016
	£m	£m
Residential trading property	797.6	818.8
Development trading property	43.7	85.5
	841.3	904.3

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

The Group has an obligation, under an agreement for sale in relation to its land at West Waterlooville, to pay further consideration should the site value exceed certain pre-agreed amounts. It also has an obligation under a profit sharing agreement to share profits above an agreed threshold. It is not possible to determine the amount or timing of any such future payments due to the long-term nature of the site's development and the associated uncertainties. However, our current best estimate is that the earliest payment under these arrangements will not be before October/November 2019 and any payments are likely to be spread over a number of years.

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

	2017	2016
	£m	£m
Carrying value of trading property sold (Note 8)	100.6	63.4
Carrying value of construction contract expenses (Note 8)	26.9	24.1
Impairment of inventories to net realisable value	5.4	2.7

24. Trade and other receivables

Accounting policy

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

	2017 £m	2016 £m
Current assets		
Rent and other tenant receivables	2.1	3.1
Deduct: Provision for impairment	(0.6)	(0.5)
Rent and other tenant receivables – net	1.5	2.6
Amounts recoverable on contracts	86.8	50.5
Other receivables	49.4	4.2
Prepayments	8.2	6.7
	145.9	64.0

Amounts recoverable on contracts relates to the revenues recognised on the arrangement with the Royal Borough of Kensington and Chelsea (Note 8) as well as other development contracts.

Other receivables includes £29.0m due from land sales, which is receivable no later than July 2019.

The fair values of trade and other receivables are considered to be equal to their carrying amounts. The credit quality of financial assets that are neither past due nor impaired is discussed in Note 28 'Financial risk management and derivative financial instruments'.

25. Provisions for other liabilities and charges

Accounting policy

Provisions are recognised when: (i) the Group has a present obligation as a result of a past event; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) a reliable estimate can be made of the amount of the obligation.

26. Trade and other payables

Accounting policy

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

	2017 £m	2016 £m
Deposits received	3.2	2.6
Trade payables	14.6	16.0
Tax and social security costs	9.1	0.2
Accruals	19.9	18.2
Deferred income	2.0	1.4
	48.8	38.4

27. Interest-bearing loans and borrowings

Accounting policy

Borrowings are initially recognised at the fair value of consideration received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

	2017 £m	2016 £m
Current liabilities		
Bank loans – Pounds Sterling	–	(1.5)
Non-bank financial institution	1.1	101.1
Corporate bond	–	(0.6)
	1.1	99.0
Non-current liabilities		
Bank loans – Pounds Sterling	637.7	435.6
Bank loans – Euros	6.2	12.1
Non-bank financial institution	7.6	23.9
Corporate bond	273.1	273.1
	924.6	744.7
Total interest-bearing loans and borrowings	925.7	843.7

(a) Bank loans

Sterling bank loans include variable rate loans bearing interest at rates between 1.6% and 1.8% above LIBOR and Euro bank loans include variable rate loans bearing interest at a rate of 1.6% above EURIBOR.

The weighted average variable interest rate on bank loans as at 30 September 2017 was 2.0% (2016: 2.0%). Bank loans are secured by fixed and floating charges over specific property and other assets of the Group.

Unamortised costs in relation to bank loans of £7.2m (2016: £5.9m) will be amortised over the life of the loans to which they relate.

(b) Non-bank financial institution

The £7.6m loan is funded by the Homes and Communities Agency and bears interest at 1% over the European Commission reference rate applicable to the UK.

(c) Corporate bond

The £275m, 5.0% secured corporate bond, due December 2020, was issued in the financial year ended 30 September 2014. The primary issue was £200m issued at par in November 2013 with a secondary tap issue in August 2014 of £75m issued at 101.125%. The premium on the tap issue is being amortised to the income statement using the straight-line method.

Unamortised costs and the outstanding premium in relation to the corporate bond are, in total, £2.0m (2016: £2.6m) and will be amortised over the remaining life of the bond.

(d) Other loans and borrowings information

The above analyses of loans and borrowings are net of unamortised loan issue costs and the premium raised on the secondary tap issue of the corporate bond. As at 30 September 2017, unamortised costs totalled £9.6m (2016: £9.0m) and the outstanding premium was £0.4m (2016: £0.6m).

28. Financial risk management and derivative financial instruments

Accounting policies

Cash and cash equivalents

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

Derivative financial instruments

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

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

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecasted transaction is ultimately recognised in the 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 values of interest rate derivatives are based on a discounted cash flow model using market information.

Derecognition of financial assets and liabilities

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

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

Financial assets classified as available-for-sale are the financial interest in property assets.

Derivative financial instruments not in hedge accounting relationships are classified as fair value through profit and loss.

28. Financial risk management and derivative financial instruments continued

Categories of financial instruments

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

	2017							
	Loans and receivables/ cash and cash equivalents	Assets at fair value through profit and loss	Derivatives used for hedging	Available-for-sale	Total book value	Fair value adjustment	Fair value	
£m								
Non-current assets								
Financial interest in property assets	-	-	-	86.1	86.1	-	86.1	
Current assets								
Trade and other receivables excluding prepayments	137.7	-	-	-	137.7	-	137.7	
Derivative financial instruments	-	0.4	3.0	-	3.4	-	3.4	
Cash and cash equivalents	88.9	-	-	-	88.9	-	88.9	
Total financial assets	226.6	0.4	3.0	86.1	316.1	-	316.1	
	Loans and receivables/ cash and cash equivalents	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total book value	Fair value adjustment	Fair value	
£m								
Non-current liabilities								
Interest-bearing loans and borrowings	-	-	-	924.6	924.6	24.8	949.4	
Current liabilities								
Interest-bearing loans and borrowings	-	-	-	1.1	1.1	-	1.1	
Trade and other payables	-	-	-	48.8	48.8	-	48.8	
Derivative financial instruments	-	-	4.9	-	4.9	-	4.9	
Total financial liabilities	-	-	4.9	974.5	979.4	24.8	1,004.2	
Net financial assets/(liabilities)	226.6	0.4	(1.9)	(888.4)	(663.3)	(24.8)	(688.1)	
	Loans and receivables/ cash and cash equivalents	Assets at fair value through profit and loss	Derivatives used for hedging	Available-for-sale	Total book value	Fair value adjustment	Fair value	
£m								
Non-current assets								
Financial interest in property assets	-	-	-	93.1	93.1	-	93.1	
Current assets								
Trade and other receivables excluding prepayments	57.3	-	-	-	57.3	-	57.3	
Derivative financial instruments	-	0.3	-	-	0.3	-	0.3	
Cash and cash equivalents	90.7	-	-	-	90.7	-	90.7	
Total financial assets	148.0	0.3	-	93.1	241.4	-	241.4	
	Loans and receivables/ cash and cash equivalents	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total book value	Fair value adjustment	Fair value	
£m								
Non-current liabilities								
Interest-bearing loans and borrowings	-	-	-	744.7	744.7	26.8	771.5	
Current liabilities								
Interest-bearing loans and borrowings	-	-	-	99.0	99.0	-	99.0	
Trade and other payables	-	-	-	38.4	38.4	-	38.4	
Derivative financial instruments	-	-	13.1	-	13.1	-	13.1	
Total financial liabilities	-	-	13.1	882.1	895.2	26.8	922.0	
Net financial assets/(liabilities)	148.0	0.3	(13.1)	(789.0)	(653.8)	(26.8)	(680.6)	

The fair value difference relates to the Group's corporate bond, which is stated at amortised cost in the consolidated statement of financial position. The fair value of the bond is calculated as £299.8m (2016: £301.8m) based on quoted prices in traded markets. There is no requirement under IAS 39 to revalue these loans to fair value in the consolidated statement of financial position.

Included in cash above is £11.3m (2016: £10.7m) relating to cash held on behalf of tenants, leaseholders and clients comprising service charge amounts, sinking fund balances, tenant deposits and cash held on behalf of joint ventures. These cash amounts are held by the Group in client bank accounts and are excluded from net debt. In addition £29.0m (2016: £37.9m) of the cash balance is restricted in use by underlying financing arrangements comprising either reserve fund amounts or amounts where the release of cash is contingent upon proof of qualifying expenditure.

The table below sets out the calculation of net debt and LTV:

	2017 £m	2016 £m
Gross debt	925.7	843.7
Cash (excluding restricted cash)	(77.6)	(80.0)
Net debt	848.1	763.7
Market value of properties	1,878.1	1,815.0
Other property related assets	372.4	314.4
Total market value of properties and property related assets	2,250.5	2,129.4
LTV	37.7%	35.9%

Financial risk management

The Group's objectives for managing financial risk are to minimise the risk of adverse effects on performance and to ensure the ability of the Group to continue as a going concern while securing access to cost-effective finance and maintaining flexibility to respond quickly to opportunities that arise.

The Group's policies on financial risk management are approved by the Board of Directors and implemented by Group treasury. Written policies and procedures cover interest rate risk, credit risk, the use of derivative and non-derivative financial instruments and investment of excess liquidity. Group treasury reports to the Audit Committee.

The Group uses derivative financial instruments to hedge its exposure to financial risk but does not take positions for speculative purposes.

The sources of financial risk and the policies and activities used to mitigate each are discussed below and include credit risk, liquidity risk and market risk, which includes interest rate risk, foreign exchange risk, credit availability risk, house price risk in relation to the Tricomm Housing portfolio and the CHARM portfolio, our financial interest in property assets, and capital risk.

