20 November 2014

Grainger plc

(“Grainger”, the “Group” or the “Company”)
Preliminary Results for the year ended 30 September 2014

GRAINGER REPORTS OUTPERFORMANCE AND A SIGNIFICANT INCREASE IN ASSET VALUES & PROFITS

PORTFOLIO WELL POSITIONED TO DELIVER SUSTAINABLE AND ONGOING GROWTH OWING TO CHARACTERISTICS AND LOCATION

Grainger plc, the UK’s largest listed residential property owner and manager, today announces its preliminary full year results for the twelve months to 30 September 2014.

Highlights

- Strong value growth delivered, with gross net asset value (NAV) per share up 20% to 291p (FY13: 242p) and triple net asset value (NNNAV) up 24% to 242p (FY13: 195p);
- Profit before tax up 26% to £81.1m (FY13: £64.3m);
- Strategy has delivered continued outperformance from our UK residential assets, with a 14.6% increase in the market value of our portfolio, significantly higher than the average of 9.5% for the Nationwide and Halifax house price indices;
- Encouraging start to the new financial year. As at 31 October 2014 our total Group sales pipeline[1] amounted to £77m (helped by an increased level of development activity), which should deliver £35m of profit, with UK vacant sales values 1.9% above September 2014 valuations (FY13: £52m, £18m and 6.3% respectively).

Robin Broadhurst, chairman of Grainger, commented:

“In my final statement as chairman of Grainger, I am pleased to announce that the Group has once again had a strong period of performance and is on solid ground for continued growth.

“We have set out a clear strategy for the business which will continue to trade reversionary assets, which provide attractive returns. In addition, Grainger will increasingly allocate capital to market rented assets and opportunities in the growing build to rent market, often through Grainger managed co-investment vehicles.

“There is significant value in the business for shareholders and I am excited by the prospects for the future of Grainger.”

Andrew Cunningham, chief executive of Grainger, said:

“Grainger has had another period of strong financial performance and we have continued to significantly grow the asset value of the Company. Our net asset value and profits are up substantially, margins on sales have increased, our leverage is down and we have again seen the value of our portfolio rise faster than the general market.

“Following a period of very strong house price growth, particularly in London and the South East, we are now seeing more sustainable rates of growth. Conditions in the regions and some areas of the capital remain positive and notwithstanding some evidence of moderating of house price inflation and transaction volumes, our own assets are continuing to command good prices due to their defensive qualities, notably their price points, location and nature. For the first time in recent years, we have seen growth in the values of our assets across every region of the UK over the period.

"We continue to believe that the supply-demand dynamics of the housing market, and the gradual improvement in the economy and employment market will ensure we remain in a positive house price environment, which will include improvement in those regions with strong economic prospects outside of London and the South East.

"We are confident that we are in a good position for the forthcoming year, and our focus is set on growing the business through purchases of reversionary assets and investment in market rented assets and build to rent opportunities."

Financial performance

- Recurring profit increased by 27% to £47.1m (FY13: £37.0m);
- Gross cash generated of £303m (FY13: £430m);
- Loan to value reduced to 46.5% (FY13: 48.0%), despite £182m of new investment;
- Net debt of £1,044m (FY13: £959m). Further diversification of funding sources achieved with £275m of corporate bonds issued;
- Reversionary surplus[2] of £503m, which is supplementary to our reported net assets, equivalent to 120p per share (FY13: 127p).

Sales

- Profit from sales increased by 14.0% to £88.6m (FY13: £77.7m);
- Gross sales proceeds of £274.4m (FY13: £352.9m), or £177.8m (FY13: £152.9m) after excluding sales of tenanted properties;
- Margins on sales of vacant properties rose to 49.2% (FY13: 44.9%);
- Sales of vacant properties made at an average of 14.1% above September 2013 vacant possession value (FY13: 7.9%).

Rents

- Gross rents were £57.4m (FY13: £71.1m), reducing as expected due to assets sold or transferred into co-investment ventures in the previous year. Net rents of £37.0m (FY13: £48.5m);
- Like-for-like rents on the UK market rented properties which we manage increased on average by 9.1% on new lets and 4.2% on renewals.

Fees

- Fees from co-invested and co-managed vehicles and other income consistent at £12.8m (FY13: £12.9m).

Investment activity

- Post year end, new partnership agreement signed with Sigma Capital, providing Grainger with the exclusive option to acquire sites from their substantial pipeline of build to rent developments outside of London;
- Ongoing activity in build-to-rent and other business development opportunities, with a particular focus on UK regional investment;
- Selected by the Greater London Authority along with the London Pensions Fund Authority as part of a Bouygues-led consortium to deliver a 211 unit build to rent project at Pontoon Dock in East London;

- £160m purchase in second half of exceptional London reversionary portfolio (the Chelsea Houses Portfolio) with significant refurbishment and redevelopment opportunities that has performed ahead of expectations.

Dividend

- A final dividend of 1.89p per ordinary share (FY13: 1.46p), resulting in a total dividend for the year of 2.50p per ordinary share (FY13: 2.04p), an increase of 22.6%, reflecting our performance in the year and maintaining capacity for accretive reinvestment in the business.

[1] Completed sales, contracts exchanged and properties in solicitors' hands.

[2] Reversionary surplus is the uplift from the reported market value of our properties to the vacant possession value and includes our share of investment in joint ventures/associates. It is not included in our net asset calculations and therefore highlights the latent value in our reversionary portfolios.

Analyst presentation:

Grainger plc will be holding a presentation for analysts and investors today at 9.00a.m. (GMT), Thursday 20 November 2014 at FTI Consulting, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD.

The presentation will also be available live via webcast and a telephone dial-in facility. In addition, a copy of the presentation slides will be available on Grainger's website, www.graingerplc.co.uk.

Webcast:

The presentation is available via the web and can be accessed here: http://www.axisto-live.com/investis/clients/grainger-plc/presentations/5429670f3bb675e80a00f2cc/full-year-results-2014

Conference call details:

Telephone Number	+44 20 3059 8125
Participant Password	Grainger

A replay of the call will be available after the event. Dial-in details for the archive call are:

Telephone Number (excl USA)	+44 121 260 4861
Telephone Number (USA)	+1 866 268 1947
Passcode	5841042 followed by #

For further information, please contact:

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Chairman's Statement

During the year, our business has continued to produce strong growth in asset values and increased profits. We are also making good progress within the build to rent sector and towards our goal of substantially increasing our market rented assets across the country. In addition, our regulated tenancy and equity release businesses also performed strongly.

Dividend

The Company is declaring a final dividend of 1.89p per ordinary share (FY13: 1.46p) to be paid on 6 February 2015 to shareholders on the register at the close of business on 30 December 2014. The total dividend for the year will therefore be 2.50p per ordinary share (FY13: 2.04p), an increase of 22.6%. This reflects our performance in the year whilst maintaining capacity for accretive reinvestment in the business.

Board changes

As previously announced, I will be stepping down as chairman at the AGM in February 2015 and Ian Coull, who joined the Board in September 2014, will take over as chairman following that meeting.

I am also pleased to announce that Andrew Carr-Locke will be joining the Board as an independent non-executive director following the AGM in February 2015, subject to normal FCA confirmations. Andrew is a Fellow of the Chartered Institute of Management Accountants and has previously held directorships of a number of companies including as Group Finance Director at George Wimpey plc and as Executive Chairman of Countryside Properties plc.

I am confident that Ian will be a strong leader for the business, and that Andrew's experience and expertise will be of great value to the Company.

John Barnsley will also step down from the Board at the AGM, having been a Board director since 2003. I would like to thank John for his significant commitment and contribution to Grainger over those years.

Concluding remarks

The last few years have been a period of significant achievement and success for the Company. It has been a privilege to work with so many skilled and committed individuals within the Company who do their jobs with great enthusiasm and with such enjoyment. I am pleased that this has been recognised by Grainger receiving a number of industry awards this year including: Best Residential Asset Manager for the third consecutive year[3]; Macaulay Walk was named Best Development and Best Mixed Use Development[4]; our market rented fund with APG, GRIP, was recognised as a Sector Leader for sustainability measurement[5]; our Wellesley development in Aldershot achieved a Built for Life quality mark and our build to rent development at Young Street won the Best Private Rented Sector design award[6]. These achievements are a direct result of the efforts of all of the staff at Grainger. I will miss being part of the Company, but I know that it is also on solid foundations to achieve even greater things.

Robin Broadhurst
Chairman
20 November 2014

[3] RESI Awards
[4] Sunday Times' British Homes Awards
[5] Global Real Estate Sustainability Benchmark
[6] Housing Design Awards

Chief Executive's Review

Grainger has had another period of strong financial performance and we have created significant growth in the asset value of the Company. Our triple net asset value has risen 24% to 242p per share, and our gross net asset value has risen by 20% to 291p per share. Profit before tax increased 26% to £81.1m (FY13: £64.3m), while margins on sales of vacant properties rose strongly to 49.2% (FY13: 44.9%).

The market value of our portfolio once again outperformed the general market in capital value terms, increasing 14.6% compared to the 9.5% average of the Nationwide and Halifax indices. This achievement reflects the nature and geographic location of our assets and the benefits of our strong asset management capabilities, which have always been and will continue to be a key strategic focus.

Market commentary

As we indicated when announcing our half year results in May, we have seen strong house price growth over the year and, for the first time in many years, we have seen values in the UK increase in every region in which we operate. In addition, the performance of our portfolios have been supported by strong sales margins. We also continue to see growth in London, albeit at varying rates.

Sentiment within the housing market has been dampened by wider concerns about the economy combined with the possibility of interest rate rises, the mortgage market review and the Labour Party's proposed mansion tax, should they assume power after the next election. This political uncertainty and the outcome of the forthcoming election has likely been a factor in the reduction in house price inflation in some areas of London as well as reduced transaction levels.

There remains, however, a significant undersupply of housing in the UK and, along with a slowly improving economy, jobs market and expected population growth, this imbalance supports a positive house price inflation environment, albeit at more sustainable levels. In the regions we have seen positive momentum in terms of sales and capital values. Specifically, we expect to see a gradual improvement in those regions with stronger economic prospects. In our own experience in the south of England over recent months, we have seen the time to complete sales slightly increase and the number of viewings diminish; this has been most apparent in central London.

The business is well placed to respond to the market. Our assets have defensive qualities which help maintain strong values due to their size, type, location, pricing and condition. Moreover, it is important to note that, although 68% of our UK portfolios by value are in London and the South East of England, only 27% of our assets are located in Central London. In addition, we have only 80 assets worth £2m and over at vacant possession value out of our UK portfolio of c.11,500 units.

Rent levels in the market rented sector remain robust, with stable increases seen throughout the year. The UK market rented properties which we manage strongly outperformed the market. According to the Office of National Statistics, the average private rent increases in the UK were 1% for the year to September 2014. Our portfolio saw like-for-like rent increases at both renewals (4.2%) and on new lets (9.1%). This outperformance is due to our active asset management, refurbishment investment programme and strong asset characteristics which are in high demand.

