

Preliminary results for the full year ended 30 September 2014

20 November 2014

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Executive Directors

Andrew Cunningham, Chief Executive

Mark Greenwood, Finance Director

Nick Jopling, Executive Director, Property

Agenda

Investing in homes since 1912
grainger plc

1. Introduction

Andrew Cunningham

2. UK housing market overview

Andrew Cunningham

3. The Grainger portfolio

Andrew Cunningham

4. Financial highlights

Mark Greenwood

5. Operational highlights

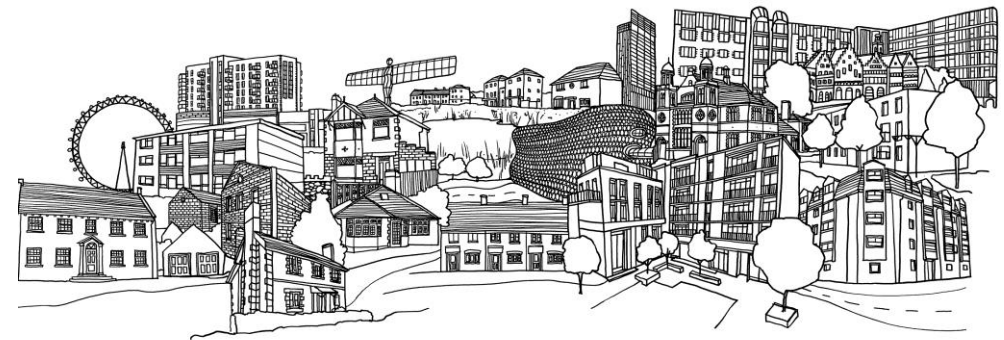
Nick Jopling

6. Summary and outlook

Andrew Cunningham

Grainger overview

- A pure residential play with consistent outperformance
- Returns driven by asset value growth and income from sales, rents and fees
- Highly cash generative business model
- A high quality, national portfolio with significant defensive characteristics
- Latent value in reversionary portfolio is supplementary to reported net assets



Financial highlights

NAV ↑
+20%

291p
(FY13: 242p)

NNNAV ↑
+24%

242p
(FY13: 195p)

Total Dividend ↑
+22.6%

2.50p
(FY13: 2.04p)

Profit before tax ↑
+26%

£81.1m
(FY13: £64.3m)

Recurring PBT ↑
+27%

£47.1m
(FY13: £37.0m)

**Return on
Shareholder Equity**

+25.6%

Operational highlights

Strong performance in the year

- Continued outperformance
- Strong sales
- Successful sales launch at Macaulay Walk

Market value of our residential UK portfolios rose by **14.6%** compared to Nationwide and Halifax indices of 9.5% (average)

Vacant sales at **14.1%** above Sept 13 values

Sales and profit in second half of 2014, which will continue in H1 2015

Building business for the future

- Established strategic partnership with Sigma
- Pontoon Dock development with Bouygues and London Pension Funds Authority
- Acquisition of Chelsea Houses Portfolio for £160m

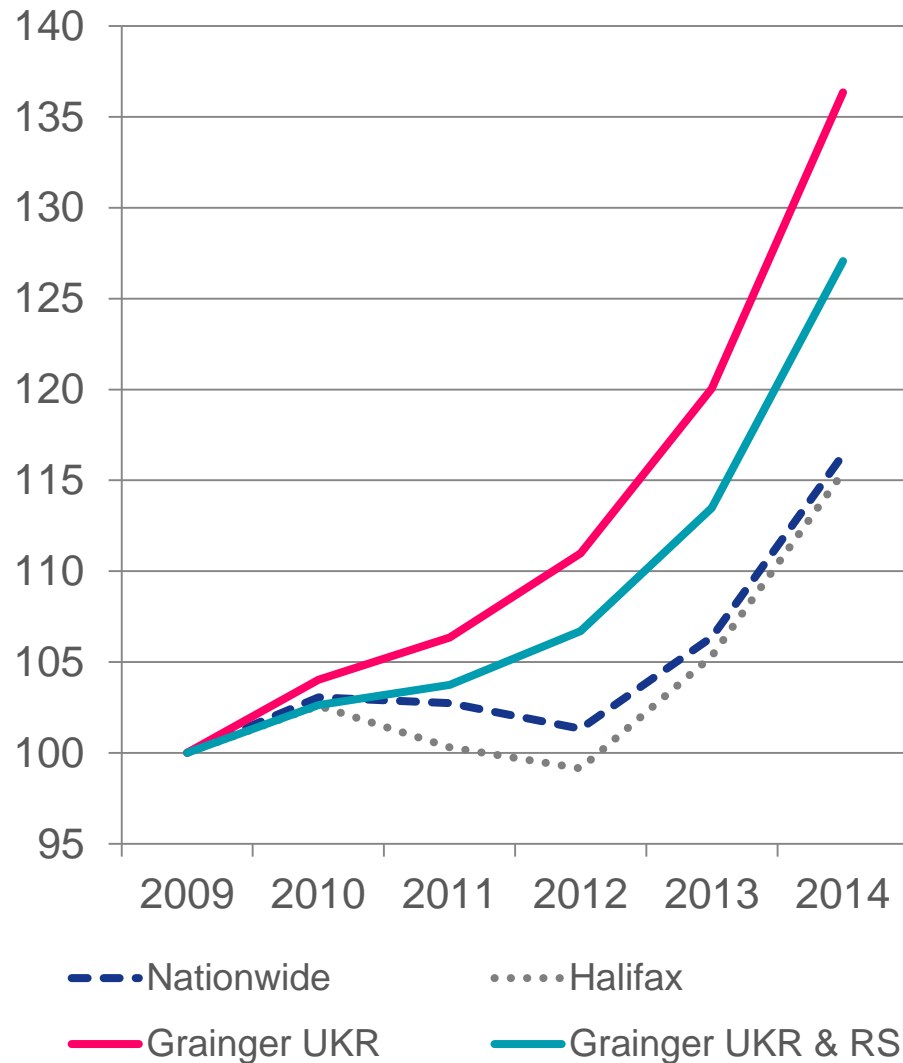
Widening our access to public land build to rent opportunities in the regions