Financial risk factors

1) Credit risk

Credit risk is the risk of financial loss due to a counterparty's failure to honour its obligations. The Group's principal financial assets include its financial interest in property assets, bank balances and cash, trade and other receivables. The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

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

The Group sometimes enters into land sales contracts within the Development division under which a proportion of the consideration is deferred and recognised within other receivables (Note 24). Each purchaser is subject to financial due diligence prior to sale. At 30 September 2017, £29.0m (2016: £nil) was outstanding.

28. Financial risk management and derivative financial instruments continued

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

Tenant deposits of £2.5m (2016: £2.0m) are held that provide some security against rental arrears and property dilapidations caused by the tenant. The Group does not hold any other collateral as security. Of the net trade receivables balance of £1.5m, we consider £nil to be not due and not impaired. We consider all of the £49.4m other receivables balance, and all of the £86.8m amounts recoverable on contracts as not due and not impaired.

As at 30 September 2017, tenant arrears of £0.6m within trade receivables were impaired and fully provided for (2016: £0.5m). The individually impaired receivables are based on a review of outstanding arrears and an assessment of collectability. Impaired receivables and receivables not considered to be impaired are not material to the financial statements and, therefore, no further analysis is provided.

The credit risk on liquid funds and derivative financial instruments is managed through the Group's policies of monitoring counterparty exposure, monitoring the concentration of credit risk through the use of multiple counterparties and the use of counterparties of good financial standing. At 30 September 2017, the fair value of all interest rate derivatives that had a positive value was £3.4m (2016: £0.3m).

At 30 September 2017, the combined credit exposure arising from cash held at banks, money market deposits and interest rate swaps was £80.0m (2016: £80.3m), which represents 4.5% (2016: 5.0%) of total assets. Deposits were placed with financial institutions with A- or better credit ratings.

The Group has the following cash and cash equivalents:

	2017 £m	2016 £m
Pounds Sterling	83.2	79.4
Euros	5.7	11.3
	88.9	90.7

At the year end, £35.3m was placed on deposit (2016: £42.3m) at effective interest rates between 0.2% and 0.3% (2016: 0.2% and 0.3%). Remaining cash and cash equivalents are held as cash at bank or in hand.

The Group has an overdraft facility of £1.0m as at 30 September 2017 (2016: £1.0m).

2) Liquidity risk

The Group ensures that it maintains continuity and flexibility through a spread of maturities.

Although the Group's core funding is subject to covenants requiring certain levels of loan to value with respect to the entities in the Group of obligors, and to maintaining a certain level of interest cover at the Group level, the loan is not secured directly against any property allowing operational flexibility. The Group has operated within its covenants during 2017 and as at 30 September 2017 (see Note 1 'Accounting policies – Going concern').

The Group ensures that it maintains sufficient cash for operational requirements at all times. The Group also ensures that it has sufficient undrawn committed borrowing facilities from a diverse range of banks and other sources to allow for operational flexibility and to meet committed expenditure. The business is highly cash generative from its sales of vacant properties, gross rents and management fees. In adverse trading conditions, tenanted sales can be increased and new acquisitions can be stopped. Consequently, the Group is able to reduce gearing levels and improve liquidity quickly.

The following table analyses the Group's financial liabilities and net-settled derivative financial liabilities at the statement of financial position date into relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows using yield curves as at 30 September 2017.

£m	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
At 30 September 2017					
Interest-bearing loans and borrowings (Note 27)	1.1	1.1	920.2	3.3	925.7
Interest on borrowings	29.3	31.5	59.0	0.1	119.9
Interest on derivatives	2.4	1.3	0.5	(2.6)	1.6
Trade and other payables	48.8	-	-	-	48.8
At 30 September 2016					
Interest-bearing loans and borrowings (Note 27)	99.0	5.4	726.2	13.1	843.7
Interest on borrowings	25.1	24.5	57.9	0.3	107.8
Interest on derivatives	3.2	3.3	7.3	-	13.8
Trade and other payables	38.4	-	-	-	38.4

The Group's undrawn committed borrowing facilities are monitored against projected cash flows.

Maturity of committed undrawn borrowing facilities

	2017 £m	2016 £m
Expiring:		
Between one and two years	-	-
Between two and five years	218.8	277.9
Over five years	-	-
	218.8	277.9

3) Market risk

The Group is exposed to market risk through interest rates, foreign exchange fluctuations, the availability of credit and house price movements relating to the Tricomm Housing portfolio and the CHARM portfolio. The approach the Group takes to each of these risks is set out below. The Group is not significantly exposed to equity price risk or to commodity price risk.

Fair values

IFRS 13 sets out a three-tier hierarchy for financial assets and liabilities valued at fair value. These are as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – unobservable inputs for the asset or liability.

The following table presents the Group's assets and liabilities that are measured at fair value:

£m	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Level 3				
CHARM	86.1	-	93.1	-
Investment property	391.0	-	261.3	-
	477.1	-	354.4	-
Level 2				
Interest rate swaps – in cash flow hedge accounting relationships	3.0	4.9	-	13.1
Interest rate caps – not in cash flow hedge accounting relationships	0.4	-	0.3	-
Assets classified as held-for-sale	-	-	3.4	-
	3.4	4.9	3.7	13.1

28. Financial risk management and derivative financial instruments continued

The significant unobservable inputs affecting the carrying value of the CHARM portfolio are house price inflation and the effective interest rate. Assumptions used are detailed in Note 2 and reconciliation of movements and amounts recognised in the income statement and other comprehensive income are detailed in Note 21.

The investment valuations provided by Allsop LLP and CBRE Limited are based on the RICS Professional Valuation Standards, but include a number of unobservable inputs and other valuation assumptions.

The fair value of swaps and caps were valued in-house by a specialised treasury management system, using first a discounted cash flow model and market information. The fair value is derived from the present value of future cash flows discounted at rates obtained by means of the current yield curve appropriate for those instruments. As all significant inputs required to value the swaps and caps are observable, they all fall within Level 2.

Interest rate swaps and caps are all classified as either current assets or current liabilities.

The notional principal amount of the outstanding interest rate swap and cap contracts as at 30 September 2017 was £460.9m (2016: £462.2m).

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 the cash flow hedge reserve via other comprehensive income.

The reconciliation between opening and closing balances for Level 3 is detailed in the table below:

	2017	2016
	£m	£m
Assets – Level 3		
Opening balance	354.4	205.2
Amounts taken to income statement	23.3	26.1
Transfer from Level 2	–	246.3
Other movements	99.4	(123.2)
Closing balance	477.1	354.4

The following assets and liabilities are excluded from the above table as fair value is not the accounting basis for the Group's financial statements, but is the basis for the Group's EPRA NAV and EPRA NNNNAV measures:

£m	Accounting basis	Classification if fair valued	2017		2016	
			Book value	Fair value	Book value	Fair value
Inventories – trading property	Lower of cost and net realisable value	Level 3	841.3	1,487.1	904.3	1,553.7
Corporate bond	Amortised cost	Level 1	275.0	299.8	275.0	301.8

In prior years, investment property has been included within Level 2. However, as all inputs to their valuation on a property by property basis are not always observable, investment property is better shown within Level 3 and a transfer has been made in the prior year to reflect this.

(a) Interest rate risk – The Group's interest rate risk arises from the risk of fluctuations in interest charges on floating rate borrowings. The Group mitigates this risk through the use of variable to fixed interest rate swaps and caps. This subjects the Group to fair value risk as the value of the financial derivatives fluctuates in line with variations in interest rates. However, the Group seeks to cash flow hedge account where applicable. The Group is, however, driven by commercial considerations when hedging its interest rate risk and is not driven by the strict requirements of the hedge accounting rules under IAS 39 if this is to the detriment of achieving the best commercial arrangement.

Hedging activities are carried out under the terms of the Group's hedging policies and are regularly reviewed by the Board to ensure compliance with this policy. The Board reviews its policy on interest rate exposure regularly with a view to establishing that it is still relevant in the prevailing and forecast economic environment. The current Group treasury policy is to maintain floating rate exposure of no greater than 30% of expected borrowing. As at 30 September 2017, 79% (2016: 87%) of the Group's net borrowings were economically hedged to fixed or capped rates.

Based on the Group's interest rate profile at the statement of financial position date, a 1% increase in interest rates would decrease annual profits by £2.0m (2016: £1.8m). Similarly, a 1% decrease would increase annual profits by £2.0m (2016: £1.8m).

Based on the Group's interest rate profile at the statement of financial position date, a 1% increase in interest rates would increase the Group's equity by £9.9m (2016: £14.5m). Similarly, a 1% decrease would decrease the Group's equity by £9.9m (2016: £14.5m).

Upward movements in medium and long-term interest rates, associated with higher interest rate expectation, increase the value of the Group's interest rate swaps that provide protection against such moves. The converse is true for downward movements in the interest yield curve. Where the Group's swaps qualify as effective hedges under IAS 39, these movements in fair value are recognised directly in other comprehensive income rather than the income statement.

As at 30 September 2017, the market value of derivatives designated as cash flow hedges under IAS 39 is a net liability of £1.9m (2016: £13.1m). No amount is recognised within the income statement for ineffectiveness of cash flow hedges (2016: £nil). The fair value movement on derivatives not in hedge accounting relationships resulted in a gain of £0.2m (2016: a charge of £9.9m) in the income statement.

At 30 September 2017, the market value of derivatives not designated as cash flow hedges under IAS 39 is a net asset of £0.4m (2016: £0.3m). The cash flows occur and enter in the determination of profit and loss until the maturity of the hedged debt.