Although political manoeuvring in the run-up to the General Election, such as the proposal for a mansion tax, risk creating uncertainty over the next six months, it is encouraging to note that the main political parties are broadly supporting growth policies in terms of housing supply and institutional investment in the private rented sector, which is important to our longer term strategy.

The Government and the Conservative party are pursuing policies with the intention of supporting house building, the mortgage market and the private rented sector and Labour's Lyons Review of the housing market was broadly welcomed by the industry, setting a positive direction of travel for the formation of Labour's housing policies in the run-up to the election.

This backdrop continues to provide a good tailwind for institutional investor interest in the UK private rented sector, and we see clear opportunities for growth which we can leverage in order to further our long term strategic direction for the business.

Investment focus

As we have indicated previously, with our deleveraging programme now concluded, we are in a position to increasingly turn our attention to growing the business through purchases of reversionary assets and investment in build to rent opportunities. As such, we have been active in business development over the past year, with our strong team of experts pursuing a number of exciting opportunities.

We continue to believe that the regions provide increasingly attractive investment opportunities. In line with this, we have recently announced a new partnership agreement with Sigma Capital which provides us the exclusive option to acquire sites from their significant pipeline of build to rent developments outside of London, located across the UK in major regional cities.

We are also pleased to have been selected by the Greater London Authority, along with the London Pensions Fund Authority as part of a Bouygues-led consortium to develop 211 build to rent units in a scheme at Pontoon Dock in East London.

We acquired the Chelsea Houses Portfolio in April for £160m, a demonstration of our continued commitment to reversionary assets. The portfolio has significant potential for value enhancement through refurbishment and extension. Since acquisition, the portfolio has performed ahead of expectations and the vacant possession value of the portfolio has increased by 4.2%.

Strategy and Future Outlook

Grainger is a specialist residential company.

Our objective is to be a leader in the residential market, delivering sustainable long-term returns to our investors and our partners from a combination of sales, rents and fee income.

The four strands of our strategy remain: leading the market; ensuring our assets are located and managed to deliver the best returns; balancing the sources of our income; and optimising our financial and operational gearing.

Our strategy and our business reflect the changing dynamics of the residential market. We will use our core skills (trading, managing, investing, developing and fund management) and our agility to take advantage of the opportunities presented by these changes.

Our core business is the acquisition, management and sale of properties subject to regulated tenancies and other reversionary assets. Even at current levels, we estimate our reversionary portfolio will generate over £120m of cash each year until 2030. The overall market for these assets is in gradual decline and this is why, over the years, we have increased our exposure to other forms of residential assets, for example home reversion assets in the UK and residential investments in Germany.

We are market leaders in both the regulated tenancy and home reversion markets and it is our intention to maintain those positions. We will continue to actively acquire those assets while they remain available and provide appropriate levels of return.

Changes to the residential landscape, in particular the development of the market rented sector, present a further opportunity for growth, building on our reputation and expertise and our existing operating and management platforms. Consequently, it is one of the areas in which we will invest over the next few years.

Our long term vision is to be the first (and foremost) truly national market rented landlord offering a high quality product and service that enables people to increase their housing choices; this entails a strong, recognised brand that will help people to move easily and seamlessly both from location to location, and through different price points.

We will grow this part of the business primarily through build to rent projects, integrating our core skills of asset and property management, with those of development.

Our geographic focus for investment will continue to be in the UK, ahead of anticipated value growth in the regions and in the 'doughnut' zones around central London.

We have had an encouraging start to the new financial year and are confident of delivering good levels of profitability in 2015. Our sales will continue to benefit from the realisation of the reversionary value embedded in our portfolio. In addition to our core rental and fee income, our development business is expected to see high levels of activity over the next three years, with existing schemes anticipated to generate on average c.£10-12m of profit per annum.

Grainger will continue to be highly cash generative, providing significant firepower to invest in market rental and fee generating opportunities, as well as our more traditional reversionary assets.

Our business provides shareholders with:

- exposure to the housing market;
- a unique residential portfolio supported by an expert management platform;
- short term profitability from our opening sales pipeline and expected development profits;
- medium term value growth from our portfolio and the realisation of the £503m reversionary surplus; and
- significant long term opportunities from the market rented sector.

I would like to personally thank Robin Broadhurst who has been chairman for over seven years and a director of the Company for over ten. Over this period, Grainger has seen significant change and positive advancements, and together we have successfully worked through some challenging economic times. His constant support and counsel have been valuable and much appreciated. Likewise, my sincere thanks and best wishes go to John Barnsley who leaves after many years of service with Grainger. We wish them both the very best for the future.

Andrew Cunningham
Chief executive
20 November 2014

Performance Overview and Financial Review

Performance Overview

This section reviews the overall Group performance, the growth in assets and provides further detail on our three main income streams: Sales, Rents and Fees.

Group Performance

For the twelve months to 30 September 2014, Gross NAV increased by 20% to 291p and triple NAV by 24% to 242p.

(£m)	**Gross NAV pence/share**	**NNNAV pence/share**
30 September 2013	**242**	**195**
Profit after tax	18	18
Revaluation gain on trading stock	53	53
Elimination of previously recognised surplus on sales	(13)	(13)
Dividends paid	(2)	(2)
Impact of derivatives and hedging net of tax	(7)	1
Cashflow hedge reserve net of tax		
Contingent tax	-	(8)
Other	-	(2)
30 September 2014	**291**	**242**

Grainger’s reversionary surplus, which is the uplift from the reported market value of our properties to the vacant possession value, including our share of investments in joint ventures and associates, is valued at £503m, equivalent to 120p per share before tax (FY13: 127p, £527m). For our wholly owned assets, this is 109p per share (£455m) before tax (FY13: 116p, £483m). This surplus is based on current values (it excludes future house price inflation), is supplementary to our net asset calculations and highlights the additional latent value in Grainger’s reversionary portfolio.

Market Value Analysis – Property Assets

	2014		**2013**	
	VPV	**Market value**	**VPV**	**Market value**
	£m	**£m**	**£m**	**£m**
UK Residential Portfolio	1,793	1,448	1,451	1,145
Retirement Solutions Portfolio	454	345	613	435
Development Portfolio	107	107	84	84
UK Joint Ventures and Associates*	281	233	242	198
German Portfolios*	195	195	228	228
	2,830	2,328	2,618	2,090

**Includes Grainger share of assets held within joint ventures and associates*

This is after the one-off valuation deficit of £5.9m relating to some of our German assets referred to below.

UK residential portfolios

	2014		2013	
	VPV	**Market value**	**VPV**	**Market value**
Year-on-year HPI (Nationwide and Halifax)	9.5%		5.6%	
Grainger's UK Residential portfolio	14.6%	15.9%	8.2%	9.3%
Grainger's Retirement Solutions portfolio	6.0%	9.4%	2.3%	5.9%
Grainger's combined UK portfolio	12.0%	14.6%	6.4%	8.3%

Our traditional reversionary UK residential portfolios have performed particularly strongly in 2014 and have again outperformed the wider UK residential market. In the year to 30 September 2014 the two major housing indices (Nationwide and Halifax) showed an average rise of 9.5%. By contrast, the vacant possession value (VPV) in our combined UK portfolios rose by 12.0% whilst their market value rose by 14.6%.

Within this, the VPV of our UK Residential portfolio, which benefited from a concentration weighted towards London and the South East of England, rose by 14.6%. The VPV of the more geographically diverse Retirement Solutions assets rose by 6.0%.

Development portfolio

As at 30 September 2014, the market value of our UK development portfolio increased to £107.2m (FY13: £84.3m), largely fuelled by the investment in our Macaulay Walk scheme (Clapham, London).

The gross development value, including joint ventures, with detailed planning consent is valued at £434m (FY13: £314m). This includes our 50% share of the King Street, Hammersmith development in conjunction with Helical Bar, which has a total gross development value of £180m, following the receipt of planning permission in November 2013, and two sites in the Royal Borough of Kensington and Chelsea which also received planning permissions within the period.

Co-investment vehicles

Grainger's equity investment in its joint ventures and associates equates to £177.2m and principally comprises:

- our 24.9% investment in GRIP, for which we provide property and asset management services, co-investing with APG;
- a 50% investment in Walworth Investment Properties Limited (WIP), our joint venture with Dorrington, which owns the Walworth Estate;
- our 25% investment in the two Stuttgart portfolios with Heitman;
- a 50% interest in the Sovereign joint venture with Moorfield;
- and a 50% interest in the Hammersmith joint venture with Helical Bar.

The gross asset value of co-investment vehicles at 30 September 2014 was £1,016m (FY13: £924m). Grainger's total return from co-investment vehicles in the year amounted to 23.5%.

JVs/Associates Summary	Gross Asset Value		Grainger Equity Investment	
	2014	2013	2014	2013
GRIP	£500m	£429m	£85m	£65m
WIP	£176m	£136m	£52m	£36m
Sovereign	£55m	£58m	£14m	£14m
Heitman*	£212m	£212m	£17m	£19m
Other	£73m	£89m	£9m	£12m
Overall Total	**£1,016m**	**£924m**	**£177m**	**£146m**

*The Heitman gross asset value at 30 September 2014 was €259m (FY13: €253m). The 2014 equity investment is lower as a result of distributions, including proceeds from a successful sales programme on behalf of the vehicle, as well as exchange rate movements.

Germany

The overall German residential market has developed well and investor interest continues to be strong. In order to benefit from this interest and to further leverage its platform and assets, the Group intends to use existing German portfolios to form further co-investment vehicles with institutional partners to which it will provide asset management services. This relates mainly to the FRM portfolio. During the past year and following a thorough portfolio review, we have initiated an investment programme in order to ensure compliance with local regulations which will maximise the potential of the assets in respect of rents and occupancy. We believe it is right to invest in order to create a highly attractive entry possibility for institutional investors. The costs of this programme have been accounted for in the current year and have impacted profit before tax and net asset value by £5.9m.

Our Heitman associate in Germany has delivered a positive performance in 2014, supported by investment activity in Munich and other dynamic markets and our active asset management approach, returning in excess of 15% to Grainger in 2014.

The value of the assets Grainger manages in Germany, including the Heitman associate, has increased by 4.4% on a per sqm like-for-like basis. As at 30 September 2014, the market value of the wholly owned German portfolio was £148.4m (8% of our overall wholly owned portfolio; FY13: £178.3m). The reduction in market value follows sales of €18.6m (£15.2m) and the cost of additional investment outlined above.

Purchases

Our strong cash generation supports reinvestment and we have spent £182m on property purchases, excluding development (FY13: £9.0m). The largest single element of this expenditure was the acquisition in April of the Chelsea Houses Portfolio. This portfolio has performed well in the five months since acquisition, with a growth in vacant possession value of 4.2%. Apart from its attractive reversionary characteristics and returns, the portfolio provides a significant number of value accretive refurbishment and redevelopment opportunities.

Assets under management

The total market value of assets under management at 30 September 2014 was £3,159m, up from £2,796m the previous year. 19,831 units were under management at the year-end (FY13: 21,569), with most of the reduction attributable to the successful conclusion of G:Ramp asset management activities.

