30 November 2017

Grainger plc

Full year results for the year ended 30 September 2017

Strong financial results, repositioned for significant growth

Helen Gordon, Chief Executive of Grainger, the UK's largest listed residential landlord, comments:

"We have transformed Grainger over the last two years, refocused our strategy and made the business more efficient. We have continued to deliver strong financial returns. We have increased our rental income, secured a significant number of new PRS investments, simplified and focused the business and repositioned it for further growth.

"Over the financial year, we delivered a 40% increase in adjusted earnings to £74.4m. I am also pleased to report a 5.6% increase in EPRA NNNAV to 303p per share and a total return of 7.3% for shareholders.

"The growth opportunity in the UK PRS market is significant and we are well placed with our unique in-house capability to originate, invest and operate. We have seen excellent momentum in acquisitions and we have now secured £651m of PRS opportunities since setting out our strategy.

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

Highlights

- £651m secured PRS investment pipeline (FY16: £389m)
- Net rental income up 8% to £40.4m (FY16: £37.4m)
- 3.8% like-for-like rental growth across our entire portfolio (FY16: 4.1%)
- Gross to net down 200bps to 26.0% (FY16: 28.0%)
- Overheads 14% lower at £27.2m (below £27.5m target, FY16: £31.8m)
- Adjusted earnings up 40% to £74.4 (FY16: £53.1m)
- Profit before tax up 2% to £86.3m (FY16: £84.2m)
- Dividend per share up 8% to 4.86p* (FY16: 4.50p)
- EPRA NNNAV up 5.6% to 303p (FY16: 287p)
- IFRS net assets up 10.6% to 178p (FY16: 161p)
- Market value of our properties increased by 3.4% (FY16: 5.3%)
- Loan to value of 37.7% (FY16: 35.9%)
- Cost of debt further improved to 3.4% at the period end (FY16: 3.9%)
- Total return on shareholder equity of 7.3% (FY16: 10.6%)

Strategic progress

Growing rents – securing investment and enhancing income returns

- We have secured £651m of private rented sector (PRS) investments since setting out our strategy in January 2016 (FY16: £389m). A further £243m is at the planning or legals stage and £373m is under consideration.

    - In the last few weeks we have secured three PRS investments totalling £134m. These were Gilders Yard in Birmingham for £28m, a forward funding build to rent PRS development delivering 156 new homes; the Tribe portfolio in Manchester for £26m, an existing, stabilised asset of 192 PRS homes; and following the finalisation of outstanding conditions, we have now fully secured the Gore Street scheme in Manchester near Spinningfields, an £80m, 375 home, forward funding scheme which was announced in August.

- 8% increase in net rental income to £40.4m (FY16: £37.4m), with acquisitions, rental growth and property operating efficiencies generating 12% growth before disposals.

- 3.8% like-for-like rental growth across our entire portfolio (FY16: 4.1%). We saw 3.3% growth on our PRS homes (FY16: 3.6%), outperforming the 1.6% market average (based on the average from ONS, Countrywide and HomeLet). We saw 4.3% annualised growth on regulated tenancy rent reviews (FY16: 4.7%).

- 200bps reduction in our gross to net (property operating costs ratio) to 26.0% (FY16: 28.0%), supported by focused cost discipline, improved processes and supply chain management and increased efficiency.

- 8% growth in our proposed total dividend to 4.86p per share (FY16: 4.50p per share), in line with our policy to deliver sustainable, income backed growth and distribute 50% of net rental income.

Simplified and focused – repositioned for significant growth

- Our strategy to simplify and focus our business, and improve efficiency, has served us well. We completed our restructuring early in the year, focusing Grainger on our differentiated capability to originate, invest and operate UK PRS homes. This follows the profitable and accretive exits of our Equity Release and German businesses in the prior year.

- 14% year-on-year reduction in overheads to £27.2m (FY16: £31.8m), lower than our £27.5m target and equating to a 25% reduction since embarking on our new strategy (FY15: £36.1m).

- All major processes have been reviewed and improved in the year, and this is being supported by investment in technology to deliver further productivity and efficiency gains. Our operating costs are at a sustainable level to enable scalability and support our medium-term growth plans.

- We have made further improvements to our capital structure, reduced our cost of debt and diversified our sources of funding through a number of financing activities. We completed a £100m refinancing in November 2016 and secured a new £40m facility with Handelsbanken in June 2017. We also agreed a two year extension for £450m of our syndicated bank facility to 2022, with options to extend for a further two years.

- Our average cost of debt for the year was 3.5%, 90bps down on the prior year (FY16: 4.4%). It was 3.4% at the period end.

- In October 2017, we secured a new 10 year, £75m PRS facility with Rothesay Life, at a fixed rate. PRS assets are well aligned to longer-term funding. As our PRS schemes complete, this will provide attractive further financing options.

Strong financial performance

- 40% increase in adjusted earnings to £74.4m (FY16: £53.1m), driven by lower finance and operating costs, increased sales profit and rental growth. We had an exceptionally strong finish to the year, with residential and strategic land sales delivering over £8.5m of profit in the last week.

- We delivered a good performance from sales activities, with overall sales profit up 5% to £75.1m (FY16: £71.5m). Development activity was the primary growth driver, whilst residential sales delivered robust returns. On average, we have been selling vacant residential properties at 2.7% above the September 2016 vacant possession value.

- EPRA NNNAV increased by 5.6% to 303p per share (FY16: 287p per share) and we delivered a total return of 7.3%, supported by an enhanced income return, improved trading performance and valuation growth (FY16: 10.6%).

Outlook

We have been through a transformational period over the last two years and our financial performance has continued to be strong. We have grown rents, secured future rental growth, simplified and focused the business and repositioned it for further growth.

Last week's Budget re-emphasised the Government's commitment to supporting new housing supply. It confirmed a continued, more balanced approach to housing by the UK Government, including support for the professionalisation of the PRS. We expect to see a continuation of positive policy changes to support investment in the PRS over the coming year. In addition, the market stimulus in the form of stamp duty changes for first time buyers is welcome and will support Grainger's future sales, with 82% of our regulated tenancies and other reversionary assets under £500k and 56% under £300k.