The table below summarises debt hedged:

Hedged debt

	2017 £m	2016 £m
Hedged debt maturing:		
Within one year	–	1.3
Between one and two years	–	1.3
Between two and five years	460.9	203.3
Over five years	–	256.3
	460.9	462.2

Interest rate profile – including the effect of derivatives and amortisation of issue costs

	2017					2016				
	Weighted average interest rate %	Average maturity years	Sterling £m	Euros £m	Gross debt total £m	Weighted average interest rate %	Average maturity years	Sterling £m	Euros £m	Gross debt total £m
Fixed rate	5.2	3.3	275.0	–	275.0	5.2	4.3	275.0	–	275.0
Hedged rate	2.9	4.0	460.9	–	460.9	3.4	3.3	462.2	–	462.2
Variable rate	2.3	4.0	192.8	6.2	199.0	2.9	3.5	102.8	12.1	114.9
	3.4	3.8	928.7	6.2	934.9	3.9	3.6	840.0	12.1	852.1

At 30 September 2017, the fixed interest rates on the interest rate swap contracts vary from 0.69% to 1.96% (2016: 0.69% to 1.96%); the weighted average rates are shown in the table above.

(b) Foreign exchange risk – The Group's foreign exchange risk arises from the exposure due to translating overseas trading performance and overseas net assets into Sterling. The Group does not have foreign currency trading with cross-border currency flows. The Group hedges foreign currency assets naturally by funding them through borrowings in the applicable foreign currency and aims to ensure that it has no material unhedged net assets or liabilities denominated in a foreign currency. Profit translation is not hedged.

28. Financial risk management and derivative financial instruments continued

The Group's statement of financial position translation exposure is summarised below:

	2017	2016
	Euros	Euros
	£m	£m
Gross foreign currency assets	5.7	11.4
Gross foreign currency liabilities	(6.2)	(12.1)
Net exposure	(0.5)	(0.7)

As at 30 September 2017, it is estimated that a general increase/decrease of 10 percentage points in the value of Sterling against the Euro would decrease/increase the Group's profit before tax by approximately £0.1m (2016: £0.4m) and equity by £nil (2016: £nil).

(c) Credit availability risk – Credit availability risk relates to the Group's ability to refinance its borrowings at the end of their terms or to secure additional financing where necessary. The Group maintains relationships with a range of lenders and maintains sufficient headroom through cash and committed borrowings. On 30 September 2017, the Group had available headroom of £268.6m.

(d) House price risk – The cash flows arising from the Group's financial interest in property assets (CHARM) and the Tricomm Housing portfolio are related to the movement in value of the underlying property assets and, therefore, are subject to movements in house prices. However, consistent with the Group's approach to house price risk across its portfolio of trading and investment properties, the Group does not seek to eliminate this risk as it is a fundamental part of the Group's business model.

(e) Capital risk management – The Board manages the Group's capital through the regular review of: cash flow projections; the ability of the Group to meet contractual commitments; covenant tests; dividend cover; and gearing. The current capital structure of the Group comprises a mix of debt and equity. Debt is both current and non-current interest-bearing loans and borrowings as set out in the consolidated statement of financial position. Equity comprises issued share capital, reserves and retained earnings as set out in the consolidated statement of changes in equity.

Group loans and borrowings have associated covenant requirements with respect to loan to value and interest cover ratios. The Board regularly reviews all current and projected future levels to monitor anticipated compliance and available headroom against key thresholds. Loan to value is reviewed in the context of the Board's view of markets, the prospects of, and risks relating to, the portfolio and the recurring cash flows of the business. The Group is now operating within a range of gearing of 40–45%, which it considers to be appropriate in the medium term.

The Group monitors its cost of debt and weighted average cost of capital ('WACC') on a regular basis. At 30 September 2017, the weighted average cost of debt was 3.4% (2016: 3.9%). Investment and development opportunities are evaluated using a risk adjusted WACC in order to ensure long-term shareholder value is created.

29. Pension costs

Accounting policy

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

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

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

The liability recognised in the statement of financial position is the present value of the defined benefit obligation at the statement of financial position date less the fair value of scheme assets. The defined benefit obligation is valued by projecting the best estimate of future benefit outgoings (allowing for future salary increases for active members, revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the statement of financial position date.

There are no current or past service costs as the scheme is closed to new members and future accrual. The net interest amount, calculated by applying the discount rate to the net defined benefit liability, is reflected in the income statement each year. Actuarial gains and losses net of deferred income tax are reflected in other comprehensive income each year.

(a) Defined contribution scheme

The Group operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the Group in independently administered funds. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Pension arrangements for Directors are disclosed in the report of the Remuneration Committee and the Directors' Remuneration report on pages 62 to 78. The pension cost charge in these financial statements represents contributions payable by the Group. The charge of £0.9m (2016: £1.0m) is included within employee remuneration in Note 11.

(b) Defined benefit scheme

In addition to the above, the Group also operates a final salary defined benefit pension scheme, the BPT Limited Retirement Benefits Scheme. The assets of the scheme are held separately in funds administered by Trustees and are invested with Rathbones Investment Management Limited, an independent investment manager. Pension benefits are linked to the members' final pensionable salaries and service at their retirement date (or date of leaving if earlier). The Trustees are responsible for running the scheme in accordance with the scheme's trust deed and rules, which sets out their powers. The Trustees of the scheme are required to act in the best interests of the beneficiaries of the scheme. There is a requirement that at least one-third of the Trustees are nominated by the members of the scheme.

There are three categories of pension scheme members:

- Active members: currently employed by the Group. Note no benefits have accrued since 30 June 2003, although active members retain a final salary link.
- Deferred members: former employees of the Group.
- Pensioner members: in receipt of pension.

The defined benefit obligation is valued by projecting the best estimate of future benefit payments (allowing for future salary increases for active members, revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the statement of financial position date. In the period up to retirement, benefits receive increases linked to Consumer Prices Index ('CPI') inflation (subject to a cap of no more than 5% p.a.). After retirement, benefits receive fixed increases of 5% p.a. The valuation method used is known as the Projected Unit Credit Method. The approximate overall duration of the scheme's defined benefit obligation as at 30 September 2017 was 20 years.

The IAS 19 calculations for disclosure purposes have been based upon the results of the actuarial valuation carried out as at 1 July 2016, updated to 30 September 2017, by a qualified independent actuary.

29. Pension costs continued**i) Principal actuarial assumptions under IAS 19 (per annum)**

	2017 %	2016 %
Discount rate	2.65	2.25
Retail Price Index ('RPI') inflation	2.90	3.10
Consumer Price Index ('CPI') inflation	1.90	2.10
Salary increases	3.40	3.60
Rate of increase of pensions in payment	5.00	5.00
Rate of increase for deferred pensioners	1.90	2.10

ii) Demographic assumptions

	2017	2016
Mortality tables for pensioners	100% of S2PA CMI 2015 model with a long-term rate of improvement of 1.50% p.a. for males and 1.00% for females	100% of S2PA CMI 2015 model with a long-term rate of improvement of 1.50% p.a. for males and 1.00% p.a. for females
Mortality tables for non-pensioners	As for pensioners	As for pensioners

iii) Life expectancies

	30 September 2017		30 September 2016	
	Male	Female	Male	Female
Life expectancy for a current 60-year-old (years)	87.4	88.7	87.2	88.6
Life expectancy at age 60 for an individual aged 40 (years)	89.1	89.9	89.5	90.2

Risks

Through the scheme, the Group is exposed to a number of risks:

- **Asset volatility:** the scheme's defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields; however, the scheme also invests in equities. These assets are expected to outperform corporate bonds in the long term, but provide volatility and risk in the short term.
- **Changes in bond yields:** a decrease in corporate bond yields would increase the scheme's defined benefit obligation; however, this would be partially offset by an increase in the value of the scheme's bond holdings.
- **Inflation risk:** some of the scheme's defined benefit obligation is linked to inflation, therefore higher inflation will result in a higher defined benefit obligation (subject to the appropriate caps in place). The majority of the scheme's assets are either unaffected by inflation, or only loosely correlated with inflation, therefore an increase in inflation would also increase the deficit.
- **Life expectancy:** if scheme members live longer than expected, the scheme's benefits will need to be paid for longer, increasing the scheme's defined benefit obligation.

The Trustees and Group manage risks in the scheme through the following strategies:

- **Diversification:** investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.
- **Investment strategy:** the Trustees are required to review their investment strategy on a regular basis.

Market value of scheme assets

The assets of the scheme are invested in a diversified portfolio as follows:

	30 September 2017		30 September 2016	
	Market value £m	% of total scheme assets	Market value £m	% of total scheme assets
Equities	15.4	50%	12.2	41%
Bonds	11.1	36%	11.7	40%
Cash	0.4	1%	1.5	5%
Insurance policies	3.9	13%	4.1	14%
Total value of assets	30.8	100%	29.5	100%
The actual return on assets over the year was	1.8		2.9	

The assets of the scheme are held with Rathbones Investment Management Limited in a managed fund. All of the assets listed have a quoted market price in an active market with the exception of the insurance policy asset where its value has been set equal to the secured pensioner liability.