Sales, rents and fees

Sales

	Full Year 2014			Full Year 2013		
	No. of units	**Gross sales value (£m)**	**Profit (£m)**	**No. of units**	**Gross sales value (£m)**	**Profit (£m)**
Trading sales on vacancy						
UK Residential	287	78.1	42.9	337	79.5	40.2
Retirement Solutions	364	45.2	17.7	338	36.9	12.0
	651	123.3	60.6	675	116.4	52.2
Tenanted sales	1,331	96.6	10.4	1,684	200.0	23.4
Other sales	27	6.5	5.5	17	3.5	1.4
Residential Total	2,009	226.4	76.5	2,376	319.9	77.0
Development	-	32.8	12.3	-	15.0	1.9
UK Total	2,009	259.2	88.8	2,376	334.9	78.9
Germany	191	15.2	(0.2)	245	18.0	(1.2)
Overall Total	**2,200**	**274.4**	**88.6**	**2,621**	**352.9**	**77.7**
Deduct: Sales of CHARM properties	(67)	(7.2)	(0.6)	(59)	(5.8)	(0.4)
Statutory sales and profit	2,133	267.2	88.0	2,562	347.1	77.3

UK Residential & Retirement Solutions

Margins on sales of vacant properties increased to 49.2% (FY13: 44.9%) and sales of vacant properties were made at an average of 14.1% above September 2013 VPV (2013 excess to 2012 VPV: 7.9%).

Sales of tenanted properties and other sales decreased from 2013 by £100.4m to £103.1m (FY13: £203.5m). The main disposal in the year was the sale of a home reversion (Retirement Solutions) portfolio in January 2014 for £88m, which generated a profit of £9.9m. This represents the end of the deleveraging programme which Grainger has been working through in recent years.

Development

The Development business had a good year with £32.8m of sales and £12.3m of profit (FY13: £15.0m and £1.9m respectively). This performance was weighted towards the second half of FY14 which saw higher levels of activity that have continued into the first half of FY15.

Our Macaulay Walk development has been the key profit driver and has delivered an outstanding sales performance with 53 of a total of 57 private units now sold, exchanged or reserved at values between £800-£1300/sqft, significantly above expectations. Over the period, Macaulay Walk has delivered £11.6m of profit to the business, and we expect a similar level of profit in the new financial year which will be weighted toward the first half. The development won Best Mixed Use Scheme and Best Development (between 26-100 units) at the Sunday Times' British Homes Awards 2014.

We will shortly be entering the construction phase on our two schemes with the Royal Borough of Kensington and Chelsea, Young Street and Hortensia Road.

At Berewood, we sold Phase 2 to Redrow Homes in September 2013, and anticipate that the next phase will come to market in 2015.
Over the next three years, our development activities on average are currently expected to generate £10-12m of profit per annum.

Germany

The £15.2m of sales (FY13: £18.0m) relates to general portfolio management and optimisation activities. A broadly breakeven profit result (-£0.2m) compares against a £1.2m loss in the prior year. As assets are held as investment property and are revalued annually, a breakeven result indicates that the sales prices achieved met the latest valuation.

Rents

Net Rents	**2014**	**2013**
UK Residential	£30.2m	£37.2m
Retirement Solutions	£1.5m	£2.3m
Germany	£5.1m	£8.7m
Development	£0.2m	£0.3m
Net Rents	**£37.0m**	**£48.5m**

We recorded an anticipated reduction in net rent following the recent portfolio transfers into co-investment structures and investment sales. Total net rents in the year amounted to £37.0m (FY13: £48.5m).

Our UK Residential portfolio generated net rental income in the year of £30.2m (FY13: £37.2m).

The German business delivered net rents of £5.1m (FY13: £8.7m).

Certain assets in the Retirement Solutions portfolio also produce a net rental income and this amounted to £1.5m in the year (FY13: £2.3m).

Despite the overall net rent decrease, the UK market rented properties which we manage saw like-for-like rent increases on new lets of 9.1% and on renewals of 4.2%, compared to the market average of 1% according to the Office of National Statistics. While rent levels generally follow market trends, more importantly they reflect the quality of the individual unit and benefit from our active management to maximise rental income.

Across our entire portfolio, rental increases generated an additional £1.8m of gross rental income.

Fees and other income

	2014	**2013**
Fees and other income	**£12.8m**	**£12.9m**

Allied to our strategy of growing our private rented sector offering are the opportunities we have developed for creating new joint ventures and fund management structures where we can leverage our core skills to create added value for shareholders and partners and generate fee income for Grainger.

The majority of fee income is derived from asset and property management fees from co-investment vehicles and management contracts. Overall, fees were stable year-on-year.

Retirement Solutions saw increased activity levels and fees following the commencement of services for Clifden Holdings Limited (the buyer of one of our home reversion portfolios in January). Development fees also increased. These relate to land sales at Wellesley, the Aldershot Urban Extension, working with the Defence Infrastructure Organisation, part of the Ministry of Defence.

Following a very positive 2013 for G:Ramp (our residential asset management agreement with Lloyds Banking Group), 2014 also benefited from performance fees, albeit at a lower level. These relate to the successful work-out of the bulk of the portfolios we have been managing, a reduced level of activity is therefore expected in 2015.

Financial Review

Our key measures of financial performance are:

	2014	2013
Gross net asset value per share (pence)	291p	242p
Triple net asset value per share (pence)	242p	195p
Operating profit before valuation movements and non-recurring items (OPBVM)	£107.5m	£107.6m
Recurring profit	£47.1m	£37.0m
Profit before tax	£81.1m	£64.3m
Excess on sale of normal sales to previous valuation	14.1%	7.9%
Return on capital employed *	17.0%	8.1%
Return on shareholder equity **	25.6%	25.2%

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

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

The table below summarises our OPBVM, recurring profit and profit before tax.

	2014 £m	2013 £m
Profit on sale of assets	88.6	77.7
Net rents	37.0	48.5
Management fees/other income	12.8	12.9
CHARM	6.4	5.7
Overheads/other expenses	(37.3)	(37.2)
OPBVM	**107.5**	**107.6**
Net finance costs	(63.4)	(71.3)
Joint ventures and associates	3.0	0.7
Recurring Profit before tax	**47.1**	**37.0**
Valuation movements including derivatives	37.7	33.2
Non-recurring items	(3.7)	(5.9)
Profit before tax	**81.1**	**64.3**

We have three income streams within OPBVM. These are sales of residential properties, rental income and management fees/ other income. Within OPBVM we also include income from our CHARM asset, property expenses, overheads and other expenses. A summary of OPBVM by division and of the main movements in the year is set out below:

Divisional analysis of OPBVM

	Profit on sale of assets	Net Rents	Management fees/ other income	Overheads/ Other	Total 2014	Total 2013
	£m	£m	£m	£m	£m	£m
UK Residential portfolio	48.9	30.2	0.4	(8.4)	71.1	94.6
Retirement Solutions portfolio	27.6	1.5	1.7	4.0	34.8	19.0
Fund and third party management	-	-	8.5	(6.1)	2.4	2.9
Development assets	12.3	0.2	1.1	(1.7)	11.9	1.2
German residential portfolio	(0.2)	5.1	1.0	(3.2)	2.7	4.7
Group and other	-	-	0.1	(15.5)	(15.4)	(14.8)
OPBVM 2014	88.6	37.0	12.8	(30.9)	107.5	-
OPBVM 2013	77.7	48.5	12.9	(31.5)	-	107.6

Main movements within OPBVM	**£m**
2013 OPBVM	107.6
Decrease in gross rents	(13.9)
Increase in residential profit on sale	0.9
Increase in development trading profit	10.4
Increase in interest income from CHARM	0.3
Decrease in gross management fee and other income	(0.1)
Decrease in property expenses, overheads and other income and expenses	2.3
2014 OPBVM	**107.5**

The major movements within OPBVM are:

- A decrease of £13.9m in gross rents. This has arisen, as predicted, primarily as a result of the transfer of assets into co-investment vehicles in the prior year with Heitman for German assets, and with Dorrington and APG for UK assets. This reduced gross rents by £8.9m. Sales across the Group have resulted in a reduction in gross rents of £7.9m. This has been offset by £1.1m of additional rents from acquisitions in the year, primarily the Chelsea Houses Portfolio, and £1.8m of rental increases.
- An increase of £0.9m in relation to profit on sale of residential property assets, primarily due to an increase in margin on vacant sales from 44.9% to 49.2% and a reduction in tenanted sales as we reached the end of our deleveraging programme.
- An increase of £10.4m in relation to profit on sale of assets from our development division. In the year our Macaulay Walk site has come to market, realising profits of £11.6m based on completion of 34 of the 57 private units and 6 of the commercial units.

Interest income and expense

The net recurring interest charge has decreased by £7.9m from £71.3m in 2013 to £63.4m at 30 September 2014. This follows on from the reduction in debt which was (on a daily average) £1,101m in 2014 (FY13: £1,248m), and an average cost of debt at the period end including costs but excluding commitment fees of 5.4% (FY13: 5.9%).

Joint ventures and associates

Joint ventures and associates contributed a profit of £3.0m to recurring profit in the year (FY13: £0.7m) as we benefited from a full year of trading from our Heitman and Walworth ventures.

Valuation and non-recurring items

Valuation and non-recurring items in 2014 compared with 2013 is analysed as follows:

	2014 £m	2013 £m	Movement £m
Valuation			
Adjustment of inventories to net realisable value	0.8	0.7	0.1
Valuation gain on investment property	7.4	2.9	4.5
One-off valuation deficit on German FRM investment property	(5.9)	-	(5.9)
Goodwill impairment	-	(4.7)	4.7
Change in fair value of derivatives	1.2	21.6	(20.4)
Valuation gains on investment property in joint venture and associates before tax	39.2	14.7	24.5
Tax on valuation gains on investment property in joint ventures and associates	(4.6)	(2.3)	(2.3)
Change in fair value of derivatives of joint venture and associates	(0.4)	0.3	(0.7)
	37.7	**33.2**	**4.5**
Non-recurring			
Profit/(loss) on disposal of subsidiary/joint venture	0.8	(2.3)	3.1
Impairment of Prague joint venture	(2.4)	-	(2.4)
Net gain on purchase of Tricomm debt	-	1.6	(1.6)
Costs/ charges/ gains relating to GRIP/ G:res	-	(2.6)	2.6
Other non-recurring costs	(2.1)	(2.6)	0.5
	(3.7)	**(5.9)**	**2.2**
Total	**34.0**	**27.3**	**6.7**

Investment property valuation gain

The net valuation uplift in 2014 totals £1.5m (FY13: £2.9m). Our UK portfolios, relating primarily to the Group's wholly owned investment property in its UK Residential division showed an uplift of £7.6m (FY13: £2.5m). In Germany, as stated previously, we are intending to start a programme of works on our FRM portfolio, the cost of which has been taken into account as part of the September valuations, resulting in a one-off downward valuation of £5.9m. The remaining German portfolios showed a deficit of £0.2m (FY13: surplus of £0.4m).

Derivative movements

Fair value movements on derivatives is a credit of £1.2m relating to the Group's derivative contracts, offset by a £0.4m charge relating to our share of derivatives within joint ventures and associates.