Strategic alignment will generate fees and returns from our equity investment

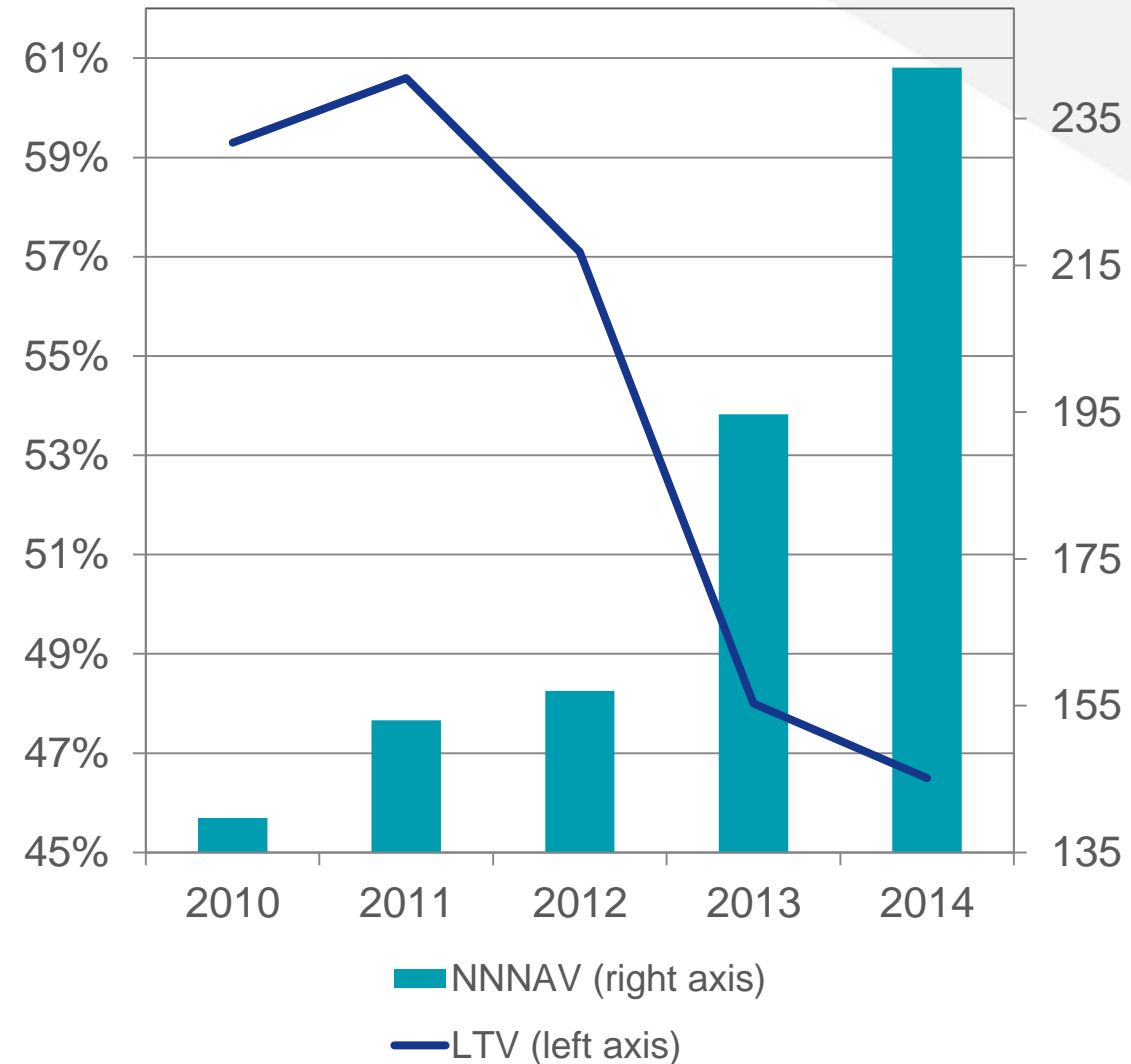
Reversionary assets with significant refurbishment and extension potential

Strong long term performance

Grainger market value vs Nationwide & Halifax



Loan to value* and NNNAV (p)



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UK housing market – House Prices

- After two very strong years of growth, we believe we are now seeing signs of stabilisation and more sustainable levels of growth
- Continued signs of positive movement in capital values in regions
- Major influencing factors: mortgages, interest rates, politics, employment rate and wages
- Favourable medium-term supply-demand dynamics, improving jobs market, low mortgage finance costs



UK housing market – Growing Private Rental Sector

- Strong, growing demand
- 2nd largest housing tenure in the UK
- Growing opportunities in the regions
- Government and institutional support to develop a professionally managed private rental sector
- Stable growth in underlying rents, but remain at affordable levels

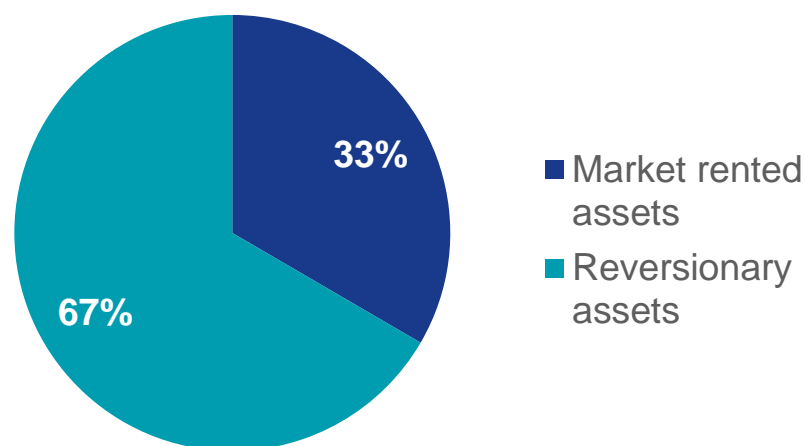


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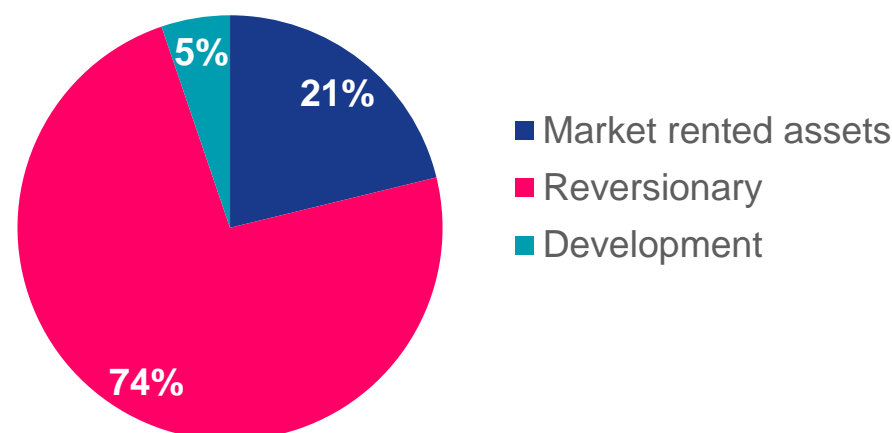
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The Grainger portfolio

Asset type by units



Asset type by market value (£m)



	No. of units	Market Value £m	VP Value £m	Reversionary surplus £m	IV/VP %	Annualised gross rent £m
Reversionary Assets	7,536	1,507	1,929	422	78%	29
Market Rented Assets*	3,779	434	467	33	93%	28
Development		107	107	-	100%	-
Total	11,315	2,048	2,503	455	79%	57

* Including German assets, market value of £148m

Our UK geographical exposure (wholly owned)



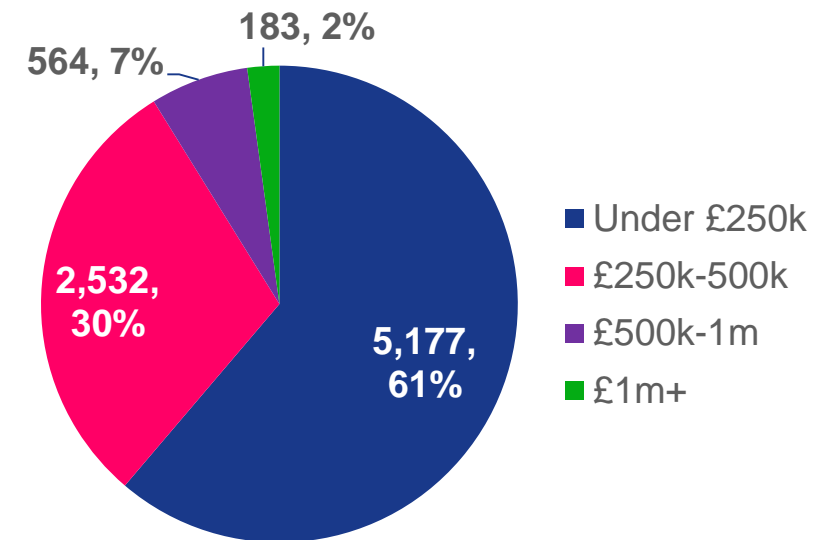
IPD region	No of units	% by units	Vacant Possession Value	% by VP	Avg VP* (£k)
1 London (Total)	2,357	28%	1,294	58%	557
2 South East	1,307	15%	245	11%	225
3 South West	1,302	15%	244	11%	212
4 East	832	10%	124	6%	181
5 East Midlands	292	3%	35	2%	158
6 West Midlands	719	9%	119	5%	186
7 Wales	71	1%	8	0%	147
8 Yorkshire	396	5%	46	2%	145
9 North West	863	10%	95	4%	130
10 North East	268	3%	30	1%	125
11 Scotland	49	1%	6	0%	134
	8,456	100%	2,246	100%	288