2018 will be an active period for investment as we target new schemes and develop PRS assets. We expect robust sales from our regulated portfolio and this will be supplemented by development activity. We will also remain focused on active portfolio management, to generate cash and support our PRS investments.

We have delivered a strong total return for the year, with an increasing contribution from income. The quality and resilience of our portfolio, lower cost base, scalable operating platform and secured pipeline positions us well for future growth. The market opportunity and scope for growth is significant and we are confident in our ability to create long-term value for shareholders.

** Dividend – Subject to approval at the AGM, the final dividend of 3.26p per share (gross) amounting to £13.6m will be paid on 9 February 2018 to shareholders on the register at the close of business on 29 December 2017. Shareholders will again be offered the option to participate in a dividend re-investment plan and the last day for election is 15 January 2018. An interim dividend of 1.60p per share amounting to a total of £6.6m was paid to shareholders on 30 June 2017.*

FY18 reporting dates

- AGM and Trading update – 7 February 2018
- Interim results (HY18) – 17 May 2018
- Trading update – September 2018
- Full year results – 29 November 2018

Full year results presentation

Grainger plc will be holding a presentation of the results at 9:00am (UK time) today, 30 November 2017 and will be broadcast via webcast and a telephone dial-in facility.

A copy of the presentation slides will be available on Grainger's website (www.graingerplc.co.uk).

Webcast details:

To view the webcast, please go to the following URL link. Registration is required.

Grainger's Full Year Results Presentation Webcast
(http://webcasting.brrmedia.co.uk/broadcast/59ee5ec49187835b1232a2b5)

The webcast will be available for six months from the date of the presentation.

Conference call details:

Telephone (UK): + 44 (0)330 336 9105
Telephone (UK Freephone): 0800 358 6377
Telephone (US): 1-800-239-9838
PIN: 8901329

For information, please contact

Investor relations

Kurt Mueller, Grainger plc: +44 (0) 20 7940 9500

Media

Ginny Pulbrook / Geoffrey Pelham-Lane, Camarco: +44 (0) 20 3757 4992 / 4985

Forward-looking statements disclaimer

This publication contains certain forward-looking statements. Any statement in this publication that is not a statement of historical fact including, without limitation, those regarding Grainger plc's future financial condition, business, operations, financial performance and other future events or developments involving Grainger, is a forward-looking statement. Such statements may, but not always, be identified by words such as 'expect', 'estimate', 'project', 'anticipate', 'believe', 'should', 'intend', 'plan', 'could', 'probability', 'risk', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions. By their nature, forward-looking statements involve inherent risks, assumptions and uncertainties as they relate to events which occur in the future and depend on circumstances which may or may not occur and go beyond Grainger's ability to control. Actual outcomes or results may differ materially from the outcomes or results expressed or implied by these forward-looking statements. Factors which may give rise to such differences include (but are not limited to) changing economic, financial, business, regulatory, legal, political, industry and market trends, house prices, competition, natural disasters, terrorism or other social, political or market conditions. Grainger's principal risks are described in more detail in its Annual Report and Accounts. These and other factors could adversely affect the outcome and financial effects of the events specified in this publication. The forward-looking statements reflect knowledge and information available at the date they are made and Grainger plc does not intend to update on the forward-looking statements contained in this publication.

This publication is for information purposes only and no reliance may be placed upon it. No representative or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this publication. Past performance of securities in Grainger plc cannot be relied upon as a guide to the future performance of such securities.

This publication does not constitute an offer for sale or subscription of, or solicitation of any offer to buy or subscribe for, any securities of Grainger plc.

Chairman's statement

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

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

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

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

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

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

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

Mark Clare
Chairman
30 November 2017

Chief Executive's review

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

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

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

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

Strategic priority 1: grow rents

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

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

Strategic priority 2: simplify and focus

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

Strategic priority 3: build on our experience

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

<u>Delivering results</u>

Strong financial performance

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

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

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

Superior operational performance

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

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

Recognition as a market leader

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

Our differentiated approach

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

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

Preparing the business for the exciting growth in new PRS homes

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

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

Securing a high-quality pipeline

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

Customer focus

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

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

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

Attracting and retaining the best talent

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

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

Making a positive impact

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

A positive market backdrop

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

Looking ahead

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

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

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

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

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

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

Helen Gordon
Chief Executive
30 November 2017

Financial review

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

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

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

We are focused on delivering sustainable, income backed dividend growth. In line with our policy to distribute 50% of net rental income (equating to £20.2m), the total proposed dividend for the year is 4.86p per share, up 8% year-on-year (FY16: 4.50p per share). This is expected to rise significantly over coming years as our new investments complete.

Highlights

Growing our income return	**FY16**	**FY17**	**Change**
Rental growth *	4.1%	3.8%	(30)bps
- PRS	3.6%	3.3%	(30)bps
- Regulated tenancies (annualised)	4.7%	4.3%	(40)bps
Net rental income	£37.4m	£40.4m	8%
Adjusted earnings *(Note 3)*	£53.1m	£74.4m	40%
Adjusted EPS (after tax) *(Note 3)*	10.2p	14.3p	40%
Profit before tax *(Note 3)*	£84.2m	£86.3m	2%
Dividend per share *(Note 11)*	4.50p	4.86p	8%
Earnings per share (diluted) *(Note 10)*	17.9p	17.6p	(2)%

Driving our capital return	FY16	FY17	Change
EPRA NAV per share	330p	343p	3.9%
EPRA NNNAV per share	287p	303p	5.6%
Net debt	£764m	£848m	11%
Group LTV	35.9%	37.7%	180 bps
Cost of debt (average)	4.4%	3.5%	(90) bps
Cost of debt (period end)	3.9%	3.4%	(50) bps
Reversionary surplus	£327m	£310m	(5)%
Total return on shareholder equity	10.6%	7.3%	(330) bps

* Rental growth is the average increase in rent charged across our portfolio on a like for like basis.