The change in the market value of the scheme assets over the year was as follows:

	2017 £m	2016 £m
Market value of scheme assets at the start of the year	29.5	26.9
Interest income	0.7	1.0
Employer contributions	0.5	0.6
Actuarial return on assets less interest	1.2	1.9
Benefits paid	(1.1)	(0.9)
Market value of scheme assets at the end of the year	30.8	29.5

The change in value of the defined benefit obligation over the year was as follows:

	2017 £m	2016 £m
Value of defined benefit obligation at the start of the year	34.7	28.6
Interest on pension scheme liabilities	0.8	1.0
Actuarial gains: changes in demographic assumptions	–	(2.1)
Actuarial (gains)/losses: changes in financial assumptions	(1.6)	8.1
Experience adjustment	(1.8)	–
Benefits paid	(1.1)	(0.9)
Value of defined benefit obligation at the end of the year	31.0	34.7

Amounts recognised in the consolidated statement of comprehensive income

	2017 £m	2016 £m
Actuarial return on assets less interest	1.2	1.9
Experience adjustment	1.8	–
Actuarial gain/(loss) on defined benefit obligation	1.6	(6.0)
	4.6	(4.1)

The gain shown in the above table of £4.6m (2016: loss of £4.1m) has been included in the consolidated statement of comprehensive income on page 89.

Future funding obligation

The Trustees are required to carry out an actuarial valuation every three years. The last actuarial valuation of the scheme was performed by the Actuary for the Trustees as at 1 July 2016. This valuation revealed a funding shortfall of £3.6m. As a result of this valuation, the Group agreed a recovery plan with the Trustees to pay additional contributions to eliminate the deficit by 30 April 2022. Based on this plan, the Company expects to pay £0.6m p.a. to the scheme, until 30 April 2022.

In line with paragraph 23 of IFRIC 14, no additional liability is recognised as the additional contributions under the funding plan will reduce the future contributions payable into the scheme.

Sensitivity analysis

Set out below is an analysis of how the scheme deficit would vary with changes to the key actuarial assumptions:

Discount rate movement of 0.25% p.a.	Increase/decrease in deficit of 4.6%/4.3%
Salary movement of 0.25% p.a.	Increase/decrease in deficit of 0.1%
Life expectancies movement of one year	Increase/decrease in deficit of 3%

30. Issued share capital

Accounting policy

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

Acquisition of and investment in own shares

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

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

	2017 £m	2016 £m
Allotted, called-up and fully paid:		
418,611,685 (2016: 418,374,535) ordinary shares of 5p each	20.9	20.9

During the year, The Grainger Employee Benefit Trust has not acquired any shares (2016: none acquired). The Group paid £0.3m (2016: £0.6m) to the Share Incentive Plan during the year for the purchase of matching shares and free shares in the scheme. The total cost of acquiring own shares of £0.3m (2016: £0.6m) has been deducted from retained earnings within Shareholders' equity.

As at 30 September 2017, share capital included 1,240,060 (2016: 1,733,127) shares held by The Grainger Employee Benefit Trust and 1,506,300 (2016: 1,506,300) shares held by Grainger plc as treasury shares. The total of these shares is 2,746,360 (2016: 3,239,427) with a nominal value of £137,318 (2016: £161,971) and a market value as at 30 September 2017 of £7.4m (2016: £7.5m).

Movements in issued share capital during the year and the previous year were as follows:

	Number	Nominal value £'000
At 30 September 2015	418,256,902	20,913
Options exercised under the SAYE scheme	117,633	5
At 30 September 2016	418,374,535	20,918
Options exercised under the SAYE scheme (Note 31)	237,150	12
At 30 September 2017	418,611,685	20,930

31. Share-based payments

Accounting policy

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

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

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

Share awards

Award date	LTIP		DBP		SAYE	
	8 February 2017 Market based	8 February 2017 Non-market based	11 January 2017 Basic	11 January 2017 Enhanced	11 July 2017 3 year scheme	11 July 2017 5 year scheme
Number of shares on grant	344,474	344,474	35,705	94,606	161,636	62,937
Exercise price (£)	-	-	-	-	2.102	2.102
Vesting period from date of grant (years)	3	3	1-3	1-5	3	5
Exercise period after vesting (years)	7	7	3	3	-	-
Share price at grant (£)	2.48	2.48	2.41	2.41	2.58	2.58
Expected risk free rate (%)	0.24	0.24	N/A	N/A	0.36	0.63
Expected dividend yield (%)	N/A	N/A	1.8	1.8	1.8	1.8
Expected volatility (%)	26.3	26.3	N/A	N/A	27.5	34.7
Fair value (£)	1.54	2.48	2.41	2.41	0.63	0.84

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 (2016: £1.9m).

(a) LTIP scheme

One-half of the awards under the LTIP scheme are subject to an absolute total shareholder return performance condition measured over three years from the date of grant and one-half are subject to annual growth in NNNAV compared to the average growth in the Halifax and Nationwide House Price indices all measured over three years from the date of grant.

The movement in LTIP awards during the year is as follows:

Scheme	Opening balance	Awards vested	Awards granted	Awards lapsed	Closing balance
LTIP					
9 December 2013	677,982	(208,814)	-	(469,168)	-
16 December 2014	570,484	-	-	-	570,484
11 January 2016	593,387	-	-	-	593,387
12 January 2016*	119,373	(21,352)	-	(47,976)	50,045
11 February 2016	142,745	-	-	-	142,745
8 February 2017	-	-	688,948	-	688,948
Total	2,103,971	(230,166)	688,948	(517,144)	2,045,609

* The grant of LTIP awards made on 12 January 2016 was made to Helen Gordon as replacement for awards made by her previous employer. The fair value of these awards is based on the assumptions relating to previous LTIP awards. Please see section 6 of the remuneration report on page 73 for further details.

(b) DBP scheme

Awards granted under the DBP scheme have no specific performance conditions other than the Company meeting its target for operating profit before valuation movements and non-recurring items ('OPBVM') and employees in the scheme continuing to be employed. There is a three-year vesting period from the date of grant. One-third of the awards vest at the end of each year. Participants can choose to exercise their awards on vesting or to retain their awards within the plan until the end of the third year at which point a 50% matching element is added to their award entitlement.

In addition to the normal DBP scheme, an enhanced DBP scheme ('EDBP') is also provided. The enhanced scheme operates in exactly the same way as the normal DBP scheme except that if participants retain their awards within the plan until the end of the fifth year, a further additional 50% matching award is added to their award entitlement. Awards under the DBP/EDBP have been valued based on the share price at the date of the award less the dividend yield at the award date as there is no entitlement to dividends during the vesting period.

31. Share-based payments continued

The movement in DBP/EDBP awards during the year is as follows:

Scheme	Opening balance	Awards vested	Awards granted	Awards lapsed	Closing balance
DBP					
12 December 2011	26,906	(26,906)	-	-	-
21 December 2012	12,141	(12,141)	-	-	-
9 December 2013	144,994	(141,661)	-	-	3,333
16 December 2014	62,866	(12,783)	-	(5,443)	44,640
12 January 2016	50,121	(14,586)	-	-	35,535
11 January 2017	-	(1,940)	35,705	-	33,765
EDBP					
16 December 2014	139,470	(30,486)	-	(11,288)	97,696
12 January 2016	86,112	(28,496)	-	-	57,616
11 January 2017	-	-	94,606	-	94,606
Total	522,610	(268,999)	130,311	(16,731)	367,191

(c) SAYE share option scheme

Awards under the SAYE scheme have been valued at fair value using a Black-Scholes valuation model.

The number of shares subject to options as at 30 September 2017, the periods in which they were granted and the periods in which they may be exercised and the movement during the year are given below:

	Exercise price (pence)	Exercise period	Opening balance	Awards exercised	Awards granted	Awards lapsed/cancelled	Closing balance
SAYE scheme							
2012	68.9	2015-18	74,018	(69,664)	-	-	4,354
2013	115.1	2016-19	44,561	(32,817)	-	(5,229)	6,515
2014(A)	173.1	2017-20	163,578	(74,030)	-	(27,681)	61,867
2014(B)	151.3	2018-20	474,352	(42,700)	-	(100,141)	331,511
2015	173.3	2018-21	199,320	(12,759)	-	(52,006)	134,555
2016	166.8	2019-22	291,834	(5,180)	-	(64,814)	221,840
2017	210.2	2020-23	-	-	244,573	(428)	224,145
			1,247,663	(237,150)	224,573	(250,299)	984,787
Weighted average exercise price (pence per share)	172.0						

For those share options exercised during the year, the weighted average share price at the date of exercise was 251.6p (2016: 225.1p). For share options outstanding at the end of the year, the weighted average remaining contractual life was 2.1 years (2016: 2.8 years). There were 11,631 (2016: 25,014) share options exercisable at the year end with a weighted average exercise price of 134.1p (2016: 115.1p).

(d) SIP scheme

Awards under the SIP scheme have been based on the share price at the date of the award.

32. Changes in equity

The consolidated statement of changes in equity is shown on page 91. Further information relating to reserves is provided below. Movements on the retained earnings reserve are set out in Note 33.

(a) Merger reserve

The merger reserve arose when the Company issued shares in partial consideration for the acquisition of City North Group plc in the year ended 30 September 2005. The issue satisfied the provisions of Section 612 of the Companies Act 2006 (formerly Section 131 of the Companies Act 1985) and the premium relating to the shares issued was credited to a merger reserve.

(b) Cash flow hedge reserve

The fair value movements on those derivative financial instruments qualifying for hedge accounting under IAS 39 are taken to this reserve net of tax.

(c) Available-for-sale reserve

The fair value movements in the valuation of the CHARM financial asset, net of tax, are taken to this reserve.