* Calculated using full VP value whereas rest of table shows only Grainger's share

Grainger's UK portfolio

- A resilient and defensive portfolio due to pricing, type, location and condition, with limited exposure to more volatile market areas
- 80 units out of c.11,500 are worth £2m and over in the UK (vacant possession value)
- Strong increases in like-for-like rent levels on our UK market rented portfolio which we manage (9.1% on new lets, 4.2% on renewals)
- A proven ability to sell well in all market conditions

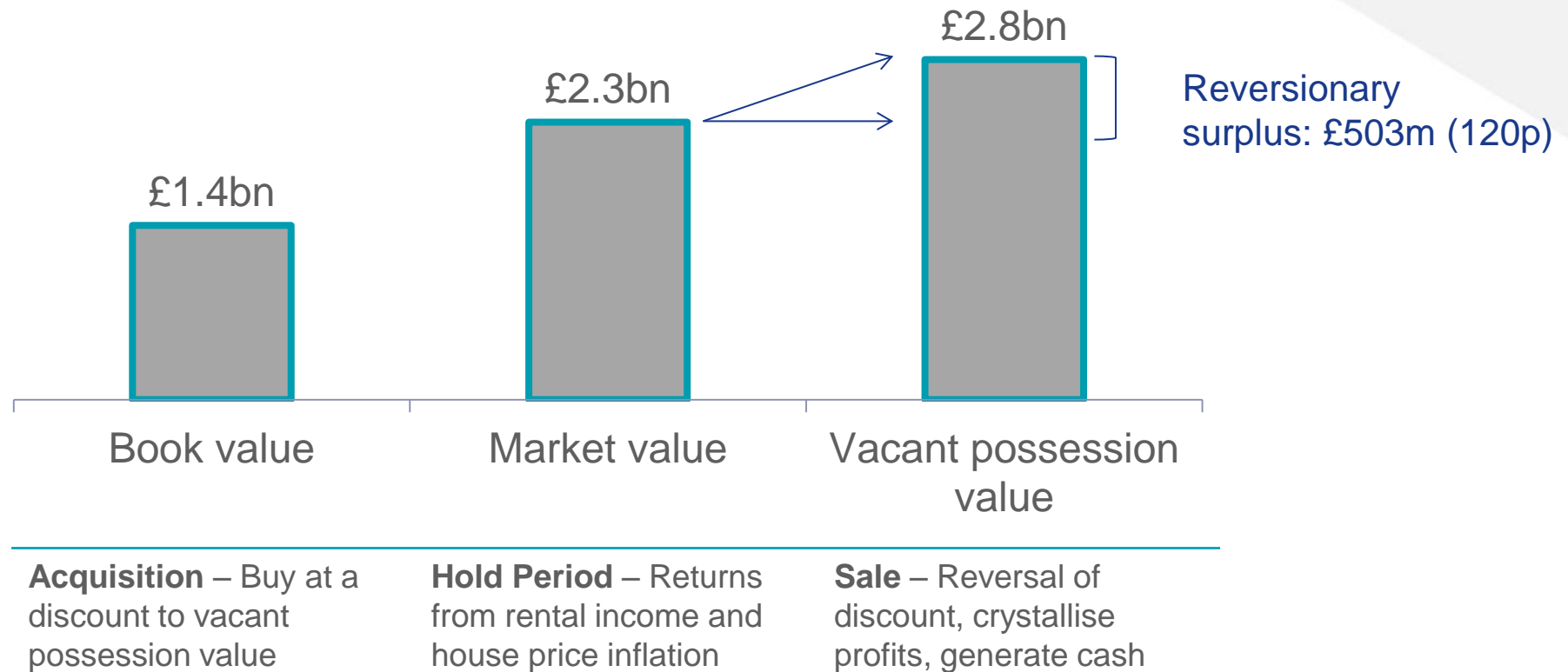
Units by price brackets*



* Calculated using full VP value whereas rest of table shows only Grainger's share
FY Results 2014



Reversionary surplus



- Reversionary surplus, latent value not included in our NAV or NNNNAV of 120p per share (£503m), including owned assets and our share of joint ventures and associates
- Our reversionary portfolio is estimated to generate over £120m cash per year until 2030

* The above chart includes our share of JVs and associates

Example: Pewsey, Wiltshire

Purchased	26 Sept 2003
Tenancy	Regulated
Est. VP at acquisition	£185,000
Price paid (excl. costs)	£134,000
Discount (reversion)	27.6%
2003 Rent	£3,510 pa
2014 Rent	£6,656 pa
Vacancy	Jan 14
Sale agreed	April 14
Sale Price	£372,000
Ungeared IRR	11.2%
Annualised HPI	6.6%
Annualised Rental Growth	6.0%



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2014 financial highlights

Balance sheet

Gross NAV ↑	NNNAV ↑
+20%	+24%
291p	242p
(FY13: 242p)	(FY13: 195p)