The fair value of swaps at 30 September 2014 is a liability of £48.0m compared to £91.1m at 30 September 2013.

Valuation gains in joint ventures/ associates

Valuation gains within joint venture and associates amounted to £39.2m before deferred tax (FY13: £14.7m) comprising gains from our joint venture and associate operations with Heitman, Dorrington and APG.

Non-Recurring

The non-recurring items in 2014 included a £0.7m gain on sale of a subsidiary as part of the tenanted portfolio sale completed in January 2014 and a £0.1m gain on sale of our Gebau joint venture in October 2013. This is offset by a £2.4m loan impairment charge relating to our Prague investment, £1.3m of one-off property costs and provision increases relating to a small number of properties across the portfolio and £0.8m following the acquisition of the Chelsea Houses Portfolio.

Profit before tax

Having taken account of all of the above movements, profit before tax was £81.1m compared to a profit before tax of £64.3m in 2013. The most significant movements which contributed to the 26.1% increase were a £11.3m increase in profit from sales largely driven from development sales in the year, a £7.9m decrease in interest costs and a £4.6m increase in valuation gains from investment properties, offset by a reduction in net rents of £11.5m following the recent portfolio transfers into co-investment structures and investment sales.

Tax

The Group has an overall tax charge of £6.4m for the year, comprising a £7.3m UK tax charge and a £0.9m overseas tax credit.

The net reduction of £11.4m, from the expected charge of £17.8m, results from a prior period credit of £6.5m, a £4.2m reduction as tax on JV and Associates' profit is included above the tax line in the Income Statement and a £1.8m deferred tax credit following recognition of future capital losses against future capital gains, offset by non-deductible expenditure totalling £1.1m.

The Group works in an open and transparent manner with the tax authorities. HM Revenue & Customs has graded the Group as a 'low risk' taxpayer. The Group is committed to maintaining this status.

The Group made net corporation tax payments totalling £7.2m in the year.

Earnings per share

Basic earnings per share is a profit of 18.1p (FY13: a profit of 13.1p). A year-on-year comparison is shown below:

	£m	**Pence per share**
2013 Profit/earnings per share	53.6	13.1
Movements in:		
OPBVM	(0.1)	-
Contribution from joint ventures and associates	2.2	0.5
Fair value of derivatives	(20.9)	(5.1)
Revaluation of investment properties	20.9	5.1
Net interest payable	7.9	1.9
Taxation/other	11.1	2.6
2014 Profit/ earnings per share	**74.7**	**18.1**

Dividend for the year

After considering the investment and working capital needs of the business, the directors have recommended a final dividend of 1.89p per ordinary share (FY13: 1.46p) which equates to £7.8m (FY13: £6.0m). This is in addition to the interim dividend of 0.61p per ordinary share (FY13: 0.58p). The total dividend for the year will therefore be 2.50p per ordinary share (FY13: 2.04p), an increase of 22.6%. Earnings cover dividends by 7.3 times.

Net asset values

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

	30 September 2014	30 September 2013	Movement
Gross net assets per share (NAV) - Market value of net assets per share before deduction for deferred tax on property revaluations and before adjustments for the fair value of derivatives	291p	242p	20%
Triple net asset value per share (NNNAV) - Gross NAV per share adjusted for deferred and contingent tax on revaluation gains and for the fair value of derivatives	242p	195p	24%

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

A reconciliation between the statutory balance sheet and the market value balance sheets for both Gross NAV and NNNAV is set out in Note 3 to the accounts in this announcement.

Reconciliation of Gross NAV to NNNAV

	£m	Pence per share
Gross NAV	1,215	291
Deferred and contingent tax	(151)	(36)
Fair value of derivatives adjustments net of tax	(52)	(13)
NNNAV	**1,012**	**242**

The major movements in Gross NAV in the year are:-

	£m	Pence per share
Gross NAV at 30 September 2013	**1,008**	**242**
Profit after tax	75	18
Revaluation gains on trading stock	223	53
Elimination of previously recognised surplus on sales	(55)	(13)
Dividends paid	(9)	(2)
Impact of derivatives and hedging net of tax	(29)	(7)
Other	2	-
Gross NAV at 30 September 2014	**1,215**	**291**

The major movements in NNNAV in the year are:

	£m	Pence per share
NNNAV at 30 September 2013	**811**	**195**
Profit after tax	75	18
Revaluation gains on trading stock	223	53
Elimination of previously recognised surplus on sales	(55)	(13)
Dividends paid	(9)	(2)
Cashflow hedge reserve net of tax	6	1
Contingent tax	(34)	(8)
Other	(5)	(2)
NNNAV at 30 September 2014	**1,012**	**242**

The effect of HPI and our outperformance of it has been a major contributor to growth in asset value. An analysis of the sources of valuation growth split between the gain shown in the income statement and the gain included within our Gross NAV and NNNAV movements is shown below:

Division	Trading Stock £m	Income Statement £m	Total increase in value £m
UK Residential	183	7	190
Retirement Solutions	24	1	25
Development	12	-	12
Joint venture and associates*	4	37	41
German Portfolios*	-	(4)	(4)
	223	**41**	**264**

**Includes Grainger share of assets held within joint ventures and associates*

An increase in market value of 1% across the Group's residential property including our share of joint ventures and associates leads to an increase in value of £22.5m before deferred and contingent tax and £17.7m after tax. This is equivalent to 5p per share on NAV and 4p per share on NNNAV.

Market value analysis of property assets

	Shown as stock at cost £m	Market value adjustment £m	Market value £m	Investment property/financial interest in property assets £m	Total* £m
Residential	926	584	1,510	431	1,941
Development	94	13	107	-	107
Total at 30 September 2014	**1,020**	**597**	**1,617**	**431**	**2,048**
Total at 30 September 2013	950	433	1,383	460	1,843

* Incudes property assets within held-for-sale

Financial resources, interest cost and derivative movements

	2014	**2013**
Net Debt	£1,044m	£959m
Consolidated Loan to Value	46.5%	48.0%
Core Loan to Value	42.0%	40.1%
Core interest Cover	3.7	5.0
Average maturity of drawn facilities	4.8 years	4.6 years
Headroom	£297m	£292m
Average cost of debt at period end[8]	5.4%	5.9%

As at 30 September 2014 net debt was £1,044m, an increase of £85m from the 30 September 2013 level of £959m. Our consolidated loan to value now stands at 46.5% (FY13: 48.0%). LTV on the core facility was 42.0% (FY13: 40.1%) compared to a maximum allowable LTV covenant under that facility of 75%. The interest cover ratio on the core facility stood at 3.7 times (2013: 5.0 times) compared to a minimum interest cover covenant of 1.35 times.

As at 30 September 2014, the average maturity of the Group's drawn debt was 4.8 years (FY13: 4.6 years).

The Group has free cash balances of £50m plus available overdraft of £5m along with undrawn committed facilities of £242m. Thus, headroom totals £297m as at 30 September 2014 (FY13: £292m). There are no further significant repayments until March 2016.

The Group's average cost of debt at the period end, including costs but excluding commitment fees, was 5.4% (FY13: 5.9%). We will continue to manage the average cost of debt, balanced with terms and tenor.

At 30 September 2014, gross debt was 68% hedged (FY13: 68%) of which 4% was subject to caps (FY13: 3%).

During the year we further diversified our sources of debt by issuing £275m of bonds with a maturity date of December 2020 at an all in effective rate of 4.94%.

The business has produced £303m of cash from gross rents, property sales net of fees and fee and other income. The largest outflows of cash are £160m investment in the Chelsea Houses Portfolio, £35m to settle interest rate swaps required before issuance of our corporate bonds and £55m of interest.

Having fully considered the Group's current trading, cash flow generation and debt maturity, the directors have concluded that it is appropriate to prepare the Group financial statements on a going concern basis.

Mark Greenwood
Finance director
20 November 2014

[8] Including costs but excluding commitment fees

Consolidated income statement (audited)

For the year ended 30 September 2014	Notes	2014 £m	2013 £m
Group revenue	3,4	**319.1**	283.2
Net rental income	5	**35.9**	48.5
Profit on disposal of trading property	6	**87.2**	75.5
Administrative expenses	8	**(34.7)**	(33.6)
Fees and other income	9	**12.8**	12.9
Other expenses	10	**(3.6)**	(6.3)
Goodwill impairment		**–**	(4.7)
Profit on disposal of investment property	7	**0.8**	1.8
Income from financial interest in property assets	16	**7.0**	6.1
Profit on acquisition of equity in associate		**–**	2.1
Profit/(loss) on disposal of subsidiary	2	**0.7**	(2.3)
Profit on disposal of joint venture	2	**0.1**	–
Write back of inventories to net realisable value	2	**0.8**	0.7
Impairment of joint venture	15	**(2.4)**	–
Operating profit before net valuation gains on investment property		**104.6**	100.7
Net valuation gains on investment property	13	**1.5**	2.9
Operating profit after net valuation gains on investment property		**106.1**	103.6
Change in fair value of derivatives	21	**1.2**	7.9
Finance costs		**(66.3)**	(73.3)
Finance income		**2.9**	17.3
Share of profit of associates after tax	14	**21.1**	1.0
Share of profit of joint ventures after tax	15	**16.1**	7.8
Profit before tax		**81.1**	64.3
Tax charge for the year	19	**(6.4)**	(10.7)
Profit for the year attributable to the owners of the Company		**74.7**	53.6
Basic earnings per share	11	**18.1p**	13.1p
Diluted earnings per share	11	**17.9p**	12.8p

Consolidated statement of comprehensive income (audited)

For the year ended 30 September 2014	Notes	2014 £m	2013 £m
Profit for the year		**74.7**	53.6
Items that will not be transferred to consolidated income statement:			
Actuarial gain on BPT Limited defined benefit pension scheme		**0.9**	0.7
Items that will be reclassified subsequently to consolidated income statement:			
Fair value movement on financial interest in property assets	16	**1.0**	(0.3)
Exchange differences on translating foreign operations		**(0.3)**	0.5
Changes in fair value of cash flow hedges		**5.4**	36.2
Other comprehensive income and expense for the year before tax		**7.0**	37.1
Tax relating to components of other comprehensive income:			
Tax relating to items that will not be transferred to consolidated income statement		**(0.1)**	(0.2)
Tax relating to items that will be reclassified subsequently to consolidated income statement		**(1.5)**	(7.2)
Other comprehensive income and expense for the year after tax		**5.4**	29.7
Total comprehensive income and expense for the year attributable to the owners of the Company		**80.1**	83.3

Included within other comprehensive income is a charge of £0.9m (2013: credit of £2.4m) relating to associates and joint ventures accounted for under the equity method.