33. Movement in retained earnings

The retained earnings reserve comprises various elements. Those elements, and the movements in each, are set out below:

£m	Share-based payment reserve	Treasury shares bought back and cancelled	Investment in own shares	Translation reserve	Retained earnings	Total retained earnings reserve
Balance as at 30 September 2015	2.5	(7.8)	(15.0)	2.7	429.3	411.7
Profit for the year	-	-	-	-	135.3	135.3
Actuarial loss on BPT Limited pension scheme net of tax	-	-	-	-	(3.5)	(3.5)
Exchange adjustments offset in reserves net of tax	-	-	-	1.1	-	1.1
Recycling of exchange adjustments to income statement net of tax	-	-	-	(3.5)	-	(3.5)
Purchase of own shares	-	-	(0.6)	-	-	(0.6)
Award of shares from own shares	(0.6)	-	0.6	-	-	-
Share-based payments charge	1.9	-	-	-	-	1.9
Dividends	-	-	-	-	(14.7)	(14.7)
Balance as at 30 September 2016	3.8	(7.8)	(15.0)	0.3	546.4	527.7
Profit for the year	-	-	-	-	74.7	74.7
Actuarial loss on BPT Limited pension scheme net of tax	-	-	-	-	3.8	3.8
Exchange adjustments offset in reserves net of tax	-	-	-	(0.2)	-	(0.2)
Purchase of own shares	-	-	(0.3)	-	-	(0.3)
Award of shares from own shares	(0.3)	-	0.3	-	-	-
Share-based payments charge	2.1	-	-	-	-	2.1
Dividends	-	-	-	-	(19.3)	(19.3)
Balance as at 30 September 2017	5.6	(7.8)	(15.0)	0.1	605.6	588.5

Share-based payment reserve

This reserve comprises the cumulative credit entries relating to the share-based payments charge made in the income statement less the average cost of shares issued to employees. This reserve is recognised in retained earnings.

34. List of subsidiaries, joint ventures and associates

A full list of all subsidiaries, joint ventures, associates and other related undertakings as at 30 September 2017 is set out in the notes to the parent company financial statements on pages 141 to 144.

35. Related party transactions

During the year ended 30 September 2017, the Group transacted with its associates and joint ventures (details of which are set out in Notes 19 and 20). The Group provides a number of services to its associates and joint ventures. These include property and asset management services for which the Group receives fee income. The related party transactions recognised in the income statement and statement of financial position are as follows:

£'000	2017		2016	
	Fees recognised	Year end balance	Fees recognised	Year end balance
GRIP REIT PLC	3,737	2,815	3,670	1,745
Grainger Stuttgart portfolios	-	-	301	-
Walworth Investment Properties Limited	40	40	40	40
Vesta Limited Partnership	234	-	-	-
	4,011	2,855	4,011	1,785

35. Related party transactions continued

On 1 January 2016, the Group sold its 25% equity interest in MH Grainger JV Sarl and its investment in Grainger Stuttgart Portfolio one GmbH & Co KG and Grainger Stuttgart Portfolio two GmbH & Co KG. The fees shown in the table above in 2016 represent asset management fees earned by the Group from 1 October 2015 up to completion on 1 January 2016.

	2017			2016		
	Interest recognised £'000	Year end loan balance £m	Interest rate %	Interest recognised £'000	Year end loan balance £m	Interest rate %
GRIP REIT PLC	764	23.1	Nil and 4.75	795	19.9	Nil and 4.75
Czech Republic combined	(99)	(0.5)	4.00	388	(3.6)	4.00
Curzon Park Limited*	-	21.9	Nil	-	19.5	Nil
Helical Grainger (Holdings) Limited*	-	9.9	Nil	-	-	-
King Street Developments (Hammersmith) Limited	-	-	-	-	6.8	Nil
Walworth Investment Properties Limited	156	-	7.00	455	6.7	7.00
Vesta LP	-	1.4	Nil	-	0.1	Nil
	821	55.8		1,638	49.4	

* The amount disclosed above is the gross loan amount. Some provisions have been made against the loans.

The Group's key management are the only other related party. Details of key management compensation is provided in Note 11.

36. Operating leases**Accounting policy**

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

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

(a) Group as lessor

The future aggregate minimum lease payments due to the Group under non-cancellable operating leases are as follows:

	2017 £m	2016 £m
Operating lease payments due:		
Not later than one year	3.0	2.6
Later than one year and not later than five years	8.5	6.9
Later than five years	96.1	73.3
	107.6	82.8

There are no contingent rents recognised within net rental income in 2017 or 2016 relating to properties where the Group acts as a lessor of assets under operating leases. A significant proportion of the Group's non-cancellable operating leases relate to regulated tenancies under which tenants have the right to remain in a property for the remainder of their lives. It is therefore not possible to estimate the timing of future minimum lease payments in respect of these regulated tenancies and so these are excluded from the above analysis.

(b) Group as lessee

The future aggregate minimum lease payments payable by the Group under non-cancellable operating leases are as follows:

	2017 £m	2016 £m
Operating lease payments due:		
Not later than one year	1.0	0.8
Later than one year and not later than five years	3.2	3.7
Later than five years	0.5	1.1
	4.7	5.6

Operating lease payments represent the lease payments made in the year relating to renting of office space used by the Group, car leases under contract hire arrangements and operating lease payments relating to office equipment such as photocopiers. Leases relating to office space used by the Group have initial terms of varying lengths, between one and ten years.

Rent reviews generally take place every five years. Contract hire car leases generally have a three-year term.

37. Contingent liabilities

The properties in certain subsidiary companies forming a 'guarantee Group' with a market value of £1,348.0m provide the security for the Group's core debt facility.

Barclays Bank PLC and Lloyds Bank PLC have provided guarantees under performance bonds relating to the Group's UK Development division. As at 30 September 2017, total guarantees amounted to £3.1m (2016: £2.3m).

There is uncertainty relating to the future of the site at Curzon Park in which the Group has a 50% joint venture interest. The proposed High Speed Rail Link ('HS2') from London to Birmingham indicates that the potential route will cover at least part of our development site at Curzon Park in Birmingham. We are assessing the long-term impact with our advisers and aim to collaborate with other affected owners in the area as well as with HS2 Ltd, the company responsible for developing and promoting this new rail link. Should the value of the site, together with any compensation received, be insufficient to recover the carrying value of our investment, the Group may incur further charges in excess of those provided in these financial statements, in respect of obligations to the joint venture.

38. Capital commitments

The Group has current commitments under a number of its PRS projects totalling £136.2m as at 30 September 2017 (2016: £117.1m).

39. Post balance sheet events

On 12 October 2017, the Group agreed a new ten-year £75m loan with Rothesay Life at a fixed rate. Including this financing activity, our hedging stands at 87% and our headroom increases to £343.6m.

On 23 November 2017, the Group agreed to forward fund and acquire a PRS, build-to-rent development, Gilder's Yard in Birmingham, comprising 156 private rental homes for £28m.

Also on 23 November 2017, outstanding conditions relating to the £80m 375 home forward funding acquisition in Gore Street, Manchester were finalised and the scheme became fully secured.

On 24 November 2017, the Group acquired a stabilised portfolio of three blocks in Manchester, comprising 192 PRS homes for £26m (the Tribe portfolio).

Financial statements

Parent company statement of financial position

as at 30 September

	Notes	2017 £m	2016 £m
Fixed assets			
Investments	2	899.6	893.3
Current assets			
Trade and other receivables	3	46.1	35.9
Cash at bank and in hand		28.8	25.8
		74.9	61.7
Creditors: amounts falling due within one year	4	(237.5)	(321.3)
Net current liabilities		(162.6)	(259.6)
Total assets less current liabilities		737.0	633.7
Creditors: amounts falling due after more than one year			
Interest-bearing loans and borrowings	5	(411.9)	(272.5)
NET ASSETS		325.1	361.2
Capital and reserves			
Issued share capital	6	20.9	20.9
Share premium account		111.1	110.8
Capital redemption reserve		0.3	0.3
Retained earnings		192.8	229.2
TOTAL EQUITY		325.1	361.2

The financial statements on pages 136 to 144 were approved by the Board of Directors on 30 November 2017 and were signed on their behalf by:

Helen Gordon
Director

Vanessa Simms
Director

Parent company statement of changes in equity

	Issued share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance as at 1 October 2015	20.9	110.7	0.3	262.3	394.2
Loss for the year	-	-	-	(19.7)	(19.7)
Award of SAYE shares	-	0.1	-	-	0.1
Purchase of own shares	-	-	-	(0.6)	(0.6)
Share-based payments charge	-	-	-	1.9	1.9
Dividends paid	-	-	-	(14.7)	(14.7)
Balance as at 30 September 2016	20.9	110.8	0.3	229.2	361.2
Loss for the year	-	-	-	(18.9)	(18.9)
Award of SAYE shares	-	0.3	-	-	0.3
Purchase of own shares	-	-	-	(0.3)	(0.3)
Share-based payments charge	-	-	-	2.1	2.1
Dividends paid	-	-	-	(19.3)	(19.3)
Balance as at 30 September 2017	20.9	111.1	0.3	192.8	325.1

1. Company accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). The financial statements have been prepared on a going concern basis under the historical cost convention, in accordance with the Companies Act 2006.