Group LTV ↓

46.5%

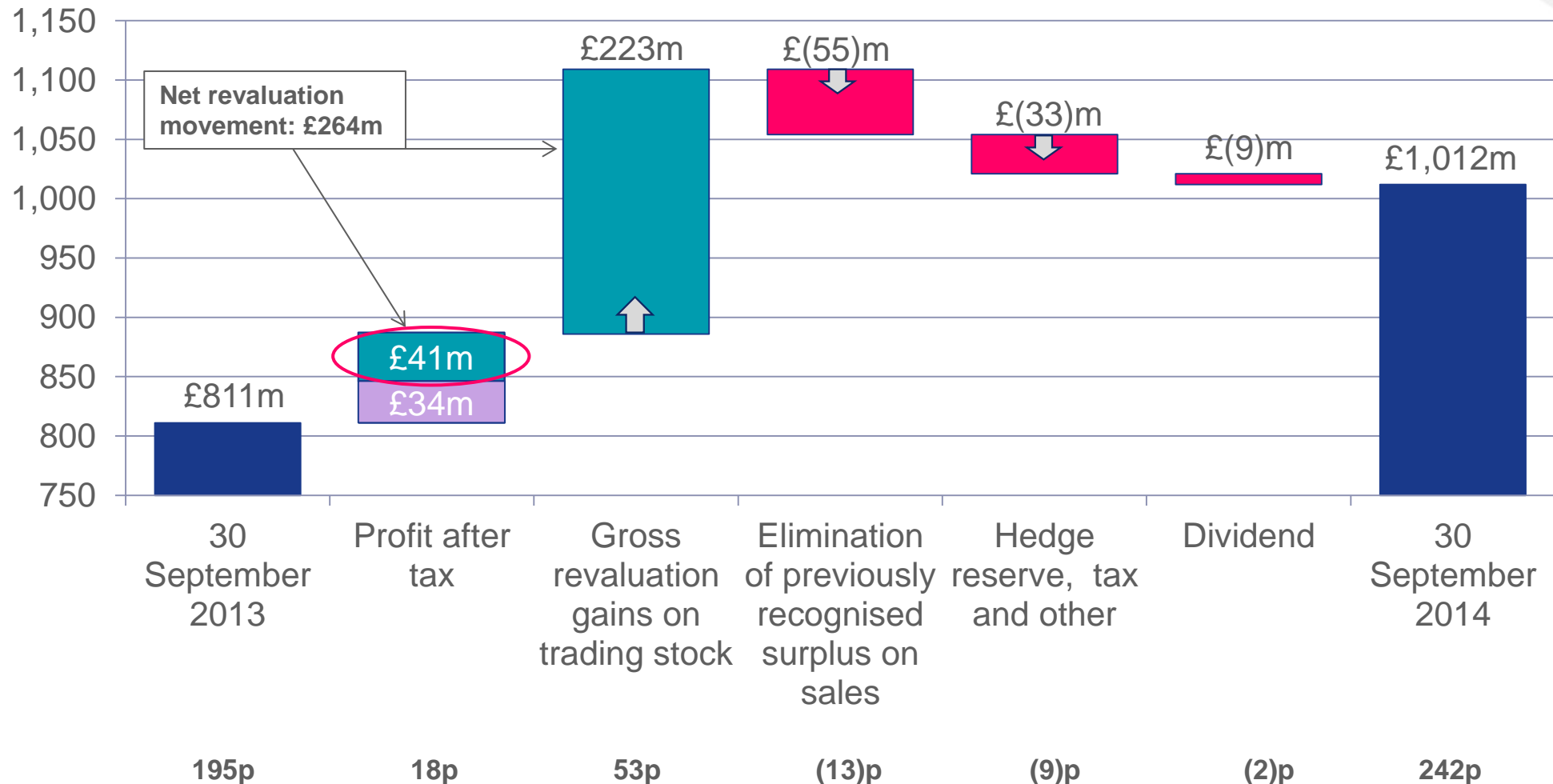
(FY13: 48.0%)

- In addition, there is the reversionary surplus of **120p per share***
- Issued **£275m** corporate bond

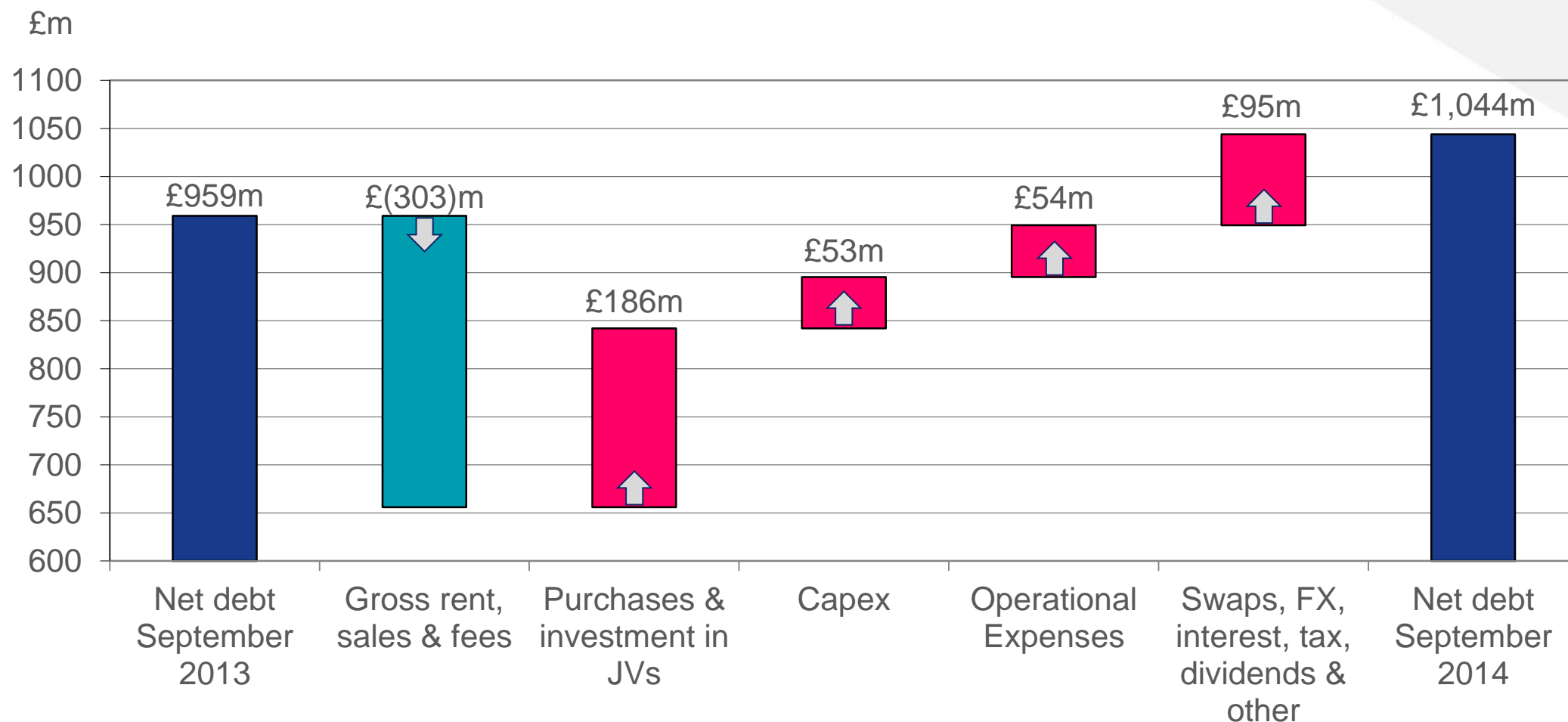
** Includes our share of investment in Joint Ventures/Associates*

Movement in NNNAV

NNNAV up 24% since 30 Sept 2013



Cashflow



2014 financial highlights

Income statement

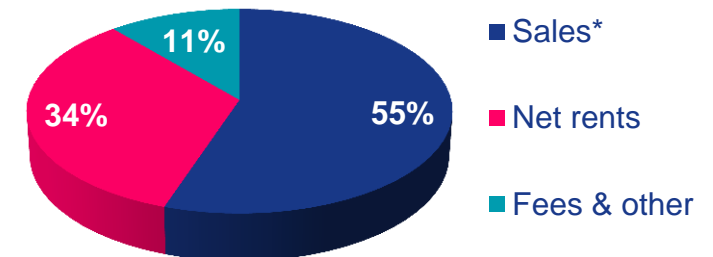
Recurring profit

£47.1m
(FY13: £37.0m)