Income statement

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

Income statement £m	FY16	FY17	Change
Net rental income	37.4	40.4	8%
Profit on sale of assets – residential	59.7	60.4	1%
Profit on sale of assets – development	11.8	14.7	25%
Mortgage income (CHARM) *(Note 16)*	6.5	6.2	(5)%
Management fees	6.2	5.1	(18)%
Overheads	(31.8)	(27.2)	(14)%
Other expenses	(1.1)	(1.1)	0%
Joint ventures and associates	1.5	2.9	93%
Net finance costs	(37.1)	(27.0)	(27)%
Adjusted earnings	**53.1**	**74.4**	**40**%
Valuation movements	33.6	14.4	-
Derivative movements	(9.9)	0.3	-
Non-recurring items	7.4	(2.8)	-
Profit before tax	**84.2**	**86.3**	**2**%
Discontinued operations before tax	62.0	1.5	-

Rental income

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

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

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

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

	£m
FY16 Net rental income	**37.4**
Disposals	(1.5)
Acquisitions	2.0
Rental growth	1.4
Gross to net improvement	1.1
FY17 Net rental income	**40.4**
YoY growth	8%

Sales

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

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

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

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

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

Sales

	FY16			**FY17**		
	Units sold	**Revenue**	**Profit**	**Units sold**	**Revenue**	**Profit**
		£m	**£m**		**£m**	**£m**
Residential sales on vacancy	307	103.1	52.0	274	110.1	51.1
Tenanted and other sales	59	12.5	7.7	242	20.7	9.3
Residential sales total	**366**	**115.6**	**59.7**	**516**	**130.8**	**60.4**
Development activity	-	49.2	11.8	-	83.7	14.7
Overall sales	**366**	**164.8**	**71.5**	**516**	**214.5**	**75.1**

Overheads

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

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

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

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

Financing and capital structure

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

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

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

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

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

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

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

Non-recurring items

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

Balance sheet

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

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

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

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

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

EPRA NNNAV movement

	£m	Pence per share
EPRA NNNAV at 30 September 2016	**1,200**	**287**
Adjusted earnings	74	18
Revaluations (trading & investment property)	61	15
Disposals (trading assets)	(50)	(12)
Tax (deferred & contingent)	(13)	(3)
Derivatives / other	15	3
Dividends	(19)	(5)
EPRA NNNAV at 30 September 2017	**1,268**	**303**

Property portfolio

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

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

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

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

Portfolio summary – property assets

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

Summary and outlook

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

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

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

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

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

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

Vanessa Simms
Chief Financial Officer
30 November 2017

Responsibility statement

The Statement of Directors' Responsibilities below has been prepared in connection with the Company's full Annual Report and Accounts for the year ended 30 September 2017. Certain parts of the Annual Report and Accounts have not been included in this announcement.

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

Each of the Directors, whose names and functions are listed in the Governance section of the Annual Report and Accounts confirm that, to the best of their knowledge:

(a) the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and

(b) the Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The responsibility statement was approved by the Board of Directors and signed on its behalf by:

Helen Gordon
Chief Executive Officer
30 November 2017

Vanessa Simms
Chief Finance Officer
30 November 2017

Consolidated income statement

For the year ended 30 September	Notes	**2017 £m**	2016 £m
Group revenue	5	**264.7**	219.9
Net rental income	6	**40.4**	37.4
Profit on disposal of trading property	7	**73.7**	69.9
Profit on disposal of investment property	8	**2.2**	1.6
Income from financial interest in property assets	16	**5.3**	5.8
Fees and other income	9	**5.1**	7.3
Administrative expenses		**(27.2)**	(31.8)
Other expenses		**(3.9)**	(6.0)
Impairment of inventories to net realisable value		**(5.4)**	(2.7)
(Impairment)/reversal of impairment of joint venture	15	**(3.6)**	14.1
Operating profit before net valuation gains on investment property		**86.6**	95.6
Net valuation gains on investment property	12	**18.0**	20.3
Operating profit after net valuation gains on investment property		**104.6**	115.9
Change in fair value of derivatives		**0.2**	(9.9)
Finance costs		**(29.1)**	(39.2)
Finance income		**2.1**	2.5
Share of profit of associates after tax	14	**4.3**	9.8
Share of profit of joint ventures after tax	15	**4.2**	5.1
Profit before tax – continuing operations	3	**86.3**	84.2
Tax charge for the year – continuing operations	20	**(12.8)**	(9.7)
Profit after tax – continuing operations		**73.5**	74.5
Discontinued operations			
Profit after tax for the year for discontinued operations	2	**1.2**	60.8
Profit for the year attributable to the owners of the Company		**74.7**	135.3
Basic earnings per share	10	**18.0p**	32.6p
Diluted earnings per share	10	**17.9p**	32.5p
Basic earnings per share – continuing operations only	10	**17.7p**	18.0p
Diluted earnings per share – continuing operations only	10	**17.6p**	17.9p

Consolidated statement of comprehensive income

For the year ended 30 September	Notes	**2017 £m**	2016 £m
Profit for the year – continuing operations	3	**73.5**	74.5
Items that will not be transferred to consolidated income statement:			
Actuarial gain/(loss) on BPT Limited defined benefit pension scheme	21	**4.6**	(4.1)
Items that may be or are reclassified to the consolidated income statement:			
Fair value movement on financial interest in property assets	16	**(1.0)**	2.9
Exchange differences on translating foreign operations		**(0.2)**	1.1
Exchange adjustments recycled on disposal of foreign operations		-	(4.3)
Changes in fair value of cash flow hedges		**11.9**	(9.5)
Other comprehensive income and expense for the year before tax		**15.3**	(13.9)
Tax relating to components of other comprehensive income:			
Tax relating to items that will not be transferred to the consolidated income statement	20	**(0.8)**	0.5
Tax relating to items that may be or are reclassified to the consolidated income statement	20	**(1.8)**	1.7
Total tax relating to components of other comprehensive income		**(2.6)**	2.2
Other comprehensive income and expense for the year after tax – continuing operations		**12.7**	(11.7)
Total comprehensive income and expense for the year after tax – continuing operations		**86.2**	62.8
Profit after tax – discontinued operations		**1.2**	60.8
Total comprehensive income and expense for the year attributable to the owners of the Company		**87.4**	123.6

