

**Grainger plc**

**(“Grainger”, the “Group” or the “Company”)**

**HALF YEAR RESULTS FOR THE SIX MONTHS TO 31 MARCH 2014**

**GRAINGER’S STRATEGY DELIVERS SIGNIFICANT INCREASE IN PROFITS AND NET ASSET VALUE**

Grainger plc, the UK’s largest listed residential property owner and manager, today announces its half year results for the six months to 31 March 2014.

**Highlights – Excellent performance against all key financial metrics and strong operational progress**

- Significant rise in net asset values: Triple net asset value (NNNAV) rose 33p (16.9%) to 228p per share and gross net asset value (NAV) rose by 30p (12.4%) to 272p per share compared to September 2013;
- Recurring profit before tax increased to £23.1m (March 2013: £14.9m); profit before tax of £49.8m (March 2013: £11.0);
- Continued outperformance in our residential UK portfolio: recording a 10.4% increase, compared to a 4.6% average increase across the combined Nationwide and Halifax house price indices;
- Continued reduction in consolidated loan to value to 45.2% (September 2013: 48.0%); net debt of £921m (September 2013: £959m);
- One-off sale of a home reversion portfolio for £88m, announced in January 2014;
- Subsequent to the period, £160m purchase of exceptional London reversionary portfolio;
- Highly successful sales launch at Macaulay Walk, Clapham, London.

**Robust income streams – sales, rents, fees**

- Significant profit from **sales** of £42.8m (March 2013: £34.5m), including £9.9m from the home reversion portfolio sale announced in January;
- Vacant sales achieved, on average, at 9.0% above September 2013 values;
- Margins on normal trading sales increased to 48.4% (March 2013: 44.7%);
- Net **rents** of £19.5m (March 2013: £27.3m), following significant disposals in 2013 of tenanted properties into joint ventures or associated vehicles;
- Gross **fee income** amounted to £5.1m (March 2013: £6.8m).

**Dividend**

- Interim dividend increased by 5.5% to 0.61p per ordinary share (March 2013: 0.58p).

**Robin Broadhurst, Chairman of Grainger plc, commented:**

“Following the Company’s improved performance in the last financial year, the first half of this year saw Grainger deliver another strong period of outperformance. We have seen a significant rise in the value of our assets and have demonstrated our ability to realise this value through our strong and stable sales pipeline.

“As part of our overall strategy, we are broadening our expertise within the residential sector of the property market with a particular emphasis on developing our exposure to the private rented sector and build to rent, which we see as an opportunity to deliver stable, long term shareholder returns.”

**Andrew Cunningham, Chief Executive of Grainger plc, said:**

“We have had a strong start to this financial year. Our core strategy of focusing on balanced income streams, alongside our targeted geographical asset allocation with a weighting toward London and the South East of England, and our specialist active asset management, has ensured that Grainger has been ideally positioned to take advantage of current favourable market conditions. As a result, we have succeeded in delivering an exceptional performance, with our assets continuing to outperform both the Halifax and Nationwide house price indices.

“Our sales performance to the end of March has been particularly encouraging and we anticipate further good performance in the second half based on our sales pipeline and the profits to come from our development activities such as Macaulay Walk. In turn the cash generated from these sales has enabled us to recycle capital into attractive long term value accretive opportunities.”

**-- ENDS --**

**Interim results presentation**

Grainger plc will be holding a presentation for analysts and investors at 9.00a.m. (GMT), Friday 16 May 2014 at FTI Consulting, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD.

The presentation will also be available live via webcast and a telephone dial-in facility. In addition, a copy of the presentation slides will be available on Grainger’s website, [www.graingerplc.co.uk](http://www.graingerplc.co.uk).

**Webcast details:**

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

<http://www.axisto-live.com/investis/clients/granger-plc/presentations/534d1a0290f494e6741cec77/half-year-results-2014>

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

**Conference call details:**

UK Telephone Number

020 3059 8125

International Number + 44 20 3059 8125

Participant Password **Grainger** – this must be quoted to the Operator in order for participants to gain access to the conference.

A replay of the call will be available after the event until 23 May 2014, 12pm. Dial-in details for the archive call are:

United Kingdom 0121 260 4861

United States 1 866 268 1947

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## **Chairman's Statement**

In recent years we have continued to develop our asset management skills and development expertise. This has enabled us to take advantage of opportunities to add value to our portfolio and deliver increasing value to shareholders.

These actions have included reweighting the strategic geographical locations of our assets, as well as leveraging our scalable operational platform. These have enabled us to establish a series of high quality long term partnerships and achieve both increased profits and a significant rise in the value of our UK assets.

As the leading residential property owner and manager, we are committed to responsible business practices. Our Corporate Responsibility strategy continues to evolve and is increasingly embedded in, not just our culture and values, but also our everyday operations and decisions. We are proud to be a member of the FTSE4Good index, and will continue to enhance our working practices alongside our customers, local communities and partners to benefit the locations in which we are involved.

Grainger's evolution to lead and capitalise on the changing dynamics in the residential sector continues apace, and demonstrates our long term approach to creating and sustaining stakeholder value.

We continue to see value in reversionary assets, such as regulated tenancies, and we are also increasing our focus on market-let residential assets, particularly Build to Rent.

Over time this will translate into an increasing proportion of our income being derived from rents and fees. This transition will be gradual and dependent on sourcing correctly priced opportunities in the market as they arise.

As a result of our long established expertise and experience and our operational platform, we believe that we are extremely well placed to take advantage of the various changes taking place in the market, whether it is increasing house prices, greater institutional investment in the private rented sector or the ongoing increase in demand for rented accommodation in the UK.

**Robin Broadhurst**  
**Chairman**  
**16 May 2014**

## **Chief Executive's Review**

### **Overview**

We have had an exceptional first six months of our financial year, with a substantial uplift in both triple net asset value and gross net asset value. Our portfolios have significantly outperformed the general market demonstrating the quality of our well located assets, and our considerable asset management expertise.

In addition, we have made progress on a number of initiatives:

- A strong sales launch at Macaulay Walk, Clapham in London, with all 27 units in the first phase being reserved within two hours of opening;
- Achieved planning consent at our developments on Young Street and Hortensia Road for 83 units (GDV: c.£110m at VP values) in partnership with the Royal Borough of Kensington and Chelsea (January 2014);
- Achieved planning consent for our regeneration project at King Street in Hammersmith (196 residential units with a GDV of c.£175m) in partnership with Helical Bar plc (November 2013);
- One-off sale of a home reversion portfolio for £88m, supporting both the liquidity and valuations of this type of asset;
- Also subsequent to the end of the half year period, we were pleased to purchase a rarely available tenanted residential portfolio, comprising a majority of regulated tenancies in Chelsea and Knightsbridge, for £160m.

The above sets the scene for a secure long term pipeline of profits.

### **The UK housing market and our asset performance**

By taking the average of the Nationwide and Halifax house price indices, we are able to establish a broad picture of the housing market. In the past six months, according to this calculation, the UK housing market has experienced a house price increase of 4.6%. In comparison, the market value of our UK portfolios rose by 10.4% or £149m, and the vacant possession value of our UK portfolios rose by 7.9% or £146m, continuing the trend of outperformance that we have established in the last few years.

	<b>2014</b>	
	<b>Vacant possession value</b>	<b>Market value</b>
	<b>% increase</b>	<b>% increase</b>
HPI (Nationwide and Halifax)	4.6	
UK Residential portfolio	9.1	11.8
Retirement solutions portfolio	4.1	5.7
Combined Grainger UK portfolios	7.9	10.4

The reversionary surplus of our residential UK portfolios amounted to £413m, or 99 pence per share, at the end of March 2014 (September 2013: £483m, 116 pence per share), excluding £45m from JV's and associates.

The sustained improvement in the housing market across the UK has been well documented. We have seen an ongoing marked increase in consumer confidence, together with an improving mortgage market and the continued positive impact of the Government's Help to Buy scheme. The greatest price increases have again been seen in London and the South East, where close to two-

thirds of our portfolio by value is located. We believe that ongoing buyer demand, coupled with a structural lack of supply, will continue to exert upward pressure on capital values and we continue to see potential for value growth in certain parts of London but only where the entry price of carefully selected assets is at an appropriate level.

Despite the housing market showing good recovery in the last 12 months, particularly in economically strong areas such as London and the South East, there are some signs of price moderation. The main housing indices (Land Registry, Nationwide and Halifax) show small falls or slowing increases in March – in conjunction with a fall in the number of mortgage approvals, we believe, this points towards a greater level of stabilisation in the market.