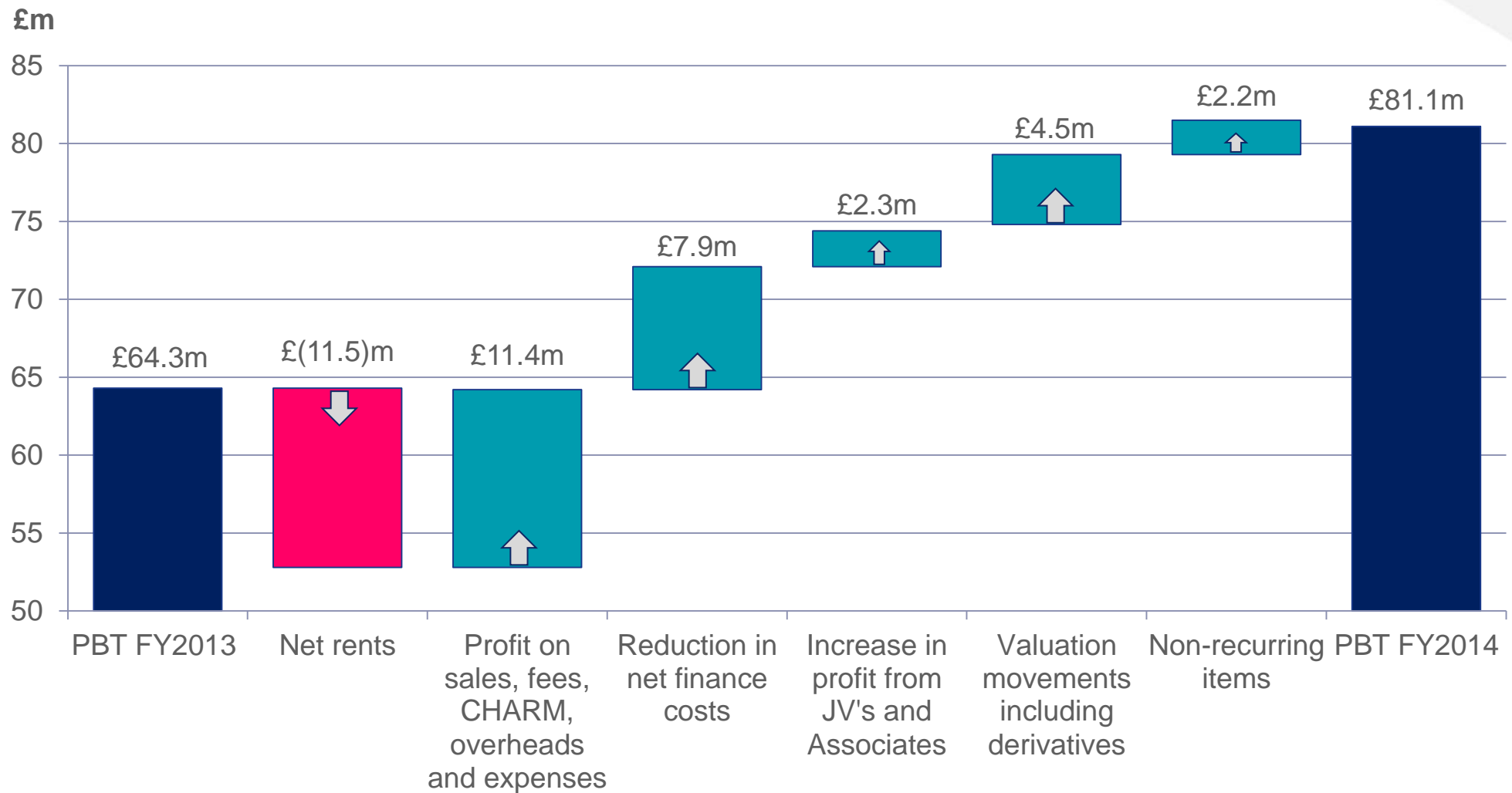
Profit before tax

£81.1m
(FY13: £64.3m)

Income streams



Profit movement



Capital structure and Group debt analysis

Capital structure

- Diversified financing sources
 - Corporate bond issue of £275m 4.94% due 2020
- No significant repayments until March 2016
- Associated swap breaks, 7p off NAV
- Reduction in finance costs of £7.9m

Net Debt

Consolidated Loan to Value

Average maturity of drawn facilities

Headroom

Average cost of debt at period end*

FY14	FY13
£1,044m	£959m
46.5%	48.0%
4.8 years	4.6 years
£297m	£292m
5.4%	5.9%

* Including costs but excluding commitment fees

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Investment focus

Reversionary assets	Generate income from rents, sales on vacancy, refurbishment and development	9.0 – 9.5% IRR on an ungeared basis
Market rent and build-to-rent activities	Fastest growing housing tenure with good opportunities in the regions	8.0 – 10.0% IRR on an ungeared basis
Fund management and fee business	Create critical mass and opportunity to invest in major schemes	20.0% gross margin on costs + equity or promote

Operational highlights

1. Macaulay Walk, Clapham Old Town
2. The Chelsea Houses Portfolio
3. Germany
4. London Road, Barking, East London
5. Pontoon Dock, East London
6. Sigma partnership

Macauley Walk, Clapham

- 53 of the 57 private units released so far have been sold, exchanged or reserved
- Residential values of £800-£1300/sq ft achieved with average of over £1000/sq ft
- Significant outperformance of expectations from start on site in Aug '12 of values of £650/sq ft
- Delivered £11.6m of profit to the business in 2014
- We expect a similar level of profit in the new financial year which will be weighted toward the first half, of which £7m has been delivered



Macauley Walk, Clapham Old Town, London



**2x – Best Mixed Use Development, and
Best Development (26-100 units)**

The Chelsea Houses Portfolio

- 61 freehold houses acquired for £160m
- Core reversionary assets that fit our long term strategy
- 83% of the portfolio situated in three streets less than 0.5 miles from Harrods in London
- Significant opportunity for value enhancement through refurbishment and extension
- Performing ahead of expectations



Acquisition price	£160m
Reversion	£32m
Est. net uplift from modernisation, no extension	£5m
Est. net uplift from extension	£18m
Total est. net uplift excluding HPI	£55m



Germany – overview and strategy

Our total net equity investment in Germany is £83m

- Heitman vehicle proving to be a major success with 15% return in 2014
- Investing in our platform – people, processes and systems
- Rent increases on a like-for-like basis per sq metre:
 - Heitman – 2.5%
 - Wholly owned – 3.1%
 - Blended – 2.8%
- 2015 – we are reviewing our remaining wholly owned assets and will thereafter consider moving them into a joint venture in the future, similar to our Heitman vehicle

London Road, Barking

- 100 units PRS block, built by Bouygues and delivered six months early
- Specially designed for rental customers
- Letting to begin in Spring 2015
- Gross rent roll of c.£1.4m
- Est. lease up of 3-4 months



Pontoon Dock, East London

- 211 units including PRS, affordable rent and shared ownership
- Selected by the Greater London Authority: consortium led by Bouygues with Grainger and the London Pension Funds Authority
- Grainger will co-invest (15%) with the LPFA as majority investor, and we will provide property and asset management services for a fee
- Total GDV: c.£50m with construction to begin c.2016



Sigma partnership

- An exciting opportunity to secure a large-scale regional build to rent portfolios on local authority land
- Grainger has exclusivity on projects over 100 units and will appraise projects on a case by case basis
- Sigma act as procurer and development manager, with returns aligned to success
- Grainger as long term owner and manager



Development pipeline

- We estimate that our development activities will generate on average £10-12m of profit per annum.
- Major development projects to deliver profit in forthcoming years:

2015	2016	2017	2018
<ul style="list-style-type: none"> • Berewood • Macaulay 	<ul style="list-style-type: none"> • Berewood • Macaulay (office to resi conversion) 	<ul style="list-style-type: none"> • Berewood • RBKC • Seven Sisters 	<ul style="list-style-type: none"> • Apex House • Berewood • Seven Sisters



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Our strategy

Lead the market

Creates opportunities through recognition

Maximising returns

Continue to invest in reversionary assets where appropriate

Regional opportunities

Balancing income streams

Medium to long term growth of market rented portfolio to be first and foremost truly national market rented landlord in the UK

Optimising financial and operational structure

Appropriate gearing levels, using third party capital to develop scale and fee income

Summary and outlook

NNNAV

+24%

242p

(FY13: 195p)