Consolidated statement of financial position (audited)

As at 30 September 2014	Notes	2014 £m	2013 £m
ASSETS			
Non-current assets			
Investment property	13	**332.9**	354.1
Property, plant and equipment		**2.1**	0.6
Investment in associates	14	**103.5**	88.2
Investment in joint ventures	15	**73.6**	57.7
Financial interest in property assets	16	**94.5**	96.3
Deferred tax assets	19	**12.2**	20.1
Intangible assets		**2.2**	1.4
		621.0	618.4
Current assets			
Inventories – trading property		**1,020.2**	949.6
Trade and other receivables	17	**74.9**	43.1
Cash and cash equivalents		**74.4**	90.3
Assets classified as held-for-sale		**3.4**	9.9
		1,172.9	1,092.9
Total assets		**1,793.9**	1,711.3
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	18	**1,085.0**	1,006.6
Retirement benefits		**2.2**	4.1
Provisions for other liabilities and charges		**0.3**	0.4
Deferred tax liabilities	19	**25.8**	25.7
		1,113.3	1,036.8
Current liabilities			
Interest-bearing loans and borrowings	18	**33.1**	42.4
Trade and other payables	20	**54.5**	58.7
Provisions for other liabilities and charges		**0.8**	2.9
Current tax liabilities	19	**6.5**	13.9
Derivative financial instruments	21	**48.0**	91.1
		142.9	209.0
Total liabilities		**1,256.2**	1,245.8
Net assets		**537.7**	465.5
EQUITY			
Capital and reserves attributable to the owners of the Company			
Issued share capital		**20.9**	20.8
Share premium		**110.4**	109.8
Merger reserve		**20.1**	20.1
Capital redemption reserve		**0.3**	0.3
Cash flow hedge reserve		**(1.4)**	(5.5)
Equity component of convertible bond		**–**	5.0
Available-for-sale reserve		**4.6**	3.8
Retained earnings		**382.7**	311.1
Equity attributable to the owners of the Company		**537.6**	465.4
Non-controlling interests		**0.1**	0.1
Total equity		**537.7**	465.5

Consolidated statement of changes in equity (audited)

	Issued share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Cash flow hedge reserve £m	Equity component of convertible bond £m	Available-for-sale reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
Balance as at 1 October 2012	20.8	109.8	20.1	0.3	(24.5)	5.0	3.9	255.4	0.1	390.9
Profit for the year	–	–	–	–	–	–	–	53.6	–	53.6
Actuarial gain on BPT Limited defined benefit pension scheme	–	–	–	–	–	–	–	0.7	–	0.7
Fair value movement on financial interest in property assets	–	–	–	–	–	–	(0.3)	–	–	(0.3)
Exchange adjustments offset in reserves	–	–	–	–	–	–	–	0.5	–	0.5
Changes in fair value of cash flow hedges	–	–	–	–	36.2	–	–	–	–	36.2
Tax relating to components of other comprehensive income	–	–	–	–	(7.4)	–	0.2	(0.2)	–	(7.4)
Total comprehensive income and expense for the year	–	–	–	–	28.8	–	(0.1)	54.6	–	83.3
Reclassification	–	–	–	–	(9.8)	–	–	9.8	–	–
Purchase of own shares	–	–	–	–	–	–	–	(3.0)	–	(3.0)
Share-based payments charge	–	–	–	–	–	–	–	2.3	–	2.3
Dividends paid	–	–	–	–	–	–	–	(8.0)	–	(8.0)
Balance as at 30 September 2013	**20.8**	**109.8**	**20.1**	**0.3**	**(5.5)**	**5.0**	**3.8**	**311.1**	**0.1**	**465.5**
Profit for the year	–	–	–	–	–	–	–	74.7	–	74.7
Actuarial gain on BPT Limited defined benefit pension scheme	–	–	–	–	–	–	–	0.9	–	0.9
Fair value movement on financial interest in property assets	–	–	–	–	–	–	1.0	–	–	1.0
Exchange adjustments offset in reserves	–	–	–	–	–	–	–	(0.3)	–	(0.3)
Changes in fair value of cash flow hedges	–	–	–	–	5.4	–	–	–	–	5.4
Tax relating to components of other comprehensive income	–	–	–	–	(1.3)	–	(0.2)	(0.1)	–	(1.6)
Total comprehensive income and expense for the year	–	–	–	–	4.1	–	0.8	75.2	–	80.1
Repayment of convertible bond	–	–	–	–	–	(5.0)	–	5.0	–	–
Award of SAYE shares	0.1	0.6	–	–	–	–	–	–	–	0.7
Purchase of own shares	–	–	–	–	–	–	–	(2.1)	–	(2.1)
Share-based payments charge	–	–	–	–	–	–	–	2.0	–	2.0
Dividends paid	–	–	–	–	–	–	–	(8.5)	–	(8.5)
Balance as at 30 September 2014	**20.9**	**110.4**	**20.1**	**0.3**	**(1.4)**	**–**	**4.6**	**382.7**	**0.1**	**537.7**

Consolidated statement of cash flows (audited)

For the year ended 30 September 2014	Notes	2014 £m	2013 £m
Cash flow from operating activities			
Profit for the year		**74.7**	53.6
Depreciation and amortisation		**0.9**	0.2
Goodwill impairment		**–**	4.7
Net valuation gains on investment property	13	**(1.5)**	(2.9)
Net finance costs		**63.4**	56.0
(Profit)/loss on disposal of subsidiary	2	**(0.7)**	2.3
Profit on disposal of joint venture	15	**(0.1)**	–
Share of profit of associates and joint ventures	14,15	**(37.2)**	(8.8)
Profit on disposal of investment property	7	**(0.8)**	(1.8)
Profit on acquisition of equity in associate		**–**	(2.1)
Share-based payment charge		**2.0**	2.3
Change in fair value of derivatives		**(1.2)**	(7.9)
Interest income from financial interest in property assets	16	**(7.0)**	(6.1)
Tax	19	**6.4**	10.7
Operating profit before changes in working capital		**98.9**	100.2
Increase in trade and other receivables		**(31.3)**	(7.6)
Decrease in trade and other payables		**(6.2)**	(3.5)
Decrease in provisions for liabilities and charges		**(3.2)**	(0.8)
(Increase)/decrease in trading property		**(65.9)**	73.8
Cash (used)/generated from operations		**(7.7)**	162.1
Interest paid		**(54.5)**	(60.3)
Tax paid	19	**(7.2)**	(16.4)
Payments to defined benefit pension scheme		**(1.1)**	(1.1)
Net cash (outflow)/inflow from operating activities		**(70.5)**	84.3
Cash flow from investing activities			
Proceeds from sale of investment property	7	**22.1**	219.9
Proceeds from financial interest in property assets	16	**9.8**	8.5
Proceeds from sale of subsidiary		**–**	45.0
Interest received		**1.7**	0.5
Distributions received	14,15	**4.3**	1.4
Investment in associates and joint ventures	14,15	**(5.1)**	(57.8)
Acquisition of investment property	13	**(3.4)**	(4.3)
Acquisition of property, plant and equipment and intangible assets		**(2.7)**	(0.9)
Net cash inflow from investing activities		**26.7**	212.3
Cash flows from financing activities			
Awards of SAYE options		**0.6**	–
Purchase of own shares		**(2.1)**	(3.0)
Proceeds from new borrowings		**381.2**	150.1
Issue of corporate bond		**275.8**	–
Repayment of convertible bond		**(24.3)**	–
Payment of loan costs		**5.1**	–
Settlement of derivative contracts		**(35.3)**	(39.3)
Repayment of borrowings		**(561.5)**	(380.0)
Dividends paid	12	**(8.5)**	(8.0)
Net cash inflow/(outflow) from financing activities		**31.0**	(280.2)

Notes to the Preliminary Announcement of audited financial results

Consolidated statement of cash flows continued (audited)

For the year ended 30 September 2014	Notes	2014 £m	2013 £m
Net (decrease)/increase in cash and cash equivalents		**(12.8)**	16.4
Cash and cash equivalents at the beginning of the year		**90.3**	73.3
Net exchange movements on cash and cash equivalents		**(3.1)**	0.6
Cash and cash equivalents at the end of the year		**74.4**	90.3

1 Accounting policies

1a Basis of preparation

The Board approved this preliminary announcement on 20 November 2014.

The financial information included in this preliminary announcement does not constitute the Group's statutory accounts for the years ended 30 September 2013 or 30 September 2014. Statutory accounts for the year ended 30 September 2013 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 September 2014 will be delivered to the Registrar of Companies following the Company's annual general meeting.

The auditors have reported on the 2014 and 2013 accounts; their report was unqualified, did not include any references to any matters by way of emphasis and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

These financial statements for the year ended 30 September 2014 have been prepared under the historical cost convention except for the following assets and liabilities 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 accounting policies used are consistent with those contained in the Group's last annual report and accounts for the year ended 30 September 2014.

The financial information included in this preliminary announcement has been prepared in accordance with EU endorsed International Financial Standards ('IFRS'), IFRS IC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

1b Adoption of new and revised International Financial Reporting Standards

New standards and interpretations in the year

i) **New and amended standards issued in the year** At the date of approval of these financial statements, the following interpretations and amendments were issued, endorsed by the EU and are mandatory for the Group for the first time for the financial year beginning 1 October 2013. There are no new standards, amendments or interpretations that are effective for the first time for the current financial year that have had a material impact on the Group.

ii) New and amended standards

- IAS 19, 'Employee benefits', has been amended and, for defined benefit plans, the Group has changed its measurement principles by replacing the interest costs and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability including the IFRIC 14 liability. There has also been a corresponding change in the amount recognised in other comprehensive income, so that the net impact on total comprehensive income and net assets is £nil.
- IFRS 10, 'Consolidated Financial statements', establishes a single control model that applies to all entities including special purpose entities and requirements management to exercise judgement over which entities are required to be consolidated.
- IFRS 11, 'Joint arrangements', under IFRS 11 the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore subsequent accounting.

- IFRS 12, 'Disclosures of interests in other entities', brings together all the disclosure requirements about the Group's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

- IFRS 13, 'Fair value measurement', provides consistency by making available a single source of guidance on how fair value is measured. IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. Investment property has been included within the fair value hierachy, but this has not resulted in any impact on total comprehensive income or net assets.

iii) New and amended standards not yet effective

At the date of authorisation of these financial statements, there were a number of new standards, amendments to existing standards and interpretations in issue that have not been applied in preparing these consolidated financial statements. The Group has no plan to adopt these standards earlier than the effective date. Those that are most relevant to the Group are set out below.

- IFRS 9, 'Financial Instruments', replaces IAS 39 and sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 is effective for annual periods beginning on or after 1 January 2018.
- IFRS 15, 'Revenue from contracts', replaces both IAS 11 and IAS 19 as well as SIC 31, IFRIC 13, IFRIC 15 and IFRIC 18 and establishes a single, comprehensive framework for revenue recognition. IFRS 15 is effective for annual periods beginning on or after 1 January 2017.