Some concern has been expressed over the rapid increase in house prices over the last year. Such large increases are generally restricted to a few areas of London. They have been much more moderate in the rest of the country and we see the opportunity for good medium term growth and added value opportunities both in our existing regional stock outside of London (amounting to £749m market value) and in potential acquisitions that we are reviewing.

The central London market (where, following our recent London portfolio acquisition, we own c£500m of assets at market value) has and will continue to be driven by economic strength, supply/demand imbalances and the attractiveness of London as a global city. It is worth reiterating the characteristics of our properties in London which are of relatively low average value and have been acquired over a number of years at an attractive entry price and at a discount to vacant possession value. A significant proportion of our assets present the opportunity for both refurbishment and development (i.e. increase in usable floor space) gains over and above those made from rental income, reversionary surplus and house price growth. Their size, location and condition make them the target of committed, local and often cash buyers. They are, therefore, less subject to the speculative, investment based demand that characterises homogenous, highly priced new build apartments.

Over the period, activity and investor interest in the German residential investment market remained healthy. Our German business contributed £2.9m to operating profit before valuation movements and non-recurring items (OPBVM, March 2013: £4.2m) following our partial divestment in 2013. The relationship with our co-investment partner Heitman and their continued commitment bodes well for the growth of our fee generating capability in Germany. In addition, we are exploring further opportunities in order to optimise our fee generation potential in this region. We have recently taken steps to strengthen the local management to support our relationship with Heitman and to focus on enhancing performance of our German portfolios.

The growth in the value to Grainger of our co-investment vehicles including joint ventures is increasingly important to Grainger, especially following our recent investments. The growth since September 2013 is shown below. The total return on investment from our joint ventures and associates for the six months was 26.2% or £21.4m (the summation of profit/loss, valuation movements and net fee income derived from these activities).

	<b>% increase</b>	<b>March 2014</b>	<b>September 2013</b>
Gross asset value of co-investment vehicles	6.6%	£985m	£924m
Grainger net equity investment in the vehicles	12.1%	£163.6m	£145.9m
Grainger share of profit and revaluation surplus	27.3%	£19.6m	£15.4m
Grainger share of reversionary surplus		£45.3m	£44.9m
		<b>March 2014</b>	<b>March 2013</b>
Fee income earned managing co-investment vehicle		£2.6m	£2.6m

We continue to see growing demand for good quality private rented homes. In fact, the latest Government figures from the English Housing Survey show that the number of households renting privately, having outgrown social housing tenure, is now the second largest tenure after owner occupation.

With this in mind, we believe there continues to be a significant opportunity in the market to invest in market-let residential assets and to develop purpose-built rental accommodation, otherwise known as Build to Rent. We are currently exploring a number of investment opportunities outside of London and the South East, ranging from existing stabilised market-let residential portfolios to Build to Rent development opportunities. These include a variety of structures and investment routes including possible use of our balance sheet, third party equity, partnership arrangements and forward purchase agreements.

Our assessment of investment opportunities is based less on a simplistic focus on geography alone, but a more detailed assessment of local supply/demand imbalances, economic growth prospects, entry price and value-add opportunities.

## Sales

In the six months to 31 March 2014 we have seen an increase in profit from vacant sales to £27.9m (March 2013: £25.3m) at an improved average margin of 48.4% (March 2013: 44.7%). Prices achieved have been 9.0% above the September 2013 vacant possession value.

Total sales in the period were £173.8m (2013: £117.0m), generating profit of £42.8m (2013: £34.5m). At 31 March our total pipeline of sales, which includes completed transactions, contracts exchanged and those in solicitors' hands, amounted to £225.3m. This had increased to £267.1m by 12 May 2014 (13 May 2013: £171m). Sales in the period included £85m from the sale of a tenanted home reversion portfolio announced on 9 January 2014 which contributed £9.9m profit. We will continue to recycle capital back into value enhancing opportunities as we have done with the London portfolio acquisition in April. However, we do not anticipate any further material tenanted portfolio sales for the remainder of this year.

	Half Year 2014			Half Year 2013		
	Units sold	Sales	Profit	Units sold	Sales	Profit
		£m	£m		£m	£m
Sales on vacancy						
UK residential	149	35.8	19.2	167	39.6	19.5
Retirement solutions	187	21.8	8.7	162	17.0	5.8
	336	57.6	27.9	329	56.6	25.3
Tenanted and other*	1,322	99.3	14.2	452	53.9	9.4
<b>Residential sales total</b>	<b>1,658</b>	<b>156.9</b>	<b>42.1</b>	<b>781</b>	<b>110.5</b>	<b>34.7</b>
Development	-	2.9	1.0	-	0.2	-
<b>UK Total</b>	<b>1,658</b>	<b>159.8</b>	<b>43.1</b>	<b>781</b>	<b>110.7</b>	<b>34.7</b>
Germany	171	14.0	(0.3)	75	6.3	(0.2)
<b>Overall total</b>	<b>1,829</b>	<b>173.8</b>	<b>42.8</b>	<b>856</b>	<b>117.0</b>	<b>34.5</b>
Less CHARM portfolio	(32)	(2.8)	(0.1)	(26)	(2.5)	(0.2)
<b>Statutory sales and profit</b>	<b>1,797</b>	<b>171.0</b>	<b>42.7</b>	<b>830</b>	<b>114.5</b>	<b>34.3</b>

\*Unit count excludes leasehold interest sales

Our Macaulay Walk scheme, which comprises 65 units for private sale, has attracted significant customer interest, with Phase 1 (27 units) all being reserved on opening day and Phase 2 already also heavily oversubscribed. This level of interest reflects the quality of the scheme which is well located and designed to a high specification, including the conversion of three nineteenth century industrial warehouses.

## Rents

During 2013, in line with Group strategy, we sold a significant number of assets into joint venture or associate vehicles. Gross rents, as expected, therefore reduced and for the six months were £28.4m (March 2013: £39.1m). Underlying rents remain strong and we have generated an average rent increase of 9.6% on our regulated tenancy portfolio in the UK year-to-date, as well as rent increases on renewals of c.3.3% and increases on new lets of c.7.8% in the six months to the end of March 2014 on the GRIP UK market rented portfolio.

	Half Year 2014		Half Year 2013	
	Gross £m	Net £m	Gross £m	Net £m
UK residential	21.3	14.7	27.7	20.5
Retirement solutions	1.1	0.8	2.2	1.4
Other UK	0.1	0.1	0.1	0.1
<b>UK Total</b>	<b>22.5</b>	<b>15.6</b>	<b>30.0</b>	<b>22.0</b>
Germany	5.9	3.9	9.1	5.3
<b>Overall total</b>	<b>28.4</b>	<b>19.5</b>	<b>39.1</b>	<b>27.3</b>



## **Fees**

Fee income for the six months from our asset and property management activities was £5.1m (March 2013: £6.8m). We continue to be prudent in our recognition of performance fees and expect fee income to increase in the second half.

## **Acquisitions activity**

In the six months to the end of March 2014, we had completed, exchanged or placed in solicitors' hands approximately £10.6m of property acquisitions (March 2013: £9.0m). This excluded the £160m London portfolio acquisition announced on 16 April 2014, which comprises 61 freehold homes across nine streets in Kensington and Chelsea. The portfolio consists of largely unmodernised houses which provide significant potential for value enhancement through refurbishment and active asset management. It currently generates a gross rent of £1.9m per annum; however the primary profit driver from these assets will be the long term crystallisation of the capital value upon sale at vacancy, which will be enhanced by the significant development potential both from refurbishment and, where appropriate, from increasing floor space.

We are currently exploring a number of investment opportunities, ranging from reversionary asset portfolios to stabilised market-let residential portfolios and Build to Rent opportunities in selected parts of London and the South East, but also increasingly in major core regional cities.

## **Debt**

Group net debt stood at £921m at 31 March 2014 (September 2013: £959m) and consolidated loan to value (LTV) at 45.2% (September 2013: 48.0%).

In November 2013, we raised £200m through a corporate bond with a seven year maturity at a fixed coupon of 5%.

Available headroom (undrawn facilities and cash) amounted to £387m (September 2013: £292m). Subsequent to the reversionary asset purchase after the period end, pro-forma headroom was £218m.

## **Outlook**

Our strategy consists of four main strands:

- taking a market leadership position in the residential sector, as we aim to be the landlord and residential manager of choice for our partners, customers and local communities;
- maximising returns through active asset management, as we use our considerable expertise to increase the value of our assets through capital recycling, refurbishment and modernisation;
- balancing income streams, as we continue to increase the proportion of income from rents and fees; and
- optimising our operational and financial structures, in line with our ongoing drive to reduce costs and operate an efficient balance sheet.