Profit before tax

+26%

£81.1m

(FY13: £64.3m)

**UK Portfolio
market valuation**

+14.6%

(FY13: 9.3%)

- We remain confident in our ability to deliver value from our portfolios
- Cash generation will support our investment in build to rent and market rented assets



Thank you

Appendices

Portfolio summary (wholly owned)

	No. of units	Market Value £m	VP Value £m	Reversionary surplus £m	IV/VP %	Annualised Gross rent £m	Gross sales proceeds £m	Profit on sale £m
Reversionary Assets								
Regulated	3,777	1,105	1,417	312	77%	27	11	1.0
Vacant	294	68	71	3	96%	-	78	42.9
RS Reversion	2,646	240	347	107	69%	2	123	27.0
CHARM	819	94	94	-	100%	-	7	0.6
	7,536	1,507	1,929	422	78%	29	219	71.5
Development								
		107	107	-	100%		33	12.3
Total	7,536	1,614	2,036	422	75%	29	252	83.8
Market Rented Assets								
Germany	2,859	148	148	-	100%	11	15	(0.2)
AST	538	136	151	15	90%	6	1	0.0
Tricomm (MOD)	317	109	109	-	100%	9	-	-
Other	65	41	59	18	69%	2	7	5.0
Market Rented Total	3,779	434	467	33	93%	28	23	4.8
Overall Total	11,315	2,048	2,503	455	79%	57	275	88.6
Total at 30 September 2013	13,353	1,843	2,326	483	79%	71	353	77.7
Assets under management								
UK	14,076							
Germany	5,755							
Total AUM	19,831							

Portfolio summary by division

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

Asset performance

	2014		2013	
	Vacant Possession Value	Market Value	Vacant Possession Value	Market Value
HPI (Nationwide and Halifax)	9.5%		5.6%	
Grainger's UK Residential portfolio	14.6%	15.9%	8.2%	9.3%
Grainger's Retirement Solutions portfolio	6.0%	9.4%	2.3%	5.9%
Grainger's combined UK portfolio	12.0%	14.6%	6.4%	8.3%

* Includes our share of assets in Joint Ventures/Associates

German portfolio



Wholly owned, excl Heitman Germany

	No of Units	Market value £m	% of market value
1 Baden – Württemberg	209	16	10%
2 Hesse	1,064	62	41%
3 Northrhine – Westphalia	1,162	47	32%
4 Bavaria	73	3	2%
5 Lower Saxony	66	3	2%
6 Rhineland – Palatinate	221	12	8%
7 Other	64	5	5%
Total	2,859	148	100%

Heitman vehicle Germany

	No of Units	Market value £m	% of market value
1 Baden – Württemberg	1,086	73	39%
2 Hesse	-	-	0%
3 Northrhine – Westphalia	425	24	13%
4 Bavaria	427	50	27%
5 Lower Saxony	637	24	13%
6 Rhineland – Palatinate	-	-	0%
7 Other	321	15	8%
Total	2,896	186	100%

Asset overview

JV & Associates

	Joint Ventures					Associates			Total
	Prague/ Zizkov	Hammersmith	Curzon Park	Sovereign	Walworth	Heitman	GRIP	G:Res	
£m									
Property assets	24	6	35	51	169	186	474	-	945
Other assets	1	0	0	4	7	26	26	7	71
Total assets	25	6	35	55	176	212	500	7	1,016
External debt	(9)	-	(6)	(24)	(60)	(117)	(157)	-	(373)
Loans to/(from) Grainger	2	(6)	(18)	1	(14)	(41)	(127)	-	(203)
Other liabilities	(16)	0	(20)	(3)	(12)	(26)	(3)	(1)	(81)
Total liabilities	(23)	(6)	(44)	(26)	(86)	(184)	(287)	(1)	(657)
Net assets	2	0	(9)	29	90	28	213	6	359
Grainger share	50%	50%	50%	50%	50%	25.0%	24.9%	26.0%	
Grainger share £m	1	0	(4)	15	45	7	53	2	119
Loans net of provisions	(1)	2	9	(1)	7	10	32	-	58
Total Grainger investment	0	2	5	14	52	17	85	2	177
Vacant possession value				93	194	238	551	-	1,076
Reversionary surplus				33	25		77		135
Grainger share of reversionary surplus				16	12		20		48

Profit summary

	2014	2013
	£m	£m
Profit on sale of assets*	88.6	77.7
Net rents	37.0	48.5
Management fees	12.8	12.9
CHARM	6.4	5.7
Overheads and other expenses	(37.3)	(37.2)
Operating profit**	107.5	107.6
Finance costs, net	(63.4)	(71.3)
JV's and associates	3.0	0.7
Recurring profit before tax	47.1	37.0
Valuation movements	37.7	33.2
Non-recurring items	(3.7)	(5.9)
Profit before tax	81.1	64.3