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

1c Valuation of residential property

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

The results and basis of each valuation and their impact on both the statutory financial statement and market value for the Group's NAV measures are set out in the following table:-

1c Valuation of residential property (continued)

	UK residential ('UKR') £m	Retirement solutions ('RS') £m	Fund and third-party management ('Funds') £m	UK and European developments ('Development') £m	German residential ('Germany') £m	**Total £m**	**% of properties for which external valuer provides valuation %**
Trading property	788.4	137.4	–	94.4	–	**1,020.2**	
Investment property ***	140.1	47.8	–	–	148.4	**336.3**	
Financial asset	–	94.5	–	–	–	**94.5**	
Total statutory book value	**928.5**	**279.7**	**–**	**94.4**	**148.4**	**1,451.0**	
Allsop LLP							
Directors in-house valuation	995.5	–	–	–	–	**995.5**	**51%**
RS	–	344.6	–	–	–	**344.6**	**100%**
Grainger Invest	343.1	–	–	–	–	**343.1**	**100%**
Tricomm Investment valuation	109.1	–	–	–	–	**109.1**	**100%**
Cushman and Wakefield LLP	–	–	–	–	148.4	**148.4**	**100%**
CBRE Limited	–	–	–	107.2	–	**107.2**	**100%**
Total assets at market value	**1,447.7**	**344.6**	**–**	**107.2**	**148.4**	**2,047.9**	
Trading property	1,307.6	202.3	–	107.2	–	**1,617.1**	
Investment property ***	140.1	47.8	–	–	148.4	**336.3**	
Financial asset	–	94.5	–	–	–	**94.5**	
Total assets at market value	**1,447.7**	**344.6**	**–**	**107.2**	**148.4**	**2,047.9**	
Statutory book value	928.5	279.7	–	94.4	148.4	**1,451.0**	
Market value uplift*	519.2	64.9	–	12.8	–	**596.9**	
Net revaluation gain recognised in the income statement for wholly owned properties	**6.4**	**1.2**	**–**	**–**	**(6.1)**	**1.5**	
Net revaluation gain relating to joint ventures and associates **	–	–	37.0	–	2.2	**39.2**	
Net revaluation gain recognised in year**	**6.4**	**1.2**	**37.0**	**–**	**(3.9)**	**40.7**	

* The market value uplift is the difference between the statutory book value and the market value of the Group's properties. Refer to note 3 for market value net asset measures.

** Includes Group share of joint ventures and associates revaluation gain before tax

*** Includes investment property classified as held-for-sale

1d Group risk factors

The principal risks and uncertainties facing the Group are set out in the Risk Management report of the 2014 Annual Report and Accounts.

A number of risks faced by the Group are not directly within our control such as the wider economic and political environment including the run up to a general election in the UK. Indicators of possible change by the different political parties, such as a "Mansion tax", are monitored.

Specific risks include the operational management of a large number of concurrent projects and transactions together with our on-going obligations to comply with Health & Safety requirements and other regulatory demands.

1e Forward-looking statements

Certain statements in this preliminary announcement are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct.

Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

2. Analysis of profit after tax

The results for the years ended 30 September 2013 and 2014 respectively have been affected by valuation movements and non-recurring items. The table below provides further analysis of the consolidated income statement showing the results of trading activities separately from these other items.

	2014				2013			
(£m)	**Trading**	**Valuation**	**Non-recurring**	**Total**	Trading	Valuation	Non-recurring	Total
Group revenue	**319.1**	**–**	**–**	**319.1**	283.2	–	–	283.2
Net rental income	**37.0**	**–**	**(1.1)**	**35.9**	48.5	–	–	48.5
Profit on disposal of trading property	**87.2**	**–**	**–**	**87.2**	75.5	–	–	75.5
Administrative expenses	**(34.7)**	**–**	**–**	**(34.7)**	(33.6)	–	–	(33.6)
Fees and other income	**12.8**	**–**	**–**	**12.8**	12.9	–	–	12.9
Other expenses	**(2.6)**	**–**	**(1.0)**	**(3.6)**	(3.6)	–	(2.7)	(6.3)
Goodwill impairment	**–**	**–**	**–**	**–**	–	(4.7)	–	(4.7)
Profit on disposal of investment property	**0.8**	**–**	**–**	**0.8**	1.8	–	–	1.8
Income from financial interest in property assets	**7.0**	**–**	**–**	**7.0**	6.1	–	–	6.1
Profit on acquisition of equity in associate	**–**	**–**	**–**	**–**	–	–	2.1	2.1
Profit/(loss) on disposal of subsidiary	**–**	**–**	**0.7**	**0.7**	–	–	(2.3)	(2.3)
Profit on disposal of joint venture	**–**	**–**	**0.1**	**0.1**	–	–	–	–
Write back of inventories to net realisable value	**–**	**0.8**	**–**	**0.8**	–	0.7	–	0.7
Impairment of joint venture	**–**	**–**	**(2.4)**	**(2.4)**	–	–	–	–
Operating profit before net valuation gains on investment property	**107.5**	**0.8**	**(3.7)**	**104.6**	107.6	(4.0)	(2.9)	100.7
Net valuation gains on investment property	**–**	**1.5**	**–**	**1.5**	–	2.9	–	2.9
Operating profit after net valuation gains on investment property	**107.5**	**2.3**	**(3.7)**	**106.1**	107.6	(1.1)	(2.9)	103.6
Change in fair value of derivatives	**–**	**1.2**	**–**	**1.2**	–	21.6	(13.7)	7.9
Finance costs	**(66.3)**	**–**	**–**	**(66.3)**	(73.3)	–	–	(73.3)
Finance income	**2.9**	**–**	**–**	**2.9**	2.0	–	15.3	17.3
Share of profit of associates after tax	**3.0**	**18.1**	**–**	**21.1**	0.7	4.9	(4.6)	1.0
Share of profit of joint ventures after tax	**–**	**16.1**	**–**	**16.1**	–	7.8	–	7.8
Profit before tax	**47.1**	**37.7**	**(3.7)**	**81.1**	37.0	33.2	(5.9)	64.3

The £0.7m non-recurring profit on sale of subsidiary relates to the profit on sale of Equity Release (Increments) Limited to Clifden Holdings Limited in January 2014. The £0.1m profit on sale of joint venture relates to the sale of the Group’s 50% share of Gebau Vermogen GmbH to our joint venture partners in October 2013.

2. Analysis of profit after tax (continued)

The £2.4m impairment of joint venture relates to the Group's investment in Prague. The Group incurred costs of £0.8m following the acquisition of the Chelsea Houses Portfolio shown within other expenses. The £1.1m non-recurring costs presented within net rental income relate to a provision for contractor remedial costs which we expect to be recouped.

3. Segmental information

IFRS 8 'Operating Segments' (IFRS 8) requires operating segments to be identified based upon the Group's internal reporting to the Chief Operating Decision Maker (CODM) 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 Group has identified five segments and is treating all of these as reportable segments. The segments are: UK Residential; Retirement Solutions; Fund and third party management; UK and European development and German Residential. The Group has a segment director responsible for the performance of each of these five segments and the Group reports key financial information to the CODM on the basis of these five segments. Each of these five segments operate within a different part of the overall residential market.

The key operating performance measure of profit or loss used by the CODM is the trading profit or loss before valuation gains or deficits on investment property and excluding all revaluation and non-recurring items (OPBVM) as set out in note 2. The CODM reviews by segment two key balance sheet measures of net asset value. These are Gross Net Asset Value and Triple Net Asset Value.

Information relating to the Group's operating profit or loss by segments is set out below.

The title "Other" has been included in the tables below to reconcile the segments to the figures reviewed by the CODM.

3. Segmental information (continued)

2014 Income Statement

(£m)	UK residential	Retirement solutions	Fund and third-party management	UK and European development	German residential	Other	Total
Group revenue							
Segment revenue-external	**136.8**	**123.1**	**8.5**	**34.1**	**16.5**	**0.1**	**319.1**
Net rental income	**30.2**	**1.5**	**–**	**0.2**	**5.1**	**–**	**37.0**
Profit on disposal of trading property	**47.8**	**27.1**	**–**	**12.3**	**–**	**–**	**87.2**
Administrative expenses	**(8.3)**	**(2.3)**	**(4.6)**	**(1.6)**	**(3.1)**	**(14.8)**	**(34.7)**
Fees and other income	**0.4**	**1.7**	**8.5**	**1.1**	**1.0**	**0.1**	**12.8**
Other expenses	**(0.1)**	**(0.1)**	**(1.5)**	**(0.1)**	**(0.1)**	**(0.7)**	**(2.6)**
Profit on disposal of investment property	**1.1**	**(0.1)**	**–**	**–**	**(0.2)**	**–**	**0.8**
Income from financial interest in property assets	**–**	**7.0**	**–**	**–**	**–**	**–**	**7.0**
Operating profit before net valuation gains on investment property	**71.1**	**34.8**	**2.4**	**11.9**	**2.7**	**(15.4)**	**107.5**
Net trading interest payable	**(8.4)**	**(9.1)**	**1.6**	**(1.0)**	**(2.7)**	**(43.8)**	**(63.4)**
Share of trading profit/(loss) of joint ventures and associates after tax	**–**	**0.6**	**2.6**	**(0.1)**	**(0.1)**	**–**	**3.0**
Trading profit before tax, valuation and non-recurring items							**47.1**
Write back of inventories to net realisable value	**0.5**	**–**	**–**	**0.3**	**–**	**–**	**0.8**
Net valuation gains on investment property	**6.4**	**1.2**	**–**	**–**	**(6.1)**	**–**	**1.5**
Impairment of joint venture	**–**	**–**	**–**	**(2.4)**	**–**	**–**	**(2.4)**
Profit on disposal of subsidiary	**–**	**0.7**	**–**	**–**	**–**	**–**	**0.7**
Profit on disposal of joint venture	**–**	**–**	**–**	**–**	**0.1**	**–**	**0.1**
Change in fair value of derivatives	**–**	**–**	**(0.2)**	**–**	**(0.1)**	**1.5**	**1.2**
Share of valuation gains in joint ventures and associates after tax	**–**	**–**	**33.2**	**–**	**1.0**	**–**	**34.2**
Other net non-recurring items	**(2.0)**	**–**		**–**	**(0.1)**	**–**	**(2.1)**
Profit before tax							**81.1**

Notes to the Preliminary Announcement of audited financial results (continued)

3. Segmental information (continued)

2013 Income Statement

(£m)	UK residential	Retirement solutions	Fund and third-party management	UK and European development	German residential	Other	Total
Group revenue							
Segment revenue-external	204.7	31.1	9.6	15.7	22.1	–	283.2
Net rental income	37.2	2.3	–	0.3	8.7	–	48.5
Profit on disposal of trading property	61.8	11.8	–	1.9	–	–	75.5
Administrative expenses	(7.8)	(2.7)	(4.2)	(1.3)	(3.2)	(14.4)	(33.6)
Fees and other income	0.7	1.2	9.6	0.5	0.9	–	12.9
Other expenses	–	–	(2.5)	(0.2)	(0.5)	(0.4)	(3.6)
Profit on disposal of investment property	2.7	0.3	–	–	(1.2)	–	1.8
Income from financial interest in property assets	–	6.1	–	–	–	–	6.1
Operating profit before net valuation gains on investment property	94.6	19.0	2.9	1.2	4.7	(14.8)	107.6
Net trading interest payable	(9.0)	(9.3)	0.9	(0.2)	(5.8)	(47.9)	(71.3)
Share of trading profit/(loss) of joint ventures and associates after tax	–	–	0.9	(0.2)	–	–	0.7
Trading profit before tax, valuation and non-recurring items							37.0
Write back of inventories to net realisable value	1.0	–	–	(0.3)	–	–	0.7
Net valuation gains on investment property	2.2	0.3	–	–	0.4	–	2.9
Goodwill impairment	(4.7)	–	–	–	–	–	(4.7)
Profit on acquisition of equity in associate	–	–	2.1	–	–	–	2.1
Loss on disposal of subsidiary	–	–	–	–	(2.3)	–	(2.3)
Change in fair value of derivatives	–	–	–	–	–	21.6	21.6
Share of valuation gains in joint ventures and associates after tax	–	–	12.0	–	0.7	–	12.7
Net gain on purchase of debt	1.6	–	–	–	–	–	1.6
Other net non-recurring items	(1.5)	–	(5.0)	–	(0.7)	(0.1)	(7.3)
Profit before tax							64.3

3. Segmental information (continued)

The majority of the Group's properties are classified as trading stock and are therefore shown in the statutory balance sheet at the lower of cost and net realisable value. This does not reflect the market value of the assets and, accordingly, the Group's key balance sheet measures of net asset value include trading stock at market value. The two principal net asset value measures reviewed by the CODM are Gross Net Asset Value (NAV) and Triple Net Asset Value (NNNAV).