As we stated in February, we are actively evaluating a number of value enhancing investment opportunities. These broadly fit into three categories: reversionary assets (such as our London portfolio acquisition in April), market rented portfolios and build to rent opportunities. As these opportunities progress, we will continually monitor and review our capital structure to ensure it remains efficient and appropriate and provides us with sufficient flexibility. We will continue to appraise relevant options for financing, as demonstrated by our issuance of the £200m corporate bond in November 2013.

Over the long term, our asset base will slowly shift away from reversionary assets toward higher yielding market rented residential assets, but this is not likely to be a linear transition and will depend on sourcing and creating appropriately priced opportunities. We also anticipate that the activities of our development division will become an increasingly important source of rental product for the business.

Development schemes, such as our Macaulay Walk development in Clapham, should start to contribute profits from the second half of 2014. We will continue to successfully recycle capital back into value accretive opportunities, as we have recently done with our London portfolio acquisition. With regard to the remainder of this financial year, we expect further upward progress in valuation movements and our development activity should, as predicted, deliver material profits.

**Andrew R. Cunningham**  
**Chief Executive**  
**16 May 2014**

## **Financial Review**

Our key measures of financial performance at the half year are:

	<b>2014</b>	<b>2013</b>
Operating profit before valuation movements and non-recurring items (OPBVM)	£54.6m	£53.4m
Recurring profit*	£23.1m	£14.9m
Profit before tax	£49.8m	£11.0m
Gross net asset value per share (pence) (2013 comparative is at 30 September)	272p	242p
Triple net asset value per share (pence) (2013 comparative is at 30 September)	228p	195p
Excess on sale of normal sales to previous valuation	9.0%	5.0%

\* Recurring profit is profit before tax before non-recurring items.

## **Income Performance**

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

	<b>2014 £m</b>	<b>2013 £m</b>
Profit on sale of assets	42.8	34.5
Net Rents	19.5	27.3
Management fees	5.1	6.8
CHARM	4.9	2.4
Overheads	(17.3)	(15.9)
Other expenses/ other income	(0.4)	(1.7)
<b>OPBVM</b>	<b>54.6</b>	<b>53.4</b>
Finance costs, net	(30.2)	(37.9)
JV's and associates	(1.3)	(0.6)
<b>Recurring profit before tax</b>	<b>23.1</b>	<b>14.9</b>
Valuation movements	24.2	5.4
Derivative movements	4.9	(18.6)
Non-recurring items	(2.4)	9.3
<b>Profit before tax</b>	<b>49.8</b>	<b>11.0</b>

We have three primary activities within OPBVM. These are sales of residential properties, rental income and fees or other income. These activities are presented net of property expenses and overheads and before valuation and non-recurring items.

	£m
<b>Main movements within OPBVM</b>	
2013 OPBVM	53.4
Decrease in gross rents	(10.7)
Increase in residential trading profit	7.4
Decrease in gross management fees	(1.7)
Increase in interest income from CHARM	2.5
Increase in development trading profit	1.0
Movement in property expenses/ overheads/ other income and expenses	2.7
<b>2014 OPBVM</b>	<b>54.6</b>

The major movements within OPBVM are:

- A decrease of £10.7m in gross rents. This arose primarily as a result of tenanted asset sales, including the transfer of assets into co-investment vehicles in the prior year, which had a £10.6m impact on gross rents. Sales across the Group have resulted in a reduction in gross rents of £1.1m, offset by £1.0m of rental increases.
- An increase of £7.3m in relation to residential property profits which includes a £9.9m profit from the sale of the home reversion portfolio in January 2014.
- An increase of £2.6m relating to our CHARM financial asset largely driven by increases to vacant possession values of 4.2%.
- A decrease in gross management fees of £1.7m arising primarily from RAMP, where we expect income increase in the second half.

### Divisional Analysis of OPBVM

	Profit on sale of assets	Net Rents	Management Fees	Overheads/ Other	Total 2014	Total 2013
	£m	£m	£m	£m	£m	£m
UK Residential Portfolio	23.5	14.7	-	(3.9)	34.3	45.4
Retirement Solutions Portfolio	18.6	0.8	0.1	4.1	23.6	9.4
Fund and third party management	-	-	4.7	(3.9)	0.8	1.7
Development Assets	1.0	0.1	0.3	(0.8)	0.6	(0.4)
German Residential Portfolio	(0.3)	3.9	-	(0.7)	2.9	4.2
Group and other	-	-	-	(7.6)	(7.6)	(6.9)
<b>OPBVM 2014</b>	<b>42.8</b>	<b>19.5</b>	<b>5.1</b>	<b>(12.8)</b>	<b>54.6</b>	<b>-</b>
<b>OPBVM 2013</b>	<b>34.5</b>	<b>27.3</b>	<b>6.8</b>	<b>(15.2)</b>	<b>-</b>	<b>53.4</b>

### Interest income and expense

The net recurring interest charge has decreased by £7.7m from £37.9m in the first half of 2013 to £30.2m at 31 March 2014. This follows from the reduction in gross debt which was (on a daily average) £1,064m in the first half of 2014 (March 2013: £1,353m).

## Joint ventures and associates

The total return on investment from our joint ventures and associates for the period was £21.4m (the summation of profit/loss, valuation movements and net fee income derived from these activities). Joint ventures and associates contributed a loss of £1.1m before revaluations in the period (31 March 2013: loss of £0.6m). Included within valuation movements is a gain of £20.7m derived from our share of the GRIP (£7.7m), Walworth (£12.3m) and Heitman (£0.7m) revaluation surpluses (March 2013: £2.1m from GRIP).

## Valuation of investment property

Valuation movements on co-investment vehicles and wholly owned investment properties are taken through the income statement and amount to £20.7m (as detailed above) and £3.9m (March 2013: £3.4m) respectively.

The majority of our assets are held as trading stock and consequently the valuation gains on those assets are taken directly through net asset value rather than the income statement, increasing gross NAV and NNNAV by £155m (March 2013: £41m).

## Derivative movements

In the period to end of March fair value movements on derivatives amount to a credit of £4.9m (March 2013: charge of £18.6m), arising as a result of a £6.2m positive valuation movement, offset by a £1.5m transfer from reserves to income statement. The prior period charge of £18.6m included a £13.7m charge transferred from reserves to income statement as a result of the cancellation of swaps associated with our Tricomm portfolio in March 2013.

The fair value of swaps at 31 March 2014 is a liability of £46.5m compared to £91.1m at 30 September 2013, which is after the cancellation of £35m of interest rate derivatives in the period. This has had the effect of reducing our interest charge by £2.7m during the period.

## Non-recurring

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

	31 March 2014 £m	31 March 2013 £m	Movement
Net gain on purchase of debt	-	1.7	(1.7)
Profit/ (loss) on sale of subsidiary/joint venture	0.8	(2.1)	2.9
Impairment of joint venture	(2.1)	-	(2.1)
Other non-recurring costs	(1.1)	(1.2)	0.1
Costs/ charges/ gains associated with G:res/ GRIP	-	(2.8)	2.8
	<b>(2.4)</b>	<b>(4.4)</b>	<b>2.0</b>

In the current period the non-recurring items relate to a £0.7m gain on sale of our subsidiary Equity Release Increments Limited as a result of the home reversion portfolio sale in January 2014. This gain is in addition to the £9.9m profit on sale of assets from the transaction. Other items include a £0.1m gain on exit from our joint venture in the Gebau property management company in October, offset by a £2.1m impairment of our joint venture in Prague and £1.1m of other costs.

The major items in 2013 were a net gain of £1.7m relating to the purchase at a discount of bank debt from Bank of America and recycling of the associated swap, costs, charges and gains, including the recycling of swaps, of £2.8m in relation to the transfer of assets from G:Res to GRIP and an additional £2.1m loss on sale on our German co-investment vehicle with Heitman.

### Profit before tax

Having taken account of all of the above movements, profit before tax was £49.8m compared to a profit before tax of £11.0m in 2013. (See note 2 to the accounts for further analysis).

### Tax

The Group has an overall tax charge of £4.6m for the period (March 2013: £0.2m), comprising a £4.1m UK tax charge and a £0.5m overseas tax charge.

The net reduction of £6.4m from the expected charge of £11.0m comprises profit from joint ventures and associates taxed above the line of £2.5m, deferred tax not previously recognised of £2.4m, a prior year credit of £1.8m arising from the finalisation of tax computations less non-deductible expenditure including rate differences of £0.3m.

The Group works in an open and transparent manner with the tax authorities. HM Revenue & Customs classes the Group as a “low risk” tax payer. The Group is committed to maintaining this status.

The Group has made corporation tax payments totalling £4.6m in the period.