* Includes tenanted sales

** OPBVM - Operating profit before valuation movements/non-recurring items

Property sales and profits

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

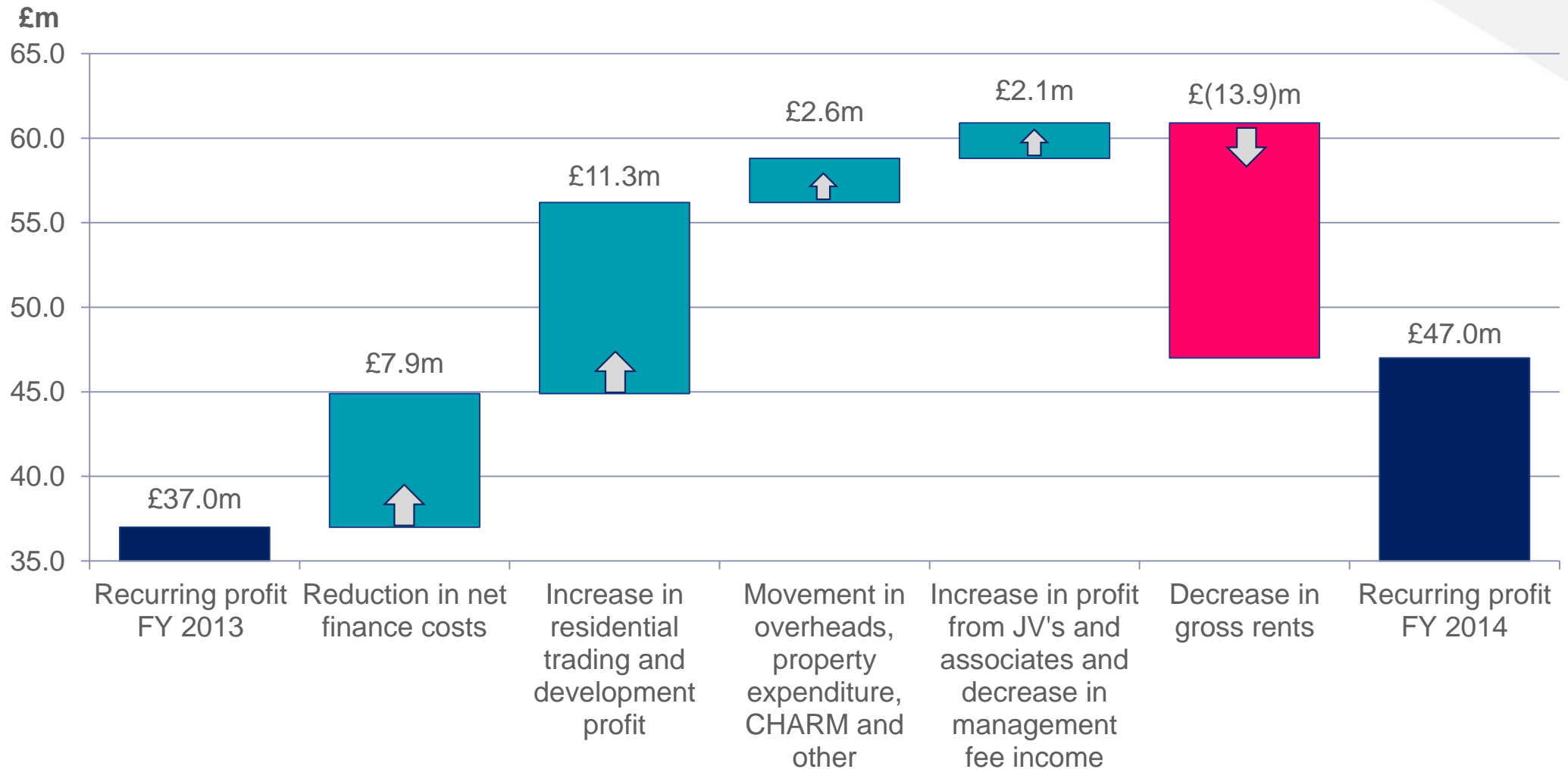
Regular, resilient cashflows

Average cashflow per annum over the 9 year period was £300m

£m	2014	2013	2012	2011	2010	2009	2008	2007	2006
Gross rents									
UK Residential	44	51	58	51	39	41	42	39	47
Retirement Solutions	2	4	5	5	6	6	6	2	-
Development	0	-	-	-	1	1	1	2	1
Germany	11	16	27	30	30	30	22	10	5
Total	57	71	90	86	76	78	71	53	53
Property Sales net of sales fees									
UK Residential	94	260	172	148	118	139	137	125	124
Retirement Solutions	92	55	38	27	29	27	27	19	12
Development	32	15	18	22	19	46	10	39	56
Germany	15	17	24	21	4	3	2	2	1
Total	233	347	252	218	170	215	176	185	193
Fees/other income	13	13	11	8	7	7	9	6	3
Overall Total	303	431	353	312	253	300	256	244	249

Movement in recurring profit

Recurring profit up 27%



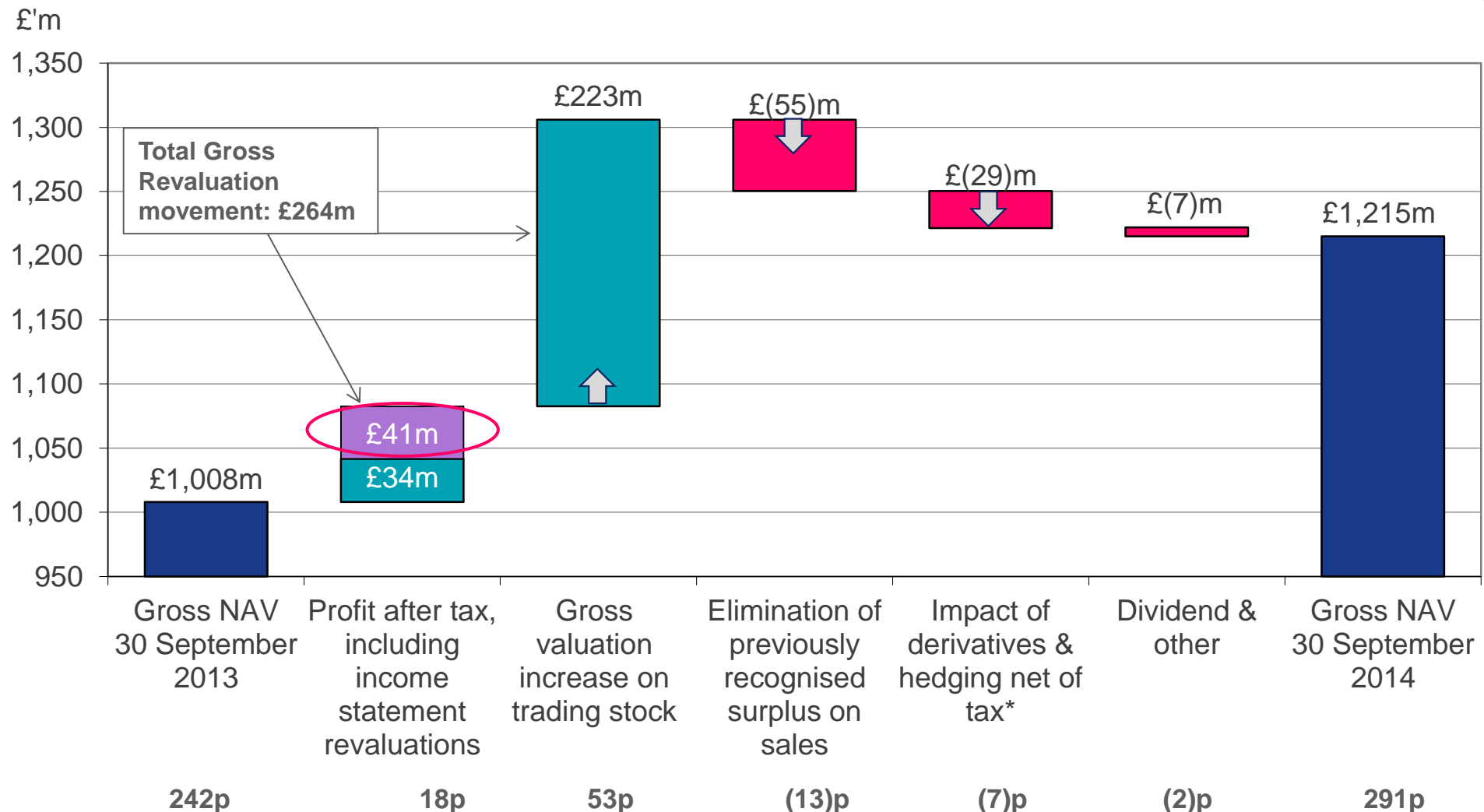
NAV measures reconciliation

	Statutory Balance Sheet	Market Value Adjustments	Market value Balance Sheet	Add back Def Tax on property	Add back Fair value of derivative financial instruments	Gross NAV	Adj IAS 39 re fixed rate loan and derivative financial instruments	Deferred and Contingent Tax	NNNAV Balance Sheet	Grainger NAV Adjustments	Grainger NNNAV
Investment Property	332.8		332.8			332.8			332.8		332.8
CHARM	94.5		94.5			94.5			94.5		94.5
Trading stock	1,020.2	597.0	1,617.1			1,617.1			1,617.1	215.9	1,833.1
JV/Associates	177.2	1.1	178.3	7.6	0.4	186.3	(0.4)	(7.6)	178.3		178.3
Cash	74.4		74.4			74.4			74.4		74.4
Deferred tax	12.2		12.2		(9.7)	2.6	13.2		15.7		15.7
Held-for-sale assets	3.5		3.5			3.5			3.5		3.5
Other assets	79.2	9.6	88.8			88.8			88.8		88.8
Total assets	1,794.0	607.6	2,401.6	7.6	(9.3)	2,399.9	12.8	(7.6)	2,405.1	215.9	2,621.0
External debt	(1,118.0)		(1,118.0)			(1,118.0)	(17.5)		(1,135.5)		(1,135.5)
Derivatives	(48.0)		(48.0)		48.0	-	(48.0)		(48.0)		(48.0)
Deferred tax	(25.8)		(25.8)	23.6		(2.1)		(143.2)	(145.4)	(43.2)	(188.5)
Liabilities relating to held-for-sale assets	-		-			-			-		-
Other liabilities	(64.5)		(64.5)			(64.5)			(64.5)		(64.5)
Total liabilities	(1,256.3)	-	(1,256.3)	23.6	48.0	(1,184.7)	(65.5)	(143.2)	(1,393.4)	(43.2)	(1,436.6)
Net assets	537.7	607.6	1,145.3	31.2	38.7	1,215.3	(52.7)	(150.9)	1,011.7	172.7	1,184.5
Net assets per share pence	128.7	145.4	274.1	7.5	9.3	290.9	(12.6)	(36.1)	242.2	41.3	283.5
Shares	417,792,510										
Treasury/EBT Shares	5,157,392										

* Please note that the above table doesn't may not cast due to rounding.