Consolidated statement of financial position

As at 30 September	Notes	2017 £m	2016 £m
ASSETS			
Non-current assets			
Investment property	12	**391.0**	261.3
Property, plant and equipment		**0.7**	1.1
Investment in associates	14	**123.2**	105.1
Investment in joint ventures	15	**74.4**	78.9
Financial interest in property assets	16	**86.1**	93.1
Deferred tax assets	20	**9.7**	8.6
Intangible assets		**2.4**	2.1
		687.5	550.2
Current assets			
Inventories – trading property	13	**841.3**	904.3
Trade and other receivables	17	**145.9**	64.0
Derivative financial instruments	19	**3.4**	0.3
Cash and cash equivalents		**88.9**	90.7
Assets classified as held-for-sale		**-**	3.4
		1,079.5	1,062.7
Total assets		**1,767.0**	1,612.9
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	19	**924.6**	744.7
Retirement benefits	21	**0.2**	5.2
Provisions for other liabilities and charges		**1.3**	1.4
Deferred tax liabilities	20	**32.6**	30.2
		958.7	781.5
Current liabilities			
Interest-bearing loans and borrowings	19	**1.1**	99.0
Trade and other payables	18	**48.8**	38.4
Provisions for other liabilities and charges		**0.8**	0.9
Current tax liabilities		**7.4**	4.8
Derivative financial instruments	19	**4.9**	13.1
		63.0	156.2
Total liabilities		**1,021.7**	937.7
NET ASSETS		**745.3**	675.2
EQUITY			
Capital and reserves attributable to the owners of the Company			
Issued share capital		**20.9**	20.9
Share premium account		**111.1**	110.8
Merger reserve		**20.1**	20.1
Capital redemption reserve		**0.3**	0.3
Cash flow hedge reserve		**(2.1)**	(12.0)
Available-for-sale reserve		**6.5**	7.3
Retained earnings		**588.5**	527.7
Equity attributable to the owners of the Company		**745.3**	675.1
Non-controlling interests		**-**	0.1
TOTAL EQUITY		**745.3**	675.2

Consolidated statement of changes in equity

	Notes	Issued share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Cash flow hedge reserve £m	Available-for-sale reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
Balance as at 1 October 2015		20.9	110.7	20.1	0.3	(3.5)	4.6	411.7	0.1	564.9
Profit for the year	3	-	-	-	-	-	-	135.3	-	135.3
Other comprehensive income/(loss) for the year		-	-	-	-	(8.5)	2.7	(5.9)	-	(11.7)
Total comprehensive income		-	-	-	-	(8.5)	2.7	129.4	-	123.6
Award of SAYE shares		-	0.1	-	-	-	-	-	-	0.1
Purchase of own shares		-	-	-	-	-	-	(0.6)	-	(0.6)
Share-based payments charge	22	-	-	-	-	-	-	1.9	-	1.9
Dividends paid		-	-	-	-	-	-	(14.7)	-	(14.7)
Total transactions with owners recorded directly in equity		-	0.1	-	-	-	-	(13.4)	-	(13.3)
Balance as at 30 September 2016		**20.9**	**110.8**	**20.1**	**0.3**	**(12.0)**	**7.3**	**527.7**	**0.1**	**675.2**
Profit for the year	3	**-**	**-**	**-**	**-**	**-**	**-**	**74.7**	**-**	**74.7**
Other comprehensive income/(loss) for the year		**-**	**-**	**-**	**-**	**9.9**	**(0.8)**	**3.6**	**-**	**12.7**
Total comprehensive income		**-**	**-**	**-**	**-**	**9.9**	**(0.8)**	**78.3**	**-**	**87.4**
Award of SAYE shares		**-**	**0.3**	**-**	**-**	**-**	**-**	**-**	**-**	**0.3**
Purchase of own shares		**-**	**-**	**-**	**-**	**-**	**-**	**(0.3)**	**-**	**(0.3)**
Share-based payments charge	22	**-**	**-**	**-**	**-**	**-**	**-**	**2.1**	**-**	**2.1**
Elimination of non-controlling interests		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(0.1)**	**(0.1)**
Dividends paid		**-**	**-**	**-**	**-**	**-**	**-**	**(19.3)**	**-**	**(19.3)**
Total transactions with owners recorded directly in equity		**-**	**0.3**	**-**	**-**	**-**	**-**	**(17.5)**	**(0.1)**	**(17.3)**
Balance as at 30 September 2017		**20.9**	**111.1**	**20.1**	**0.3**	**(2.1)**	**6.5**	**588.5**	**-**	**745.3**

Consolidated statement of cash flows

For the year ended 30 September	Notes	**2017 £m**	2016 £m
Cash flow from operating activities			
Profit for the year		**74.7**	135.3
Depreciation and amortisation		**0.9**	0.9
Net valuation gains on investment property	12	**(18.0)**	(19.4)
Net finance costs		**27.0**	45.4
Share of profit of associates and joint ventures	14,15	**(8.5)**	(15.1)
Profit on disposal of investment property	8	**(2.2)**	(1.6)
Share-based payment charge	22	**2.1**	1.9
Change in fair value of derivatives		**(0.2)**	9.9
Impairment/ (reversal of impairment) of joint venture	15	**3.6**	(14.1)
Income from financial interest in property assets		**(5.3)**	(5.8)
Tax	20	**13.1**	10.9
Profit on disposal of discontinued operations	2	**-**	(56.6)
Costs of loan settlement – discontinued operations		**-**	12.3
Cash generated from operations before changes in working capital		**87.2**	104.0
Increase in trade and other receivables		**(78.8)**	(12.2)
Increase/(decrease) in trade and other payables		**15.5**	(6.0)
Decrease in provisions for liabilities and charges		**(0.2)**	(0.1)
Decrease in inventories		**61.2**	13.2
Cash generated from operations		**84.9**	98.9
Interest paid		**(27.1)**	(42.4)
Tax paid		**(11.8)**	(1.9)
Payments to defined benefit pension scheme	21	**(0.5)**	(0.6)
Net cash inflow from operating activities		**45.5**	54.0
Cash flow from investing activities			
Proceeds from sale of investment property		**9.4**	13.2
Proceeds from financial interest in property assets	16	**11.3**	9.3
Proceeds from disposal of discontinued operations net of costs and cash disposed		**-**	222.3
Dividends received	14,15	**4.8**	7.5
(Investment in)/cash repaid from associates and joint ventures	14,15	**(13.3)**	0.7
Acquisition of investment property	12	**(118.9)**	(79.5)
Acquisition of property, plant and equipment and intangible assets		**(0.8)**	(0.6)
Net cash (outflow)/inflow from investing activities		**(107.5)**	172.9
Cash flow from financing activities			
Awards of SAYE options		**0.3**	0.1
Purchase of own shares		**(0.3)**	(0.6)
Proceeds from new borrowings		**320.0**	188.2
Payment of loan costs		**(3.1)**	(1.7)
Purchase of interest rate caps		**-**	(1.0)
Payment of loan settlement costs		**-**	(11.7)
Settlement of derivative contracts		**-**	(37.9)
Repayment of borrowings		**(237.6)**	(347.5)
Dividends paid		**(19.3)**	(14.7)
Net cash inflow/(outflow) from financing activities		**60.0**	(226.8)
Net (decrease)/increase in cash and cash equivalents		**(2.0)**	0.1
Cash and cash equivalents at the beginning of the year		**90.7**	88.8
Net exchange movements on cash and cash equivalents		**0.2**	1.8
Cash and cash equivalents at the end of the year		**88.9**	90.7