### Earnings per share

Basic earnings per share is a profit of 11.0p (31 March 2013: a profit of 2.6p). A half year on half year comparison is shown below:

	£m	Pence per share
<b>2013 Profit/ earnings per share</b>	<b>10.8</b>	<b>2.6</b>
OPBVM	1.2	0.3
Net interest payable	7.7	1.9
Contribution from joint ventures and associates	(0.7)	(0.2)
Revaluation of investment properties	19.3	4.7
Provisions against trading stock values and loans	(0.5)	(0.1)
Fair value of derivatives	23.5	5.7
Gain on disposal of subsidiary/ JV/ Associate	2.9	0.7
Other non-recurring	(14.6)	(3.6)
Taxation	(4.4)	(1.0)
<b>2014 Profit/ earnings per share</b>	<b>45.2</b>	<b>11.0</b>

### Dividend for the year

After considering the investment and working capital needs of the business, the Directors have recommended an interim dividend of 0.61p per ordinary share (2013: 0.58p) which equates to £2.5m (2013: £2.4m). Earnings cover dividends by 18.0 times (2013: 4.6 times).

## **Asset Performance**

### **Net asset value**

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

	<b><u>31 March</u></b> <b><u>2014</u></b>	<b><u>30 September</u></b> <b><u>2013</u></b>	<b><u>Movement</u></b>
Gross net assets per share (NAV)			
- Market value of net assets per share before deduction for deferred tax on property revaluations and before adjustments for the fair value of derivatives	272p	242p	12.4%
Triple net asset value per share (NNNAV)	228p	195p	16.9%
- Gross NAV per share adjusted for deferred and contingent tax on revaluation gains and for the fair value of derivatives			

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

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

### **Reconciliation of Gross NAV to NNNAV**

	<b>£m</b>	<b>Pence per share</b>
<b>Gross NAV</b>		
	1,136	272
Deferred and contingent tax	(139)	(33)
Fair value of derivatives adjustments net of tax	(46)	(11)
<b>NNNAV</b>	<b>951</b>	<b>228</b>

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

	<b>£m</b>	<b>Pence per share</b>
<b>Gross NAV at 30 September 2013</b>	<b>1,008</b>	<b>242</b>
Profit after tax	45	11
Revaluation gains	155	37
Elimination of previously recognised surplus on sales	(36)	(9)
Dividends paid	(6)	(1)
Derivatives movement net of tax	(33)	(8)
Others	3	-
<b>Gross NAV at 31 March 2014</b>	<b>1,136</b>	<b>272</b>

**The major movements in NNNAV in the year are:**

	£m	Pence per share
<b>NNNAV at 30 September 2013</b>	<b>811</b>	<b>195</b>
Profit after tax	45	11
Revaluation gains	155	37
Elimination of previously recognised surplus on sales	(36)	(9)
Dividends paid	(6)	(1)
Cashflow hedge reserve net of tax	3	1
Contingent tax	(24)	(6)
Others	3	-
<b>NNNAV at 31 March 2014</b>	<b>951</b>	<b>228</b>

**Market value analysis of property assets**

	Shown as stock at cost £m	Market value adjustment £m	Market value £m	Investment property/financial interest in property assets £m	Total £m
<b>Residential</b>	<b>771</b>	<b>533</b>	<b>1,304</b>	<b>447</b>	<b>1,751</b>
<b>Development</b>	<b>92</b>	<b>18</b>	<b>110</b>	<b>-</b>	<b>110</b>
<b>Total at 31 March 2014</b>	<b>863</b>	<b>551</b>	<b>1,414</b>	<b>447</b>	<b>1,861</b>
Total at 30 September 2013	950	433	1,383	460	1,843

**Financial resources, interest cost and derivative movements**

As at 31 March 2014, net debt had reduced from £959m at 30 September 2013 to £921m. This was after taking into account payments of £35m to settle interest rate derivatives.

As at 31 March 2014, the average maturity of the Group's committed facilities was 4.9 years (September 2013: 4.4 years) and the average maturity of the Group's drawn debt was 5.5 years (September 2013: 4.6 years).

The Group has free cash balances of £53m plus available overdraft of £5m along with undrawn committed facilities of £329m. This provides total headroom of £387m as at 31 March 2014 (September 2013: £292m). Subsequent to the reversionary asset purchase after the period end, pro-forma headroom was £218m with pro-forma consolidated LTV of 49.6%.

The Group's average interest rate excluding costs as at 31 March 2014 (based on current Libor/Euribor rates and on current debt hedging) was 5.0% (September 2013: 5.5%).

The Group's average cost of debt, including costs, through the half year to 31 March was 6.2% (12 months to September 2013: 5.7%). As at 31 March 2014 the Group's average cost of debt, including costs, was 6.2%. Subsequent to the reversionary asset purchase after the period end average cost of debt, including costs has reduced to 5.5%.



An analysis of our gross interest expense is shown below:-

	31 March 2014	31 March 2013
	£m	£m
Fixed debt	8.5	4.9
Variable debt	12.5	16.9
Swap interest	6.9	13.3
Other costs	4.3	3.5
	<b>32.2</b>	<b>38.6</b>

At 31 March 2014, gross debt was 73% hedged (September 2013: 68%) of which 4% was subject to caps (September 2013: 3%).

In the period we broke a number of interest rate swaps expending £35m. This has had the effect during the period of reducing our interest charge by £2.7m.

At 31 March 2014, loan to value ("LTV") on the core facility was 39% (September 2013: 40%). This compares to a maximum allowable LTV covenant under that facility of 75%. Consolidated LTV was 45% (September 2013: 48%).

At 31 March 2014, the interest cover ratio on the core facility stood at 5.7 times (September 2013: 5.0 times). This compares to an interest cover covenant of 1.35 times.

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

**Mark Greenwood**  
**Finance Director**  
**16 May 2014**

## Consolidated income statement

Consolidated income statement		Unaudited	
		31 March 2014 £m	31 March 2013 £m
For the half year ended 31 March 2014	Notes		
Group revenue	3, 4	190.0	125.2
Net rental income	5	18.4	27.3
Profit on disposal of trading property	6	42.6	31.9
Administrative expenses	8	(17.3)	(15.9)
Other income	9	5.4	6.9
Other expenses	10	(0.7)	(3.0)
Profit on disposal of investment property	7	0.1	2.4
Income from financial interest in property assets	16	5.0	2.6
Profit on acquisition of equity in associate		-	1.0
Profit/ (loss) on disposal of subsidiary/ joint venture		0.8	(2.1)
Write down of inventories/ receivables to net realisable value		(0.6)	(0.1)
Impairment of joint venture		(2.1)	-
Operating profit before net valuation gains on investment property	2	51.6	51.0
Net valuation gains on investment property	13	3.9	3.4
Operating profit after net valuation gains on investment property	2	55.5	54.4
Change in fair value of derivatives	21	4.9	(18.6)
Finance costs		(32.2)	(38.6)
Finance income		2.0	16.1
Share of profit/ (loss) of associates after tax	14	9.5	(2.1)
Share of profit/ (loss) of joint ventures after tax	15	10.1	(0.2)
Profit before tax		49.8	11.0
Tax charge for the period	19	(4.6)	(0.2)
Profit for the period attributable to the owners of the Company		45.2	10.8

## Consolidated statement of comprehensive income

Consolidated statement of comprehensive income		Unaudited	
		31 March 2014 £m	31 March 2013 £m
For the half year ended 31 March 2014	Notes		
Profit for the period		45.2	10.8
Actuarial gain on BPT Limited defined benefit pension scheme		0.3	-
Fair value movement on financial interest in property assets	16	-	(0.1)
Exchange adjustments offset in reserves		(0.4)	0.3
Changes in fair value of cash flow hedges		4.0	28.9
<b>Other comprehensive income and expense for the period before tax</b>		3.9	29.1
Tax relating to components of other comprehensive income	19	(0.9)	(7.5)
<b>Other comprehensive income and expense for the period</b>		3.0	21.6
<b>Total comprehensive income and expense for the period attributable to the owners of the Company</b>		48.2	32.4
<b>Basic Earnings per share</b>	11	11.01p	2.64p
<b>Diluted earnings per share</b>	11	10.88p	2.60p
<b>Dividend per share</b>	12	0.61p	0.58p

Included within other comprehensive income is £0.2m (2013: £1.6m) relating to associates and joint ventures accounted for under the equity method.