Movement in NAV

NAV up 20% since 30 Sept 2013

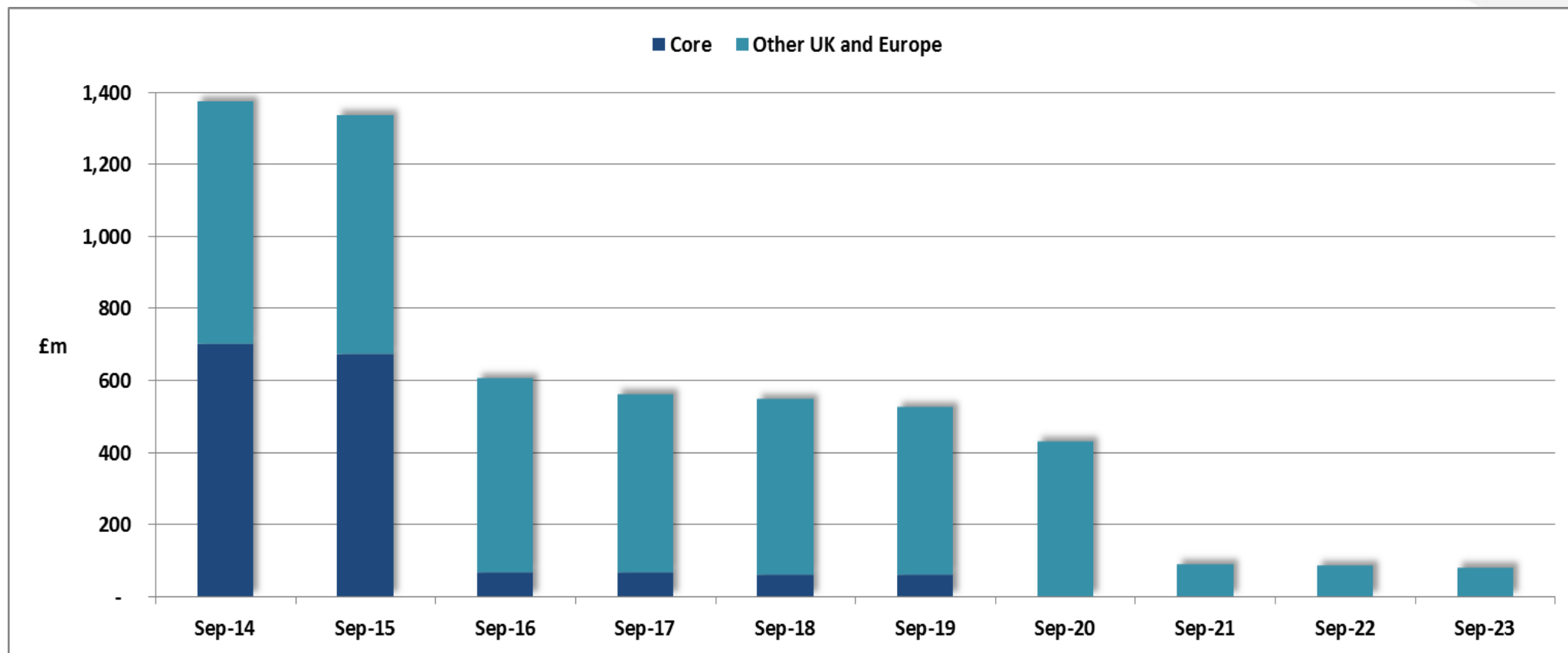


* Fair value of swaps added back including JVs & associates, deferred tax on swaps added back, and movement in hedging & translation reserves

Look through debt

Counterparty	Group Debt	Heitman	WIP	GRIP	Sovereign	Other	3rd Party Debt	Total Debt	3rd Party Share	Group Share
	(£m)	25%	50%	25%	50%	50%	(£m)	(£m)	(£m)	(£m)
Syndicate	457							457		457
Corporate Bond	275							275		275
M&G	100							100		100
Core Total	832							832		832
Bilateral	134							134		134
Insurance Companies	83							83		83
Joint Ventures and Associates		119	60	158	24	16	377	377	(258)	119
Germany	81							81		81
Total Group Gross Debt	1,130	119	60	158	24	16	377	1,507	(258)	1,249
Cash	(74)							(74)		(74)
Finance Costs	(12)							(12)		(12)
Total Group Net Debt	1,044	119	60	158	24	16	377	1,421	(258)	1,163
Group Property and investment assets (IV)	2,245	186	169	474	51	65	945	3,190	(638)	2,552
Group LTV	46.5%						39.9%			45.6%
Core Property and investment assets (IV)	1,976									
Core facility LTV (at IV)	42.0%									
Core Property and investment assets (VP)	2,446									
Core facility LTV (at VP)	33.9%									

Facility maturity profile



- The Group has an overall tax charge of £6.4m for the period (2013: £10.7m), comprising a £7.3m UK tax charge and a £0.9m overseas tax credit.
- The net reduction of £11.4m, from the expected charge of £17.8m, comprises profit from joint ventures and associates taxed above the line (£4.2m), deferred tax not previously recognised (£2.8m), a prior year current tax credit (£5.5m), arising from the finalisation of tax computations and the release of a provision for £3.1m, less non-deductible expenditure (£1.1m).
- The Group has made corporation tax payments totalling £7.2m in the period.
- The Group works in an open and transparent manner with the tax authorities. HM Revenue & Customs classes the group as a “low risk” taxpayer. The Group is committed to maintaining this status.
- The Group retains a policy of prudent tax provisioning. Any provision releases will impact the tax rate in the year of release - £3.1m was released in the 2014 period.

Status update for major development projects

Major development projects with planning consent

			2014 Total No. of units
Project	Description	Status	
Berewood (previously Newlands)	217 hectares greenfield site held freehold with overage interest. Outline planning consent for 2550 homes and 100,000 sq.m commercial. Sell serviced land parcels.	Entrance works complete and site serviced. First phase sold to Bloor in September 2012. Second phase sale to Redrow completed September 2013. Infrastructure work ongoing.	2,550
Macaulay Walk, Clapham	97 residential units, 30,000 sq. ft office.	Completed. Final sales process underway.	65
Seven Sisters	197 residential units with a range of retail units, including provision for the Seven Sisters market.	Uncontestable planning consent. S106 agreed.	197
Royal Borough of Kensington & Chelsea - Hortensia Rd & Young St	Development Partner of RBKC to develop two brownfield sites Hortensia Road and Young St.	Planning consent achieved and construction to commence in 2015.	84
Hammersmith	Mixed use JV with LB Hammersmith & Fulham and Helical Bar including residential units, retail, new council offices and public realm.	Planning consent achieved. Construction anticipated to commence in 2015.	196

* Our share of the 50:50 joint venture with Helical Bar