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

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

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

2014 Segment net assets

(£m)	UK residential	Retirement solutions	Fund and third-party management	UK and European development	German residential	Other	Total
Total segment net assets (statutory)	**216.2**	**135.1**	**87.4**	**56.1**	**83.2**	**(40.3)**	**537.7**
Total segment net assets (NAV)	**768.0**	**207.3**	**92.7**	**65.3**	**91.7**	**(9.8)**	**1,215.2**
Total segment net assets (NNNAV)	**631.5**	**176.9**	**87.4**	**63.5**	**83.2**	**(30.7)**	**1,011.8**

Notes to the Preliminary Announcement of audited financial results (continued)

3. Segmental information (continued)

2014 Reconciliation of NAV measures

(£m)	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	Gross NAV balance sheet	Deferred and contingent tax	Derivatives	Triple NAV balance sheet
Investment property	**332.9**	**–**	**332.9**	**–**	**–**	**332.9**
Investment in associates	**103.5**	**(0.4)**	**103.1**	**–**	**0.4**	**103.5**
Investment in joint ventures	**73.6**	**9.4**	**83.0**	**(7.7)**	**(0.5)**	**74.8**
Financial interest in property assets	**94.5**	**–**	**94.5**	**–**	**–**	**94.5**
Intangible assets	**2.2**	**–**	**2.2**	**–**	**–**	**2.2**
Inventories – trading property	**1,020.2**	**596.9**	**1,617.1**	**–**	**–**	**1,617.1**
Trade and other receivables	**74.9**	**–**	**74.9**	**–**	**–**	**74.9**
Cash and cash equivalents	**74.4**	**–**	**74.4**	**–**	**–**	**74.4**
Property, plant and equipment	**2.1**	**–**	**2.1**	**–**	**–**	**2.1**
Deferred tax asset	**12.2**	**(9.6)**	**2.6**	**–**	**13.1**	**15.7**
Assets classified as held-for-sale	**3.4**	**–**	**3.4**	**–**	**–**	**3.4**
Value of own shares held	**–**	**9.6**	**9.6**	**–**	**–**	**9.6**
Total assets	**1,793.9**	**605.9**	**2,399.8**	**(7.7)**	**13.0**	**2,405.1**
Interest-bearing loans and borrowings	**(1,118.1)**	**–**	**(1,118.1)**	**–**	**(17.5)**	**(1,135.6)**
Trade and other payables	**(54.5)**	**–**	**(54.5)**	**–**	**–**	**(54.5)**
Retirement benefits	**(2.2)**	**–**	**(2.2)**	**–**	**–**	**(2.2)**
Current tax liabilities	**(6.5)**	**–**	**(6.5)**	**–**	**–**	**(6.5)**
Provisions for other liabilities and charges	**(1.1)**	**–**	**(1.1)**	**–**	**–**	**(1.1)**
Deferred and contingent tax liabilities	**(25.8)**	**23.6**	**(2.2)**	**(143.2)**	**–**	**(145.4)**
Derivative financial instruments	**(48.0)**	**48.0**	**–**	**–**	**(48.0)**	**(48.0)**
Total liabilities	**(1,256.2)**	**71.6**	**(1,184.6)**	**(143.2)**	**(65.5)**	**(1,393.3)**
Net assets	**537.7**	**677.5**	**1,215.2**	**(150.9)**	**(52.5)**	**1,011.8**

2013 Segment net assets

(£m)	UK residential	Retirement solutions	Fund and third-party management	UK and European development	German residential	Other	Total
Total segment net assets (statutory)	164.5	131.6	68.6	57.0	91.5	(47.7)	465.5
Total segment net assets (NAV)	546.1	198.4	71.1	59.4	100.9	32.1	1,008.0
Total segment net assets (NNNAV)	455.7	172.4	68.6	58.9	91.5	(36.2)	810.9

3. Segmental information (continued)

2013 Reconciliation of NAV measures

(£m)	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	Gross NAV balance sheet	Deferred and contingent tax	Derivatives	Triple NAV balance sheet
Investment property	354.1	–	354.1	–	–	354.1
Investment in associates	88.2	(0.3)	87.9	–	0.3	88.2
Investment in joint ventures	57.7	1.6	59.3	(3.5)	(0.7)	55.1
Financial interest in property assets	96.3	–	96.3	–	–	96.3
Intangible assets	1.4	–	1.4	–	–	1.4
Inventories – trading property	949.6	433.0	1,382.6	–	–	1,382.6
Trade and other receivables	43.1	–	43.1	–	–	43.1
Cash and cash equivalents	90.3	–	90.3	–	–	90.3
Property, plant and equipment	0.6	–	0.6	–	–	0.6
Deferred tax asset	20.1	(18.3)	1.8	–	20.9	22.7
Assets classified as held-for-sale	9.9	–	9.9	–	–	9.9
Value of own shares held	–	11.5	11.5	–	–	11.5
Total assets	1,711.3	427.5	2,138.8	(3.5)	20.5	2,155.8
Interest-bearing loans and borrowings	(1,049.0)	–	(1,049.0)	–	(13.0)	(1,062.0)
Trade and other payables	(58.7)	(2.9)	(61.6)	–	–	(61.6)
Retirement benefits	(4.1)	–	(4.1)	–	–	(4.1)
Current tax liabilities	(13.9)	–	(13.9)	–	–	(13.9)
Provisions for other liabilities and charges	(3.3)	2.9	(0.4)	–	–	(0.4)
Deferred and contingent tax liabilities	(25.7)	23.9	(1.8)	(110.0)	–	(111.8)
Derivative financial instruments	(91.1)	91.1	–	–	(91.1)	(91.1)
Total liabilities	(1,245,8)	115.0	(1,130.8)	(110.0)	(104.1)	(1,344.9)
Net assets	465.5	542.5	1,008.0	(113.5)	(83.6)	810.9

4. Group revenue

	2014 £m	2013 £m
Gross rental income (see note 5)	**57.4**	71.3
Service charge income on a principal basis (see note 5)	**4.2**	5.7
Proceeds from sale of trading property (see note 6)	**244.7**	193.3
Management fee and other income (see note 9)	**12.8**	12.9
	319.1	283.2

5. Net rental income

	2014 £m	2013 £m
Gross rental income	**57.4**	71.3
Service charge income on a principal basis	**4.2**	5.7
Property repair and maintenance costs	**(20.4)**	(21.7)
Service charge expense on a principal basis	**(5.3)**	(6.8)
	35.9	48.5

6. Profit on disposal of trading property

	2014 £m	2013 £m
Gross proceeds from sale of trading property	**244.7**	193.3
Selling costs	**(6.1)**	(5.1)
Net proceeds from sale of trading property	**238.6**	188.2
Carrying value of trading property sold	**(151.4)**	(112.7)
	87.2	75.5

7. Profit on disposal of investment property

	2014 £m	2013 £m
Gross proceeds from sale of investment property	**22.5**	153.8
Selling costs	**(0.6)**	(1.9)
Net proceeds from sale of trading property	**21.9**	151.9
Carrying value of trading property sold:		
- Investment property	**(12.5)**	(122.2)
- Assets classified as held-for-sale	**(8.6)**	(27.9)
	0.8	1.8

During the prior year the Group sold investment properties into joint ventures and associates as noted in notes 14 and 15. The total proceeds and carrying value disclosed above were adjusted to reflect the proportion of the sale that related to an external party only. The adjustment to carrying value amounted to £68.0m, resulting in a carrying value of £190.2m as shown in note 13.

8. Administrative expenses

	2014 £m	2013 £m
Total Group expenses	**34.7**	33.6

9. Fees and other Income

	2014 £m	2013 £m
Property and asset management fee income	**12.3**	12.5
Other sundry income	**0.5**	0.4
	12.8	12.9

10. Other expenses

	2014 £m	2013 £m
External costs relating to fee income	**0.9**	2.4
Non-recurring transaction expenses	**2.5**	2.7
Business improvement costs	**0.2**	1.2
	3.6	6.3

11. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit or loss attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Group and held both in Trust and as treasury shares to meet its obligations under the Long Term Incentive Scheme ("LTIS") Deferred Bonus Plan ("DBP") and SAYE schemes.

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares in issue by the dilutive effect of ordinary shares that the Company may potentially issue relating to its convertible bond, and its share option schemes and contingent share awards under the LTIS and DBP, based upon the number of shares that would be issued if 30 September 2014 was the end of the contingency period. The profit for the year is adjusted to add back the after tax interest cost on the debt component of the convertible bond. Where the effect of the above adjustments is antidilutive, they are excluded from the calculation of diluted earnings per share.

	30 September 2014			30 September 2013		
	Profit for the year £m	**Weighted average number of shares (thousands)**	**Earnings per share pence**	Profit for the year £m	Weighted average number of shares (thousands)	Earnings per share pence
Basic earnings per share						
Profit attributable to equity holders	**74.7**	**411.806**	**18.1**	53.6	410.808	13.1
Effect of potentially dilutive securities						
Share options and contingent shares	**–**	**4.333**	**(0.2)**	–	7.234	(0.3)
Diluted earnings per share						
Profit attributable to equity holders	**74.7**	**416.139**	**17.9**	53.6	418.042	12.8

12. Dividends

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

	2014 £m	2013 £m
Ordinary dividends on equity shares:		
Final dividend for the year ended 30 September 2012 – 1.37p per share	**–**	5.6
Interim dividend for the year ended 30 September 2013 – 0.58p per share	**–**	2.4
Final dividend for the year ended 30 September 2013 – 1.46p per share	**6.0**	–
Interim dividend for the year ended 30 September 2014 – 0.61p per share	**2.5**	–
	8.5	8.0

A final dividend in respect of the year ended 30 September 2014 of 1.89p per share amounting to £7.8m will be proposed at the 2015 AGM. If approved, this dividend will be paid on 6 February 2015 to shareholders on the register at close of business on 30 December 2014. The 2014 interim dividend of 0.61p per share was paid in July 2014. This gives a total dividend for 2014 of 2.50p per share (2013: 2.04p per share).