## Consolidated statement of financial position

		Unaudited	Audited
		March 2014 £m	September 2013 £m
As at 31 March 2014	Notes		
<b>ASSETS</b>			
Non-current assets			
Investment property	13	346.3	354.1
Property, plant and equipment		1.9	0.6
Investment in associates	14	97.0	88.2
Investment in joint ventures	15	66.6	57.7
Financial interest in property assets	16	97.2	96.3
Deferred tax assets	19	12.1	20.1
Intangible assets		2.0	1.4
		623.1	618.4
Current assets			
Inventories – trading property		863.1	949.6
Trade and other receivables	17	78.8	43.1
Cash and cash equivalents		96.7	90.3
Assets classified as held-for-sale		3.8	9.9
		1,042.4	1,092.9
<b>Total assets</b>		<b>1,665.5</b>	<b>1,711.3</b>
<b>LIABILITIES</b>			
Non-current liabilities			
Interest-bearing loans and borrowings	18	944.5	1,006.6
Retirement benefits		3.2	4.1
Provisions for other liabilities and charges		0.3	0.4
Deferred tax liabilities	19	24.7	25.7
		972.7	1,036.8
Current liabilities			
Interest-bearing loans and borrowings	18	73.5	42.4
Trade and other payables	20	55.1	58.7
Provisions for other liabilities and charges		2.7	2.9
Current tax liabilities	19	7.7	13.9
Derivative financial instruments	21	46.5	91.1
		185.5	209.0
<b>Total liabilities</b>		<b>1,158.2</b>	<b>1,245.8</b>
<b>Net assets</b>		<b>507.3</b>	<b>465.5</b>
<b>EQUITY</b>			
Capital and reserves attributable to the owners of the Company			
Issued share capital		20.9	20.8
Share premium		110.3	109.8
Merger reserve		20.1	20.1
Capital redemption reserve		0.3	0.3
Cash flow hedge reserve		(2.3)	(5.5)
Equity component of convertible bond		5.0	5.0
Available-for-sale reserve		3.8	3.8
Retained earnings		349.1	311.1
Equity attributable to the owners of the Company		507.2	465.4
Non-controlling interests		0.1	0.1
<b>Total equity</b>		<b>507.3</b>	<b>465.5</b>

## Consolidated statement of changes in equity

	Issued share capital	Share premium	Merger reserve	Capital redemption reserve	Cash flow hedge reserve	Equity component of convertible bond	Available - for-sale reserve	Retained earnings	Non- controlling Interest	Total Equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Balance as at 1 October 2012 (audited)</b>	<b>20.8</b>	<b>109.8</b>	<b>20.1</b>	<b>0.3</b>	<b>(24.5)</b>	<b>5.0</b>	<b>3.9</b>	<b>255.4</b>	<b>0.1</b>	<b>390.9</b>
Profit for the period	-	-	-	-	-	-	-	10.8	-	10.8
Fair value movement on financial interest in property assets	-	-	-	-	-	-	(0.1)	-	-	(0.1)
Exchange adjustments offset in reserves	-	-	-	-	-	-	-	0.3	-	0.3
Changes in fair value of cash flow hedges	-	-	-	-	28.9	-	-	-	-	28.9
Tax relating to components of other comprehensive income	-	-	-	-	(7.5)	-	-	-	-	(7.5)
Total comprehensive income and expense for the period	-	-	-	-	21.4	-	(0.1)	11.1	-	32.4
Purchase of own shares	-	-	-	-	-	-	-	(0.3)	-	(0.3)
Share-based payments charge	-	-	-	-	-	-	-	1.2	-	1.2
Dividends paid	-	-	-	-	-	-	-	(5.6)	-	(5.6)
<b>Balance as at 31 March 2013 (unaudited)</b>	<b>20.8</b>	<b>109.8</b>	<b>20.1</b>	<b>0.3</b>	<b>(3.1)</b>	<b>5.0</b>	<b>3.8</b>	<b>261.8</b>	<b>0.1</b>	<b>418.6</b>
Loss for the period	-	-	-	-	-	-	-	42.8	-	42.8
Actuarial gain on BPT Limited defined benefit pension scheme	-	-	-	-	-	-	-	0.7	-	0.7
Fair value movement on financial interest in property assets	-	-	-	-	-	-	(0.2)	-	-	(0.2)
Exchange adjustments offset in reserves	-	-	-	-	-	-	-	0.2	-	0.2
Changes in fair value of cash flow hedges	-	-	-	-	7.3	-	-	-	-	7.3
Tax relating to components of other comprehensive income	-	-	-	-	0.1	-	0.2	(0.2)	-	0.1
Total comprehensive income and expense for the period	-	-	-	-	7.4	-	-	43.5	-	50.9
Reclassification	-	-	-	-	(9.8)	-	-	9.8	-	-
Purchase of own shares	-	-	-	-	-	-	-	(2.7)	-	(2.7)
Share-based payments charge	-	-	-	-	-	-	-	1.1	-	1.1
Dividends paid	-	-	-	-	-	-	-	(2.4)	-	(2.4)
<b>Balance as at 1 October 2013 (audited)</b>	<b>20.8</b>	<b>109.8</b>	<b>20.1</b>	<b>0.3</b>	<b>(5.5)</b>	<b>5.0</b>	<b>3.8</b>	<b>311.1</b>	<b>0.1</b>	<b>465.5</b>
Profit for the period	-	-	-	-	-	-	-	45.2	-	45.2
Actuarial gain on BPT Limited defined benefit pension scheme	-	-	-	-	-	-	-	0.3	-	0.3
Exchange adjustments offset in reserves	-	-	-	-	-	-	-	(0.4)	-	(0.4)
Changes in fair value of cash flow hedges	-	-	-	-	4.0	-	-	-	-	4.0
Tax relating to components of other comprehensive income	-	-	-	-	(0.8)	-	-	(0.1)	-	(0.9)
Total comprehensive income and expense for the period	-	-	-	-	3.2	-	-	45.0	-	48.2
Award of SAYE shares	0.1	0.5	-	-	-	-	-	-	-	0.6
Purchase of own shares	-	-	-	-	-	-	-	(2.1)	-	(2.1)
Share-based payments charge	-	-	-	-	-	-	-	1.1	-	1.1
Dividends paid	-	-	-	-	-	-	-	(6.0)	-	(6.0)
<b>Balance as at 31 March 2014 (unaudited)</b>	<b>20.9</b>	<b>110.3</b>	<b>20.1</b>	<b>0.3</b>	<b>(2.3)</b>	<b>5.0</b>	<b>3.8</b>	<b>349.1</b>	<b>0.1</b>	<b>507.3</b>

# Consolidated statement of cash flows

		Unaudited	
		31 March	31 March
		2014	2013
For the half year ended 31 March 2014	Notes	£m	£m
<b>Cash flow from operating activities</b>			
Profit for the period		45.2	10.8
Depreciation		0.1	0.2
Net valuation gains on investment property	13	(3.9)	(3.4)
Net finance costs		30.2	37.9
Share of (profit)/loss of associates and joint ventures	14, 15	(19.6)	2.3
Profit on disposal of investment property	7	(0.1)	(2.4)
Discount on purchase of debt		-	(15.4)
Profit on acquisition of equity in associate		-	(1.0)
(Profit)/ loss on disposal of subsidiary/ joint venture		(0.8)	2.1
Share-based payment charge		1.1	1.2
Change in fair value of derivatives	21	(4.9)	18.6
Interest income from financial interest in property assets	16	(5.0)	(2.6)
Impairment of joint venture		2.1	-
Taxation	19	4.6	0.2
<b>Operating profit before changes in working capital</b>		<b>49.0</b>	<b>48.5</b>
Increase in trade and other receivables		(37.5)	(0.1)
Decrease in trade and other payables		(7.5)	(8.6)
Decrease in provisions for liabilities and charges		(0.5)	-
Decrease in trading property		89.8	27.4
<b>Cash generated from operations</b>		<b>93.3</b>	<b>67.2</b>
Interest paid		(28.2)	(35.0)
Taxation paid	19	(4.6)	(7.2)
Payments to defined benefit pension scheme		(0.6)	(0.5)
<b>Net cash inflow from operating activities</b>		<b>59.9</b>	<b>24.5</b>
<b>Cash flow from investing activities</b>			
Proceeds from sale of investment property	7	17.0	37.9
Proceeds from financial interest in property assets	16	4.1	3.8
Proceeds from sale of subsidiary/ joint venture		0.4	45.0
Interest received		1.5	0.7
Distributions received		0.4	0.2
Investment in associates and joint ventures	14, 15	(3.0)	(22.2)
Acquisition of investment property and property, plant and equipment		(3.0)	(2.6)
<b>Net cash inflow from investing activities</b>		<b>17.4</b>	<b>62.8</b>
<b>Cash flows from financing activities</b>			
Awards of SAYE options		0.6	-
Purchase of own shares		(2.1)	(0.3)
Proceeds from new borrowings		213.8	156.9
Repayment of borrowings		(242.0)	(211.2)
Settlement of derivative contracts		(35.3)	(39.4)
Dividends paid	12	(6.0)	(5.6)
<b>Net cash outflow from financing activities</b>		<b>(71.0)</b>	<b>(99.6)</b>
Net increase/(decrease) in cash and cash equivalents		6.3	(12.3)
Cash and cash equivalents at the beginning of the period		90.3	73.3
Net exchange movements on cash and cash equivalents		0.1	0.5
<b>Cash and cash equivalents at the end of the period</b>		<b>96.7</b>	<b>61.5</b>

## **Notes to the unaudited interim financial statements**

### **1 Accounting policies**

#### **1a Basis of preparation**

These condensed interim financial statements are unaudited and do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. This condensed consolidated interim financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and International Accounting Standard 34 (IAS 34) 'Interim Financial Reporting' as adopted by the European Union. The interim condensed financial statements should be read in conjunction with the annual financial statements for the year ended 30 September 2013 which have been prepared in accordance with International Financial Reporting Standards (IFRSs') as adopted by the European Union.