The application of FRS 101 has enabled the Company to take advantage of certain disclosure exemptions that would have been required had the Company adopted International Financial Reporting Standards in full. The exemptions that have been applied in the preparation of these financial statements are as follows:

- A cash flow statement and related notes have not been presented.
- Disclosures in respect of new standards and interpretations that have been issued but which are not yet effective have not been provided.
- Disclosures in respect of transactions with wholly-owned subsidiaries have not been made.
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instruments: Disclosures have not been made.

The Company has taken the exemption allowed under Section 408 of the Companies Act 2006 from the requirement to present its own profit and loss account. The loss for the year was £18.9m (2016: £19.7m). These financial statements present information about the Company as an individual undertaking and not about its Group.

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the Company's financial statements.

(b) Investments

Investments in subsidiaries are carried at historical cost less provision for impairment based upon an assessment of the net recoverable amount of each investment. To the extent that the assessment of the recoverable amount improves due to changes in economic conditions, impairment provisions are reversed, with all provision movements recognised in profit and loss.

(c) Tax

Corporation tax is provided on taxable profits or losses at the current rate.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the end of the reporting period, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at that date.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is measured on a non-discounted basis.

(d) Own shares including treasury shares

Transactions of The Grainger Employee Benefit Trusts are included in the Company's financial statements. The purchase of shares in the Company by each trust and any treasury shares bought back by the Company are debited direct to equity.

(e) Share-based payments

Under the share-based compensation arrangements set out in Note 31 to the Group financial statements, employees of Grainger Employees Limited have been awarded options and conditional shares in the Company. These share-based arrangements have been treated as equity-settled in the consolidated financial statements. In the Company's financial statements, the share-based payment charge has been added to the cost of investment in subsidiaries with a corresponding adjustment to equity.

(f) Borrowings

Borrowings are initially recognised at the fair value of consideration received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

2. Investments

Cost of investment	2017	2016
	£m	£m
At 1 October	975.2	1,021.5
Additions	2.1	1.9
Disposals	-	(48.2)
At 30 September	977.3	975.2
<hr/>		
Impairment	2017	2016
	£m	£m
At 1 October	81.9	87.1
Reversal of impairment provisions	(4.2)	(5.2)
At 30 September	77.7	81.9
Net carrying value	899.6	893.3

The Directors believe that the carrying value of the investments is supported by their underlying net assets. After an assessment of net recoverable value a net impairment reversal of £4.2m (2016: reversal of £5.2m) has been made. A list of the subsidiaries of the Company is contained within Note 8 on pages 141 to 144.

3. Trade and other receivables

	2017	2016
	£m	£m
Amounts owed by Group undertakings	46.1	35.4
Other receivables	-	0.5
	46.1	35.9

Amounts due in both 2017 and 2016 are all due within one year.

4. Creditors: amounts falling due within one year

	2017	2016
	£m	£m
Variable rate loan	-	100.0
Bank loans and overdrafts	-	2.7
Amounts owed to Group undertakings	225.0	214.3
Tax and social security costs	8.3	-
Accruals and deferred income	4.2	4.3
	237.5	321.3

Included within amounts owed to Group undertakings is an unsecured loan with a year end balance totalling £222.8m (2016: £208.4m). The loan bears interest at LIBOR plus margin plus costs, which averaged 3.95% in the year (2016: 4.69%), and is repayable on demand but is not expected to be repaid within the next 12 months. Interest payable and similar charges for the year amounted to £9.9m (2016: £10.0m). All other amounts owed to Group undertakings are unsecured, bear no interest, and are repayable on demand.

5. Interest-bearing loans and borrowings

	2017 £m	2016 £m
Variable rate – loans	140.0	–
Unamortised issue costs	(1.1)	–
	138.9	–
5% Guaranteed Secured Bonds due 2020	275.0	275.0
Unamortised issue costs	(2.4)	(3.1)
	272.6	271.9
Unamortised bond premium	0.4	0.6
Total interest-bearing loans and borrowings	411.9	272.5

The variable rate loans are secured by floating charges over the assets of the Group. The loans bear interest at rates between 1.6% and 1.8% (2016: 4%) over LIBOR.

The £275m, 5.0% secured corporate bond, due December 2020, was issued in the financial year ended September 2014. The primary issue was £200m issued at par in November 2013 with a secondary tap issue in August 2014 of £75m issued at 101.125%. The premium on the tap issue is being amortised to the income statement using the straight-line method.

6. Issued share capital

	2017 £m	2016 £m
Allotted, called-up and fully paid:		
418,611,685 (2016: 418,374,535) ordinary shares of 5p each	20.9	20.9

Details of movements in issued share capital during the year and the previous year are provided in Note 30 to the Group financial statements on page 130.

Details of share options and awards granted by the Company are provided in Note 31 to the Group financial statements on pages 130 to 132 and discussed within the Remuneration Committee's report on pages 62 to 78.

7. Other information

Dividends

The Company's dividend policy is aligned to our strategy to grow rental income, with 50% of net rental income being distributed. Around one-third of the payment is made through the interim dividend based on half year results, with the balance paid through the final dividend, subject to approval at the AGM. The Company has sufficient distributable reserves to support this policy. Information on dividends paid and declared is given in Note 15 to the Group financial statements on page 110.

Directors' share options and share awards

Details of the Directors' share options and of their share awards are set out in the Remuneration Committee's report.

8. List of subsidiaries, associates and joint ventures

A full list of the Group's subsidiaries, associates, joint ventures and other related undertakings as at 30 September 2017 is set out below:

Company	% effective holding	Direct/ Indirect	Registered office
1 Ifield Road Management Limited	50%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
12 Nevern Square (Management Company) Limited	25%	Indirect	1st Asset Management Limited, 7-9 Tryon Street, London, SW3 3LG
16 Beverley Terrace Limited	33%	Indirect	16 Beverley Terrace, North Shields, NE30 4NT
16 Castlebar Road Management Company Limited	50%	Indirect	16a Castlebar Road, London, W5 2DP
19 Ifield Road Management Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
31-37 Disbrowe Road Freehold Company Limited	50%	Indirect	102 Fulham Palace Road, London, W6 9PL
36 Finborough Road Management Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
45 Ifield Road Management Limited	67%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
86 Holland Park Freehold Limited	67%	Indirect	17 Kensington Place, London, W8 7PT
174 Bishops Road Limited ²	50%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Atlantic Metropolitan (U.K.) Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
BPT (Assured Homes) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
BPT (Bradford Property Trust) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
BPT (Residential Investments) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
BPT (Residential Management Services) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
BPT Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Brierley Green Management Company Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Bromley No 1 Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Bromley No.1 Holdings Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Bromley Property Holdings Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Bromley Property Investments Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Cambridge Place Management Company Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
CCY a.s.	50%	Indirect	Věžeňská 116/5, PSČ 110 00, Prague, Czech Republic
CCZ a.s.	50%	Indirect	Věžeňská 116/5, PSČ 110 00, Prague, Czech Republic
Chrisdell Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
City North 5 Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
City North Group Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
City North Properties Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
City Property Developments Limited ¹	100%	Indirect	15 Canada Square, London, E14 5GL
Crofton Estate Management Company Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Crossco (No. 103) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Curzon Park Limited	50%	Indirect	7a Howick Place, London, SW1P 1DZ
Derwent Developments (Curzon) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Derwent Developments Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Derwent Nominees (No 2) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Dorchester Court (Staines) Residents Association Limited	6%	Indirect	1a Dorchester Court, Greenlands Road, Staines, TW18 4LS
Ekacroft Limited ¹	100%	Indirect	15 Canada Square, London, E14 5GL
Faside Estates Limited	100%	Indirect	5 Atholl Place, Perth, PH1 5NE
Frincon Holdings 1986 Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Frincon Holdings Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
GIP Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Globe Brothers Estates Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger (Aldershot) Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger (Clapham) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger (Hadston) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger (Hornsey) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger (London) Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger (Octavia Hill) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger (Peachey) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Asset Management Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Bradley Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Developments Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE

8. List of subsidiaries, associates and joint ventures continued

Company	% effective holding	Direct/Indirect	Registered office
Grainger Employees Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Enfranchisement No. 1 (2012) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Enfranchisement No. 2 (2012) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Enfranchisement No. 3 (2012) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Europe (No. 2) Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Europe (No. 3) Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Europe (No. 4) Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Europe Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger European Ventures Limited Liability Partnership	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger FRM GmbH	100%	Indirect	Grüneburgweg 58-62, 60322 Frankfurt am Main, Germany
Grainger Finance (Tricomm) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Finance Company Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Homes (Gateshead) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Homes Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Housing & Developments Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Invest No. 1 Limited Liability Partnership	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Invest No. 2 Limited Liability Partnership	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Invest (No.1 Holdco) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger K&C Lettings Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Kensington & Chelsea Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Land & Regeneration Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Maidenhead Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Newbury Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger OCCC Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Pearl Holdings Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Pearl Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Pearl (Salford) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Pimlico Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Portfolio 3 GmbH	100%	Indirect	Grüneburgweg 58-62, 60322 Frankfurt am Main, Germany
Grainger Properties Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Property Services Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger PRS Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger RAMP Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Real Estate Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger REIT 1 Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger REIT 2 Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger REIT 3 Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Residential Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Residential Management Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Rural Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Serviced Apartments Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Seven Sisters Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Southwark Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Treasury Property Investments Limited Partnership	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Treasury Property (2006) Limited Liability Partnership	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Trust Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Unitholder No 1 Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Grainger Upminster Limited ¹	100%	Direct	15 Canada Square, London, E14 5GL
Greit Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
G:Res-Co 4 Limited	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Jersey Property Holdings (2016) Limited	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 1 Limited	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD

Company	% effective holding	Direct/ Indirect	Registered office
GRIP Nomco 2 Limited	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 3 Limited	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 4 Limited	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 5 Limited	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 6 Limited	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 7 Limited	22.4%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Nomco 8 Limited	22.4%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP REIT PLC	24.9%	Indirect	30 Charles II Street, London, SW1Y 4AE
GRIP Unit Trust	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Unit Trust 1	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Unit Trust 2	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP Unit Trust 6	22.4%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
GRIP UK Holdings Limited	24.9%	Indirect	30 Charles II Street, London, SW1Y 4AE
GRIP UK Property Developments Limited	24.9%	Indirect	30 Charles II Street, London, SW1Y 4AE
GRIP UK Property Investments Limited	24.9%	Indirect	30 Charles II Street, London, SW1Y 4AE
H I Tricomm Holdings Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Harborne Tenants Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Helical Grainger (Holdings) Limited	50%	Indirect	5 Hanover Square, London, W1S 1HQ
Helical Grainger Limited	50%	Indirect	5 Hanover Square, London, W1S 1HQ
Home SGO Properties Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Infrastructure Investors Defence Housing (Bristol) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Ingleby Court Management Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Jesmond Place Management Limited	70%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Kew Bridge Court Guernsey Limited	24.9%	Indirect	1st and 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey, GY1 1EW
King Street Developments (Hammersmith) Limited	50%	Indirect	5 Hanover Square, London, W1S 1HQ
Kings Dock Mill (Liverpool) Management Company Limited ²	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Langwood Properties Limited	100%	Indirect	5 Atholl Place, Perth, PH1 5NE
Letpress Limited ¹	100%	Indirect	15 Canada Square, London, E14 5GL
Manor Court (Solihull) Management Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Margrave Estates Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Mariners Park Estate North Management Company Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Mariners Park Estate South Management Company Limited	11%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
N & D London Investments	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
N & D London Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
N & D Properties (Midlands) Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
N & D Southern Limited ¹	100%	Indirect	15 Canada Square, London, E14 5GL
Northumberland & Durham Property Trust Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Oakleigh House (Sale) Management Company Limited	69%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Park Developments (Liverpool) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Park Estates (Liverpool) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Park Estates Investments (Liverpool) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
PHA Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Planfirst Limited ¹	100%	Indirect	15 Canada Square, London, E14 5GL
Portland House Holdings Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Pražský Projekt a.s.	50%	Indirect	Věžeňská 116/5, PSČ 110 00, Prague, Czech Republic
Redoubt Close Management Limited	3%	Indirect	Portmill House, Portmill Lane, Hitchin, SG5 1DJ
Residential Leases Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Residential Tenancies Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Rotation Finance Limited	100%	Direct	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Sandown (Whitley Bay) Management Limited	51%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Sixty-two Stanhope Gardens Limited	20%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Southvale Investments Limited ¹	100%	Direct	15 Canada Square, London, E14 5GL
Stagestar Limited	25%	Indirect	40 Bowling Green Lane, London, EC1R 0NE

8. List of subsidiaries, associates and joint ventures continued

Company	% effective holding	Direct/ Indirect	Registered office
Suburban Homes Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
The Bradford Property Trust Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
The Chancel Management Company Limited	96%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
The Grainger Residential Property Unit Trust	24.9%	Indirect	47 Esplanade, St Helier, Jersey, JE1 0BD
The Owners of the Middlesbrough Estate Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
The Sandwarren Management Company Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Tricomm Housing (Holdings) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Tricomm Housing Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Vesta Limited Partnership	20%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Vesta (General Partner) Limited	30%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Victoria Court (Southport) Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Walworth Investment Properties Limited	50%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Wansbeck Lodge Management Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Warren Court Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Warwick Square Management Company Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
Wellesley Residents Trust Limited ²	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE
West Waterlooville Developments Limited	100%	Indirect	Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE

All subsidiaries, associates and joint ventures are incorporated in the United Kingdom except where the registered office indicates otherwise.

1 Company in liquidation.

2 Company limited by guarantee.

EPRA performance measures (unaudited)

1. Introduction

The EPRA Best Practices Recommendations ('EPRA BPR') were issued by EPRA's Reporting and Accounting Committee in August 2011 and the guidance was subsequently updated in November 2016. Included within EPRA BPR are six EPRA performance measures deemed to be of key importance to investors in property companies and which aim to encourage more consistent and widespread disclosure. The EPRA performance measures are set out below:

Performance measure	Definition
1) EPRA Earnings	Recurring earnings from core operational activities. This is a key measure of a company's underlying operating results providing an indication of the extent to which current dividend payments are supported by earnings.
2) EPRA NAV	Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term property business model. This measure is consistent with NAV as defined and disclosed in the Financial review and in Note 5 to the Group financial statements.
3) EPRA NNNAV	EPRA NAV adjusted to include the fair values of i) financial instruments, ii) debt and iii) deferred taxes. This measure is consistent with NNNAV as defined and disclosed in the Financial review and in Note 5 to the Group financial statements.
4i) EPRA Net Initial Yield ('NIY')	Annualised rental income based on cash rents at the balance sheet date, less non-recoverable property expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.
4ii) EPRA 'topped-up' yield	This measure incorporates an adjustment to EPRA NIY in respect of the expiration of rent free periods (or other unexpired lease incentives such as discounted rent periods and step rents).
5) EPRA Vacancy Rate	Estimated Market Rent Value ('ERV') of vacant space divided by ERV of the whole portfolio.
6) EPRA Cost Ratios	This measure includes all administrative and operating expenses including share of joint ventures' overheads and operating expenses, net of any service fees, all divided by gross rental income.

Grainger is supportive of EPRA's initiative and, in this report, is disclosing against five of the EPRA measures: EPRA Earnings, EPRA NAV, EPRA NNNAV, EPRA NIY and EPRA Vacancy Rate. EPRA topped-up NIY is not appropriate to Grainger's business. The EPRA Cost Ratios, too, is less relevant to Grainger as it is distorted by the fact that in the reversionary portfolio rental levels are at a sub-market level.

In relation to EPRA NIY and EPRA Vacancy Rate, the figures shown are in respect of the Grainger wholly-owned market rented assets only. Not included in these numbers are Grainger's wholly-owned reversionary assets or any assets within joint ventures or associates.

The numbers presented in the tables below for EPRA Earnings, EPRA Earnings per share, EPRA NIY and EPRA Vacancy Rate relate to continuing operations only.

The EPRA measures being reported and the calculation of EPRA Earnings, EPRA NAV, EPRA NNNAV and EPRA NIY are set out below:

	2017	2016
EPRA Earnings	£57.6m	£41.8m
EPRA Earnings per share	14.0p	10.1p
EPRA NAV	£1,434.5m	£1,379.5m
EPRA NAV per share	343p	330p
EPRA NNNAV	£1,268.2m	£1,199.5m
EPRA NNNAV per share	303p	287p
EPRA Net Initial Yield (NIY)*	3.8%	4.3%
EPRA Vacancy Rate*	3.4%	2.1%

* Excludes property that is vacant and is being marketed for sale.

2. EPRA Earnings

	2017			2016		
	Earnings £m	Shares millions	Pence per share	Earnings £m	Shares millions	Pence per share
Earnings per IFRS income statement – continuing operations	73.5	415.6	17.7	74.5	414.4	18.0
Adjustments to calculate EPRA Earnings, exclude:						
i) Changes in value of investment properties, development properties held for investment and other interests	(18.0)	-	(4.3)	(20.3)	-	(4.9)
ii) Profits or losses on disposal of investment properties, development properties held for investment and other interests	(2.2)	-	(0.5)	(1.6)	-	(0.4)
iii) Profits or losses on sales of trading properties including impairment charges in respect of trading properties*	5.4	-	1.3	2.7	-	0.7
iv) Tax on profits or losses on disposals	-	-	-	-	-	-
v) Negative goodwill/goodwill impairment	-	-	-	-	-	-
vi) Changes in fair value of financial instruments and associated close-out costs	(0.2)	-	-	9.9	-	2.4
vii) Acquisition costs on share deals and non-controlling joint venture interests	-	-	-	-	-	-
viii) Purchase of debt at a discount	-	-	-	-	-	-
ix) Deferred tax in respect of EPRA adjustments	2.2	-	0.5	1.5	-	0.4
x) Adjustments i) to viii) in respect of joint ventures	(3.1)	-	(0.7)	(24.9)	-	(6.1)
xi) Non-controlling interests in respect of the above	-	-	-	-	-	-
EPRA Earnings/Earnings per share	57.6	415.6	14.0	41.8	414.4	10.1

* Sale of trading property is a fundamental part of Grainger's business model. Therefore, it is not appropriate to show any measure of earnings that excludes profit on sale of trading property and so no adjustment has been made for this in the table above. The adjustment made under this heading in both years relates to an impairment provision made against trading stock.