The consolidated statement of cash flows above includes cash flows from both continuing and discontinued operations. Cash flows from discontinued operations are set out in Note 2 to the financial statements.

Notes to the preliminary financial results

1. Accounting policies

1a Basis of preparation

The board approved this preliminary announcement on 30 November 2017.

The financial information included in this preliminary announcement does not constitute the Group's statutory accounts for the years ended 30 September 2016 or 30 September 2017. Statutory accounts for the year ended 30 September 2016 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 September 2017 will be delivered to the Registrar of Companies following the Company's annual general meeting.

The auditors, KPMG LLP, have reported on the accounts for both years. The reports were unqualified, did not include reference 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 2017 have been prepared under the historical cost convention except for the following assets and liabilities, and corresponding income statement accounts, which are stated at their fair value; investment property; derivative financial instruments; financial interest in property assets; and assets classified as held-for-sale.

The accounting policies used are consistent with those contained in the Group's full annual report and accounts for the year ended 30 September 2017.

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

1b Adoption of new and revised International Financial Reporting Standards and interpretations

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

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

- IFRS 9 Financial Instruments (effective from 1 April 2018) – The standard applies to classification and measurement of financial assets and financial liabilities, impairment provisioning and hedge accounting. The Group is in the process of assessing the impact of IFRS 9. Adoption of the new standard is expected to have limited impact on the measurement of the Group's financial liabilities. The adoption will also require presentational changes.
- IFRS 15 Revenue from Contracts with Customers (effective from 1 April 2018) – The standard will be applicable to property and asset management fee income and proceeds from the disposal of trading and investment property, but not gross rental income. Based on the transactions impacting the current financial year and future known transactions, the Group does not expect the adoption of IFRS 15 to have a material impact on the Group's reported results. However, we will continue to assess new transactions as they arise to the date of adoption.

- IFRS 16 Leases (effective from 1 April 2019) – The adoption of this standard is not expected to significantly impact the recognition of rental income earned under the Group's leases with tenants. The Group holds operating leases as a lessee in relation to its office premises which are affected by this standard and as such adoption of the new standard may impact the measurement and presentation of the Group's assets and liabilities.
- IAS 40 Investment Property, proposed amendment. In November 2015, the IASB issued an Exposure Draft on a proposed amendment to clarify situations in which properties can be transferred from investment property to trading property and vice versa. The IASB further announced in July 2016 that it has now recommended finalising this amendment. The Group will consider reclassification of individual assets if it is appropriate and circumstances meet the definitions and requirements of the amendment.

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

1c Critical accounting estimates and judgments

Estimates

i. Valuation of property assets

Residential trading property is carried in the statement of financial position at the lower of cost and net realisable value and investment property is carried at fair value. The Group does, however, in its principal non-GAAP net asset value measures, EPRA NAV and EPRA NNNAV, include trading property at market value. The adjustment in the value of trading property is the difference between the statutory book value and its market value as set out in Note 4. For investment property, market value is the same as fair value.

Notes to the preliminary financial results continued

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

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

1 The market value adjustment is the difference between the statutory book value and the market value of the Group's properties. Refer to Note 4 for market value net asset measures.

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

3 Allsop provides vacant possession values used by the Directors to value the financial asset.

Judgments

i. Adjusted earnings

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

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

1d Group risk factors

The principal risks and uncertainties facing the Group are set out in the Risk Management report of the 2017 Annual Report and Accounts.

A number of risks faced by the Group are not directly within our control such as deterioration and/or lack of stability of wider economic markets and the political environment.

Specific risks include the failure to implement our PRS strategy and fulfil our customer proposition consistently, the failure of a key third party supplier, the failure to attract, develop and retain our people, inability to secure sufficient funding, potential cyber or information security breaches together with our ongoing obligations to comply with health and 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.

Notes to the preliminary financial results continued

2. Discontinued Operations

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

Discontinued operations **For the year ended 30 September**	Notes	**2017** **£m**	2016 £m
Group revenue		**0.4**	33.4
Net rental income		**0.2**	3.5
Profit on disposal of trading property, investment property and assets held for sale		**0.7**	11.9
Fees and other income		**0.8**	1.4
Administrative expenses		**(0.2)**	(2.4)
Operating profit before net valuation deficits on investment property		**1.5**	14.4
Net valuation deficits on investment property		**-**	(0.9)
Operating profit after net valuation deficits on investment property		**1.5**	13.5
Net finance cost		**-**	(8.3)
Share of profit of joint ventures and associates after tax		**-**	0.2
Profit before disposals		**1.5**	5.4
Profit on sale of Retirement Solutions		**-**	48.3
Profit on sale of Germany operations		**-**	8.3
Discontinued disposal profit before tax		**-**	56.6
Profit before tax		**1.5**	62.0
Current tax			
Current tax on discontinued operations	20	**(0.3)**	(1.0)
Current tax on sale of discontinued operations	20	**-**	(0.2)
Profit after tax		**1.2**	60.8
Basic earnings per share - discontinued operations		**0.3p**	14.6p
Diluted earnings per share - discontinued operations		**0.3p**	14.6p

Cash flow from discontinued operations:

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

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

Notes to the preliminary financial results continued

3. Analysis of profit before tax – continuing operations

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

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

Notes to the preliminary financial results continued

Income from financial interest in property assets ('CHARM') comprises income from the asset calculated at the effective interest rate, shown as adjusted earnings, and any movements in future cash flow projections related to the asset, are shown within valuations. Further details are shown in Note 16.