These condensed interim financial statements have been prepared in accordance with the accounting policies set out on pages 95 to 107 of the 2013 Annual Report and Accounts which is available on the Group's website ([www.graingerplc.co.uk](http://www.graingerplc.co.uk)).

Historically, the residential housing market is more active in the second half of our financial year. Therefore, we would normally expect that property sales and trading profit from trading sales on vacancy would be higher in the second half compared to the first half of the year. Net rental income is not impacted by seasonality. Trading in the development division is subject to cyclicity with results dependent on the timing of development sales.

All our assets are subject to a Directors' valuation at the half year end, supported by independent verification.

The Group's financial derivatives were valued as at 31 March 2014 by external consultants, using a discounted cash flow model and quoted market information.

Taxation is calculated based upon the best estimate of the weighted average corporation tax rate expected for the full year.

#### **1b Adoption of new and revised International Financial Reporting Standards**

In the current financial year, the Group has adopted Amendment to IAS 19 "Employee Benefits".

New standards, amendments and interpretations that have been published and are therefore mandatory for the Group's accounting periods beginning on or after 1 October 2013 and later periods are disclosed on pages 102 and 103 of the Annual Report and Accounts for the year ended 30 September 2013.

There is no material impact from the adoption of these IFRS's, IFRIC interpretations and amendments in this condensed consolidated interim financial information.

#### **1c Group risk factors**

As with all businesses, the Group is affected by certain risks, not wholly within our control, which could have a material impact on the Group and could cause actual results to differ materially from forecast and historical results. The most significant of these, all of which are macro-economic, are as follows:-

- Long term flat or negative growth in value of Group assets
- Lack of readily available funding to either the Group or third parties
- Unfavourable legislation and increased burden from the regulatory environment

The principal risks and uncertainties facing the Group have not changed from those as set out in the Risk Management report on pages 31 to 33 of the 2013 Annual Report and Accounts.

## 1d Forward-looking statements

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

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

## 2. Analysis of profit before tax

The results for the periods to 31 March 2014 and 2013 respectively have been affected by valuation movements and non-recurring items. The table below provides further analysis of the income statement showing the results of trading activities separately from these other items.

	31 March 2014 (Unaudited)				31 March 2013 (Unaudited)			
	Trading	Valuation	Non-recurring	Total	Trading	Valuation	Non-recurring	Total
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Group revenue</b>	<b>190.0</b>	-	-	<b>190.0</b>	125.2	-	-	125.2
Net rental income	19.5	-	(1.1)	18.4	27.3	-	-	27.3
Profit on disposal of trading property	42.6	-	-	42.6	31.9	-	-	31.9
Administrative expenses	(17.3)	-	-	(17.3)	(15.9)	-	-	(15.9)
Other income and expenses	4.7	-	-	4.7	5.1	-	(1.2)	3.9
Profit on disposal of investment property	0.1	-	-	0.1	2.4	-	-	2.4
Income from financial interest in property assets	5.0	-	-	5.0	2.6	-	-	2.6
Profit on acquisition of equity in associate	-	-	-	-	-	-	1.0	1.0
Profit/ (loss) on disposal of subsidiary/ joint venture	-	-	0.8	0.8	-	-	(2.1)	(2.1)
Write down of inventories/ receivables to net realisable value	-	(0.6)	-	(0.6)	-	(0.1)	-	(0.1)
Impairment of joint venture	-	-	(2.1)	(2.1)	-	-	-	-
<b>Operating profit before net valuation gains on investment property</b>	<b>54.6</b>	<b>(0.6)</b>	<b>(2.4)</b>	<b>51.6</b>	<b>53.4</b>	<b>(0.1)</b>	<b>(2.3)</b>	<b>51.0</b>
Net valuation gains on investment property	-	3.9	-	3.9	-	3.4	-	3.4
<b>Operating profit after net valuation gains on investment property</b>	<b>54.6</b>	<b>3.3</b>	<b>(2.4)</b>	<b>55.5</b>	<b>53.4</b>	<b>3.3</b>	<b>(2.3)</b>	<b>54.4</b>
Change in fair value of derivatives	-	4.9	-	4.9	-	(4.9)	(13.7)	(18.6)
Finance costs	(32.2)	-	-	(32.2)	(38.6)	-	-	(38.6)
Finance income	2.0	-	-	2.0	0.7	-	15.4	16.1
Share of profit/ (loss) of associates after tax	0.9	8.6	-	9.5	(0.4)	2.1	(3.8)	(2.1)
Share of profit/ (loss) of joint ventures after tax	(2.2)	12.3	-	10.1	(0.2)	-	-	(0.2)
<b>Profit before tax</b>	<b>23.1</b>	<b>29.1</b>	<b>(2.4)</b>	<b>49.8</b>	<b>14.9</b>	<b>0.5</b>	<b>(4.4)</b>	<b>11.0</b>

### 3. Segmental information

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

The Group has identified five segments and is treating all of these as reportable segments. The segments are: UK Residential; Retirement Solutions; Fund and third party management; UK and European development and German Residential. The Group has a segment director responsible for the performance of each of these five segments and the Group reports key financial information to the CODM on the basis of these five segments. Each of these five segments operate within a different part of the overall residential market.

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

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

31 March 2014

Segment revenue and result  
(unaudited)  
(£m)

	UK residential	Retirement solutions	Fund and third party management	UK and European development	German residential	Other	Total
Segment revenue-external	69.8	104.3	3.7	3.3	8.9	-	190.0
Segment result – OPBVM	34.3	23.6	0.8	0.6	2.9	(7.6)	54.6
Net interest payable							(30.2)
Share of trading loss of joint ventures and associates after tax							(1.3)
<b>Trading profit before tax</b>							<b>23.1</b>
Write down of inventories/ receivables to net realisable value							(0.6)
Net valuation gains on investment property							3.9
Change in fair value of derivatives							4.9
Share of valuation gains in joint ventures and associates							20.9
Non-recurring items							(2.4)
<b>Profit before tax</b>							<b>49.8</b>



Notes to the unaudited interim financial statements (continued)

**31 March 2013**

**Segment revenue and result  
(unaudited)**

(£m)	UK residential	Retirement solutions	Fund and third party fund management	UK and European development	German residential	Other	Total
<b>Segment revenue - external</b>	<b>91.4</b>	<b>14.9</b>	<b>5.4</b>	<b>0.6</b>	<b>12.9</b>	<b>-</b>	<b>125.2</b>
<b>Segment result - OPBVM</b>	<b>45.4</b>	<b>9.4</b>	<b>1.7</b>	<b>(0.4)</b>	<b>4.2</b>	<b>(6.9)</b>	<b>53.4</b>
Net interest payable							<b>(37.9)</b>
Share of trading loss of joint ventures and associates after tax							<b>(0.6)</b>
<b>Trading profit before tax</b>							<b>14.9</b>
Write down of inventories to net realisable value							<b>(0.1)</b>
Net valuation gains on investment property							<b>3.4</b>
Change in fair value of derivatives							<b>(4.9)</b>
Share of valuation gains in associates after tax							<b>2.1</b>
Non-recurring items							<b>(4.4)</b>
<b>Profit before tax</b>							<b>11.0</b>

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

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

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

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

Notes to the unaudited interim financial statements (continued)

**31 March 2014**  
**Segment assets**  
**(unaudited) £m**

	UK residential	Retirement solutions	Fund and third party management	UK and European development	German residential	Other	Total
Total segment net assets (Statutory)	149.0	147.6	82.8	45.6	94.9	(12.6)	507.3
Total segment net assets (NAV)	651.3	214.6	86.7	58.6	103.8	20.7	1,135.7
Total segment net assets (NNNAV)	527.3	189.4	82.8	56.0	95.0	-	950.5