3. EPRA NAV

	2017			2016		
	Net assets £m	Shares millions	NAV pence per share	Net assets £m	Shares millions	NAV pence per share
NAV from the financial statements	745.3	418.6	178	675.2	418.4	161
Include:	-	-	-	-	-	-
i.a) Revaluation of investment property	-	-	-	-	-	-
i.b) Revaluation of investment property under construction	-	-	-	-	-	-
i.c) Revaluation of other non-current investments	-	-	-	-	-	-
ii) Revaluation of tenant leases held as finance leases	-	-	-	-	-	-
iii) Revaluation of trading properties	645.8	-	155	649.4	-	155
iv) Value of own shares*	7.4	-	2	7.5	-	2
Exclude:	-	-	-	-	-	-
v) Fair value of financial instruments	1.2	-	-	10.7	-	3
v.a) Deferred tax	26.4	-	6	28.4	-	7
v.b) Goodwill as a result of deferred tax	-	-	-	-	-	-
Include/exclude:	-	-	-	-	-	-
Adjustments i) to v) above in respect of joint venture interests	8.4	-	2	8.3	-	2
EPRA NAV/EPRA NAV per share	1,434.5	418.6	343	1,379.5	418.4	330

* The Grainger measures of NAV and NAV per share disclosed in Note 5 to the financial statements is equal to the EPRA NAV presented above. The adjustment to add the value of the Group's own shares is recognised as these shares do have a market value and this has been the historical basis of the Group's calculation. In addition, the number of shares used in the NAV calculation is the total number of shares in issue including those held by the Company in treasury or trust for the purposes of settling future share awards. This should be a close representation of the fully diluted number of shares and so is very unlikely to produce materially different NAV measures.

4. EPRA NNAV

	2017			2016		
	Net assets £m	Shares millions	NAV pence per share	Net assets £m	Shares millions	NAV pence per share
EPRA NAV	1,434.5	418.6	343	1,379.5	418.4	330
Include:						
i) Fair value of financial instruments	(1.9)	-	-	(12.0)	-	(3)
ii) Fair value of debt	(20.6)	-	(5)	(22.3)	-	(5)
iii) Deferred tax	(143.8)	-	(35)	(145.7)	-	(35)
EPRA NNAV/EPRA NNAV per share	1,268.2	418.6	303	1,199.5	418.4	287

5. EPRA NIY

	2017 £m	2016 £m
Market value of wholly-owned market rented assets*	518.5	412.9
Allowance for estimated purchasers' costs	14.2	11.5
Grossed up market value of wholly-owned market rented assets	532.7	424.4
Annualised passing rental income	27.5	24.3
Property outgoing	(7.1)	(6.0)
Annualised net rents	20.4	18.3
EPRA NIY	3.8%	4.3%

* Based on Grainger's wholly-owned market rented portfolio of property assets excluding assets under construction which had a market value as at 30 September 2017 of £526m (2016: £461m) but excluding interests in garages, ground rents and land amounting to £8m (2016: £48m).

Financial statements

Five year record

For the year ended 30 September 2017

	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m
Group revenue	283.2	319.1	193.1	219.9	264.7
Gross proceeds from property sales	347.1	267.2	149.3	164.8	214.5
Gross rental income	71.3	57.4	46.7	51.9	54.6
Gross fee income	12.5	12.3	5.0	5.9	5.1
Operating profit before valuation movements and non-recurring items ('OPBVM')	107.6	107.5	79.5	88.7	98.5
Profit before tax	64.3	81.1	51.4	84.2	86.3
Profit after tax	53.6	74.7	44.0	74.5	73.5
Dividends paid	8.0	8.5	10.4	14.7	19.3
	Pence	Pence	Pence	Pence	Pence
Basic earnings per share	13.1	18.1	10.7	18.0	17.7
Dividends per share	2.0	2.5	2.8	4.5	4.9
	Pence	Pence	Pence	Pence	Pence
EPRA NAV per share	242.0	290.6	319.0	329.7	342.6
EPRA NNNNAV per share	194.7	242.0	263.4	286.7	302.8
Share price at 30 September	174.8	185.5	238.0	230.0	268.2
	%	%	%	%	%
Return on capital employed ('ROCE')	8.1	17.0	11.0	8.4	5.2
Return on shareholder equity ('ROSE')	25.2	25.6	10.0	10.6	7.3

The 2015 results in the table above have been restated in order to be comparable with future results following disposals completed in 2016. 2013 and 2014 have not been restated.

Other information

Shareholders' information

Financial calendar

AGM	7 February 2018
Payment of 2017 final dividend	9 February 2018
Announcement of 2018 interim results	May 2018
Announcement of 2018 final results	November 2018

Share price

During the year ended 30 September 2017, the range of the closing mid-market prices of the Company's ordinary shares were:

Price at 30 September 2017	268.2p
Lowest price during the year	215.1p
Highest price during the year	270.3p

Daily information on the Company's share price can be obtained on our website www.graingerplc.co.uk or by telephone from FT Cityline on **09058 171 690**. Please note that FT Cityline is a chargeable service.

Capital gains tax

The market value of the Company's shares for capital gains tax purposes at 31 March 1982 was 2.03p.

Website

Website address www.graingerplc.co.uk

Shareholders' enquiries

All administrative enquiries relating to shareholdings (for example, notification of change of address, loss of share certificates, dividend payments) should be addressed to the Company's registrar at:

Link Asset Services
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire
HD8 0LA

Share dealing service

A share dealing service is available to existing shareholders to buy or sell the Company's shares via Link Share Dealing Services. Online and telephone dealing facilities provide an easy to access and simple to use service.

For further information on this service, or to buy or sell shares, please contact: www.linksharedeal.com – online dealing
0371 664 0445 – telephone dealing

Please note that the Directors of the Company are not seeking to encourage shareholders to either buy or sell their shares. Shareholders in any doubt as to what action to take are recommended to seek financial advice from an independent financial adviser authorised by the Financial Services and Markets Act 2000.

Company Secretary and registered office

Adam McGhin
Grainger plc
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Company registration number **125575**

Other information

Glossary of terms

Property CHARM

The CHARM portfolio is a financial interest in equity mortgages held by the Church of England Pensions Board as mortgagee.

Investment value or market value

Open market value of a property subject to relevant tenancy in place.

Private rented sector ('PRS')

Housing tenure classification that relates to residential units owned by the private sector to provide rental accommodation. This excludes units owned by government authorities and housing associations.

Regulated tenancy

Tenancy regulated under the 1977 Rent Act. Rent (usually sub-market) is set by the rent officer and the tenant has security of tenure.

Tenanted residential

Activity covering the acquisition, renting out and subsequent sale (usually on vacancy) of residential units subject to a tenancy agreement.

Vacant possession ('VP') value

Open market value of a property free from any tenancy.

Financial Adjusted earnings

Profit before tax before valuation movements and non-recurring items.

Cap

Financial instrument which, in return for a fee, guarantees an upper limit for the interest rate on a loan.

Contingent tax

The amount of tax that would be payable should trading property be sold at the market value shown in the market value balance sheet.

Dividend cover

Earnings per share divided by dividends per share.

Earnings per share ('EPS')

Profit after tax attributable to shareholders divided by the weighted average number of shares in issue in the year.

EPRA NAV

Shareholders' funds adjusted for the market value of property assets held as stock but before deduction for deferred tax on property revaluations and before adjustments for the fair value of derivatives.

EPRA NNNAV

EPRA NAV adjusted for deferred tax and those contingent tax liabilities which would accrue if assets were sold at market value and for the fair value of long-term debt and derivatives.

EU IFRS

International Financial Reporting Standards, as adopted by the EU, mandatory for UK-listed companies for accounting periods ending on or after 31 December 2005.

Gearing

The ratio of borrowings, net of cash, to market net asset value.

Goodwill

On acquisition of a company, the difference between the fair value of net assets acquired and the fair value of the purchase price paid.

Hedging

The use of financial instruments to protect against interest rate movements.

Interest cover

Profit on ordinary activities before interest and tax divided by net interest payable.

Loan to value ('LTV')

Ratio of net debt to the market value of properties and property related assets.

Operating profit before valuation movements ('OPBVM')

Operating profit before valuation movements and non-recurring items.

Return on capital employed (‘ROCE’)

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

Return on shareholder equity (‘ROSE’)

Growth in NNNAV in the year plus the dividend per share relating to each year as a percentage of opening NNNAV.

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.

Advisers

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65 Fleet Street
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Financial public relations

Camarco
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Banking

Clearing Bank and Facility Agent
Barclays Bank PLC
HSBC Bank PLC

Other bankers

Aareal Bank AG
Abbey National Treasury Services PLC
Allied Irish Banks PLC
Lloyds Bank PLC
National Westminster Bank PLC
Nationwide Building Society
Santander UK PLC
Svenska Handelsbanken AB (publ)
The Royal Bank of Scotland PLC

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E14 5GL

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E14 5JP

Numis Securities Limited
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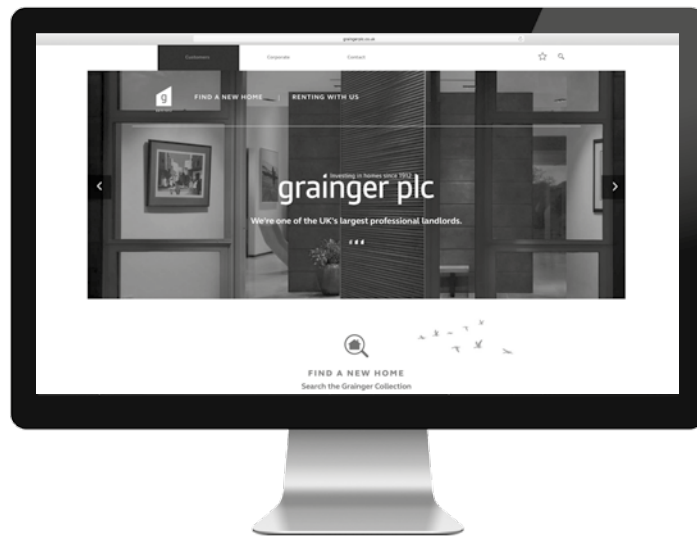
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