Profit before tax in the adjusted columns above of £74.4m (2016: £53.1m) is the adjusted earnings of the Group. Adjusted earnings per share assumes tax of £14.5m (2016: £10.6m) in line with the current effective rate of 19.5% (2016: 20.0%), divided by the weighted average number of shares as shown in Note 10.

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

4. Segmental Information

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

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

Information relating to the Group's operating segments is set out in the tables below. The tables distinguish between adjusted earnings, valuation and non-recurring items and should be read in conjunction with Note 3.

2017 Income statement – continuing operations

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

Notes to the preliminary financial results continued

2016 Income statement – continuing operations

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

Segmental assets

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

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

EPRA NNNAV reverses some of the adjustments made between statutory net assets and EPRA 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:

2017 Segment net assets

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

'Other' includes CHARM assets.

Notes to the preliminary financial results continued

2017 Reconciliation of EPRA NAV measures

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

2016 Segment net assets

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

2016 Reconciliation of EPRA NAV measures

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

Notes to the preliminary financial results continued

5. Group revenue – continuing operations

	2017	2016
	£m	£m
Gross rental income (Note 6)	**54.6**	51.9
Gross proceeds from disposal of trading property (Note 7)	**205.0**	160.7
Fees and other income (Note 9)	**5.1**	7.3
	264.7	219.9

6. Net rental income – continuing operations

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

7. Profit on disposal of trading property – continuing operations

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

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

8. Profit on disposal of investment property – continuing operations

	2017	2016
	£m	£m
Gross proceeds from disposal of investment property	**9.5**	4.1
Selling costs	**(0.1)**	(0.1)
Net proceeds from disposal of investment property	**9.4**	4.0
Carrying value of investment property sold (Note 12)	**(7.2)**	(2.4)
	2.2	1.6

9. Fees and other income – continuing operations

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

Notes to the preliminary financial results continued

10. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit or loss attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held both in Trust and as treasury shares to meet its obligations under the Long-Term Incentive Plan ('LTIP'), Deferred Bonus Plan ('DBP') and Save As You Earn ('SAYE') schemes, on which the dividends are being waived.

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares in issue by the dilutive effect of ordinary shares that the Company may potentially issue relating to its share option schemes and contingent share awards under the LTIP and DBP, based upon the number of shares that would be issued if 30 September 2017 was the end of the contingency period. Where the effect of the above adjustments is antidilutive, they are excluded from the calculation of diluted earnings per share.

	30 September 2017			30 September 2016		
	Profit for the year £m	**Weighted average number of shares (millions)**	**Earnings per share (pence)**	Profit for the year £m	Weighted average number of shares (millions)	Earnings per share (pence)
Basic earnings per share – continuing and discontinued operations						
Profit attributable to equity holders	**74.7**	**415.6**	**18.0**	135.3	414.4	32.6
Effect of potentially dilutive securities						
Share options and contingent shares	**-**	**2.3**	**(0.1)**	-	1.5	(0.1)
Diluted earnings per share – continuing and discontinued operations						
Profit attributable to equity holders	**74.7**	**417.9**	**17.9**	135.3	415.9	32.5
Basic earnings per share – continuing operations only						
Profit attributable to equity holders	**73.5**	**415.6**	**17.7**	74.5	414.4	18.0
Effect of potentially dilutive securities						
Share options and contingent shares	**-**	**2.3**	**(0.1)**	-	1.5	(0.1)
Diluted earnings per share – continuing operations only						
Profit attributable to equity holders	**73.5**	**417.9**	**17.6**	74.5	415.9	17.9

11. Dividends

Subject to approval at the AGM, the final dividend of 3.26p per share gross amounting to £13.6m will be paid on 9 February 2018 to shareholders on the register at the close of business on 29 December 2017. Shareholders will again be offered the option to participate in a dividend re-investment plan and the last day for election is 15 January 2018. An interim dividend of 1.60p per share amounting to a total of £6.6m was paid to shareholders on 30 June 2017.

Notes to the preliminary financial results continued

12. Investment property

	2017	2016
	£m	£m
Opening balance	**261.3**	357.8
Additions	**118.9**	79.5
Disposals – continuing operations (Note 8)	**(7.2)**	(2.4)
Disposals – discontinued operations	**-**	(9.2)
Business disposals	**-**	(188.3)
Net transfer to assets classified as held-for-sale*	**-**	(3.1)
Net valuation gains – continuing operations	**18.0**	20.3
Net valuation deficits – discontinued operations	**-**	(0.9)
Exchange adjustments	**-**	7.6
Closing balance	**391.0**	261.3

* Investment property in Grainger Portfolio 3 GmbH was transferred to assets classified as held-for-sale following disposal of German operations in the prior year.

13. Inventories

	2017	2016
	£m	£m
Residential trading property	**797.6**	818.8
Development trading property	**43.7**	85.5
	841.3	904.3

14. Investment in associates

	2017	2016
	£m	£m
Opening balance	**105.1**	108.4
Share of profit for the year – continuing	**4.3**	9.8
Share of profit for the year – discontinued	**-**	0.2
Dividends received	**-**	(7.5)
Further investment[1]	**8.8**	14.7
Loans advanced to associates	**4.5**	-
Loans repaid by associates	**-**	(4.2)
Exchange movements	**-**	0.6
Share of change in fair value of cash flow hedges taken through other comprehensive income	**0.5**	(0.8)
Disposal[2]	**-**	(16.1)
Closing balance	**123.2**	105.1

[1] Grainger invested a total additional £8.8m (2016: £14.7m) into GRIP in the year to enable further investment in PRS assets.

[2] The prior year disposal relates to the sale of Grainger's 25% interest in its German associate MH Grainger JV Sarl which completed on 1 January 2016.

The closing balance comprises share of net assets of £98.7m (2016: £85.1m) and net loans due from associates of £24.5m (2016: £20.0m).

As at 30 September 2017, the Group's interest in associates was as follows:

	% of ordinary share capital/ units held	**Country of incorporation**	**Accounting period end**
GRIP REIT PLC	24.9	United Kingdom	31 December
Vesta LP	20.0*	United Kingdom	30 September

* The Group increased its shareholding in Vesta LP from 15% to 20% in June 2017.