	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	Gross NAV balance sheet	Deferred and contingent tax	Derivatives	Triple NAV balance sheet
	£m	£m	£m	£m	£m	£m
Investment property	346.3	-	346.3	-	-	346.3
CHARM	97.2	-	97.2	-	-	97.2
Trading stock	863.1	550.6	1,413.7	-	-	1,413.7
JVs and associates	163.6	5.2	168.8	(6.0)	0.1	162.9
Cash	96.7	-	96.7	-	-	96.7
Deferred Tax	12.1	(9.3)	2.8	-	11.6	14.4
Assets held-for-sale	3.8	-	3.8	-	-	3.8
Other assets	82.7	12.6	95.3	-	-	95.3
<b>Total assets</b>	<b>1,665.5</b>	<b>559.1</b>	<b>2,224.6</b>	<b>(6.0)</b>	<b>11.7</b>	<b>2,230.3</b>
External debt	(1,018.0)	-	(1,018.0)	-	(11.7)	(1,029.7)
Derivatives	(46.5)	46.5	-	-	(46.5)	(46.5)
Deferred tax	(24.7)	22.8	(1.9)	(132.7)	-	(134.6)
Other liabilities	(69.0)	-	(69.0)	-	-	(69.0)
<b>Total liabilities</b>	<b>(1,158.2)</b>	<b>69.3</b>	<b>(1,088.9)</b>	<b>(132.7)</b>	<b>(58.2)</b>	<b>(1,279.8)</b>
<b>Net assets</b>	<b>507.3</b>	<b>628.4</b>	<b>1,135.7</b>	<b>(138.7)</b>	<b>(46.5)</b>	<b>950.5</b>

Notes to the unaudited interim financial statements (continued)

30 September 2013

Segment assets (audited) £m

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

	Statutory balance sheet	Adjustments to market value, deferred tax and derivatives	Gross NAV balance sheet	Deferred and contingent tax	Derivatives	Triple NAV balance sheet
	£m	£m	£m	£m	£m	£m
Investment property	354.1	-	354.1	-	-	354.1
CHARM	96.3	-	96.3	-	-	96.3
Trading stock	949.6	433.0	1,382.6	-	-	1,382.6
JV and associates	145.9	1.3	147.2	(3.5)	(0.4)	143.3
Cash	90.3	-	90.3	-	-	90.3
Deferred Tax	20.1	(18.3)	1.8	-	20.9	22.7
Assets held-for-sale	9.9	-	9.9	-	-	9.9
Other assets	45.1	11.5	56.6	-	-	56.6
Total assets	1,711.3	427.5	2,138.8	(3.5)	20.5	2,155.8
External debt	(1,049.0)	-	(1,049.0)	-	(13.0)	(1,062.0)
Derivatives	(91.1)	91.1	-	-	(91.1)	(91.1)
Deferred tax	(25.7)	23.9	(1.8)	(110.0)	-	(111.8)
Other liabilities	(80.0)	-	(80.0)	-	-	(80.0)
Total liabilities	(1,245.8)	115.0	(1,130.8)	(110.0)	(104.1)	(1,344.9)
Net assets	465.5	542.5	1,008.0	(113.5)	(83.6)	810.9

#### 4. Group Revenue

	Unaudited	
	31 March 2014	31 March 2013
	£m	£m
Gross rental income (see note 5)	28.4	39.1
Service charge income on a principal basis	2.6	3.4
Proceeds from sale of trading property (see note 6)	153.6	75.8
Management fee and other income (see note 9)	5.4	6.9
	190.0	125.2

**5. Net rental income**

	Unaudited	
	31 March	31 March
	2014	2013
	£m	£m
Gross rental income	28.4	39.1
Service charge income on a principal basis	2.6	3.4
Property repair and maintenance costs	(9.6)	(11.1)
Service charge expense on a principal basis	(3.0)	(4.1)
	18.4	27.3

**6. Profit on disposal of trading property**

	Unaudited	
	31 March	31 March
	2014	2013
	£m	£m
Gross proceeds from sale of trading property	153.6	75.8
Selling costs	(4.0)	(1.7)
Net proceeds from sale of trading property	149.6	74.1
Carrying value of trading property sold	(107.0)	(42.2)
	42.6	31.9

**7. Profit on disposal of investment property**

	Unaudited	
	31 March	31 March
	2014	2013
	£m	£m
Gross proceeds from sale of investment property	17.4	38.7
Selling costs	(0.6)	(0.8)
Net proceeds from sale of investment property	16.8	37.9
Carrying value of investment property sold:		
Investment property (Note 13)	(9.4)	(10.7)
Assets classified as held-for-sale	(7.3)	(24.8)
	0.1	2.4

During the year the Group has sold investment properties into the GRIP associate. The total carrying value disclosed above has been adjusted to reflect the proportion of the sale that relates to an external party only. The adjustment to carrying value totals £0.2m, resulting in a carrying value of £9.6m as shown in note 13.

**8. Administrative expenses**

	Unaudited	
	31 March	31 March
	2014	2013
	£m	£m
Total Group expenses	17.3	15.9

## 9. Other Income

	Unaudited	
	31 March	31 March
	2014	2013
	£m	£m
Property and asset management fee income	5.1	6.8
Other sundry income	0.3	0.1
	5.4	6.9

## 10. Other Expenses

	Unaudited	
	31 March	31 March
	2014	2013
	£m	£m
External costs relating to fee income	0.4	1.8
Non-recurring transaction expenses	0.1	1.2
Business improvement costs	0.2	-
	0.7	3.0

## 11. Earnings per share

### Basic

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

### Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares in issue by the dilutive effect of ordinary shares that the Company may potentially issue relating to its convertible bond, and its share option schemes and contingent share awards under the LTIS and DBP, based upon the number of shares that would be issued if 31 March 2014 was the end of the contingency period. The profit for the period is adjusted to add back the after tax interest cost on the debt component of the convertible bond. Where the effect of the above adjustments is anti-dilutive, they are excluded from the calculation of diluted earnings per share.

Notes to the unaudited interim financial statements (continued)

	31 March 2014			31 March 2013		
(unaudited)	Profit for the period £m	Weighted average number of shares (thousands)	Earnings per share pence	Profit for the period £m	Weighted average number of shares (thousands)	Earnings per share pence
<b>Basic earnings per share</b>						
Earnings attributable to equity holders	45.2	411,079	11.01	10.8	410,574	2.64
<b>Effect of potentially dilutive securities</b>						
Share options and contingent shares	-	4,629	(0.13)	-	7,399	(0.04)
<b>Diluted earnings per share</b>						
Earnings attributable to equity holders	45.2	415,708	10.88	10.8	417,973	2.60

## 12. Dividends

The Company has today announced an interim dividend of 0.61p per share which will return £2.5m of cash to shareholders. In the six months to 31 March 2014, the final proposed dividend for the year ended 30 September 2013 which amounted to £6.0m has been paid.

## 13. Investment property

	Unaudited 31 March 2014 £m	Audited 30 Sep 2013 £m
Opening balance	354.1	525.9
Additions	1.0	4.3
Disposals	(9.6)	(190.2)
Transfer to assets classified as held-for-sale	(1.2)	(1.3)
Net valuation gains	3.9	2.9
Exchange adjustments	(1.9)	12.5
Closing balance	346.3	354.1

## 14. Investment in associates

	Unaudited 31 March 2014 £m	Audited 30 Sep 2013 £m
Opening balance	88.2	41.2
Share of profit	9.5	1.0
Further investment	-	55.5
Dividends received	(0.1)	(48.2)
Loans advanced to associates	0.5	35.6
Exchange movements	(0.1)	0.1
Share of change in fair value of cash flow hedges taken through other comprehensive income	(0.2)	3.0
Interest received	(0.8)	-
Closing balance	97.0	88.2

## Notes to the unaudited interim financial statements (continued)

As at 31 March 2014, the Group's interest in associates was as follows:

	<b>% of ordinary share capital/units held</b>	<b>Country of Incorporation</b>
G:res1 Limited	<b>26.2%</b>	Jersey
GRIP Unit Trust	<b>24.9%</b>	Jersey
MH Grainger JV Sarl	<b>21%*</b>	Luxembourg

\* Grainger FRM GmbH holds a 20.969% interest in the equity of MH Grainger JV Sarl which owns 94.9% of the equity of Grainger Stuttgart Portfolio One GmbH and Grainger Stuttgart Portfolio Two GmbH (Stuttgart Portfolios). Grainger FRM GmbH holds a direct interest of 5.1% in the equity of the Stuttgart Portfolios. Overall, therefore Grainger FRM GmbH has an interest of 25% in the equity of the Stuttgart Portfolios.