13. Investment property

	2014 £m	2013 £m
Opening balance	**354.1**	525.9
Additions	**3.4**	4.3
Disposals	**(12.5)**	(190.2)
Transfer to assets classified as held-for-sale	**(2.2)**	(1.3)
Net valuation gains	**1.5**	2.9
Exchange adjustments	**(11.4)**	12.5
Closing balance	**332.9**	354.1

14. Investment in associates

	2014 £m	2013 £m
Opening balance	**88.2**	41.2
Share of profit	**21.1**	1.0
Further investment	**–**	55.5
Dividends received	**(3.4)**	(48.2)
Loans advanced to associates	**0.7**	35.6
Interest received	**(1.2)**	–
Exchange movements	**(1.4)**	0.1
Share of change in fair value of cash flow hedges taken through other comprehensive income	**(0.5)**	3.0
Closing balance	**103.5**	88.2

In the prior year on 10 December 2012 the Group acquired a 21.0% interest in MH Grainger JV Sarl, a co-investment vehicle set up to acquire a portfolio of German residential assets previously wholly owned by the Group. During the prior year the Group also increased its holding in G:res1 Limited from 21.96% to 26.2% and recognised a gain of £1.1m.

In the prior year on 21 January 2013, the GRIP Unit Trust was formed between the Group and APG Strategic Real Estate Pool (‘APG’) and the Group acquired a 27.2% interest. GRIP then acquired the full residential property portfolio previously owned by G:res1 Limited. £1.0m of the consideration due to G:Res1 was paid by GRIP directly to shareholders of G:Res1 Limited. Subsequently on 6 August 2013, the Group diluted its share in GRIP to 24.9% as APG contributed a disproportionate share of the equity finance when GRIP acquired the Tilt estate portfolio of properties from the Group.

As at 30 September 2014, the Group’s interest in associates was as follows:

	% of ordinary share capital/ units held	Country of incorporation
G:res1 Limited	26.2	Jersey
GRIP Unit Trust	24.9	Jersey
MH Grainger JV Sarl*	21.0	Luxembourg

* Grainger FRM GmbH holds a 20.969% interest in the equity of MH Grainger JV Sarl which owns 94.9% of the equity of Grainger Stuttgart Portfolio one GmbH and Grainger Stuttgart Portfolio two GmbH & Co. KG (‘Stuttgart Portfolios’). Grainger FRM GmbH holds a direct interest of 5.1% in the equity of the Stuttgart Portfolios. Overall, therefore, Grainger FRM GmbH has an interest of 25% in the equity of the Stuttgart Portfolios.

15. Investment in joint ventures

	Net assets £m	Loans £m	Total £m
At 1 October 2012	14.5	4.7	19.2
Loans advanced	–	9.7	9.7
Decrease in provisions against loans	–	0.3	0.3
Net assets acquired through sale of assets into a joint venture	21.4	–	21.4
Share of profit	7.8	–	7.8
Reclassification of loss to other expenses	(0.3)	–	(0.3)
Exchange adjustment	0.1	0.1	0.2
Distributions received	(0.6)	–	(0.6)
At 30 September 2013	42.9	14.8	57.7
Loans advanced	–	2.8	2.8
Decrease in provisions against loans	–	(0.4)	(0.4)
Interest received	–	(0.3)	(0.3)
Disposal	(0.4)	–	(0.4)
Share of profit	14.4	1.7	16.1
Exchange adjustment	(0.1)	(0.9)	(1.0)
Distributions received	(0.9)	–	(0.9)
At 30 September 2014	**55.9**	**17.7**	**73.6**

On 17 October 2013 the Group disposed of our 50% interest in Gebau Vermogen GmbH to our joint venture partners, for a consideration of €0.5m (£0.4m), resulting in a profit on sale of £0.1m following receipt of a dividend.

The £1.7m profit on loans in the year relates to a release of provisions against future losses and impairments, as they are realised in the underlying ventures.

In the prior year on 13 May 2013 the Group formed a 50:50 joint venture, Walworth Investment Properties Limited ('WIP'), to acquire a portfolio of South London residential properties previously wholly-owned by the Group.

At 30 September 2014, the Group's interest in joint ventures was as follows:

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

16. Financial interest in property assets

	2014 £m	2013 £m
Opening balance	**96.3**	99.0
Cash received from the instrument	**(9.8)**	(8.5)
Amounts taken to income statement	**7.0**	6.1
Amounts taken to other comprehensive income before tax	**1.0**	(0.3)
Closing balance	**94.5**	96.3

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

The fair value of our interest has increased as cash flows are realised and this increase of £1.0m (2012: decrease of £0.3m) has been recognised in the statement of other comprehensive income and the available-for-sale reserve.

17. Trade and other receivables

	2014 £m	2013 £m
Trade receivables	**62.4**	31.3
Deduct: Provision for impairment of trade receivables	**(2.2)**	(1.3)
Trade receivables – net	**60.2**	30.0
Other receivables	**5.5**	7.4
Prepayments	**9.2**	5.7
	74.9	43.1

18. Interest-bearing loans and borrowings

	2014 £m	2013 £m
Current liabilities		
Bank loans	**33.5**	12.6
Non-bank financial institution	**(0.1)**	5.2
Mortgages	**(0.3)**	0.3
Convertible bond	**–**	24.3
	33.1	42.4
Non-current liabilities		
Bank loans	**612.6**	810.5
Non-bank financial institution	**182.6**	176.5
Mortgages	**18.0**	19.6
Corporate bond	**271.8**	–
	1,085.0	1,006.6
Total interest-bearing loans and borrowings	**1,118.1**	1,049.0

19. Tax

	2014 £m	2013 £m
Current tax		
Corporation tax on profit	**5.3**	19.7
Adjustments relating to prior years	**(5.5)**	(13.8)
	(0.2)	5.9
Deferred tax		
Origination and reversal of temporary differences	**7.6**	(1.3)
Adjustments relating to prior years	**(1.0)**	6.3
Impact of tax rate change	**–**	(0.2)
	6.6	4.8
Income tax charge for the year	**6.4**	10.7

The main rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014 and will change to 20% from 1 April 2015. Accordingly, the Group's results for this accounting period are taxed at an effective rate of 22% and should be taxed at 20.5% in the 2015 period. The change in tax rate has no impact on the income statement in the current year (2013: £0.2m credit).

The tax charge for the year of £6.4m (2013: £10.7m) comprises:

	2014 £m	2013 £m
UK tax	**7.3**	11.8
Overseas tax	**(0.9)**	(1.1)
	6.4	10.7

	2014 £m	2013 £m
Deferred tax balances are disclosed as follows:		
Deferred tax assets: non-current assets	**12.2**	20.1
Deferred tax liabilities: non-current liabilities	**(25.8)**	(25.7)
Deferred tax	**(13.6)**	(5.6)

20. Trade and other payables

	2014 £m	2013 £m
Deposits received	**2.4**	2.1
Trade payables	**12.0**	10.4
Tax and social security	**2.4**	3.1
Accruals and deferred income	**37.7**	43.1
	54.5	58.7

Accruals and deferred income includes £12.9m (2013: £14.9m) of rent received in advance relating to lifetime leases. It is not possible for the Group to identify which properties will become vacant within the next 12 months and therefore to identify the proportion of rent received in advance which is expected to be released to the income statement within the next 12 months.

21. Derivative financial instruments

	2014		2013	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Interest rate swaps – in cash flow hedge accounting relationships	**–**	**5.2**	–	10.3
Interest rate swaps – not in cash flow hedge accounting relationships	**–**	**42.8**	–	80.8
	–	**48.0**	–	91.1

In accordance with IAS 39, the Group has reviewed its interest rate hedges. In the absence of hedge accounting, movements in fair value have been taken directly to the income statement. However, where derivatives qualify for cash flow hedge accounting, the movement in fair value is taken to other comprehensive income through the cash flow hedge reserve.

The fair value movement relating to cash flow hedges not in hedge accounting relationships amounted to a credit through the income statement of £1.2m (2013: £7.9m).

22. Related party transactions

During the year ended 30 September 2014 the Group transacted with its joint ventures and associates (details of which are set out in notes 14 and 15). The related party transactions recognised in the Income statement and Statement of financial position are as follows:

The Group provides a number of services to its joint ventures and associates including property and asset management services. In addition the Group utilised the services of Gebau Vermogen GmbH to provide property management services for parts of its German portfolio. The fees received/ (paid) in respect of these services are set out below:

In the prior year, as described in notes 14 and 15, on 6 August 2013, the Group sold a portfolio of assets to GRIP for £58.4m. On 13 May 2013 the Group formed a 50:50 joint venture, Walworth Investment Properties Limited, which acquired a portfolio of assets from the Group for £112m.

As described in note 15, on 17 October 2013, the Group disposed of our interest in Gebau Vermogen GmbH for £0.4m.

	2014 Fees recognised £'000	**2014 Year end balance £'000**	2013 Fees recognised £'000	2013 Year end balance £'000
G:res1 Limited	**–**	**–**	1,062	687
GRIP Unit Trust	**3,131**	**933**	1,902	–
MH Grainger JV Sarl	**–**	**–**	790	–
Stuttgart Portfolios	**956**	**–**	–	–
New Sovereign Reversions Limited	**1,051**	**193**	1,073	271
Walworth Investment Properties Limited	**40**	**40**	19	19
Gebau Vermogen GmbH	**–**	**–**	(913)	(2)
	5,178	**1,166**	3,933	975

22. Related Party Transactions (continued)

	2014 Interest recognised £'000	**2014 Year end loan balance £m**	**2014 Interest Rate %**	2013 Interest recognised £'000	2013 Year end loan balance £m	2013 Interest Rate %
GRIP Unit Trust	**1,100**	**31.6**	**4.75**	756	0.3	4.75
MH Grainger JV Sarl	**812**	**9.6**	**7.50**	534	11.6	8.00
Stuttgart Portfolios	**60**	**0.6**	**8.00**	–	–	–
New Sovereign Reversions Limited	**(23)**	**(0.6)**	**LIBOR + 2.35**	(7)	(0.4)	LIBOR + 2.35
Czech Republic combined	**–**	**7.4**	**1.25**	73	6.2	1.25
Curzon Park Limited	**–**	**18.6**	**Nil**	–	16.1	Nil
King Street Developments (Hammersmith) Limited	**–**	**3.2**	**Nil**	–	2.9	Nil
Walworth Investment Properties Limited	**455**	**6.8**	**7.00**	180	6.7	7.00
	2,404	**77.2**		1,536	43.4	

The Group's key management are the only other related party. Details of key management compensation are provided in the Annual Report.

By order of the Board

Mark Greenwood
Director
20 November 2014

Copies of this statement are being made available to shareholders through the Group's website. Copies may be obtained from the Group's registered office, Citygate, St. James' Boulevard, Newcastle upon Tyne, NE1 4JE. Further details of this announcement can be found on the Group's website, www.graingerplc.co.uk.