Notes to the preliminary financial results continued

15. Investment in joint ventures

	2017 £m	2016 £m
Opening balance	**78.9**	70.8
Share of profit for the year – continuing	**4.2**	5.1
Dividends received	**(4.8)**	-
(Impairment)/reversal of impairment	**(3.6)**	14.1
Loan interest (received)/paid	**(0.4)**	0.1
Loans advanced to joint ventures	**5.0**	5.5
Loans repaid by joint ventures	**(5.0)**	(16.7)
Exchange movements	**(0.1)**	-
Share of change in fair value of cash flow hedges taken through other comprehensive income	**0.2**	-
Closing balance	**74.4**	78.9

The closing balance comprises share of net assets of £54.6m (2016: £55.0m) and net loans due from joint ventures of £19.8m (2016: £23.9m).

At 30 September 2017, the Group's interest in joint ventures was as follows:

	% of ordinary share capital held	**Country of incorporation**	**Accounting period end**
Curzon Park Limited	50	United Kingdom	28 February
Helical Grainger (Holdings) Limited	50	United Kingdom	31 March
Walworth Investment Properties Limited	50	United Kingdom	30 September
CCZ a.s.	50	Czech Republic	30 September
CCY a.s.	50	Czech Republic	30 September
Prazsky Projekt a.s.	50	Czech Republic	30 September

During the year, Helical Grainger (Holdings) Limited was incorporated as a holding company in relation to the joint venture development in Hammersmith. The Group's share of the investment in King Street Developments (Hammersmith) Limited is now held via this new holding company.

16. Financial interest in property assets ('CHARM' portfolio)

	2017 £m	2016 £m
Opening balance	**93.1**	93.7
Cash received from the instrument	**(11.3)**	(9.3)
Amounts taken to income statement	**5.3**	5.8
Amounts taken to other comprehensive income before tax	**(1.0)**	2.9
Closing balance	**86.1**	93.1

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

It is considered to be a Level 3 financial asset as defined by IFRS 13. The financial asset is included in the fair value hierarchy within Note 19.

Notes to the preliminary financial results continued

17. Trade and other receivables

	2017 £m	2016 £m
Rent and other tenant receivables	**2.1**	3.1
Deduct: Provision for impairment	**(0.6)**	(0.5)
Rent and other tenant receivables – net	**1.5**	2.6
Amounts recoverable on contracts	**86.8**	50.5
Other receivables	**49.4**	4.2
Prepayments	**8.2**	6.7
	145.9	64.0

Amounts recoverable on contracts relate to the revenues recognised on the arrangement with the Royal Borough of Kensington and Chelsea (Note 7) as well as other development contracts.

Other receivables includes £29.0m due from land sales, which is receivable by no later than July 2019.

18. Trade and other payables

	2017 £m	2016 £m
Deposits received	**3.2**	2.6
Trade payables	**14.6**	16.0
Tax and social security costs	**9.1**	0.2
Accruals	**19.9**	18.2
Deferred income	**2.0**	1.4
	48.8	38.4

19. Interest-bearing loans and borrowings and financial risk management

	2017 £m	2016 £m
Current liabilities		
Bank loans – Pounds sterling	**-**	(1.5)
Non-bank financial institution	**1.1**	101.1
Corporate bond	**-**	(0.6)
	1.1	99.0
Non-current liabilities		
Bank loans – Pounds sterling	**637.7**	435.6
Bank loans – Euro	**6.2**	12.1
Non-bank financial institution	**7.6**	23.9
Corporate bond	**273.1**	273.1
	924.6	744.7
Total interest-bearing loans and borrowings	**925.7**	843.7

The above loans and borrowings are net of unamortised costs. Unamortised costs in relation to bank loans of £7.2m (2016: £5.9m) and the corporate bond of £2.0m (2016: £2.6m) will be amortised over the life of the borrowings to which they relate.

Categories of financial instrument

The Group holds financial instruments such as financial interest in property assets, trade and other receivables (excluding prepayments), derivatives, cash and cash equivalents. For all assets and liabilities excluding interest-bearing loans the book value was the same as the fair value as at 30 September 2017 and as at 30 September 2016.

Notes to the preliminary financial results continued

As at 30 September 2017, the fair value of interest-bearing loans is greater than the book value by £24.8m (2016: £26.8m), but there is no requirement under IAS39 to adjust the carrying value of loans, all of which are stated at unamortised cost in the consolidated statement of financial position.

Market risk

The Group is exposed to market risk through interest rates, foreign exchange fluctuations, the availability of credit and house price movements relating to the Tricomm Housing portfolio and the CHARM portfolio. The Group is not significantly exposed to equity price risk or to commodity price risk.

Fair values

IFRS 13 sets out a three-tier hierarchy for financial assets and liabilities valued at fair value. These are as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – unobservable inputs for the asset or liability.

The following table presents the Group's assets and liabilities that are measured at fair value:

	2017		2016	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Level 3				
CHARM	**86.1**	**-**	93.1	-
Investment property	**391.0**	**-**	261.3	-
	477.1	**-**	354.4	-
Level 2				
Interest rate swaps – in cash flow hedge accounting relationships	**3.0**	**4.9**	-	13.1
Interest rate caps – not in cash flow hedge accounting relationships	**0.4**	**-**	0.3	-
Assets classified as held-for-sale	**-**	**-**	3.4	-
	3.4	**4.9**	3.7	13.1

The significant unobservable inputs affecting the carrying value of the CHARM portfolio are house price inflation and the effective interest rate. A reconciliation of movements and amounts recognised in the income statement and other comprehensive income are detailed in Note 16.

The investment valuations provided by Allsop LLP and CBRE Limited are based on RIC's Professional Valuation Standards, but include a number of unobservable inputs and other valuation assumptions.

The fair value of swaps and caps were valued in-house by a specialised treasury management system, using first a discounted cash flow model and market information. The fair value is derived from the present value of future cash flows discounted at rates obtained by means of the current yield curve appropriate for those instruments. As all significant inputs required to value the swaps and caps are observable, they fall within Level 2.