### 15. Investment in joint ventures

	<b>Unaudited</b>	<b>Audited</b>
	<b>31 March 2014</b>	<b>30 Sep 2013</b>
	<b>£m</b>	<b>£m</b>
Opening balance	<b>57.7</b>	19.2
Loans advanced	<b>2.5</b>	9.7
Net (increase)/decrease in provisions against loans	<b>(1.9)</b>	0.3
Interest received	<b>(0.3)</b>	-
Net assets acquired through sale of assets into a joint venture	<b>-</b>	21.4
Share of profit	<b>10.1</b>	7.8
Reclassification of loss to other expenses	<b>(0.2)</b>	(0.3)
Exchange adjustment	<b>(0.6)</b>	0.2
Distributions received	<b>(0.3)</b>	(0.6)
Disposal	<b>(0.4)</b>	-
Closing balance	<b>66.6</b>	57.7

	<b>% of ordinary share capital held</b>	<b>Country of Incorporation</b>
Curzon Park Limited	<b>50.00%</b>	United Kingdom
King Street Developments (Hammersmith) Limited	<b>50.00%</b>	United Kingdom
New Sovereign Reversions Limited	<b>50.00%</b>	United Kingdom
Walworth Investment Properties Limited	<b>50.00%</b>	United Kingdom
CCZ a.s.	<b>50.00%</b>	Czech Republic
CCY a.s.	<b>50.00%</b>	Czech Republic
Prazsky Project a.s.	<b>50.00%</b>	Czech Republic

In October 2013 the Group disposed of its 50% interest in Gebau Vermogen GmbH.

## 16. Financial interest in property assets

	Unaudited	Audited
	31 March	30 Sep
	2014	2013
	£m	£m
Opening balance	96.3	99.0
Cash received from the instrument	(4.1)	(8.5)
Amounts taken to income statement	5.0	6.1
Amounts taken to other comprehensive income before tax	-	(0.3)
Closing balance	97.2	96.3

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

The fair value of our interest has decreased as cash flows are realised and this decrease of £nil (30 September 2013: £0.1m) has been recognised in the statement of other comprehensive income and the available-for-sale reserve.

## 17. Trade and other receivables

	Unaudited	Audited
	31 March	30 Sep
	2014	2013
	£m	£m
Trade receivables	73.9	31.3
Deduct: Provision for impairment of trade receivables	(2.3)	(1.3)
Trade receivables - net	71.6	30.0
Other receivables	6.2	7.4
Prepayments	1.0	5.7
	78.8	43.1

Trade receivables includes £35.8m of deferred consideration relating to the sale of the home reversion portfolio in January 2014.

## 18. Interest bearing loans and borrowings

The maturity profile of the Group's debt, net of finance costs, is as follows:

	Unaudited	Audited
	31 March	30 Sep
	2014	2013
	£m	£m
Within one year	73.5	42.4
Between one and two years	123.8	149.4
Between two and five years	376.0	601.8
Over five years	444.7	255.4
	1,018.0	1,049.0



**19. Tax**

	Audited	Unaudited				
	As at 30 Sep 2013 £m	Payments made in the period £m	Movements recognised in income £m	Exchange adjustments £m	Movements recognised in other comprehensive income £m	As at 31 March 2014 £m
Current tax	13.9	(4.6)	(1.6)	-	-	7.7
Deferred tax						
Trading property uplift to fair value on acquisition	18.9	-	(0.9)	-	-	18.0
Investment property revaluation	4.9	-	(0.1)	(0.1)	-	4.7
Accelerated capital allowances	0.8	-	-	-	-	0.8
Short-term timing differences	(15.6)	-	7.2	-	-	(8.4)
Actuarial deficit on BPT Limited pension scheme	(0.5)	-	-	-	0.1	(0.4)
Equity component of available-for-sale financial asset	1.0	-	-	-	-	1.0
Fair value movement in cash flow hedges and exchange adjustments	(3.9)	-	-	-	0.8	(3.1)
	5.6	-	6.2	(0.1)	0.9	12.6
Total tax - movement	19.5	(4.6)	4.6	(0.1)	0.9	20.3

The main rate of Corporation Tax in the UK changed from 23% to 21% with effect from 1 April 2014 and will change to 20% from 1 April 2015. Accordingly the Group's results for this accounting period are taxed at an effective rate of 22.0%. The change in tax rate has had no impact on the income statement in the current period.

Deferred tax balances are disclosed as follows:

	Unaudited 31 March 2014 £m	Audited 30 Sep 2013 £m
Deferred Tax assets – non-current assets	12.1	20.1
Deferred Tax liabilities – non-current liabilities	(24.7)	(25.7)
<b>Deferred Tax (net)</b>	<b>(12.6)</b>	<b>(5.6)</b>

The tax charge for the period of £4.6m (2013: charge of £0.2m) comprises:

	Unaudited 31 March 2014 £m	Unaudited 31 March 2013 £m
<b>UK taxation</b>	<b>4.1</b>	<b>1.2</b>
<b>Overseas taxation</b>	<b>0.5</b>	<b>(1.0)</b>
	<b>4.6</b>	<b>0.2</b>

## 20. Trade and other payables

	Unaudited	Audited
	31 March	30 Sep
	2014	2013
	£m	£m
Deposits received	2.5	2.1
Trade payables	11.0	10.4
Other taxation and social security	0.6	3.1
Accruals and deferred income	41.0	43.1
	55.1	58.7

Accruals and deferred income includes £14.0m (September 2013: £14.9m) of rent received in advance relating to lifetime leases.

## 21. Derivative Financial Instruments

	Unaudited		Audited	
	31 March 2014		30 September 2013	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps – cash flow hedges in hedge accounting relationships	-	7.3	-	10.3
Interest rate swaps – cash flow hedges not in hedge accounting relationships	-	39.2	-	80.8
	-	46.5	-	91.1

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

The fair value movement relating to cash flow hedges not in hedge accounting relationships amounted to a credit through the income statement of £4.9m (31 March 2013: a charge of £18.6m). The reduction in liability of £44.6m to £46.5m is primarily due to the settlement of swaps in the period of £35.3m.

In the prior year the Group purchased debt related to the investment property in its subsidiary Tricomm Housing Limited from Bank of America using core Group facilities. The debt was purchased at a discount of 25% to the loan amount of £67.0m and a gain, after costs, of £15.4m was credited to Finance income in the income statement. On extinguishment of the debt, the debit balance in the cash flow hedge reserve of £13.7m relating to the associated interest rate swap, was recycled to the income statement and was included within the overall charge of £18.6m.

## 22. Related party transactions

Material transactions in the period to 31 March 2014 and balances as at 31 March 2014 were as follows:

	31 March 2014 Fees recognised £'000	31 March 2014 Period end balance £'000	31 March 2013 Fees recognised £'000	31 March 2013 Period end balance £'000
GRes1 Limited	-	-	1,209	-
GRIP Unit Trust	1,567	1,293	532	532
MH Grainger Sarl JV	486	-	296	98
New Sovereign Reversions Limited	499	254	527	48
Walworth Investment Properties Limited	54	20	-	-
	2,606	1,567	2,564	678

	31 March 2014 Interest recognised £'000	31 March 2014 Period end loan balance £m	31 March 2014 Interest Rate %	31 March 2013 Interest recognised £'000	30 Sept 2013 Year end loan balance £m	30 Sept 2013 Interest Rate %
GRIP Unit Trust	548	31.6	4.75	206	0.3	4.75
MH Grainger Sarl JV	434	10.5	7.50	-	11.6	8.00
Grainger Stuttgart Portfolio Two GmbH	36	0.6	8.00	-	-	-
			LIBOR			LIBOR +
New Sovereign Reversions Limited	(15)	(0.6)	+2.35	(3)	(0.4)	2.35
Czech Republic combined	-	6.5	1.25	-	6.2	1.25
Curzon Park Limited	-	17.4	Nil	-	16.1	Nil
King Street Developments (Hammersmith) Limited	-	3.1	Nil	-	2.9	Nil
Walworth Investment Properties Limited	227	6.5	7.00	-	6.7	7.00
	1,230	75.6		203	43.4	

### **23. Directors' responsibility statement**

The directors confirm that this condensed set of interim financial statements has been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the six months and the impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

The directors of Grainger plc are listed in the Grainger plc Annual report and Accounts for the year ended 30 September 2013 and on the Grainger plc website: [www.graingerplc.co.uk](http://www.graingerplc.co.uk). There has been one change since 30 September 2013. Peter Couch resigned from the Board on 31<sup>st</sup> January 2014.

By order of the Board

**Mark Greenwood**  
**Director**  
**16 May 2014**

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