Notes to the preliminary financial results continued

The reconciliation between opening and closing balances for Level 3 is detailed in the table below:

Assets – Level 3	**2017 £m**	2016 £m
Opening balance	**354.4**	205.2
Amounts taken to income statement	**23.3**	26.1
Transfer from Level 2	**-**	246.3
Other movements	**99.4**	(123.2)
Closing balance	**477.1**	354.4

In prior years, investment property has been included within Level 2. However, as all inputs to their valuation on a property by property basis are not always observable, investment property is better shown within Level 3 and a transfer has been made in the prior year to reflect this.

20. Tax

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

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

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

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

In addition to the above, a deferred tax charge of £2.6m (2016: deferred tax credit of £2.2m) was recognised within other comprehensive income comprising:

	2017 £m	2016 £m
Deferred tax		
Actuarial deficit on BPT Limited pension scheme	**0.8**	(0.5)
Equity component of available-for-sale financial asset	**(0.2)**	0.2
Fair value movement in cash flow hedges and exchange adjustments	**2.0**	(1.9)
Amounts recognised in other comprehensive income	**2.6**	(2.2)

Notes to the preliminary financial results continued

Deferred tax balances comprise temporary differences attributable to:

	2017 £m	2016 £m
Deferred tax assets		
Accelerated capital allowances	**0.3**	0.2
Short-term temporary differences	**4.2**	4.9
Losses carried forward	**4.5**	-
Actuarial deficit on BPT Limited pension scheme	**0.2**	1.0
Fair value movement in cash flow hedges and exchange adjustments	**0.5**	2.5
	9.7	8.6
Deferred tax liabilities		
Trading property uplift to fair value on business combinations	**(10.3)**	(11.4)
Investment property revaluation	**(20.7)**	(17.0)
Short-term temporary differences	**(0.4)**	(0.4)
Equity component of available-for-sale financial asset	**(1.2)**	(1.4)
	(32.6)	(30.2)
Total deferred tax	**(22.9)**	(21.6)

Deferred tax has been predominantly calculated at a rate of 17% (2016: 17%) in line with changes to the main rate of corporation tax from 1 April 2020 which have been substantively enacted.

In addition to the tax amounts shown above, contingent tax based on EPRA market value measures, being tax on the difference between the carrying value of trading properties in the statement of financial position and their market value has not been recognised by the Group. This contingent tax amounts to £109.8m (2016: £110.4m).

21. Retirement benefits

The Group retirement benefit liability decreased by £5.0m to £0.2m in the year ended 30 September 2017. The Group obtained an updated valuation of the assets and liabilities of the pension scheme for the purposes of the annual financial statements. The brought forward deficit of £5.2m was reduced by £0.5m of contributions and £4.6m of actuarial gains and increased by £0.1m net interest costs. The principal actuarial assumptions used to reflect market conditions as at 30 September 2017 are as follows:

	2017 %	2016 %
Discount rate	**2.65**	2.25
Retail Price Index (RPI) inflation	**2.90**	3.10
Consumer Price Index (CPI) inflation	**1.90**	2.10
Salary increases	**3.40**	3.60
Rate of increase of pensions in payment	**5.00**	5.00
Rate of increase for deferred pensioners	**1.90**	2.10

22. Share-based payments

The Group operates a number of equity-settled, share-based compensation plan comprising awards under a Long-Term Incentive Plan (‘LTIP’), a Deferred Bonus Plan (‘DBP’), a Share Incentive Plan (‘SIP’) and a Save As You Earn Scheme (‘SAYE’). The share based payments charge recognised in the income statement for the period is £2.1m (2016: £1.9m).

Notes to the preliminary financial results continued

23. Related party transactions

During the year ended 30 September 2017, the Group transacted with its associates and joint ventures (details of which are set out in Notes 14 and 15). The Group provides a number of services to its associates and joint ventures. These include property and asset management services for which the Group receives fee income. The related party transactions recognised in the income statement and statement of financial position are as follows:

	2017		2016	
	Fees recognised £'000	**Year end balance £'000**	Fees recognised £'000	Year end balance £'000
GRIP REIT PLC	**3,737**	**2,815**	3,670	1,745
Grainger Stuttgart Portfolios	**-**	**-**	301	-
Walworth Investment Properties Limited	**40**	**40**	40	40
Vesta Limited Partnership	**234**	**-**	-	-
	4,011	**2,855**	4,011	1,785

On 1 January 2016, the Group sold its 25% equity interest in MH Grainger JV Sarl and its investment in Grainger Stuttgart Portfolio one GmbH & Co KG and Grainger Stuttgart Portfolio two GMbH & Co KG. The fees shown in the table above in 2016 represent asset management fees earned by the Group from 1 October 2015 up to completion on 1 January 2016.

	2017			2016		
	Interest recognised £'000	**Year end loan balance £m**	**Interest rate %**	Interest recognised £'000	Year end loan balance £m	Interest rate %
GRIP REIT PLC	**764**	**23.1**	Nil and 4.75	795	19.9	Nil and 4.75
Czech Republic combined	**(99)**	**(0.5)**	4.00	388	(3.6)	4.00
Curzon Park Limited*	**-**	**21.9**	Nil	-	19.5	Nil
Helical Grainger (Holdings) Limited*	**-**	**9.9**	Nil	-	-	-
King Street Developments (Hammersmith) Limited	**-**	**-**	-	-	6.8	Nil
Walworth Investment Properties Limited	**156**	**-**	7.00	455	6.7	7.00
Vesta LP	**-**	**1.4**	Nil	-	0.1	Nil
	821	**55.8**		1,638	49.4	

* The amount disclosed above is the gross loan amount. Some provisions have been made against the loans.

24. Post balance sheet events

On 12 October 2017, the Group agreed a new 10 year £75m loan with Rothesay Life at a fixed rate. Including this financing activity, our hedging stands at 87% and our headroom increases to £343.6m.

On 23 November 2017, the Group agreed to forward fund and acquire a PRS, build-to-rent development, Gilder's Yard in Birmingham, comprising 156 private rental homes for £28m.

Also on 23 November 2017, outstanding conditions relating to a £80m 375 home forward funding acquisition in Gore Street, Manchester were finalised and the scheme became fully secured.

On 24 November 2017, the Group acquired a stabilised portfolio of three blocks, in Manchester, comprising 192 PRS homes for £26m (the Tribe portfolio).